

CORTLANDT CROSSING, MOHEGAN LAKE, NY



2018

ACADIA
REALTY TRUST

ANNUAL REPORT

Dear Fellow Shareholders:

Goodbye zombies, hello Darwin. What a difference a year makes! In 2017, tales of the “Retail Apocalypse” dominated the headlines. The headlines were oversimplified, but the headwinds were real. Many of those challenges still exist today, but it has become more and more clear to the outside world that brick-and-mortar retail real estate is not dead. And, thankfully, the marketplace has begun to embrace a more nuanced view of what is really happening inside the retailing and retail real estate industries — a multi-year evolution, with an ongoing separation of the haves and have nots. (Ironically, this phenomenon is not new; retailing has always been Darwinian.)

Looking ahead, here’s the good news — due to a lot of strategizing and hard work, our company is well positioned to thrive in this environment.

- Our focus on urban and street-retail properties has kept our core portfolio relevant to our retailers;
- The strong institutional relationships we’ve developed in our fund platform have enabled us to profitably invest despite public-market volatility; and
- The strength with which we’ve built, and continue to maintain, our balance sheet has always given us the flexibility to make sound investment-driven decisions.

At the end of the day, all this should enable us to generate attractive risk-adjusted returns for all our stakeholders over any extended period.

1. Our core portfolio, high quality breeds success

We are focused on the highest quality retail properties.

- Approximately 85% of our core portfolio’s value is concentrated in five gateway markets — New York, Chicago, San Francisco, Washington DC, and Boston.
- Within these markets, our street-retail properties are located primarily in live-work-play retail corridors, such as Soho (New York), Tribeca (New York), Rush St-Walton St (Chicago), State St (Chicago), Union Sq (San Francisco), M St NW (Georgetown, Washington DC) and Newbury St (Boston).

In 2018, as retailer sales improved, and retailers went back on offense, these finally began to feel like “must-have” locations again — at least for the “have” retailers.

Make a plan and stick to it. At the beginning of the year, we set an important goal — sign leases that would add \$8 million of incremental net operating income (“NOI”) to our core portfolio on a run-rate basis.

- Thanks to improving tenant demand and our team’s hard work, we did it. In fact, we substantially achieved our \$8 million goal with a few spaces left to lease.
- Now, it looks like we’ll eventually surpass our goal by nearly \$1 million.
- Moreover, the remaining vacancy includes some of our best street locations, including Madison Ave in New York and the Gold Coast of Chicago — i.e., this is not permanent vacancy; the incremental earnings “pop” from this final wave of lease up should be achievable.

It’s a brand-new day. It’s still a tenant’s market, even on the best streets. But, during 2018, we saw a broad shift in sentiment:

- We signed a lease with Gabriela Hearst (now backed by LVMH) at the Retail at the Carlyle House on Madison Ave in New York, which showed us there’s still **optimism among young brands**. (This is the designer’s first store.)
- We signed leases with several digitally-native brands (*Allbirds and Outdoor Voices on Armitage Ave in Lincoln Park, Chicago and Outdoor Voices, again, on M St in Georgetown, Washington, DC*), which reminded us that these brands understand **the necessity of opening stores as a pathway to growth and profitability**.
- And, at year end, we signed a 28k-sf lease with Uniqlo on State St in Chicago to replace a departing H&M, which proved that **retailers (even large format!) will show up when the right location becomes available**.

We're on the path for 4% growth. Last year, we articulated another important goal — deliver more than \$20 million of additional core NOI between 2018 and 2022, equating to approximately 4% annual growth.

- A year later, we are well on our way.
- Strong lease-up in 2018 (done!) and 2019 (so far so good) will be key drivers of this growth, as will contractual and mark-to-market revenue growth.
- Our redevelopment pipeline will also make important contributions with a relatively small investment of capital (approximately \$50 million).

In fact, two developments contribute approximately one third of this \$20 million, and we made significant progress on both during 2018:

First, at the corner of **Clark St & Diversey Pkwy in Lincoln Park, Chicago:**

- We maximized the site's buildable area with a newly-constructed 30k-sf, two-level retail building.
- Anchor TJMaxx relocated to the property; consistent with our thesis, they chose to lease second-level selling space from us rather than stick with a street-level store in an inferior location a few blocks away.
- We kicked off the lease-up of our small shops with the grand opening of a new bluemercury - now, only 7k sf of street-level shops remain to be leased.

For us, the value of this redevelopment is magnified, because we own all the retail across the street.

Second, at **City Center**, a 200k-sf Target-anchored property, **in San Francisco:**

- We are building a total of 40k sf of additional retail space in three underutilized parking lots.
- We also recaptured a 55k-sf Best Buy, and, at year-end 2018, executed a lease with Whole Foods for the entire space. We still have to go through an important local approval process before the tenant will be cleared to proceed but, assuming we are successful, both the community and the property will benefit from this addition.
- Did you know — at times, there is a line to park your car and shop at the Trader Joe's across the street? This neighborhood needs another good grocery store!

Stay tuned. Looking ahead, we have additional properties in our development pipeline. This includes a Kmart box at our Crossroads Shopping Center in Westchester County, NY.

- Although Kmart has announced several store closures, they are keeping this location, for now.
- Best and highest use of the box involves densification or a multi-tenant re-anchoring. Since the retailer's remaining lease term is relatively limited, we have greater hope that we will have an actionable opportunity to harvest real growth here in the near term.

Remember, not all NOI growth is created equal. Overall, it's worth noting that our urban and street-retail properties continue to outperform our suburban properties by more than 300 basis points ("bps"). Considering that this portion of our portfolio represents approximately 70% of our gross asset value and is poised to grow NOI well above the 4% blended rate, our "value-weighted growth" should drive meaningful value creation as we execute our business plan.

On the core acquisitions front, last year, private sellers of high-quality street-retail properties were reluctant to mark their properties to market. So, with mismatched expectations of market rents and/or cap rates, we joined sellers on the sidelines and did not make any core property investments in 2018, just like in 2017. For 2019, we are beginning to see acquisition opportunities that are both accretive to our net asset value and consistent with our long-term growth strategy. But, it is still early.

2. Our balance sheet, highly liquid and rock solid

Sometimes we're the opportunistic buy. Unlike the private markets, the public markets were quick to correct - and, in my opinion, overcorrect - to shifts in retail real estate values in early 2018. As a result, we saw a compelling opportunity to implement a stock buyback initiative and bought \$55.1 million at an average price of \$24 per share. Let's be clear — we reluctantly allocated capital to buybacks. But, when we see a high level of disconnect, I don't think we have a choice.

And, with:

- approximately 25% core debt to core GAV; and
 - more than \$100 million of borrowing capacity on our corporate lines of credit;
- we have the liquidity to do it.**

As the year progressed, the markets bounced back, and our buyback window closed. **Then, the Grinch arrived**, just in time for Christmas. And, it was ugly.

- As REIT shareholders, you can own real estate with the benefit of liquidity.
- But, sometimes REITs act like stocks, not hard assets; and, it's incredibly frustrating... for all of us.

3. Our fund platform, remaining nimble

Especially in these “Grinchy” moments, it feels good to have dual sources of capital, including one that's disconnected from the public markets.

So, what was our fund platform up to in 2018?

Well, on the acquisition front, our funds have been pursuing a barbell strategy, acquiring both:

- High-yield or other opportunistic investments; and
- High-quality, value-add properties.

We're still picking needles from a haystack. Last year, we saw continued opportunity in our contrarian purchase of higher-yielding, but lower-growing, suburban properties in secondary markets; but we've had to remain fairly selective.

- We recognize, and appreciate, the inherent risks of these higher-yielding shopping centers.
- But, at today's pricing (i.e., 7.5-8.5% entry cap rates), and by remaining selective, we are generally able to buy these assets at a discount to replacement cost.
- In fact, our weighted price per square foot for our Fund V acquisitions is approximately \$150 psf.
- And, while it varies from market to market, it's hard to replicate a shopping center for that amount even if someone gives you the land for free, especially in this era of rising construction costs. As we contemplate further construction cost increases, we feel good about this cushion, which creates barriers to entry.

There are signs of life for value add. On the other end of the barbell, sufficient new demand is just beginning to reemerge such that we're starting to see some interesting value-add opportunities — but, it's still early.

- Ground-up developments can be compelling, and we have the in-house capability to execute them successfully... when construction costs make sense.
- But, we remain sober to the fact that we are late cycle for many types of real estate. No one wants to arrive late to that party.

Patience is not just a virtue; it's how we make money. During 2018, we completed \$149.0 million of investments on behalf of Fund V. This compares to our original 2018 fund acquisition guidance of \$200-700 million.

- To date, we have allocated approximately 45% of Fund V's capital commitments.

- This leaves us with approximately \$850 million of dry powder, on a leveraged basis, available to deploy through the summer of 2021.
- This is a slower investment pace than we originally anticipated.

But remember, we've been in the fund business longer than we've been a public company. It is a cyclical business. And, in our opinion, the only way to create long-term value for all our stakeholders is through patience, discipline and aggressive execution of our focused strategy. So, that's what we'll do, knowing that any short-term impact on earnings growth is worth it for the long-term value creation.

On the disposition front, we completed \$76.6 million of dispositions across our fund platform. Remember that between 2014 and 2017, we sold \$1.2 billion of investments; so, last year's disposition pipeline was smaller, as expected. This pipeline will refill as we complete lease-up and development activities across our portfolio of fund properties.

We are well positioned to meet retailers' needs. To that end, during 2018, we made meaningful progress on our existing fund investments, shedding further light on improving retailer sentiment. For example:

- We signed a lease with lululemon for 26k sf on three levels at 938 W North Ave (Fund IV) in Lincoln Park, Chicago, which showed us that, following a couple years of market-rent declines, **there are meaningful signs of life in the established street-retail corridors in the U.S.;**
- We signed new leases, with strong lease spreads, at Restaurants at Fort Point (Fund IV) in Boston's Seaport District, which showed us **retailers' optimism extends beyond established retail corridors to certain up-and-coming retail submarkets;**
- We signed a lease with the TJX Companies' new brand Homesense at Cortlandt Crossing (Fund III) in Westchester County, NY, proving that **there continues to be demand for well-located suburban assets, albeit muted demand;** and
- We signed an agreement with Alamo Drafthouse to expand their theater (doubling the number of screens!) at City Point (Fund II) in downtown Brooklyn, and we also expanded our Dekalb Market food hall to include a bar/lounge/entertainment venue, reminding everyone that **experiential retailing is thriving.**

4. In conclusion...

In 1998, Acadia became a public company through a reverse merger with Mark Centers Trust, a troubled shopping center REIT with too much debt, too many Kmart's, and too few prime locations.

Since then, we have faced:

- The bursting of the dot-com bubble;
- The tragedy of 9/11;
- The global financial crisis; and, more recently,
- The so-called "Retail Apocalypse."

Along the way, we:

- Significantly upgraded our portfolio by executing a disciplined asset-recycling program;
- Decreased our debt and increased our liquidity by actively managing our balance sheet; and
- Successfully launched five institutional funds, executing on a variety of investments that continue to differentiate us today (e.g. the acquisitions of Mervyn's department stores and Albertsons supermarkets, the redevelopment of Fordham Road, City Point).

In doing so, we were able to deliver a total shareholder return of approximately 1,400% over the past 20 years, making us one of the top performing shopping center REITs over that period.

