4 Ways to Create Growth & Value

Acadia Realty Trust
Annual Report 2002

4 Ways to Create

Acadia Realty Trust (NYSE: AKR) is a fully integrated and self-managed real estate investment trust ("REIT") which specializes in the acquisition, redevelopment and operation of shopping centers anchored by grocery and value-oriented retail. Acadia currently owns or operates 62 properties totaling approximately nine million square feet, located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States.

Financial Highlights

In thousands	2002	2001	2000	1999	1998[1]
Total Revenues[2]	$ 69,347	$ 61,282	$ 63,450	$ 58,933	$ 31,662
Funds from Operations[3]	$ 29,402	$ 29,513	$ 31,789	$ 31,160	$ 10,352
Real Estate Owned at Cost[2]	$413,878	$398,416	$387,729	$389,111	$348,563
Common Shares Outstanding	25,257	28,698	28,150	25,724	25,419
Operating Partnership Units Outstanding	3,163	5,250	6,804	10,484	11,184

[1]Activity for the year ended December 31, 1998 includes the operations of the properties acquired in the RDC Transaction from August 12, 1998 through December 31, 1998.

[2]Amounts for 1998 through 2001 have been restated to reflect the activity and balances from continuing operations only. A significant component of the Company's business plan since the RDC Transaction was the disposition of non-core properties. The Company sold 27 properties under this initiative, which was completed during 2002. Consistent with the adoption of Statement of Financial Accounting Standards No. 144 for the year ended December 31, 2002, the results of operations as well as the assets and liabilities of the sold properties are reported separately as discontinued operations in the Company's consolidated financial statements.

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

NAREIT defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Effective January 1, 2000, NAREIT clarified the definition of FFO to include non-recurring events except those that are defined as "extraordinary items" under GAAP. FFO for the year ended December 31, 1998 has been restated to conform to this revised definition.

On the Cover:
From Left to Right

Elmwood Park Shopping Center
Elmwood Park, NJ

Marketplace of Absecon
Absecon, NJ

Abington Towne Center
Abington, PA

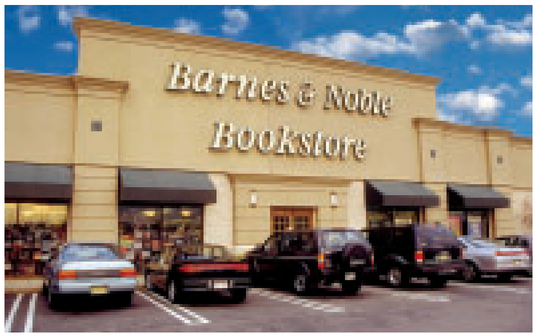
Walnut Hill Plaza
Woonsocket, RI

From Left to Right

New Loudon Center
Latham, NY

Market Square Shopping Center
Wilmington, DE

Ledgewood Mall
Ledgewood, NJ



Growth&Value

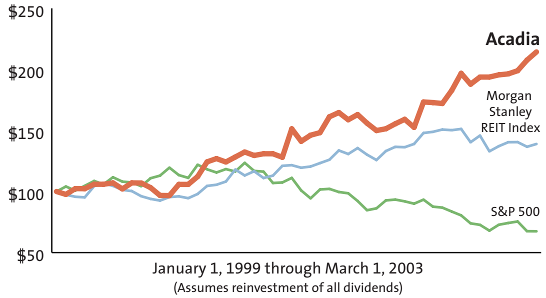
While 2002 was a period of continued economic volatility and uncertainty in the broader markets, Acadia continued to deliver stability and strong growth for its shareholders. For the third straight year we outperformed the REIT index. Acadia provided shareholders with a total return in excess of 20% and a three-year average total return of 26%. At a time when too many of our 401(k) accounts and stock portfolios have continued to shrink, it is very comforting to be able to be a bright spot during a difficult period. More importantly, as evidenced by our recent activity, I remain confident that our team can continue to provide growth and stability going forward.

Solid Portfolio. After several years of pruning Acadia's portfolio, redeveloping assets and profitably recycling our capital, we have created a strong, focused portfolio and solid balance sheet. In 2002, we disposed of 20 properties totaling three million square feet, further reducing our exposure to weakened retailers and underperforming properties. We successfully re-anchored several of our centers, replacing tenants such as Bradlees, Caldor and Grand Union with strong anchors including Home Depot, Shaw's and Wal-Mart. We now have a necessity-based and value-oriented portfolio that is two-thirds supermarket-anchored, has performed extremely well in difficult times and continues to be well positioned to provide solid growth as our economy recovers.

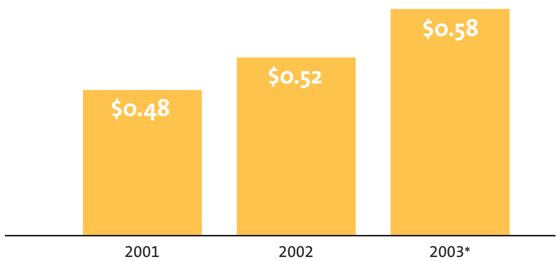
Strong Balance Sheet. Our balance sheet and key operating ratios are strong. Acadia has some of the most conservative dividend payout and debt service coverage ratios in our sector. What this means is that at a time when some companies are faced with the difficult choice of either cutting their dividend or borrowing and increasing their debt levels in order to maintain their dividend, our dividend and balance sheet remain secure. Moreover, in 2002, we raised our dividend by 8%

Kenneth F. Bernstein
President and Chief Executive Officer

Acadia's Total Return



Acadia's Annual Dividend



*First quarter dividend annualized

and in 2003 we announced an increase of over 11%. We have now put Acadia in a position where we can comfortably provide future dividend increases commensurate with our earnings growth while continuing to maintain a disciplined and strong financial position.

I recognize that there are some companies that have been well rewarded for having an artificially high dividend yield, even if it is at the expense of the financial security of their balance sheet. I think this is a mistake. Too often, it is only after problems become irreversible that shareholders become aware of the situation. We have seen too many bubbles burst to believe that "borrowing from Peter to pay Paul" is a sound business practice. In short, it is not just the size of the dividend, but the quality of the earnings and balance sheet underlying the dividend that matter.

External Growth. With Acadia's portfolio and financial position in the strongest shape in the company's history and our corporate turnaround in its final stages, we expanded our focus in 2002 to include an exciting acquisition program that has begun to create significant growth and long-term value for our shareholders. In 2002, we further evidenced our ability to create shareholder value through unique, strategic and, we expect, profitable acquisitions. In the past 12 months we acquired over $150 million of properties — at a significant discount to replacement cost — which provide Acadia with an ideal blend of asset quality, growth and attractive current yield.

While it was a challenging marketplace to acquire assets, we have been able to add properties that will not only contribute significantly to our earnings growth, but also continue to improve the quality of our asset base. Our Wilmington, Delaware acquisition, which we highlight later in this report, is just one example of our blending an attractive investment yield with a portfolio-enhancing asset. The highly attractive structure of our acquisition fund enables us to create significant earnings growth without having to compromise the strength of our balance sheet.

