

ACADIA REALTY TRUST
Form 10-Q
May 09, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

**MARYLAND
(State or other jurisdiction of
incorporation or organization)**

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

**1311 MAMARONECK AVENUE, SUITE 260
WHITE PLAINS, NY
(Address of principal executive offices)**

**10605
(Zip Code)**

(914) 288-8100

(Registrant's telephone number, including area code)

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

YES NO

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

As of May 9, 2007, there were 32,130,608 common shares of beneficial interest, par value \$.001 per share, outstanding.

**ACADIA REALTY TRUST AND SUBSIDIARIES
FORM 10-Q
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CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Real estate		
Land	\$ 174,038	\$ 152,930
Buildings and improvements	541,374	497,638
Construction in progress	23,160	26,670
	738,572	677,238
Less: accumulated depreciation	147,370	142,071
Net real estate	591,202	535,167
Cash and cash equivalents	111,643	139,571
Cash in escrow	6,987	7,639
Restricted cash	2,185	549
Investments in and advances to unconsolidated affiliates	12,157	31,049
Rents receivable, net	10,914	12,949
Notes receivable	34,134	38,322
Prepaid expenses	2,026	1,865
Deferred charges, net	36,326	33,255
Acquired lease intangibles	13,519	11,653
Other assets, net	20,406	39,673
	\$ 841,499	\$ 851,692
LIABILITIES AND SHAREHOLDERS EQUITY		
Mortgage notes payable	\$ 337,265	\$ 347,402
Convertible notes payable	115,000	100,000
Acquired leases and other intangibles	3,918	4,919
Accounts payable and accrued expenses	8,984	10,548
Dividends and distributions payable	6,661	6,661
Distributions in excess of income from and investment in unconsolidated affiliates	21,622	21,728
Other liabilities	11,821	5,578
Total liabilities	505,271	496,836
Minority interest in Operating Partnership	4,911	8,673
Minority interests in partially-owned affiliates	86,476	105,064
Total minority interests	91,387	113,737
Shareholders equity		
Common shares	32	31

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Additional paid-in capital	231,074	227,555
Accumulated other comprehensive loss	(232)	(234)
Retained earnings	13,967	13,767
Total shareholders' equity	244,841	241,119
	\$ 841,499	\$ 851,692

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(unaudited)

	Three months ended	
	March 31,	
	2007	2006
(dollars in thousands, except per share amounts)		
Revenues		
Minimum rents	\$ 18,854	\$ 17,287
Percentage rents	138	185
Expense reimbursements	3,342	3,877
Other property income	264	209
Management fee income from related parties, net	1,075	1,201
Interest income	2,860	1,746
Other	165	1,141
Total revenues	26,698	25,646
Operating Expenses		
Property operating	4,906	3,867
Real estate taxes	2,198	2,700
General and administrative	5,448	5,307
Depreciation and amortization	6,537	6,230
Total operating expenses	19,089	18,104
Operating income	7,609	7,542
Equity in earnings of unconsolidated affiliates	130	2,971
Interest expense	(6,147)	(5,185)
Minority interest	2,288	(1,076)
Income from continuing operations before income taxes	3,880	4,252
Income taxes	(44)	(449)
Income from continuing operations	3,836	3,803
Discontinued Operations		
Operating income from discontinued operations		561
Minority interest		(11)
Income from discontinued operations		550
Income before extraordinary item	3,836	4,353
Extraordinary item		
Share of extraordinary gain from investment in unconsolidated affiliate	23,690	
Minority interest	(18,959)	
Income taxes	(1,848)	

Extraordinary gain	2,883	
Net income	\$ 6,719	\$ 4,353
Basic Earnings per Share		
Income from continuing operations	\$ 0.12	\$ 0.12
Income from discontinued operations		0.01
Income from extraordinary item	0.09	
Basic earnings per share	\$ 0.21	\$ 0.13
Diluted Earnings per Share		
Income from continuing operations	\$ 0.11	\$ 0.12
Income from discontinued operations		0.01
Income from extraordinary item	0.09	
Diluted earnings per share	\$ 0.20	\$ 0.13

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(unaudited)

(dollars in thousands)	March 31, 2007	March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,719	\$ 4,353
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,537	6,682
Minority interests	16,671	1,087
Amortization of lease intangibles	62	178
Amortization of mortgage note premium	(34)	(30)
Equity in earnings of unconsolidated affiliates	(23,820)	(2,971)
Fees received from unconsolidated affiliates	122	145
Distributions recognized as income from unconsolidated affiliates	23,883	3,983
Amortization of derivative included in interest expense	109	109
Changes in assets and liabilities		
Restricted cash	(1,636)	(1)
Funding of escrows, net	652	(419)
Rents receivable	2,035	(472)
Prepaid expenses	(161)	154
Other assets	19,001	(5,863)
Accounts payable and accrued expenses	(1,846)	918
Other liabilities	6,099	4,476
Net cash provided by operating activities	54,393	12,329
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for real estate and improvements	(64,613)	(26,991)
Deferred acquisition and leasing costs	(3,550)	(2,341)
Investments in and advances to unconsolidated affiliates	(2,274)	(367)
Return of capital from unconsolidated affiliates	20,875	6,551
Collections of notes receivable	5,583	
Advances of notes receivable	(1,368)	(27,359)
Net cash used in investing activities	(45,347)	(50,507)

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(unaudited)

(dollars in thousands)	March 31, 2007	March 31, 2006
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgages and notes payable	(42,607)	(28,483)
Proceeds received on mortgage notes payable	32,764	64,809
Proceeds received on convertible debt issuance	15,000	
Payment of deferred financing and other costs	(392)	(69)
Capital contributions from partners and members	2,166	
Distributions to partners and members	(35,012)	(34,053)
Dividends paid	(6,519)	(5,905)
Distributions to minority interests in Operating Partnership	(133)	(121)
Distributions on preferred Operating Partnership Units	(9)	(63)
Distributions to minority interests in partially-owned affiliates	(2,260)	(36)
Contributions from minority interests in partially-owned affiliates		2,261
Common Shares issued under Employee Stock Purchase Plan	28	24
 Net cash used in financing activities	 (36,974)	 (1,636)
 Decreases in cash and cash equivalents	 (27,928)	 (39,814)
Cash and cash equivalents, beginning of period	139,571	90,475
 Cash and cash equivalents, end of period	 \$ 111,643	 \$ 50,661
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, including capitalized interest of \$12 and \$11, respectively	\$ 4,950	\$ 5,334
Cash paid for income taxes	\$ 205	\$ 1,190
Supplemental disclosure of non-cash investing and financing activities		
Acquisition of real estate through assumption of debt	\$	\$ 12,509
Recapitalization of the Brandywine Portfolio		
Real estate, net	\$	\$ 124,962
Other assets and liabilities		(11,413)
Mortgage debt		(66,984)
Minority interests		(36,504)
Investment in unconsolidated affiliates		(10,428)
Cash included in investments and advances to unconsolidated affiliates	\$	\$ (367)

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Acadia Realty Trust (the Trust) and subsidiaries (collectively, the Company) is a fully integrated, self-managed and self-administered equity real estate investment trust (REIT) focused primarily on the ownership, acquisition, redevelopment and management of retail properties, including neighborhood and community shopping centers and mixed-use properties with retail components.

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 a controlling interest. As of March 31, 2007, the Trust controlled 98% 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 represent entities or individuals who contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (Common or Preferred OP Units). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust (Common Shares). This structure is commonly referred to as an umbrella partnership REIT or UPREIT . During 2001, the Company formed a partnership, Acadia Strategic Opportunity Fund I, LP (Fund I), and in 2004 formed a limited liability company, Acadia Mervyn I, LLC (Mervyns I), with four institutional investors. The Operating Partnership committed a total of \$20.0 million to Fund I and Mervyns I, and the four institutional shareholders committed \$70.0 million, for the purpose of acquiring a total of approximately \$300.0 million in investments. As of March 31, 2007, the Operating Partnership has contributed \$16.5 million to Fund I and \$2.7 million to Mervyns I.

The Operating Partnership is the sole general partner of Fund I and sole managing member of Mervyns I, with a 22.2% interest in both Fund I and Mervyns I and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds (Promote). Cash flow is distributed pro-rata to the partners (including the Operating Partnership) until they receive a 9% cumulative return, and the return of all capital contributions. Thereafter, remaining cash flow (which is net of distributions and fees to the Operating Partnership for management, asset management, leasing and construction services) is distributed 80% to the partners (including the Operating Partnership) and 20% to the Operating Partnership as a Promote. As all contributed capital and accumulated preferred return has been distributed to the institutional investors, the Operating Partnership is now entitled to a Promote on all earnings and distributions.