That said, at the end of the day, I'm most proud of our hardworking team. At year end, one of our founding team members retired — Joel Braun, our Executive Vice President and Chief Investment Officer. Over the years, Joel, my trusted collaborator and friend, has been integral to Acadia's transformation into a differentiated, dual-platform company. As importantly, Joel has built a talented and energized

investment team that will now be co-led by long-time Acadia team members Jessica Zaski and Reggie Livingston. I look forward to partnering with them on our growth initiatives.

Looking ahead, our team is committed to creating another 20 years of success. **So am I.** We look forward to continuing to grow this company together with you, our shareholders, and thank you for your support.

A handwritten signature in black ink, appearing to read 'KFB', with a stylized flourish at the end.

Kenneth F. Bernstein

President & CEO

March 21, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

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

For the transition period from _____ to _____

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland
(State of incorporation)

23-2715194
(I.R.S. employer identification no.)

411 Theodore Fremd Avenue, Suite 300 Rye, NY 10580

(Address of principal executive offices)

(914) 288-8100

(Registrant's telephone number)

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

Common Shares of Beneficial Interest, \$0.001 par value

(Title of Class)

New York Stock Exchange

(Name of Exchange on which registered)

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Securities Act.

YES NO

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

YES NO

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$2,230.7 million, based on a price of \$27.37 per share, the average sales price for the registrant's common shares of beneficial interest on the New York Stock Exchange on that date.

The number of shares of the registrant's common shares of beneficial interest outstanding on February 13, 2019 was 81,703,355.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – Portions of the registrant's definitive proxy statement relating to its 2019 Annual Meeting of Shareholders presently scheduled to be held May 10, 2019 to be filed pursuant to Regulation 14A.

ACADIA REALTY TRUST AND SUBSIDIARIES
FORM 10-K
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K (the “Report”) may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend” or “project” or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to those set forth under the headings “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Report. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

SPECIAL NOTE REGARDING CERTAIN REFERENCES

All references to “Notes” throughout the document refer to the notes to the consolidated financial statements of the registrant referenced in Part II, Item 8. Financial Statements.

PART I

ITEM.1. BUSINESS.

GENERAL

Acadia Realty Trust (the “Trust”) was formed on March 4, 1993 as a Maryland real estate investment trust (“REIT”). All references to “Acadia,” “we,” “us,” “our” and “Company” refer to the Trust and its consolidated subsidiaries. We are a fully integrated REIT focused on the ownership, acquisition, development and management of high-quality retail properties located primarily in high-barrier-to-entry, supply-constrained, densely-populated metropolitan areas in the United States. We currently own or have an ownership interest in these properties through our Core Portfolio and our Funds (each as defined below).

All of our assets are held by, and all of our operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of December 31, 2018, the Trust controlled 94% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units,” respectively, and collectively, “OP Units”) and employees who have been awarded restricted Common OP Units as long-term incentive compensation (“LTIP Units”). Limited partners holding Common OP and LTIP Units are generally entitled to exchange their units on a one-for-one basis for our common shares of beneficial interest of the Trust (“Common Shares”). This structure is referred to as an umbrella partnership REIT, or “UPREIT.”

BUSINESS OBJECTIVES AND STRATEGIES

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

- Own and operate a portfolio of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas (“Core Portfolio”). Our goal is to create value through accretive development and re-tenanting activities within our existing portfolio and grow this platform through the acquisition of high-quality assets that have the long-term potential to outperform the asset class.
- Generate additional growth through our Funds (as defined below) in which we co-invest with high-quality institutional investors. Our Fund strategy focuses on opportunistic yet disciplined acquisitions with high inherent opportunity for the creation of additional value, execution on this opportunity and the realization of value through the sale of these assets. In connection with this strategy, we focus on:
 - value-add investments in street retail properties, located in established and “next-generation” submarkets, with re-tenanting or repositioning opportunities,
 - opportunistic acquisitions of well-located real estate anchored by distressed retailers, and
 - other opportunistic acquisitions, which vary based on market conditions and may include high-yield acquisitions and purchases of distressed debt.

Some of these investments historically have also included, and may in the future include, joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets.

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

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

The requirements that acquisitions be accretive on a long-term basis based on our cost of capital, as well as increase the overall Core Portfolio quality and value, are key strategic considerations to the growth of our Core Portfolio. As such, we constantly evaluate the blended cost of equity and debt and adjust the amount of acquisition activity to align the level of investment activity with capital flows.

Given the growing importance of technology and e-commerce, many of our retail tenants are appropriately focused on omni-channel sales and how to best utilize e-commerce initiatives to drive sales at their stores. In light of these initiatives, we have found retailers are becoming more selective as to the location, size and format of their next-generation stores and are focused on dense, high-traffic retail corridors, where they can utilize smaller and more productive formats closer to their shopping population. Accordingly, our focus for Core Portfolio and Fund acquisitions is on those properties which we believe will not only remain relevant to our tenants, but become even more so in the future.

In addition to our Core Portfolio investments in real estate assets, we have also capitalized on our expertise in the acquisition, development, leasing and management of retail real estate by establishing discretionary opportunity funds. Our Fund platform is an investment vehicle where the Operating Partnership invests, along with outside institutional investors, including, but not limited to, endowments, foundations, pension funds and investment management companies, in primarily opportunistic and value-add retail real estate. To date, we have launched five funds (“Funds”); Acadia Strategic Opportunity Fund, LP (“Fund I,” which was liquidated in 2015), Acadia Strategic Opportunity Fund II, LLC (“Fund II”), Acadia Strategic Opportunity Fund III LLC (“Fund III”), Acadia Strategic Opportunity Fund IV LLC (“Fund IV”) and Acadia Strategic Opportunity Fund V LLC (“Fund V,” and our “current fund”). Due to our level of control, we consolidate these Funds for financial reporting purposes. Fund I and Fund II have also included investments in operating companies through Acadia Mervyn Investors I, LLC (“Mervyns I”, which was liquidated in 2018), Acadia Mervyn Investors II, LLC (“Mervyns II”) and, in certain instances, directly through Fund II, all on a non-recourse basis. These investments comprise, and are referred to as, the Company's Retailer Controlled Property Venture (“RCP Venture”).

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

See [Note 1](#) in the Notes to Consolidated Financial Statements, included in [Item 8](#) of this Report (“Notes to Consolidated Financial Statements”), for a detailed discussion of the Funds.

Capital Strategy — Balance Sheet Focus and Access to Capital

Our primary capital objective is to maintain a strong and flexible balance sheet through conservative financial practices, including moderate use of leverage within our Core Portfolio, while ensuring access to sufficient capital to fund future growth. We intend to continue financing acquisitions and property development with sources of capital determined by management to be the most appropriate based on, among other factors, availability in the current capital markets, pricing and other commercial and financial terms. The sources of capital may include the issuance of public equity, unsecured debt, mortgage and construction loans, and other capital alternatives including the issuance of OP Units. We manage our interest rate risk through the use of fixed-rate debt and, where we use variable-rate debt, through the use of certain derivative instruments, including London Interbank Offered Rate (“LIBOR”) swap agreements and interest rate caps as discussed further in [Item 7A](#) of this Report.

During 2018, the Company revised its share repurchase program. The new share repurchase program authorizes management, at its discretion, to repurchase up to \$200.0 million of its outstanding Common Shares. The program may be discontinued or extended at any time. The Company repurchased 2,294,235 shares for \$55.1 million, inclusive of \$0.1 million of fees, during the year ended December 31, 2018. The Company did not repurchase any shares during the years ended December 31, 2017 or 2016. As of December 31, 2018, management may repurchase up to approximately \$144.9 million of the Company’s outstanding Common Shares under this program.

We launched an at-the-market (“ATM”) equity issuance program in 2012 which provides us an efficient and low-cost vehicle for raising public equity to fund our capital needs. Through this program, we have been able to effectively “match-fund” a portion of the required equity for our Core Portfolio and Fund acquisitions through the issuance of Common Shares over extended periods employing a price averaging strategy. In addition, from time to time, we have issued and intend to continue to issue equity in follow-on offerings separate from our ATM program. Net proceeds raised through our ATM program and follow-on offerings are primarily used for acquisitions, both for our Core Portfolio and our pro-rata share of Fund acquisitions and for other general corporate purposes, subject to certain limitations within its corporate borrowing facilities.

During 2016, we issued 4.5 million common shares through our ATM program with gross proceeds of \$157.6 million and 8.4 million common shares in our follow-on offering with gross proceeds of \$302.0 million. We also issued OP Units equating to 0.9 million Common Shares in connection with the acquisition of properties. See [Note 10](#) for further details. No such issuances were made during 2017 or 2018.

Operating Strategy — Experienced Management Team with Proven Track Record

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

Operating functions such as leasing, property management, construction, finance and legal (collectively, the “Operating Departments”) are generally provided by our personnel, providing for a vertically integrated operating platform. By incorporating the Operating Departments in the acquisition process, the Company believes that its acquisitions are appropriately evaluated giving effect to each asset’s specific risks and returns.

INVESTING ACTIVITIES

Core Portfolio

Our Core Portfolio consists primarily of high-quality street retail and urban assets, as well as suburban properties located in high-barrier-to-entry, densely-populated trade areas.

See [Item 2. Properties](#) for a description of the properties in our Core Portfolio.

As we typically hold our Core Portfolio properties for long-term investment, we review the portfolio and implement programs to renovate and re-tenant targeted properties to enhance their market position. This in turn is expected to strengthen the competitive position of the leasing program to attract and retain quality tenants, increasing cash flow, and consequently, property values. From time to time, we also identify certain properties for disposition and redeploy the capital for acquisitions and for the repositioning of existing properties with greater potential for capital appreciation. During 2018, there were no dispositions within the Core Portfolio.

We also make investments in first mortgages and other notes receivable collateralized by real estate, (“Structured Finance Program”) either directly or through entities having an ownership interest therein. During 2018, we made investments totaling \$2.8 million in this program and we exchanged a portion of our notes receivable for an additional interest in a property ([Note 4](#)). As of December 31, 2018, we had \$56.5 million invested in this program. See [Note 3](#), for a detailed discussion of our Structured Finance Program.

Funds

Acquisitions

See [Note 2](#) and [Note 4](#) for a detailed discussion of our consolidated and unconsolidated acquisitions, respectively.

Fund IV – During 2018, Fund IV consolidated 11 of its previously unconsolidated properties for nominal consideration.

Fund V – During 2018, Fund V acquired three consolidated properties for an aggregate purchase price of \$149.0 million.

Dispositions

See [Note 2](#) and [Note 4](#) for a detailed discussion of our consolidated and unconsolidated dispositions, respectively.

Fund II – During 2018, Fund II sold one consolidated property for \$26.0 million.

Fund IV – During 2018, Fund IV sold two consolidated properties for an aggregate of \$28.5 million, sold four residential condominium units located at a consolidated property for \$12.1 million, sold three unconsolidated properties for an aggregate sales price of \$10.0 million and terminated its master leases at two unconsolidated properties.

Development and Redevelopment Activities

As part of our investing strategy, we invest in real estate assets that may require significant development. In addition, certain assets may require redevelopment to meet the demand of changing markets. As of December 31, 2018, there were two Fund development projects and three Core redevelopment projects. During the year ended December 31, 2018, the Company placed one Core and one Fund consolidated property into service as well as one unconsolidated Fund property. See [Item 2. Properties—Development Activities](#) and [Note 2](#).

INFLATION

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

ENVIRONMENTAL LAWS

For information relating to environmental laws that may have an impact on our business, please see “Item 1A. Risk Factors — We are exposed to possible liability relating to environmental matters.”