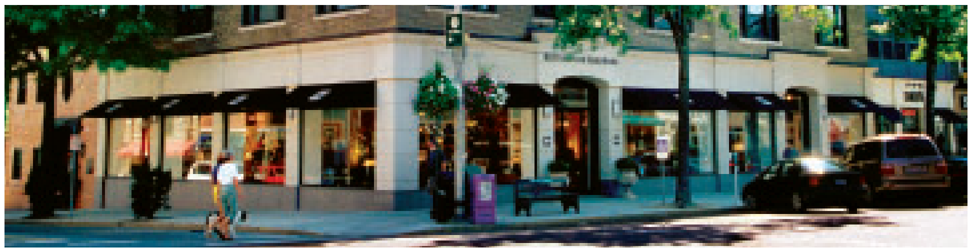
Transparency and Governance. In 2002, it became clear to most of the investment community that along with delivering results, a company must provide absolute transparency and clarity in its disclosure and reporting. This is a discipline that Acadia has maintained since its creation. We have been consistently recognized for the quality and depth of our reporting. Last year we were recognized by NAREIT with awards for our web site, annual report presentation and Management Discussion and Analysis. We were the *only* REIT to be recognized in all three categories. We did not do this to win awards. We did this because we believe that the more information we provide to the investment community, the easier it will be for our shareholders to have confidence in what we are doing.

We have been fortunate to have some of the most respected institutional investors as significant long-term shareholders in Acadia. These investors demand the highest level of integrity, accountability and performance. Our hard work has gained their trust and support which we intend to maintain. And as a result, all our shareholders benefit from our holding ourselves to this high standard.

Strong Team. Looking back on all that we achieved last year, one fact becomes quite evident: none of this could have been achieved without the awesome talent and dedication of the team at Acadia. I am humbled by and grateful for the people who day after day have dedicated themselves to creating the results that are now hitting the bottom line. As the shopping center business has become more sophisticated and demanding, we are fortunate to have a core group of professionals who can help assure all of Acadia's stakeholders that this is a company that will be run with the highest levels of intelligence, intensity and integrity.

Acadia enters 2003 proud of all that we have accomplished and energized and excited by the opportunities that we see ahead of us. We recognize that there remains a tremendous amount of uncertainty and challenges for the world and our economy. And, as they say, past performance is no guarantee of future results. Nevertheless, we remain confident that as long as we remain focused and persistent, we will continue to successfully navigate through the challenges ahead and continue to create shareholder value for years to come.

Kenneth F. Bernstein
President and Chief Executive Officer



From Left to Right

Ledgewood Mall
Ledgewood, NJ

239 Greenwich Avenue
Greenwich, CT

From the Chairman

Ross Dworman
Chairman of the Board

Acadia's 26% average annual return for the past three years places us in the top 10% of *all* REITs. A major portion of this total return was the result of a vastly improved portfolio and steady growth in FFO and NAV. FFO multiple expansion also contributed to our success. As of this writing, the strip center sector is trading at an average 12% *premium* to NAV, 7% higher than the 10-year average premium of 5%. Considering the fact that Acadia is still trading at a discount to NAV, the company represents solid value in the strip center universe.

Acadia's mission continues to be maximizing shareholder value and producing total annual returns in excess of the historical REIT average of 10%–12% for shopping centers. We can accomplish these goals two ways: first, by intensively leasing and managing existing properties to create "upside," and second, by investing capital — our own equity or third-party equity — at an attractive spread over our cost of funds.

In 2002, Acadia took advantage of attractive investment opportunities by deploying capital through our Joint Venture that contributed to earnings growth. The Joint Venture, when fully invested, provides Acadia with a vehicle to invest nearly 10% of our net shareholder equity opportunistically by leveraging our equity with institutional capital. The associated management fees and "carried" interests will grow our FFO and NAV at rates faster than would be attainable through ordinary means. Simply put, the Joint Venture can add about 1%–2% per year to return on equity, a significant amount for an industry averaging 10%–12% total annual returns.

The Joint Venture is an exciting tool to have in an economic and industry environment where same store NOI growth has slowed to almost 0%. In the face of weaker NOI growth, protecting net asset value from potential tenant bankruptcies continues to be important. Historically, we have not only mitigated potential lost income from tenant bankruptcies — long-term, we have profited from the rotation of anchors in similar situations.

The successful implementation of our multi-year plan to sell off non-core assets, refinance and reduce debt and invest through a disciplined approach based on careful analysis has resulted in a reduction of our Debt to Total Market Capitalization ratio from 66% three years ago to 45% today — significantly increasing Acadia's financial flexibility.

In looking forward to 2003, we must remain cautiously optimistic on the growth front. Asset values for both strip centers and real estate in general continue to increase while fundamentals remain weak. Many investors are "paying up" for shopping centers because of the lack of alternative investment options, and historically low interest rates, which make leveraged returns on real estate attractive despite higher prices relative to replacement cost. Opportunities will be harder to find and discipline more important than ever.

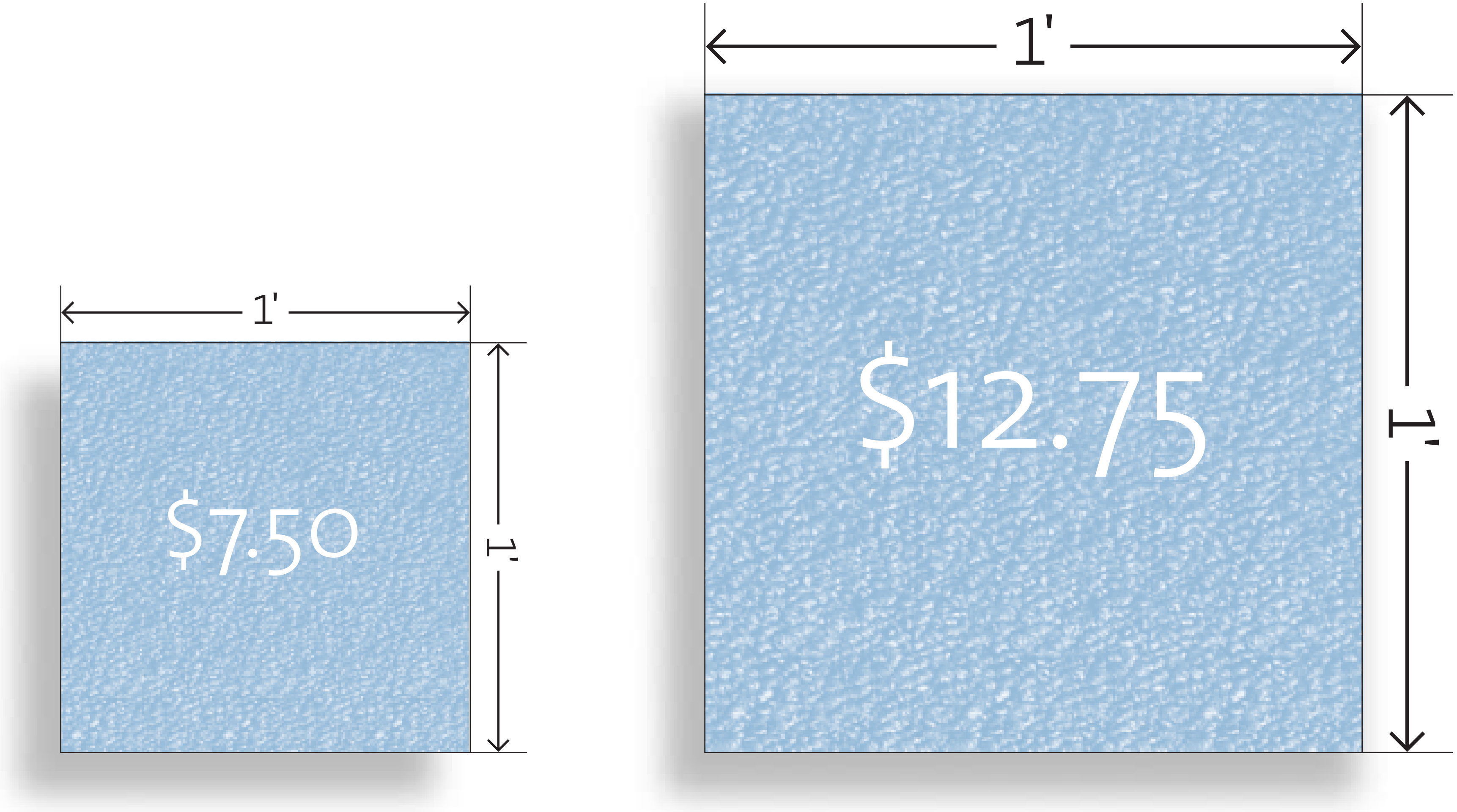
Once again, thanks for your support.

