ACADIA REALTY TRUST
Form 10-K
February 27, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

o 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 if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES x NO o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Securities Act.
YES o NO x
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 x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o
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. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).
Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)

YES o NO x

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 approximately $1,056.0 million, based on a price of $23.11 per share, the average sales price for the registrant's common 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 February 27, 2013 was 53,468,275.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – Portions of the registrant's definitive proxy statement relating to its 2013 Annual Meeting of Shareholders presently scheduled to be held May 16, 2013 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 our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative thereof or other var thereon or comparable terminology. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to those set forth under the headings "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" in this 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 “Trust”) was formed on March 4, 1993 as a Maryland real estate investment trust (“REIT”). All references to “Acadia,” “we,” “us,” “our,” and “Company” refer to the Trust and its consolidated subsidiaries. We are a fully integrated REIT focused on the ownership, acquisition, redevelopment, and management of high-quality retail properties and urban/infill mixed-use properties with a strong retail component located primarily in high-barrier-to-entry, supply constrained, densely-populated metropolitan areas in the United States along the East Coast and in Chicago. We currently own, or have an ownership interest in these properties through our Core Portfolio (as defined in Item 2. of this Form 10-K) and our Opportunity Funds (as defined in Item 1 of this Form 10-K). We also have private equity investments in other retail real estate related opportunities in which we have a minority equity interest.

All of our assets are held by, and all of our operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of December 31, 2012, the Trust controlled 99% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”, respectively, and collectively, “OP Units”) and employees who have been awarded restricted Common OP Units ("LTIP Units") as long-term incentive compensation. Limited partners holding Common OP and LTIP Units are generally entitled to exchange their units on a one-for-one basis for our common shares of beneficial interest of the Trust (“Common Shares”). This structure is referred to as an umbrella partnership REIT, or “UPREIT”.

BUSINESS OBJECTIVES AND STRATEGIES

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

- Own and operate a Core Portfolio of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas. Our goal is to create value through accretive redevelopment and re-anchoring activities within our existing portfolio and grow this platform through the acquisition of high-quality assets that have the long-term potential to outperform the asset class.

- Generate additional external growth through an opportunistic yet disciplined acquisition program within our Opportunity Funds (as defined below). We target transactions with high inherent opportunity for the creation of additional value through:

  - value-add investments in high-quality urban and/or street retail properties with re-tenanting or repositioning opportunities,
  - opportunistic acquisitions of well-located real-estate anchored by distressed retailers or by motivated sellers and
  - opportunistic purchases of debt which may include restructuring.

  These may also include joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets.

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

Investment Strategy — Generate External Growth through our Dual Platforms; Core Portfolio and Opportunity Funds

The requirements that acquisitions be accretive on a long-term basis based on our cost of capital, as well as increase the overall Core Portfolio quality and value, are key strategic considerations to the growth of our Core Portfolio. As

such, we constantly evaluate the blended cost of equity and debt and adjust the amount of acquisition activity to align the level of investment activity with capital flows.

Given the growing importance of technology and e-commerce, many of our retail tenants are appropriately focused on multi-channel sales and how to best utilize e-commerce initiatives to drive sales at their stores. In light of these initiatives, we have found retailers are becoming more selective as to the location, size and format of their next-generation stores and are focused on dense, high-traffic retail corridors, where they can utilize smaller and more productive formats closer to their shopping population. In addition to retailer multi-channeling initiatives, we also believe that retailers continue to recognize that many of the nation's urban markets are under-served from a retail standpoint, and we have capitalized on this situation by investing in redevelopment projects in dense urban areas where retail tenant demand has effectively surpassed the supply of available sites. Accordingly, our focus for Core Portfolio and Opportunity Fund acquisitions is on those properties which we believe will not only remain relevant to our tenants, but become even more so in the future. In connection with our Core Portfolio acquisition activity, we may also engage in discussions with public and private entities regarding business combinations.

In addition to our Core Portfolio investments in real estate assets, we have also capitalized on our expertise in the acquisition, redevelopment, leasing and management of retail real estate by establishing discretionary opportunity funds. Our opportunity fund platform is an investment vehicle where the Operating Partnership invests, along with outside institutional investors, including, but not limited to, endowments, foundations, pension funds, and investment management companies, in primarily opportunistic and value-add retail real estate. To date, we have launched four opportunity funds ("Opportunity Funds"); Acadia Strategic Opportunity Fund, LP ("Fund I"), Acadia Strategic Opportunity Fund II, LLC ("Fund II"), Acadia Strategic Opportunity Fund III LLC ("Fund III") and Acadia Strategic Opportunity Fund IV LLC ("Fund IV"). Due to the level of our control, we consolidate these Opportunity Funds for financial reporting purposes. The Opportunity Funds also include investments in operating companies through Acadia Mervyn Investors I, LLC ("Mervyns I"), Acadia Mervyn Investors II, LLC ("Mervyns II") and Fund II, all on a non-recourse basis. These investments comprise and are referred to as the Company's Retailer Controlled Property Initiative ("RCP Venture").

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

Reference is made to Note 1 in the Notes to Consolidated Financial Statements, which begin on page F-1 of this Form 10-K ("Notes to Consolidated Financial Statements"), for a detailed discussion of the Opportunity Funds and RCP Venture.

Capital Strategy — Balance Sheet Focus and Access to Capital

Our primary capital objective is to maintain a strong and flexible balance sheet through conservative financial practices, including a moderate use of leverage, while ensuring access to sufficient capital to fund future growth. We intend 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 in the current capital markets, pricing and other commercial and financial terms. The sources of capital may include the issuance of public equity, unsecured debt, mortgage and construction loans, and other capital alternatives including the issuance of OP Units. We manage our interest rate risk primarily through the use of fixed rate debt and, where we use variable rate debt, we use certain derivative instruments, including London Interbank Offered Rate ("LIBOR") swap agreements and interest rate caps as discussed further in Item 7A. of this Form 10-K.

During January 2012, we established an at-the-market ("ATM") equity program with an aggregate offering of up to $75.0 million of gross proceeds from the sale of Common Shares. Under this program, we issued approximately 3.3 million Common Shares which generated net proceeds of $73.7 million.

During August 2012, we established a new ATM equity program with an additional aggregate offering of up to $125.0 million of gross proceeds from the sale of Common Shares. Through December 31, 2012, we issued approximately 2.8 million Common Shares which generated net proceeds of $67.8 million. We intend to use the future net proceeds

of this or potential future ATM offerings primarily to fund acquisitions directly in the Core Portfolio and through its capital contributions to the Opportunity Funds.

During October 2012, we issued approximately 3.5 million Common Shares in a separate follow-on offering, for $86.9 million. Net proceeds after expenses were approximately $85.8 million. The proceeds were primarily used for acquisitions, including our pro-rata share of acquisitions in Fund IV and for general corporate purposes.

During January 2013, we closed on a new unsecured revolving credit facility of up to $150 million, which matures on January 31, 2016 with an additional one year extension option. As of February 27, 2013, no proceeds have been drawn on this facility.

Operating Strategy — Experienced Management Team with Proven Track Record

Our senior management team has decades of experience in the real estate industry. We have capitalized on our expertise in the acquisition, redevelopment, leasing and management of retail real estate by creating value through property redevelopment, re-anchoring and establishing joint ventures, such as the Opportunity Funds, in which we earn, in addition to a return on our equity interest, Promotes, fees and priority distributions.

Operating functions such as leasing, property management, construction, finance and legal (collectively, the "Operating Departments") are generally provided by our personnel, providing for a vertically integrated operating platform. By incorporating the Operating Departments in the acquisition process, acquisitions are appropriately priced giving effect to each asset's specific risks and returns and transition time is minimized allowing management to immediately execute on its strategic plan for each asset.

Our Core Portfolio consists primarily of urban/street retail properties and neighborhood and community shopping centers located in high barrier-to-entry supply constrained markets. As we typically hold our Core Portfolio properties for long-term investment, we periodically review the existing portfolio and implement programs to renovate and modernize targeted properties to enhance their 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 values. From time to time, we also identify certain properties for disposition and redeploy the capital for acquisitions and for the repositioning of existing centers with greater potential for capital appreciation.

INVESTING ACTIVITIES

Core Portfolio

See Item 2. PROPERTIES for the definition of our Core Portfolio.

For the year ended December 31, 2012, we continued to execute on our strategy of owning a superior Core Portfolio by acquiring, through our Operating Partnership, high-quality, street/urban and suburban retail assets located in densely populated areas for an aggregate purchase price of $224.3 million. Reference is made to Note 2 in the Notes to Consolidated Financial Statements, for a detailed discussion of these acquisitions.

In addition, as of December 31, 2012 we have a current acquisition pipeline of $86.6 million under contract, which is subject to certain closing conditions and as such, no assurance can be given that closing will be successfully completed. See Item 2. PROPERTIES for a description of the other properties in our Core Portfolio.

Since 2010, we have sold one Core Portfolio asset, the Ledgewood Mall. This 517,151 square foot center located in Ledgewood, New Jersey was sold during May 2011 for $37.0 million.

We also make investments in first mortgages and other notes receivable collateralized by real estate, either directly or through entities having an ownership interest therein. During 2012, we invested $43.3 million in first mortgage notes and $46.9 million in other notes receivable. Reference is made to Note 5 in the Notes to Consolidated Financial Statements, for a detailed discussion of our notes receivable and other real estate related investments.

Opportunity Funds

Acquisitions

Fund III

During 2012, Fund III acquired properties for an aggregate purchase price of $108.0 million. Reference is made to Note 2 in the Notes to Consolidated Financial Statements, for a detailed discussion of these acquisitions.

Fund IV

During 2012, Fund IV acquired its first properties for an aggregate purchase price of $151.2 million. Reference is made to Note 2 in the Notes to Consolidated Financial Statements, for a detailed discussion of these acquisitions.

Dispositions

Self-Storage Portfolio

During February 2008, Fund III, in conjunction with Storage Post, acquired a portfolio of eleven self-storage properties from Storage Post's existing institutional investors for approximately $174.0 million. In addition, we, through Fund II, developed three self-storage properties. The 14 self-storage property portfolio, located throughout New York and New Jersey, totaled approximately 1.1 million net rentable square feet, and was operating at various stages of stabilization. During the fourth quarter of 2012, we sold 12 of the 14 properties in this portfolio for an aggregate sales price of $261.6 million. The remaining two properties are under contract, which we anticipate closing during 2013.

Other Dispositions

During 2012, Funds I, II and III sold four additional shopping centers for an aggregate sales price of $184.1 million. Reference is made to Note 2 in the Notes to Consolidated Financial Statements, for a detailed discussion of these dispositions.

Redevelopment Activities

As part of our Opportunity Fund strategy, we invest in real estate assets that require significant redevelopment. As of December 31, 2012, the Company had eight redevelopment projects, one of which is under construction and seven are in the design phase as follows:

(dollars in millions)

Property	Owner	Costs to date	Anticipated additional costs (1)	Status	Square feet upon completion	Anticipated completion dates
City Point (2)	Fund II	$142.9	$107.1 - $197.1	Under construction	675,000	2015
Sherman Plaza (2)	Fund II	34.7	TBD	In design	TBD	TBD
Sheepshead Bay	Fund III	22.8	TBD	In design	TBD	TBD
723 N. Lincoln Lane	Fund III	6.7	TBD	In design	TBD	TBD
Cortlandt Crossing	Fund III	11.2	35.8 - 44.8	In design	150,000 - 170,000	2016
3104 M Street NW	Fund III	3.0	4.0 - 5.5	In design	10,000	2014
Broad Hollow Commons	Fund III	11.1	38.9 - 48.9	In design	180,000 - 200,000	2016
210 Bowery	Fund IV	7.5	4.0 - 4.5	In design	10,000	2015
Total		$239.9				

Notes:

TBD – To be determined

(1) Anticipated additional costs are estimated ranges for completing the projects and include costs for tenant improvements and leasing commissions.

(2) These projects are being redeveloped by Acadia Urban Development LLC ("Acadia Urban Development"), or subsidiaries thereof, in connection with Fund II's New York Urban/Infill Redevelopment Initiative. See Item 7. of this Form 10-K for further information on the Acadia Urban Development joint venture as detailed in "Liquidity and Capital Resources – New York Urban/Infill Redevelopment Initiative."

Under Construction

CityPoint — During June of 2007, Acadia-Washington Square Albee and an unaffiliated joint venture partner, California Urban Investment Partners, LLC ("CUIP") purchased the leasehold interests in The Gallery at Fulton Street in downtown Brooklyn for approximately $115.0 million, with an option to purchase the fee position, which is owned by the City of New York, at a later date. On June 30, 2010, Acadia-Washington Square Albee acquired all of CUIP's interest in CityPoint for total consideration of $9.2 million and the assumption of CUIP's share of debt of $19.6 million. The redevelopment will proceed in three phases. Construction is completed on Phase 1, a five-story retail building of approximately 50,000 square feet. Phase 2, which is currently under construction, will consist of

approximately 625,000 square feet of additional retail when completed. Phase 2 will also contain an affordable and market-rate residential component. Phase 3 is anticipated to be a stand-alone mixed use, but primarily residential building, of approximately 650,000 square feet. Completion of the construction of this project is anticipated to be during 2015.

RCP Venture

During 2004, through Funds I and II, or affiliates thereof, we entered into an association, known as the RCP Venture, with Klaff Realty, L.P. (“Klaff”) and Lubert-Adler Management, Inc. (“Lubert-Adler”) for the purpose of making investments in surplus or underutilized properties owned by retailers. Mervyns I and II along with Fund II have invested a total of $62.2 million in the RCP Venture to date on a non-recourse basis. Reference is made to Note 4 in the Notes to Consolidated Financial Statements, for a detailed discussion of the RCP Venture.

While we are primarily a passive partner in the investments made through the RCP Venture, historically we have provided our services in reviewing potential acquisitions and operating and redevelopment assistance in areas where we have both a presence and expertise. In the future, we may seek to opportunistically invest either on our own, with the RCP Venture or with other partners in similar investments, which may include:

- Investment in operating retailers to control their real estate through private equity joint ventures
- Collaboration with financially healthy retailers to create value from their surplus real estate
- Investment in properties, designation rights or other control of real estate or leases associated with retailers in bankruptcy
- Completion of sale-leasebacks with retailers in need of capital

Mervyns Department Stores

In September 2004, we made our first RCP Venture investment. Through Mervyns I and Mervyns II, we invested in a consortium to acquire Mervyns consisting of 262 stores (“REALCO”) and its retail operation (“OPCO”) from Target Corporation. To date, REALCO has disposed of a significant portion of the portfolio. In addition, during November 2007, we sold our interest in, and as a result, have no further investment in OPCO. During 2012, a legal proceeding relating to the disposition of OPCO was settled. Reference is made to Item 3. Part 1 of this Form 10-K for a detailed description of this settlement.

Through December 31, 2012, we, through Mervyns I and Mervyns II, made additional investments in locations that are separate from these original investments (“Add-On Investments”) in Mervyns.

Albertson’s

During June of 2006, the RCP Venture made its second investment as part of an investment consortium, acquiring Albertson’s and Cub Foods. In addition, we have since made Add-On Investments in Albertson’s.

Other RCP Investments

We have also made other RCP investments in Shopko, Marsh, Rex Stores and in Add-On Investments in Marsh. Reference is made to Note 4 in the Notes to Consolidated Financial Statements, for a detailed discussion of these investments.

ENVIRONMENTAL LAWS

For information relating to environmental laws that may have an impact on our business, please see “Item 1A. Risk Factors - Possible liability relating to environmental matters.”

COMPETITION

There are numerous entities that compete with us in seeking properties for acquisition and tenants that will lease space in our properties. Our competitors include other REITs, financial institutions, insurance companies, pension funds, private companies and individuals. Our properties compete for tenants with similar properties primarily on the basis of location, total occupancy costs (including base rent and operating expenses) and the design and condition of the improvements.

FINANCIAL INFORMATION ABOUT MARKET SEGMENTS

We have four reportable segments: Core Portfolio, Opportunity Funds, Notes Receivable and Other. Notes Receivable consists of our notes receivable and related interest income. Other primarily consists of management fees and interest income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies set forth in Note 1 in the Notes to Consolidated Financial Statements. We evaluate property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. Investments in our Core Portfolio are typically held long-term. Given the contemplated finite life of our Opportunity Funds, these investments are typically held for shorter terms. Fees earned by us as general partner or managing member of the Opportunity Funds are eliminated in our Consolidated Financial Statements. See Note 3 in

the Notes to Consolidated Financial Statements, for information regarding, among other things, revenues from external

customers, a measure of profit and loss and total assets with respect to each of our segments. Our profits and losses for both our business and each of our segments are not seasonal.

CORPORATE HEADQUARTERS AND EMPLOYEES

Our executive office is located at 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and our telephone number is (914) 288-8100. As of December 31, 2012, we had 126 employees, of which 101 were located at our executive office and 25 were located at regional property management offices. None of our employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

COMPANY WEBSITE

All of our filings with the Securities and Exchange Commission, including our 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 at no cost at our website at www.acadiarealty.com, as soon as reasonably practicable after we 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, we will provide paper copies of our filings at no cost upon request. If you wish to receive a copy of the Form 10-K, you may contact Robert Masters, Corporate Secretary, at Acadia Realty Trust, 1311 Mamaroneck Avenue, Suite 260, White Plains, NY 10605. You may also call (914) 288-8100 to request a copy of the Form 10-K. Information included or referred to on our website is not incorporated by reference in or otherwise a part of this Form 10-K.

CODE OF ETHICS AND WHISTLEBLOWER POLICIES

The Board of Trustees 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 our website. We intend to disclose future amendments to, or waivers from (with respect to our senior executive financial officers), our Code of Ethics in the Investor Information section of our website within four business days following the date of such amendment or waiver.

ITEM 1A. RISK FACTORS.

If any of the following risks actually occur, our 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 in the beginning of this Form 10-K.

We rely on revenues derived from major tenants.

We derive significant revenues from certain anchor tenants that occupy space in more than one center. We could be adversely affected in the event of the bankruptcy or insolvency of, or a downturn in the business of, any of our major tenants, or in the event that any such tenant does not renew its leases as they expire or renews such leases at lower rental rates. Vacated anchor space not only would reduce rental revenues, but if not re-tenanted at the same rental rates 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 (“going dark”) as would the departure of a “shadow” 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 (“co-tenancy”). See “Item 2. Properties-Major Tenants” in this Annual Report on Form 10-K for quantified information with respect to the percentage of our minimum rents received from major tenants.

We 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 us than current lease terms.

Upon the expiration of current leases for space located in our properties, we 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 us than current lease terms. If we are unable to re-let promptly all or a substantial portion of the space located in our properties or if the rental rates we receive upon re-letting are significantly lower than current rates, our net income and ability to make expected distributions to our shareholders will be adversely affected due to the resulting reduction in revenues.

There can be no assurance that we will be able to retain tenants in any of our 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 our portfolio.

The bankruptcy of, or a downturn in the business of, any of our major tenants or a significant number of our smaller tenants may adversely affect our cash flows and property values.

The bankruptcy of, or a downturn in the business of, any of our 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 our 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 a shopping center.

Historically and from time to time, certain of our tenants experienced financial difficulties and filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code ("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.

Although currently none of our critical tenants are in bankruptcy, experience shows that there can be no assurance that one or more of our major tenants will be immune from bankruptcy.

Internet sales can have an impact on our business.

The use of the internet by consumers continues to gain in popularity. The migration toward internet sales is likely to continue. This increase in internet sales could result in a downturn in the business of our current tenants and could affect the way future tenants lease space.

While we devote considerable effort and resources to analyze and respond to tenant trends, preferences and consumer spending patterns, we cannot predict with certainty what future tenants will want, what future retail spaces will look like and how much revenue will be generated at traditional "bricks and mortar" locations. If we are unable to anticipate and respond promptly to trends in the market due to the illiquid nature of real estate (See the Risk Factor entitled, "Our ability to change our portfolio is limited because real estate investments are illiquid" below), our occupancy levels and financial results could suffer.

The current economic environment, while improving, may cause us to lose tenants and may impair our ability to borrow money to purchase properties, refinance existing debt or finance our current redevelopment projects.

Our operations and performance depend on general economic conditions, including the health of the consumer. The U.S. economy's recently experienced financial downturn, included a decline in consumer spending, credit tightening and high unemployment.

The current economic environment also had, and continues to have, an impact on the global credit markets. While we currently believe we have adequate sources of liquidity, there can be no assurance that we will be able to obtain mortgage loans to purchase additional properties, obtain financing to complete current redevelopment projects, or successfully refinance our properties as loans become due. To the extent that the availability of credit is limited, it would also adversely impact our notes receivable as counterparties may not be able to obtain the financing required to repay the loans upon maturity.

Political and economic uncertainty could have an adverse effect on us.

We cannot predict how current political and economic uncertainty, including uncertainty related to taxation, will affect our critical tenants, joint venture partners, lenders, financial institutions and general economic conditions, including the health and confidence of the consumer and the volatility of the stock market.

Political and economic uncertainty poses a risk to the Company in that it may cause consumers to postpone discretionary spending in response to tighter credit, reduced consumer confidence and other macroeconomic factors affecting consumer spending behavior, resulting in a downturn in the business of our tenants. In the event current political and economic uncertainty results in financial turmoil affecting the banking system and financial markets or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed income, credit, currency and equity markets. Each of these could have an adverse effect on our business, financial condition and operating results.

There are risks relating to investments in real estate.

Real property investments are subject to multiple risks. 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. 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.

A significant portion of our income is derived from rental income from real property. Our income and cash flow would be adversely affected if we were unable to rent our vacant space to viable tenants on economically favorable terms. In the event of default by a tenant, we may experience delays in enforcing, as well as incur substantial costs to enforce, our 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 even though there may be a reduction in income from the investment.

Our ability to change our portfolio is limited because real estate investments are illiquid.

Equity investments in real estate are relatively illiquid and, therefore, our ability to change our portfolio promptly in response to changed conditions is limited. Our Board of Trustees may establish investment criteria or limitations as it deems appropriate, but currently does not limit the number of properties in which we may seek to invest or on the concentration of investments in any one geographic region. We could change our investment, disposition and financing policies without a vote of our shareholders.

We could become highly leveraged, resulting in increased risk of default on our obligations and in an increase in debt service requirements, which could adversely affect our financial condition and results of operations and our ability to pay distributions. In addition, the viability of the interest rate hedges we use is subject to the strength of the counterparties.

We have incurred, and expect to continue to incur, indebtedness to support our activities. Neither our Declaration of Trust nor any policy statement formally adopted by our Board of Trustees limits either the total amount of indebtedness or the specified percentage of indebtedness that we may incur. Accordingly, we could become more highly leveraged, resulting in increased risk of default on our obligations and in an increase in debt service requirements, which could adversely affect our financial condition and results of operations and our ability to make distributions.

Interest expense on our variable rate debt as of December 31, 2012 would increase by $2.9 million annually for a 100 basis point increase in interest rates. We may seek additional variable rate financing if and when pricing and other commercial and financial terms warrant. As such, we would consider hedging against the interest rate risk related to such additional variable rate debt, primarily through interest rate swaps but can use other means.

We enter into interest rate hedging transactions, including interest rate swaps and cap agreements, with counterparties, generally, the same lenders who made the loan in question. There can be no guarantee that the future financial condition of these counterparties will enable them to fulfill their obligations under these agreements.

Competition may adversely affect our 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 we have that compete with us in seeking properties for acquisition and tenants who will lease space in our properties. Our competitors include other REITs, financial institutions, insurance companies, pension funds, private companies and individuals. This competition may result in a higher cost for properties than we wish to pay. In addition, retailers at our properties (both in our Core Portfolio and in the portfolios of the Opportunity Funds) face increasing competition from outlet malls, discount shopping clubs, internet commerce, direct mail and telemarketing, which could (i) reduce rents payable to us and (ii) reduce our ability to attract and retain tenants at our properties leading to increased vacancy rates at our properties.

We could be adversely affected by poor market conditions where our properties are geographically concentrated.

Our performance depends on the economic conditions in markets in which our properties are concentrated. We have significant exposure to the greater New York region, from which we derive 33% of the annual base rents within our Core Portfolio and 61% of annual base rents within our Opportunity Funds. Our 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 occurs.

We have pursued, and may in the future continue to pursue extensive growth opportunities, which may result in significant demands on our operational, administrative and financial resources.

We are pursuing extensive growth opportunities. This expansion places significant demands on our operational, administrative and financial resources. The continued growth of our real estate portfolio can be expected to continue to place a significant strain on our resources. Our future performance will depend in part on our ability to successfully

attract and retain qualified management personnel to manage the growth and operations of our business. In addition, the acquired properties may fail to operate at expected levels due to the numerous factors that may affect the value of real estate. There can be no assurance that we will have sufficient resources to identify and manage the properties.

Our inability to carry out our growth strategy could adversely affect our financial condition and results of operations.
Our earnings growth strategy is based on the acquisition and redevelopment of additional properties, including acquisitions of core properties through our Operating Partnership and our high return investment programs through Acadia Strategic Opportunity Fund IV LLC ("Fund IV"). The consummation of any future acquisitions will be subject to satisfactory completion of our extensive valuation analysis and due diligence review and to the negotiation of definitive documentation. We cannot be sure that we will be able to implement our strategy because we may have difficulty finding new properties, obtaining necessary entitlements, 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. In the context of our business plan, "redevelopment" generally means an expansion or renovation of an existing property. Redevelopment is subject to numerous risks, including risks of construction delays, cost overruns or uncontrollable events that may increase project costs, new project commencement risks such as the receipt of zoning, occupancy and other required governmental approvals and permits, and incurring redevelopment costs in connection with projects that are not pursued to completion.
A component of our growth strategy is through private-equity type investments made through our RCP Venture. These include investments in operating retailers. The inability of the retailers to operate profitably would have an adverse impact on income realized from these investments. Through our investments in joint ventures we have also invested in operating businesses that have operational risk in addition to the risks associated with real estate investments, including among other risks, human capital issues, adequate supply of product and material, and merchandising issues.
We operate through a partnership structure, which could have an adverse effect on our ability to manage our assets.
Our primary property-owning vehicle is the Operating Partnership, of which we are the general partner. Our 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 gains attributable to the differences 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 we, as the general partner of the Operating Partnership, generally have no obligation to consider the tax consequences of our actions to any limited partner, we own several properties subject to material restrictions designed to minimize the adverse tax consequences to the limited partners who contributed such properties. Such restrictions may result in significantly reduced flexibility to manage some of our assets.
Exclusivity obligation to our Opportunity Funds.
Under the terms of Fund IV, our primary goal is to seek investments for Fund IV, subject to certain exceptions. We may only pursue opportunities to acquire retail properties directly through the Operating Partnership if (i) the ownership of the acquisition opportunity by Fund IV would create a material conflict of interest for us; (ii) we require the acquisition opportunity for a "like-kind" exchange; (iii) the consideration payable for the acquisition opportunity is our Common Shares, OP Units or other securities or (iv) the investment is outside the parameters of our investment goals for Fund IV (which, in general, seeks more opportunistic level returns). As a result, we may not be able to make attractive acquisitions directly and instead may only receive a minority interest in such acquisitions through Fund IV.
Risks of joint ventures.
Partnership or joint venture investments may involve risks not otherwise present for investments made solely by us, including the possibility that our partner or co-venturer might become bankrupt, and that our partner or co-venturer may take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT. Other risks of joint venture investments include impasse on decisions, such as a sale, because neither we nor a joint venture partner would have full control over the joint venture. Also, there is no limitation under our organizational documents as to the amount of our funds that may be invested in joint ventures. Additionally, our partners or co-venturers may engage in malfeasance in spite of our efforts to perform a high level of due diligence on them. Such acts may or may not be covered by insurance. Finally, partners and co-venturers may engage in illegal activities which may jeopardize an investment and/or subject us to reputational risk.

Any disputes that may arise between joint venture partners and us may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by or disputes with joint venture partners might result in subjecting properties owned by the joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party joint venture partners.

During 2012, 2011 and 2010, our Fund I and Mervyns I joint ventures provided Promote income. There can be no assurance that the joint ventures will continue to operate profitably and thus provide additional Promote income in the future. These factors could limit the return that we receive from such investments or cause our cash flows to be lower than our estimates. In addition, a partner or co-venturer may not have access to sufficient capital to satisfy its funding obligations to the joint venture.

Market factors could have an adverse effect on our share price and our ability to access the public equity markets.

One of the factors that may influence the trading price of our Common Shares is the annual dividend rate on our Common Shares as a percentage of its market price. An increase in market interest rates may lead purchasers of our Common Shares to seek a higher annual dividend rate, which could adversely affect the market price of our Common Shares. A decline in our share price, as a result of this or other market factors, could unfavorably impact our ability to raise additional equity in the public markets.

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

Our success 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 our results of operations. We have obtained key-man life insurance for Mr. Bernstein. In addition, we have entered into an employment agreement with Mr. Bernstein; however, it can be terminated by Mr. Bernstein in his discretion. We have not entered into employment agreements with other key executive-level employees.

Our Board of Trustees may change our investment policy without shareholder approval.

Our Board of Trustees may determine to change our investment and financing policies, our growth strategy and our debt, capitalization, distribution, acquisition, disposition and operating policies. Our Board of Trustees may establish investment criteria or limitations as it deems appropriate, but currently does not limit the number of properties in which we may seek to invest or on the concentration of investments in any one geographic region. Although our Board of Trustees has no present intention to revise or amend our strategies and policies, it may do so at any time without a vote by our shareholders. Accordingly, the results of decisions made by our Board of Trustees and implemented by management may or may not serve the interests of all of our shareholders and could adversely affect our financial condition or results of operations, including our ability to distribute cash to shareholders or qualify as a REIT.