COMPETITION

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

CORPORATE HEADQUARTERS AND EMPLOYEES

Our executive office is located at 411 Theodore Fremd Avenue, Suite 300, Rye, New York 10580, and our telephone number is (914) 288-8100. As of December 31, 2018, we had 112 employees, of which 91 were located at our executive office and 21 were located at regional property management offices. None of our employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

COMPANY WEBSITE

All of our filings with the Securities and Exchange Commission, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available at no cost at our website at www.acadiarealty.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. These filings can also be accessed through the Securities and Exchange Commission’s website at www.sec.gov. Alternatively, we will provide paper copies of our filings at no cost upon request. If you wish to receive a copy of the Form 10-K, you may contact Jason Blacksberg, Corporate Secretary, at Acadia Realty Trust, 411 Theodore Fremd Avenue, Suite 300, Rye, NY 10580. You may also call (914) 288-8100 to request a copy of the Form 10-K. Information included or referred to on our website is not incorporated by reference in or otherwise a part of this Form 10-K.

CODE OF ETHICS AND WHISTLEBLOWER POLICIES

The Board of Trustees adopted a Code of Business Conduct and Ethics applicable to all employees, as well as a “Whistleblower Policy.” Copies of these documents are available in the Investor Information section of our website. We intend to disclose future amendments to, or waivers from (with respect to our senior executive financial officers), our Code of Ethics in the Investor Information section of our website within four business days following the date of such amendment or waiver.

ITEM 1A. RISK FACTORS.

Set forth below are the risk factors that we believe are material to our investors. You should carefully consider these risk factors, together with all of the other information included in this Report, including our consolidated financial statements and the related notes thereto, before you decide whether to make an investment in our securities. The occurrence of any of the following risks could adversely affect our business, results of operations, and financial condition. In such case, the value of our Common Shares and the trading price of our securities could decline, and you may lose all or a significant part of your investment. This section includes or refers to certain forward-looking statements. Refer to the explanation of the qualifications and limitations on such forward-looking statements discussed in the beginning of this annual report on Form 10-K.

The following risk factors are not exhaustive. Other sections of this annual report on Form 10-K may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may affect our business. Investors should also refer to our quarterly reports on Form 10-Q and current reports on Form 8-K for future periods for material updates to these risk factors.

RISKS RELATED TO OUR BUSINESS AND OUR PROPERTIES

There are risks relating to investments in real estate that may adversely affect our income and cash flow.

Real property investments are subject to multiple risks. Real estate values are affected by a number of factors, including: changes in the general economic climate, local conditions (such as an oversupply of space or a reduction in demand for real estate in an area), the quality and philosophy of management, competition from other available space, the ability of the owner to provide adequate maintenance and insurance and to control variable operating costs. Retail properties, in particular, may be affected by changing perceptions of retailers or shoppers regarding the safety, convenience and attractiveness of the property and by the overall climate for the retail industry. Real estate values are also affected by such factors as government regulations, interest rate levels, the availability of financing and potential liability under, and changes in, environmental, zoning, tax and other laws. A significant portion of our income is derived from rental income from real property. Our income and cash flow would be adversely affected if we were unable to rent our vacant space to viable tenants on economically favorable terms. In the event of default by a tenant, we may experience delays in enforcing, as well as incur substantial costs to enforce, our rights as a landlord. In addition, certain significant expenditures associated with each equity investment (such as mortgage payments, real estate taxes and maintenance costs) are generally not reduced even though there may be a reduction in income from the investment.

We rely on revenues derived from tenants, in particular our key tenants, and a decrease in those revenues may adversely affect our ability to make distributions.

Revenue from our properties depends primarily on the ability of our tenants to pay the full amount of rent and other charges due under their leases on a timely basis. We derive significant revenues from a concentration of certain key tenants that occupy space at more than one property. We could be adversely affected in the event of the bankruptcy or insolvency of, or a downturn in the business of, any of our key tenants, or in the event that any such tenant does not renew its leases as they expire or renews such leases at lower rental rates. See “[Item 2. Properties—Major Tenants](#)” in this Report for quantified information with respect to the percentage of our minimum rents received from major tenants.

Anchor tenants and co-tenancy are crucial to the success of retail properties and vacated anchor space directly and indirectly affects our rental revenues.

We own properties which are supported by “anchor” tenants. Anchor tenants pay a significant portion of the total rents at a property and contribute to the success of other tenants by drawing large numbers of customers to a property. Vacated anchor space not only directly reduces rental revenues, but, if not re-tenanted with a similar tenant, or one with equal consumer attraction, could adversely affect the entire shopping center primarily through the loss of customer drawing power. This can also occur through the exercise of the right that most anchors have, to vacate and prevent re-tenanting by paying rent for the balance of the lease term (“going dark”), as would the departure of a “shadow” anchor tenant that is owned by another landlord. In addition, in the event that certain anchor tenants cease to occupy a property, such an action may result in a significant number of other tenants having the contractual right to terminate their leases, or pay a reduced rent based on a percentage of the tenant's sales, at the affected property, which could adversely affect the future income from such property (“co-tenancy”). Although it may not directly reduce our rental revenues, and there are no contractual co-tenancy conditions, vacant retail space adjacent to, or even on the same block as our street and urban properties may similarly affect shopper traffic and re-tenanting activities at our properties. See “[Item 2. Properties—Major Tenants](#)” in this Report for quantified information with respect to the percentage of our minimum rents received from major tenants.

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

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

Historically and from time to time, certain of our tenants experienced financial difficulties and filed for bankruptcy protection, typically under Chapter 11 of the United States Bankruptcy Code (“Chapter 11 Bankruptcy”). Pursuant to bankruptcy law, tenants have the right to reject some or all of their leases. In the event a tenant exercises this right, the landlord generally has the right to file a claim for lost rent equal to the greater of either one year's rent (including tenant expense reimbursements) for remaining terms greater than one year, or 15% of the rent remaining under the balance of the lease term, but not to exceed three years rent. Actual amounts to be received in satisfaction of those claims will be subject to the tenant's final bankruptcy plan and the availability of funds to pay its creditors.

Our experience shows that there can be no assurance that one or more of our major tenants will be immune from bankruptcy.

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

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

Our business is significantly influenced by demand for retail space generally, and a decrease in such demand may have a greater adverse effect on our business than if we owned a more diversified real estate portfolio.

A decrease in the demand for retail space, due to the economic factors discussed above or otherwise, may have a greater adverse effect on our business and financial condition than if we owned a more diversified real estate portfolio. The market for retail space has been, and could continue to be, adversely affected by weakness in the national, regional and local economies, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, and increasing consumer purchases through the Internet. To the extent that any of these conditions occur, they are likely to negatively affect market rents for retail space and could materially and adversely affect our financial condition, results of operations, cash flow, the trading price of our common shares and our ability to satisfy our debt service obligations and to pay distributions to our shareholders.

E-commerce can have an impact on our business because it may cause a downturn in the business of our current tenants and affect future leases.

The use of the internet by consumers continues to gain in popularity. The migration toward e-commerce is expected to continue. This increase in internet sales could result in a downturn in the business of our current tenants in their “brick and mortar” locations and could affect the way future tenants lease space.

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

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

Our operations and performance depend on general economic conditions, including the health of the consumer. The U.S. economy has historically experienced financial downturns from time to time, including a decline in consumer spending, credit tightening and high unemployment.

While we currently believe we have adequate sources of liquidity, there can be no assurance that we will be able to obtain secured or unsecured loan facilities to meet our needs, including to purchase additional properties, to complete current development projects, or to successfully refinance our properties as loans become due. To the extent that the availability of credit is limited, it would also adversely impact our notes receivable as counterparties may not be able to obtain the financing required to repay the loans upon maturity.

Certain sectors of the United States economy are still experiencing weakness. Over the past several years, this structural weakness has resulted in periods of high unemployment, the bankruptcy or weakened financial condition of a number of retailers, decreased consumer spending, increased home foreclosures, low consumer confidence, and reduced demand and rental rates for certain retail space. There can be no assurance that the recovery will continue. General economic factors that are beyond our control, including, but not limited to, economic recessions, decreases in consumer confidence, reductions in consumer credit availability, increasing consumer debt levels, rising energy costs, higher tax rates, continued business layoffs, downsizing and industry slowdowns, and/or rising inflation, could have a negative impact on the business of our retail tenants. In turn, this could have a material adverse effect on our business because current or prospective tenants may, among other things, (i) have difficulty paying their rent obligations as they struggle to sell goods and services to consumers, (ii) be unwilling to enter into or renew leases with us on favorable terms or at all, (iii) seek to terminate their existing leases with us or request rental concessions on such leases, or (iv) be forced to curtail operations or declare bankruptcy.

Political and economic uncertainty could have an adverse effect on our business.

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

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

Inflation may adversely affect our financial condition and results of operations.

Increased inflation could have a more pronounced negative impact on our mortgage and debt interest and general and administrative expenses, as these costs could increase at a rate higher than our rents. Also, inflation may adversely affect tenant leases with stated rent increases or limits on such tenant's obligation to pay its share of operating expenses, which could be lower than the increase in inflation at any given time. It may also limit our ability to recover all of our operating expenses. Inflation could also have an adverse effect on consumer spending, which could impact our tenants' sales and, in turn, our average rents, and in some cases, our percentage rents, where applicable. In addition, renewals of leases or future leases may not be negotiated on current terms, in which event we may recover a smaller percentage of our operating expenses.

Many of our real estate costs are fixed, even if income from our properties decreases, which would cause a decrease in revenue.

Our financial results depend primarily on leasing space at our properties to tenants on terms favorable to us. Costs associated with real estate investment, such as real estate taxes, insurance and maintenance costs, generally are not reduced even when a property is not fully occupied, rental rates decrease, or other circumstances cause a reduction in income from the property. As a result, cash flow from the operations of our properties may be reduced if a tenant does not pay its rent or we are unable to fully lease our properties on favorable terms. Additionally, properties that we develop or redevelop may not produce any significant revenue immediately, and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with such projects until they are fully occupied.

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

Equity investments in real estate are relatively illiquid and, therefore, our ability to change our portfolio promptly in response to changed conditions is limited, which could adversely affect our financial condition and results of operations and our ability to pay dividends and make distributions. In addition, the Code contains restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. Our Board of Trustees may establish investment criteria or limitations as it deems appropriate, but our Board of Trustees currently does not limit the number of properties in which we may seek to invest or on the concentration of investments in any one geographic region. As discussed under the heading "Our Board of Trustees may change our investment policy without shareholder approval" below, we could change our investment, disposition and financing policies and objectives without a vote of our shareholders, but such change may be delayed or more difficult to implement due to the illiquidity of real estate.

Although we have historically used moderate levels of leverage, if we employed higher levels of leverage, it would result in increased risk of default on our obligations and in an increase in debt service requirements, which could adversely affect our financial condition and results of operations and our ability to pay dividends and make distributions. In addition, the viability of the interest rate hedges we use is subject to the strength of the counterparties.

We have incurred, and expect to continue to incur, indebtedness to support our activities. As of December 31, 2018, our outstanding indebtedness was \$1,560.3 million, of which \$558.7 million was variable rate indebtedness. None of our Declaration of Trust, our bylaws or any policy statement formally adopted by our Board of Trustees limits either the total amount of indebtedness or the specified percentage of indebtedness that we may incur. Accordingly, we could become more highly leveraged, resulting in increased risk of default on our financial obligations and in an increase in debt service requirements. This in turn could adversely affect our financial condition, results of operations and our ability to make distributions.