Ross Dworman
Chairman of the Board

From Left to Right

Town Line Plaza
Rocky Hill, CT

Soundview Marketplace
Port Washington, NY



HOW DO YOU MAKE THE SAME SQUARE FOOT OF RETAIL SPACE BIGGER?

Throughout the shopping center industry, there is the inevitable rotation of anchor tenants resulting from the ebb and flow of fortune in retail — we position ourselves to profit from this rotation.

1. Enhance Value

Our constant goal has been to establish a stable and dependable portfolio with steady growth through the continual refinement and redevelopment of our properties. We have achieved our goal by the aggressive repositioning of our portfolio; through both our disposition and redevelopment programs. Here are the fundamentals:

Step 1: It All Starts with the Right Foundation. Acadia has refined its portfolio so that it now consists of well-located shopping centers, situated in high barrier-to-entry markets, predominantly anchored by supermarkets and discount retailers.

We have carefully pruned our portfolio of those properties that do not have the potential to be solid necessity/value oriented shopping centers. In 2002, we sold 20 shopping centers, including our entire southeast portfolio, for $74 million — assets which were not consistent with our long-term growth strategy.

Step 2: Then Create Value through Redevelopment and Re-anchoring. We focus our attention, talent and resources on the redevelopment process. In 2002, two projects illustrate how this works at Acadia:

- During 2002, we completed the redevelopment of the Elmwood Park Shopping Center located in densely populated Elmwood Park, New Jersey. The former anchor was an undersized and obsolete Grand Union supermarket. We re-anchored the center with a new Pathmark supermarket and Walgreens drugstore — realizing over a 25% incremental return on our investment.
- In Burlington, Vermont, we are "de-malling" and redeveloping what was a partially enclosed shopping center anchored by an undersized Grand Union supermarket. Upon the opening of a new 72,000-square-foot Shaw's supermarket during 2003, we will have increased the anchor base rent by four-fold in this revitalized and contemporary open-air center.

There is also an ongoing rotation of anchors in the shopping center business resulting from the ebb and flow of fortune in the retail industry. Key to our success is positioning ourselves to profit from this rotation:

- We recently replaced Bradlees, an anchor tenant at the Crescent Plaza, with Home Depot, and in doing so doubled the base rent for the space.
- We have worked through similar rotations within our portfolio — Wal-Mart replacing Caldor at both our Town Line Plaza and the Methuen Shopping Center; Stop & Shop replacing Grand Union at the Pacesetter Park Shopping Center; and Waldbaum's Supermarkets replacing Grand Union at our Branch Shopping Center. In each of these cases, we realized incremental value within our portfolio.

FROM LEFT TO RIGHT

Pacesetter Park Shopping Center
Pomona, NY

Elmwood Park Shopping Center
Elmwood Park, NJ

2.Build an Ideal Capital Structure

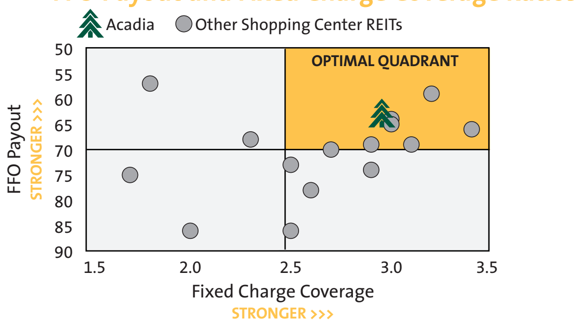
A stable and flexible capital structure is an essential component to any company's success. These are the essential ingredients:

Step 1: Begin with the Proper Base. The ideal capital structure starts with a healthy balance sheet, appropriate leverage levels and an overall low-cost debt structure. As of the end of 2002, our blended interest rate on our portfolio debt, including our pro-rata share of debt from our joint ventures, was below 6% and our fixed-charge coverage ratio (EBIDTA / interest + preferred dividends) stood at three times. These metrics — as well as our dividend payout ratio — are among the most conservative in our sector. We have also eliminated a substantial amount of exposure to future interest rate increases by locking in much of our debt during 2002 through interest rate swap agreements. The result — current interest rates, which are at historic lows, have been locked in for 75% of our debt portfolio.

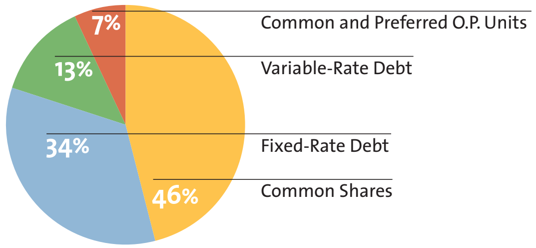
Step 2: Add Access to Efficient Capital. In late 2001, we formed a joint venture with four of Acadia's largest institutional shareholders resulting in a strong alignment of interest between the joint venture and our shareholders. Acadia has already put a substantial portion of this capital to work. Our joint venture has acquired over $150 million of real estate assets to date. Because this capital is discretionary, we will continue to exercise patience in executing on our external growth plan without weakening our balance sheet by adding dilutive capital.

Step 3: Establish a Dependable and Growing Dividend. Effective capital management includes a solid dividend that results from a rational dividend policy. At a time when some REITs have had to make a choice between reducing their dividend or borrowing to pay it, we have been able to increase our dividend while still maintaining a conservative payout ratio. For the fourth quarter of 2002, our dividend payout ratio stood at 66% of funds from operations, which is among the most conservative in our sector. This is after we increased our dividend by 8% in the beginning of 2002. At the beginning of 2003, we have again increased our dividend over 11%.