During June of 2004, the Company formed a limited liability company, Acadia Strategic Opportunity Fund II, LLC (Fund II), and during August 2004 formed another limited liability company, Acadia Mervyn II, LLC (Mervyns II), with the investors from Fund I as well as two additional institutional investors. With \$300.0 million of committed discretionary capital, Fund II and Mervyns II combined expect to be able to acquire up to \$900.0 million of investments on a leveraged basis. The Operating Partnership s share of committed capital is \$60.0 million. The Operating Partnership is the sole managing member with a 20% interest in both Fund II and Mervyns II. The terms and structure of Fund II and Mervyns II are substantially the same as Fund I and Mervyns I, including the Promote structure, with the exception that the preferred return is 8%. As of March 31, 2007, the Operating Partnership has contributed \$18.0 million to Fund II and \$7.1 million to Mervyns II.

2. BASIS OF PRESENTATION

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 is presumed to have control in accordance with Emerging Issues Task Force Issue No. 04-5. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Investments in entities for which the Company has the ability to exercise significant influence over, but does not have financial or operating control thereof, are accounted for using the equity method of accounting. Accordingly, the Company s share

of the earnings (or loss) of these entities are included in consolidated net income. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods. Although the Company accounts for its investment in Albertson's, which it has made through the Retailer Controlled Property Venture (RCP Venture), using the equity method of accounting, the Company adopted the policy of not recording its equity in earnings or losses of the unconsolidated affiliate until the Company receives the audited financial statements of Albertson's to support the equity earnings or losses in accordance with paragraph 19 of Accounting Principles Board (APB) 18 Equity Method of Accounting for Investments in Common Stock . Cash distributions received during the first quarter of 2007 from Albertson's in excess of invested capital were recorded as income in the period when the distribution is received.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION, (continued)

that may be expected for the fiscal year ending December 31, 2007. For further information refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

During June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS No. 109. (Interpretation No. 48), Interpretation No. 48 defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interpretation No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006.

The Company adopted Interpretation No. 48 on January 1, 2007. Based on its evaluation, the Company had no uncertain tax positions and no unrecognized tax benefits as of the adoption date or as of March 31, 2007. The Company has no interest or penalties relating to income taxes recognized in the statement of income for the three months ended March 31, 2007 or in the balance sheet as of March 31, 2007. It is the Company's accounting policy to classify interest and penalties relating to unrecognized tax benefits as interest expense and tax expense, respectively. As of March 31, 2007, the tax years 2003 through and including 2006 remain open to examination by the Internal Revenue Service. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective returns. There are currently no federal or state tax examinations in progress.

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . This Statement permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect of the adoption of SFAS No. 159.

3. EARNINGS PER COMMON SHARE

Basic earnings per share was determined by dividing the applicable net income to common shareholders for the period by the weighted average number of Common Shares outstanding during each period consistent with SFAS No. 128.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted into Common Shares or resulted in the issuance of Common Shares that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated.

(dollars in thousands, except per share amounts)	Three months ended March 31,	
	2007	2006
Numerator:		
Net income basic	\$ 6,719	\$ 4,353
Income allocated to Preferred OP units	8	
Net income diluted	\$ 6,727	\$ 4,353
Denominator:		
Weighted average shares basic earnings per share	32,753	32,468
Effect of dilutive securities:		
Employee stock options	342	298
Convertible Preferred OP Units	179	
Dilutive Potential Common Shares	521	298

Denominator for diluted earnings per share	33,274	32,766
Basic earnings per share	\$ 0.21	\$ 0.13
Diluted earnings per share	\$ 0.20	\$ 0.13

The weighted average shares used in the computation of basic earnings per share include unvested restricted shares and Share Units (Note 13) that are entitled to receive dividend equivalent payments. The effect of the conversion of Common OP Units is not reflected in the above table as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as minority interest in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share. The effect of the conversion of 178,993 Series A and B Preferred OP Units was dilutive for the three months ended March 31, 2007 and is included in the above table. The effect of the conversion of 337,097 Preferred OP Units for the three months ended March 31, 2006, is not reflected in the above table as such conversion was anti-dilutive.

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. COMPREHENSIVE INCOME

The following table sets forth comprehensive income for the three months ended March 31, 2007 and 2006:

(dollars in thousands)	Three months ended	
	March 31,	
	2007	2006
Net income	\$ 6,719	\$ 4,353
Other comprehensive income	2	1,098
Comprehensive income	\$ 6,721	\$ 5,451

Other comprehensive income relates to the changes in the fair value of derivative instruments accounted for as cash flow hedges and the amortization of derivative included in interest expense.

The following table sets forth the change in accumulated other comprehensive loss for the three months ended March 31, 2007:

Accumulated other comprehensive loss

(dollars in thousands)	
Balance at December 31, 2006	\$ (234)
Unrealized gain on valuation of derivative instruments and amortization of derivative	2
Balance at March 31, 2007	\$ (232)

5. SHAREHOLDERS EQUITY AND MINORITY INTERESTS

The following table summarizes the change in the shareholders equity and minority interests since December 31, 2006:

(dollars in thousands)	Shareholders	Minority	Minority
	Equity	Interest	Interest in
		in Operating	partially-owned
		Partnership	affiliates
Balance at December 31, 2006	\$ 241,119	\$ 8,673	\$ 105,064
Dividends and distributions declared of \$0.20 per Common Share and Common OP Unit	(6,519)	(133)	
Net income for the period January 1 through March 31, 2007	6,719	144	16,527
Distributions paid			(37,281)
Conversion of Series B Preferred OP Units	3,800	(3,800)	
Other comprehensive income Unrealized loss on valuation of swap agreements	(107)		
Other comprehensive income Amortization of derivative	109		
Common shares issued under employee stock purchase plan	28		
Minority interest contributions			2,166
Employee restricted share awards	785		
Employee cancellation of restricted shares	(1,093)		

Employee restricted partnership unit awards				27
Balance at March 31, 2007	\$	244,841	\$	4,911
			\$	86,476

Minority interest in the Operating Partnership represents (i) the limited partners' interest of 642,272 Common OP Units at March 31, 2007 and December 31, 2006, (ii) 188 Series A Preferred OP Units at March 31, 2007 and December 31, 2006, with a nominal 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 were converted into a Common OP Unit, and (iii) 200 and 4,000 Series B Preferred OP Units at March 31, 2007 and December 31, 2006, respectively, with a nominal value of \$1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) \$13.00 (5.2% annually) per unit or (b) the quarterly distribution attributable to a Series B Preferred OP Unit if such unit were converted into a Common OP Unit. During January 2007, 43,865 employee restricted shares were cancelled to pay taxes. During the quarter ended March 31, 2007, the Company recognized accrued Common Share and Common OP Unit-based compensation totaling \$0.8 million. (Note 13)

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. SHAREHOLDERS EQUITY AND MINORITY INTERESTS, (continued)

During February 2007, Klaff (Note 7) converted 3,800 Series B Preferred Units into 296,412 Common OP Units and ultimately into the same number of Common Shares.

Minority interests in partially-owned affiliates include third-party interests in three partnerships in which the Company has a majority ownership position and non-managing members' interests in Funds I and II, and Mervyns I and II which the Company consolidates in accordance with EITF 04-5.

The following table summarizes the minority interest contributions and distributions since December 31, 2006:

(dollars in thousands)	Contributions	Distributions
Minority interest in majority-owned affiliates	\$	\$ (2,260)
Fund I		(109)
Fund II	2,130	
Mervyns II	36	(34,912)
	\$ 2,166	\$ (37,281)

6. ACQUISITION AND DISPOSITION OF PROPERTIES AND DISCONTINUED OPERATIONS**Acquisition of Properties**

On March 20, 2007, the Company purchased a retail commercial condominium at 200 West 54th Street in Manhattan, New York. The 10,000 square foot property was acquired for \$36.4 million.

Additionally, on March 20, 2007, the Company purchased a single tenant building at 1545 East Service Road in Staten Island, New York for \$17.0 million. The 52,000 square foot building is currently being renovated and is leased to a single tenant.

Discontinued Operations

SFAS No. 144 requires discontinued operations presentation for disposals of a component of an entity. In accordance with SFAS No. 144, for all periods presented, the Company reclassified its consolidated statements of income to reflect income and expenses for properties which were sold or became held for sale subsequent to March 31, 2006, as discontinued operations and reclassified its consolidated balance sheets to reflect assets and liabilities related to such properties as assets and liabilities related to discontinued operations.