Variable rate debt exposes us to changes in interest rates. Interest expense on our variable rate debt as of December 31, 2018 would increase by \$5.6 million annually for a 100-basis-point increase in interest rates. This exposure would increase if we seek additional variable rate financing based on pricing and other commercial and financial terms.

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

Increases in interest rates would cause our borrowing costs to rise and may limit our ability to refinance debt.

Although a significant amount of our outstanding debt has fixed interest rates, we also borrow funds at variable interest rates. Increases in interest rates would increase our interest expense on any outstanding unhedged variable rate debt and would affect the terms under which we refinance our existing debt as it matures, which would adversely affect our cash flow, financial condition and results of operations.

Competition may adversely affect our ability to purchase properties and to attract and retain tenants.

There are numerous commercial developers, real estate companies, financial institutions and other investors with greater financial resources than we have that compete with us in seeking properties for acquisition and tenants who will lease space in our properties. Our competitors include other REITs, financial institutions, private funds, insurance companies, pension funds, private companies, family offices, sovereign wealth funds and individuals. This competition may result in a higher cost for properties than we wish to pay. In addition, retailers at our properties (both in our Core Portfolio and in the portfolios of the Funds) face increasing competition from outlet malls, discount shopping clubs, e-commerce, direct mail and telemarketing, which could (i) reduce rents payable to us and (ii) reduce our ability to attract and retain tenants at our properties leading to increased vacancy rates at our properties.

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

Our performance depends on the economic conditions in markets in which our properties are concentrated. We have significant exposure to the greater New York and Chicago metropolitan regions, from which we derive 36.4% and 28.0% of the annual base rents within our Core Portfolio, respectively and 30.0% and 6.0% of annual base rents within our Funds, respectively. Our operating results could be adversely affected if market conditions, such as an oversupply of space or a reduction in demand for real estate, in these areas occur.

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

We are pursuing extensive growth opportunities, some of which have been, and in the future may be, in locations in which we have not historically invested. This expansion places significant demands on our operational, administrative and financial resources. The continued growth of our real estate portfolio can be expected to continue to place a significant strain on our resources. Our future performance will depend in part on our ability to successfully attract and retain qualified management personnel to manage the growth and operations of our business. In addition, the acquired properties may fail to operate at expected levels due to the numerous factors that may affect the value of real estate. There can be no assurance that we will have sufficient resources to identify and manage the properties.

Our inability to raise capital for our Funds or to carry out our growth strategy could adversely affect our financial condition and results of operations.

Our earnings growth strategy is based on the acquisition and development of additional properties, including acquisitions of core properties through our Operating Partnership and our high return investment programs through our Fund platform. The consummation of any future acquisitions will be subject to satisfactory completion of our extensive valuation analysis and due diligence review and to the negotiation of definitive documentation. We cannot be sure that we will be able to implement our strategy because we may have difficulty finding new properties, obtaining necessary entitlements, negotiating with new or existing tenants or securing acceptable financing. Furthermore, if we were unable to obtain sufficient investor capital commitments in order to initiate future Funds, this would adversely impact our current growth strategy.

Acquisitions of additional properties entail the risk that investments will fail to perform in accordance with expectations, including operating and leasing expectations. In the context of our business plan, “development” generally means an expansion or renovation of an existing property. Development is subject to numerous risks, including risks of construction delays, cost overruns or uncontrollable events that may increase project costs, new project commencement risks such as the receipt of zoning, occupancy and other required governmental approvals and permits, and incurring development costs in connection with projects that are not pursued to completion.

Historically, a component of our growth strategy has been through private-equity type investments made through our RCP Venture. These have included investments in operating retailers. The inability of the retailers to operate profitably would have an adverse impact on income realized from these investments. Through our investments in joint ventures we have also invested in operating businesses that have operational risk in addition to the risks associated with real estate investments, including among other risks, human capital issues, adequate supply of product and material, and merchandising issues.

Our development and construction activities could affect our operating results.

We intend to continue the selective development and construction of retail properties (see “Item 1. Business —Investing Activities—Funds—Development Activities”).

As opportunities arise, we may delay construction until sufficient pre-leasing is reached and financing is in place. Our development and construction activities include risks that:

- We may abandon development opportunities after expending resources to determine feasibility;
- Construction costs of a project may exceed our original estimates;
- Occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable;
- Financing for development of a property may not be available to us on favorable terms;
- We may not complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs, including labor and material costs; and
- We may not be able to obtain, or may experience delays in obtaining necessary zoning and land use approvals as well as building, occupancy and other required governmental permits and authorizations.

In addition, the entitlement and development of real estate entails extensive approval processes, sometimes involving multiple regulatory jurisdictions. It is common for a project to require multiple approvals, permits and consents from U.S. federal, state and local governing and regulatory bodies. Compliance with these and other regulations and standards is time intensive and costly and may require additional long range infrastructure review and approvals which can add to project cost. In addition, development of properties containing delineated wetlands may require one or more permits from the U.S. federal government and/or state and local governmental agencies. Any of these issues can materially affect the cost, timing and economic viability of our development and redevelopment projects.

At times, we may also be required to use unionized construction workers or to pay the prevailing wage in a jurisdiction to unionized workers. Due to the highly labor intensive and price competitive nature of the construction business, the cost of unionization and/or prevailing wage requirements for new developments or redevelopments could be substantial. Unionization and prevailing wage requirements could adversely affect a project’s profitability. In addition, union activity or a union workforce could increase the risk of a strike, which would adversely affect our ability to meet our construction timetables, which could adversely affect our reputation and our results of operations.

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

Developments and acquisitions may fail to perform as expected which could adversely affect our results of operations.

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

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

We operate through a partnership structure, which could have an adverse effect on our ability to manage our assets.

Our primary property-owning vehicle is the Operating Partnership, of which we are the general partner. Our acquisition of properties through the Operating Partnership in exchange for interests in the Operating Partnership may permit certain tax deferral advantages to limited partners who contribute properties to the Operating Partnership. Since properties contributed to the Operating Partnership may have unrealized gains attributable to the differences between the fair market value and adjusted tax basis in such properties prior to contribution, the sale of such properties could cause adverse tax consequences to the limited partners who contributed such properties. Although we, as the general partner of the Operating Partnership, generally have no obligation to consider the tax consequences of our actions to any limited partner, we own several properties subject to material contractual restrictions for varying periods of time designed to minimize the adverse tax consequences to the limited partners who contributed such properties. Such restrictions may result in significantly reduced flexibility to manage some of our assets.

We currently have an exclusive obligation to seek investments for our Funds which may prevent us from making acquisitions directly.

Under the terms of the organizational documents of our current Fund, our primary goal is to seek investments for the Fund, subject to certain exceptions. We may only pursue opportunities to acquire retail properties directly through the Operating Partnership if (i) the ownership of the acquisition opportunity by the Fund would create a material conflict of interest for us; (ii) we require the acquisition opportunity for a "like-kind" exchange; (iii) the consideration payable for the acquisition opportunity is our Common Shares, OP Units or other securities or (iv) the investment is outside the parameters of our investment goals for the Fund (which, in general, seeks more opportunistic level returns). As a result, we may not be able to make attractive acquisitions directly and instead may only receive a minority interest in such acquisitions through the Fund.

Our joint venture investments carry additional risks not present in our direct investments.

Partnership or joint venture investments may involve risks not otherwise present for investments made solely by us, including the possibility that our partner or co-venturer might become bankrupt, and that our partner or co-venturer may take action contrary to our instructions, requests, policies or objectives, including with respect to maintaining our qualification as a REIT. Other risks of joint venture investments include impasse on decisions, such as a sale, because neither we nor a joint venture partner may have full control over the joint venture. Also, there is no limitation under our organizational documents as to the amount of our funds that may be invested in joint ventures.

Additionally, our partners or co-venturers may engage in malfeasance in spite of our efforts to perform a high level of due diligence on them. Such acts may or may not be covered by insurance. Finally, partners and co-venturers may engage in illegal activities which may jeopardize an investment and/or subject us to reputational risk.

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

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

Our structured financing portfolio is subject to specific risks relating to the structure and terms of the instruments and the underlying collateral.

We invest in notes receivables and preferred equity investments that are collateralized by the underlying real estate, a direct interest or the borrower's ownership interest in the entities that own the properties and/or by the borrower's personal guarantee. The underlying assets are sometimes subordinate in payment and collateral to more senior loans. The ability of a borrower or entity to make payments on these investments may be subject to the senior lender and/or the performance of the underlying real estate. In the event of a default by the borrower or entity on its senior loan, our investment will only be satisfied after the senior loan and we may not be able to recover the full value of the investment. In the event of a bankruptcy of an entity in which we have a preferred equity interest, or in which the borrower has pledged its interest, the assets of the entity may not be sufficient to satisfy our investment.

Our real estate assets may be subject to impairment charges.

We periodically assess whether there are any indicators that the value of our real estate assets and other investments may be impaired. A property's value is considered to be impaired only if the estimated aggregate future undiscounted property cash flows are less than the carrying value of the property. In our estimate of cash flows, we consider factors such as trends and prospects and the effects of demand and competition on expected future operating income. If we are evaluating the potential sale of an asset or redevelopment alternatives, the undiscounted future cash flows consider the most likely course of action as of the balance sheet date based on current plans, intended holding periods and available market information. We are required to make subjective assessments as to whether there are impairments in the value of our real estate assets and other investments. Impairment charges have an immediate direct impact on our earnings. There can be no assurance that we will not take additional charges in the future related to the impairment of our assets. Any future impairment could have a material adverse effect on our operating results in the period in which the charge is taken.

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

The market price of our Common Shares or other securities may fluctuate significantly in response to many factors, including:

- actual or anticipated variations in our operating results, funds from operations, cash flows or liquidity;
- changes in our earnings estimates or those of analysts;
- changes in our dividend policy;
- impairment charges affecting the carrying value of one or more of our Properties or other assets;
- publication of research reports about us, the retail industry or the real estate industry generally;
- increases in market interest rates that lead purchasers of our securities to seek higher dividend or interest rate yields;
- changes in market valuations of similar companies;
- adverse market reaction to the amount of our outstanding debt at any time, the amount of our maturing debt in the near and medium term and our ability to refinance such debt and the terms thereof or our plans to incur additional debt in the future;
- additions or departures of key management personnel;
- actions by institutional security holders;
- proposed or adopted regulatory or legislative changes or developments;
- speculation in the press or investment community;
- the occurrence of any of the other risk factors included in, or incorporated by reference in, this report; and
- general market and economic conditions.

Many of the factors listed above are beyond our control. Those factors may cause the market price of our Common Shares or other securities to decline significantly, regardless of our financial performance and condition and prospects. It is impossible to provide any assurance that the market price of our Common Shares or other securities will not fall in the future, and it may be difficult for holders to sell such securities at prices they find attractive, or at all. A decline in our share price, as a result of this or other market factors, could unfavorably impact our ability to raise additional equity in the public markets.

RISKS RELATED TO STRUCTURE AND MANAGEMENT

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

Our success depends on the contribution of key management members. The loss of the services of Kenneth F. Bernstein, President and Chief Executive Officer, or other key executive-level employees could have a material adverse effect on our results of operations. Management continues to strengthen our team and provide for succession planning, but there can be no assurance that such planning will be capable of implementation or of the success of such efforts. We have obtained key-man life insurance for Mr. Bernstein. In addition, we have entered into an employment agreement with Mr. Bernstein; however, the employment agreement can be terminated by Mr. Bernstein at his discretion. We have not entered into employment agreements with other key executive-level employees.