FFO Payout and Fixed Charge Coverage Ratios



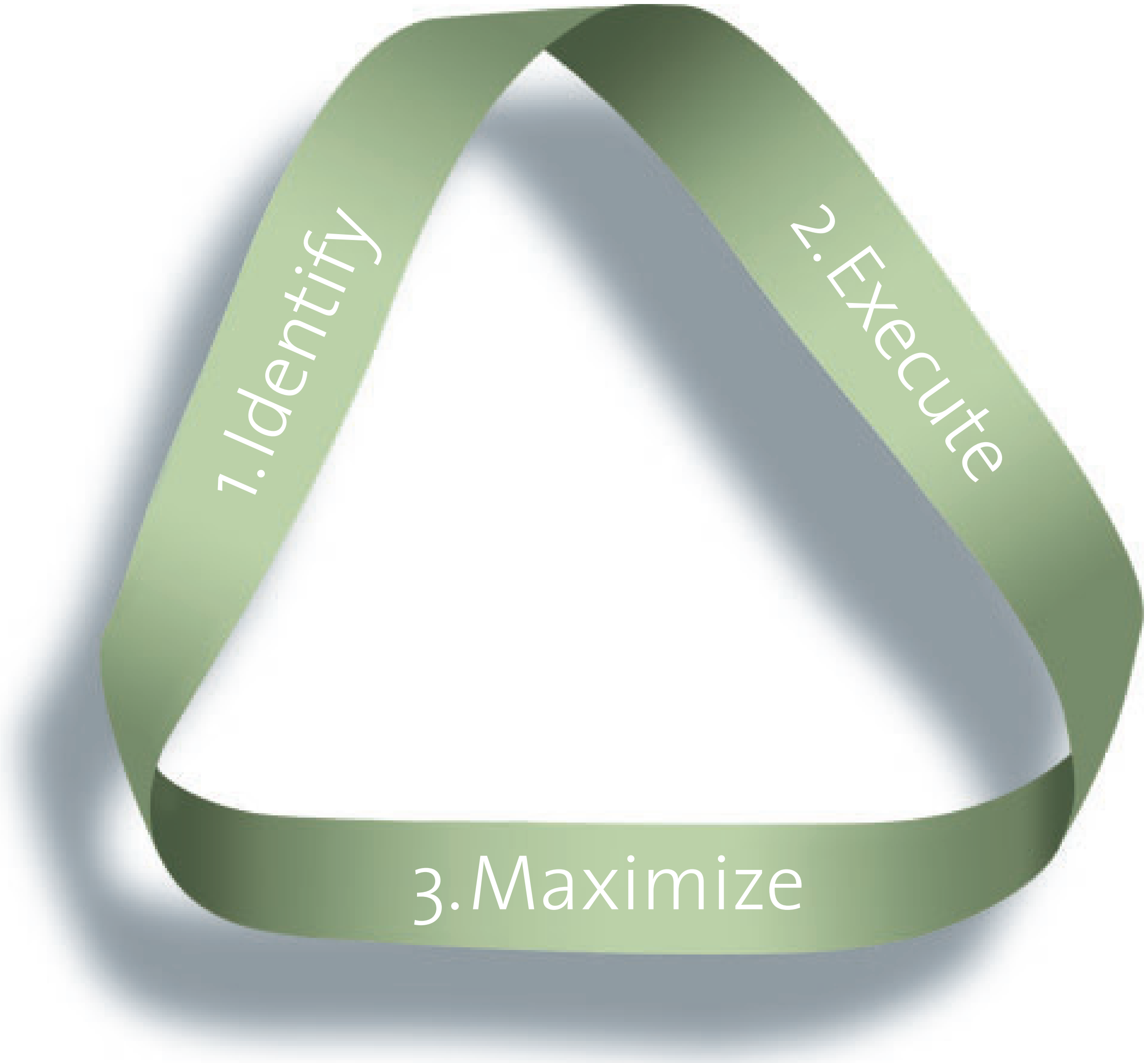
Strong Balance Sheet*



*Based on a March 13, 2003 Common Share price of $8.00 per share. Fixed-rate debt includes $87 million of notional principal fixed through swap transactions, and, conversely, variable-rate debt excludes this amount.

How do you achieve the right capital structure?

We created a strong balance sheet — a solid platform to build on. We then secured access to efficient capital — we now have ideally positioned Acadia for future growth.



How do you maximize profits? We constantly pursue the highest return on our capital. It starts with selling the right asset at the right time and for the right price — then we put this capital back to work generating superior yields.

3. Profitably Recycle Capital

Capital recycling consists of selling targeted assets and reinvesting the capital in higher growth opportunities and is fundamental to maximizing the return on capital invested in assets and ultimately the return to our shareholders. We recycle capital by selling two types of assets. First is the strategic sale of non-core assets that are not consistent with our long term growth. Second is the opportunistic and profitable disposition of mature, lower yielding assets, where we can realize a profit and redeploy the capital into higher performing assets. This is how we do it:

Step 1: Identify the Opportunity. It all starts with deciding when to hold or sell particular assets. We constantly review and evaluate our portfolio for disposition opportunities — both at the individual asset level as well as across portfolio segments based on factors including property type, geography, and overall portfolio tenant exposures.

Step 2: Execute on the Disposition Plan. When the multi-family sector began overheating in 2001, we opportunistically sold two of our apartment properties for $62 million — generating a cash profit of $15 million over a three-year hold period for Acadia. More recently, in 2002, we completed our multi-year strategic non-core disposition initiative. To date, we have sold 28 properties, most of which were not consistent with our current portfolio of necessity and value oriented shopping centers located in high barrier-to-entry markets. As part of this process, we substantially reduced our exposure to troubled retailers, selling six Ames and four Kmart anchored centers.

Step 3: Maximize the Return on Reinvested Capital. Once we profitably convert assets to liquid capital, we then invest it accretively at superior returns. Currently, we are investing capital into our acquisition joint venture, which has to date acquired over $150 million of properties with an average projected cash yield in excess of 15%. Earlier in 2002, we also recycled capital accretively by repurchasing 5.5 million of our shares for a total investment of $33 million, or $6.05 a share — well below our current share price.

FROM LEFT TO RIGHT

Abington Towne Center
Abington, PA

Amherst Marketplace
Amherst, OH

4. Deliver External Growth

Top Five Tenants

Acadia Strategic Opportunity Fund

Tenant	Base Rent *(in thousands)*	Percent of Total Base Rent
1 Safeway	$ 3,743	18%
2 Kroger	3,731	18
3 Lowe's	1,852	9
4 Giant Eagle	1,188	6
5 Target	800	4
	$11,314	55%

With the recent completion of two major transactions, Acadia has not only fulfilled its acquisition mandate for 2002, but for 2003 as well. These acquisitions, totaling over $150 million, are anticipated to provide a blended leveraged yield in excess of 15% and external earnings growth for Acadia of approximately 9% for 2003. Our success is the result of our focus on the key fundamentals:

Step 1: Our Success Is Built on Our Team's Philosophy. Our acquisition philosophy is to acquire well-located shopping centers at a discount to replacement cost with inherent opportunity for the creation of value through redevelopment and leasing. We target assets with restricted competition due to high barriers of entry and with below-market leases.

Although the competition for buying shopping centers remains intense, our management team has the experience to identify opportunities overlooked by our peers and, once identified, the capability and flexibility to structure and close the deals. Our ability to execute quickly and efficiently keeps us extremely competitive and enables us to achieve attractive returns for our shareholders and joint venture partners.

Step 2: Add an Efficient Source of Capital. We established an acquisition joint venture with four of our current key institutional shareholders in late 2001. The goal — to acquire $300 million of real estate assets over three years. Acadia Strategic Opportunity Fund has several significant competitive advantages over alternative sources of capital and other joint ventures:

- First, there is a strong alignment of interest between the JV investors and our shareholders because all of our JV investors are significant shareholders in Acadia.
- Second, there is important profit participation that further enhances Acadia's total return on investment.
- Third, the capital is accessed on a highly discretionary basis, thus ensuring our ability to move quickly and with certainty.
- Finally, due to the fact that we do not have to hold unused acquisition capital which in turn dilutes net asset value, we have been able to exercise patience and discipline in acquiring assets.

Step 3: Execute on the Transactions. In 2002, we began the process of selectively acquiring assets within our newly formed JV, as follows:

Ohio Portfolio: Our first acquisition was a portfolio of three well-located, supermarket-anchored shopping centers located in Ohio, complementing our existing mid-west portfolio of necessity-based retail anchored shopping centers.