Distribution requirements imposed by law limit our operating flexibility.

To maintain our status as a REIT for federal income tax purposes, we are generally required to distribute to our shareholders at least 90% of our taxable income for each calendar year. Our taxable income is determined without regard to any deduction for dividends paid and by excluding net capital gains. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of (i) 85% of our ordinary income for that year; (ii) 95% of our capital gain net income for that year and; (iii) 100% of our undistributed taxable income from prior years. We intend to continue to make distributions to our shareholders to comply with the distribution requirements of the Internal Revenue Code and to minimize exposure to federal income and nondeductible excise taxes. Differences in timing between the receipt of income and the payment of expenses in determining our income as well as required debt amortization payments and the capitalization of certain expenses could require us to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT. The distribution requirements also severely limit our ability to retain earnings to acquire and improve properties or retire outstanding debt.

There can be no assurance we have qualified or will remain qualified as a REIT for federal income tax purposes.

We believe that we have consistently met the requirements for qualification as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 1993, and we intend 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 we have qualified or will remain qualified as a REIT. The Internal Revenue Code provisions and income tax regulations applicable to REITs differ significantly from those applicable to other corporations. The

determination of various factual matters and circumstances not entirely within our control can potentially affect our ability to continue to qualify as a REIT. In addition, no assurance can be given that future legislation, regulations, administrative interpretations or court decisions will not significantly change the requirements for qualification as a REIT or adversely affect the federal income tax consequences of such qualification. Under current law, if we fail to qualify as a REIT, we would not be allowed a deduction for dividends paid to shareholders in computing our net taxable income. In addition, our income would be subject to tax at the regular corporate rates. We 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 our shareholders would be significantly reduced for each year in which we do not qualify as a REIT. In that event, we would not be required to continue to make distributions. Although we currently intend to continue to qualify as a REIT, it is possible that future

economic, market, legal, tax or other considerations may cause us, without the consent of our shareholders, to revoke the REIT election or to otherwise take action that would result in disqualification.

Limits on ownership of our capital shares.

For us to qualify as a REIT for federal income tax purposes, among other requirements, not more than 50% of the value of our capital shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time 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). Our Declaration of Trust includes certain restrictions regarding transfers of our capital shares and ownership limits that are intended to assist us in satisfying these limitations, among other purposes. These restrictions and limits may not be adequate in all cases, however, to prevent the transfer of our 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 us.

Actual or constructive ownership of our capital shares in excess of the share ownership limits contained in our Declaration of Trust would cause the violative transfer or ownership to be null and void from the beginning and subject to purchase by us at a price equal to the fair market value of such shares (determined in accordance with the rules set forth in our 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.

Concentration of ownership by certain investors.

As of December 31, 2012, seven institutional shareholders own 5% or more individually, and 62.1% in the aggregate, of our Common Shares. A significant concentration of ownership may allow an investor or a group of investors to exert a greater influence over our management and affairs and may have the effect of delaying, deferring or preventing a change in control of us.

Restrictions on a potential change of control.

Our Board of Trustees is authorized by our Declaration of Trust to establish and issue one or more series of preferred shares without shareholder approval. We have 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 us that could be in the best interests of the shareholders.

In addition, we have entered into an employment agreement with our Chief Executive Officer and severance agreements are in place with our executives which provide that, upon the occurrence of a change in control of us and either the termination of their employment without cause (as defined) or their resignation for good reason (as defined), those executive officers would be entitled to certain termination or severance payments made by us (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 us that could be in the best interests of the shareholders.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of our Company.

Under the Maryland General Corporation Law, as amended, which we refer to as the “MGCL,” as applicable to REITs, certain “business combinations,” including certain mergers, consolidations, share exchanges and asset transfers and certain issuances and reclassifications of equity securities, between a Maryland REIT and any person who beneficially owns 10% or more of the voting power of the trust's outstanding voting shares or an affiliate or an associate, as defined in the MGCL, of the trust who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding shares of beneficial interest of the trust, which we refer to as an “interested shareholder,” or an affiliate of the interested shareholder, are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. After that five-year period, any such business combination must be recommended by the board of trustees of the trust and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding voting shares of beneficial interest of the trust and (2) two-thirds of the votes entitled to be cast by

holders of voting shares of the trust other than shares held by the interested shareholder with whom, or with whose affiliate, the business combination is to be effected or held by an affiliate or associate of the interested shareholder, unless, among other conditions, the trust's common shareholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of trustees of the trust before the interested shareholder becomes an interested shareholder, and a person is not an interested shareholder if the board of trustees approved in advance the transaction by which the person otherwise would have become an interested

shareholder. In approving a transaction, our Board of Trustees may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the Board.

The MGCL also provides that holders of "control shares" of a Maryland REIT (defined as voting shares that, when aggregated with all other shares owned by the acquirer or in respect of which the acquirer is entitled to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by the affirmative vote of holders of at least two-thirds of all the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by officers or by employees who are also trustees of the trust. Our Bylaws provide that the control share acquisition statute shall not apply to shares acquired or owned, directly or indirectly, by any person acting in concert with any group (as defined in Section 13 of the Exchange Act and the rules thereunder). Our Bylaws can be amended by our Board of Trustees by majority vote, and there can be no assurance that this provision will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Trustees, without shareholder approval and regardless of what is currently provided in our Declaration of Trust or Bylaws, to elect to be subject to certain provisions relating to corporate governance that may have the effect of delaying, deferring or preventing a transaction or a change of control of our Company that might involve a premium to the market price of our Common Shares or otherwise be in the best interests of our shareholders. We are subject to some of these provisions (for example, a two-thirds vote requirement for removing a trustee) by provisions of our Declaration of Trust and Bylaws unrelated to Subtitle 8.

Becoming subject to, or the potential to become subject to, these provisions of the MGCL could inhibit, delay or prevent a transaction or a change of control of our Company that might involve a premium price for our shareholders or otherwise be in our or their best interests. In addition, the provisions of our Declaration of Trust on removal of trustees and the provisions of our Bylaws regarding advance notice of shareholder nominations of trustees and other business proposals and restricting shareholder action outside of a shareholders meeting unless such action is taken by unanimous written consent could have a similar effect.

Our rights and shareholders' rights to take action against trustees and officers are limited, which could limit recourse in the event of actions not in the best interests of shareholders.

As permitted by Maryland law, our Declaration of Trust eliminates the liability of our trustees and officers to the Company and its shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the trustee or officer that was material to the cause of action adjudicated.

In addition, our Declaration of Trust authorizes, and our Bylaws obligate, us to indemnify each present or former trustee or officer, to the maximum extent permitted by Maryland law, who is made a party to any proceeding because of his or her service to our Company. As part of these indemnification obligations, we may be obligated to fund the defense costs incurred by our trustees and officers.

Legislative or regulatory tax changes could have an adverse effect on us.

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 our 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 or modified. Any new laws or interpretations may take effect retroactively and could adversely affect us or our shareholders. Reduced tax rates applicable to certain corporate dividends paid to most domestic noncorporate shareholders are not generally available to REIT shareholders since a REITs 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 our shares.

Our redevelopment and construction activities could affect our operating results.

We intend to continue the selective redevelopment and construction of retail properties, with our project at CityPoint currently being our largest redevelopment project (see “Item 1. BUSINESS - INVESTING ACTIVITIES - Opportunity Funds - Redevelopment Activities” for a description of the CityPoint project).

As opportunities arise, we expect to delay construction until sufficient pre-leasing is reached and financing is in place.

Our redevelopment and construction activities include risks that:

- We may abandon redevelopment opportunities after expending resources to determine feasibility;
- Construction costs of a project may exceed our original estimates;

- Occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable;
- Financing for redevelopment of a property may not be available to us on favorable terms;
- We may not complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs; and
- We may not be able to obtain, or may experience delays in obtaining necessary zoning, land use, building, occupancy and other required governmental permits and authorizations.

Additionally, the time frame required for redevelopment, construction and lease-up of these properties means that we may not realize a significant cash return for several years. If any of the above events occur, the redevelopment of properties may hinder our growth and have an adverse effect on our results of operations and cash flows. In addition, new redevelopment activities, regardless of whether or not they are ultimately successful, typically require substantial time and attention from management.

Redevelopments and acquisitions may fail to perform as expected.

Our investment strategy includes the redevelopment and acquisition of shopping centers and other retail properties in supply constrained markets in densely populated areas with high average household incomes and significant barriers to entry. The redevelopment and acquisition of properties entails risks that include the following, any of which could adversely affect our results of operations and our ability to meet our obligations:

- The property may fail to achieve the returns we have projected, either temporarily or for extended periods;
- We may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties we identify;
- We may not be able to integrate an acquisition into our existing operations successfully;
- Properties we redevelop or acquire may fail to achieve the occupancy or rental rates we project, within the time frames we project, at the time we make the decision to invest, which may result in the properties' failure to achieve the returns we projected;
- Our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs until after the property is acquired, which could significantly increase our total acquisition costs or decrease cash flow from the property; and
- Our investigation of a property or building prior to our acquisition, and any representations we may receive from the seller of such building or property, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

Climate change and catastrophic risk from natural perils.

Some of our current properties could be subject to potential natural or other disasters. We may acquire properties that are located in areas which are subject to natural disasters. Any properties located in coastal regions would therefore be affected by any future increases in sea levels or in the frequency or severity of hurricanes and tropical storms, whether such increases are caused by global climate changes or other factors.

Climate change is a long-term change in the statistical distribution of weather patterns over periods of time that range from decades to millions of years. It may be a change in the average weather conditions or a change in the distribution of weather events with respect to an average, for example, greater or fewer extreme weather events. Climate change may be limited to a specific region, or may occur across the whole Earth.

There may be significant physical effects of climate change that have the potential to have a material effect on our business and operations. These effects can impact our personnel, physical assets, tenants and overall operations. Physical impacts of climate change may include:

- Increased storm intensity and severity of weather (e.g., floods or hurricanes);
- Sea level rise; and
- Extreme temperatures.

As a result of these physical impacts from climate-related events, we may be vulnerable to the following:

- Risks of property damage to our shopping centers;
- Indirect financial and operational impacts from disruptions to the operations of major tenants located in our shopping centers from severe weather, such as hurricanes or floods;
-

Increased insurance premiums and deductibles, or a decrease in the availability of coverage, for properties in areas subject to severe weather;

- Increased insurance claims and liabilities;
- Increases in energy costs impacting operational returns;

- Changes in the availability or quality of water, or other natural resources on which the tenant's business depends;
- Decreased consumer demand for consumer products or services resulting from physical changes associated with climate change (e.g., warmer temperatures or decreasing shoreline could reduce demand for residential and commercial properties previously viewed as desirable);
- Incorrect long term valuation of an equity investment due to changing conditions not previously anticipated at the time of the investment; and
- Economic disruptions arising from the above.

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, we may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under our 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, we knew of or were responsible for, the presence or disposal of those substances. This liability may be imposed on us 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 our liability therefore could exceed the value of the property and/or our aggregate assets. In addition, the presence of those substances, or the failure to properly dispose of or remove those substances, may adversely affect our ability to sell or rent that property or to borrow using that property as collateral, which, in turn, could reduce our revenues and affect our 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 our 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 our tenants to satisfy any obligations with respect to the property leased to that tenant, we may be required to satisfy such obligations. In addition, we 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 our business, and prior to the acquisition of any property from a third party or as required by our financing sources, we authorize the preparation of Phase I environmental reports and, when necessary, Phase II environmental reports, with respect to our properties. Based upon these environmental reports and our ongoing review of our properties, we are currently not aware of any environmental condition with respect to any of our properties that we believe would be reasonably likely to have a material adverse effect on us. There can be no assurance, however, that the environmental reports will reveal all environmental conditions at our properties or that the following will not expose us to material liability in the future:

- The discovery of previously unknown environmental conditions;
- Changes in law;
- Activities of tenants; and
- Activities relating to properties in the vicinity of our 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 our tenants, which could adversely affect our financial condition or results of operations.

Uninsured losses or a loss in excess of insured limits could adversely affect our financial condition.

We carry comprehensive general liability, all-risk property, extended coverage, loss of rent insurance, and environmental liability on our 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, we generally do not maintain loss of rent 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, we 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 our financial condition.

Future terrorist attacks or civil unrest could harm the demand for, and the value of, our properties.

Future terrorist attacks or civil unrest, such as the attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, could harm the demand for, and the value of, our properties. Terrorist attacks could directly impact the value of our properties through damage, destruction, loss or increased security costs, and the availability of insurance for such acts may be limited or may be subject to substantial cost increases. To the extent that our tenants are impacted by future attacks, their ability to continue to honor obligations under their existing leases could be adversely affected.

A decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. These acts might erode business and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of our properties, and limit our access to capital or increase our cost of raising capital.

Outages, computer viruses and similar events could disrupt our operations.

We rely on information technology networks and systems, some of which are owned and operated by third parties, to process, transmit and store electronic information. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. Despite the implementation of network security measures, our systems and those of third parties on which we rely may also be vulnerable to computer viruses and similar disruptions. If we and the third parties on whom we rely are unable to prevent such outages and breaches, our operations could be disrupted.

Increased Information Technology ("IT") security threats and more sophisticated computer crime could pose a risk to our systems, networks and services.

Increased global IT security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. The open nature of interconnected technologies may allow for a network or Web outage or a privacy breach that reveals sensitive data or transmission of harmful/malicious code to business partners and clients resulting in liability claims. While we attempt to mitigate these risks by employing a number of measures, including a dedicated IT team, employee training and background checks, comprehensive monitoring of our networks and systems, and maintenance of backup systems and redundancy along with purchasing available insurance coverage, our systems, networks and services remain potentially vulnerable to advanced threats. Depending on their nature and scope, such threats could potentially lead to the compromising of confidential information, improper use of our systems and networks, manipulation and destruction of data, loss of trade secrets, system downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

SHOPPING CENTER PROPERTIES

The discussion and tables in this Item 2. include properties held through our Core Portfolio and our Opportunity Funds. We define our Core Portfolio as those properties either 100% owned by, or partially owned through joint venture interests by, the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Opportunity Funds.

As of December 31, 2012, there are 72 operating properties in our Core Portfolio totaling approximately 5.3 million square feet of gross leasable area (“GLA”). The Core Portfolio properties are located in 12 states and the District of Columbia and primarily consist of urban/street retail, dense suburban neighborhood and community shopping centers and mixed-use properties with a strong retail component. Our shopping centers are predominately anchored by supermarkets or value-oriented retail. The properties are diverse in size, ranging from approximately 3,000 to 875,000 square feet and as of December 31, 2012, were, in total, 94% occupied.

As of December 31, 2012, we owned and operated 20 properties totaling approximately 2.5 million square feet of GLA in our Opportunity Funds, excluding eight properties under redevelopment. In addition to shopping centers, the Opportunity Funds have invested in mixed-use properties, which generally include retail activities. The Opportunity Fund properties are located in eight states and the District of Columbia and as of December 31, 2012, were, in total, 88% occupied.

Within our Core Portfolio and Opportunity Funds, we had approximately 650 leases as of December 31, 2012. A majority of our rental revenues were from national retailers and consist of rents received under long-term leases. These leases generally provide for the monthly payment of fixed minimum rent and the tenants' pro-rata share of the real estate taxes, insurance, utilities and common area maintenance of the shopping centers. Certain of our leases also

provide for the payment of rent based on a percentage of a tenant's gross sales in excess of a stipulated annual amount, either in addition to, or in place of, minimum rents. Minimum rents, percentage rents and expense reimbursements accounted for approximately 92% of our total revenues for the year ended December 31, 2012.

Three of our Core Portfolio properties and five of our Opportunity Fund properties are subject to long-term ground leases in which a third party owns and has leased the underlying land to us. We pay rent for the use of the land and are responsible for all costs and expenses associated with the building and improvements at all eight locations.
No individual property contributed in excess of 10% of our total revenues for the years ended December 31, 2012, 2011 or 2010. Reference is made to Note 8 in the Notes to Consolidated Financial Statements, for information on the mortgage debt pertaining to our properties. The following sets forth more specific information with respect to each of our shopping centers at December 31, 2012:

Shopping Center	Location	Year Constructed (C) Acquired (A)	Ownership Interest	GLA	Occupancy % 12/31/12 (1)	Annual Base Rent (2)	Annual Base Rent PSF	Anchor Tenants Current Lease Expiration/ Lease Option Expiration
Core Portfolio								
New York								
Connecticut								
239 Greenwich Avenue	Greenwich	1998 (A)	Fee/JV	16,834	(3) 100 %	$1,554,663	$92.35	
181 Main Street	Westport	2012 (A)	Fee	11,350	100 %	772,000	68.02	
New Jersey								
Elmwood Park Shopping Center	Elmwood Park	1998 (A)	Fee	149,262	97 %	3,596,396	24.87	A&P 2017/2052 Walgreen's 2022/2062
A&P Shopping Plaza	Boonton	2006 (A)	Fee/JV	62,741	100 %	1,343,723	21.42	A&P 2024/2054
60 Orange Street	Bloomfield	2012 (A)	Fee/JV	101,715	100 %	907,500	8.92	Home Depot 2032/2052
New York								
Village Commons Shopping Center	Smithtown	1998 (A)	Fee	87,330	95 %	2,552,470	30.68	
Branch Shopping Center	Smithtown	1998 (A)	LI (4)	126,273	81 %	2,551,407	25.06	CVS 2020/— LA Fitness 2027/2042
Amboy Road	Staten Island	2005 (A)	LI (4)	60,090	100 %	1,632,178	27.16	Stop & Shop 2028/2043
Bartow Avenue	Bronx	2005 (C)	Fee	14,676	93 %	420,687	30.90	
Pacesetter Park Shopping Center	Ramapo	1999 (A)	Fee	97,583	94 %	1,151,105	12.58	Stop & Shop 2020/2040
		2007 (A)	Fee	55,000	100 %	1,391,500	25.30	

West Shore Expressway	Staten Island								LA Fitness 2022/2037
West 54th Street	Manhattan	2007 (A)	Fee	9,797	48	%	1,245,680	264.56	
East 17th Street	Manhattan	2008 (A)	Fee	19,622	100	%	625,000	31.85	Barnes & Noble 2013/2018
Crossroads Shopping Center	White Plains	1998 (A)	Fee/JV (5)	309,523	78	%	5,139,479	21.31	Kmart 2017/2032 Modell's 2014/2019 Home Goods 2018/2033 Party City 2024/2034
Third Avenue	Bronx	2006 (A)	Fee	40,320	79	%	666,631	20.85	Planet Fitness 2027/2042
Mercer Street	Manhattan	2011 (A)	Fee	6,225	100	%	383,160	61.55	
28 Jericho Turnpike	Westbury	2012 (A)	Fee	96,363	100	%	1,650,000	17.12	Kohl's 2020/2050
4401 White Plains Road	Bronx	2011 (A)	Fee	12,964	100	%	625,000	48.21	Walgreens 2060/-
83 Spring Street	Manhattan	2012 (A)	Fee	3,000	100	%	623,884	207.96	
Total New York Region				1,280,668	91	%	$28,832,463	$24.74	
New England									
Connecticut									
Town Line Plaza	Rocky Hill	1998 (A)	Fee	206,346	98	%	$1,636,374	$15.69	Stop & Shop 2024/2064 Wal-Mart(6)

Shopping Center	Location	Year Constructed (C) Acquired (A)	Ownership Interest	GLA	Occupancy % 12/31/12 (1)	Annual Base Rent (2)	Annual Base Rent PSF	Anchor Tenants Current Lease Expiration/ Lease Option Expiration
Core Portfolio, continued								
Massachusetts								
Methuen Shopping Center	Methuen	1998 (A)	Fee	130,021	100 %	1,027,936	7.91	Demoulas Market 2015/— Wal-Mart 2016/2051
Crescent Plaza	Brockton	1993 (A)	Fee	218,137	94 %	1,658,255	8.08	Supervalu 2014/2044 Home Depot 2021/2056
330-340 River Street	Cambridge	2012 (A)	Fee	54,226	100 %	1,130,470	20.85	Whole Foods 2021/2051 Rite Aid 2028/2068
New York								
New Loudon Center	Latham	1993 (A)	Fee	255,673	100 %	1,959,124	7.66	Price Chopper 2015/2035 Marshall’s 2014/2029 Raymour and Flanigan 2019/2034 AC Moore 2014/2024 Hobby Lobby 2021/-
Rhode Island								
Walnut Hill Plaza	Woonsocket	1998 (A)	Fee	284,717	90 %	2,136,086	8.38	Supervalu 2013/2028 Sears 2013/2033 Savers 2013/2018 Ocean State Job Lot 2012/- Woonsocket Bowling 2021/-
Vermont		1999 (A)	Fee	101,655	100 %	1,969,413	19.37	

The Gateway Shopping Center	South Burlington								Supervalu 2024/2053
Total New England Region				1,250,775	96	%	$11,517,658	$10.41	
Midwest									
Illinois									
Hobson West Plaza	Naperville	1998 (A)	Fee	99,137	96	%	$1,138,122	$11.94	Garden Fresh Markets 2017/2037
Clark Diversey	Chicago	2006 (A)	Fee	19,265	100	%	858,248	44.55	
West Diversey	Chicago	2011 (A)	Fee	46,259	100	%	1,884,925	40.75	Trader Joe's 2021/2041
639 West Diversey	Chicago	2012 (A)	Fee	12,557	100	%	666,091	53.05	
930 North Rush Street	Chicago	2012 (A)	Fee	2,930	100	%	1,113,948	380.19	
Chicago Street Retail Portfolio (7)	Chicago	2011 (A)	Fee	115,287	89	%	4,536,341	44.26	

Shopping Center	Location	Year Constructed (C) Acquired (A)	Ownership Interest	GLA	Occupancy % 12/31/12 (1)	Annual Base Rent (2)	Annual Base Rent PSF	Anchor Tenants Current Lease Expiration/ Lease Option Expiration
Core Portfolio, continued								
Indiana								
Merrillville Plaza	Hobart	1998 (A)	Fee	235,824	92 %	2,918,290	13.52	TJ Maxx 2019/2029 JC Penney 2013/2018 OfficeMax 2013/2028 K&G Fashion 2017/2027
Michigan								
Bloomfield Town Square	Bloomfield Hills	1998 (A)	Fee	236,676	97 %	3,396,624	14.81	TJ Maxx 2019/2029 Home Goods 2016/2026 Best Buy 2021/2041 Dick's Sporting Goods 2023/2043
Ohio								
Mad River Station (8)	Dayton	1999 (A)	Fee	126,129	83 %	1,315,006	12.54	Babies ‘R’ Us 2015/2020 Office Depot 2015/—
Total Midwest Region				894,064	93 %	$17,827,595	$21.51	
Mid-Atlantic								
New Jersey								
Marketplace of Absecon	Absecon	1998 (A)	Fee	104,762	76 %	$1,334,497	$16.78	Rite Aid 2020/2040 White Horse Liquors 2019/-
Delaware								
Brandywine Town Center	Wilmington	2003 (A)	Fee/JV (9)	875,679	97 %	13,080,972	15.44	Bed, Bath & Beyond 2014/2029 Dick’s

									Sporting Goods 2013/2028 Lowe's Home Centers 2018/2048 Target 2018/2058 HH Gregg 2020/2035 TJ Maxx 2016/2021 Trader Joe's 2019/2034
Market Square Shopping Center	Wilmington	2003 (A)	Fee/JV (9)	102,047	98	%	2,507,840	25.02	
Route 202 Shopping Center	Wilmington	2006 (C)	LI/JV (4) (9)	19,984	100	%	837,541	41.91	

Shopping Center	Location	Year Constructed (C) Acquired (A)	Ownership Interest	GLA	Occupancy % 12/31/12 (1)	Annual Base Rent (2)	Annual Base Rent PSF	Anchor Tenants Current Lease Expiration/ Lease Option Expiration
Core Portfolio, continued								
Pennsylvania								
Mark Plaza	Edwardsville	1993 (C)	LI/Fee (4)	106,856	100 %	240,664	2.25	Kmart 2014/2049
Plaza 422	Lebanon	1993 (C)	Fee	156,279	100 %	795,852	5.09	Home Depot 2028/2058 Dunham's 2016/2031
Route 6 Mall	Honesdale	1994 (C)	Fee	175,519	99 %	1,160,112	6.67	Kmart 2020/2070 Fashion Bug 2016/- Advance Auto 2013/-
Chestnut Hill (10)	Philadelphia	2006 (A)	Fee	37,581	76 %	513,425	17.93	
Abington Towne Center	Abington	1998 (A)	Fee	216,369	95 %	955,324	20.02	TJ Maxx 2016/2021 Target (11)
District of Columbia								
Rhode Island Place Shopping Center	Washington D.C.	2012 (A)	Fee	57,529	100 %	1,622,629	28.21	TJ Maxx 2017/-
179-53 & 1801-03 Connecticut Avenue	Washington D.C.	2012 (A)	Fee	22,907	93 %	1,090,701	51.39	
Georgetown Portfolio (11)	Washington D.C.	2011 (A)	Fee/JV	27,666	96 %	1,799,387	67.48	
Total Mid-Atlantic Region				1,903,178	96 %	$25,938,944	$15.57	
Total Core Properties				5,328,685	94 %	$84,116,660	$17.66	
Opportunity Fund Portfolio Fund I Properties								
VARIOUS REGIONS								

Kroger/Safeway Portfolio	3 locations (13)	2003 (A)	LI/JV (4)	97,500	69	%	$302,076	$4.48	Kroger 2014/2049 Safeway 2014/2044
Total Fund I Properties				97,500	69	%	$302,076	$4.48	
Fund II Properties									
New York									
Pelham Plaza	Pelham Manor	2004 (A)	LI/JV (4)	228,493	94	%	$5,887,611	$27.29	BJ's Wholesale Club 2033/2053 Michaels 2013/2033 Petsmart 2021/2036
Fordham Place	Bronx	2004(A)	Fee/JV	119,446	100	%	5,519,760	46.21	Best Buy 2019/2039 Sears 2023/2033
216th Street	Manhattan	2005 (A)	Fee/JV	60,000	100	%	2,694,000	44.90	City of New York 2027/2032
161st Street (17)	Bronx	2005 (A)	Fee/JV	232,402	85	%	5,255,201	26.72	City of New York 2013/-
Total Fund II Properties				640,341	92	%	$19,356,572	$32.71	

Shopping Center	Location	Year Constructed (C) Acquired (A)	Ownership Interest	GLA	Occupancy % 12/31/12 (1)	Annual Base Rent (2)	Annual Base Rent PSF	Anchor Tenants Current Lease Expiration/ Lease Option Expiration
Opportunity Funds, continued								
Fund III Properties New York								
Cortlandt Towne Center	Mohegan Lake	2009 (A)	Fee	641,225	92 %	$9,449,199	$15.98	Walmart 2018/2048 A&P 2022/2047 Best Buy 2017/2032 Petsmart 2014/2034
640 Broadway	Manhattan	2012 (A)	Fee/JV	4,409	74 %	662,103	203.54	
New Hyde Park Shopping Center	New Hyde Park	2011 (A)	Fee	31,431	91 %	904,986	31.56	
Massachusetts								
White City Shopping Center	Shrewsbury	2010 (A)	Fee/JV (14)	257,288	76 %	4,841,673	24.89	Shaw’s 2018/2033 Iparty 2015/- Austin's Liquor 2015/-
Maryland								
Parkway Crossing	Baltimore	2011 (A)	Fee/JV (15)	260,241	93 %	1,897,981	7.84	Home Depot 2032/- Big Lots 2016/- Shop Rite 2032/-
Arundel Plaza	Glen Burnie	2012 (A)	Fee/JV (15)	265,116	97 %	1,445,276	5.60	Giant Food 2015/2025 Lowes 2019/2059

Florida Lincoln Road	Miami	2011 (A)	Fee/JV (16)	61,443	49	%	3,257,573		108.31	
Illinois Heritage Shops	Chicago	2011 (A)	Fee	105,585	77	%	3,103,565		38.29	LA Fitness 2025/2040
Lincoln Park Centre	Chicago	2012 (A)	Fee	62,745	60	%	1,607,359		42.87	
Total Fund III Properties				1,689,483	87	%	$27,169,715		$18.48	
Fund IV Properties										
Maryland 1701 Belmont Avenue	Catonsville	2012 (A)	Fee/JV (15)	58,674	100	%	$936,166		$15.96	Best Buy 2017/2027
Florida Lincoln Road	Miami	2012 (A)	Fee/JV (16)	54,453	100	%	4,949,953		90.90	
Total Fund IV Properties				113,127	100	%	113,127 $5,886,119	113,127	$52.03	
Total Opportunity Fund Operating Properties (18)				2,540,451	88	%	$52,714,482		$23.54	

Shopping Center	Location	Year Constructed (C) Acquired (A)	Ownership Interest	GLA	Occupancy % 12/31/12 (1)	Annual Base Rent (2)	Annual Base Rent PSF	Anchor Tenants Current Lease Expiration/ Lease Option Expiration

Notes:

(1) Does not include space for which lease term had not yet commenced as of December 31, 2012.

(2) These amounts include, where material, the effective rent, net of concessions, including free rent.

(3) In addition to the 16,834 square feet of retail GLA, this property also has 21 apartments comprising 14,434 square feet.

(4) We are a ground lessee under a long-term ground lease.

(5) We have a 49% investment in this property.

(6) Includes a 97,300 square foot Wal-Mart which is not owned by us.

(7) Includes 19 properties (56 E. Walton, 841 W. Armitage, 2731 N. Clark, 2140 N. Clybourn, 853 W. Armitage, 2299 N. Clybourn, 1520 Milwaukee Avenue, 843-45 W Armitage,1521 W Belmont, 2206-08 N Halsted, 2633 N Halsted, 50-54 E. Walton, 662 W. Diversey, 837 W. Armitage, 823 W. Armitage, 851 W. Armitage, 1240 W. Belmont, 21 E. Chestnut and 819 W. Armitage).