The combined results of operations of properties held for sale are reported separately as discontinued operations for the three months ended March 31, 2006. These are related to the Soundview Marketplace, Bradford Towne Centre, Greenridge Plaza, Luzerne Street Shopping Center and the Pittston Plaza, all of which the Company sold during the fourth quarter of 2006. There were no discontinued operations for the three months ended March 31, 2007.

The combined results of operations of the properties classified as discontinued operations are summarized as follows:

(dollars in thousands)	For the three months ended March 31, 2006	
Total revenues	\$	2,373
Total expenses		1,812
Operating income from discontinued operations		561
Minority interest		(11)
Income from discontinued operations	\$	550

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS**Investments In and Advances to Unconsolidated Partnerships****Retailer Controlled Property Venture**

On January 27, 2004, the Company entered into 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. On September 2, 2004, affiliates of Fund I and Fund II, through separately organized, newly formed limited liability companies on a non-recourse basis, invested in the acquisition of the Mervyns department store chain through the RCP Venture, which, as part of an investment consortium of Sun Capital and Cerberus acquired Mervyns from Target Corporation. The total acquisition price was \$1.2 billion, with such affiliates combined \$24.6 million share of the investment divided equally between them. The Operating Partnership's share of the Mervyns investment totaled \$5.2 million. Since inception, Mervyns I and II received distributions totaling \$47.3 million.

During June of 2006, the RCP Venture made its second investment with its participation in the acquisition of Albertson's and Cub Foods. Affiliates of Fund II, through the same limited liability companies which were formed for the investment in Mervyns, invested \$20.7 million in the acquisition of Albertson's through the RCP Venture, along with others as part of an investment consortium. The Operating Partnership's share of the invested capital was \$4.2 million.

During 2006, Fund II made additional investments of \$1.8 million in Shopko and Marsh. It also made investments of \$2.3 million, through the RCP Venture, in three Albertson's add-on investments, Camellia, Newkirk, and Colorado Springs. The Operating Partnership's share of the additional investments totaled \$0.7 million. The Company accounts for these investments using the cost method due to the minor ownership percent interest and the inability to exert influence over the entity's operating and financial policies.

During the first quarter of 2007, the Company received a cash distribution of \$44.4 million from its ownership position in Albertson's. The distribution resulted from cash proceeds obtained by Albertson's in connection with its disposition of certain operating stores and a refinancing of the remaining assets held by the entity. The Operating Partnership's share of this distribution, after allocation to minority interests, was \$8.9 million. The distribution in excess of invested capital has been reflected as an extraordinary gain of \$23.7 million to the Company of which the Operating Partnership's share, net of minority interests and income taxes, amounted to \$2.9 million. This gain is characterized as extraordinary in the Company's financial statements as a result of the expected nature of the income to be passed through from Albertson's. The extraordinary gain is expected to result from the allocation of purchase price in accordance with SFAS No. 141 Business Combinations to the Albertson's assets.

Brandywine Portfolio

The Company owns a 22.2% interest in a one million square foot retail portfolio located in Wilmington, Delaware (the Brandywine Portfolio). The Company accounts for its investment in the Brandywine Portfolio using the equity method.

Crossroads

The Company owns a 49% interest in the Crossroads Joint Venture and Crossroads II (collectively, Crossroads), which collectively own a 311,000 square foot shopping center located in White Plains, New York. The Company accounts for its investment in Crossroads using the equity method.

Other Investments**Fund I Investments**

Fund I has joint ventures with third-party investors in the ownership and operation of the following shopping centers which are accounted for using the equity method of accounting.

Shopping Center	Location	Year Acquired	Gross Leasable Area
Hitchcock/Pine Log Plaza	Aiken, SC	2004	256,093
Haygood Shopping Center	Virginia Beach, VA	2004	178,497

Sterling Heights Shopping Center	Detroit, MI	2004	154,835
Total			589,425

Fund II Investments

Fund II acquired for \$1.0 million, a 50% equity interest from Klaff and other parties in an entity which has a leasehold interest in a former Levitz Furniture store located in Rockville, Maryland. The investment in this property is accounted for using the equity method of accounting.

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS, (continued)

The following tables summarize the Company's investment in unconsolidated subsidiaries as of March 31, 2007 and December 31, 2006.

(dollars in thousands)	March 31, 2007				Total
	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	
Balance Sheets					
Assets:					
Rental property, net	\$	\$ 129,366	\$ 5,901	\$ 40,350	\$ 175,617
Investment in unconsolidated affiliates	40,240				40,240
Other assets		6,858	4,948	6,725	18,531
Total assets	\$ 40,240	\$ 136,224	\$ 10,849	\$ 47,075	\$ 234,388
Liabilities and partners' equity					
Mortgage note payable	\$	\$ 167,568	\$ 64,000	\$ 30,444	\$ 262,012
Other liabilities		11,687	850	4,546	17,083
Partners' equity (deficit)	40,240	(43,031)	(54,001)	12,085	(44,707)
Total liabilities and partners' equity	\$ 40,240	\$ 136,224	\$ 10,849	\$ 47,075	\$ 234,388
Company's investment in unconsolidated affiliates	\$ 2,455	\$	\$	\$ 9,702	\$ 12,157
Distributions in excess of income from and investment in unconsolidated affiliates	\$	\$ (10,313)	\$ (11,309)	\$	\$ (21,622)

(dollars in thousands)	December 31, 2006				Total
	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	
Balance Sheets					
Assets:					
Rental property, net	\$	\$ 127,146	\$ 6,017	\$ 43,660	\$ 176,823
Investment in unconsolidated affiliates	385,444				385,444
Other assets		6,747	4,511	6,632	17,890
Total assets	\$ 385,444	\$ 133,893	\$ 10,528	\$ 50,292	\$ 580,157
Liabilities and partners' equity					
Mortgage note payable	\$	\$ 166,200	\$ 64,000	\$ 28,558	\$ 258,758
Other liabilities		12,709	1,858	8,862	23,429
Partners' equity (deficit)	385,444	(45,016)	(55,330)	12,872	297,970

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Total liabilities and partners equity	\$ 385,444	\$ 133,893	\$ 10,528	\$ 50,292	\$ 580,157
Company s investment in unconsolidated affiliates	\$ 23,539	\$	\$	\$ 7,510	\$ 31,049
Distributions in excess of income from and investment in unconsolidated affiliates	\$	\$ (10,541)	\$ (11,187)	\$	\$ (21,728)

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS, (continued)**Other Investments (continued)**

(dollars in thousands)	Three Months Ended March 31, 2007				Total
	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	
Statements of Operations					
Total revenue	\$	\$ 4,869	\$ 2,066	\$ 1,465	\$ 8,400
Operating and other expenses		1,482	650	621	2,753
Interest expense		2,491	859	521	3,871
Equity in earnings of unconsolidated affiliates	20,747				20,747
Equity in earnings of unconsolidated affiliates extraordinary gain	125,264				125,264
Depreciation and amortization		763	107	581	1,451
Net income (loss)	\$ 146,011	\$ 133	\$ 450	\$ (258)	\$ 146,336
Company's share of net income before extraordinary gain	\$	\$ 31	\$ 123	\$ (24)	\$ 130
Company's share of extraordinary gain	\$ 23,690	\$	\$	\$	\$ 23,690

(dollars in thousands)	Three Months Ended March 31, 2006				Total
	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	
Statements of Operations					
Total revenue	\$	\$ 4,514	\$ 2,163	\$ 925	\$ 7,602
Operating and other expenses		1,214	644	683	2,541
Interest expense		5,009	859	245	6,113
Equity in earnings of affiliates	31,562				31,562
Depreciation and amortization		724	143	281	1,148
Net income (loss)	\$ 31,562	\$ (2,433)	\$ 517	\$ (284)	\$ 29,362
Company's share of net income	\$ 3,316	\$ (419)	\$ 154	\$ (80)	\$ 2,971

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the notional values and fair values of the Company's derivative financial instruments as of March 31, 2007. The notional value does not represent exposure to credit, interest rate or market risks.

Hedge Type (dollars in thousands)	Notional Value	Interest Rate	Forward Start Date	Maturity	Fair Value
Current Interest Rate Swaps					
LIBOR Swap	\$ 4,607	4.71%	n/a	1/1/10	\$ (26)
LIBOR Swap	11,322	4.90%	n/a	10/1/11	15
Total Interest Rate Swaps	15,929				(11)
Forward Starting Interest Rate Swaps					
LIBOR Swap	\$ 8,434	5.14%	6/1/07	3/1/12	(106)
Interest Rate Caps					
LIBOR Cap	\$ 30,000	6.00%	n/a	4/1/08	(27)
Net Interest Rate Swap Liability					\$ (144)

The interest rate swap liability is included in other liabilities on the Consolidated Balance Sheets.