From Left to Right

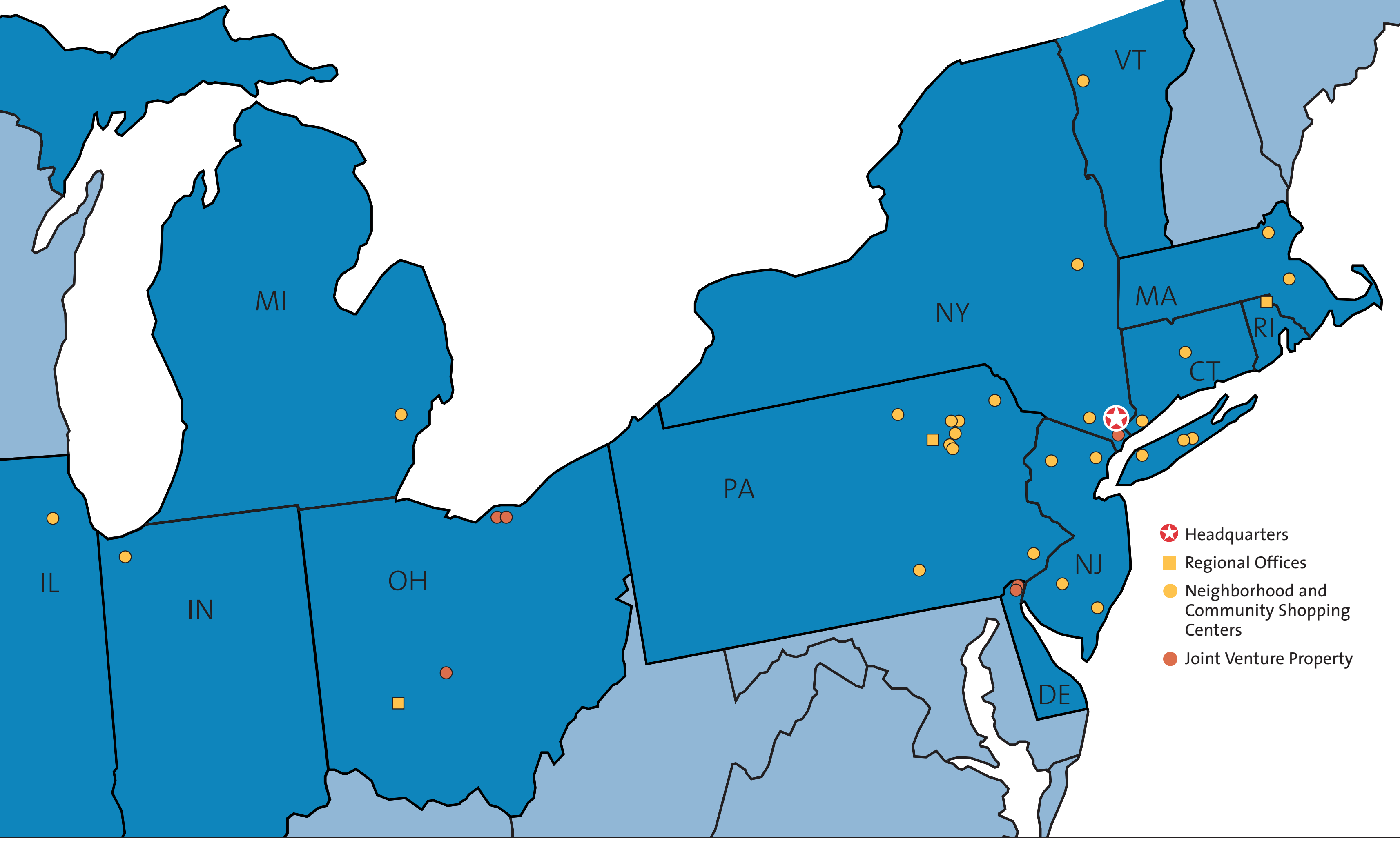
Diablo Plaza
San Ramon, CA

Brandywine Town Center
Wilmington, DE

Brandywine Portfolio: In January of 2003, we acquired a one-million-square-foot, open-air retail complex located in Wilmington, Delaware for an initial purchase price of $89 million, or $89 per square foot. The seller of the property had invested over $200 per square foot in the recent construction of this center, which anchors currently include Target, Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, Petsmart, Old Navy, Thomasville Furniture, KB Toys and Dick's Sporting Goods. We structured this transaction with an earnout component related to the future lease-up of a portion of this center. Not only does the 10¼% capitalization rate on this transaction represent an attractive initial yield, but given the high-quality tenants and the vacancies, it is an ideal blend of strong location, high credit quality and future growth potential.

Kroger-Safeway Portfolio: In January of 2003, we also acquired a one-million-square-foot Kroger and Safeway supermarket portfolio for $48 million, or $48 per square foot. The projected cash flow on Acadia's portion of its equity investment is anticipated to yield in excess of a 15% return after debt amortization. At the end of the lease term in 2009, our venture will control one million square feet free of debt with tremendous redevelopment and recycle opportunities, providing additional upside in addition to the attractive current yield.

HOW DO YOU DRIVE FUTURE GROWTH? Although the competition for buying shopping centers is intense — we are extremely competitive. We have already met our acquisition target for 2003 — acquiring three portfolios totaling over $150 million.



Trustees and Corporate Officers

Trustees

Ross Dworman
Chairman of the Board

Kenneth F. Bernstein
President and Chief Executive Officer

Martin L. Edelman, Esq.
Of Counsel to Paul, Hastings, Janofsky & Walker, LLP

Alan S. Forman
Director of Investments Office
Yale University

Marvin J. Levine, Esq.
Of Counsel to Wachtel & Masyr, LLP

Lawrence J. Longua
Sr. Vice President
Newmark & Company
Real Estate, Inc.

Gregory A. White
Sr. Vice President
Conning Asset Management Co.

Lee S. Wielansky
Chairman of the Board and
Chief Executive Officer
Midland Development Group Inc.