(8) The GLA for this property excludes 29,857 square feet of office space.

(9) We have a 22% investment in this property.

(10) Property consists of two buildings.

(11) Includes a 157,616 square foot Target Store that is not owned by us.

(12) Includes six properties (1533 Wisconsin Ave., 3025 M St., 3034 M St., 3146 M St, 3259-61 M St., and 2809 M St.). We have a 50% investment in these properties.

(13) Three remaining assets including locations in Benton, AR, Tulsa, OK and Indianapolis, IN.

(14) The Fund has an 84% investment in this property.

(15) The Fund has a 90% investment in this property.

(16) The Fund has a 95% investment in this property.

(17) Currently operating but re-tenanting activities have commenced.

(18) In addition to the Opportunity Fund operating properties, there are eight properties under redevelopment; Sherman Plaza (Fund II), CityPoint (Fund II) , Sheepshead Bay (Fund III), 723 N. Lincoln Lane (Fund III), Broad Hollow Commons (Fund III), Cortlandt Crossing (Fund III), 3104 M Street (Fund III) and 210 Bowery (Fund IV).

MAJOR TENANTS

No individual retail tenant accounted for more than 4.0% of base rents for the year ended December 31, 2012 or occupied more than 7.4% of total leased GLA as of December 31, 2012. The following table sets forth certain information for the 20 largest retail tenants by base rent for leases in place as of December 31, 2012. The amounts below include our pro-rata share of GLA and annualized base rent for the Operating Partnership's partial ownership interest in properties, including the Opportunity Funds (GLA and Annualized Base Rent in thousands):

Retail Tenant	Number of Stores in Portfolio (1)	Total GLA	Annualized Base Rent (2)	Percentage of Total Represented by Retail Tenant Total Portfolio GLA	Annualized Base Rent
LA Fitness	4	110	$2,551	2.4 %	4.0 %
Supervalu (Shaw's)	4	176	2,421	3.8 %	3.8 %
Home Depot	7	313	2,007	6.8 %	3.1 %
Ahold (Stop and Shop)	3	155	1,936	3.4 %	3.0 %
A&P	3	90	1,924	2.0 %	3.0 %
TJX Companies	9	215	1,709	4.6 %	2.7 %
Sears	5	342	1,653	7.4 %	2.6 %
Walgreens	4	39	1,607	0.9 %	2.5 %
Best Buy	4	57	1,032	1.2 %	1.6 %
Trader Joe's	2	19	961	0.4 %	1.5 %
TD Bank	2	15	959	0.3 %	1.5 %
Walmart	3	213	887	4.6 %	1.4 %
Sleepy's	6	35	880	0.8 %	1.4 %
Dicks Sporting Goods	2	60	849	1.3 %	1.3 %
JP Morgan Chase	7	28	811	0.6 %	1.3 %
Citibank	6	15	739	0.3 %	1.1 %
Pier 1 Imports	4	25	690	0.5 %	1.1 %
Dollar Tree	7	64	653	1.4 %	1.0 %
Payless Shoesource	8	20	541	0.4 %	0.8 %
Coach	2	7	530	0.1 %	0.8 %
Total	92	1,998	$25,340	43.2 %	39.5 %

Notes:

(1) Does not include tenants that only operate at one shopping center.

(2) Base rents do not include percentage rents, additional rents for property expense reimbursements and contractual rent escalations.

LEASE EXPIRATIONS

The following table shows scheduled lease expirations for retail tenants in place as of December 31, 2012, assuming that none of the tenants exercise renewal options. (GLA and Annualized Base Rent in thousands):

Core Portfolio:

Leases maturing in	Number of Leases	Annualized Base Rent (1) Current Annual Rent	Percentage of Total	GLA Square Feet	Percentage of Total
Month to Month	6	$322	— %	17	— %
2013 (2)	72	8,588	10 %	538	11 %
2014	70	9,704	12 %	541	11 %
2015	45	7,302	9 %	445	9 %
2016	59	8,499	10 %	511	11 %
2017	49	10,341	12 %	499	11 %
2018	22	6,705	8 %	403	8 %
2019	23	3,422	4 %	181	4 %
2020	22	5,663	7 %	367	8 %
2021	24	5,865	7 %	395	8 %
2022	23	4,756	6 %	152	3 %
Thereafter	24	11,704	15 %	700	16 %
Total	439	$82,871	100 %	4,749	100 %

Opportunity Fund Portfolio:

Leases maturing in	Number of Leases	Annualized Base Rent (1) Current Annual Rent	Percentage of Total	GLA Square Feet	Percentage of Total
Month to Month	6	$302	1 %	24	1 %
2013 (2)	34	7,620	13 %	253	11 %
2014	27	4,332	8 %	220	9 %
2015	19	1,867	3 %	111	5 %
2016	23	2,846	5 %	99	4 %
2017	12	2,487	4 %	102	4 %
2018	17	5,308	9 %	310	13 %
2019	12	5,254	9 %	250	11 %
2020	6	688	1 %	22	1 %
2021	12	2,477	4 %	95	4 %
2022	19	6,083	11 %	180	8 %
Thereafter	23	18,278	32 %	716	29 %
Total	210	$57,542	100 %	2,382	100 %

Notes:

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

(2) The 106 leases scheduled to expire during 2013 are for tenants at 32 properties located in 25 markets. No single market represents a material amount of exposure to the Company as it relates to the rents from these leases. Given the diversity of these markets, properties and characteristics of the individual spaces, the Company cannot make any general representations as it relates to the expiring rents and the rates for which these spaces may be re-leased.

GEOGRAPHIC CONCENTRATIONS

The following table summarizes our retail properties by region as of December 31, 2012. The amounts below also reflect properties that we invest in through joint ventures and that are held in our Opportunity Funds (GLA and Annualized Base Rent in thousands):

Region	GLA (1)	Occupied % (2)	Annualized Base Rent (2)	Annualized Base Rent per Occupied Square Foot	Percentage of Total Represented by Region	
					GLA	Annualized Base Rent
Core Portfolio:						
Operating Properties:						
New York Region	1,271	91 %	$27,587	$23.91	24 %	33 %
New England	1,251	96 %	11,518	10.41	23 %	14 %
Midwest	894	93 %	17,827	21.51	17 %	22 %
Mid-Atlantic	1,903	96 %	25,939	15.57	36 %	31 %
Total Core Operating Properties	5,319	94 %	$82,871	$17.43	100 %	100 %
Redevelopment Properties:						
New York Region	10	53 %	1,246	264.56	100 %	100 %
Total Core Redevelopment Properties	10	53 %	$1,246	$264.56	100 %	100 %
Opportunity Fund Portfolio:						
Operating Properties:						
New York Region	1,317	92 %	$30,373	$24.99	52 %	58 %
New England	257	76 %	4,842	24.89	10 %	9 %
Midwest	168	70 %	4,711	39.74	7 %	9 %
Mid-Atlantic	584	96 %	4,279	7.66	23 %	8 %
Southeast	116	73 %	8,207	97.10	4 %	15 %
Other	98	69 %	302	4.48	4 %	1 %
Total Opportunity Fund Operating Properties	2,540	89 %	$52,714	$23.54	100 %	100 %
Redevelopment Properties:						
New York Region	241	36 %	$573	$6.55	98 %	76 %
Mid-Atlantic	5	100 %	177	36.14	2 %	24 %
Total Opportunity Fund Redevelopment Properties	246	37 %	$750	$8.13	100 %	100 %

Notes:

(1) Property GLA includes a total of 255,000 square feet, which is not owned by us. 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 that is currently leased, but for which payment of rent had not commenced as of December 31, 2012.

ITEM 3. LEGAL PROCEEDINGS.

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

In addition to the foregoing, we recently settled or are currently involved in the following litigation matters:

In September 2008, the Company, certain of its subsidiaries, and other unrelated entities (the “Investor Consortium”) were named as defendants in an adversary proceeding brought by Mervyn's LLC (“Mervyns”) in the United States Bankruptcy Court for the District of Delaware. The action involved five claims alleging fraudulent transfers in which Mervyns was nominally seeking approximately $1.175 billion in damages from the Investor Consortium, although the actual claims made by the administrator and the unsecured creditors were substantially less. The first claim contended that, at the time of the sale of Mervyns by Target Corporation ("Target") to the Investor Consortium, a transfer of assets was made in an effort to defraud creditors. The Company believed that this aspect of the case is without merit. The remaining four claims related to transfers of assets of Mervyns at various times after the sale by Target. The Company believed that there were substantial defenses to these claims.

During the third quarter of 2012, the parties to this litigation arrived at an agreement to settle the claim. The settlement was approved by the bankruptcy court and provided for a payment of $166.0 million. Based on the defendants' agreement, the net cost of the settlement to the Investor Consortium amounted to approximately $149.0 million. After applying cash on hand at the investee level, Mervyns I and Mervyns II's combined contribution to this settlement was approximately $1.0 million. In addition, the Company reduced its carrying value of these investments from $6.3 million to its fair value of $5.3 million in relation to the estimated value of the remaining assets. In total, this resulted in a charge of $2.0 million during the year ended December 31, 2012, of which the Operating Partnership's share, net of income taxes, was $0.2 million.

During August 2009, we terminated the employment of a former Senior Vice President (the “Former Employee”) for engaging in conduct that fell within the definition of “cause” in his severance agreement with us. Had the Former Employee not been terminated for “cause,” he would have been eligible to receive approximately $0.9 million under the severance agreement. Because we terminated him for “cause,” we did not pay the Former Employee any severance benefits under his agreement. The Former Employee has brought a lawsuit against us in New York State Supreme Court, alleging breach of the severance agreement. The suit is in the pre-trial discovery stage. We believe we have meritorious defenses to the suit.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Information, dividends and record holders of our Common Shares

The following table shows, for the period indicated, the high and low sales price for our Common Shares as reported on the New York Stock Exchange, and cash dividends declared during the two years ended December 31, 2012 and 2011:

Quarter Ended 2012	High	Low	Dividend Per Share
March 31, 2012	$22.94	$19.39	$0.1800
June 30, 2012	23.51	21.49	0.1800
September 30, 2012	26.05	23.00	0.1800
December 31, 2012	25.91	23.91	0.1800
2011			
March 31, 2011	$19.80	$17.86	$0.1800
June 30, 2011	20.99	18.63	0.1800
September 30, 2011	21.97	17.82	0.1800
December 31, 2011	20.72	17.85	0.1800

At February 27, 2013, there were 316 holders of record of our Common Shares.

We have determined for income tax purposes that 63% of the total dividends distributed to shareholders during 2012 represented ordinary income and 37% represented capital gains. The dividend for the quarter ended December 31, 2012 was paid on January 15, 2013 and is taxable in 2012. Our cash flow is affected by a number of factors, including the revenues received from rental properties, our operating expenses, the interest expense on our borrowings, the ability of lessees to meet their obligations to us and unanticipated capital expenditures. Future dividends paid by us will be at the discretion of the Trustees and will depend on our actual cash flows, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Trustees deem relevant. In addition, we have the ability to pay dividends in cash, Common Shares or a combination thereof, subject to a minimum of 10% in cash.

(b) Issuer purchases of equity securities

We have an existing share repurchase program that authorizes management, at its discretion, to repurchase up to $20.0 million of our outstanding Common Shares. The program may be discontinued or extended at any time and there is no assurance that we will purchase the full amount authorized. There were no Common Shares repurchased by us during the year ended December 31, 2012. Under this program we have repurchased 2.1 million Common Shares, none of which were repurchased after December 2001. As of December 31, 2012, management may repurchase up to approximately $7.5 million of our outstanding Common Shares under this program.

(c) Securities authorized for issuance under equity compensation plans

During 2012, the Company terminated the 1999 and 2003 Share Incentive Plans (the "1999 and 2003 Plans") and adopted the Amended and Restated 2006 Share Incentive Plan (the "Amended 2006 Plan"). The Amended 2006 Plan amended and restated our 2006 Share Incentive Plan and increased the authorization to issue options, Restricted Shares and LTIP Units (collectively "Awards") available to officers and employees by 1.9 million shares. Reference is made to Note 15 in the Notes to Consolidated Financial Statements, for a summary of our Share Incentive Plans. The following table provides information related to the Amended 2006 Plan as of December 31, 2012:

	Equity Compensation Plan Information		
	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted - average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	137,647	$18.71	1,910,942
Equity compensation plans not approved by security holders	—	—	—
Total	137,647	$18.71	1,910,942

Remaining Common Shares available under the Amended 2006 Plan is as follows:

Outstanding Common Shares as of December 31, 2012	52,482,598
Outstanding OP Units as of December 31, 2012	452,454
Total Outstanding Common Shares and OP Units	52,935,052
Common Shares and OP Units pursuant to the 1999 and 2003 Plans	5,193,681
Common Shares pursuant to the Amended 2006 Plan	2,100,000
Total Common Shares available under equity compensation plans	7,293,681
Less: Issuance of Restricted Shares and LTIP Units Granted	(2,607,220)
Issuance of Options Granted	(2,775,519)
Number of Common Shares remaining available	1,910,942

(d) Share Price Performance Graph (1)

The following graph compares the cumulative total shareholder return for our Common Shares for the period commencing December 31, 2007 through December 31, 2012 with the cumulative total return on the Russell 2000 Index (“Russell 2000”), the NAREIT All Equity REIT Index (the “NAREIT”) and the SNL Shopping Center REITs (the “SNL”) over the same period. Total return values for the Russell 2000, the NAREIT, the SNL and the Common Shares were calculated based upon cumulative total return assuming the investment of $100.00 in each of the Russell 2000, the NAREIT, the SNL and our Common Shares on December 31, 2007, and assuming reinvestment of dividends. The shareholder return as set forth in the table below is not necessarily indicative of future performance.

Note:

(1) The information in this section is not “soliciting material,” is not deemed “filed” with the SEC, and is not to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

Comparison of 5 Year Cumulative Total Return among Acadia Realty Trust, the Russell 2000, the NAREIT and the SNL:

	Period Ended					
Index	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Acadia Realty Trust	$100.00	$60.70	$75.84	$85.33	$97.78	$125.50
Russell 2000	100.00	66.21	84.20	106.82	102.36	119.09
NAREIT All Equity REIT Index	100.00	62.27	79.70	101.98	110.42	132.18
SNL REIT Retail Shopping Ctr Index	100.00	60.20	59.43	77.15	74.94	94.62

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth, on a historical basis, our selected financial data. This information should be read in conjunction with our audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Form 10-K. Funds from operations ("FFO") amounts for the year ended December 31, 2012 have been adjusted as set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Reconciliation of Net Income to Funds from Operations."

(dollars in thousands, except per share amounts)	Years ended December 31, 2012	2011	2010	2009	2008
OPERATING DATA:					
Revenues	$134,425	$115,078	$116,390	$120,052	$89,053
Operating expenses, excluding depreciation and reserves	66,232	57,354	53,723	57,042	51,448
Interest expense	28,768	29,632	34,414	29,013	26,369
Depreciation and amortization	32,931	25,672	23,419	23,421	19,651
Gain on sale of land	—	—	—	—	763
Equity in earnings (losses) of unconsolidated affiliates	550	1,555	12,450	(1,334)	16,487
Gain (loss) on sale of unconsolidated affiliates	3,061	—	(1,479)	(195)	3,419
Impairment of investment in unconsolidated affiliate	(2,032)	—	—	(3,768)	—
Reserve for notes receivable	(405)	—	—	(1,734)	(4,392)
Other interest income	148	276	406	638	3,344
Gain from bargain purchase	—	—	33,805	—	—
Gain on involuntary conversion of asset	2,368	—	—	—	—
(Loss) gain on debt extinguishment	(198)	1,268	—	7,057	1,523
Income tax benefit (provision)	568	(461)	(2,869)	(1,539)	(3,362)
Income from continuing operations	10,554	5,058	47,147	9,701	9,367
Income from discontinued operations	79,382	48,657	3,520	3,005	28,070
Net income	89,936	53,715	50,667	12,706	37,437
Loss (income) attributable to noncontrolling interests:					
Continuing operations	13,480	13,655	(18,914)	18,384	4,465
Discontinued operations	(63,710)	(15,815)	(1,696)	43	(16,834)
Net (income) loss attributable to noncontrolling interests	(50,230)	(2,160)	(20,610)	18,427	(12,369)
Net income attributable to Common Shareholders	$39,706	$51,555	$30,057	$31,133	$25,068
Supplemental Information:					
Income from continuing operations attributable to Common Shareholders	$24,034	$18,713	$28,233	$28,085	$13,832
Income from discontinued operations attributable to Common Shareholders	15,672	32,842	1,824	3,048	11,236
Net income attributable to Common Shareholders	$39,706	$51,555	$30,057	$31,133	$25,068
Basic earnings per share:					
Income from continuing operations	$0.51	$0.45	$0.69	$0.73	$0.41
Income from discontinued operations	0.34	0.80	0.04	0.08	0.33
Basic earnings per share	$0.85	$1.25	$0.73	$0.81	$0.74
Diluted earnings per share:					
Income from continuing operations	$0.51	$0.45	$0.69	$0.73	$0.41
Income from discontinued operations	0.34	0.80	0.04	0.08	0.33
Diluted earnings per share	$0.85	$1.25	$0.73	$0.81	$0.74
Weighted average number of Common Shares outstanding					
basic	45,854	40,697	40,136	38,005	33,813
diluted	46,335	40,986	40,406	38,242	34,293
Cash dividends declared per Common Share (1)	$0.7200	$0.7200	$0.7200	$0.7500	$0.8951

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	Years ended December 31,				
(dollars in thousands, except per share amounts)	2012	2011	2010	2009	2008
BALANCE SHEET DATA:					
Real estate before accumulated depreciation	$1,495,742	$1,098,761	$950,710	$817,170	$727,519
Total assets	1,908,440	1,653,319	1,524,806	1,382,464	1,291,383
Total mortgage indebtedness	727,048	647,739	694,502	656,993	545,254
Total convertible notes payable	930	930	48,712	47,910	100,403
Total common shareholders' equity	622,797	384,114	318,212	312,185	227,722
Noncontrolling interests	447,459	385,195	269,310	220,292	214,506
Total equity	1,070,256	769,309	587,522	532,477	442,228
OTHER:					
Funds from Operations (2)	48,827	42,913	50,440	49,613	37,964
Cash flows provided by (used in):					
Operating activities	59,672	66,332	44,377	47,462	66,517
Investing activities	(136,745)	(153,157)	(60,745)	(123,380)	(302,265)
Financing activities	79,074	56,045	43,152	83,035	199,096

Notes:

(1) In addition to the $0.8951 cash dividends declared in 2008, we declared a Common Share dividend of $0.4949.

(2) The Company considers funds from operations ("FFO") as defined by the National Association of Real Estate Investment Trusts ("NAREIT") and net property operating income ("NOI") to be appropriate supplemental disclosures of operating performance for an equity REIT due to their widespread acceptance and use within the REIT and analyst communities. FFO and NOI are presented to assist investors in analyzing the performance of the Company. They are helpful as they exclude various items included in net income that are not indicative of the operating performance, such as gains (losses) from sales of depreciated property, depreciation and amortization, and impairment of depreciable real estate. In addition, NOI excludes interest expense. The Company's method of calculating FFO and NOI may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles ("GAAP") and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating the Company's performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, the Company defines FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. During 2012, NAREIT issued a clarification to the definition of FFO whereby impairment charges for depreciable real estate are to be excluded in the calculation of FFO. Accordingly, 2011 FFO has been restated to exclude an impairment charge of $2.6 million.

ITEM 7. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

As of December 31, 2012, we operated 100 properties, which we own or have an ownership interest in, within our Core Portfolio or within our Opportunity Funds. Our Core Portfolio consists of those properties either 100% owned by, or partially owned through joint venture interests by the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Opportunity Funds. These 100 properties primarily consist of urban/street retail, dense suburban neighborhood and community shopping centers and mixed-use properties with a strong retail component. The properties we operate are located primarily in high-barrier-to-entry, densely-populated metropolitan areas in the United States along the East Coast and in Chicago. There are 72 properties in our Core Portfolio totaling approximately 5.3 million square feet. Fund I has three remaining properties comprising approximately 0.1 million square feet. Fund II has six properties, four of which (representing 0.6 million square feet)

are currently operating, one is under construction, and one is in the design phase. Fund III has 14 properties, nine of which (representing 1.7 million square feet) are currently operating and five of which are in the design phase. Fund IV has five properties, four of which are operating with one under design. The majority of our operating income is derived from rental revenues from these 100 properties, including recoveries from tenants, offset by operating and overhead expenses. As our RCP Venture invests in operating companies, we consider these investments to be private-equity style, as opposed to real estate, investments. Since these are not traditional investments in operating rental real estate but investments in operating businesses, the Operating Partnership invests in these through a taxable REIT subsidiary (“TRS”).

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

- Own and operate a Core Portfolio of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas and create value through accretive redevelopment and re-anchoring activities coupled with the acquisition of high-quality assets that have the long-term potential to outperform the asset class as part of our Core asset recycling and acquisition initiative.

- Generate additional external growth through an opportunistic yet disciplined acquisition program through our Opportunity Funds. We target transactions with high inherent opportunity for the creation of additional value through:

value-add investments in high-quality urban and/or street retail properties with re-tenanting or repositioning opportunities,
opportunistic acquisitions of well-located real-estate anchored by distressed retailers or by motivated sellers and opportunistic purchases of debt which may include restructuring.

These may also include joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets.

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

RESULTS OF OPERATIONS

Reference is made to Note 3 in the Notes to Consolidated Financial Statements for an overview of our four reportable segments.

A discussion of the significant variances and primary factors contributing thereto within the results of operations for the years ended December 31, 2012, 2011 and 2010 are addressed below:

Comparison of the year ended December 31, 2012 (“2012”) to the year ended December 31, 2011 (“2011”)

Revenues	2012			2011		
(dollars in millions)	Core Portfolio	Opportunity Funds	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Notes Receivable and Other
Rental income	$57.2	$42.5	$—	$45.9	$34.2	$—
Interest income	—	—	7.9	—	—	11.4
Expense reimbursements	13.3	11.1	—	11.5	9.6	—
Management fee income (1)	—	—	1.5	—	—	1.7
Other	0.1	0.8	—	0.5	0.3	—
Total revenues	$70.6	$54.4	$9.4	$57.9	$44.1	$13.1

Note:

(1) Includes fees earned by us as general partner or managing member of the Opportunity Funds that are eliminated in consolidation and adjusts the loss (income) attributable to noncontrolling interests. The balance reflected in the table represents third party fees that are not eliminated in consolidation. Reference is made to Note 3 of the Notes to Consolidated Financial Statements for an overview of our four reportable segments.

Rental income in the Core Portfolio increased $11.3 million as a result of additional rents of (i) $6.9 million related to 2012 Core Portfolio property acquisitions as detailed in Note 2 in the Notes to Consolidated Financial Statements ("2012 Core Acquisitions"), (ii) $2.5 million related to 2011 Core Portfolio property acquisitions ("2011 Core Acquisitions") and (iii) $1.3 million as a result of re-anchoring and leasing activities at Bloomfield Town Square and 2914 Third Avenue ("Core Redevelopment Properties"). Rental income in the Opportunity Funds increased $8.3

million as a result of additional rents of (i) $3.0 million related to 2012 Opportunity Fund property acquisitions as detailed in Note 2 in the Notes to Consolidated Financial Statements ("2012 Fund Acquisitions"), (ii) $2.2 million related to 2011 Opportunity Fund property acquisitions ("2011 Fund Acquisitions") and (iii) $2.8 million from leases that commenced during 2011 and 2012 at Fordham Place and 161st Street ("Fund Redevelopment Properties").

Interest income in Notes Receivable and Other decreased as a result of the full repayment of two notes during 2011. This was partially offset by five new notes originated during 2012.

The increase in expense reimbursements in the Core Portfolio was the result of the 2012 and 2011 Core Acquisitions, Core Redevelopment Properties and an increase in common area maintenance ("CAM") expenses during 2012. Expense reimbursements in the Opportunity Funds increased for both real estate taxes and CAM as a result of the 2012 and 2011 Fund Acquisitions and the Fund Redevelopment Properties.

Operating Expenses	2012			2011		
(dollars in millions)	Core Portfolio	Opportunity Funds	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Notes Receivable and Other
Property operating	$9.6	$15.1	$(2.8)	$7.7	$12.2	$(2.4)
Other operating	2.1	2.1	(0.2)	0.8	0.7	(0.1)
Real estate taxes	10.0	8.8	—	8.6	6.7	—
General and administrative	22.8	14.4	(15.7)	24.2	16.7	(17.8)
Depreciation and amortization	18.3	15.6	(1.0)	14.2	12.4	(0.9)
Reserve for notes receivable	—	—	0.4	—	—	—
Total operating expenses	$62.8	$56.0	$(19.3)	$55.5	$48.7	$(21.2)

The increase in property operating expenses for the Core Portfolio was a result of the 2012 and 2011 Core Acquisitions and an $1.2 million increase in credit loss during 2012. Property operating in the Opportunity Funds increased as a result of the 2012 and 2011 Fund Acquisitions and an increase in credit loss during 2012.

Other operating expenses, which represent acquisition costs, increased for the Core Portfolio and the Opportunity Funds as a result of the 2012 Core Acquisitions and the 2012 Fund Acquisitions, respectively.

Real estate tax expense in the Core Portfolio increased as a result of the 2012 and 2011 Core Acquisitions. Real estate taxes in the Opportunity Funds increased as a result of the 2012 and 2011 Fund Acquisitions and the Fund Redevelopment Properties.

The decrease in general and administrative expense in the Core Portfolio was due to an increase in capitalized salaries related to leasing and redevelopment activities in 2012. The changes in general and administrative expense in the Opportunity Funds and Other, are offsetting, and relate to Promote expense within Fund I, which is eliminated for consolidated financial statement presentation purposes.

Core Portfolio depreciation and amortization increased $4.1 million as a result of the 2012 and 2011 Core Acquisitions. Depreciation and amortization expense in the Opportunity Funds increased $3.2 million due to the 2012 and 2011 Fund Acquisitions and the Fund Redevelopment Properties.

Other	2012			2011		
(dollars in millions)	Core Portfolio	Opportunity Funds	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Notes Receivable and Other
Equity in earnings of unconsolidated affiliates	$0.3	$1.3	$—	$0.7	$0.9	$—
Other interest income	—	—	0.1	—	—	0.3
Gain on involuntary conversion of asset	2.4	—	—	—	—	—
(Loss) gain on debt extinguishment	—	(0.2)	—	1.3	—	—
Interest and other finance expense	(15.2)	(12.9)	(0.6)	(16.0)	(12.7)	(1.0)
Income tax (provision) benefit	(0.2)	0.8	—	(1.1)	0.6	—
Income from discontinued operations	—	—	79.4	—	—	48.7

(Loss) income attributable to noncontrolling interests:						
- Continuing operations	(0.3)	13.7	—	(0.3)	13.9	—
- Discontinued operations	—	—	(63.8)	—	—	(15.8)

Equity in earnings of unconsolidated affiliates in the Opportunity Funds increased as a result of our share of the $3.4 million gain on the sale of an unconsolidated Opportunity Fund investment and a decrease in acquisition costs during 2012. This was partially offset by 2012 expenses of $2.0 million following the settlement of certain legal proceedings related to our Mervyns investment (reference is made to Legal Proceedings in Part 1, Item 3 in this Form 10-K) and a decrease of $2.6 million in distributions in excess of basis from our Albertson's investment in 2012.

Gain on involuntary conversion of asset of $2.4 million relates to insurance proceeds received in excess of net basis for flood damage at Mark Plaza.
Gain on debt extinguishment of $1.3 million in the Core Portfolio was the result of the purchase of mortgage debt at a discount in 2011.

Income from discontinued operations represents activity related to property sales during 2012 and 2011.

(Loss) income attributable to noncontrolling interests - Continuing operations and Discontinued operations represents the noncontrolling interests' share of all the Opportunity Funds variances discussed above.
Comparison of the year ended December 31, 2011 (“2011”) to the year ended December 31, 2010 (“2010”)

Revenues	2011			2010		
(dollars in millions)	Core Portfolio	Opportunity Funds	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Notes Receivable and Other
Rental income	$45.9	$34.2	$—	$44.6	$30.5	$—
Interest income	—	—	11.4	—	—	19.2
Expense reimbursements	11.5	9.6	—	11.9	8.0	—
Lease termination income	0.1	—	—	0.3	—	
Management fee income (1)	—	—	1.7	—	—	1.4
Other	0.4	0.3	—	0.3	0.2	—
Total revenues	$57.9	$44.1	$13.1	$57.1	$38.7	$20.6

Note:

(1) Includes fees earned by us as general partner or managing member of the Opportunity Funds that are eliminated in consolidation and adjusts the loss (income) attributable to noncontrolling interests. The balance reflected in the table represents third party fees that are not eliminated in consolidation. Reference is made to Note 3 in the Notes to Consolidated Financial Statements for an overview of our four reportable segments.

The increase in rental income in the Core Portfolio was attributable to additional rents following the 2011 Core Acquisitions. Rental income in the Opportunity Funds increased from additional rents at Pelham Manor and 161st Street of $1.7 million for leases that commenced during 2010 and 2011 ("2010/2011 Fund Redevelopment Properties") as well as additional rents of $2.1 million following the 2011 Fund Acquisitions.
Interest income decreased as a result of the full repayment of two notes during 2010 and 2011.
Expense reimbursements in the Opportunity Funds increased for both real estate taxes and common area maintenance as a result of the 2010/2011 Fund Redevelopment Properties and the 2011 Fund Acquisitions.