9. MORTGAGE LOANS

During the first quarter of 2007, the Company drew an additional \$6.7 million on existing construction loans. As of March 31, 2007, the outstanding balance on these construction loans was \$18.5 million.

During the first quarter of 2007, the Company paid off a variable-rate loan balance of \$21.5 million.

On January 25, 2007, the Company obtained a new \$26.0 million loan secured by a property. The loan bears interest at a fixed rate of 5.4% and matures on February 11, 2017. A portion of the proceeds was used to pay down the existing \$15.7 million loan.

On March 29, 2007, the Company closed on a \$30.0 million revolving credit facility that bears interest at LIBOR plus 125 basis points and matures on March 29, 2010. As of March 31, 2007, this line of credit was fully available.

10. CONVERTIBLE NOTES PAYABLE

In connection with the underwriter's over-allotment option related to the \$100.0 million issuance of 3.75% convertible notes payable in December 2006, the Company issued an additional \$15.0 million of these notes in January 2007, resulting in proceeds of \$14.7 million.

11. RELATED PARTY TRANSACTIONS

During February of 2005, the Operating Partnership issued 4,000 Restricted Preferred OP Units to Klaff for certain management contract rights and the rights to certain potential future revenue streams. During February of 2007, Klaff converted 3,800 of these units into 296,412 Common Shares (Note 5).

The Company also earns asset management, leasing, disposition, development and construction fees for providing services to an existing portfolio of retail properties and/or leasehold interests in which Klaff has an interest. Fees earned by the Company in connection with this portfolio were \$0.7 million and \$1.0 million for the three months ended March 31, 2007 and 2006, respectively.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of \$0.03 million for both the three months ended March 31, 2007 and 2006, respectively.

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENT REPORTING

The Company has two reportable segments: retail properties and multi-family properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. The reportable segments are managed separately due to the differing nature of the leases and property operations associated with the retail versus residential tenants. The following tables set forth certain segment information for the Company for continuing operations as of and for the three months ended March 31, 2007 and 2006 and does not include activity related to unconsolidated partnerships:

	Three months ended March 31, 2007			
(dollars in thousands)	Retail Properties	Multi-Family Properties	All Other	Total
Revenues	\$ 20,675	\$ 1,923	\$ 4,100	\$ 26,698
Property operating expenses and real estate taxes	6,141	963		7,104
Other expenses	4,219	392	837	5,448
Net property income before depreciation, amortization and certain nonrecurring items	\$ 10,315	\$ 568	\$ 3,263	\$ 14,146
Depreciation and amortization	\$ 5,993	\$ 380	\$ 164	\$ 6,537
Interest expense	\$ 5,852	\$ 295	\$	\$ 6,147
Real estate at cost	\$ 696,139	\$ 42,433	\$	\$ 738,572
Total assets	\$ 770,571	\$ 35,068	\$ 35,860	\$ 841,499
Expenditures for real estate and improvements	\$ 64,603	\$ 10	\$	\$ 64,613
Reconciliation to net income				
Net property income before depreciation and amortization	\$ 14,146			
Depreciation and amortization	(6,537)			
Equity in earnings of unconsolidated partnerships	130			
Interest expense	(6,147)			
Minority interest	2,288			
Income taxes	(44)			
Income from extraordinary item	2,883			
Net income	\$ 6,719			

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENT REPORTING (continued)

	Three months ended March 31, 2006			
(dollars in thousands)	Retail Properties	Multi-Family Properties	All Other	Total
Revenues	\$ 19,522	\$ 2,036	\$ 4,088	\$ 25,646
Property operating expenses and real estate taxes	5,512	1,055		6,567
Other expenses	4,258	429	620	5,307
Net property income before depreciation, amortization and certain nonrecurring items	\$ 9,752	\$ 552	\$ 3,468	\$ 13,772
Depreciation and amortization	\$ 5,737	\$ 376	\$ 117	\$ 6,230
Interest expense	\$ 4,831	\$ 354	\$	\$ 5,185
Real estate at cost	\$ 585,436	\$ 41,772	\$	\$ 627,208
Total assets	\$ 647,843	\$ 38,832	\$ 46,037	\$ 732,712
Expenditures for real estate and improvements	\$ 768	\$ 139	\$	\$ 907
Reconciliation to net income				
Net property income before depreciation and amortization	\$ 13,772			
Depreciation and amortization	(6,230)			
Equity in earnings of unconsolidated partnerships	2,971			
Interest expense	(5,185)			
Minority interest	(1,076)			
Income taxes	(449)			
Income from discontinued operations	550			
Net income	\$ 4,353			

13. STOCK-BASED COMPENSATION

The Company has adopted the fair value method of recording stock-based compensation contained in SFAS No. 123R, Accounting for Stock-Based Compensation. On January 15, 2007 (the Grant Date), the Company issued 108,823 Restricted Common Shares (Restricted Shares) to officers and 20,735 Restricted Shares to employees of the Company. The Restricted Shares do not carry the rights of Common Shares, including voting rights, until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. The dividend will not be paid until the Restricted Shares have vested but there will be a catch-up payment upon vesting from the Grant Date to the applicable vesting date. All Restricted Shares are subject to the recipients' continued employment with the Company through the applicable vesting dates. Vesting with respect to 61,940 of the Restricted Shares issued to officers, is over four years with 25% vesting on each of the next four anniversaries of the Grant Date. In addition, vesting on 50% of the unvested Restricted Shares is also subject to certain total shareholder returns on the Company's Common Shares. Vesting with respect to 46,883 of the Restricted Shares issued to officers is over three years with 30% vesting on the first anniversary and 35% vesting on the following two anniversaries of the Grant Date.

Vesting with respect to the Restricted Shares issued to employees, is over four years with 25% vesting on each of the next four anniversaries of the Grant Date. In addition, vesting on 25% of the unvested Restricted Shares is also subject to certain total shareholder returns on the Company's Common Shares.

On the Grant Date, the Company also issued 50,000 Restricted Shares to an officer in connection with his promotion to Executive Vice President. Vesting with respect to these Restricted Shares, is over five years with 20% vesting on each of the next five anniversaries of the Grant Date.

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**ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

13. STOCK-BASED COMPENSATION (continued)

The total value of the above Restricted Share awards on the date of grant was \$4.5 million. Compensation expense of \$0.3 million has been recognized in the accompanying consolidated financial statements related to these Restricted Shares for the three months ended March 31, 2007.

On the Grant Date, the Company also issued 20,322 Restricted Partnership Units (LTIP Units) to officers and 1,214 LTIP Units to employees of the Company. LTIP Units are similar to Restricted Shares but provide for a quarterly partnership distribution in a like amount as paid to Common Partnership Units. This distribution is paid on both unvested and vested LTIP Units. The LTIP Units are convertible into Common Partnership Units and Common Shares upon vesting and a revaluation of the book capital accounts. Vesting with respect to the LTIP Units is over four years with 25% vesting on each of the next four anniversaries of the Grant Date. In addition, vesting on 50% of the officers unvested LTIP Units and 25% of the employees unvested LTIP Units are also subject to certain total shareholder returns on the Company's Common Shares.

The total value of these LTIP Units on the date of the grant was \$0.5 million. Compensation expense of \$27,000 has been recognized in the accompanying financial statements related to these LTIP Units for the three months ended March 31, 2007.

14. DIVIDENDS AND DISTRIBUTIONS PAYABLE

On March 22, 2007, the Board of Trustees of the Company approved and declared a cash dividend for the quarter ended March 31, 2007 of \$0.20 per Common Share and Common OP Unit. The dividend was paid on April 13, 2007 to shareholders of record as of March 31, 2007.

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

The following discussion is based on the consolidated financial statements of the Company as of March 31, 2007 and 2006 and for the three months then ended. This information should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results performance or achievements expressed or implied by such forward-looking statements. Such factors are set forth under the heading Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2006 and include, among others, the following: general economic and business conditions, which will, among other things, affect demand for rental space, the availability and creditworthiness of prospective tenants, lease rents and the availability of financing; adverse changes in our real estate markets, including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environmental/safety requirements.

OVERVIEW

We currently operate 75 properties, which we own or have an ownership interest in, within our core portfolio or within our Funds I & II. These properties consist of 73 commercial properties, primarily neighborhood and community shopping centers, and two multi-family properties, which are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States. Our core portfolio consists of 34 properties comprising approximately five million square feet. Fund I has 32 properties comprising approximately two million square feet and Fund II has seven properties comprising approximately one million square feet. We consider our investments in the RCP Venture to be private equity investments and, therefore, not real estate investments. We receive income primarily from the rental revenue from our real estate properties, including recoveries from tenants, offset by operating and overhead expenses.