Senior Officers

Kenneth F. Bernstein
President and Chief Executive Officer

Joel Braun
Sr. Vice President,
Chief Investment Officer

Joseph Hogan
Sr. Vice President,
Director of Construction

Robert Masters, Esq.
Sr. Vice President,
General Counsel and
Corporate Secretary

Joseph M. Napolitano
Sr. Vice President, Director of
Property Management

Michael Nelsen
Sr. Vice President,
Chief Financial Officer

Joseph Povinelli
Sr. Vice President, Director of Leasing

Retail Properties

239 Greenwich Avenue
Greenwich, CT

Town Line Plaza
Rocky Hill, CT

Brandywine Town Center
Wilmington, DE

Market Square Shopping Center
Wilmington, DE

Hobson West Plaza
Naperville, IL

Merrillville Plaza
Hobart, IN

Crescent Plaza
Brockton, MA

Methuen Shopping Center
Methuen, MA

Bloomfield Town Square
Bloomfield Hills, MI

Berlin Shopping Center
Berlin, NJ

Elmwood Park Shopping Center
Elmwood Park, NJ

Ledgewood Mall
Ledgewood, NJ

Marketplace of Absecon
Absecon, NJ

The Branch Plaza
Smithtown, NY

Crossroads Shopping Center
White Plains, NY

New Loudon Center
Latham, NY

Pacesetter Park Shopping Center
Pomona, NY

Soundview Marketplace
Port Washington, NY

Village Commons Shopping Center
Smithtown, NY

Amherst Marketplace
Amherst, OH

Granville Center
Columbus, OH

Mad River Station
Dayton, OH

Sheffield Crossing
Sheffield, OH

Abington Towne Center
Abington, PA

Blackman Plaza
Wilkes-Barre, PA

Bradford Towne Centre
Towanda, PA

East End Centre
Wilkes-Barre, PA

Greenridge Plaza
Scranton, PA

Luzerne Street Shopping Center
Scranton, PA

Mark Plaza
Edwardsville, PA

Pittston Plaza
Pittston, PA

Plaza 422
Lebanon, PA

Route 6 Mall
Honesdale, PA

Walnut Hill Plaza
Woonsocket, RI

The Gateway Shopping Center
South Burlington, VT

Multi-Family Properties

GHT and Colony Apartments
Columbia, MO

Village Apartments
Winston-Salem, NC

Headquarters

White Plains, NY

Concept and Design: Stan Adler Associates, New York

Shareholder Information

Corporate Headquarters

Acadia Realty Trust
1311 Mamaroneck Avenue
Suite 260
White Plains, NY 10605
Tel: 800.227.5570

Internet Address

Visit us online at **www.acadiarealty.com** for more information about Acadia Realty Trust and its real estate portfolio. The 2002 Annual Report is available online, as well as current news and quarterly financial and operational supplementary information.

Legal Counsel

Paul, Hastings, Janofsky & Walker, LLP
Park Avenue Tower
75 East 55th Street
New York, NY 10022

Annual Meeting

The annual meeting will be held on June 25, 2003 at 10:00 am at the offices of Paul, Hastings, Janofsky & Walker, LLP, Park Avenue Tower, 75 East 55th Street, New York, NY 10022.

Independent Auditors

Ernst & Young LLP
5 Times Square
New York, NY 10036

Stock Exchange

New York Stock Exchange
Symbol: AKR

Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
Tel: 877.777.0800
website: www.amstock.com
email: info@amstock.com

Investor Relations

Jon Grisham
Vice President
Tel: 800.227.5570
email: jgrisham@acadiarealty.com

A copy of the Company's annual report and Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by contacting Investor Relations.

Dividend Reinvestment

Acadia Realty Trust offers a dividend reinvestment plan that enables its shareholders to automatically reinvest dividends as well as make voluntary cash payments toward the purchase of additional shares. To participate, contact Acadia Realty Trust's dividend reinvestment agent at **800.937.5449 ext. 6820** or write to:

American Stock Transfer & Trust Company
Attn: Dividend Reinvestment Dept.
59 Maiden Lane
Plaza Level
New York, NY 10038

For further information contact Investor Relations.

ACADIA
REALTY TRUST

1311 Mamaroneck Avenue
Suite 260
White Plains, NY 10605
Tel: 800.227.5570

FROM LEFT TO RIGHT

Greenridge Shopping Center
Scranton, PA

Village Commons Shopping Center
Smithtown, NY

Mad River Station
Dayton, OH

Acadia Realty Trust

Selected Financials 2002

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Management's Discussion and Analysis

Financial Condition and Results of Operations

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funds from Operations

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

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

Reconciliation of Net Income (Loss) to Funds from Operations

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

Notes:

[1]Effective January 1, 2000, NAREIT clarified the definition of FFO to include non-recurring events except those that are defined as extraordinary items under GAAP. FFO for the year ended December 31, 1998 has been restated above to conform to this clarification.

[2]Does not include distributions paid to Preferred OP Unitholders.

[3]Amount is net of minority interest of $573 related to land sale.

Liquidity and Capital Resources

Uses of Liquidity

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

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

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

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

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

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

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

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

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

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

Property Redevelopment and Expansion

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

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

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

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

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

Share Repurchase

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

Sources of Liquidity

The Company intends on using ASOF as the primary vehicle for future acquisitions. Sources of capital for funding the Company's joint venture commitment, other property acquisitions, redevelopment, expansion and re-tenanting, as well as future repurchases of Common Shares are expected to be obtained primarily from cash on hand, additional debt financings and future sales of existing properties. As of December 31, 2002, the Company had a total of approximately $48.1 million of additional capacity with six lenders, of which the Company is required to draw $12.7 million by December 2003, or forego the ability to draw these funds at any time during the remaining term of the loans. Of the remaining capacity, approximately $6.0

million is subject to additional leasing requirements at the collateral properties and certain lender requirements, which the Company has not yet satisfied. The Company also had cash and cash equivalents on hand of $45.2 million at December 31, 2002 as well as six properties that are currently unencumbered and therefore available as potential collateral for future borrowings. The Company anticipates that cash flow from operating activities will continue to provide adequate capital for all debt service payments, recurring capital expenditures and REIT distribution requirements.

Financing and Debt

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

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

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

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

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

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

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

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

On July 10, 2002, the Company entered into an interest rate swap agreement to hedge its exposure to changes in interest rates with respect to $12.3 million of LIBOR based variable-rate debt. The swap agreement, which matures January 1, 2007, provides for a fixed all-in interest rate of 5.9%.

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

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

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

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

Asset Sales

Asset sales are an additional source of liquidity for the Company. Five assets were sold during 2001 and January 2002 as follows (dollar amounts in millions):

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

[1]The Company received a $3.6 million purchase money note. The note, which matures January 15, 2005, requires monthly interest of 7% for year one, increasing at a rate of 1% per annum throughout the term. As part of the transaction, the Company agreed to reimburse the purchaser 50% of the former Ames rent, or $22 per month, for a period of 18 months (through July 2003).

[2]This portfolio of 17 properties was sold to a single buyer subject to a $42.4 million fixed-rate, cross-collateralized and securitized loan. Proceeds include the sale of various escrows including capital expenditure reserves. $6.3 million of the initial proceeds represented a note from the buyer which was subsequently repaid to the Company in December 2002.

[3]These two properties were sold to a single buyer. The Company received two purchase money notes in connection with the sale. The first for $11.0 million was repaid in full in November 2002. The second for $1.6 million matures October 2003, requiring monthly interest of 5% to February 1, 2003, and then 10% thereafter. As part of the transaction, the Company repaid $3.1 million of mortgage debt secured by the Valmont Plaza. The $4.0 million of mortgage debt secured by the Manahawkin Village Shopping Center was repaid in full in September 2002, prior to the sale.

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

In January 2002, the Company, in conjunction with a joint venture partner, purchased a three-acre site located in the Bronx, New York for $3.1 million. Simultaneously, the Company sold approximately 46% of the land to a self-storage facility for $3.3 million. The Company's share of net proceeds totaled $2.9 million. The Company currently plans to build and lease a 15,000-square-foot retail building on the remaining parcel.

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for $2.4 million. The joint venture received a $1.6 million note receivable for the net purchase price and additional reimbursements due from the buyer, which was paid in full subsequent to December 31, 2002. The Company's share of net proceeds totaled $1.4 million after closing and other related costs.

Off Balance Sheet Arrangements

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

The Company owns a 49% interest in two partnerships which own the Crossroads Shopping Center ("Crossroads"). The Company accounts for its investment in Crossroads using the equity method of accounting as it has a non-controlling investment in Crossroads, but exercises significant influence. As such, the Company's financial statements reflect its share of income from, but not the assets and liabilities of, Crossroads.