Operating Expenses	2011			2010		
(dollars in millions)	Core Portfolio	Opportunity Funds	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Notes Receivable and Other
Property operating	$7.7	$12.2	$(2.4)	$9.1	$12.0	$(1.6)
Other operating	0.8	0.7	(0.1)	—	—	—
Real estate taxes	8.6	6.7	—	8.2	5.8	—
General and administrative	24.2	16.7	(17.8)	22.4	13.6	(15.8)
Depreciation and amortization	14.2	12.4	(0.9)	13.8	10.1	(0.5)

Total operating expenses	$55.5	$48.7	$(21.2)	$53.5	$41.5	$(17.9)

Property operating expenses in the Core Portfolio decreased as a result of higher credit loss during 2010.
General and administrative expense in the Core Portfolio increased as a result of higher stock compensation expense and employee severance costs during 2011. The changes in general and administrative expense in the Opportunity Funds and Other, are offsetting, and relate to Promote expense within Fund I, which is eliminated for consolidated financial statement presentation purposes.
Depreciation and amortization expense in the Opportunity Funds increased due to the 2010/2011 Fund Redevelopment Properties and the 2011 Fund Acquisitions.

Other	2011			2010		
(dollars in millions)	Core Portfolio	Opportunity Funds	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Notes Receivable and Other
Equity in earnings of unconsolidated affiliates	$0.7	$0.9	$—	$0.6	$10.4	$—
Other interest income	—	—	0.3	—	—	0.4
Gain on debt extinguishment	1.3	—	—	—	—	—
Gain from bargain purchase	—	—	—	—	33.8	—
Interest and other finance expense	(16.0)	(12.7)	(1.0)	(18.0)	(16.8)	0.4
Income tax provision	(1.1)	0.6	—	(3.2)	0.4	—
Income from discontinued operations	—	—	48.7	—	—	3.5
(Loss) income attributable to noncontrolling interests:						
- Continuing operations	(0.3)	13.9	—	(0.3)	(18.7)	—
- Discontinued operations	—	—	(15.8)	—	—	(1.7)

Equity in earnings of unconsolidated affiliates in the Opportunity Funds decreased as a result of a decrease in distributions in excess of basis from our Albertson's investment of $6.3 million in 2011 and a decrease in our pro-rata share of income from our Mervyns investment in 2011.
Gain on debt extinguishment of $1.3 million was the result of the purchase of mortgage debt at a discount in 2011.
The $33.8 million gain from bargain purchase was attributable to Fund II's purchase of an unaffiliated membership interest in CityPoint in 2010.
Interest expense in the Core Portfolio decreased $2.0 million in 2011. This was the result of a decrease in average outstanding borrowings during 2011 resulting in a decrease of $1.5 million as well as a decrease in loan amortization expense of $0.4 million related to refinanced debt in 2011. Interest expense in the Opportunity Funds decreased $4.1 million in 2011. This was attributable to higher capitalized interest in 2011 and a decrease in loan amortization expense related to refinanced debt in 2010. These were offset by an increase of $1.1 million related to higher average outstanding borrowings and an increase of $1.1 million related to higher average interest rates in 2011.
The variance in the income tax provision in the Core Portfolio related to income taxes at the TRS level for our pro-rata share of income from our Albertson's investment in 2010 and an overaccrual of the 2010 tax liability at the TRS levels.
Income from discontinued operations represents activity related to property sales during 2011.
(Loss) income attributable to noncontrolling interests – Continuing operations and Discontinued operations represents the noncontrolling interests' share of all the Opportunity Funds variances discussed above.
CORE PORTFOLIO

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

Opportunity Fund investments.

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

Net Property Operating Income

NOI is determined as follows:

RECONCILIATION OF OPERATING INCOME TO NET OPERATING INCOME - CORE PORTFOLIO

(dollars in millions)	Year Ended December 31,	
	2012	2011
Operating Income	$34.9	$32.0
Add back:		
General and administrative	21.5	23.0
Depreciation and amortization	32.9	25.7
Impairment of asset	0.4	—
Less:		
Management fee income	(1.4)	(1.7)
Interest income	(7.9)	(11.4)
Straight-line rent and other adjustments	(10.3)	(6.6)
Consolidated NOI	70.1	61.0
Noncontrolling interest in NOI	(9.3)	(8.9)
Operating Partnership's interest in Opportunity Funds	(7.2)	(7.5)
NOI - Core Portfolio	$53.6	$44.6

Same Store NOI includes Core Portfolio properties that we owned for both the current and prior periods presented, but excludes those properties which we acquired, expect to sell, were sold or redeveloped during these periods. The following table summarizes Same Store NOI for our Core Portfolio for the years ended December 31, 2012 and 2011:

SAME STORE NET OPERATING INCOME - CORE PORTFOLIO

	Year Ended December 31,		
(dollars in millions)	2012		2011
NOI	$53.6		$44.6
Less properties excluded from Same Store NOI	(13.3)		(5.7)
Same Store NOI	$40.3		$38.9
Percent change from historic period	3.7	%	
Components of Same Store NOI			
Same Store Revenues	$57.9		$56.5
Same Store Operating Expenses	17.6		17.6
Same Store NOI	$40.3		$38.9

Rent Spreads on Core Portfolio New and Renewal Leases

The following table summarizes rent spreads on both a cash basis and straight-line basis for new and renewal leases based on leases executed within our Core Portfolio for the year ended December 31, 2012. Cash basis represents a comparison of rent most recently paid on the previous lease as compared to the initial rent paid on the new lease. Straight-line basis represents a comparison of rents as adjusted for contractual escalations, abated rent and lease incentives for the same comparable leases.

	Year Ended December 31, 2012	
Core Portfolio New and Renewal Leases	Cash Basis	Straight-Line Basis
Number of new and renewal leases executed	55	55
Gross leasable area	315,431	315,431
New base rent	$16.56	$17.16
Previous base rent	$16.71	$16.16
Percent growth in base rent	(0.9)%	6.2 %
Average cost per square foot (1)	$7.07	$7.07
Weighted average lease term (years)	5.5	5.5

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

SELF-STORAGE PORTFOLIO

During the fourth quarter of 2012, we sold 12 of the 14 self-storage properties with two properties remaining under contract. We anticipate closing on the remaining two properties during 2013. Accordingly, activity related to this portfolio is no longer relevant to a discussion of our results of operations.

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

	For the Years Ended December 31,				
(dollars in thousands)	2012	2011	2010	2009	2008
Net income attributable to Common Shareholders	$39,706	$51,555	$30,057	$31,133	$25,068
Depreciation of real estate and amortization of leasing costs:					
Consolidated affiliates, net of noncontrolling interests' share	23,090	18,274	18,445	18,847	18,519
Unconsolidated affiliates	1,581	1,549	1,561	1,604	1,687
Income attributable to noncontrolling interests in operating partnership (1)	510	635	377	464	437
Gain on sale of properties (net of noncontrolling interests' share)					
Consolidated affiliates	(15,451)	(31,716)	—	(2,435)	(7,182)
Unconsolidated affiliates	(609)	—	—	—	(565)
Impairment of asset	—	2,616	—	—	—
Funds from operations (2)	$48,827	$42,913	$50,440	$49,613	$37,964
Funds From Operations per Share - Diluted					
Weighted average number of Common Shares and OP Units	46,940	41,467	40,876	38,913	34,940
Funds from operations, per share	$1.04	$1.04	$1.23	$1.28	$1.09

Notes:

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

(2) We consider funds from operations ("FFO") as defined by the National Association of Real Estate Investment Trusts ("NAREIT") and net property operating income ("NOI") 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 and NOI are presented to assist investors in analyzing our performance. They are helpful as they exclude various items included in net income that are not indicative of the operating performance, such as gains (losses) from sales of depreciated property, depreciation and amortization, and impairment of depreciable real estate. In addition, NOI excludes interest expense. Our method of calculating FFO and NOI may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles ("GAAP") and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. During 2012 NAREIT issued a clarification to the definition of FFO whereby impairment charges for depreciable real estate are to be excluded in the calculation of FFO. Accordingly, 2011 FFO has been restated to exclude an impairment charge of $2.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Uses of Liquidity

Our principal uses of liquidity are (i) distributions to our shareholders and OP unit holders, (ii) investments which include the funding of our capital committed to the Opportunity Funds and property acquisitions and redevelopment/re-tenanting activities within our Core Portfolio, and (iii) debt service and loan repayments, including the repurchase of our Convertible Notes.

Distributions

In order to qualify as a REIT for Federal income tax purposes, we must currently distribute at least 90% of our taxable income to our shareholders. For the year ended December 31, 2012, we paid dividends and distributions on our Common Shares and Common OP Units totaling $33.2 million.

Investments

Fund I and Mervyns I

Fund I and Mervyns I have returned all invested capital and accumulated preferred return thus triggering our Promote in all future Fund I and Mervyns I earnings and distributions. As of December 31, 2012, $86.6 million has been invested in Fund I and Mervyns I, of which the Operating Partnership contributed $19.2 million.

As of December 31, 2012, Fund I currently owned, or had ownership interests in three remaining assets comprising approximately 0.1 million square feet.

In addition, we, along with our Fund I investors have invested in Mervyns as discussed in Item 1. of this Form 10-K.

Fund II and Mervyns II

To date, Fund II's primary investment focus has been in investments involving significant redevelopment activities and the RCP Venture. As of December 31, 2012, $300.0 million has been invested in Fund II and Mervyns II, of which the Operating Partnership contributed $60.0 million.

During September of 2004, through Fund II, we launched our New York Urban/Infill Redevelopment Initiative. Fund II, together with an unaffiliated partner, formed Acadia Urban Development LLC ("Acadia Urban Development") for the purpose of acquiring, constructing, redeveloping, owning, operating, leasing and managing certain retail or mixed-use real estate properties in the New York City metropolitan area. The unaffiliated partner agreed to invest 10% of required capital up to a maximum of $2.2 million and Fund II, the managing member, agreed to invest the balance

to acquire assets in which Acadia Urban Development agreed to invest. Of the nine properties acquired by Acadia Urban Development, two have been sold, and one is currently under contact for sale. Of the remaining six assets, four are currently at, or near, stabilization, one is currently under construction and one is in the design phase. Redevelopment costs incurred during 2012 by Acadia Urban Development in connection with the New York Urban/Infill Redevelopment Initiative totaled $52.2 million. Anticipated additional costs for the property currently under construction are currently estimated to range between $107.1 and $197.1 million.

RCP Venture

Reference is made to Note 4 in the Notes to Consolidated Financial Statements, for a table summarizing the RCP Venture investments from inception through December 31, 2012.

Fund III

During 2007, we formed Fund III with 14 institutional investors, including all of the investors from Fund I and a majority of the investors from Fund II with $502.5 million of committed discretionary capital. During 2012, the committed capital amount was reduced to $475.0 million. As of December 31, 2012, $341.0 million has been invested in Fund III, of which the Operating Partnership contributed $67.9 million. The remaining $134.0 million of unfunded capital will be used to fund current redevelopment projects.

Fund III has invested in five redevelopment projects as previously discussed in "—INVESTING ACTIVITIES" in Item 1. of this Form 10-K. Remaining anticipated costs for the projects currently owned by Fund III that can be estimated aggregate between $78.7 million and $99.2.

Other Fund III Investments

In addition to its five redevelopment projects noted above, Fund III also owns, or has ownership interests in, the following 10 assets comprising approximately 1.7 million square feet as follows:

(dollars in millions)

Property	Location	Date Acquired	Purchase Price	GLA
Arundel Plaza	Glen Burnie, MD	August 2012	$17.6	265,100
Lincoln Park Centre	Chicago, IL	April 2012	31.5	62,700
640 Broadway	New York, NY	February 2012	32.5	39,600
New Hyde Park	New Hyde Park, NY	December 2011	11.2	31,500
654 Broadway	New York, NY	December 2011	13.7	18,700
Parkway Crossing	Baltimore, MD	December 2011	21.6	260,000
The Heritage Shops at Millennium Park	Chicago, IL	April 2011	31.6	105,000
Lincoln Road	South Miami Beach, FL	February 2011	51.9	61,400
White City Shopping Center	Shrewsbury, MA	December 2010	56.0	225,200
Cortlandt Towne Center	Westchester Co. NY	January 2009	78.0	642,000
Total			$345.6	1,711,200

Fund IV

During 2012, we formed Fund IV with 17 principally institutional investors as well as some high-net worth individuals. Reference is made to Note 1 in the Notes to Consolidated Financial Statements, for a detailed discussion of Fund IV.

To date, Fund IV has acquired three properties. Reference is made to Note 2 in the Notes to Consolidated Financial Statements, for a detailed discussion of these acquisitions.

Fund IV has invested in one redevelopment projects as previously discussed in "—INVESTING ACTIVITIES" in Item 1. of this Form 10-K. Remaining costs for this project are currently estimated to aggregate between $4.0 million and $4.5 million.

Notes Receivable

As of December 31, 2012, our notes receivable, net aggregated $129.3 million, with accrued interest thereon of $2.7 million. The notes were collateralized by the underlying properties, the borrower's ownership interest in the entities that own the properties, and/or by the borrower's personal guarantee. Effective interest rates on our notes receivable ranged from 6.0% to 24.0% with maturities from June 2013 through November 2020.

Investments made in notes receivable during 2012 are discussed in Note 5 in the Notes to Consolidated Financial Statements.

Other Investments

Acquisitions made during 2012 are discussed in Note 2 in the Notes to Consolidated Financial Statements.

Core Portfolio Property Redevelopment and Re-anchoring

Our Core Portfolio redevelopment and re-anchoring programs focus on selecting well-located urban/street retail locations and dense suburban shopping centers and creating significant value through re-tenanting and property redevelopment. During 2011, we initiated the re-anchoring of three properties, the Bloomfield Town Square, located in Bloomfield Hills, MI and two former A&P supermarket locations located in the New York City metropolitan area. During 2012, we completed the Bloomfield Hills re-anchoring as well as the re-anchoring of the majority of space at one of the two former A&P supermarket locations. Costs associated with these redevelopments aggregated $10.6 million. Re-anchoring costs for the remainder of the space are estimated to range between $4.0 million and $6.0 million.

Purchase of Convertible Notes

Purchases of the Convertible Notes have been another use of our liquidity, although as of December 31, 2012 all but $0.9 million of the Convertible Notes have been retired. During 2011, we purchased $48.8 million in face amount of our outstanding Convertible Notes for $49.0 million.

Share Repurchase

We have an existing share repurchase program as further described in Item 5. of this Form 10-K. Management has not repurchased any shares under this program since December 2001, although it has the authority to repurchase up to approximately $7.5 million of our outstanding Common Shares.

SOURCES OF LIQUIDITY

We intend on using Fund IV, as well as new opportunity funds that we may establish in the future, as the primary vehicles for our future acquisitions. Fund IV has $365.9 million of unfunded capital commitments from noncontrolling interests as of December 31, 2012. Additional sources of capital for funding property acquisitions, redevelopment, expansion and re-tenanting are expected to be obtained primarily from (i) cash on hand of $91.8 million as of December 31, 2012 and cash flow from operating activities, (ii) the issuance of public equity or debt instruments, (iii) unfunded capital commitments from noncontrolling interests of $107.3 million for Fund III, (iv) additional debt financings, and (v) future sales of existing properties.

During 2012, noncontrolling interest capital contributions to Fund II, III and IV of $14.2 million, $91.5 million and $49.7 million, respectively, were primarily used to fund acquisitions and to pay down existing credit facilities.

Shelf Registration Statements and Issuance of Equity

During April 2012, we filed a new shelf registration on Form S-3 providing for offerings of up to a total of $500.0 million of Common Shares, Preferred Shares and debt securities. We currently have remaining capacity under this registration statement to issue up to approximately $231 million of these securities.

During January 2012, we established an ATM equity program with an aggregate offering of up to $75.0 million in Common Shares. During 2012, we sold approximately 3.3 million Common Shares under this program for gross proceeds of $75.0 million and net proceeds of $73.7 million.

During August 2012, we established a new ATM equity program with an aggregate offering of up to $125.0 million in Common Shares. Through December 31, 2012, we sold approximately 2.8 million Common Shares under this program for gross proceeds of approximately $68.8 million and net proceeds of approximately $67.8 million. As of December 31, 2012, there is $56.2 million remaining under this program.

During October 2012, we issued approximately 3.5 million Common Shares, which generated gross proceeds of approximately $86.9 million and net proceeds of approximately $85.8 million.

We have historically used and in the future intend to use the net proceeds of these equity issuances for general corporate purposes, which may include, among other things, repayment of our debt, future acquisitions, directly and through our Opportunity Funds, and redevelopments of and capital improvements to our properties.

Asset Sales

Asset sales are an additional source of liquidity for us. Dispositions made during 2012 are discussed further in Note 2 in the Notes to Consolidated Financial Statements.

Notes Receivable Repayments

Reference is made to Note 5 in the Notes to Consolidated Financial Statements, for an overview of our notes receivable and for payments received during the years ended December 31, 2012, 2011 and 2010.

Financing and Debt

As of December 31, 2012, our outstanding mortgage and convertible notes payable aggregated $728.1 million, and were collateralized by 35 properties and related tenant leases. Interest rates on our outstanding indebtedness ranged from 1.00% to 7.25% with maturities that ranged from April 2013 to September 2022. Taking into consideration $132.9 million of notional principal under variable to fixed-rate swap agreements currently in effect, $435.2 million of the portfolio, or 60%, was fixed at a 4.97% weighted average interest rate and $292.9 million, or 40% was floating at a 3.95% weighted average interest rate as of December 31, 2012. There is $109.0 million of debt maturing in 2013 at a weighted average interest rate of 4.37%. Of this amount, $6.9 million represents scheduled annual amortization. The loans relating to $20.7 million of the 2013 maturities provide for extension options, which we believe we will be able to exercise. As it relates to the remaining 2013 maturities, we may not have sufficient cash on hand to repay such indebtedness and, as such, we may have to refinance this indebtedness or select other alternatives based on market conditions at that time.

As of December 31, 2012, we had $120.4 million of additional capacity under existing revolving debt facilities. Subsequent to December 31, 2012, the Company closed on a new $150.0 million unsecured line of credit. This facility replaced the existing $64.5 million line of credit to the Operating Partnership that matured.

During November 2012, the U.S. Citizenship and Immigration Services ("USCIS") approved the CityPoint project's application for $200.0 million of construction financing under the U.S.'s Immigrant Investor Program, commonly known as "EB-5". Currently all funds are in escrow and will be released upon the approval of the USCIS.

The following table sets forth certain information pertaining to our secured credit facilities:

(dollars in millions) Borrower	Total available credit facilities	Amount borrowed as of December 31, 2011	Net borrowings (repayments) during the year ended December 31, 2012	Amount borrowed as of December 31, 2012	Letters of credit outstanding as of December 31, 2012	Amount available under credit facilities as of December 31, 2012
Acadia Realty, LP	$64.5	$1.0	$(1.0)	$—	$—	$64.5
Fund II	—	40.0	(40.0)	—	—	—
Fund III	—	136.1	(136.1)	—	—	—
Fund IV	150.0	—	93.1	93.1	—	56.9
Total	$214.5	$177.1	$(84.0)	$93.1	$—	$121.4

Reference is made to Note 8 and Note 9 to our Consolidated Financial Statements, for a summary of the financing and refinancing transactions during the year ended December 31, 2012.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

At December 31, 2012, maturities on our mortgage notes ranged from April 2013 to September 2022. In addition, we have non-cancelable ground leases at eight of our shopping centers. We lease space for our White Plains corporate office for a term expiring in 2015. The following table summarizes our debt maturities, obligations under non-cancelable operating leases and construction commitments as of December 31, 2012:

Contractual obligations:	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
(dollars in millions)					
Future debt maturities	$728.1	$109.0	$381.5	$197.6	$40.0
Interest obligations on debt	94.1	28.9	45.9	14.2	5.1
Operating lease obligations	145.7	4.3	8.5	6.5	126.4
Construction commitments (1)	92.7	92.7	—	—	—
Total	$1,060.6	$234.9	$435.9	$218.3	$171.5

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

OFF BALANCE SHEET ARRANGEMENTS

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

Reference is made to Note 4 in the Notes to Consolidated Financial Statements, for a discussion of our unconsolidated investments. The Operating Partnership's pro-rata share of unconsolidated debt related to those investments is as follows:

(dollars in millions)

Investment	Pro-rata share of mortgage debt Operating Partnership	Interest rate at December 31, 2012	Maturity date
Lincoln Road (Fund III)	$3.8	6.14%	August, 2014
Crossroads Shopping Center	29.1	5.37%	December, 2014
Parkway Crossing	2.5	2.41%	January, 2015
Arundel Plaza	1.6	5.60%	April, 2015
Brandywine Town Center	36.9	5.99%	July, 2016
White City Shopping Center	6.5	2.81%	December, 2017
Georgetown Portfolio	9.2	4.72%	November, 2027
Total	$89.6		

In addition to our derivative financial instruments, one of our unconsolidated affiliates is a party to two separate interest rate LIBOR swaps with a notional value of $29.1 million, which effectively fix the interest rate at 5.54% and expire in December 2017. The Operating Partnership's pro-rata share of the fair value of the derivative liabilities totaled $0.5 million at December 31, 2012

HISTORICAL CASH FLOW

The following table compares the historical cash flow for the year ended December 31, 2012 (“2012”) with the cash flow for the year ended December 31, 2011 (“2011”).

	Years Ended December 31,		
	2012	2011	Variance
(dollars in millions)			
Net cash provided by operating activities	$59.7	$66.3	$(6.6)
Net cash used in investing activities	(136.7)	(153.2)	16.5
Net cash provided by financing activities	79.0	56.1	22.9
Total	$2.0	$(30.8)	$32.8

A discussion of the significant changes in cash flow for 2012 versus 2011 is as follows:

The decrease of $6.6 million in net cash provided by operating activities was primarily attributable to the following:

Items which contributed to a decrease in cash from operating activities:

- Insurance proceeds received in 2011 related to the flood damage at the Mark Plaza shopping center and the redeployment of these proceeds in the restoration of the property during 2012
- A decrease in distributions of $2.6 million related to our RCP investment in Albertson's during 2012

Items which contributed to an increase in cash from operating activities:

- Additional rents from Core Portfolio and Opportunity Fund acquisitions

The decrease of $16.5 million in net cash used in investing activities primarily resulted from the following:

Items which contributed to a decrease in cash used in investing activities:

- An increase of $356.4 million in proceeds from the sale of the Self-Storage Portfolio and Canarsie Plaza during 2012
- An increase of $18.0 million in return of capital from unconsolidated affiliates related to the sale of the White Oak Shopping Center and the refinancing of our investment in Georgetown, D.C.

Items which contributed to an increase in cash used in investing activities:

- An increase of $125.5 million used for the acquisition of real estate in 2012
- An increase of $20.0 million in expenditures for redevelopment and tenant installations during 2012
- An increase of $105.9 million in investments and advances to unconsolidated affiliates during 2012 related to the acquisitions of Fund IV's Lincoln Road and 1701 Belmont Avenue
- An increase of $74.3 million in advances of notes receivable during 2012
- A decrease of $31.1 million from the collection of notes receivable during 2012

The $22.9 million increase in net cash provided by financing activities resulted primarily from the following:

Items which contributed to an increase in cash from financing activities:

- An increase of $288.9 million in mortgage debt proceeds during 2012
- An increase of $178.8 million in cash from the issuance of Common Shares, net of costs during 2012
- An additional $54.3 million in contributions from noncontrolling interests during 2012
- An additional $49.0 million in principal payments on convertible notes during 2011

Items which contributed to a decrease in cash from financing activities:

- An increase of $387.7 million in principal payments on mortgage notes during 2012
- An increase of $153.2 million in distributions to noncontrolling interests during 2012

CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Consolidated Financial Statements requires management to make estimates and judgments that affect the reported

amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the significant judgments and estimates used by us in the preparation of our Consolidated Financial Statements.

Valuation of Property Held for Use and Sale

On a quarterly basis, we review the carrying value of both properties held for use and for sale. We perform an impairment analysis by calculating and reviewing net operating income on a property-by-property basis. We evaluate leasing projections and perform other analyses to conclude whether an asset is impaired. We record impairment losses and reduce 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 we do not expect to recover our carrying costs on properties held for use, we reduce our carrying cost to fair value. For properties held for sale, we reduce our carrying value to the fair value less costs to sell. During the year ended December 31, 2011, we determined that the value of the Granville Centre owned by Fund I was impaired. Accordingly, we recorded an impairment loss of $6.9 million. Granville Centre was subsequently sold during 2011. For the years ended December 31, 2012 and 2010, no impairment losses on our properties were recognized. Management does not believe that the value of any properties in its portfolio was impaired as of December 31, 2012.

Investments in and Advances to Unconsolidated Joint Ventures

We periodically review our investment in unconsolidated joint ventures for other than temporary declines in market value. Any decline that is not expected to be recovered in the next twelve months is considered other than temporary and an impairment charge is recorded as a reduction in the carrying value of the investment. During the year ended December 31, 2012, we recorded a reduction in the carrying amount of our investments in Mervyn's of $2.0 million related to the estimated value of the remaining assets. No impairment charges related to our investment in unconsolidated joint ventures were recognized for the years ended December 31, 2011 and 2010.

Bad Debts

We maintain 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 payments on unbilled rents including estimated expense recoveries. We also maintain a reserve for straight-line rent receivables. For the years ended December 31, 2012 and 2011, the allowance for doubtful accounts totaled $6.1 million and $5.3 million, respectively. If the financial condition of our tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Real Estate

Real estate assets are stated at cost less accumulated depreciation. Expenditures for acquisition, redevelopment, 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 property expansion and redevelopment. Depreciation is computed on the straight-line basis over estimated useful lives of 30 to 40 years for buildings, the shorter of the useful life or lease term for tenant improvements and five years for furniture, fixtures and equipment. Expenditures for maintenance and repairs are charged to operations as incurred.

Upon acquisitions of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805 “Business Combinations” and ASC Topic 350 “Intangibles – Goodwill and Other,” and allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Involuntary Conversion of Asset

We experienced significant flooding resulting in extensive damage to one of our properties during September 2011. Costs related to the clean-up and redevelopment were insured to a limit sufficient that we believed would allow for full restoration of the property. Loss of rents during the redevelopment were covered by business interruption insurance subject to a $0.1 million deductible. We planned to restore the improvements that were damaged by the flooding and expected that the costs of such restoration and rebuilding would be recoverable from insurance proceeds. In accordance with ASC Topic 360 “Property, Plant and Equipment” and as a result of the above-described property damage, we have recorded a write-down of the asset's carrying value in the accompanying 2011 consolidated balance

sheet of approximately $1.4 million. In addition, we recorded an insurance recovery in the same amount that is included in Prepaid Expenses and Other Assets in the accompanying consolidated balance sheet as of December 31, 2011. We also provided a $0.1 million provision in the 2011 consolidated statement of income for its exposure to the insurance deductible attributable to the loss of rents. During the year ended, December 31 2011, we received initial insurance proceeds of approximately $6.9 million. During the year ended December 31, 2012, we received additional insurance proceeds

of approximately $3.7 million. In connection with these proceeds, we recognized a gain on involuntary conversion of asset of $2.4 million.

Revenue Recognition and Accounts Receivable

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, beginning when the tenant takes possession of the space. Certain of these leases also provide for percentage rents based upon the level of sales achieved by the tenant. Percentage rent is recognized in the period when the tenants' sales breakpoint is met. In addition, leases typically provide for the reimbursement to us of real estate taxes, insurance and other property operating expenses. These reimbursements are recognized as revenue in the period the expenses are incurred.

We make estimates of the uncollectability of our accounts receivable related to tenant revenues. An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. See "Bad Debts" above. Once the amount is ultimately deemed to be uncollectible, it is written off.

Notes Receivable

Real estate notes receivable investments are intended to be held to maturity and are carried at cost. Interest income from notes receivable and preferred equity investments are recognized on the effective interest method over the expected life of the loan. Under the effective interest method, interest or fees to be collected at the origination of the loan or the payoff of the loan is recognized over the term of the loan as an adjustment to yield.

Allowances for real estate notes receivable are established based upon management's quarterly review of the investments. In performing this review, management considers the estimated net recoverable value of the loan as well as other factors, including the fair value of any collateral, the amount and status of any senior debt, and the prospects for the borrower. Because this determination is based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized from the loans may differ materially from the carrying value at the balance sheet date. Interest income recognition is generally suspended for loans when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the suspended loan becomes contractually current and performance is demonstrated to be resumed.

During 2012, we provided for a $0.4 million net reserve on notes receivable as a result of a decrease in the value of the underlying collateral properties.

INFLATION

Our long-term leases contain provisions designed to mitigate the adverse impact of inflation on our net income. Such provisions include clauses enabling us 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 our leases are for terms of less than ten years, which permits us to seek to increase rents upon re-rental at market rates if current rents are below the then existing market rates. Most of our leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Reference is made to the Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information as of December 31, 2012

Our primary market risk exposure is to changes in interest rates related to our mortgage debt. See Note 8 in the Notes to Consolidated Financial Statements, for certain quantitative details related to our mortgage debt.

Currently, we manage our exposure to fluctuations in interest rates primarily through the use of fixed-rate debt and interest rate swap agreements. As of December 31, 2012, we had total mortgage and convertible notes payable of $728.1 million, net of unamortized discount of $0.1 million, of which $435.2 million, or 60% was fixed-rate, inclusive of debt with rates fixed through the use of derivative financial instruments, and $292.9 million, or 40%, was variable-rate based upon LIBOR rates plus certain spreads. As of December 31, 2012, we were a party to seven interest rate swap transactions and four interest rate caps transaction to hedge our exposure to changes in interest rates

with respect to $132.9 million and $141.2 million of LIBOR-based variable-rate debt, respectively.