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

- Own and operate a portfolio of community and neighborhood shopping centers and mixed-use properties with a retail component located in markets with strong demographics.
- Generate internal growth within the portfolio through aggressive redevelopment, re-anchoring and leasing activities.
- Generate external growth through an opportunistic yet disciplined acquisition program. The emphasis is on targeting transactions with high inherent opportunity for the creation of additional value through redevelopment and leasing and/or transactions requiring creative capital structuring to facilitate the transactions.
- Partner 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.

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 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. Management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. 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 both properties held for use and for sale for indicators of impairment. 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, and for properties held for sale, we reduce our carrying value to the fair value less costs to sell. Management does not believe that the value of any properties in our portfolio was impaired as of March 31, 2007.

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 payment on unbilled rents including estimated expense recoveries and straight-line rent. As of March 31, 2007, we have recorded an allowance for doubtful accounts of \$3.4 million. 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.

Table of Contents**RESULTS OF OPERATIONS****Comparison of the three months ended March 31, 2007 (2007) to the three months ended March 31, 2006 (2006)**

(in millions)	2007	2006	Change	
			\$	%
Revenues:				
Minimum rents	\$ 18.8	17.3	\$ 1.5	9%
Percentage rents	0.1	0.2	(0.1)	(50)%
Expense reimbursements	3.3	3.9	(0.6)	(15)%
Other property income	0.3	0.2	0.1	50%
Management fee income	1.1	1.2	(0.1)	(8)%
Interest income	2.9	1.7	1.2	71%
Other	0.2	1.1	(0.9)	(82)%
Total revenues	\$ 26.7	\$ 25.6	\$ 1.1	4%

The increase in minimum rents was attributable to additional rents following our acquisition of 200 W. 54th Street, 145 East Service Road, Chestnut Hill and 2914 Third Avenue (2006/2007 Acquisitions) as well as Liberty Avenue (Fund II) being placed in service January 1, 2007. In addition, minimum rents increased as a result of re-tenanting activities across our portfolio.

Common area maintenance (CAM) expense reimbursement decreased \$0.1 million primarily as a result of the impact of the 2006 year-end CAM reconciliation billings and related adjustments completed during the first quarter of 2007.

This decrease was partially offset by higher CAM recovery following increased snow removal costs in 2007. Real estate tax reimbursements decreased \$0.5 million, primarily as a result of lower real estate tax expense in 2007.

The increase in interest income was attributable to interest income on notes and other advances receivable originated in 2006 as well as higher balances in interest earning assets in 2007.

The decrease in other income was primarily attributable to a \$1.1 million reimbursement of certain fees by the institutional investors of Fund I for the Brandywine Portfolio in 2006.

(in millions)	2007	2006	Change	
			\$	%
Operating Expenses:				
Property operating	\$ 4.9	\$ 3.9	\$ 1.0	26%
Real estate taxes	2.2	2.7	(0.5)	(19)%
General and administrative	5.5	5.3	0.2	4%
Depreciation and amortization	6.5	6.2	0.3	5%
Total operating expenses	\$ 19.1	\$ 18.1	\$ 1.0	6%

The increase in property operating expenses was primarily the result of increased snow removal costs during 2007 and increased property operating expenses following the 2006/2007 Acquisitions.

The decrease in real estate taxes was due to a tax refund of \$0.2 million and adjustments of prior years estimated taxes of \$0.3 million recorded in 2007 and \$0.2 million related to the capitalization of construction period real estate taxes at a property that was operating in 2006. These decreases were partially offset by increased real estate tax expense following the 2006/2007 Acquisitions.

The increase in general and administrative expense was attributable to increased compensation expense of \$0.5 million related to additional personnel hired in 2006 and 2007 as well as increases in existing employee salaries. These increases were offset by a decrease in stock-based compensation in 2007 of \$0.3 million related to timing

differences in vesting between 2006 and 2007 Restricted Share grants.

Depreciation expense increased \$0.2 million in 2007. This was principally a result of increased depreciation expense following the 2006/2007 Acquisitions. Amortization expense increased \$0.1 million, which was primarily the result of increased amortization of loan costs following our convertible note issuances in December 2006 and January 2007.

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(in millions)	2007	2006	Change	
			\$	%
Other:				
Equity in earnings of unconsolidated affiliates	\$ 0.1	\$ 3.0	\$ (2.9)	(97)%
Interest expense	(6.1)	(5.2)	(0.9)	(17)%
Minority interest	2.3	(1.1)	3.4	309%
Income taxes		(0.4)	0.4	100%
Income from discontinued operations		0.6	(0.6)	(100)%
Extraordinary item	2.9		2.9	100%

Equity in earnings of unconsolidated affiliates decreased as a result of our pro rata share of earnings and gains on sale from our Mervyns investments in 2006.

Interest expense increased \$0.9 million in 2007. This was the result of a \$1.1 million increase attributable to higher average outstanding borrowings in 2007 and an increase of \$0.4 million related to defeasance costs associated with a loan payoff in 2007. These increases were offset by a \$0.6 million decrease resulting from a lower average interest rate on the portfolio mortgage debt in 2007.

The variance in minority interest is attributable to the minority partners' share of earnings and gains from the sale of Mervyns assets in 2006.

Income taxes in 2006 relate to taxes at the taxable REIT subsidiary (TRS) level on our share of gains from the sale of Mervyns locations in 2006.

Income from discontinued operations represents activity related to properties sold during 2006.

The extraordinary gain in 2007 relates to our share of income, net of income taxes and minority interest, from our Albertson's investment.

Funds from Operations

Consistent with the National Association of Real Estate Investment Trusts (NAREIT) definition, we define funds from operations (FFO) as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO for the quarter ended March 31, 2007 as adjusted to include the extraordinary gain from our RCP investment in Albertson's. As discussed in Note 7 in the Notes to the Consolidated Financial Statements in Part 1, Item 1 in this Form 10-Q, this gain is a result of distributions we received in excess of our invested capital of which the Operating Partnership's share, net of minority interests and income taxes, amounted to \$2.9 million. This gain is characterized as extraordinary in our GAAP financial statements as a result of the expected nature of the income to be passed through from Albertson's. The extraordinary gain is expected to result from the allocation of purchase price to the Albertson's assets. We believe that income or gains derived from our RCP investments, including our investment in Albertson's, are private-equity type investments and, as such, should be treated as operating income and therefore FFO. The character of this income in our underlying accounting does not impact this conclusion. Accordingly, we believe that this supplemental adjustment more appropriately reflects the results of our operations.

We consider FFO 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 FFO, as adjusted, 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 (or losses) from sales of property and depreciation and amortization. However, our method of calculating FFO and FFO, as adjusted, may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO and FFO, as adjusted, do not represent cash generated from operations as defined by GAAP and are not indicative of cash available to fund all cash needs, including distributions. They should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as measures of liquidity.

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The reconciliation of net income to FFO for the three months ended March 31, 2007 and 2006 is as follows:

(in millions)	Three months ended	
	March 31,	
	2007	2006
Net income	\$ 6.7	\$ 4.4
Depreciation of real estate and amortization of leasing costs (net of minority interests):		
Wholly-owned and consolidated affiliates	4.8	5.0
Unconsolidated affiliates	0.4	0.4
Income attributable to Minority interest in Operating Partnership (1)	0.2	0.1
Distributions Preferred OP Units		0.1
Gain on sale (net of minority interests share and income taxes)		(0.4)
Extraordinary item (net of minority interests share and income taxes)	(2.9)	
Funds from operations	9.2	9.6
Extraordinary item, net (2)	2.9	
Funds from operations, adjusted for extraordinary item	\$ 12.1	\$ 9.6
Cash flows provided by (used in):		
Operating activities	\$ 54.4	\$ 12.3
Investing activities	\$ (45.3)	\$ (50.5)
Financing activities	\$ (37.0)	\$ (1.6)

Notes:

(1) Does not include distributions paid to Series A and B Preferred OP Unit holders.

(2) The extraordinary item represents the Company's share of estimated extraordinary gain related to its investment in Albertson's. The Albertson's entity has recorded an extraordinary gain in connection with the allocation of purchase price to assets acquired. The Company considers this an investment in an operating business as opposed to real estate. Accordingly, all gains and losses from this investment are included in FFO.