The Company's effective pro rata share of Crossroads mortgage debt as of December 31, 2002 was $16.5 million. Interest on the debt, which matures in October 2007, has been effectively fixed at 7.2% through variable to fixed-rate swap agreements.

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

Refer to the accompanying consolidated financial statements for a complete discussion of the Company's obligations under various operating leases.

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

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

[1]These amounts represent the Company's pro-rata share of joint venture debt.

Historical Cash Flow

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

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

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

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

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

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

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

Critical Accounting Policies

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

Valuation of Property Held for Use and Sale

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

Bad Debts

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

Inflation

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

Quantitative and Qualitative Disclosures About Market Risk

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

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

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

Consolidated mortgage debt:

Year	Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate
2003	$3.6	$ 16.1	$ 19.7	3.4%
2004	3.5	3.5	7.0	7.9%
2005	2.4	75.8	78.2	3.2%
2006	2.0	—	2.0	N/A
2007	1.1	56.7	57.8	4.1%
Thereafter	2.5	35.2	37.7	7.9%
	$15.1	$187.3	$202.4	

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

Year	Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate
2003–2006	$ 1.8	$ —	$ 1.8	N/A
2007	0.4	16.0	16.4	6.9%
Thereafter	2.4	—	2.4	N/A
	$4.6	$16.0	$20.6	

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

Report of Independent Auditors

To the Shareholders and Trustees of Acadia Realty Trust

We have audited the accompanying consolidated balance sheets of Acadia Realty Trust and subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acadia Realty Trust and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

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

Ernst + Young LLP

New York, New York
February 25, 2003

Consolidated Balance Sheets

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

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

Consolidated Statements of Income

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

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

Consolidated Statements of Income continued

In thousands, except per share amounts	2002	2001	2000
	Years Ended December 31,		
Basic Earnings per Share			
Income from continuing operations	**$0.42**	$ 0.19	$ 0.16
Income from discontinued operations	**0.35**	0.17	0.59
Extraordinary item	**—**	—	—
Cumulative effect of change in accounting principle	**—**	(0.01)	—
Basic earnings per share	**$ 0.77**	$ 0.35	$ 0.75
Diluted Earnings per Share			
Income from continuing operations	**$0.42**	$ 0.19	$ 0.16
Income from discontinued operations	**0.34**	0.17	0.59
Extraordinary item	**—**	—	—
Cumulative effect of change in accounting principle	**—**	(0.01)	—
Diluted earnings per share	**$0.76**	$ 0.35	$ 0.75

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

Consolidated Statements of Shareholders' Equity

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

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

Consolidated Statements of Cash Flows

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

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

Consolidated Statements of Cash Flows continued

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

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

In thousands, except per share amounts

Note 1

Organization, Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

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

Principles of Consolidation

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

Use of Estimates

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

Properties

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

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

Deferred Costs

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

Revenue Recognition

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

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

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

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

Cash and Cash Equivalents

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

Cash in Escrow

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

Income Taxes

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

Recent Accounting Pronouncements

In October, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS No. 144"), which supercedes SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of." It also supercedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale, but broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. The Company adopted this statement on January 1, 2002.

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

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

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

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

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

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

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

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

Comprehensive income

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

	2002	2001
Beginning balance	**$ 1,206**	$ —
Unrealized loss on valuation of derivative instruments	**5,668**	1,206
Ending balance	**$6,874**	$1,206

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

Reclassifications

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

Note 2

Acquisition and Disposition of Properties

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

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

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

	December 31, 2001
Assets	
Net real estate	$62,909
Cash and cash equivalents	191
Cash in escrow	2,649
Rents receivable, net	1,590
Prepaid expenses	695
Deferred charges, net	2,496
Other assets	672
Total assets	71,202
Liabilities	
Mortgage notes payable	50,163
Accounts payable and accrued expenses	732
Other liabilities	741
Total liabilities	51,636
Net assets of discontinued operations	$ 19,566

2002 Acquisitions and Dispositions

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for $2,431. The joint venture received a $1,632 note receivable for the net purchase price and additional reimbursements due from the buyer, which was paid in full subsequent to December 31, 2002. As of December 31, 2002, the Company had deferred the gain of $1,212 pending collection on the note.

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

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

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

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

2001 Dispositions

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

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

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

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

2000 Dispositions

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

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

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

Note 3

Segment Reporting

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

	2002				2001				2000			
	Retail Properties	Multi-Family Properties	All Other	Total	Retail Properties	Multi-Family Properties	All Other	Total	Retail Properties	Multi-Family Properties	All Other	Total
Revenues	**$ 58,498**	**$6,969**	**$3,880**	**$69,347**	$ 52,756	$6,870	$1,656	$ 61,282	$ 54,501	$ 6,816	$2,133	$ 63,450
Property operating expenses and real estate taxes	**17,030**	**3,691**	**—**	**20,721**	16,662	3,362	—	20,024	17,330	3,015	—	20,345
Net property income before depreciation and amortization	**41,468**	**3,278**	**3,880**	**48,626**	36,094	3,508	1,656	41,258	37,171	3,801	2,133	43,105
Depreciation and amortization	**13,287**	**1,201**	**316**	**14,804**	12,154	1,097	354	13,605	11,823	983	330	13,136
Interest expense	**9,390**	**1,627**	**—**	**11,017**	10,468	1,902	—	12,370	14,099	1,778	—	15,877
Real estate at cost	**375,482**	**38,396**	**—**	**413,878**	361,075	37,341	—	398,416	351,648	36,081	—	387,729
Total assets	**368,547**	**36,224**	**6,164**	**410,935**	453,034	35,736	5,169	493,939	481,257	35,570	6,784	523,611
Gross leasable area	**5,079**	**1,207**	**—**	**6,286**	5,079	1,207	—	6,286	5,079	1,207	—	6,286
Expenditures for real estate and improvements	**13,134**	**1,000**	**—**	**14,134**	9,425	1,260	—	10,685	10,217	752	—	10,969
Revenues												
Total revenues for reportable segments	**$ 70,413**				$ 62,273				$ 64,402			
Elimination of intersegment management fee income	**(1,066)**				(991)				(952)			
Total consolidated revenues	**$ 69,347**				$ 61,282				$ 63,450			
Property Operating Expenses and Real Estate Taxes												
Total property operating expenses and real estate taxes for reportable segments	**$ 21,778**				$ 21,015				$ 21,297			
Elimination of intersegment management fee expense	**(1,057)**				(991)				(952)			
Total consolidated expense	**$ 20,721**				$ 20,024				$ 20,345			
Reconciliation to Income Before Minority Interest, Extraordinary Item and Cumulative Effect of Change in Accounting Principle												
Net property income before depreciation and amortization	**$ 48,626**				$ 41,258				$ 43,105			
Depreciation and amortization	**(14,804)**				(13,605)				(13,136)			
General and administrative	**(10,447)**				(9,025)				(8,391)			
Equity in earnings of unconsolidated partnerships	**628**				504				645			
Interest expense	**(11,017)**				(12,370)				(15,877)			
Income from discontinued operations	**8,839**				4,795				15,513			
Minority interest	**(2,426)**				(1,466)				(1,952)			
Income before extraordinary item and cumulative effect of change in accounting principle	**$ 19,399**				$ 10,091				$ 19,907			