The following table sets forth information as of December 31, 2012 concerning our long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (dollars in millions):

Consolidated mortgage debt:

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate
2013	$6.9	$102.1	$109.0	4.4%
2014	6.8	49.4	56.2	5.6%
2015	6.1	319.2	325.3	2.7%
2016	2.2	114.2	116.4	5.7%
2017	1.1	80.1	81.2	5.7%
Thereafter	2.4	37.6	40.0	2.2%
	$25.5	$702.6	$728.1	

Mortgage debt in unconsolidated partnerships (at our pro-rata share):

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate
2013	$1.0	$—	$1.0	n/a
2014	1.0	31.6	32.6	5.5%
2015	0.3	3.9	4.2	3.7%
2016	0.2	36.9	37.1	6.0%
2017	0.3	6.0	6.3	2.8%
Thereafter	2.1	6.3	8.4	4.7%
	$4.9	$84.7	$89.6	

$109.0 million of our total consolidated debt and $1.0 million of our pro-rata share of unconsolidated outstanding debt will become due in 2013. $56.2 million of our total consolidated debt and $32.6 million of our pro-rata share of unconsolidated debt will become due in 2014. As we intend on refinancing some or all of such debt at the then-existing market interest rates, which may be greater than the current interest rate, our interest expense would increase by approximately $2.0 million annually if the interest rate on the refinanced debt increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be $0.6 million. Interest expense on our variable-rate debt of $292.9 million, net of variable to fixed-rate swap agreements currently in effect, as of December 31, 2012 would increase $2.9 million if LIBOR increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be $0.6 million. We may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, we would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

Based on our outstanding debt balances as of December 31, 2012, the fair value of our total consolidated outstanding debt would decrease by approximately $10.0 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding debt would increase by approximately $8.0 million.

As of December 31, 2012 and 2011, we had notes receivable of $129.3 million and $60.0 million, respectively. We determined the estimated fair value of our notes receivable equated the carrying values by discounting future cash receipts utilizing a discount rate equivalent to the rate at which similar notes receivable would be originated under conditions then existing.

Based on our outstanding notes receivable balances as of December 31, 2012, the fair value of our total outstanding notes receivable would decrease by approximately $1.8 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding notes receivable would increase by approximately $1.9 million.

Summarized Information as of December 31, 2011

As of December 31, 2011, we had total mortgage and convertible notes payable of $648.6 million of which $288.7 million, or 45% was fixed-rate, inclusive of interest rate swaps, and $359.9 million, or 55%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2011, we were a party to five interest rate swap transactions and one interest rate cap transaction to hedge our exposure to changes in interest rates with respect to $57.0 million and $28.9 million of LIBOR-based variable-rate debt,

respectively. We were also a party to one forward interest rate swap transaction with respect to $12.5 million of LIBOR-based variable-rate debt.

Interest expense on our variable debt of $359.9 million as of December 31, 2011 would have increased $3.6 million if LIBOR increased by 100 basis points. Based on our outstanding debt balances as of December 31, 2011, the fair value of our total outstanding debt would have decreased by approximately $10.3 million if interest rates increased by 1%. Conversely, if interest rates decreased by 1%, the fair value of our total outstanding debt would have increased by approximately $11.9 million.

Changes in Market Risk Exposures from 2012 to 2011

Our interest rate risk exposure from December 31, 2011 to December 31, 2012 has decreased on both a dollar amount and as a percentage of our overall debt, as we had $359.9 million in variable-rate debt (or 55% of our total debt) at December 31, 2011, as compared to $292.9 million (or 40% of our total debt) in variable-rate debt at December 31, 2012.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements beginning on page F-1 of this Form 10-K are incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(i) Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(ii) Internal Control Over Financial Reporting

(a) Management’s Annual Report on Internal Control Over Financial Reporting

Management of Acadia Realty Trust is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13(a)-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 as required by the Securities Exchange Act of 1934 Rule 13(a)-15(c). In making this assessment, we used the criteria set forth in the framework in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). Based on our evaluation under the COSO criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

BDO USA, LLP, an independent registered public accounting firm that audited our Financial Statements included in this Annual Report, has issued an attestation report on our internal control over financial reporting as of December 31, 2012, which appears in paragraph (b) of this Item 9A.

Acadia Realty Trust

White Plains, New York

February 27, 2013

(b) Attestation report of the independent registered public accounting firm

The Shareholders and Trustees of
Acadia Realty Trust

We have audited Acadia Realty Trust and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Acadia Realty Trust and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on a company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Acadia Realty Trust and subsidiaries maintained in all material respects effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Acadia Realty Trust and subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 27, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
February 27, 2013

(c) Changes in internal control over financial reporting

There was no change in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None

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PART III

In accordance with the rules of the SEC, certain information required by Part III is omitted and is incorporated by reference into this Form 10-K from our definitive proxy statement relating to our 2013 annual meeting of stockholders (our "2013 Proxy Statement") that we intend to file with the SEC no later than April 29, 2013.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information under the following headings in the 2013 Proxy Statement is incorporated herein by reference:

- "PROPOSAL 1 — ELECTION OF TRUSTEES"
- "MANAGEMENT"
- "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE"

ITEM 11. EXECUTIVE COMPENSATION.

The information under the following headings in the 2013 Proxy Statement is incorporated herein by reference:

- "ACADIA REALTY TRUST COMPENSATION COMMITTEE REPORT"
- "COMPENSATION DISCUSSION AND ANALYSIS"
- "EXECUTIVE AND TRUSTEE COMPENSATION"
- "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION"

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information under the heading "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the 2013 Proxy Statement is incorporated herein by reference.

The information under Item 5. of this Form 10-K under the heading "(c) Securities authorized for issuance under equity compensation plans" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information under the following headings in the 2013 Proxy Statement is incorporated herein by reference:

- "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS"
- "PROPOSAL 1 — ELECTION OF TRUSTEES—Trustee Independence"

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information under the heading "AUDIT COMMITTEE INFORMATION" in the 2013 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

1. Financial Statements: See "Index to Financial Statements" at page F-1 below.
2. Financial Statement Schedule: See "Schedule III—Real Estate and Accumulated Depreciation" at page F-48 below.
3. Exhibits: The index of exhibits below is incorporated herein by reference.

SIGNATURES

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

ACADIA REALTY TRUST
(Registrant)

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

By: /s/ Jonathan W. Grisham
Jonathan W. Grisham
Senior Vice President and
Chief Financial Officer

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

Dated: February 27, 2013

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)	February 27, 2013
/s/ Jonathan W. Grisham (Jonathan W. Grisham)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2013
/s/ Richard Hartmann (Richard Hartmann)	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 27, 2013
/s/ Douglas Crocker II (Douglas Crocker II)	Trustee	February 27, 2013
/s/ Lorrence T. Kellar (Lorrence T. Kellar)	Trustee	February 27, 2013
/s/ Wendy Luscombe (Wendy Luscombe)	Trustee	February 27, 2013
/s/ William T. Spitz	Trustee	February 27, 2013

(William T. Spitz)		
/s/ Lee S. Wielansky (Lee S. Wielansky)	Trustee	February 27, 2013

EXHIBIT INDEX

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

Exhibit No.	Description
3.1	Declaration of Trust of the Company (1)
3.2	First Amendment to Declaration of Trust of the Company (1)
3.3	Second Amendment to Declaration of Trust of the Company (1)
3.4	Third Amendment to Declaration of Trust of the Company (1)
3.5	Fourth Amendment to Declaration of Trust (incorporated by reference to the copy thereof filed as Exhibit 3.1 (a) to Company's Quarterly Report on Form 10-Q filed for the quarter ended September 30, 1998.)
3.6	Fifth Amendment to Declaration of Trust (incorporated by reference to the copy thereof filed as Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2009.)
3.7	Amended and Restated Bylaws of the Company (incorporated by reference to the copy thereof filed as Exhibit 3.3 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2005.)
3.8	First Amendment the Amended and Restated Bylaws of the Company (incorporated by reference to the copy thereof filed as Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2009.)
4.1	Voting Trust Agreement between the Company and Yale University dated February 27, 2002 (incorporated by reference to the copy thereof filed as Exhibit 99.1 to Yale University's Schedule 13D filed on September 25, 2002.)
10.1	1999 Share Incentive Plan (incorporated by reference to the copy thereof filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed on September 28, 1999.(2)
10.2	2003 Share Incentive Plan (incorporated by reference to the copy thereof filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 29, 2003.) (2)
10.3	Acadia Realty Trust 1999 Share Incentive Plan and 2003 Share Incentive Plan Deferral and Distribution Election Form (incorporated by reference to the copy thereof filed as Exhibit 10.45 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004.) (2)
10.4	Amended and Restated Acadia Realty Trust 2006 Share Incentive Plan (incorporated by reference to the copy thereof filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 5, 2012.) (2)
10.5	Certain information regarding the compensation arrangements with certain officers of registrant (incorporated by reference to the copy thereof filed as to Item 5.02 of the registrant's Form 8-K filed with the SEC on February 4, 2008.)

10.6	Description of Long Term Investment Alignment Program (incorporated by reference to the copy thereof filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2009.)
10.7	Form of Share Award Agreement (incorporated by reference to the copy thereof filed as Exhibit 99.1 to the Company's Current Report on Form S-8 filed on July 2, 2003.) (2)
10.8	Registration Rights and Lock-Up Agreement (RD Capital Transaction) (incorporated by reference to the copy thereof filed as Exhibit 99.1 (a) to the Company's Registration Statement on Form S-3 filed on March 3, 2000.)

10.9	Registration Rights and Lock-Up Agreement (Pacesetter Transaction) (incorporated by reference to the copy thereof filed as Exhibit 99.1 (b) to the Company's Registration Statement on Form S-3 filed on March 3, 2000.)
10.10	Form of Registration Rights Agreement and Lock-Up Agreement (incorporated by reference to the copy thereof filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003.)
10.11	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 (incorporated by reference to the copy thereof filed as Exhibit 10.1 to the Company's Form 8-K filed on April 20, 1998.)
10.12	Agreement of Contribution among Acadia Realty Limited Partnership, Acadia Realty Trust and Klaff Realty, LP and Klaff Realty, Limited (incorporated by reference to the copy thereof filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003.)
10.13	Employment agreement between the Company and Kenneth F. Bernstein dated October 1998 (incorporated by reference to the copy thereof filed as Exhibit 10.34 to the Company's Annual Report on Form10-K filed for the fiscal year ended December 31, 1998.) (2)
10.14	First Amendment to Employment Agreement between the Company and Kenneth Bernstein dated as of January 1, 2001 (incorporated by reference to the copy thereof filed as Exhibit 10.54 to Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2001.) (2)
10.15	Fourth Amendment to employment agreement between the Company and Kenneth F. Bernstein dated January 19, 2007 (incorporated by reference to the copy thereof filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 24, 2007.) (2)
10.16	Fifth Amendment to Employment Agreement between the Company and Kenneth F. Bernstein dated August 5, 2008 (incorporated by reference to the copy thereof filed as Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2010.) (2)
10.17	Sixth Amendment to the Employment Agreement between the Company and Kenneth F. Bernstein dated March 7, 2011 (incorporated by reference to the copy thereof filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on March 9, 2011.) (2)
10.18	Letter of employment offer between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 (incorporated by reference to the copy thereof filed as Exhibit 10.63 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2002.) (2)
10.19	Form of Amended and Restated Severance Agreement, dated June 12, 2008, that was entered into with each of Joel Braun, Executive Vice President and Chief Investment Officer; Michael Nelsen, Senior Vice President and Chief Financial Officer; Robert Masters, Senior Vice President, General Counsel, Chief Compliance Officer and Secretary; and Joseph Hogan, Senior Vice President and Director of Construction (incorporated by reference to the copy thereof filed as Exhibit 10.1 to the Company's Form 8-K filed on June 12, 2008.) (2)

10.20	First Amendment to Severance Agreements between the Company and Joel Braun Executive Vice President and Chief Investment Officer, Michael Nelsen, Senior Vice President and Chief Financial Officer, Robert Masters, Senior Vice President, General Counsel, Chief Compliance Officer and Secretary and Joseph Hogan, Senior Vice President and Director of Construction dated January 19, 2007 (incorporated by reference to the copy thereof filed as Exhibits 10.2, 10.3, 10.4 and 10.5 to the Company's Current Report on Form 8-K filed on January 24, 2007.) (2)
10.21	Amended and Restated Severance Agreement, dated April 19, 2011, that was entered into with Christopher Conlon, Senior Vice President, Leasing and Development (incorporated by reference to the copy thereof filed as Exhibit 10.43 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2011.) (2)

10.22	Amended and Restated Loan Agreement among Acadia Cortlandt LLC and Bank of America, N.A., Note between Acadia Cortlandt LLC and Bank of America, N.A., Note Consolidation and Modification Agreement between Acadia Cortlandt LLC and Bank of America, N.A., Note between Acadia Cortlandt LLC and Bank of America, N.A., Mortgage Consolidation and Modification Agreement between Acadia Cortlandt LLC and Bank of America, N.A., Mortgage Security Agreement between Acadia Cortlandt LLC and Bank of America, N.A. and Amended and Restated Guaranty Agreement between Acadia Cortlandt LLC and Bank of America, N.A., all dated October 26, 2010 (incorporated by reference to the copy thereof filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-K filed for the year ended December 31, 2010.)
10.23	Revolving Credit Agreement Dated as of November 21, 2012 by and among Acadia Strategic Opportunity Fund IV LLC as Borrower, Acadia Realty Acquisition IV LLC as Borrowers Managing Member, Acadia Realty Limited Partnership as Guarantor, Acadia Realty Trust as Guarantor General Partner, Acadia Investors IV Inc. as Pledgor and Bank of America, N.A. as Administrative Agent, Structuring Agent, Sole Bookrunner, Sole Lead Arranger, Letter of Credit Issuer, and Lender (1)
10.24	Agreement and Plan Of Merger Dated as of December 22, 2005 by and among Acadia Realty Acquisition I, LLC, Ara Btc LLC, ARA MS LLC, ARA BS LLC, ARA BC LLC and ARA BH LLC, Acadia Investors, Inc., AII BTC LLC, AII MS LLC, AII BS LLC, AII BC LLC And AII BH LLC, Samuel Ginsburg 2000 Trust Agreement #1, Martin Ginsburg 2000 Trust Agreement #1, Martin Ginsburg, Samuel Ginsburg and Adam Ginsburg, and GDC SMG, LLC, GDC Beechwood, LLC, Aspen Cove Apartments, LLC and SMG Celebration, LLC (incorporated by reference to the copy thereof filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 4, 2006.)
10.25	Purchase and Sale Agreement dated as of December 14, 2012, by and among Acadia Storage Company LLC, Acadia Storage Post Portfolio Company LLC, Acadia Suffern LLC, Acadia Atlantic Avenue LLC, Acadia Pelham Manor LLC and Acadia Liberty LLC, as Sellers and SP Holdings I LLC, as Purchaser (1)
10.26	Amended and Restated Agreement of Limited Partnership of the Operating Partnership (incorporated by reference to the copy thereof filed as Exhibit 10.1 (c) to the Company's Registration Statement on Form S-3 filed on March 3, 2000.)
10.27	First and Second Amendments to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (incorporated by reference to the copy thereof filed as Exhibit 10.1 (d) to the Company's Registration Statement on Form S-3 filed on March 3, 2000.)
10.28	Third Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (incorporated by reference to the copy thereof filed as Exhibit 99.3 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003.)
10.29	Fourth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (incorporated by reference to the copy thereof filed as Exhibit 99.4 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003.)
21	List of Subsidiaries of Acadia Realty Trust (1)
23.1	Consent of Registered Public Accounting Firm to incorporation by reference its reports into Forms S-3 and Forms S-8 (1)

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 (1)
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 (1)
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 (1)
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 (1)

99.1	Certificate of Designation of Series A Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (incorporated by reference to the copy thereof filed as Exhibit 99.5 to Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 1997.)
99.2	Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (incorporated by reference to the copy thereof filed as Exhibit 99.6 to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003.)
101.INS	XBRL Instance Document* (3)
101.SCH	XBRL Taxonomy Extension Schema Document* (3)
101.CAL	XBRL Taxonomy Extension Calculation Document* (3)
101.DEF	XBRL Taxonomy Extension Definitions Document* (3)
101.LAB	XBRL Taxonomy Extension Labels Document* (3)
101.PRE	XBRL Taxonomy Extension Presentation Document* (3)
*	Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Notes:

(1) Filed herewith.

(2) Management contract or compensatory plan or arrangement.

(3) XBRL Interactive Data File will be filed by amendment to this Annual Report on Form 10-K within 30 days of the filing date of this Annual Report on Form 10-K, as permitted by Rule 405(a)(2)(ii) of Regulation S-T.

ACADIA REALTY TRUST AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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, 2012 and 2011 and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. In connection with our audits of the financial statements we have also audited the accompanying financial statement schedule listed in the accompanying index. These financial statements and 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Acadia Realty Trust and subsidiaries at December 31, 2012, and 2011 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with generally accepted accounting principles in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Acadia Realty Trust and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 27, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York

February 27, 2013

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	December 31, 2012	2011
ASSETS		
Operating real estate		
Land	$293,691	$176,278
Buildings and improvements	953,020	698,214
Construction in progress	2,429	5,885
	1,249,140	880,377
Less: accumulated depreciation	187,029	160,541
Net operating real estate	1,062,111	719,836
Real estate under development	246,602	218,384
Notes receivable, net	129,278	59,989
Investments in and advances to unconsolidated affiliates	221,694	84,568
Cash and cash equivalents	91,813	89,812
Cash in escrow	18,934	20,482
Rents receivable, net	27,744	23,089
Deferred charges, net	26,777	19,608
Acquired lease intangibles, net	31,975	26,721
Prepaid expenses and other assets	29,241	25,572
Accounts receivable from related parties	210	1,375
Assets of discontinued operations	22,061	363,883
Total assets	$1,908,440	$1,653,319
LIABILITIES		
Mortgages payable	$727,048	$647,739
Convertible notes payable	930	930
Distributions in excess of income from, and investments in, unconsolidated affiliates	22,707	21,710
Accounts payable and accrued expenses	29,309	36,569
Dividends and distributions payable	9,674	7,914
Acquired lease and other intangibles, net	14,115	5,462
Other liabilities	21,303	18,517
Liabilities of discontinued operations	13,098	145,169
Total liabilities	838,184	884,010
EQUITY		
Shareholders' Equity		
Common shares, $.001 par value, authorized 100,000,000 shares, issued and outstanding 52,482,598 and 42,586,376 shares, respectively	52	43
Additional paid-in capital	581,925	348,667
Accumulated other comprehensive loss	(4,307)	(3,913)
Retained earnings	45,127	39,317
Total shareholders’ equity	622,797	384,114
Noncontrolling interests	447,459	385,195
Total equity	1,070,256	769,309
Total liabilities and equity	$1,908,440	$1,653,319

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

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
(dollars in thousands except per share amounts)	2012	2011	2010
Revenues			
Rental income	$99,697	$80,140	$75,082
Interest income	7,879	11,429	19,161
Expense reimbursements	24,385	21,141	19,883
Management fee income	1,455	1,674	1,424
Other	1,009	694	840
Total revenues	134,425	115,078	116,390
Operating Expenses			
Property operating	21,991	17,513	19,508
Other operating	3,898	1,455	—
Real estate taxes	18,811	15,320	14,006
General and administrative	21,532	23,066	20,209
Depreciation and amortization	32,931	25,672	23,419
Reserve for notes receivable	405	—	—
Total operating expenses	99,568	83,026	77,142
Operating income	34,857	32,052	39,248
Equity in earnings of unconsolidated affiliates	550	1,555	12,450
Gain (loss) on sale of unconsolidated affiliates	3,061	—	(1,479)
Impairment of unconsolidated affiliates	(2,032)	—	—
Other interest income	148	276	406
Gain from bargain purchase	—	—	33,805
Gain on involuntary conversion of asset	2,368	—	—
(Loss) gain on debt extinguishment	(198)	1,268	—
Interest and other finance expense	(28,768)	(29,632)	(34,414)
Income from continuing operations before income taxes	9,986	5,519	50,016
Income tax benefit (provision)	568	(461)	(2,869)
Income from continuing operations	10,554	5,058	47,147
Discontinued operations			
Operating income from discontinued operations	10,720	8,752	3,520
Impairment of asset	—	(6,925)	—
Loss on debt extinguishment	(2,541)	—	—
Gain on sale of property	71,203	46,830	—
Income from discontinued operations	79,382	48,657	3,520
Net income	89,936	53,715	50,667
Noncontrolling interests			
Continuing operations	13,480	13,655	(18,914)
Discontinued operations	(63,710)	(15,815)	(1,696)
Net income attributable to noncontrolling interests	(50,230)	(2,160)	(20,610)
Net income attributable to Common Shareholders	$39,706	$51,555	$30,057
Basic earnings per share			
Income from continuing operations	$0.51	$0.45	$0.69
Income from discontinued operations	0.34	0.80	0.04
Basic earnings per share	$0.85	$1.25	$0.73
Diluted earnings per share			
Income from continuing operations	$0.51	$0.45	$0.69

Income from discontinued operations	0.34	0.80	0.04
Diluted earnings per share	$0.85	$1.25	$0.73

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,		
	2012	2011	2010
(dollars in thousands)			
Net income	$89,936	$53,715	$50,667
Other Comprehensive (loss) income:			
Unrealized loss on valuation of swap agreements	(3,519)	(5,611)	(2,683)
Reclassification of realized interest on swap agreements	2,268	3,081	2,749
Other comprehensive (loss) income	(1,251)	(2,530)	66
Comprehensive income	88,685	51,185	50,733
Comprehensive income attributable to noncontrolling interests	(49,373)	(686)	(20,539)
Comprehensive income attributable to Common Shareholders	$39,312	$50,499	$30,194

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(amounts in thousands, except per share amounts)	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2010	39,787	$40	$299,014	$ (2,994)	$16,125	$312,185	$ 220,292	$532,477
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	365	—	3,240	—	—	3,240	(3,240)	—
Vesting of employee Restricted Share and LTIP awards	133	—	2,060	—	—	2,060	1,778	3,838
Dividends declared ($0.72 per Common Share)	—	—	—	—	(28,976)	(28,976)	(723)	(29,699)
Exercise of trustees options	7	—	109	—	—	109	—	109
Common Shares issued under Employee Share Purchase Plan	6	—	100	—	—	100	—	100
Issuance of Common Shares to Trustees	13	—	266	—	—	266	—	266
Employee Restricted Shares canceled	(57)	—	(966)	—	—	(966)	—	(966)
Noncontrolling interest distributions	—	—	—	—	—	—	(2,892)	(2,892)
Noncontrolling interest contributions	—	—	—	—	—	—	33,556	33,556
	40,254	40	303,823	(2,994)	(12,851)	288,018	248,771	536,789
Comprehensive income (loss):								
Net income	—	—	—	—	30,057	30,057	20,610	50,667
Unrealized loss on valuation of swap agreements	—	—	—	(2,329)	—	(2,329)	(354)	(2,683)
Reclassification of realized interest on swap agreements	—	—	—	2,466	—	2,466	283	2,749
Total comprehensive income	—	—	—	137	30,057	30,194	20,539	50,733
Balance at December 31, 2010	40,254	40	303,823	(2,857)	17,206	318,212	269,310	587,522

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(amounts in thousands, except per share amounts)	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	11	—	56	—	—	56	(56)	—
Issuance of Common Shares, net of issuance costs	2,250	2	44,658	—	—	44,660	—	44,660
Vesting of employee Restricted Share and LTIP awards	96	1	481	—	—	482	3,550	4,032
Dividends declared ($0.72 per Common Share)	—	—	—	—	(29,444)	(29,444)	(984)	(30,428)
Exercise of trustees options	2	—	16	—	—	16	—	16
Common Shares issued under Employee Share Purchase Plan	5	—	93	—	—	93	—	93
Issuance of LTIP Unit awards to employees	—	—	—	—	—	—	2,441	2,441
Issuance of Common Shares to Trustees	8	—	264	—	—	264	—	264
Employee Restricted Shares canceled	(40)	—	(724)	—	—	(724)	—	(724)
Noncontrolling interest distributions	—	—	—	—	—	—	(7,697)	(7,697)
Noncontrolling interest contributions	—	—	—	—	—	—	117,945	117,945
	42,586	43	348,667	(2,857)	(12,238)	333,615	384,509	718,124
Comprehensive income (loss):								
Net income	—	—	—	—	51,555	51,555	2,160	53,715
Unrealized loss on valuation of swap agreements	—	—	—	(3,461)	—	(3,461)	(2,150)	(5,611)
Reclassification of realized interest on swap agreements	—	—	—	2,405	—	2,405	676	3,081
Total comprehensive (loss) income	—	—	—	(1,056)	51,555	50,499	686	51,185
Balance at December 31, 2011	42,586	43	348,667	(3,913)	39,317	384,114	385,195	769,309

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(amounts in thousands, except per share amounts)	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	334	—	5,880	—	—	5,880	(5,880)	—
Issuance of Common Shares, net of issuance costs	9,510	9	226,712	—	—	226,721	—	226,721
Issuance of OP Units to acquire real estate	—	—	—	—	—	—	2,279	2,279
Dividends declared ($0.72 per Common Share)	—	—	—	—	(33,896)	(33,896)	(1,098)	(34,994)
Vesting of employee Restricted Share and LTIP awards	44	—	192	—	—	192	3,448	3,640
Common Shares issued under Employee Share Purchase Plan	4	—	75	—	—	75	—	75
Issuance of LTIP Unit awards to employees	—	—	—	—	—	—	2,577	2,577
Issuance of Common Shares to trustees	—	—	384	—	—	384	—	384
Exercise of Share options	13	—	187	—	—	187	—	187
Employee Restricted Shares canceled	(9)	—	(172)	—	—	(172)	—	(172)
Noncontrolling interest distributions	—	—	—	—	—	—	(160,663)	(160,663)
Noncontrolling interest contributions	—	—	—	—	—	—	172,228	172,228
	52,482	52	581,925	(3,913)	5,421	583,485	398,086	981,571
Comprehensive (loss) income:								
Net income	—	—	—	—	39,706	39,706	50,230	89,936
Unrealized loss on valuation of swap agreements	—	—	—	(1,815)	—	(1,815)	(1,704)	(3,519)
Reclassification of realized interest on swap agreements	—	—	—	1,421	—	1,421	847	2,268

Total comprehensive (loss) income	—	—	—	(394)	39,706	39,312	49,373	88,685
Balance at December 31, 2012	52,482	$52	$581,925	$ (4,307)	$45,127	$622,797	$ 447,459	$1,070,256

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2012	2011	2010
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$89,936	$53,715	$50,667
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	38,769	33,683	34,499
Amortization of financing costs	3,569	3,918	6,054
Gain from bargain purchase	—	—	(33,805)
Gain on sale of property	(71,203)	(46,830)	—
Loss (gain) on debt extinguishment	2,739	(1,268)	—
Gain on involuntary conversion of asset	(2,368)	—	—
Reserve for notes receivable	405	—	—
Impairment of asset	—	6,925	—
Amortization of discount on convertible debt	—	829	1,042
Non-cash accretion of notes receivable	(453)	(786)	(6,164)
Share compensation expense	4,021	4,299	4,104
Equity in earnings of unconsolidated affiliates	(1,579)	(1,555)	(10,971)
Distributions of operating income from unconsolidated affiliates	3,733	5,515	12,124
Other, net	731	724	4,237
Changes in assets and liabilities			
Cash in escrow	2,035	7,319	(20,028)
Rents receivable, net	(6,757)	(8,894)	(4,662)
Prepaid expenses and other assets	1,283	(5,906)	4,297
Accounts receivable from related parties	(250)	1,034	(2,408)
Accounts payable and accrued expenses	(5,648)	14,513	1,874
Other liabilities	709	(903)	3,517
Net cash provided by operating activities	59,672	66,332	44,377
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of real estate	(241,894)	(116,408)	(2,849)
Redevelopment and property improvement costs	(88,787)	(65,090)	(77,671)
Deferred leasing costs	(7,275)	(6,298)	(3,904)
Insurance proceeds from involuntary conversion of asset	3,672	—	—
Investments in and advances to unconsolidated affiliates	(160,888)	(54,981)	(19,116)
Return of capital from unconsolidated affiliates	22,296	4,504	785
Proceeds from notes receivable	25,388	56,519	42,010
Issuance of notes receivable	(108,629)	(34,343)	—
Proceeds from sale of property	419,372	62,940	—
Net cash used in investing activities	(136,745)	(153,157)	(60,745)

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on mortgage notes	(549,095)	(161,389)	(127,823)
Proceeds received on mortgage notes	433,815	144,959	175,793
Purchase of convertible notes payable	—	(48,997)	(240)
Increase in deferred financing and other costs	(6,772)	(2,877)	(6,830)
Capital contributions from noncontrolling interests	172,228	117,945	33,556
Distributions to noncontrolling interests	(161,765)	(8,605)	(1,638)
Dividends paid to Common Shareholders	(32,143)	(29,033)	(28,909)
Proceeds from issuance of Common Shares, net of issuance costs of $762, $206 and $0, respectively	223,477	44,659	—
Repurchase and cancellation of Common Shares	(762)	(726)	(966)
Other employee and trustee stock compensation, net	91	109	209
Net cash provided by financing activities	79,074	56,045	43,152
Increase (decrease) in cash and cash equivalents	2,001	(30,780)	26,784
Cash and cash equivalents, beginning of period	89,812	120,592	93,808
Cash and cash equivalents, end of period	$91,813	$89,812	$120,592
Supplemental disclosure of cash flow information			
Cash paid during the period for interest, net of capitalized interest of $5,955, $4,850, and $2,903, respectively	$32,327	$32,120	$31,920
Cash paid for income taxes	$941	$3,776	$1,263
Supplemental disclosure of non-cash investing activities			
Acquisition of real estate through assumption of debt	$63,766	$—	$—
Acquisition of real estate through issuance of OP Units	$2,279	$—	$—
Acquisition of real estate through conversion of notes receivable	$14,000	$—	$—
Acquisition of interest in unconsolidated affiliates			
Real Estate, net	$—	$—	$(108,000)
Assumption of mortgage debt	—	—	25,990
Gain from bargain purchase	—	—	33,805
Other assets and liabilities	—	—	7,532
Investment in unconsolidated affiliates	—	—	37,824
Cash included in investment in real estate	$—	$—	$(2,849)

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

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Acadia Realty Trust (the “Trust”) and subsidiaries (collectively, the “Company”), is a fully-integrated equity real estate investment trust (“REIT”) focused on the ownership, acquisition, redevelopment, and management of high-quality retail properties and urban/infill mixed-use properties with a strong retail component located primarily in high-barrier-to-entry, supply constrained, densely-populated metropolitan areas in the United States along the East Coast and in Chicago.