USES OF LIQUIDITY

Our principal uses of liquidity are expected to be for (i) distributions to our shareholders and OP unit holders, (ii) investments which include the funding of our joint venture commitments, property acquisitions and redevelopment/re-tenanting activities within our existing portfolio and (iii) debt service and loan repayments.

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. Through March 31, 2007, we paid quarterly dividends and distributions on our Common Shares and Common OP Units totaling \$6.7 million.

Table of Contents**Investments****Fund I and Mervyns I**

Reference is made to Note 1 to the Notes to Consolidated Financial Statements in Part 1, Item 1 in this Form 10-Q for an overview of Fund I and Mervyns I. The institutional investors have received of all of their invested capital and accumulated preferred return in Fund I, thus triggering our Promote distribution in all future Fund I distributions. There are currently 32 assets comprising approximately two million square feet remaining in Fund I as follows:

Shopping Center	Location	Year acquired	GLA
<u>New York Region</u>			
<i>New York</i>			
Tarrytown Shopping Center	Westchester	2004	35,291
<u>Mid-Atlantic Region</u>			
<i>South Carolina</i>			
Hitchcock/Pine Log Plaza	Aiken	2004	256,093
<i>Virginia</i>			
Haygood Shopping Center	Virginia Beach	2004	178,497
<u>Midwest Region</u>			
<i>Ohio</i>			
Amherst Marketplace	Cleveland	2002	79,945
Granville Centre	Columbus	2002	134,997
Sheffield Crossing	Cleveland	2002	112,534
<i>Michigan</i>			
Sterling Heights Shopping Center	Detroit	2004	154,835
<u>Various Regions</u>			
Kroger/Safeway Portfolio	Various	2003	1,018,100
Total			1,970,292

In addition, we, along with our Fund I investors have invested in Mervyns as discussed further below.

Fund II and Mervyns II

Reference is made to Note 1 in the Notes to Consolidated Financial Statements in Part 1, Item 1 in this Form 10-Q for an overview of Fund II and Mervyns II. To date, Fund II's primary investment focus has been in the New York Urban/Infill Redevelopment Initiative and the Retailer Controlled Property Venture.

Retailer Controlled Property Venture (the RCP Venture)

During January of 2004, along with our investors in Funds I and II, we entered into the RCP Venture with Klaff Realty, L.P. (Klaff) and Lubert-Adler Management, Inc. (Lubert-Adler) for the purpose of making investments in retailers or the surplus or underutilized properties owned by retailers. The initial size of the RCP Venture is expected to be approximately \$300 million in equity based on anticipated investments of approximately \$1 billion. Each participant in the RCP Venture has the right to opt out of any potential investment. Affiliates of Funds I and II have invested \$49.4 million in the RCP Venture through March 31, 2007. We anticipate investing the remaining portion of the original 20% of the equity of the RCP Venture through Fund II and through acquisition funds that we may establish in the future. Cash flow is to be distributed to the RCP partners until they have received a 10% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 20% to Klaff and 80% to the partners (including Klaff). We will also earn market-rate fees for property management, leasing and construction services to the extent we provide such services on behalf of the RCP Venture.

Reference is made to Note 7 in the Notes to Consolidated Financial Statements in Part 1, Item 1 in this Form 10-Q for a discussion of RCP investments made to date. During the first quarter of 2007, the Company received a cash

distribution of \$44.4 million from its ownership position in Albertson's, of which the Operating Partnership's share, after allocation to minority interests, was \$8.9 million.

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The following table summarizes the RCP Venture investments from inception through March 31, 2007:

Investment	Year acquired	Operating Partnership Share			
		Invested capital	Distributions	Invested capital	Distributions
Mervyns	2004	\$ 23.2	\$ 46.1	\$ 4.9	\$ 11.2
Mervyns add-on investments	2005	1.3	1.2	0.3	0.3
Albertson's	2006	20.7	44.4	4.2	8.9
Albertson's add-on investments	2006/2007	2.4		0.4	
Shopko	2006	1.1		0.2	
Marsh	2006	0.7		0.1	
Total		\$ 49.4	\$ 91.7	\$ 10.1	\$ 20.4

New York Urban Infill Redevelopment Initiative

In September of 2004, we, through Fund II, launched our New York Urban Infill Redevelopment initiative. Fund II, together with an unaffiliated partner, P/A Associates, LLC (P/A), formed Acadia-P/A Holding Company, LLC (Acadia-P/A) for the purpose of acquiring, constructing, developing, owning, operating, leasing and managing certain retail real estate properties in the New York City metropolitan area. P/A has agreed to invest 10% of required capital up to a maximum of \$2.0 million and Fund II, the managing member, has agreed to invest the balance to acquire assets in which Acadia-P/A agrees to invest.

During February of 2007, Acadia-P/A entered into an agreement for the purchase of the leasehold interest in The Gallery at Fulton Street and adjacent parking garage in downtown Brooklyn for approximately \$120.0 million. The fee position in the property is owned by the City of New York and the agreement includes an option to purchase this fee position at a later date. Acadia P/A is partnering with MacFarlane Partners (MacFarlane) to co-develop the project. Plans for the property include the demolition of the existing structure and the development of a 1.6 million square foot mixed-use complex. The proposed development calls for the construction of a combination of retail, office and residential components, all of which are currently allowed as of right. The new lease with the City of New York is subject to approval at a hearing of the Mayor's Office of Contracts.

Acadia P/A, the majority partner, together with MacFarlane, will develop and operate the retail component, which is anticipated to total 475,000 square feet of retail space. Acadia P/A will also participate in the development of the office component with MacFarlane, which is expected to include approximately 125,000 square feet of office space. MacFarlane plans to develop and operate approximately 1,000 residential units with underground parking. Acadia P/A does not plan on participating in the development of, or have an ownership interest in, the residential component of the project. To date, Fund II has, in conjunction with P/A, invested in eight projects, of which two are currently under contract to acquire and for which closing cannot be assured, as follows:

Property	Location	Year acquired	Redevelopment (dollars in millions)				Square feet upon completion
			Purchase price	Anticipated additional costs	Estimated completion		
Liberty Avenue	Queens	2005	\$ (1)	\$ 15.0	1st half 2007	125,000	
216th Street	Manhattan	2005	7.0	18.0	2nd half 2007	60,000	
Pelham Manor	Westchester	2004	(1)	45.0	2008	320,000	

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161st Street	Bronx	2005	49.0	16.0	2nd half 2008	232,000
Fordham Place	Bronx	2004	30.0	90.0	1st half 2009	285,000
Canarsie Plaza	Brooklyn	(2)	(2)	70.0	1st half 2009	323,000
Sherman Plaza	Manhattan	2005	25.0	30.0	2nd half 2009	175,000
Albee Square	Brooklyn	(2)	(2)	300.0	(3)	600,000
Total			\$ 111.0	\$ 584.00		2,120,000

Notes:

- (1) The Fund acquired a ground lease interest at this property
- (2) Closing is anticipated during 2007, although such closing cannot be assured
- (3) To be determined

Table of Contents**Other Investments**

Reference is made to Note 6 in the Notes to Consolidated Financial Statements in Part 1, Item 1 in this Form 10-Q for a discussion of property acquisitions. As part of maintaining a strong core portfolio, we continue to focus on the opportunistic upgrading of our core properties by selling non-core or secondary assets and replacing them with assets located in higher-quality infill/supply constrained markets. When practical, we complete these transactions in accordance with Section 1031 of the Internal Revenue Code to accomplish these transactions in a tax efficient manner. During the quarter ended March 31, 2007, the Operating Partnership furthered this goal with the completion of one acquisition in Manhattan and another in Staten Island, New York for a total of \$53.4 million. The Staten Island acquisition enabled us to defer, for income tax purposes, a \$14.5 million taxable gain from the fourth quarter 2006 sale of a non-core asset. The Manhattan acquisition established a reverse 1031 exchange position, which will require the completion of the sale of one or more of our existing properties within 180 days from the date of the Manhattan acquisition, as well as other requirements, to qualify for the deferral of any gain realized from the sold property.

Property Development, Redevelopment and Expansion

Our redevelopment program focuses on selecting well-located neighborhood and community shopping centers within our core portfolio and creating significant value through re-tenanting and property redevelopment. During the quarter ended March 31, 2007, we did not undertake any significant redevelopment projects within our core portfolio, nor do we currently anticipate commencing any additional redevelopment projects within the core portfolio during the balance of 2007.

Share Repurchase

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. The repurchase of our Common Shares was not a use of our liquidity during 2006. There were no Common Shares repurchased by us during the quarter ended March 31, 2007.