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

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

Distribution requirements imposed by law limit our operating flexibility.

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

Changes in accounting standards may adversely impact our financial results.

The Financial Accounting Standards Board (the “FASB”), in conjunction with the U.S. Securities and Exchange Commission, has issued several key pronouncements that will impact how we currently account for our material transactions, including, but not limited to, lease accounting, business combinations and the recognition of other revenues. In addition, the FASB has the ability to introduce new projects to its agenda which may also impact how we account for our material transactions. At this time, we are unable to predict with certainty which, if any, proposals may be passed, what new legislation may be implemented or what level of impact any such proposal could have on the presentation of our consolidated financial statements, our results of operations and our financial ratios required by our debt covenants.

Concentration of ownership by certain investors.

As of December 31, 2018, five institutional shareholders own 5% or more individually, and 59.3% in the aggregate, of our Common Shares. While this ownership concentration does not jeopardize our qualification as a REIT (due to certain “look-through provisions”), a significant concentration of ownership may allow an investor or a group of investors to exert a greater influence over our management and affairs and may have the effect of delaying, deferring or preventing a change in control of us.

Restrictions on a potential change of control could prevent changes that would be beneficial to our shareholders.

Our Board of Trustees is authorized by our Declaration of Trust to establish and issue one or more series of preferred shares of beneficial interest without shareholder approval. We have not established any series of preferred shares other than the Series A and Series C Preferred Operating Partnership Units. However, the establishment and issuance of a class or series of preferred shares could make a change of control of us that could be in the best interests of the shareholders more difficult. In addition, we have entered into an employment agreement with our Chief Executive Officer and severance agreements are in place with certain of our executives which provide that, upon the occurrence of a change in

control of us and either the termination of their employment without cause (as defined) or their resignation for good reason (as defined), those executive officers would be entitled to certain termination or severance payments made by us (which may include a lump sum payment equal to defined percentages of annual salary and prior years' average bonuses, paid in accordance with the terms and conditions of the respective agreement), which could deter a change of control of us that could be in the best interests of our shareholders generally.

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

Under the Maryland General Corporation Law, as amended, which we refer to as the “MGCL,” as applicable to REITs, certain “business combinations,” including certain mergers, consolidations, share exchanges and asset transfers and certain issuances and reclassifications of equity securities, between a Maryland REIT and any person who beneficially owns 10% or more of the voting power of the REIT's outstanding voting shares or an affiliate or an associate, as defined in the MGCL, of the REIT who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding shares of beneficial interest of the REIT, which we refer to as an “interested shareholder,” or an affiliate of the interested shareholder, are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. After that five-year period, any such business combination must be recommended by the board of trustees of the REIT and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by holders of outstanding voting shares of beneficial interest of the REIT and (ii) two-thirds of the votes entitled to be cast by holders of voting shares of the REIT other than shares held by the interested shareholder with whom, or with whose affiliate, the business combination is to be effected or held by an affiliate or associate of the interested shareholder, unless, among other conditions, the REIT's common shareholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its Common Shares.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of trustees of the REIT before the interested shareholder becomes an interested shareholder, and a person is not an interested shareholder if the board of trustees approved in advance the transaction by which the person otherwise would have become an interested shareholder. In approving a transaction, our Board of Trustees may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the Board. We have not elected to opt out of the business combination statute.

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

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Trustees, without shareholder approval and regardless of what is currently provided in our Declaration of Trust or Bylaws, to elect to be subject to certain provisions relating to corporate governance that may have the effect of delaying, deferring or preventing a transaction or a change of control of our Company that might involve a premium to the market price of our Common Shares or otherwise be in the best interests of our shareholders. We are subject to some of these provisions (for example, a two-thirds vote requirement for removing a trustee) by provisions of our Declaration of Trust and Bylaws unrelated to Subtitle 8. However, pursuant to the Articles Supplementary filed November 9, 2017, which are referenced in Part IV Item 15 hereto, the Board of Trustees approved a resolution to opt out of Section 3-803 of Subtitle 8 of Title 3 of the MGCL that allows the Board, without shareholder approval, to elect to classify into three classes with staggered three-year terms. The Articles Supplementary prohibit the Company, without the affirmative vote of a majority of the votes cast on the matter by shareholders entitled to vote generally in the election of trustees, from classifying the Board.

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

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

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

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

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

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

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

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

Cyber incidents can result from deliberate attacks or unintentional events. There have been an increased number of significant cyber-attacks targeted at the retail, insurance, financial and banking industries that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Cyber-attacks by third parties or insiders utilize techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm a website to more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access.

Increased global IT security threats are more sophisticated and targeted computer crimes pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. The open nature of interconnected technologies may allow for a network or Web outage or a privacy breach that reveals sensitive data or transmission of harmful/malicious code to business partners and clients. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures.

Cyber-attacks may cause substantial cost and other negative consequences, which may include, but are not limited to:

- Compromising of confidential information;
- Manipulation and destruction of data;
- Loss of trade secrets;
- System downtimes and operational disruptions;
- Remediation cost that may include liability for stolen assets or information and repairing system damage that may have been caused. Remediation may include incentives offered to customers, tenants or other business partners in an effort to maintain the business relationships or due to legal requirements imposed;
- Loss of revenues resulting from unauthorized use of proprietary information;
- Cost to deploy additional protection strategies, training employees and engaging third party experts and consultants;
- Reputational damage adversely affecting investor confidence; and
- Litigation.

While we attempt to mitigate these risks by employing a number of measures, including a dedicated IT team, employee training and background checks, maintenance of backup systems, utilization of third-party service providers to provide redundancy over multiple locations, and comprehensive monitoring of our networks and systems along with purchasing cyber security insurance coverage, our systems, networks and services remain potentially vulnerable to advanced threats.

If a Third-Party Vendor fails to provide agreed upon services, we may suffer losses.

We are dependent and rely on third party vendors including Cloud providers for redundancy of our network, system data, security and data integrity. If a vendor fails to provide services as agreed, suffers outages, business interruptions, financial difficulties or bankruptcy we may experience service interruption, delays or loss of information. Cloud computing is dependent upon having access to an internet connection in order to retrieve data. If a natural disaster, blackout or other unforeseen event were to occur that disrupted the ability to obtain an internet

connection we may experience a slowdown or delay in our operations. We conduct appropriate due diligence on all services providers and restrict access, use and disclosure of personal information. We engage vendors with formal written agreements clearly defining the roles of the parties specifying privacy and data security responsibilities.

Use of social media may adversely impact our reputation and business.

There has been a significant increase in the use of social media platforms, including weblogs, social media websites and other forms of Internet-based communications, which allow individuals access to a broad audience, including our significant business constituents. The availability of information through these platforms is virtually immediate as is its impact and may be posted at any time without affording us an opportunity to redress or correct it timely. This information may be adverse to our interests, may be inaccurate and may harm our reputation, brand image, goodwill, performance, prospects or business. Furthermore, these platforms increase the risk of unauthorized disclosure of material non-public Company information.

Climate change and catastrophic risk from natural perils could adversely affect our properties.

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

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

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

Physical impacts of climate change may include:

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

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

- Risks of property damage to our retail properties;
- Indirect financial and operational impacts from disruptions to the operations of major tenants located in our retail properties from severe weather, such as hurricanes or floods;
- Increased insurance premiums and deductibles, or a decrease in the availability of coverage, for properties in areas subject to severe weather;
- Increased insurance claims and liabilities;
- Increases in energy costs impacting operational returns;
- Changes in the availability or quality of water or other natural resources on which the tenant's business depends;
- Decreased consumer demand for consumer products or services resulting from physical changes associated with climate change (e.g., warmer temperatures or decreasing shoreline could reduce demand for residential and commercial properties previously viewed as desirable);
- Incorrect long-term valuation of an equity investment due to changing conditions not previously anticipated at the time of the investment; and
- Economic disruptions arising from the above.

We are exposed to possible liability relating to environmental matters.

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

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

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

- The discovery of previously unknown environmental conditions;
- Changes in law;
- Activities of tenants; and
- Activities relating to properties in the vicinity of our properties.

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

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

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

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

Over the past several years, a number of highly publicized terrorist acts and shootings have occurred at domestic and international retail properties. Future terrorist attacks, civil unrest and other acts of terrorism or war could harm the demand for, and the value of, our properties. Terrorist attacks could directly impact the value of our properties through damage, destruction, loss or increased security costs, and the availability of insurance for such acts may be limited or may be subject to substantial cost increases. To the extent that our tenants are impacted by future attacks, their ability to continue to honor obligations under their existing leases could be adversely affected. A decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. These acts might erode business and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of our properties, and limit our access to capital or increase our cost of raising capital.

We may from time to time be subject to litigation that may negatively impact our cash flow, financial condition, results of operations and the trading price of our Common Shares.

We may from time to time be a defendant in lawsuits and regulatory proceedings relating to our business. Such litigation and proceedings may result in defense costs, settlements, fines or judgments against us, some of which may not be covered by insurance. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such litigation or proceedings. An unfavorable outcome could negatively impact our cash flow, financial condition, results of operations and trading price of our Common Shares.

Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make unplanned expenditures that adversely affect our cash flows.

All of our properties are required to comply with the Americans with Disabilities Act, or ADA. The ADA has separate compliance requirements for “public accommodations” and “commercial facilities,” but generally requires that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers, and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. While the tenants to whom we lease properties are obligated by law to comply with the ADA provisions, and are typically obligated to cover costs of compliance, if required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of these tenants to cover costs could be

adversely affected. As a result of the foregoing or if a tenant is not obligated to cover the cost of compliance, we could be required to expend funds to comply with the provisions of the ADA, which could adversely affect our results of operations and financial condition and our ability to make distributions to shareholders. In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to the properties. We may be required to make substantial capital expenditures to comply with those requirements, and these expenditures could have a material adverse effect on our ability to meet our financial obligations and make distributions to shareholders.

RISKS RELATED TO OUR REIT STATUS

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

We believe that we have consistently met the requirements for qualification as a REIT for Federal income tax purposes beginning with our taxable year ended December 31, 1993, and we intend to continue to meet these requirements in the future. However, qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code, for which there may be only limited judicial or administrative interpretations. No assurance can be given that we have qualified or will remain qualified as a REIT. The Internal Revenue Code provisions and income tax regulations applicable to REITs differ significantly from those applicable to other entities. The determination of various factual matters and circumstances not entirely within our control can potentially affect our ability to continue to qualify as a REIT. In addition, no assurance can be given that future legislation, regulations, administrative interpretations or court decisions will not significantly change the requirements for qualification as a REIT or adversely affect the Federal income tax consequences of such qualification. Under current law, if we fail to qualify as a REIT, we would not be allowed a deduction for dividends paid to shareholders in computing our net taxable income. In addition, our income would be subject to tax at the regular corporate rates. Also, we could be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. Cash available for distribution to our shareholders would be significantly reduced for each year in which we do not qualify as a REIT. In that event, we would not be required to continue to make distributions. Although we currently intend to continue to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us, without the consent of our shareholders, to revoke the REIT election or to otherwise take action that would result in disqualification.

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

There are a number of issues associated with an investment in a REIT that are related to the Federal income tax laws, including, but not limited to, the consequences of our failing to continue to qualify as a REIT. At any time, the Federal income tax laws governing REITs or the administrative interpretations of those laws may be amended or modified. Any new laws or interpretations may take effect retroactively and could adversely affect us or our shareholders.