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of December 31, 2012, the Trust controlled approximately 99% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”) and employees who have been awarded restricted Common OP Units (“LTIP Units”) as long-term incentive compensation (Note 15). Limited partners holding Common OP and LTIP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust (“Common Shares”). This structure is referred to as an umbrella partnership REIT or “UPREIT.”

As of December 31, 2012, the Company has ownership interests in 72 properties within its core portfolio, which consist of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its opportunity funds ("Core Portfolio"). The Company also has ownership interests in 28 properties within its opportunity funds, Acadia Strategic Opportunity Fund I, LP ("Fund I"), Acadia Strategic Opportunity II, LLC ("Fund II"), Acadia Strategic Opportunity Fund III LLC ("Fund III") and Acadia Strategic Opportunity Fund IV LLC (("Fund IV") and together with Funds I, II, and III, the "Opportunity Funds"). The 100 Core Portfolio and Opportunity Fund properties primarily consist of urban/street retail, dense suburban neighborhood and community shopping centers and mixed-use properties with a strong retail component. In addition, the Company, together with the investors in the Opportunity Funds, invest in operating companies through Acadia Mervyn Investors I, LLC ("Mervyns I"), Acadia Mervyn Investors II, LLC ("Mervyns II") and Fund II, all on a non-recourse basis.

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

Following is a table summarizing the general terms and Operating Partnership's equity interests in the Opportunity Funds and Mervyns I and II:

Entity	Formation Date	Operating Partnership Share of Capital	Committed Capital	Capital Called as of December 31, 2012	Equity Interest Held By Operating Partnership	Preferred Return	Capital Returned as of December 31, 2012
Fund I and Mervyns I (1)	9/2001	22.22%	$90.0	$86.6	37.78%	9%	$86.6
Fund II and Mervyns II	6/2004	20.00%	300.0	300.0	20.00%	8%	84.5%
Fund III	5/2007	19.90%	475.0	(2) 341.0	19.90%	6%	164.0%
Fund IV	5/2012	23.12%	540.6	64.6	23.12%	6%	—

Note:
(1) - Fund I and Mervyns I have returned all capital and preferred return. The Operating Partnership is now entitled to a Promote on all future cash distributions.
(2) - Original committed capital of Fund III was $502.5 million. During 2012, this amount was reduced to $475.0 million.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued
Principles of Consolidation
The consolidated financial statements include the consolidated accounts of the Company and its controlling investments in partnerships and limited liability companies in which the Company has control in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 "Consolidation" ("ASC Topic 810"). The ownership interests of other investors in these entities are recorded as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities for which the Company has the ability to exercise significant influence over, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company's share of the earnings (or losses) of these entities are included in consolidated net income.
Variable interest entities are accounted for within the scope of ASC Topic 810 and are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is the enterprise that has the power to direct the activities that most significantly impact the variable interest entity's economic performance and the obligation to absorb losses or the right to receive benefits of the variable interest entity that could be significant to the variable interest entity. Management has evaluated the applicability of ASC Topic 810 to its investments in certain joint ventures and determined that these joint ventures are not variable interest entities or that the Company is not the primary beneficiary and, therefore, consolidation of these ventures is not required. These investments are accounted for using the equity method of accounting.
Investments in and Advances to Unconsolidated Joint Ventures
The Company primarily accounts for its investments in unconsolidated joint ventures using the equity method as it does not exercise control over significant asset decisions such as buying, selling or financing nor is it the primary beneficiary under ASC Topic 810, as discussed above in most of these investments. The Company does have significant influence over most of these investments, which requires equity method accounting. Under the equity method, the Company increases its investment for its proportionate share of net income and contributions to the joint venture and decreases its investment balance by recording its proportionate share of net loss and distributions. The Company accounts for some of its investments under the cost method. Due to its minor ownership of three investments as well as the terms of the underlying operating agreements, the Company has no influence over such entities' operating and financial policies. Other than the minority investor rights to which the Company is entitled pursuant to statute, it has no rights other than to receive its pro-rata share of cash distributions as declared by the managers of these investments. The Company has no rights with respect to the control and operation of these investments vehicles, nor with the formulation and execution of business and investment policies. The Company recognizes income for distributions in excess of its investment where there is no recourse to the Company. For investments in which there is recourse to the Company, distributions in excess of the investment are recorded as a liability. Although the Company accounts for its investment in Albertson's (Note 4) under the equity method of accounting, the Company adopted the policy of not recording its equity in earnings or losses of this unconsolidated affiliate until it receives the audited financial statements of Albertson's to support the equity earnings or losses in accordance with ASC Topic 323, "Investments – Equity Method and Joint Ventures."
The Company periodically reviews its investment in unconsolidated joint ventures for other-than-temporary losses in investment value. Any decline that is not expected to be recovered is considered other than temporary and an impairment charge is recorded as a reduction in the carrying value of the investment. During 2012, the Company recorded an impairment charge of $2.0 million in connection with the estimated fair value in its investment in Mervyns. During the years ended December 31, 2011 and 2010, there were no impairment charges related to the Company's investment in unconsolidated joint ventures.
Use of Estimates
Accounting principles generally accepted in the United States of America ("GAAP") require the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant assumptions and estimates relate to the valuation of real estate, depreciable

lives, revenue recognition and the collectability of notes receivable and rents receivable. Application of these estimates and assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates.

Real Estate

Real estate assets are stated at cost less accumulated depreciation. Construction in progress includes costs for significant property expansion and redevelopment. Depreciation is computed on the straight-line basis over estimated useful lives of 30 to

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued
Real Estate, continued
40 years for buildings, the shorter of the useful life or lease term for tenant improvements and five years for furniture, fixtures and equipment. Expenditures for maintenance and repairs are charged to operations as incurred.
Upon acquisitions of real estate, the Company assesses the fair value of acquired assets and assumed liabilities (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with ASC Topic 805 “Business Combinations” and ASC Topic 350 “Intangibles – Goodwill and Other,” and allocates the acquisition price based on these assessments. Fixed-rate renewal options have been included in the calculation of the fair value of acquired leases where applicable. To the extent there were fixed-rate options at below-market rental rates, the Company included these along with the current term below-market rent in arriving at the fair value of the acquired leases. The discounted difference between contract and market rents is being amortized over the remaining applicable lease term, inclusive of any option periods. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.
The Company capitalizes certain costs related to the development and redevelopment of real estate including pre-construction costs, interest, real estate taxes, insurance, construction costs and salaries and related costs of personnel directly involved with the specific project. Additionally, the Company capitalizes interest costs related to development and redevelopment activities. Capitalization of these costs begin when the activities and related expenditures commence, and cease when the property is held available for occupancy upon substantial completion of tenant improvements, but no later than one year from the completion of major construction activity at which time the project is placed in service and depreciation commences.
The Company reviews its long-lived assets for impairment when there is an event or a change in circumstances that indicates that the carrying amount may not be recoverable. The Company measures and 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 costs 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, 2011, the Company determined that the value of the Granville Centre owned by Fund I was impaired. Accordingly, an impairment loss of $6.9 million was recorded, of which the Operating Partnership's share was $1.5 million. During the years ended December 31, 2012, and 2010, no impairment charges were recorded. Management does not believe that the values of its properties within the portfolio are impaired as of December 31, 2012.
The Company recognizes property sales in accordance with ASC Topic 970 “Real Estate.” The Company generally records the sales of operating properties and outparcels using the full accrual method at closing when the earnings process is deemed to be complete. Sales not qualifying for full recognition at the time of sale are accounted for under other appropriate deferral methods.
The Company evaluates the held-for-sale classification of its real estate each quarter. Assets that are classified as held for sale are recorded at the lower of their carrying amount or fair value less cost to sell. Assets are generally classified as held for sale once management has initiated an active program to market them for sale and has received a firm purchase commitment. The results of operations of these real estate properties are reflected as discontinued operations in all periods presented.
On occasion, the Company will receive unsolicited offers from third parties to buy individual Company properties. Under these circumstances, the Company will classify the properties as held for sale when a sales contract is executed with no contingencies and the prospective buyer has funds at risk to ensure performance.
Involuntary Conversion of Asset

The Company experienced significant flooding resulting in extensive damage to one of its properties during September 2011. Costs related to the clean-up and redevelopment were insured for an amount sufficient that would allow for full restoration of the property. Loss of rents during the redevelopment were covered by business interruption insurance subject to a $0.1 million deductible.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued
Involuntary Conversion of Asset, continued
In accordance with ASC Topic 360 “Property, Plant and Equipment” and as a result of the above-described property damage, the Company had recorded a write-down of the asset's carrying value of approximately $1.4 million, as well as an insurance recovery in the same amount that is included in Prepaid Expenses and Other Assets in the accompanying consolidated balance sheets as of December 31, 2011. The Company also provided a $0.1 million provision in the 2011 consolidated statement of income for its exposure to the insurance deductible attributable to the loss of rents. During the years ended December 31, 2012 and 2011, the Company received insurance proceeds of approximately $3.7 million and $6.9 million, respectively. The Company recognized a gain on involuntary conversion of $2.4 million as these proceeds exceeded the asset's net basis.
Deferred Costs
Fees and costs paid in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Fees and costs incurred in connection with obtaining financing are deferred and amortized over the term of the related debt obligation. The Company capitalizes salaries, commissions and benefits related to time spent by leasing and legal department personnel involved in originating leases.
Management Contracts
Income from management contracts is recognized on an accrual basis as such fees are earned. The initial acquisition costs of any management contracts are amortized over the estimated lives of the contracts acquired.
Revenue Recognition and Accounts Receivable
Leases with tenants are accounted for as operating leases. Minimum rents are recognized, net of any rent concessions or tenant lease incentives, including free rent, on a straight-line basis over the term of the respective leases, beginning when the tenant is entitled to take possession of the space. As of December 31, 2012 and 2011, included in Rents Receivable, net on the accompanying consolidated balance sheets are unbilled rents receivable relating to the straight-lining of rents of $25.7 million and $22.8 million, respectively. Certain of these leases also provide for percentage rents based upon the level of sales achieved by the tenant. Percentage rent is recognized in the period when the tenants’ sales breakpoint is met. In addition, leases typically provide for the reimbursement to the Company of real estate taxes, insurance and other property operating expenses. These reimbursements are recognized as revenue in the period the related expenses are incurred.
The Company makes estimates of the uncollectability of its accounts receivable related to tenant revenues. An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. Once the amount is ultimately deemed to be uncollectible, it is written off. Rents receivable at December 31, 2012 and 2011 are shown net of an allowance for doubtful accounts of $6.1 million and $5.3 million, respectively.
Notes Receivable
Notes receivable are intended to be held to maturity and are carried at amortized cost. Interest income from notes receivable are recognized on the effective interest method over the expected life of the loan. Under the effective interest method, interest or fees collected at the origination of the loan or the payoff of the loan are recognized over the term of the loan as an adjustment to yield.
Allowances for real estate notes receivable are established based upon management’s quarterly review of the investments. In performing this review, management considers the estimated net recoverable value of the loan as well as other factors, including the fair value of any collateral, the amount and status of any senior debt, and the prospects for the borrower. Because this determination is based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized from the loans may differ materially from their carrying values at the balance sheet date. Interest income recognition is generally suspended for loans when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the suspended loan becomes contractually current and performance is demonstrated to be resumed.

During 2012, the Company provided a $0.4 million net reserve on note receivables as a result of changes in the value of the underlying collateral properties.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued

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 and cash equivalents are maintained at financial institutions and, at times, balances may exceed the federally insured limit by the Federal Deposit Insurance Corporation. The Company has never experienced any losses related to these balances.

Restricted Cash and Cash in Escrow

Restricted cash and cash in escrow consist principally of cash held for real estate taxes, construction costs, 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 at least 90% of its REIT taxable income to its shareholders as well as comply with certain other income, asset and organizational requirements as defined in the Code. Accordingly, the Company is generally not subject to Federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year.

Although it may qualify for REIT status for Federal income tax purposes, the Company is subject to state income or franchise taxes in certain states in which some of its properties are located. In addition, taxable income from non-REIT activities managed through the Company’s taxable REIT subsidiaries (“TRS”) is fully subject to Federal, state and local income taxes.

The Company accounts for TRS income taxes under the liability method as required by ASC Topic 740, “Income Taxes.” Under the liability method, deferred income taxes are recognized for the temporary differences between the GAAP basis and tax basis of the TRS income, assets and liabilities.

In accordance with ASC Topic 740, the Company believes that it has appropriate support for the income tax positions taken and, as such, does not have any uncertain tax positions that, if successfully challenged, could result in a material impact on the Company's financial position or results of operation. The prior three years' income tax returns are subject to review by the Internal Revenue Service. The Company recognizes potential interest and penalties related to uncertain tax positions as a component of the provision for income taxes.

Stock-based Compensation

The Company accounts for stock-based compensation pursuant to ASC Topic 718, “Compensation – Stock Compensation.” As such, all equity based awards are reflected as compensation expense in the Company’s consolidated financial statements over their vesting period based on the fair value at the date of grant.

Recent Accounting Pronouncements

During February 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-03, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-03 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. ASU is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-03 is not expected to have a material impact on the Company's financial condition or results of operations.

During April 2011, the FASB issued ASU No. 2011-02, “A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” ASU 2011-02 requires a creditor to evaluate whether a restructuring constitutes a troubled debt restructuring by concluding that the restructuring constitutes a concession and that the debtor is

experiencing financial difficulties and was effective for the first interim or annual period beginning on or after June 15, 2011. The adoption of ASU 2011-02 did not have a material impact on the Company's financial condition or results of operations.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued
Recent Accounting Pronouncements, continued
During May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU No. 2011-04 amended ASC 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (“IFRS”). The amendments, which primarily require additional fair value disclosure, are to be applied prospectively. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material impact on the Company's financial condition or results of operations.

During June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income,” which revises the manner in which companies present comprehensive income. Under ASU No. 2011-05, companies may present comprehensive income, which is net income adjusted for the components of other comprehensive income, either in a single continuous statement of comprehensive income or by using two separate but consecutive statements. Regardless of the alternative chosen, companies must display adjustments for items reclassified from other comprehensive income into net income within the presentation of both net income and other comprehensive income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, on a retrospective basis. The Company adopted ASU 2011-05 as of December 31, 2011 and the adoption did not have a material impact on the Company's financial condition or results of operations.

During December 2011, the FASB issued ASU No. 2011-10, “Property, Plant and Equipment (Topic 360): Derecognition of In substance Real Estate - a Scope Clarification" which clarifies current guidance found in ASC Topic 810 as to how to account when a reporting entity ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. ASU No. 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The adoption of ASU No. 2011-10 is not expected to have a material impact on the Company's financial condition or results of operations.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
2. Acquisition and Disposition of Properties and Discontinued Operations
A. Acquisition and Disposition of Properties
Acquisitions
During 2012, the Company acquired the following properties through its Core Portfolio and Opportunity Funds as follows:
Core Portfolio
(dollars in thousands)

Property	GLA	Percent Owned	Type	Month of Acquisition	Purchase Price	Debt Assumption	Location
1520 N Milwaukee Ave	3,100	100%	Street Retail	January	$3,800	$—	Chicago, IL
330-340 River St	53,300	100%	Shopping Center	February	18,900	7,022	Cambridge, MA
Chicago Street Retail	42,264	100%	Street Retail	March	18,800	16,029	Chicago, IL
930 N Rush St	2,900	100%	Street Retail	April	20,700	—	Chicago, IL
28 Jericho Turnpike	96,000	100%	Single Tenant	May	27,300	—	Westbury, NY
Rhode Island Shopping Center	57,000	100%	Shopping Center	June	21,700	16,510	Washington, D. C.
83 Spring St	4,800	100%	Street Retail	July	11,500	—	New York, NY
60 Orange Street	129,010	98%	Single Tenant	October	12,500	—	Bloomfield, NJ
Chicago Street Retail	42,524	100%	Street Retail	November	41,100	—	Chicago, IL
181 Main Street	14,850	100%	Street Retail	December	14,100	—	Westport, CT
Connecticut Ave	42,000	100%	Street Retail	December	23,200	—	Washington, D.C.
639 W Diversey	22,095	100%	Street Retail	December	10,700	4,431	Chicago, IL
Total	509,843				$224,300	$43,992	

The Company expensed $2.1 million of costs for the year ended December 31, 2012 related to these 2012 Core Portfolio acquisitions.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
2. Acquisition and Disposition of Properties and Discontinued Operations, continued
Fund III
(dollars in thousands)

Property	GLA	Percent Owned	Type	Month of Acquisition	Purchase Price	Debt Assumption	Location
640 Broadway	45,700	50%	Street Retail	February	$32,500	$—	New York, NY
Lincoln Park Centre	62,700	100%	Shopping Center	April	31,500	19,763	Chicago, IL
Broad Hollow Commons (1)(2)	Undeveloped Land	100%	Undeveloped Land	August	12,386	—	Farmingdale, NY
Arundel Plaza	265,000	90%	Shopping Center	August	17,600	9,256	Glen Burnie, MD
Cortlandt Crossing(1)	Undeveloped Land	100%	Undeveloped Land	August	11,000	—	Mohegan Lake, NY
3104 M St	4,900	100%	Street Retail	August	3,000	—	Washington, D.C.
Total	378,300				$107,986	$29,019	

Notes:
(1) Acquisition of land which is not treated as a business combination in accordance with ASC Topic 805.

(2) Fund III obtained a deed in lieu of foreclosure on an undeveloped property encumbered by the Fund's $10.0 million first mortgage loan which originated in September 2008. The $12,386 includes the first mortgage loan along with accrued interest.

The Company expensed $2.2 million of costs for the year ended December 31, 2012 related to these 2012 Fund III acquisitions.
Fund IV
(dollars in thousands)

Property	GLA	Percent Owned	Type	Month of Acquisition	Purchase Price	Debt Assumption	Location
1701 Belmont Avenue	58,000	90%	Single Tenant	December	$4,700	$—	Catonsville, MD
210 Bowery	9,200	100%	Street Retail	December	7,500	—	Manhattan, NY
Lincoln Road	54,400	95%	Street Retail	December	139,000	—	Miami Beach, FL
Total	121,600				$151,200	—	

The Company expensed $0.5 million of costs for the year ended December 31, 2012 related to these 2012 Fund IV acquisitions.
The above Core Portfolio and Opportunity Fund acquisitions, excluding the acquisitions of undeveloped land, have been accounted for as business combinations. The purchase prices were allocated to the acquired assets and assumed liabilities based on the Company's current best estimate of fair value of these acquired assets and assumed liabilities at the dates of acquisition. The preliminary measurements of fair value reflected below are subject to change. The Company expects to finalize the valuations and complete the purchase price allocations within one year from the dates of acquisition.

The following table summarizes both the Company's preliminary and finalized allocations of the purchase prices of assets acquired and liabilities assumed during 2012:

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
2. Acquisition and Disposition of Properties and Discontinued Operations, continued

	Allocations Finalized			Allocations Not Finalized
(dollars in thousands)	Purchase Price Allocation as Originally Reported	Adjustments	Finalized Purchase Price Allocation	Preliminary Purchase Price Allocation
Land	$68,439	$446	$68,885	$86,826
Buildings and Improvements	120,010	(2,083)	117,927	226,650
Acquisition-related intangible assets (in Acquired lease intangibles, net)	2,482	8,830	11,312	—
Acquisition-related intangible liabilities (in Acquired lease and other intangibles, net)	(4,387)	(7,267)	(11,654)	—
Above-below market debt assumed (included in Mortgages payable)	935	74	1,009	—
Total Consideration	$187,479	$—	$187,479	$313,476

During 2011, the Company acquired properties and recorded the preliminary allocation of the purchase price to the assets acquired based on provisional measurements of fair value. During 2012, the Company finalized the allocation of the purchase price and made certain measurement period adjustments. The following table summarizes the preliminary allocation of the purchase price of properties as recorded as of December 31, 2011, and the finalized allocation of the purchase price as adjusted as of December 31, 2012:

(dollars in thousands)	Preliminary Purchase Price Allocation	Finalized Purchase Price Allocation
Land	$5,438	$12,150
Buildings and Improvements	18,563	11,009
Acquisition-related intangible assets (in Acquired lease intangibles, net)	—	1,027
Acquisition-related intangible liabilities (in Acquired lease and other intangibles, net)	—	(185)
Total Consideration	$24,001	$24,001

Dispositions

During 2012, there were no Core Portfolio dispositions. The Opportunity Funds disposed of the following properties:

(dollars in thousands) Property	Owner	Month Sold	Sales Price	Gain (Loss)	GLA
White Oak Shopping Center (1)	Fund III	June	$13,778	$3,402	64,600
Tarrytown Centre	Fund I	June	12,800	2,935	35,000
125 Main Street	Fund III	August	33,500	5,867	25,732
Canarsie Plaza	Fund II	December	124,000	(1,315)	273,542
Self Storage Portfolio	Fund II & Fund III	December	261,600	63,716	—
Total			$445,678	$74,605	398,874

Note:
(1) This property was accounted for as an unconsolidated investment.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
2. Acquisition and Disposition of Properties and Discontinued Operations, continued
B. Discontinued Operations
The Company reports properties sold and held-for-sale during the periods as discontinued operations. The assets and liabilities and results of operations of discontinued operations are reflected as a separate component within the accompanying consolidated financial statements for all periods presented.
The combined assets and liabilities as of December 31, 2012 and 2011, and the results of operations of the properties classified as discontinued operations for the years ended December 31, 2012, 2011 and 2010, are summarized as follows:
BALANCE SHEET

ASSETS	December 31, 2012	December 31, 2011
(dollars in thousands)		
Net real estate	$19,400	$352,729
Rents receivable, net	917	3,326
Deferred charges, net	612	6,246
Prepaid expenses and other assets	1,132	1,582
Total assets of discontinued operations	$22,061	$363,883
LIABILITIES		
Mortgages payable	$9,208	$140,171
Accounts payable and accrued expenses	3,125	3,078
Other liabilities	765	1,920
Total liabilities of discontinued operations	$13,098	$145,169

	Years ended December 31,		
STATEMENTS OF OPERATIONS	2012	2011	2010
(dollars in thousands)			
Total revenues	$37,464	$40,392	$36,568
Total expenses	26,744	31,640	33,048
Operating income	10,720	8,752	3,520
Impairment of asset	—	(6,925)	—
Loss on debt extinguishment	(2,541)	—	—
Gain on sale of property	71,203	46,830	—
Income from discontinued operations	79,382	48,657	3,520
Income from discontinued operations attributable to noncontrolling interests	(63,710)	(15,815)	(1,696)
Income from discontinued operations attributable to Common Shareholders	$15,672	$32,842	$1,824

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
3. Segment Reporting

The Company has four reportable segments: Core Portfolio, Opportunity Funds, Notes Receivable and Other. Notes Receivable consists of the Company's notes receivable and preferred equity investment and related interest income. Other consists primarily of management fees and interest income. As a result of the sale of the majority of the Company's Self-Storage Portfolio during 2012, the Company no longer reports these discontinued operations as a separate segment. 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. Investments in the Core Portfolio are typically held long-term. Given the contemplated finite life of the Opportunity Funds, these investments are typically held for shorter terms. Fees earned by the Company as the general partner or managing member of the Opportunity Funds are eliminated in the Company's consolidated financial statements. The following table sets forth certain segment information for the Company, reclassified for discontinued operations, as of and for the years ended December 31, 2012, 2011, and 2010 (does not include unconsolidated affiliates or discontinued operations):

2012

(dollars in thousands)	Core Portfolio	Opportunity Funds	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$70,599	$54,286	$7,973	$22,947	$(21,380)	$134,425
Property operating expenses, other operating and real estate taxes	21,699	26,001	—	—	(3,000)	44,700
General and administrative expenses	22,817	14,373	—	—	(15,658)	21,532
Income before depreciation and amortization	$26,083	$13,912	$7,973	$22,947	$(2,722)	$68,193
Depreciation and amortization	$18,316	$15,594	$—	$—	$(979)	$32,931
Interest and other finance expense	$15,229	$12,910	$—	$—	$629	$28,768
Real estate at cost	$744,880	$764,471	$—	$—	$(13,609)	$1,495,742
Total assets	$877,926	$1,017,870	$129,278	$—	$(138,695)	$1,886,379
Acquisition of real estate	$175,556	$66,338	$—	$—	$—	$241,894
Redevelopment and property improvement costs	$5,381	$78,265	$—	$—	$(1,519)	$82,127

Reconciliation to net income and net income attributable to Common Shareholders	
Income before depreciation and amortization	$68,193
Other interest income	148
Depreciation and amortization	(32,931)
Equity in earnings of unconsolidated affiliates	1,579
Interest and other finance expense	(28,768)
Loss on debt extinguishment	(198)
Income tax benefit	568
Reserve for notes receivable	(405)
Gain on involuntary conversion of asset	2,368
Operating income from discontinued operations	10,720
Loss on debt extinguishment from discontinued operations	(2,541)
Gain on sale of property	71,203
Net income	89,936
Net income attributable to noncontrolling interests	(50,230)

Net income attributable to Common Shareholders	$39,706

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
3. Segment Reporting, continued
2011

(dollars in thousands)	Core Portfolio	Opportunity Funds	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$57,994	$43,994	$11,429	$25,782	$(24,121)	$115,078
Property operating expenses, other operating and real estate taxes	17,087	19,618	—	—	(2,417)	34,288
General and administrative expenses	24,226	16,658	—	—	(17,818)	23,066
Income before depreciation and amortization	$16,681	$7,718	$11,429	$25,782	$(3,886)	$57,724
Depreciation and amortization	$14,206	$12,361	$—	$—	$(895)	$25,672
Interest and other finance expense	$15,967	$12,672	$—	$—	$993	$29,632
Real estate at cost	$499,872	$614,321	$—	$—	$(15,432)	$1,098,761
Total assets	$633,345	$730,029	$59,989	$—	$(133,927)	$1,289,436
Acquisition of real estate	$60,305	$56,103	$—	$—	$—	$116,408
Redevelopment and property improvement costs	$12,266	$51,128	$—	$—	$(2,083)	$61,311

Reconciliation to net income and net income attributable to Common Shareholders	
Income before depreciation and amortization	$57,724
Other interest income	276
Depreciation and amortization	(25,672)
Equity in earnings of unconsolidated affiliates	1,555
Interest and other finance expense	(29,632)
Gain on debt extinguishment	1,268
Income tax provision	(461)
Operating income from discontinued operations	8,752
Impairment of asset	(6,925)
Gain on sale of property	46,830
Net income	53,715
Net income attributable to noncontrolling interests	(2,160)
Net income attributable to Common Shareholders	$51,555

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
3. Segment Reporting, continued
2010

(dollars in thousands)	Core Portfolio	Opportunity Funds	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$57,084	$38,721	$19,161	$22,479	$(21,055)	$116,390
Property operating expenses, other operating and real estate taxes	17,236	17,814	—	—	(1,536)	33,514
General and administrative expenses	22,439	13,577	—	—	(15,807)	20,209
Income before depreciation and amortization	$17,409	$7,330	$19,161	$22,479	$(3,712)	$62,667
Depreciation and amortization	$13,798	$10,061	$—	$—	$(440)	$23,419
Interest and other finance expense	$18,036	$16,820	$—	$—	$(442)	$34,414
Real estate at cost	$441,714	$522,345	$—	$—	$(13,349)	$950,710
Total assets	$574,497	$629,292	$89,202	$—	$(105,611)	$1,187,380
Acquisition of real estate	$—	$2,849	$—	$—	$—	$2,849
Redevelopment and property improvement costs	$4,137	$74,460	$—	$—	$(2,302)	$76,295

Reconciliation to net income and net income attributable to Common Shareholders	
Income before depreciation and amortization	$62,667
Other interest income	406
Depreciation and amortization	(23,419)
Equity in earnings of unconsolidated affiliates	10,971
Interest and other finance expense	(34,414)
Income tax provision	(2,869)
Gain from bargain purchase	33,805
Operating income from discontinued operations	3,520
Net income	50,667
Net income attributable to noncontrolling interests	(20,610)
Net income attributable to Common Shareholders	$30,057

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
4. Investments In and Advances to Unconsolidated Affiliates
Core Portfolio
The Company owns a 22.2% interest in an approximately one million square foot retail portfolio (the “Brandywine Portfolio”) located in Wilmington, Delaware, a 49% interest in a 311,000 square foot shopping center located in White Plains, New York (“Crossroads”) and a 50% interest in an approximately 28,000 square foot retail portfolio located in Georgetown, Washington D.C. (the "Georgetown Portfolio"). These investments are accounted for under the equity method.
Opportunity Funds
RCP Venture
The Opportunity Funds, along with Klaff Realty, LP (“Klaff”) and Lubert-Adler Management, Inc. ("Lubert-Adler"), formed an investment group, the RCP Venture, for the purpose of making investments in surplus or underutilized properties owned by retailers. The RCP Venture is neither a single entity nor a specific investment. Any member of this group has the option of participating, or not, in any individual investment and each individual investment has been made on a stand-alone basis through a separate limited liability company (“LLC”). These investments have been made through different investment vehicles with different affiliated and unaffiliated investors and different economics to the Company. Investments under the RCP Venture are structured as separate joint ventures as there may be other investors participating in certain investments in addition to Klaff, Lubert-Adler and Acadia. The Company has made these investments through its subsidiaries, Mervyns I, Mervyns II and Fund II, (together the “Acadia Investors”), all on a non-recourse basis. Through December 31, 2012, the Acadia Investors have made investments in Mervyns Department Stores (“Mervyns”) and Albertson’s, as well as additional investments in locations that are separate from these original investments (“Add-On Investments”). Additionally, they have invested in Shopko, Marsh and Rex Stores Corporation (collectively “Other RCP Investments”).
Mervyns Department Stores
Through Mervyns I and Mervyns II, the Company invested in a consortium to acquire Mervyns, consisting of 262 stores (“REALCO”) and its retail operations (“OPCO”), from Target Corporation. The Company’s share of this investment was $23.2 million. Subsequent to the initial acquisition, the Company, through Mervyns I and Mervyns II, made additional investments of $3.9 million. Through December 31, 2012, REALCO has disposed of a significant portion of the portfolio. In addition, in November 2007, the Company sold its interest in OPCO and, as a result, has no further investment in OPCO. Through December 31, 2012, the Company has received distributions from this investment totaling $46.0 million.
Through December 31, 2012, the Company, through Mervyns I and Mervyns II, made Add-On Investments in Mervyns totaling $6.5 million and have received distributions totaling $3.6 million.
During the year ended December 31, 2012, the Company recorded an impairment charge of $2.0 million on its investment in Mervyn's relating to a reduction in the fair value of the remaining assets of the portfolio. The Operating Partnership's share of this impairment, net of taxes, was $0.2 million.
Albertson’s
The RCP Venture made its second investment as part of an investment consortium, acquiring Albertson’s and Cub Foods, of which the Company’s share was $20.7 million. Through December 31, 2012, the Company has received distributions from this investment totaling $81.7 million, including $2.4 million and $4.5 million received in 2012 and 2011, respectively.
Through December 31, 2012, the Company, through Mervyns II, made Add-On Investments in Albertson’s totaling $2.4 million and received distributions totaling $4.8 million, including $3.1 million received in 2012.
Other RCP Investments
Through December 31, 2012, the Company, through Fund II, made investments of $1.1 million in Shopko, $0.7 million in Marsh, and $2.0 million in Marsh Add-On Investments. As of December 31, 2012, the Company has received distributions totaling $1.7 million from its Shopko investment and $2.6 million from its Marsh and Marsh Add-On Investments.