SOURCES OF LIQUIDITY

We intend on using Fund II, as well as new funds that we may establish in the future, as a primary vehicle for our future acquisitions, including investments in the RCP Venture and New York Urban/Infill Redevelopment initiative. Sources of capital for funding property acquisitions, redevelopment, expansion and re-tenanting and RCP investments are expected to be obtained primarily from (i) the issuance of public equity or debt instruments, (ii) cash on hand, (iii) additional debt financings, (iv) unrelated member capital contributions and (v) future sales of existing properties. As of March 31, 2007, we had approximately \$159.9 million of additional capacity under existing debt facilities and cash and cash equivalents on hand of \$111.6 million. In addition, during the first quarter of 2007, we, through our RCP Venture, received a cash distribution on our ownership position in Albertson's as discussed under Uses of Liquidity in this Form 10-Q, RCP Venture. We anticipate that cash flow from operating activities will continue to provide adequate capital for all of our debt service payments, recurring capital expenditures and REIT distribution requirements.

Financing and Debt

At March 31, 2007, mortgage and convertible notes payable aggregated \$450.4 million and were collateralized by 52 properties and related tenant leases. Interest rates on our outstanding mortgage indebtedness and convertible notes payable ranged from 3.75% to 8.5% with maturities that ranged from July 2007 to November 2032. Taking into consideration \$15.9 million of notional principal under variable to fixed-rate swap agreements currently in effect, \$371.0 million of the portfolio, or 82%, was fixed at a 5.2% weighted average interest rate and \$79.4 million, or 18% was floating at a 6.8% weighted average interest rate. There is \$52.3 million and \$40.7 million of debt scheduled to mature in 2007 and 2008, respectively, at weighted average interest rates of 6.3% for 2007 and 6.7% for 2008. As we may not have sufficient cash on hand to repay such indebtedness, we may have to refinance this indebtedness or select other alternatives based on market conditions at that time.

The following summarizes our financing and refinancing transactions since December 31, 2006:

During the first quarter of 2007, we drew an additional \$6.7 million on existing construction loans. As of March 31, 2007, the outstanding balance on these construction loans was \$18.5 million.

During the first quarter of 2007, we paid off a variable-rate loan balance of \$21.5 million.

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On January 25, 2007, we obtained a new \$26.0 million loan secured by a property. The loan bears interest at a fixed rate of 5.4% and matures on February 11, 2017. A portion of the proceeds was used to pay down the existing \$15.7 million balance.

On March 29, 2007, we closed on a \$30.0 million revolving credit facility that bears interest at LIBOR plus 125 basis points and matures on March 29, 2010. As of March 31, 2007, this line of credit was fully available.

The following table summarizes our mortgage indebtedness as of March 31, 2007 and December 31, 2006:

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	March 31, 2007	December 31, 2006	Interest Rate at March 31, 2007	Maturity	Properties Payment Encumbered Terms	
(in millions)						
Mortgage notes payable variable-rate						
Washington Mutual Bank, FA	\$	\$ 21.5	6.57% (LIBOR +1.25%)	3/29/2010	(1)	(27)
Bank of America, N.A.	10.0	10.0	6.72% (LIBOR +1.40%)	6/29/2012	(2)	(27)
RBS Greenwich Capital	30.0	30.0	6.72% (LIBOR +1.40%)	4/1/2008	(3)	(28)
Bank of America, N.A.	10.7	6.4	6.57% (LIBOR +1.25%)	12/31/2008	(4)	(28)
PNC Bank, National Association	7.8	5.4	6.97% (LIBOR +1.65%)	5/18/2009	(5)	(35)
JP Morgan Chase	2.9	2.9	7.32% (LIBOR +2.00%)	10/5/2007	(6)	(27)
Bank of China	18.0	18.0	7.07% (LIBOR +1.75%)	11/1/2007	(7)	(28)
Bank of America, N.A.	15.9	16.0	6.62% (LIBOR +1.30%)	12/1/2011	(8)	(27)
Bank of America, N.A. Interest rate swaps	(15.9)	(16.0)	0.00% (LIBOR +1.25%)		(9)	(29)
Total variable-rate debt	79.4	94.2				
Mortgage notes payable fixed-rate						
Sun America Life Insurance Company	12.6	12.7	6.46%	7/1/2007	(10)	(27)
Bank of America, N.A.	15.6	15.7	7.55%	1/1/2011	(11)	(27)
RBS Greenwich Capital	26.0		5.42%	2/11/2017	(12)	(28)
RBS Greenwich Capital		15.7	5.19%	6/1/2013	(12)	(28)
RBS Greenwich Capital	14.9	14.9	5.64%	9/6/2014	(13)	(27)
RBS Greenwich Capital	17.6	17.6	4.98%	9/6/2015	(14)	(30)
RBS Greenwich Capital	12.5	12.5	5.12%	11/6/2015	(15)	(31)
Bear Stearns Commercial	34.6	34.6	5.53%	1/1/2016	(16)	(32)

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Bear Stearns Commercial	20.5	20.5	5.44%	3/1/2016	(17)	(28)
LaSalle Bank, N.A.	3.8	3.8	8.50%	4/11/2028	(18)	(27)
GMAC Commercial	8.5	8.6	6.40%	11/1/2032	(19)	(27)
Column Financial, Inc.	10.0	10.0	5.45%	6/11/2013	(20)	(27)
Merrill Lynch Mortgage Lending, Inc.	23.5	23.5	6.06%	8/29/2016	(21)	(27)
Bank of China	19.0	19.0	5.26%	9/1/2007	(22)	(28)
Cortlandt Deposit Corp	4.9	7.4	6.62%	2/1/2009	(23)	(34)
Cortlandt Deposit Corp	4.9	7.3	6.51%	1/15/2009	(24)	(34)
The Ohio National Life Insurance Company	4.5	4.5	8.20%	6/1/2022	(25)	(27)
Canada Life Insurance Company	6.7	6.7	8.00%	1/1/2023	(26)	(27)
Interest rate swaps	15.9	16.0	6.25%	(36)		
Total fixed-rate debt	256.0	251.0				
Total fixed and variable debt	335.4	345.2				
Valuation of debt at date of acquisition, net of amortization	1.9	2.2				
Total	\$ 337.3	\$ 347.4				

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Notes:

- (1) LedgeWood Mall
- (2) Smithtown Shopping Center
- (3) 161st Street
- (4) 216th Street
- (5) Liberty Avenue
- (6) Granville Center
- (7) Fordham Place
- (8) Branch Shopping Center
- (9) Marketplace of Absecon
Bloomfield Town Square
Hobson West Plaza
Village Apartments
Town Line Plaza
Methuen Shopping Center
Abington Towne Center
- (10) Merrillville Plaza
- (11) GHT Apartments/Colony Apartments
- (12) 239 Greenwich Avenue
- (13) New Loudon Center
- (14) Crescent Plaza
- (15) Pacesetter Park Shopping Center
- (16) Elmwood Park Shopping Center
- (17) Gateway Shopping Center
- (18) Clark-Diversey
- (19) Boonton Shopping Center
- (20) Chestnut Hill
- (21) Walnut Hill

- (22) Sherman Avenue
- (23) Kroger Portfolio
- (24) Safeway Portfolio
- (25) Amherst Marketplace
- (26) Sheffield Crossing
- (27) Monthly principal and interest.
- (28) Interest only monthly.
- (29) Annual principal and monthly interest.
- (30) Interest only monthly until 9/10; monthly principal and interest thereafter.
- (31) Interest only monthly until 12/08; monthly principal and interest thereafter.
- (32) Interest only monthly until 1/10; monthly principal and interest thereafter.
- (33) Interest only monthly until 11/11; monthly principal and interest thereafter.
- (34) Annual principal and semi-annual interest payments.
- (35) Interest only upon draw down on construction loan.
- (36) Maturing between 1/1/10 and 10/1/11.

Table of Contents**CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

At March 31, 2007, maturities on our mortgage notes ranged from July 2007 to November 2032. In addition, we have non-cancelable ground leases at seven of our shopping centers. We also lease space for our White Plains corporate office for a term expiring in 2008. The following table summarizes our debt maturities and obligations under non-cancelable operating leases as of March 31, 2007:

(in millions)	Total	Payments due by period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Contractual obligation					
Future debt maturities	\$ 450.4	\$ 53.6	\$ 61.8	\$ 149.6	\$ 185.4
Interest obligations on debt	141.9	18.4	39.4	34.1	50.0
Operating lease obligations	119.1	3.6	6.5	8.0	101.0
Total	\$ 711.4	\$ 75.6	\$ 107.7	\$ 191.7	\$ 336.4

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 we have a non-controlling interest. As such, our financial statements reflect our share of income from but not the assets and liabilities of these joint ventures. Reference is made to Note 7 in the Notes to Consolidated Financial Statements in Part 1, Item 1 in this Form 10-Q for a discussion of our unconsolidated investments. Our pro rata share of unconsolidated debt related to these investments is as follows:

(dollars in millions)	Pro rata share of	Interest rate at	Maturity
Investment	mortgage debt	March 31, 2007	date
Crossroads	\$ 31.4	5.40%	December 2014
Brandywine	36.9	5.99%	July 2016
Fund I investments	2.8	6.95%	August 2010
Total	\$ 71.1		

In addition, we have arranged for the provision of five separate letters of credit in connection with certain leases and investments. As of March 31, 2007, there were no outstanding balances under any of these letters of credit. If these letters of credit were fully drawn, the combined maximum amount of exposure would be \$15.1 million.