On December 22, 2017, Pub. L. No. 15-97 (informally known as the Tax Cuts and Jobs Act (the “Act”)) was enacted into law. The Act makes significant changes to the Code, including changes that impact REITs and their shareholders, among others. In particular, the Act reduces the maximum corporate tax rate from 35% to 21%. By reducing the corporate tax rate, it is possible that the Act will reduce the relative attractiveness to investors (as compared with potential alternative investments) of the generally single level of taxation on REIT distributions. However, the Act also made certain changes to the Code which are generally advantageous to REITs and their shareholders. For instance, for tax years beginning before January 1, 2026, the Act permits up to a 20% deduction for individuals, trusts, and estates with respect to their receipt of “qualified REIT dividends”, which are dividends from a REIT that are not capital gain dividends and are not qualified dividend income. These changes generally result in an effective maximum U.S. federal income tax rate on such dividends of 29.6%, if the deduction is allowed in full. Key provisions of the Act that could impact us and the market price of our shares include the following:

- temporarily reducing individual U.S. federal income tax rates on ordinary income the highest individual U.S. federal income tax rate was reduced from 39.6% to 37% (through tax years beginning before January 1, 2026)
- eliminating miscellaneous itemized deductions and limiting state and local tax deductions;
- reducing the maximum corporate income tax rate from 35% to 21%, which reduces, but does not eliminate, the competitive advantage that REITs enjoy relative to non-REIT corporations;
- permitting individuals, trusts and estates (subject to certain limitations) to deduct up to 20% of certain pass-through business income, including, as noted above, dividends received by our shareholders that are not designated by us as capital gain dividends or qualified dividend income, which will generally result in an effective maximum U.S. federal income tax rate of 29.6% on such dividends, if the deduction is allowed in full (through tax years beginning before January 1, 2026);
- reducing the highest rate of withholding with respect to our distributions to non-U.S. shareholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;
- limiting our deduction for net operating losses to 80% of taxable income (prior to the application of the dividends paid deduction), where taxable income is determined without regarding to the net operating loss deduction itself, and generally eliminating net operating loss carrybacks and allowing unused net operating losses to be carried forward indefinitely;

- amending the limitation on the deduction of net interest expense for all businesses, other than certain electing real estate businesses (which could adversely affect any of our taxable REIT subsidiaries (each, a “TRS”), including any new TRS that we may form);
- expanding the ability of businesses to deduct the cost of certain purchases of property in the year in which such property is purchased; and
- eliminating the corporate alternative minimum tax.

In addition to the foregoing, the Act may impact our tenants, the retail real estate market, and the overall economy, which may have an effect on us. It is not possible to state with certainty at this time the effect of the Act on us and on an investment in our shares

We may be required to borrow funds or sell assets to satisfy our REIT distribution requirements.

Our cash flows may be insufficient to fund distributions required to maintain our qualification as a REIT as a result of differences in timing between the actual receipt of income and the recognition of income for U.S. Federal income tax purposes, or as a result of our inability to currently deduct certain expenditures that we must currently pay, such as capital expenditures, payments of compensation for which Section 162(m) of the Code denies a deduction, any business interest expense that is disallowed under Section 163 (j) of the Code (unless we elect to be an “electing real property trade or business”), the creation of reserves or required amortization payments. If we do not have other funds available in these situations, we may need to borrow funds on a short-term basis or sell assets, even if the then- prevailing market conditions are not favorable for these borrowings or sales, in order to satisfy our REIT distribution requirements. Such actions could adversely affect our cash flow and results of operations.

Dividends payable by REITs generally do not qualify for reduced tax rates.

Certain qualified dividends paid by corporations to individuals, trusts and estates that are U.S. shareholders are taxed at capital gain rates, which are lower than ordinary income rates. Dividends of current and accumulated earnings and profits payable by REITs, however, are taxed at ordinary income rates as opposed to the capital gain rates. Pursuant to the Act, from 2018 through 2025, certain REIT shareholders will be permitted to deduct 20% of ordinary REIT dividends received. Dividends payable by REITs in excess of these earnings and profits generally are treated as a non-taxable reduction of the shareholders’ basis in the shares to the extent thereof and thereafter as taxable gain. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs, including us, to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends, which may negatively impact the trading prices of our securities.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our Common Shares. In order to meet these tests, we may be required to forego investments we might otherwise make and refrain from engaging in certain activities. Thus, compliance with the REIT requirements may hinder our performance.

In addition, if we fail to comply with certain asset ownership tests at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification. As a result, we may be required to liquidate otherwise attractive investments.

We have limits on ownership of our shares of beneficial interest.

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

Actual or constructive ownership of our shares of beneficial interest in excess of the share ownership limits contained in our Declaration of Trust would cause the violative transfer or ownership to be null and void from the beginning and subject to purchase by us at a price equal to the fair market value of such shares (determined in accordance with the rules set forth in our Declaration of Trust). As a result, if a violative transfer were made, the recipient of the shares would not acquire any economic or voting rights attributable to the transferred shares. Additionally, the

constructive ownership rules for these limits are complex and groups of related individuals or entities may be deemed a single owner and consequently in violation of the share ownership limits.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Retail Properties

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

As of December 31, 2018, there are 113 operating properties in our Core Portfolio totaling approximately 5.8 million square feet of gross leasable area ("GLA") excluding three properties under redevelopment, one property in development and one pre-stabilized property. The Core Portfolio properties are located in 12 states and the District of Columbia and primarily consist of street retail and dense suburban shopping centers. These properties are diverse in size, ranging from approximately 1,000 to 800,000 square feet and as of December 31, 2018, were in total, excluding the properties that were pre-stabilized or under redevelopment, 93.9% occupied.

As of December 31, 2018, we owned and operated 51 properties totaling approximately 5.4 million square feet of GLA in our Funds, excluding two properties under development. In addition to shopping centers, the Funds have invested in mixed-use properties, which generally include retail activities. The Fund properties are located in 14 states and the District of Columbia and as of December 31, 2018, were in total, excluding the properties under development, 86.6% occupied.

Within our Core Portfolio and Funds, we had approximately 950 leases as of December 31, 2018. A majority of our rental revenues were from national retailers and consist of rents received under long-term leases. These leases generally provide for the monthly payment of fixed minimum rent and the tenants' pro-rata share of the real estate taxes, insurance, utilities and common area maintenance of the shopping centers. Certain of our leases also provide for the payment of rent based on a percentage of a tenant's gross sales in excess of a stipulated annual amount, either in addition to, or in place of, minimum rents. Minimum rents, percentage rents and expense reimbursements accounted for approximately 98% of our total revenues for the year ended December 31, 2018.

Five of our Core Portfolio properties and two of our Fund properties are subject to long-term ground leases in which a third party owns and has leased the underlying land to us. We pay rent for the use of the land and are responsible for all costs and expenses associated with the building and improvements at all of these locations.

No individual property contributed in excess of 10% of our total revenues for the years ended December 31, 2018, 2017 or 2016. See [Note 7](#) in the Notes to Consolidated Financial Statements, for information on the mortgage debt pertaining to our properties.

The following table sets forth more specific information with respect to each of our Core properties at December 31, 2018:

Property ^(a)	Key Tenants	Year Acquired	Acadia's Interest	Gross Leasable Area (GLA)	In Place Occupancy	Leased Occupancy	Annualized Base Rent (ABR)	ABR/ Per Square Foot
STREET AND URBAN RETAIL								
Chicago Metro								
664 N. Michigan Avenue	Tommy Bahama, Ann Taylor Loft	2013	100.0%	18,141	100.0%	100.0%	\$ 4,730,741	\$ 260.78
840 N. Michigan Avenue	H & M, Verizon Wireless	2014	88.4%	87,135	100.0%	100.0%	7,738,046	88.81
Rush and Walton Streets Collection (5 properties)	Lululemon, BHLDN, Marc Jacobs	2011/12	100.0%	32,501	85.3%	85.3%	5,982,996	215.81
651-671 West Diversey	Trader Joe's, Urban Outfitters	2011	100.0%	46,259	100.0%	100.0%	2,022,727	43.73
Clark Street and W. Diversey Collection (3 properties)	Ann Taylor, Starbucks	2011/12	100.0%	23,531	50.1%	50.2%	690,030	58.47
Halsted and Armitage Collection (9 properties)	Serena and Lily, Bonobos, Warby Parker	2011/12	100.0%	45,123	80.9%	91.1%	1,332,078	36.49
North Lincoln Park Chicago Collection (6 properties)	Forever 21, Champion, Carhartt	2011/14	100.0%	49,919	77.9%	77.9%	1,581,585	40.66
State and Washington	H & M, Nordstrom Rack	2016	100.0%	78,819	100.0%	100.0%	3,221,107	40.87
151 N. State Street	Walgreens	2016	100.0%	27,385	100.0%	100.0%	1,430,000	52.22
North and Kingsbury	Old Navy, Pier 1 Imports	2016	100.0%	41,700	100.0%	100.0%	1,641,359	39.36
Concord and Milwaukee	—	2016	100.0%	13,105	74.1%	86.3%	306,935	31.62
California and Armitage	—	2016	100.0%	18,275	70.6%	70.6%	616,838	47.84
Roosevelt Galleria	Petco, Vitamin Shoppe	2015	100.0%	37,995	47.7%	47.7%	581,139	32.06
Sullivan Center	Target, DSW	2016	100.0%	176,181	97.7%	100.0%	6,604,614	38.37
New York Metro								
Soho Collection (4 properties)	Paper Source, Faherty, 3x1 Jeans	2011/14	100.0%	12,511	82.4%	82.4%	3,299,929	319.95
5-7 East 17th Street	Union Park Events	2008	100.0%	11,467	100.0%	100.0%	1,300,014	113.37
200 West 54th Street	Stage Coach Tavern	2007	100.0%	5,777	77.8%	77.8%	1,973,188	438.80
61 Main Street	—	2014	100.0%	3,400	—%	—%	—	—
181 Main Street	TD Bank	2012	100.0%	11,350	100.0%	100.0%	964,280	84.96
4401 White Plains Road	Walgreens	2011	100.0%	12,964	100.0%	100.0%	625,000	48.21
Bartow Avenue	—	2005	100.0%	14,590	66.6%	66.6%	306,073	31.48
239 Greenwich Avenue	Betteridge Jewelers	1998	75.0%	16,553	100.0%	100.0%	1,593,328	96.26
252-256 Greenwich Avenue	Madewell, Jack Wills, Blue Mercury	2014	100.0%	7,986	100.0%	100.0%	1,336,219	167.32
2914 Third Avenue	Planet Fitness	2006	100.0%	40,320	100.0%	100.0%	963,001	23.88
868 Broadway	Dr. Martens	2013	100.0%	2,031	100.0%	100.0%	767,674	377.98
313-315 Bowery ^(b)	John Varvatos, Patagonia	2013	100.0%	6,600	100.0%	100.0%	479,160	72.60
120 West Broadway	HSBC Bank	2013	100.0%	13,838	79.8%	79.8%	1,937,128	175.49
2520 Flatbush Avenue	Bob's Disc. Furniture, Capital One	2014	100.0%	29,114	100.0%	100.0%	1,158,573	39.79
991 Madison Avenue	Vera Wang, Perrin Paris, Gabriella Hearst	2016	100.0%	7,513	91.1%	91.1%	2,627,502	383.73
Shops at Grand	Stop & Shop (Ahold)	2014	100.0%	99,685	97.0%	100.0%	3,241,932	33.53
Gotham Plaza	Bank of America, Footlocker	2016	49.0%	25,927	69.3%	81.0%	1,064,361	59.22