During July of 2007, the RCP Venture acquired a portfolio of 87 retail properties from Rex Stores Corporation, which the Company invested through Mervyns II. The Company's share of this investment was $2.7 million. As of December 31, 2012, the Company has received distributions totaling $2.0 million, including $1.1 million received in 2012.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
4. Investments In and Advances to Unconsolidated Affiliates, continued
The following table summarizes activity related to the RCP Venture investments from inception through December 31, 2012:

Investment	Year Acquired	Invested Capital and Advances	Distributions	Operating Partnership Share Invested Capital and Advances	Distributions
Mervyns	2004	$27,088	$45,966	$4,901	$11,251
Mervyns Add-On investments	2005/2008	6,517	3,558	1,252	819
Albertsons	2006	20,717	81,680	4,239	16,318
Albertsons Add-On investments	2006/2007	2,416	4,778	388	972
Shopko	2006	1,108	1,659	222	332
Marsh and Add-On investments	2006/2008	2,667	2,639	533	528
Rex Stores	2007	2,701	1,956	535	392
Total		$63,214	$142,236	$12,070	$30,612

The Company accounts for the original investments in Mervyns and Albertson’s under the equity method of accounting as the Company has the ability to exercise significant influence, but does not have financial or operating control.
The Company accounts for the Add-On Investments and Other RCP Investments under the cost method. Due to its minor ownership interest, based on the size of the investments as well as the terms of the underlying operating agreements, the Company has no influence over such entities' operating and financial policies. Other than the minority investor rights to which the Company is entitled pursuant to statute, it has no rights other than to receive its pro-rata share of cash distributions as declared by the managers of the Add-On Investments and Other RCP Investments. The Company has no rights with respect to the control and operation of these investment vehicles, nor with the formulation and execution of business and investment policies.
The Acadia Investors have non-controlling interests in the individual investee LLC’s as follows:

Investment	Investee LLC	Acadia Investors Entity	Acadia Investors Ownership % in: Investee LLC	Underlying entity(s)
Mervyns	KLA/Mervyn's, L.L.C	Mervyns I and Mervyns II	10.5%	5.8%
Mervyns Add-On Investments	KLA/Mervyn's, L.L.C	Mervyns I and Mervyns II	10.5%	5.8%
Albertsons	KLA A Markets, LLC	Mervyns II	18.9%	5.7%
Albertsons Add-On Investments	KLA A Markets, LLC	Mervyns II	20.0%	6.0%
Shopko	KA-Shopko, LLC	Fund II	20.0%	2.0%
Marsh and Add-On Investments	KA Marsh, LLC	Fund II	20.0%	3.3%
Rex Stores	KLAC Rex Venture, LLC	Mervyns II	13.3%	13.3%

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
4. Investments In and Advances to Unconsolidated Affiliates, continued
Other Opportunity Fund Investments
Fund II Investments
Prior to June 30, 2010, Fund II had a 24.75% interest in CityPoint, a redevelopment project located in downtown Brooklyn, NY, which was accounted for under the equity method. On June 30, 2010, Fund II acquired the remaining interest in the project from its unaffiliated partner and, as a result, has consolidated the CityPoint investment since that point.
Fund III Investments
The unaffiliated venture partners for the Lincoln Road, Arundel Plaza, Parkway Crossing and the White City Shopping Center investments maintain control over these entities and, as such, the Company accounts for these investments under the equity method.
During June 2010, Fund III, in a joint venture with an unaffiliated partner, invested in an entity for the purpose of providing management services to owners of self-storage properties. Fund III has a 50% interest in the entity. This entity was determined to be a variable interest entity but it was determined that the Company was not the primary beneficiary. As such, the Company accounts for this investment under the equity method.
Fund IV Investments
The unaffiliated venture partners for 1701 Belmont Avenue (Note 2) and Lincoln Road (Note 2) investment maintain control over the entity and, as such, the Company accounts for these investments under the equity method.
Summary of Investments in Unconsolidated Affiliates
The following combined and condensed Balance Sheets and Statements of Operations, in each period, summarize the financial information of the Company’s investments in unconsolidated affiliates.
Summary of Investments in Unconsolidated Affiliates, continued

(dollars in thousands)	December 31, 2012	December 31, 2011
Combined and Condensed Balance Sheets		
Assets:		
Rental property, net	$441,611	$280,470
Investment in unconsolidated affiliates	93,923	156,421
Other assets	39,035	29,587
Total assets	$574,569	$466,478
Liabilities and partners’ equity:		
Mortgage notes payable	$326,296	$319,425
Other liabilities	24,267	16,902
Partners’ equity	224,006	130,151
Total liabilities and partners’ equity	$574,569	$466,478
Company’s investment in and advances to unconsolidated affiliates	$221,694	$84,568
Company's share of distributions in excess of share of income and investments in unconsolidated affiliates	$(22,707)	$(21,710)

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
4. Investments In and Advances to Unconsolidated Affiliates, continued

	Years Ended December 31,		
(dollars in thousands)	2012	2011	2010
Combined and Condensed Statements of Operations			
Total revenues	$49,729	$42,185	$29,460
Operating and other expenses	18,919	15,924	10,617
Interest expense	18,547	17,099	13,525
Equity in earnings of unconsolidated affiliates	583	7,243	56,482
Depreciation and amortization	9,551	8,837	4,839
Loss on debt extinguishment	293	—	—
Gain (loss) on sale of property, net	3,402	—	(2,957)
Net income	$6,404	$7,568	$54,004
Company's share of net income	$1,971	$1,946	$11,363
Amortization of excess investment	(392)	(391)	(392)
Company's equity in earnings of unconsolidated affiliates	$1,579	$1,555	$10,971

5. Notes Receivable and Other Real Estate Related Investments

During 2012, the Company made total net investments in notes receivable aggregating $69.2 million.

The following table reconciles notes receivable investments from January 1, 2010 to December 31, 2012:

	For the years ended December 31,		
(dollars in thousands)	2012	2011	2010
Beginning Balance	$59,989	$89,202	$125,221
Additions during period:			
New mortgage loans	108,629	34,758	—
Deductions during period:			
Collections of principal	(25,388)	(56,517)	(42,010)
Conversion to real estate through receipt of deed or through foreclosure	(14,000)	—	—
Reclass to investments in unconsolidated affiliates	—	(8,000)	—
Non-cash accretion of notes receivable	453	786	6,164
Reserves	(405)	(240)	(93)
Other	—	—	(80)
Ending Balance	$129,278	$59,989	$89,202

As of December 31, 2012, the Company's notes receivable, net, approximated $129.3 million and were collateralized by the underlying properties, the borrower's ownership interest in the entities that own the properties and/or by the borrower's personal guarantee. Notes receivable were as follows at December 31, 2012:

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
5. Notes Receivable and Other Real Estate Related Investments, continued

Note Description	Effective interest rate (1)	Maturity date	Periodic payment terms	Prior liens	Face amount of notes	Carrying amount of notes	Accrued Interest
(dollars in thousands)							
First Mortgage	6.00%	12/31/2013	(2)	$—	$10,250	$10,250	$54
First Mortgage	8.00%	12/31/2013	(2)	—	8,000	8,000	—
First Mortgage	5.25%	Demand	(2)	—	23,555	18,500	803
First Mortgage	6.00%	6/1/2013	(2)	—	12,609	12,333	319
First Mortgage	11.00%	1/1/2014	(2)	—	25,000	25,000	—
Construction	20.51%	12/31/2012	(2)	—	5,400	5,400	168
Individually less than 3%	10.00% to 11.60%	12/31/13 to Capital Event	(2)	—	2,198	269	90
Sub-total first mortgages	8.60%				87,012	79,752	1,434
Zero Coupon	24.00%	1/3/2016	(2)	166,200	5,644	3,961	—
Mezzanine	10.00%	12/31/2013	(2)	85,835	9,089	9,089	176
Mezzanine	15.00%	Capital Event	(2)	13,265	3,834	3,834	1,135
Mezzanine	15.00%	11/9/2020	(2)	—	30,879	30,879	—
Individually less than 3%	12.00% to 17.50%	1/1/17 to Capital Event	(2)	37,623	9,198	1,763	—
Sub-total other	14.78%				58,644	49,526	1,311
Total					$145,656	$129,278	$2,745

Notes:
(1) The effective interest rate includes points and exit fees.
(2) Interest only payable monthly, principal due on maturity.

The following table reconciles the allowance for notes receivable from December 31, 2010 to December 31, 2012:

(dollars in thousands)	Allowance for Notes Receivable
Balance at December 31, 2010	$3,036
Change in allowance, net	240
Balance at December 31, 2011	$3,276
Change in allowance, net	405
Balance at December 31, 2012	$3,681

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Deferred Charges

Deferred charges consist of the following as of December 31, 2012 and 2011:

	December 31,	
(dollars in thousands)	2012	2011
Deferred financing costs	$31,835	$24,438
Deferred leasing and other costs	32,302	27,192
	64,137	51,630
Accumulated amortization	(37,360)	(32,022)
Total	$26,777	$19,608

7. Acquired Lease Intangibles

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases, acquired in-place leases and customer relationships) and acquired liabilities in accordance with ASC Topic 805. The intangibles are amortized over the remaining non-cancelable terms of the respective leases.

The scheduled amortization of acquired lease intangible assets and liabilities as of December 31, 2012 is as follows:

(dollars in thousands)	Acquired lease intangible	
	Assets	Liabilities
2013	$4,490	$2,196
2014	3,989	1,864
2015	3,787	1,692
2016	3,536	1,668
2017	2,798	1,506
Thereafter	13,375	5,189
Total	$31,975	$14,115

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
8. Mortgages Payable

At December 31, 2012 and 2011, mortgage notes payable, excluding the net valuation premium on the assumption of debt, aggregated $727.1 million and $647.7 million respectively, and were collateralized by 35 properties and related tenant leases. Interest rates on the Company's outstanding mortgage indebtedness ranged from 1.00% to 7.25% with maturities that ranged from April 2013 to September 2022. Certain loans are cross-collateralized and contain cross-default provisions. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with affirmative and negative covenants, including the maintenance of debt service coverage and leverage ratios.

The following table reflects mortgage loan activity for the year ended December 31, 2012:

(dollars in thousands)

Property	Date	Amount Borrowed or Assumed	Interest Rate	Maturity Date	Amount Repaid
340 River Street	February	$7,022	6.26%	5/1/2016	$—
Chicago Street Retail Portfolio	March	14,490	5.62%	2/1/2016	—
Chicago Street Retail Portfolio	March	1,538	5.55%	2/1/2016	—
Lincoln Park Centre	April	19,763	5.85%	12/31/2013	—
West Diversey	April	15,500	LIBOR + 1.90%	4/27/2019	—
Cortlandt Towne Center (1)	April	24,005	LIBOR + 1.90%	10/26/2015	—
Canarsie Plaza (2)	April	13,124	LIBOR + 2.25%	5/1/2015	68,644
330 River Street	May	4,250	3.68%	5/1/2016	—
Tarrytown Shopping Center	June	—			8,260
Rhode Island Place Shopping Center	June	16,510	6.35%	12/1/2016	—
640 Broadway	June	22,750	LIBOR + 2.95%	7/1/2015	—
Atlantic Avenue	July	10,600	LIBOR + 3.35%	7/1/2015	22,100
125 Main Street	August	—			12,500
CityPoint (3)	August	5,262	1.00%	8/23/2019	—
Heritage Shops	August	21,000	LIBOR + 2.25%	8/10/2015	—
CityPoint (4)	August	50,000	LIBOR + 3.30%	8/23/2015	—
Fordham Place	September	83,261	LIBOR + 3.00%	9/25/2015	83,261
4401 White Plains Rd	September	6,400	LIBOR + 1.90%	9/1/2022	—
A&P Shopping Plaza	September	8,000	4.20%	9/6/2022	7,763
New Hyde Park Shopping Center	October	6,500	LIBOR + 2.25%	11/10/2015	—
Six self-storage properties	October	120,000	LIBOR + 2.15%	10/24/2013	161,895
639 West Diversey	December	4,400	6.65%	3/1/2017	—
Total		$454,375			$364,423

Notes:

(1) - Loan was amended from $50.0 million to $74.0 million.

(2) - Loan was amended from $56.5 million to $69.6 million.

(3) - The Company entered into a $20.0 million loan under the New Markets Tax Credit program to finance the construction of this property. Of the total principal, $14.8 million is due to an affiliate included in the consolidated group which has been netted on the accompanying balance sheet and the resulting $5.2 million is included in Mortgages Payable in the accompanying consolidated balance sheet at December 31, 2012.

(4) - As of December 31, 2012 no funds have been drawn down on this construction loan.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
8. Mortgages Payable, continued
The following table sets forth certain information pertaining to our secured credit facilities as of December 31, 2012:

(dollars in thousands) Borrower	Total amount of credit facility	Amount borrowed as of December 31, 2011	Net borrowings (repayments) during the year ended December 31, 2012	Amount borrowed as of December 31, 2012	Letters of credit outstanding as of December 31, 2012	Amount available under credit facilities as of December 31, 2012
Acadia Realty, LP (1)	$64,498	$1,000	$(1,000)	$—	$—	$64,498
Fund II	—	40,000	(40,000)	—	—	—
Fund III	—	136,079	(136,079)	—	—	—
Fund IV	150,000	—	93,050	93,050	—	56,950
Total	$214,498	$177,079	$(84,029)	$93,050	$—	$121,448

Note:
(1) - Subsequent to December 31, 2012, the Company closed on a new $150.0 million unsecured credit facility, which replaced this maturing secured credit facility.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
8. Mortgages Payable, continued
The following table summarizes the Company's mortgage and other secured indebtedness as of December 31, 2012 and December 31, 2011:
(dollars in thousands)

Description of Debt and Collateral	12/31/2012	12/31/2011	Interest Rate at December 31, 2012	Maturity	Payment Terms
Mortgage notes payable – variable-rate					
161st Street	$ 28,900	$28,900	5.71% (LIBOR+5.50%)	4/1/2013	Interest only monthly.
CityPoint	20,650	20,650	2.71% (LIBOR+2.50%)	8/12/2013	Interest only monthly.
Pelham Manor	33,833	34,000	2.96% (LIBOR+2.75%)	12/1/2013	Monthly principal and interest.
Branch Shopping Plaza	12,526	12,761	2.46% (LIBOR+2.25%)	9/30/2014	Monthly principal and interest.
640 Broadway	22,750	—	3.16% (LIBOR+2.95%)	7/1/2015	Interest only monthly.
Heritage Shops	21,000	—	2.46% (LIBOR+2.25%)	8/10/2015	Interest only monthly.
Fordham Place	82,205	84,277	3.21% (LIBOR+3.00%)	9/25/2015	Monthly principal and interest.
Cortlandt Towne Center	73,499	50,000	2.11% (LIBOR+1.90%)	10/26/2015	Monthly principal and interest.
New Hyde Park Shopping Center	6,484	—	2.46% (LIBOR+2.25%)	11/10/2015	Monthly principal and interest.
Village Commons Shopping Center	9,192	9,310	1.61% (LIBOR+1.40%)	6/30/2018	Monthly principal and interest.
West Diversey	15,273	—	2.11% (LIBOR+1.90%)	4/27/2019	Monthly principal and interest.
4401 N White Plains Rd	6,381	—	2.11% (LIBOR+1.90%)	9/1/2022	Monthly principal and interest.
Sub-total mortgage notes payable	332,693	239,898			
Secured credit facilities – variable-rate:					
Fund III revolving subscription line of credit	—	136,079	2.46% (LIBOR+2.25%)	10/10/2012	Interest only monthly.
Six Core Portfolio properties	—	1,000	1.46% (LIBOR+1.25%)	12/1/2012	Annual principal and monthly interest.
Fund II term loan	—	40,000	3.11% (LIBOR+2.90%)	12/22/2014	Interest only monthly.
Fund IV revolving subscription line of credit (2)	93,050	—	1.86% (LIBOR+1.65%)	11/20/2015	Interest only monthly.
Sub-total secured credit facilities	93,050	177,079			
Interest rate swaps (1)	(132,857)	(57,027)			
Total variable-rate debt	292,886	359,950			

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
8. Mortgages Payable, continued
(dollars in thousands)

Description of Debt and Collateral	12/31/2012	12/31/2011	Interest Rate at December 31, 2012	Maturity	Payment Terms
Mortgage notes payable – fixed-rate					
Lincoln Park Centre	$ 19,478	$—	5.85%	12/1/2013	Monthly principal and interest.
Clark Diversey	4,345	4,491	6.35%	7/1/2014	Monthly principal and interest.
New Loudon Center	13,634	13,882	5.64%	9/6/2014	Monthly principal and interest.
CityPoint	20,000	20,000	7.25%	11/1/2014	Interest only quarterly.
Crescent Plaza	17,025	17,287	4.98%	9/6/2015	Monthly principal and interest.
Pacesetter Park Shopping Center	11,742	11,941	5.12%	11/6/2015	Monthly principal and interest.
Elmwood Park Shopping Center	33,258	33,738	5.53%	1/1/2016	Monthly principal and interest.
Chicago Street Retail Portfolio	15,835	—	5.55%	2/1/2016	Monthly principal and interest.
The Gateway Shopping Center	20,036	20,308	5.44%	3/1/2016	Monthly principal and interest.
Acadia Cambridge	6,931	—	6.26%	5/1/2016	Monthly principal and interest.
Acadia 330 River Street	4,197	—	3.68%	5/1/2016	Monthly principal and interest.
Walnut Hill Plaza	23,194	23,458	6.06%	10/1/2016	Monthly principal and interest.
Rhode Island Place Shopping Center	16,426	—	6.35%	12/1/2016	Monthly principal and interest.
239 Greenwich Avenue	26,000	26,000	5.42%	2/11/2017	Interest only monthly.
639 West Diversey	4,431	—	6.65%	3/1/2017	Monthly principal and interest.
Merrillville Plaza	26,151	26,250	5.88%	8/1/2017	Monthly principal and interest.
216th Street	25,500	25,500	5.80%	10/1/2017	Interest only monthly.
CityPoint	5,262	—	1.00%	8/23/2019	Interest only monthly.
A&P Shopping Plaza	7,967	7,874	4.20%	9/6/2022	Monthly principal and interest.
Interest rate swaps (1)	132,857	57,027	5.41%		
Total fixed-rate debt	434,269	287,756			
Unamortized (discount) premium	(107)	33			
Total	$ 727,048	$647,739			

Notes:

(1) Represents the amount of the Company's variable-rate debt that has been fixed through certain cash flow hedge transactions (Note 10).

(2) The Fund IV revolving subscription line of credit is secured by unfunded investor capital commitments.

The scheduled principal repayments of all indebtedness, including Convertible Notes (Note 9), as of December 31, 2012 are as follows (does not include $107,000 net valuation discount on assumption of debt):

(dollars in thousands)	
2013	$108,974

2014	56,191
2015	325,388
2016	116,402
2017	81,192
Thereafter	39,938
	$728,085

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
9. Convertible Notes Payable

In December 2006 and January 2007, the Company issued a total of $115.0 million of convertible notes with a fixed interest rate of 3.75% due 2026 (the “Convertible Notes”). The Convertible Notes were issued at par and require interest payments semi-annually in arrears on June 15 and December 15 of each year. The Convertible Notes are unsecured, unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Convertible Notes have an effective interest rate of 6.03% giving effect to the accounting treatment required by ASC Topic 470-20, “Debt with Conversion and Other Options.” The Convertible Notes had an initial conversion price of $30.86 per share. The conversion rate may be adjusted under certain circumstances, including the payment of cash dividends in excess of the regular quarterly cash dividend in place at the time the Convertible Notes were issued. As of December 31, 2012, the adjusted conversion price is $29.26. Upon conversion of the Convertible Notes, the Company will deliver cash and, in some circumstances, Common Shares, as specified in the indenture relating to the Convertible Notes. In general, the Convertible Notes may only be converted prior to maturity during any calendar quarter beginning after December 31, 2006 if the Company’s Common Shares trade at 130% of the conversion price for at least 20 days within a consecutive 30 day trading period. Prior to December 20, 2011, the Company did not have the right to redeem Convertible Notes, except to preserve its status as a REIT. After December 20, 2011, the Company has the right to redeem the notes, in whole or in part, at any time and from time to time, for cash equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to, but not including, the redemption date. The Holders of notes may require the Company to repurchase their notes, in whole or in part, on December 20, 2011, December 15, 2016, and December 15, 2021 for cash equal to 100% of the principal amount of the notes to be repurchased plus any accrued and unpaid interest to, but not including, the repurchase date (the "Repurchase Option"). In general, upon a conversion of notes, the Company will deliver cash and, at the Company’s election, its Common Shares, with an aggregate value, which the Company refers to as the “conversion value”, equal to the conversion rate multiplied by the average price of the Company’s Common Shares. The net amount may be paid, at the Company’s option, in cash, its Common Shares or any combination of the two.

The Convertible Notes "if-converted" value does not exceed their principal amount as of December 31, 2012, and there are no derivative transactions that were entered into in connection with the issuance of the Convertible Notes. Effective January 1, 2009, the Company adopted ASC Topic 470-20 which required it to retrospectively restate and reclassify previously disclosed consolidated financial statements to allocate the proceeds from the issuance of convertible debt between a debt component and an equity component. The resulting discount on the debt component was amortized over the period the convertible debt was expected to be outstanding, which was December 11, 2006 to December 20, 2011, as additional non-cash interest expense. The equity component recorded as additional paid-in capital was $11.3 million, which represented the difference between the proceeds from the issuance of the Convertible Notes and the fair value of the liability at the time of issuance. As the Company determined, in connection with the Repurchase Option, that the Convertible Notes matured on December 20, 2011, as of December 31, 2012, all loan costs associated with the issuance have been expensed and there is no remaining carrying amount of the equity component included in additional paid-in capital.

The carrying amount of the equity component included in additional paid-in capital totaled $1.1 million at December 31, 2010. Interest expense relating to the contractual interest coupon recognized in the Consolidated Statements of Income was $0.03 million, $1.5 million, and $1.9 million for the years ended December 31, 2012, 2011, and 2010, respectively, The additional non-cash interest expense recognized in the Consolidated Statements of Income was $0.8 million and $1.0 million for the years ended December 31, 2011 and 2010, respectively.

During 2011, the Company purchased $48.8 million of the Convertible Notes, including $24.0 million that was repurchased on December 20, 2011 pursuant to the Repurchase Option. As of December 31, 2012, the Company has purchased $114.1 million in principal amount of its convertible debt at an average discount of approximately 11%. The transactions resulted in a loss on debt extinguishment of ($0.4) million for the year ended December 31, 2011. The outstanding Convertible Notes principal amount and net carrying amount was $0.9 million as of December 31, 2012 and 2011.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
10. Financial Instruments and Fair Value Measurements

The FASB's fair value measurements and disclosure guidance requires the valuation of certain of the Company's financial assets and liabilities, based on a three-level fair value hierarchy. Market participant assumptions obtained from sources independent of the Company are observable inputs that are classified within Levels 1 and 2 of the hierarchy, and the Company's own assumptions about market participant assumptions are unobservable inputs classified within Level 3 of the hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

(dollars in thousands)	Level 1	Level 2	Level 3
Liabilities			
Derivative financial instruments	$—	$4,416	$—

During the year ended December 31, 2011, the Company determined that the value of the Granville Centre owned by Fund I was impaired and recorded an impairment loss of $6.9 million (Note 1). The Company estimated the Granville Centre's fair value by using projected future cash flows, which it determined were not sufficient to recover the property's net book value. The inputs used to determine the fair value of the Granville Centre were classified as Level 3 under authoritative guidance for fair value measurements.

During the year ended December 31, 2012, the Company determined that carrying value in its investment in Mervyns was overstated and recorded an impairment of $2.0 million (Note 1). The analysis performed consisted of discounted cash flows which were used to determine the fair value of the Mervyns investment and were classified as Level 3 under authoritative guidance for fair value measurements.

Derivative Financial Instruments

The FASB's derivative and hedging guidance establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by the FASB guidance, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecast transactions, are considered cash flow hedges.

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

As of December 31, 2012, the Company's derivative financial instruments consisted of seven interest rate LIBOR swaps with an aggregate notional value of $132.9 million, which fix interest at rates from 1.57% to 3.77%, and mature between May 2015 and December 2022. The Company also has four derivative financial instruments with a notional value of $141.4 million which cap interest rates ranging from 3.0% to 6.0% and mature between April 2013 and November 2015. The fair value of the derivative liability of these instruments, which is included in other liabilities in the consolidated balance sheets, totaled $4.4 million and $3.5 million at December 31, 2012 and 2011, respectively. The notional value does not represent exposure to credit, interest rate or market risks.

These derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable rate mortgage debt. Such instruments are reported at the fair value reflected above. As of December 31, 2012 and 2011, unrealized losses totaling $4.3 million and $3.9 million, respectively, were reflected in accumulated other comprehensive loss. It is estimated that approximately $1.5 million included in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense in the 2013 results of operations.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
10. Financial Instruments and Fair Value Measurements, continued
Derivative Financial Instruments, continued
As of December 31, 2012 and 2011, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges. As of December 31, 2012, none of the Company's hedges were ineffective.
Financial Instruments
Certain of the Company's assets and liabilities meet the definition of financial instruments. Except as disclosed below, the carrying amounts of these financial instruments approximates their fair value due to the short-term nature of such accounts.
The Company has determined the estimated fair values of the following financial instruments by discounting future cash flows utilizing a discount rate equivalent to the rate at which similar financial instruments would be originated at the reporting date:

	December 31, 2012		December 31, 2011	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable	$129,278	$129,278	$59,989	$59,989
Mortgage Notes Payable and Convertible Notes Payable	$727,978	$734,807	$648,669	$652,269

11. Shareholders' Equity and Noncontrolling Interests
Common Shares
During the year ended December 31, 2012, 8,595 employee Restricted Shares were canceled to pay the employees' income taxes due on the value of the portion of their Restricted Shares that vested. During the year ended December 31, 2012, the Company recognized accrued Common Share and Common OP Unit-based compensation totaling $3.6 million in connection with the vesting of Restricted Shares and Units (Note 15).
During 2012, the Company issued approximately 6.1 million Common Shares from the ATM program generating net proceeds of approximately $140.8 million and completed a public share offering of approximately 3.5 million Common Shares generating net proceeds of approximately $85.9 million.
During 2012, Kenneth Bernstein, President and CEO, converted 250,000 Common OP Units into Common Shares.
During November 2011, the Company issued 2.3 million Common Shares generating net proceeds of approximately $45.0 million.
Noncontrolling Interests
The following table summarizes the change in the noncontrolling interests since December 31, 2011:

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
11. Shareholders' Equity and Noncontrolling Interests, continued
Noncontrolling Interests, continued

(dollars in thousands)	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Partially-Owned Affiliates
Balance at December 31, 2011	$9,992	$375,203
Distributions declared of $0.72 per Common OP Unit	(1,098)	—
Net income for the period January 1 through December 31, 2012	528	49,702
Conversion of 334,445 OP Units to Common Shares by limited partners of the Operating Partnership	(5,880)	—
Issuance of LTIP Unit Awards to employees	2,577	—
Issuance of OP Units to acquire real estate	2,279	—
Other comprehensive income - unrealized loss on valuation of swap agreements	(72)	(1,632)
Reclassification of realized interest expense on swap agreements	20	827
Noncontrolling interest contributions	—	172,228
Noncontrolling interest distributions and other reductions	—	(160,663)
Employee Long-term Incentive Plan Unit Awards	3,448	—
Balance at December 31, 2012	$11,794	$435,665

Noncontrolling interests in the Operating Partnership represents (i) the limited partners' 284,097 and 279,748 Common OP Units at December 31, 2012 and 2011, respectively, (ii) 188 Series A Preferred OP Units at both December 31, 2012 and 2011, with a stated value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $22.50 (9% annually) per Series A Preferred OP Unit or (b) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit was converted into a Common OP Unit, and (iii) 1,109,727 and 1,061,564 LTIP units as of December 31, 2012 and December 31, 2011, respectively, as discussed in Share Incentive Plan (Note 15).