HISTORICAL CASH FLOW

The following discussion of historical cash flow compares our cash flow for the three months ended March 31, 2007 (2007) with our cash flow for the three months ended March 31, 2006 (2006).

Cash and cash equivalents were \$111.6 million and \$50.7 million at March 31, 2007 and 2006, respectively. The increase of \$60.9 million was a result of the following increases and decreases in cash flows:

(in millions)	Three months ended March 31,		
	2007	2006	Change
Net cash provided by operating activities	\$ 54.4	\$ 12.3	\$ 42.1
Net cash (used in) provided by investing activities	(45.3)	(50.5)	5.2
Net cash used in financing activities	(37.0)	(1.6)	(35.4)
Totals	\$ (27.9)	\$ (39.8)	\$ 11.9

The variance in net cash provided by operating activities resulted from an increase of \$16.7 million in operating income before non-cash expenses in 2007, which was primarily due to the increase of \$19.9 million in distributions of operating income from unconsolidated affiliates as a result of the distributions from Albertson's in 2007. In addition, a net increase in cash of \$25.4 million resulted from changes in operating assets and liabilities, primarily other assets, which was the result of the repayment of a note from our qualified intermediary relating to Section 1031 transactions. The decrease in net cash used in investing activities resulted from \$27.4 million of notes receivable originated in 2006, \$14.3 million of additional return of capital from unconsolidated affiliates in 2007, primarily from our investment in Albertson's and \$5.6 million of collections from notes receivable in 2007. These net decreases were offset by \$38.8 million of additional expenditures for real estate acquisitions, development and tenant installations in 2007.

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The increase in net cash used in financing activities resulted from \$14.1 million of additional cash used for the repayment of debt in 2007 and a decrease of \$32.0 million of cash provided by additional borrowings in 2007. These increases were partially offset by an additional \$15.0 million in cash received from the issuance of convertible debt in 2007.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our primary market risk exposure is to changes in interest rates related to our mortgage debt. See the discussion under Item 2 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 March 31, 2007, we had total mortgage debt and convertible notes payable of \$450.4 million of which \$371.0 million or 82%, was fixed-rate, inclusive of interest rate swaps, and \$79.4 million, or 18%, was variable-rate based upon LIBOR plus certain spreads. As of March 31, 2007, we were a party to two interest rate swaps transactions and one interest rate cap transaction to hedge our exposure to changes in interest rates with respect to \$15.9 million and \$30.0 million of LIBOR-based variable-rate debt, respectively. We also have one forward-starting interest rate swap which commences during 2007 and matures in 2012 that will hedge our exposure to changes in interest rates with respect to \$8.4 million of current LIBOR-based variable rate debt through maturity. The following table sets forth information as of March 31, 2007 concerning our long-term debt obligations, including principal cash flows by scheduled maturity and weighted-average interest rates of maturing amounts:

Consolidated mortgage debt and convertible notes payable:

(in millions)	Year	Scheduled amortization	Principal at maturity	Total obligation	Weighted average interest rate
	2007	\$ 1.3	\$ 52.3	\$ 53.6	6.3%
	2008	6.5	40.7	47.2	6.7%
	2009	6.8	7.8	14.6	7.0%
	2010	2.4	14.8	17.2	7.6%
	2011	2.6	129.8	132.4	4.1%
	Thereafter	31.5	153.9	185.4	5.6%
		\$ 51.1	\$ 399.3	\$ 450.4	

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

(in millions)	Year	Scheduled amortization	Principal at maturity	Total obligation	Weighted average interest rate
	2007	\$ 0.4	\$	\$ 0.4	n/a%

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2008	0.4		0.4	n/a%
2009	0.5		0.5	n/a%
2010	0.5	2.8	3.3	7.0%
2011	0.5		0.5	n/a%
Thereafter	1.7	64.3	66.0	5.7%
	\$ 4.0	\$ 67.1	\$ 71.1	

Of our total consolidated and pro-rata share of unconsolidated outstanding debt, \$52.3 million and \$40.7 million will become due in 2007 and 2008, respectively. 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 \$0.9 million annually if the interest rate on the refinanced debt increased by 100 basis points. Interest expense on our variable-debt, net of variable to fixed-rate swap agreements currently in effect, as of March 31, 2007 would increase by \$0.8 million if LIBOR increased by 100 basis points. 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.

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Item 4. Controls and Procedures.

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

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

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Part II. Other Information

Item 1. Legal Proceedings.

There have been no material legal proceedings beyond those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

As previously reported on a Form 8-K filed on December 11, 2006, we entered into a purchase agreement (the Purchase Agreement) with Lehman Brothers Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the Initial Purchasers) for the sale by us and the purchase by the Initial Purchasers of \$100.0 million aggregate principal amount of 3.75% Convertible Notes due 2026 (the Notes), which closed on December 11, 2006. The Purchase Agreement also granted the Initial Purchasers a 30-day option to purchase up to an additional \$15.0 million aggregate principal amount of the Notes. The terms of the Notes, including the terms of their conversion into Common Shares, have been previously disclosed in this 8-K.

As previously reported on a Form 8-K filed on January 15, 2007, on January 8, 2007, the Initial Purchasers exercised their option pursuant to the Purchase Agreement to purchase an additional \$15.0 million aggregate principal amount of the Notes. The net proceeds from the sale of the additional Notes, after deducting the Initial Purchasers' offering expenses, were approximately \$14.7 million.

We offered and sold the Notes to the Initial Purchasers in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act. The Initial Purchasers then sold the Notes only to qualified institutional buyers in the United States in reliance upon the exemption from registration provided by Rule 144A under the Securities Act. We relied on these exemptions from registration based in part on representations made by the Initial Purchasers in the Purchase Agreement.

Item 3. Defaults upon Senior Securities.

None

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

None

Item 5. Other Information.

None

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Item 6. Exhibits

Exhibit No.	Description
3.1	Declaration of Trust of the Company, as amended (1)
3.2	Fourth Amendment to Declaration of Trust (2)
3.3	Amended and Restated By-Laws of the Company (3)
4.1	Voting Trust Agreement between the Company and Yale University dated February 27, 2002 (4)
10.61	Loan Agreement between 239 Greenwich Associates Limited Partnership and Wachovia Bank, National Association dated January 25, 2007. (8)
10.62	Revolving Credit Agreement between Acadia Realty Limited Partnership and Washington Mutual Bank dated March 29, 2007. (8)
21	List of Subsidiaries of Acadia Realty Trust (8)
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 (8)
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 (8)
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 (8)
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 (8)
99.1	Amended and Restated Agreement of Limited Partnership of the Operating Partnership (5)
99.2	First and Second Amendments to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (5)
99.3	Third Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (6)
99.4	Fourth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (6)
99.5	Certificate of Designation of Series A Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (7)
99.6	Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (6)

Notes:

- (1) Incorporated by reference to the copy thereof filed as an Exhibit to the Company's Annual Report on Form 10-K filed for the fiscal Year ended December 31, 1994
- (2) Incorporated by reference to the copy thereof filed as an Exhibit to Company's Quarterly Report on Form 10-Q filed for the quarter ended September 30, 1998
- (3) Incorporated by reference to the copy thereof filed as an Exhibit to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2005.
- (4) Incorporated by reference to the copy thereof filed as an Exhibit to Yale University's Schedule 13D filed on September 25, 2002
- (5) Incorporated by reference to the copy thereof filed as an Exhibit to the Company's Registration Statement on Form S-3 filed on March 3, 2000
- (6) Incorporated by reference to the copy thereof filed as an Exhibit to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003
- (7) Incorporated by reference to the copy thereof filed as an Exhibit to Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 1997
- (8) Filed herewith.

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SIGNATURES

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

ACADIA REALTY TRUST

May 9,
2007

/s/ Kenneth F. Bernstein

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

May 9,
2007

/s/ Michael Nelsen

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

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