Property ^(a)	Key Tenants	Year Acquired	Acadia's Interest	Gross Leasable Area (GLA)	In Place Occupancy	Leased Occupancy	Annualized Base Rent (ABR)	ABR/ Per Square Foot
San Francisco Metro								
555 9th Street	Bed, Bath & Beyond, Nordstrom Rack	2016	100.0%	148,832	100.0%	100.0%	6,217,577	41.78
District of Columbia Metro								
1739-53 & 1801-03 Connecticut Avenue	Ruth Chris Steakhouse, TD Bank	2012	100.0%	20,669	100.0%	100.0%	1,295,554	62.68
Rhode Island Place Shopping Center	Ross Dress for Less	2012	100.0%	57,667	93.4%	100.0%	1,696,305	31.48
M Street and Wisconsin Corridor (25 Properties) ^(c)	Lululemon, Sephora, The Reformation	2011/16	25.3%	239,262	93.9%	96.2%	16,053,091	71.47
Boston Metro								
330-340 River Street	Whole Foods	2012	100.0%	54,226	100.0%	100.0%	1,243,517	22.93
165 Newbury Street	Starbucks	2016	100.0%	1,050	100.0%	100.0%	261,777	249.31
Total Street and Urban Retail				1,539,401	92.6%	94.3%	\$ 88,885,378	\$ 62.33
Acadia Share Total Street and Urban Retail				1,333,174	92.7%	94.1%	\$ 75,388,187	\$ 61.02
SUBURBAN PROPERTIES								
New Jersey								
Elmwood Park Shopping Center	Walgreens, Acme	1998	100.0%	143,910	88.8%	91.7%	\$ 3,645,305	\$ 28.52
Marketplace of Absecon	Rite Aid, Dollar Tree	1998	100.0%	104,556	90.3%	90.3%	1,461,055	15.48
60 Orange Street	Home Depot	2012	98.0%	101,715	100.0%	100.0%	730,000	7.18
New York								
Village Commons Shopping Center	—	1998	100.0%	87,128	93.6%	93.6%	2,644,825	32.42
Branch Plaza	LA Fitness, The Fresh Market	1998	100.0%	123,345	91.6%	93.6%	3,044,919	26.95
Amboy Center	Stop & Shop (Ahold)	2005	100.0%	63,290	84.7%	84.7%	1,777,861	33.17
Pacesetter Park Shopping Center	Stop & Shop (Ahold)	1999	100.0%	97,806	93.2%	93.2%	1,232,004	13.52
LA Fitness	LA Fitness	2007	100.0%	55,000	100.0%	100.0%	1,485,287	27.01
Crossroads Shopping Center	HomeGoods, Pet-Smart, Kmart	1998	49.0%	311,904	96.0%	96.0%	7,193,460	24.03
New Loudon Center	Price Chopper, Marshalls	1993	100.0%	255,673	100.0%	100.0%	2,155,174	8.43
28 Jericho Turnpike	Kohl's	2012	100.0%	96,363	100.0%	100.0%	1,815,000	18.84
Bedford Green	Shop Rite, CVS	2014	100.0%	90,589	83.0%	83.0%	2,455,471	32.66
Connecticut								
Town Line Plaza ^(d)	Wal-Mart, Stop & Shop (Ahold)	1998	100.0%	206,346	98.7%	98.7%	1,764,661	16.40
Massachusetts								
Methuen Shopping Center	Wal-Mart, Market Basket	1998	100.0%	130,021	100.0%	100.0%	1,360,858	10.47
Crescent Plaza	Home Depot, Shaw's (Supervalu)	1993	100.0%	218,148	90.9%	90.9%	1,900,871	9.58
201 Needham Street	Michael's	2014	100.0%	20,409	100.0%	100.0%	646,965	31.70
163 Highland Avenue	Staples, Petco	2015	100.0%	40,505	100.0%	100.0%	1,311,747	32.38
Vermont								
The Gateway Shopping Center	Shaw's (Supervalu)	1999	100.0%	101,655	98.2%	98.2%	2,129,914	21.33
Illinois								
Hobson West Plaza	Garden Fresh Markets	1998	100.0%	99,137	85.8%	85.8%	1,309,799	15.39

Property ^(a)	Key Tenants	Year Acquired	Acadia's Interest	Gross Leasable Area (GLA)	In Place Occupancy	Leased Occupancy	Annualized Base Rent (ABR)	ABR/ Per Square Foot
Indiana								
Merrillville Plaza	Jo-Ann Fabrics, TJ Maxx	1998	100.0%	236,087	94.3%	94.3%	3,319,766	14.91
Michigan								
Bloomfield Town Square	Best Buy, HomeGoods, TJ Maxx	1998	100.0%	235,022	94.9%	94.9%	3,611,925	16.19
Delaware								
Town Center and Other (2 properties)	Lowes, Bed Bath & Beyond, Target	2003	65.1%	800,018	91.3%	93.6%	12,458,461	17.06
Market Square Shopping Center	Trader Joe's, TJ Maxx	2003	100.0%	102,047	100.0%	100.0%	3,072,327	30.11
Naamans Road	—	2006	100.0%	19,850	63.9%	63.9%	614,847	48.49
Pennsylvania								
Mark Plaza	Kmart	1993	100.0%	106,856	100.0%	100.0%	244,279	2.29
Plaza 422	Home Depot	1993	100.0%	156,279	100.0%	100.0%	850,978	5.45
Chestnut Hill	—	2006	100.0%	37,646	100.0%	100.0%	963,468	25.59
Abington Towne Center ^(c)	Target, TJ Maxx	1998	100.0%	216,278	93.6%	98.9%	855,873	15.59
Total Suburban Properties				4,257,583	94.3%	95.2%	\$ 66,057,100	\$ 17.49
Acadia Share Total Suburban Properties				3,847,543	94.8%	95.6%	\$ 58,770,626	\$ 17.26
TOTAL CORE PROPERTIES				5,796,984	93.9%	95.0%	\$ 154,942,478	\$ 29.78
Acadia Share Total Core Properties				5,180,717	94.2%	95.2%	\$ 134,158,813	\$ 28.91

- (a) Excludes properties under development, redevelopment or pre-stabilized, see “Development and Redevelopment Activities” section below. The above occupancy and rent amounts do not include space which is currently leased, other than “leased occupancy,” but for which rent payment has not yet commenced. Residential and office GLA are excluded.
- (b) Represents the annual base rent paid to Acadia pursuant to a master lessee and does not reflect the rent paid by the retail tenants at the property.
- (c) Excludes 94,000 square feet of office GLA.
- (d) Anchor GLA includes a 97,300 square foot Wal-Mart store which is not owned by the Company. This square footage has been excluded for calculating annualized base rent per square foot.
- (e) Anchor GLA includes a 157,616 square foot Target store which is not owned by the Company. This square footage has been excluded for calculating annualized base rent per square foot.

The following table sets forth more specific information with respect to each of our Fund properties at December 31, 2018:

Property ^(a)	Key Tenants	Year Acquired	Acadia's Interest	Gross Leasable Area (GLA)	In Place Occupancy	Leased Occupancy	Annualized Base Rent (ABR)	ABR/Per Square Foot
Fund II Portfolio Detail								
<u>New York</u>								
City Point - Phase I and II	Century 21, Target, Alamo Drafthouse	2007	26.7%	475,000	72.9%	81.7%	\$ 9,525,366	\$ 27.53
Total - Fund II				<u>475,000</u>	<u>72.9%</u>	<u>81.7%</u>	<u>\$ 9,525,366</u>	<u>\$ 27.53</u>
Fund III Portfolio Detail								
<u>New York</u>								
654 Broadway	—	2011	24.5%	2,896	—%	100.0%	\$ —	\$ —
640 Broadway	Swatch	2012	15.5%	4,637	53.2%	53.2%	702,617	284.71
Cortlandt Crossing	ShopRite, HomeSense	2012	24.5%	125,906	73.6%	73.6%	2,383,568	25.74
Nostrand Avenue	—	2013	24.5%	40,977	94.1%	94.1%	1,808,256	46.90
<u>Washington DC</u>								
3104 M Street	Patagonia	2012	19.6%	5,982	100.0%	100.0%	485,000	81.08
Total - Fund III				<u>180,398</u>	<u>77.4%</u>	<u>79.0%</u>	<u>\$ 5,379,441</u>	<u>\$ 38.53</u>
Fund IV Portfolio Detail								
<u>New York</u>								
801 Madison Avenue	—	2015	23.1%	2,625	—%	—%	\$ —	\$ —
210 Bowery	—	2012	23.1%	2,538	—%	—%	—	—
27 East 61st Street	—	2014	23.1%	4,177	—%	—%	—	—
17 East 71st Street	The Row	2014	23.1%	8,432	100.0%	100.0%	2,049,679	243.08
1035 Third Avenue ^(b)	—	2015	23.1%	7,617	59.2%	70.6%	903,679	200.55
Colonie Plaza	Price Chopper, Big Lots	2016	23.1%	153,483	94.9%	94.9%	1,631,058	11.19
<u>New Jersey</u>								
Paramus Plaza	Ashley Furniture, Marshalls	2013	11.6%	150,660	63.3%	74.1%	1,619,790	16.97
<u>Massachusetts</u>								
Restaurants at Fort Point	—	2016	23.1%	15,711	100.0%	100.0%	477,990	30.42
<u>Maine</u>								
Airport Mall	Hannaford, Marshalls	2016	23.1%	221,830	68.6%	68.6%	1,012,976	6.66
Wells Plaza	Reny's, Dollar Tree	2016	23.1%	90,434	98.3%	98.3%	727,908	8.18
Shaw's Plaza (Waterville)	Shaw's	2016	23.1%	119,015	100.0%	100.0%	1,407,316	11.82
Shaw's Plaza (Windham)	Shaw's	2017	23.1%	124,330	88.4%	88.4%	1,034,193	9.41
JFK Plaza	Hannaford, TJ Maxx	2016	23.1%	151,107	78.0%	78.0%	786,801	6.67
<u>Pennsylvania</u>								
Dauphin Plaza	Price Rite, Ashley Furniture	2016	23.1%	206,515	91.0%	91.0%	1,863,551	9.92
Mayfair Shopping Center	Planet Fitness, Dollar Tree	2016	23.1%	115,411	67.3%	67.3%	1,386,112	17.85
<u>Rhode Island</u>								
650 Bald Hill Road	Dick's Sporting Goods, Burlington Coat Factory	2015	20.8%	168,764	44.4%	81.1%	946,612	12.62
<u>Virginia</u>								
Promenade at Manassas	Home Depot	2013	22.8%	265,442	87.7%	88.0%	2,986,446	12.83
<u>Delaware</u>								
Eden Square	Giant Food, LA Fitness	2014	22.8%	231,044	89.3%	89.3%	3,154,202	15.29
<u>Illinois</u>								
938 W. North Avenue	Sephora, Lululemon	2013	23.1%	31,762	100.0%	100.0%	1,726,350	54.35
Lincoln Place	Kohl's, Marshall's, Ross	2017	23.1%	272,060	81.7%	90.1%	2,624,502	11.80
<u>Georgia</u>								
Broughton Street Portfolio (13 properties)	H&M, Lululemon, Michael Kors, Starbucks	2014	19.3%	104,630	86.5%	86.5%	3,190,830	35.25
<u>North Carolina</u>								
Wake Forest Crossing	Lowe's, TJ Maxx	2016	23.1%	202,880	97.5%	97.5%	2,912,708	14.73
<u>California</u>								
146 Geary Street	—	2015	23.1%	11,436	—%	—%	—	—
Union and Fillmore Collection (3 properties)	Eileen Fisher, L'Occitane, Bonobos	2015	20.8%	7,148	100.0%	100.0%	702,830	98.33
Total - Fund IV				<u>2,669,051</u>	<u>81.9%</u>	<u>85.8%</u>	<u>\$33,145,533</u>	<u>\$ 15.16</u>