Noncontrolling interests in partially-owned affiliates include third-party interests in Fund I, II, III and IV, and Mervyns I and II, and twelve other entities.

In 2005, the Company issued 250,000 Restricted Common OP Units to Klaff in consideration for an interest in certain management contract rights. During 2010, Klaff converted the 250,000 Restricted Common OP Units into Common Shares.

The Series A Preferred OP Units were issued in 1999 in connection with the acquisition of a property. Through December 31, 2012, 1,392 Series A Preferred OP Units were converted into 185,600 Common OP Units and then into Common Shares. The 188 remaining Series A Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by $7.50. Either the Company or the holders can currently call for the conversion of the Series A Preferred OP Units at the lesser of $7.50 or the market price of the Common Shares as of the conversion date.

12. Related Party Transactions

During February 2010, Klaff converted all 250,000 of its Restricted Common OP Units into 250,000 Common Shares.

The Company earned property management, construction development, legal and leasing fees from three of its investments in unconsolidated partnerships totaling $0.8 million, $1.3 million and $0.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Related party receivables due from unconsolidated affiliates totaled $0.2 million and $1.4 million at December 31, 2012 and 2011, respectively.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $0.1 million for each of the years ended December 31, 2012, 2011, and 2010.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. 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, 2012 are summarized as follows:

(dollars in thousands)	
2013	$102,003
2014	93,026
2015	86,460
2016	81,154
2017	73,551
Thereafter	533,293
Total	$969,487

During the years ended December 31, 2012, 2011 and 2010, no single tenant collectively accounted for more than 10% of the Company's total revenues.

14. Lease Obligations

The Company leases land at eight of its shopping centers, which are accounted for as operating leases and generally provide the Company with renewal options. Ground rent expense was $3.2 million, $2.2 million, and $3.2 million (including capitalized ground rent at properties under redevelopment of $0.8 million, ($0.2 million) and $0.5 million) for the years ended December 31, 2012, 2011 and 2010, respectively. The leases terminate at various dates between 2020 and 2078. These leases provide the Company with options to renew for additional terms aggregating from 20 to 71 years. The Company leases space for its White Plains corporate office for a term expiring in 2015. Office rent expense under this lease was $1.4 million, $1.4 million and $1.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. Future minimum rental payments required for leases having remaining non-cancelable lease terms are as follows:

(dollars in thousands)	
2013	$4,248
2014	4,174
2015	4,362
2016	3,256
2017	3,256
Thereafter	126,425
Total	$145,721

15. Share Incentive Plan

During 2012, the Company terminated the 1999 and 2003 Plans and adopted the Amended 2006 Plan. The Amended 2006 Plan increased the authorization to issue options, Restricted Shares and LTIP Units (collectively "Awards") available to officers and employees by 1.9 million shares to 2.1 million shares. Options are granted by the Compensation Committee (the "Committee"), which currently consists of three 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. The Committee determines the restrictions placed on Awards, including the dividends or distributions thereon and the term of such restrictions. The Committee also determines the award and vesting of the awards based on the attainment of specified performance objectives of the Company within a specified performance period.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
15. Share Incentive Plan, continued

On March 15, 2012, the Company issued a total of 279,611 LTIP Units and 1,358 Restricted Share Units to officers of the Company and 9,435 Restricted Share Units to other employees of the Company. Vesting with respect to these awards is generally recognized ratably over the five annual anniversaries following the issuance date. Vesting with respect to 17% of the awards issued to officers is also generally subject to achieving certain Company performance measures. LTIP Units are similar to Restricted Shares but provide for a quarterly partnership distribution in a like amount as paid to Common OP Units. This distribution is paid on both unvested and vested LTIP Units. The LTIP Units are convertible into Common OP Units and Common Shares upon vesting and a revaluation of the book capital accounts.

These awards were measured at their fair value as if they were vested on the grant date. Fair value was established as the market price of the Company's Common Shares as of the close of trading on the day preceding the grant date.

The total value of the above Restricted Share Units and LTIP Units as of the grant date was $6.4 million, of which $2.6 million was recognized in compensation expense during 2011 and $3.8 million will be recognized in compensation expense over the vesting period. The weighted average fair value for Restricted Shares and LTIP Units granted for the years ended December 31, 2012, 2011 and 2010 were $21.98, $19.08 and $16.73, respectively.
Total long-term incentive compensation expense, including the expense related to the above mentioned plans, was $3.6 million, $4.0 million and $3.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.
On May 10, 2012, the Company issued 19,360 Restricted Shares to Trustees of the Company in connection with Trustee fees. Vesting with respect to 8,983 of the Restricted Shares will be on the first anniversary of the date of issuance and 10,377 of the Restricted Shares vest over three years with 33% vesting on each of the next three anniversaries of the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively from the issuance date through the applicable vesting date of such Restricted Shares. Trustee fee expense of $0.2 million for the year ended December 31, 2012 has been recognized in the accompanying consolidated statement of income related to this issuance.

In 2009, the Company adopted the Long Term Investment Alignment Program (the “Program”) pursuant to which the Company may award units primarily to senior executives which would entitle them to receive up to 25% of any future Fund III Promote when and if such Promote is ultimately realized. The Company has awarded units representing 81% of the Program, which were determined to have no value at issuance or as of December 31, 2012. In accordance with ASC Topic 718, “Compensation - Stock Compensation,” compensation relating to these awards will be recorded based on the change in the estimated fair value at each reporting period.
As of December 31, 2012, the Company had 100,647 options outstanding to officers and employees and 37,000 options outstanding to non-employee Trustees of the Company all of which have vested. These options are for ten-year terms from the grant date and vested in three equal annual installments, which began on their respective grant dates.
A summary of option activity under all option arrangements as of December 31, 2012 and 2011, and changes during the years then ended, is presented below:

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
15. Share Incentive Plan, continued

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (dollars in thousands)
Outstanding and exercisable at December 31, 2010	152,283	$18.20	4.5	$6
Granted	—	—	—	—
Exercised	(2,000)	8.21	—	24
Forfeited or Expired	—	—	—	—
Outstanding and exercisable at December 31, 2011	150,283	18.33	3.5	272
Granted	—	—	—	—
Exercised	(12,636)	14.23	—	137
Forfeited or Expired	—	—	—	—
Outstanding and exercisable at December 31, 2012	137,647	$18.71	2.6	$877

The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was $0.1 million, $0.02 million and $0.03 million, respectively.
A summary of the status of the Company’s unvested Restricted Shares and LTIP Units as of December 31, 2012 and 2011 and changes during the years then ended is presented below:

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
15. Share Incentive Plan, continued

Unvested Restricted Shares and LTIP Units	Restricted Shares	Weighted Grant-Date Fair Value	LTIP Units	Weighted Grant-Date Fair Value
Unvested at December 31, 2010	153,430	$19.75	562,739	$16.61
Granted	32,970	19.13	431,412	19.08
Vested	(104,196)	20.95	(153,895)	16.78
Forfeited	(6,465)	14.73	(1,358)	16.86
Unvested at December 31, 2011	75,739	18.25	838,898	17.85
Granted	30,153	21.88	281,714	21.99
Vested	(43,819)	19.29	(176,926)	16.92
Forfeited	(1,157)	16.02	—	—
Unvested at December 31, 2012	60,916	$19.36	943,686	$19.27

As of December 31, 2012, there was $9.6 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under share incentive plans. That cost is expected to be recognized over a weighted-average period of 1.6 years. The total fair value of Restricted Shares that vested during the years ended December 31, 2012, 2011 and 2010 was $0.8 million, $2.2 million and $3.0 million, respectively.

16. Employee Share Purchase and Deferred Share Plan

The Acadia Realty Trust Employee Share Purchase Plan (the “Purchase Plan”), allows eligible employees of the Company to purchase Common Shares through payroll deductions. The Purchase Plan provides for employees to purchase Common Shares on a quarterly basis at a 15% discount to the closing price of the Company’s Common Shares on either the first day or the last day of the quarter, whichever is lower. A participant may not purchase more the $25,000 in Common Shares per year. Compensation expense will be recognized by the Company to the extent of the above discount to the closing price of the Common Shares with respect to the applicable quarter. During 2012, 2011 and 2010, a total of 3,829, 4,886 and 6,184 Common Shares, respectively, were purchased by employees under the Purchase Plan. Associated compensation expense of $0.01 million was recorded in both 2012 and 2011 and $0.02 million was recorded in 2010.

During May of 2006, the Company adopted a Trustee Deferral and Distribution Election (“Trustee Deferral Plan”), whereby the participating Trustees have deferred compensation of $0.06 million for 2012, 2011 and 2010.

17. Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant’s contribution up to 6% of the employee’s annual salary. A plan participant may contribute up to a maximum of 15% of their compensation, up to $17,000, for the year ended December 31, 2012. The Company contributed $0.3 million for the year ended December 31, 2012 and $0.2 million for each of the years ended December 31, 2011 and 2010.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Dividends and Distributions Payable

On November 5, 2012, the Board of Trustees declared a cash dividend for the quarter ended December 31, 2012 of $0.18 per Common Share, which was paid on January 15, 2013 to holders of record as of December 31, 2012.

19. Federal Income Taxes

The Company has elected to qualify as a REIT in accordance with Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and intends at all times to qualify as a REIT under the Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual REIT taxable income to its shareholders. As a REIT, the Company generally will not be subject to corporate Federal income tax, provided that distributions to its shareholders equal at least the amount of its REIT taxable income as defined under the Code. As the Company distributed sufficient taxable income for the years ended December 31, 2012, 2011 and 2010, no U.S. Federal income or excise taxes were incurred. If the Company fails to qualify as a REIT in any taxable year, it will be subject to Federal income taxes at the regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even though the Company qualifies for taxation as a REIT, the Company is subject to certain state and local taxes on its income and property and Federal income and excise taxes on any undistributed taxable income. In addition, taxable income from non-REIT activities managed through the Company's Taxable REIT Subsidiaries ("TRS") is subject to Federal, state and local income taxes.

Characterization of Distributions:

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,		
	2012	2011	2010
Ordinary income	63 %	75 %	100 %
Qualified dividend	— %	22 %	— %
Capital gain	37 %	3 %	— %
	100 %	100 %	100 %

Taxable REIT Subsidiaries

Income taxes have been provided for using the liability method as required by ASC Topic 740, "Income Taxes." The Company's TRS income and provision for income taxes for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

(dollars in thousands)	2012	2011	2010
TRS (loss) income before income taxes	$(2,056)	$376	$5,716
(Benefit) provision for income taxes:			
Federal	(592)	222	2,164
State and local	(147)	59	543
TRS net (loss) income before noncontrolling interests	(1,317)	95	3,009
Noncontrolling interests	702	1,245	(545)
TRS net (loss) income	$(615)	$1,340	$2,464

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
19. Federal Income Taxes, continued

The income tax provision differs from the amount computed by applying the statutory federal income tax rate to income before income taxes as follows (not adjusted for temporary book/tax differences):

(dollars in thousands)	2012	2011	2010
Federal (benefit) provision at statutory tax rate	$(699)	$128	$1,943
TRS state and local taxes, net of federal benefit	(109)	20	358
Tax effect of:			
Permanent differences, net	809	(279)	406
Prior year overaccrual, net	(553)	—	—
Restricted stock vesting	(159)	266	—
Other	(35)	133	(21)
REIT state and local income and franchise taxes	178	193	183
Total (benefit) provision for income taxes	$(568)	$461	$2,869

20. Earnings Per Common Share

Basic earnings per Common Share is computed by dividing net income attributable to Common Shareholders by the weighted average Common Shares outstanding. At December 31, 2012, the Company has unvested LTIP Units (Note 15) which provide for non-forfeitable rights to dividend equivalent payments. Accordingly, these unvested LTIP Units are considered participating securities and are included in the computation of basic earnings per Common Share pursuant to the two-class method.

Diluted earnings per Common Share reflects the potential dilution of the conversion of obligations and the assumed exercises of securities including the effects of restricted share unit ("Restricted Share Units") and share option awards issued under the Company’s Share Incentive Plans (Note 15). The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares would be dilutive and therefore are included in the computation of diluted earnings per share for the years ended December 2012, 2011 and 2010.

The effect of the conversion of Common OP Units is not reflected in the computation of basic and diluted earnings per share, as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as noncontrolling interests in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share. The conversion of the convertible notes payable (Note 9) is not included in the computation of basic and diluted earnings per share as such conversion, based on the current market price of the Common Shares, would be settled with cash.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
20. Earnings Per Common Share, continued

(dollars in thousands, except per share amounts)	Years ended December 31, 2012	2011	2010
Numerator:			
Income from continuing operations	$24,034	$18,713	$28,233
Less: net income attributable to participating securities	466	384	389
Income from continuing operations net of income attributable to participating securities	23,568	18,329	27,844
Effect of dilutive securities:			
Preferred OP Unit distributions	18	18	18
Numerator for diluted earnings per Common Share	23,586	18,347	27,862
Denominator:			
Weighted average shares for basic earnings per share	45,854	40,697	40,136
Effect of dilutive securities:			
Employee share options	456	264	245
Convertible Preferred OP Units	25	25	25
Dilutive potential Common Shares	481	289	270
Denominator for diluted earnings per share	46,335	40,986	40,406
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	$0.51	$0.45	$0.69
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	$0.51	$0.45	$0.69

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
21. Summary of Quarterly Financial Information (unaudited)
The quarterly results of operations of the Company for the years ended December 31, 2012 and 2011 are as follows:

(dollars in thousands, except per share amounts)	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Revenue	$29,913	$32,723	$34,648	$37,141
Income from continuing operations attributable to Common Shareholders	$3,437	$5,677	$6,238	$8,682
Income from discontinued operations attributable to Common Shareholders	573	1,162	1,343	12,594
Net income attributable to Common Shareholders	$4,010	$6,839	$7,581	$21,276
Net income attributable to Common Shareholders per Common Share - basic:				
Income from continuing operations	$0.08	$0.13	$0.13	$0.17
Income from discontinued operations	0.01	0.02	0.03	0.25
Net income per share	$0.09	$0.15	$0.16	$0.42
Net income attributable to Common Shareholders per Common Share - diluted:				
Income from continuing operations	$0.08	$0.13	$0.13	$0.17
Income from discontinued operations	0.01	0.02	0.03	0.25
Net income per share	$0.09	$0.15	$0.16	$0.42
Cash dividends declared per Common Share	$0.18	$0.18	$0.18	$0.18
Weighted average Common Shares outstanding:				
Basic	42,735,731	44,245,401	46,338,218	50,046,774
Diluted	43,146,093	44,673,565	46,812,349	50,582,584

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
21. Summary of Quarterly Financial Information (unaudited) (continued)

(dollars in thousands, except per share amounts)	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Revenue	$29,733	$29,206	$27,356	$28,783
Income from continuing operations attributable to Common Shareholders	$7,897	$3,841	$3,514	$3,462
Income from discontinued operations attributable to Common Shareholders	1,526	26,393	497	4,425
Net income attributable to Common Shareholders	$9,423	$30,234	$4,011	$7,887
Net income attributable to Common Shareholders per Common Share - basic:				
Income from continuing operations	$0.19	$0.09	$0.09	$0.08
Income from discontinued operations	0.04	0.64	0.01	0.10
Net income per share	$0.23	$0.73	$0.10	$0.18
Net income attributable to Common Shareholders per Common Share - diluted:				
Income from continuing operations	$0.19	$0.09	$0.09	$0.08
Income from discontinued operations	0.04	0.64	0.01	0.11
Net income per share	$0.23	$0.73	$0.10	$0.19
Cash dividends declared per Common Share	$0.18	$0.18	$0.18	$0.18
Weighted average Common Shares outstanding:				
Basic	40,317,603	40,333,575	40,339,958	41,785,261
Diluted	40,580,173	40,633,317	40,628,781	42,066,390

22. 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 II assessment is so recommended, a Phase II assessment is 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 it believes would have a material adverse impact on the Company’s financial position or results of operations. Management is unaware of any instances in which the Company 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, results of operations, or liquidity. The Company's policy is to accrue legal expenses as they are incurred.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
22. Commitments and Contingencies (continued)

In September 2008, the Company, certain of its subsidiaries, and other unrelated entities (the “Investor Consortium”) were named as defendants in an adversary proceeding brought by Mervyns LLC (“Mervyns”) in the United States Bankruptcy Court for the District of Delaware. The action involved five claims alleging fraudulent transfers in which Mervyns was nominally seeking approximately $1.175 billion in damages from the Investor Consortium, although the actual claims made by the administrator and the unsecured creditors were substantially less. The first claim contended that, at the time of the sale of Mervyns by Target Corporation ("Target") to the Investor Consortium, a transfer of assets was made in an effort to defraud creditors. The Company believed that this aspect of the case is without merit. The remaining four claims related to transfers of assets of Mervyns at various times after the sale by Target. The Company believed that there were substantial defenses to these claims.

During the third quarter of 2012, the parties to this litigation arrived at an agreement to settle the claim. The settlement was approved by the bankruptcy court and provided for a payment of $166.0 million. Based on the defendants' agreement, the net cost of the settlement to the Investor Consortium amounted to approximately $149.0 million. After applying cash on hand at the investee level, Mervyns I and Mervyns II's combined contribution to this settlement was approximately $1.0 million. In addition, the Company reduced its carrying value of these investments from $6.3 million to its fair value of $5.3 million. In total, this resulted in a charge of $2.0 million during the year ended December 31, 2012, of which the Operating Partnership's share, net of income taxes, was $0.2 million.

During August 2009, the Company terminated the employment of a former Senior Vice President (the “Former Employee”) for engaging in conduct that fell within the definition of “cause” in his severance agreement with the Company. Had the Former Employee not been terminated for “cause,” he would have been eligible to receive approximately $0.9 million under the severance agreement. Because the Company terminated him for “cause,” it did not pay the Former Employee any severance benefits under the agreement. The Former Employee has brought a lawsuit against the Company in New York State Supreme Court, alleging breach of the severance agreement. The suit is in the pre-trial discovery stage. The Company believes it has meritorious defenses to the suit.

23. Subsequent Events

During January 2013, the Company closed on a new $150 million unsecured credit facility. This revolving facility replaced the $64.5 million secured credit facility that has matured. The new credit facility matures on January 31, 2016 with an additional one-year extension option.

During January 2013, Fund III received $2.5 million, representing the reimbursement of costs and accrued interest, relating to a project that was previously fully impaired for financial reporting purposes. This will be recognized as income during 2013.

During February 2013, Fund III acquired a property on Nostrand Avenue located in Brooklyn, New York for $19.0 million. In connection with this acquisition, we received repayment of an $18.5 million note receivable. In addition, as part of this transaction, Fund III closed on a new mortgage loan for $16.0 million. The new loan bears interest at LIBOR plus 265 basis points and matures on February 1, 2016 with two one-year extension options.

During February 2013, the Board of Trustees declared a cash dividend for the quarter ended March 31, 2013 of $0.21 per Common Share, which is payable on April 15, 2013 to holders of record as of March 29, 2013. The effective date for record holders is March 28, 2013.

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2012

		Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Amount at which Carried at December 31, 2012					
Description	Encumbrances	Land	Buildings & Improvements		Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Acquisition (a) Construction (c)	
Shopping Centers										
Core Portfolio:										
Crescent Plaza Brockton, MA	$ 17,025	$1,147	$ 7,425	$ 1,335	$1,147	$ 8,760	$9,907	$ 6,385	1993	(a)
New Loudon Center Latham, NY	13,634	505	4,161	12,518	505	16,679	17,184	12,231	1993	(a)
Mark Plaza Edwardsville, PA	—	—	4,268	(872)	—	3,396	3,396	2,663	1993	(c)
Plaza 422 Lebanon, PA	—	190	3,004	2,301	190	5,305	5,495	4,336	1993	(c)
Route 6 Mall Honesdale, PA	—	1,664	—	11,422	1,664	11,422	13,086	6,746	1994	(c)
Bartow Avenue Bronx, NY	—	1,691	5,803	560	1,691	6,363	8,054	1,919	2005	(c)
Amboy Road Staten Island, NY	—	—	11,909	2,035	—	13,944	13,944	2,813	2005	(a)
Abington Towne Center Abington, PA	—	799	3,197	2,007	799	5,204	6,003	2,704	1998	(a)
Bloomfield Town Square Bloomfield Hills, MI	—	3,207	13,774	20,420	3,207	34,194	37,401	11,867	1998	(a)
Walnut Hill Plaza Woonsocket, RI	23,194	3,122	12,488	1,941	3,122	14,429	17,551	5,804	1998	(a)
Elmwood Park Shopping	33,258	3,248	12,992	15,401	3,798	27,843	31,641	13,235	1998	(a)

Center Elmwood Park, NJ										
Merrillville Plaza Hobart, IN	26,151	4,288	17,152	2,677	4,288	19,829	24,117	7,797	1998	(a)
Marketplace of Absecon Absecon, NJ	—	2,573	10,294	3,799	2,577	14,089	16,666	5,574	1998	(a)
Clark Diversey Chicago, IL	4,345	10,061	2,773	246	10,061	3,019	13,080	553	2006	(a)
A&P Shopping Plaza Boonton, NJ	7,967	1,328	7,188	399	1,328	7,587	8,915	1,297	2006	(a)
Chestnut Hill Philadelphia, PA	—	8,289	5,691	3,577	8,289	9,268	17,557	1,169	2006	(a)
Third Avenue Bronx, NY	—	11,108	8,038	4,288	11,855	11,579	23,434	1,252	2006	(a)
Hobson West Plaza Naperville, IL	—	1,793	7,172	1,771	1,793	8,943	10,736	3,638	1998	(a)
Village Commons Shopping Center Smithtown, NY	9,192	3,229	12,917	3,934	3,229	16,851	20,080	6,691	1998	(a)
Town Line Plaza Rocky Hill, CT	—	878	3,510	7,508	907	10,989	11,896	8,207	1998	(a)
Branch Shopping Center Smithtown, NY	12,526	3,156	12,545	7,181	3,401	19,481	22,882	5,299	1998	(a)
Methuen Shopping Center Methuen, MA	—	956	3,826	594	961	4,415	5,376	1,811	1998	(a)
The Gateway Shopping Center South Burlington, VT	20,036	1,273	5,091	12,230	1,273	17,321	18,594	6,257	1999	(a)
330 River Street	4,197	3,510	2,886	—	3,510	2,886	6,396	77	2012	(a)

Cambridge, MA										
Rhode Island Place Shopping Center Washington, D.C.	16,426	4,340	17,360	—	4,340	17,360	21,700	217	2012	(a)
Mad River Station Dayton, OH	—	2,350	9,404	1,058	2,350	10,462	12,812	3,926	1999	(a)

Description	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Amount at which Carried at December 31, 2012			Accumulated Depreciation	Date of Acquisition (a) Construction (c)	
		Land	Buildings & Improvements		Land	Buildings & Improvements	Total			
Shopping Centers										
Pacesetter Park Shopping Center Ramapo, NY	11,742	1,475	5,899	2,040	1,475	7,939	9,414	3,023	1999	(a)
239 Greenwich Avenue Greenwich, CT	26,000	1,817	15,846	549	1,817	16,395	18,212	5,701	1998	(a)
West Shore Expressway Staten Island, NY	—	3,380	13,554	(55)	3,380	13,499	16,879	2,206	2007	(a)
West 54th Street Manhattan, NY	—	16,699	18,704	74	16,699	18,778	35,477	2,695	2007	(a)
East 17th Street Manhattan, NY	—	3,048	7,281	40	3,048	7,321	10,369	945	2008	(a)
West Diversey Chicago, IL	15,273	8,576	17,256	—	8,576	17,256	25,832	683	2011	(a)
Mercer Street Manhattan, NY	—	1,887	2,483	—	1,887	2,483	4,370	93	2011	(a)
4401 White Plains Bronx, NY	6,381	1,581	5,054	—	1,581	5,054	6,635	168	2011	(a)
Chicago Street Retail Portfolio	15,775	17,816	56,965	153	17,854	57,080	74,934	800	2011	(a)
1520 Milwaukee Avenue Chicago, IL	—	2,110	1,306	—	2,110	1,306	3,416	66	2012	(a)
340 River Street Cambridge, MA	6,528	4,704	10,208	—	4,704	10,208	14,912	237	2012	(a)
930 North Rush Street Chicago, IL	—	5,175	15,525	—	5,175	15,525	20,700	291	2012	(a)
28 Jericho Turnpike Westbury, NY	—	6,220	24,416	—	6,220	24,416	30,636	374	2012	(a)
181 Main Street Westport, CT	—	3,539	10,618	—	3,539	10,618	14,157	22	2012	(a)

83 Spring Street Manhattan, NY	—	1,754	9,200	—	1,754	9,200	10,954	115	2012	(a)
60 Orange Street Bloomfield, NJ	—	12,477	—	—	12,477	—	12,477	—	2012	(a)
179-53 & 1801-03 Connecticut Avenue Washington, D.C.	—	5,811	17,433	—	5,811	17,433	23,244	—	2012	(a)
639 West Diversey Chicago, IL	4,431	2,672	8,016	—	2,672	8,016	10,688	—	2012	(a)
Undeveloped Land	—	250	—	—	250	—	250			
Fund I:										
Kroger/Safeway Various	—	—	4,215	—	—	4,215	4,215	4,016	2003	(a)
Fund II:										
Pelham Plaza Pelham Manor, NY	33,833	—	—	57,001	—	57,001	57,001	6,055	2004	(a)
Fordham Place Bronx, NY	82,205	11,144	18,010	102,590	16,254	115,490	131,744	11,912	2004	(a)
216th Street Manhattan, NY	25,500	7,261	—	19,197	7,261	19,197	26,458	3,023	2005	(a)
161st Street Bronx, NY	28,900	16,679	28,410	17,355	16,679	45,765	62,444	6,082	2005	(a)
Fund III:										
Cortlandt Towne Center Mohegan Lake, NY	73,499	7,293	61,395	5,600	7,293	66,995	74,288	11,833	2009	(a)
Cortlandt Crossing Mohegan Lake, NY	—	11,000	—	—	11,000	—	11,000	—	2012	(a)
Heritage Shops Chicago, IL	21,000	13,131	15,409	54	13,131	15,463	28,594	923	2011	(a)
654 Broadway Manhattan, NY	—	9,040	3,654	(2)	9,040	3,652	12,692	99	2011	(a)
New Hyde Park Shopping Center New Hyde Park, NY	6,484	3,115	7,285	623	3,115	7,908	11,023	208	2011	(a)
640 Broadway Manhattan, NY	22,750	12,503	19,960	—	12,503	19,960	32,463	487	2012	(a)

Description	Encumbrances	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Amount at which Carried at December 31, 2012					
		Land	Buildings & Improvements		Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Acquisition (a) Construction (c)	
Shopping Centers										
Lincoln Park Centre Chicago, IL	19,834	5,090	25,353	—	5,090	25,353	30,443	481	2012	(a)
3104 M Street Washington, D.C.	—	750	2,251	—	750	2,251	3,001	23	2012	(a)
Broad Hollow Commons Farmingdale, NY	—	12,386	—	—	12,386	—	12,386	—	2012	(a)
Fund IV:										
210 Bowery New York, NY	—	1,875	5,625	—	1,875	5,625	7,500	—	2012	(a)
Acadia Strategic Opportunity Fund IV	93,050	—	—	—	—	—	—	—		(a)
Real Estate Under Development	45,912	45,658	2,564	200,809	45,658	203,373	249,031	—		(a)
Total	$727,048	$332,621	$638,763	$524,358	$339,349	$1,156,393	$1,495,742	$187,029		

1. Depreciation on buildings and improvements reflected in the consolidated 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
2. The aggregate gross cost of property included above for Federal income tax purposes was $1,347.0 million as of December 31, 2012
3. (a) Reconciliation of Real Estate Properties:
The following table reconciles the real estate properties from January 1, 2010 to December 31, 2012:

	For the years ended December 31,		
(dollars in thousands)	2012	2011	2010
Balance at beginning of year	$1,098,761	$950,710	$817,170
Other improvements	72,633	42,167	133,540
Property Acquired	324,348	105,884	—
Balance at end of year	$1,495,742	$1,098,761	$950,710

3. (b) Reconciliation of Accumulated Depreciation:
The following table reconciles accumulated depreciation from January 1, 2010 to December 31, 2012:

	For the years ended December 31,

(dollars in thousands)	2012	2011	2010
Balance at beginning of year	$160,541	$143,232	$124,562
Depreciation related to real estate	26,488	17,309	18,670
Balance at end of year	$187,029	$160,541	$143,232