Note 4

Investment in Unconsolidated Partnerships

Crossroads

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

	December 31,	
	2002	2001
Balance Sheets		
Assets:		
Rental property, net	**$ 7,603**	$ 7,997
Other assets	**3,536**	3,715
Total assets	**$ 11,139**	$ 11,712
Liabilities and partners' equity		
Mortgage note payable	**$ 33,575**	$ 34,133
Other liabilities	**5,832**	2,759
Partners' equity	**(28,268)**	(25,180)
Total liabilities and partners' equity	**$ 11,139**	$ 11,712
Company's investment	**$ 3,241**	$ 5,147

	Years Ended December 31,		
	2002	2001	2000
Statements of Income			
Total revenue	**$7,091**	$ 7,174	$7,242
Operating and other expenses	**2,150**	2,159	1,895
Interest expense	**2,722**	2,620	2,699
Depreciation and amortization	**547**	538	532
Net income	**$1,672**	$1,857	$ 2,116
Company's share of net income	**$ 934**	$ 910	$1,037
Amortization of excess investment (see below)	**392**	392	392
Income from partnerships	**$ 542**	$ 518	$ 645

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

Acadia Strategic Opportunity Fund, LP ("ASOF")

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

	December 31, 2002	2001
Balance Sheets		
Assets:		
Rental property, net	**$28,046**	$ —
Other assets	**5,977**	98
Total assets	**$ 34,023**	$ 98
Liabilities and partners' equity		
Mortgage note payable	**$ 18,450**	$ —
Other liabilities	**2,418**	—
Partners' equity	**13,155**	98
Total liabilities and partners' equity	**$ 34,023**	$ 98
Company's investment in ASOF	**$ 2,923**	$ 22

	Year ended December 31, 2002	Period from September 28, 2001 (inception) to December 31, 2001
Statements of Operations		
Total revenue	**$ 1,224**	$ —
Operating and other expenses	**342**	—
Management and other fees	**1,391**	402
Interest expense	**350**	—
Depreciation and amortization	**145**	—
Net loss	**$(1,004)**	$(402)
Company's share of net income (loss)	**$ 86**	$ (14)

Note 5

Deferred Charges

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

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

Note 6

Mortgage Loans

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

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

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

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

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

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

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

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

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

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

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

Notes:

(1) Soundview Marketplace

(2) Monthly principal and interest

(3) Greenridge Plaza
Luzerne Plaza

(4) 239 Greenwich Avenue

(5) New Loudon Center
Ledgewood Mall
Route 6 Plaza
Bradford Towne Centre
Berlin Shopping Center

(6) Village Apartments

(7) Branch Shopping Center
Abington Towne Center
Methuen Shopping Center

(8) Walnut Hill Plaza
Bloomfield Town Square

(9) Town Line Plaza

(10) Gateway Shopping Center

(11) Smithtown Shopping Center

(12) Pittston Plaza

(13) Merrillville Plaza

(14) Crescent Plaza
East End Centre

(15) GHT Apartments/ Colony Apartments

(16) Interest only until Shaw's commences paying rent; monthly principal and interest thereafter.

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

2003	$ 19,694
2004	6,968
2005	78,235
2006	1,981
2007	57,777
Thereafter	37,706
	$202,361

Note 7

Shareholders' Equity and Minority Interests

Common Shares

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

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

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

Minority Interests

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

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

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

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

Note 8

Related Party Transactions

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

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

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

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

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

Note 9

Tenant Leases

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

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

2003	$ 40,975
2004	38,717
2005	33,934
2006	31,205
2007	27,996
Thereafter	178,974
	$ 351,801

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

Note 10

Lease Obligations

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

2003	$ 522
2004	562
2005	562
2006	562
2007	562
Thereafter	17,944
	$ 20,714

Note 11

Share Incentive Plan

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

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

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

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

Notes to Consolidated Statements *continued*

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

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

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

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

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

Note 12

Employee 401(k) Plan

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

Note 13

Dividends and Distributions Payable

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

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

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

Note 14

Fair Value of Financial Instruments

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

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

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

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

Interest Rate Hedges

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

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

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

On July 10, 2002, the Company entered into an interest rate swap agreement to hedge its exposure to changes in interest rates with respect to $12,288 of LIBOR based variable rate debt. The swap agreement, which matures on January 1, 2007, provides for a fixed all-in interest rate of 5.9%.

During 2001, the Company completed two interest rate swap transactions to hedge the Company's exposure to changes to interest rates with respect to $50,000 of LIBOR based variable rate debt. The first swap agreement, which extends through April 1, 2005, provides for a fixed all-in rate of 6.6% on $30,000 of notional principal. The second swap agreement, which extends through October 1, 2006, provides for a fixed all-in rate of 6.3% on $20,000 of notional principal.

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

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

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

[1]Relates to the Company's investment in Crossroads. These swaps effectively fix the interest rate on the Company's pro rata share of mortgage debt.

[2]Relates to the Company's investment in ASOF. The above amount represents the Company's pro rata share of the notional value.

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

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

Note 15

Earnings per Common Share

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

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

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

NOTE 16

Summary of Quarterly Financial Information (unaudited)

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

	2002				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	TOTAL
Revenue	$19,526	$16,023	$16,208	$17,590	**$69,347**
Income from continuing operations	5,329	1,770	1,990	1,471	**10,560**
Income (loss) from discontinued operations	1,137	2,052	(108)	5,758	**8,839**
Net income	6,466	3,822	1,882	7,229	**19,399**
Net income per Common Share — basic:					
Income from continuing operations	$ 0.21	$ 0.07	$ 0.08	$ 0.06	**$ 0.42**
Income from discontinued operations	0.04	0.08	—	0.23	**0.35**
Net income	0.25	0.15	0.08	0.29	**0.77**
Net income per Common Share — diluted:					
Income from continuing operations	$ 0.21	$ 0.07	$ 0.08	$ 0.06	**$ 0.42**
Income from discontinued operations	0.04	0.08	—	0.22	**0.34**
Net income	0.25	0.15	0.08	0.28	**0.76**
Cash dividends declared per Common Share	$ 0.13	$ 0.13	$ 0.13	$ 0.13	**$ 0.52**
Weighted average Common Shares outstanding:					
Basic	26,376,443	27,775,053	24,974,176	25,173,874	**25,320,631**
Diluted	26,786,454	25,252,842	24,974,176	25,684,405	**25,806,035**

	2001				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	TOTAL
Revenue	$15,698	$14,809	$14,920	$15,855	**$61,282**
Income from continuing operations	892	1,167	1,388	1,849	**5,296**
Income (loss) from discontinued operations	980	6,633	(10,657)	7,839	**4,795**
Net income	1,583	7,800	(9,269)	9,688	**9,802**
Net income (loss) per Common Share — basic and diluted					
Income from continuing operations	$ 0.03	$ 0.04	$ 0.04	$ 0.07	**$ 0.19**
Income (loss) from discontinued operations	0.04	0.24	(0.37)	0.27	**0.17**
Net income (loss)	0.06	0.28	(0.33)	0.34	**0.35**
Cash dividends declared per Common Share	$ 0.12	$ 0.12	$ 0.12	$ 0.12	**$ 0.48**
Weighted average Common Shares outstanding: Basic and diluted	28,091,479	28,089,593	28,488,712	28,575,250	**28,313,070**

NOTE 17

Commitments and Contingencies

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

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

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

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

Note 18

Extraordinary Item — Loss on Early Extinguishment of Debt

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

Note 19

Subsequent Events

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

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

ACADIA
REALTY TRUST

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FROM LEFT TO RIGHT

Greenridge Shopping Center
Scranton, PA

Village Commons Shopping Center
Smithtown, NY

Mad River Station
Dayton, OH