Property ^(a)	Key Tenants	Year Acquired	Acadia's Interest	Gross Leasable Area (GLA)	In Place Occupancy	Leased Occupancy	Annualized Base Rent (ABR)	ABR/Per Square Foot
Fund V Portfolio Detail								
New Mexico								
Plaza Santa Fe	TJ Maxx, Best Buy, Ross Dress for Less	2017	20.1%	224,223	97.3%	99.4%	\$ 3,790,462	\$ 17.37
Michigan								
New Towne Plaza	Kohl's, Jo-Ann's, DSW	2017	20.1%	193,446	95.4%	95.4%	2,135,908	11.58
Fairlane Green	TJ Maxx, Michaels, Bed Bath & Beyond	2017	20.1%	252,904	100.0%	100.0%	5,241,779	20.73
North Carolina								
Hickory Ridge	Kohl's, Best Buy, Dick's	2017	20.1%	380,565	92.1%	93.4%	4,001,612	11.42
Alabama								
Trussville Promenade	Wal-Mart, Regal Cinemas	2018	20.1%	463,725	95.6%	95.6%	4,395,241	9.92
Georgia								
Hiram Pavilion	Kohl's, HomeGoods	2018	20.1%	362,675	97.8%	97.8%	4,174,227	11.77
California								
Elk Grove Commons	Kohl's, HomeGoods	2018	20.1%	220,726	99.2%	100.0%	4,712,546	21.52
Total - Fund V				<u>2,098,264</u>	<u>96.4%</u>	<u>97.0%</u>	<u>\$28,451,775</u>	<u>\$ 14.06</u>
TOTAL FUND PROPERTIES				<u>5,422,713</u>	<u>86.6%</u>	<u>89.5%</u>	<u>\$76,502,115</u>	<u>\$ 16.29</u>
Acadia Share of Total Fund Properties				<u>1,181,775</u>	<u>86.3%</u>	<u>89.2%</u>	<u>\$16,805,465</u>	<u>\$ 16.48</u>

- (a) Excludes properties under development, see "Development and Redevelopment Activities" section below. The above occupancy and rent amounts do not include space which is currently leased, other than "leased occupancy," but for which rent payment has not yet commenced. Residential and office GLA are excluded.
- (b) Property also includes 12,371 square feet of 2nd floor office space and a 29,760 square foot parking garage (131 spaces).

Major Tenants

No individual retail tenant accounted for more than 5.4% of base rents for the year ended December 31, 2018, or occupied more than 6.7% of total leased GLA as of December 31, 2018. The following table sets forth certain information for the 20 largest retail tenants by base rent for leases in place as of December 31, 2018. The amounts below include our pro-rata share of GLA and annualized base rent for the Operating Partnership's partial ownership interest in properties including the Funds (GLA and Annualized Base Rent in thousands):

Retail Tenant	Number of Stores in Portfolio ^(a)	Total GLA	Annualized Base Rent ^(a)	Percentage of Total Represented by Retail Tenant	
				Total Portfolio GLA	Annualized Base Rent
Target	5	424	\$ 8,141	6.7%	5.4%
H & M	3	85	5,398	1.3%	3.6%
Royal Ahold ^(b)	4	208	3,745	3.3%	2.5%
Albertsons Companies ^(c)	5	201	3,663	3.2%	2.4%
Nordstrom, Inc.	2	89	3,515	1.4%	2.3%
Walgreens	4	69	3,322	1.1%	2.2%
Bed, Bath, and Beyond ^(d)	5	132	3,219	2.1%	2.1%
TJX Companies ^(e)	20	282	2,977	4.4%	2.0%
Ascena Retail Group ^(f)	9	27	2,695	0.4%	1.8%
Lululemon	5	14	2,686	0.2%	1.8%
LA Fitness International LLC	3	108	2,680	1.7%	1.8%
Trader Joe's	5	49	2,612	0.8%	1.7%
Kohls	6	187	2,472	2.9%	1.6%
Verizon	4	26	2,412	0.4%	1.6%
Home Depot	4	337	2,173	5.3%	1.4%
Gap ^(g)	8	58	2,158	0.9%	1.4%
Ulta Salon Cosmetic & Fragrance	7	41	1,645	0.6%	1.1%
Bob's Discount Furniture	2	58	1,570	0.9%	1.0%
Tapestry ^(h)	2	4	1,507	0.1%	1.0%
JP Morgan Chase	9	30	1,495	0.5%	1.0%
Total	<u>112</u>	<u>2,429</u>	<u>\$ 60,085</u>	<u>38.2%</u>	<u>39.7%</u>

- (a) Does not include tenants that operate at only one Acadia Core location
(b) Stop and Shop (4 locations)
(c) Shaw's (4 locations), Acme (1 location)
(d) Bed Bath and Beyond (3 locations), Christmas Tree Shops (1 location), Cost Plus (1 location)
(e) TJ Maxx (9 locations, excluding one location under redevelopment, 4.7% including redevelopment), Marshalls (6 locations), HomeGoods (4 locations), HomeSense (1 location)
(f) Catherine's (3 locations), Lane Bryant (3 locations), Ann Taylor Loft (2 locations), Dress Barn (1 location)
(g) Old Navy (6 locations), Banana Republic (1 location), Gap (1 location)
(h) Kate Spade (2 locations)

Lease Expirations

The following tables show scheduled lease expirations on a pro rata basis for retail tenants in place as of December 31, 2018, assuming that none of the tenants exercise renewal options (GLA and Annualized Base Rent in thousands):

Core Portfolio

Leases Maturing in	Number of Leases	Annualized Base Rent ^(a, b)		GLA	
		Current Annual Rent	Percentage of Total	Square Feet	Percentage of Total
Month to Month	3	\$ 175	0.1%	9,541	0.2%
2019	35	5,660	4.2%	242,659	5.2%
2020	56	11,312	8.4%	423,221	9.1%
2021	81	17,226	12.8%	812,705	17.6%
2022	55	12,133	9.0%	372,159	8.0%
2023	60	20,275	15.1%	666,905	14.4%
2024	53	14,417	10.7%	575,161	12.4%
2025	35	10,293	7.7%	240,837	5.2%
2026	29	5,414	4.0%	161,272	3.5%
2027	24	5,222	3.9%	159,800	3.5%
2028	41	18,022	13.4%	667,680	14.4%
Thereafter	27	14,010	10.7%	294,320	6.5%
Total	499	\$ 134,159	100.0%	4,626,260	100.0%

Funds

Leases Maturing in	Number of Leases	Annualized Base Rent ^(a, b)		GLA	
		Current Annual Rent	Percentage of Total	Square Feet	Percentage of Total
Month to Month	4	\$ 45	0.3%	7,714	0.8%
2019	42	673	4.0%	38,017	3.7%
2020	63	1,731	10.3%	159,148	15.6%
2021	79	2,136	12.7%	132,617	13.0%
2022	56	1,625	9.7%	111,846	11.0%
2023	49	1,061	6.3%	78,178	7.7%
2024	29	1,223	7.3%	75,785	7.4%
2025	28	1,324	7.9%	58,533	5.7%
2026	29	1,207	7.2%	54,606	5.4%
2027	19	486	2.9%	30,433	3.0%
2028	21	1,048	6.2%	44,333	4.3%
Thereafter	29	4,246	25.2%	228,515	22.4%
Total	448	\$ 16,805	100.0%	1,019,725	100.0%

- (a) Base rents do not include percentage rents, additional rents for property expense reimbursements, nor contractual rent escalations.
(b) No single market represents a material amount of exposure to the Company as it relates to the rents from these leases. Given the diversity of these markets, properties and characteristics of the individual spaces, the Company cannot make any general representations as it relates to the expiring rents and the rates for which these spaces may be released.

Geographic Concentrations

The following table summarizes our operating retail properties by region, excluding redevelopment and pre-stabilization properties, as of December 31, 2018. The amounts below include our pro-rata share of GLA and annualized base rent for the Operating Partnership's partial ownership interest in properties, including the Funds (GLA and Annualized Base Rent in thousands):

Region	GLA ^(a,c)	% Occupied ^(b)	Annualized Base Rent ^(b,c)	Annualized Base Rent per Occupied Square Foot ^(c)	Percentage of Total Represented by Region	
					GLA	Annualized Base Rent
Core Portfolio:						
Operating Properties:						
New York Metro	1,674	93.9%	\$ 48,653	\$ 30.94	32.3%	36.4%
Chicago Metro	686	90.0%	37,583	60.90	13.2%	28.0%
Mid-Atlantic	1,190	95.1%	15,457	15.74	23.0%	11.5%
New England	772	96.9%	10,620	16.24	14.9%	7.9%
Midwest	570	93.1%	8,241	15.53	11.0%	6.1%
Washington D.C. Metro	139	95.2%	7,387	55.91	2.7%	5.5%
San Francisco Metro	149	100.0%	6,218	41.78	2.9%	4.6%
Total Core Operating Properties	5,180	94.2%	\$ 134,159	\$ 28.91	100.0%	100.0%
Fund Portfolio:						
Operating Properties:						
Pro Rata by Geography:						
New York Metro	229	75.9%	\$ 5,021	\$ 28.89	19.4%	30.0%
Southeast	310	94.8%	3,835	13.07	26.2%	22.8%
Northeast	276	78.3%	2,206	10.19	23.4%	13.1%
Midwest	90	98.0%	1,483	16.87	7.6%	8.8%
Mid-Atlantic	113	88.4%	1,400	13.98	9.6%	8.3%
Chicago Metro	70	83.6%	1,005	17.12	5.9%	6.0%
West	45	99.2%	947	21.52	3.8%	5.6%
Southwest	45	97.3%	762	17.37	3.8%	4.5%
San Francisco Metro	4	36.0%	146	98.33	0.3%	0.9%
Total Fund Operating Properties	1,182	86.3%	\$ 16,805	\$ 16.48	100.0%	100.0%

(a) Property GLA includes a total of 255,000 square feet, which is not owned by us. This square footage has been excluded for calculating annualized base rent per square foot.

(b) The above occupancy and rent amounts do not include space that is currently leased, but for which payment of rent had not commenced as of December 31, 2018.

(c) The amounts presented reflect the Operating Partnership's pro-rata shares of properties included within each region.

Development and Redevelopment Activities

As part of our strategy, we invest in retail real estate assets that may require significant development. As of December 31, 2018, we had six development or redevelopment projects in various stages of the development process.

Property	Ownership	Location	Estimated Stabilization	Square Feet Upon Completion	Leased Rate	Key Tenants	Outstanding Debt	Incurred ^(b)	Estimated Future Range	Estimated Total Range
Development:										
CORE										
56 E Walton Street ^(a)	100.0%	Chicago, IL	2019	8,874	—%	TBD	\$ —	\$ 10.1	\$ — to \$ 0.4	\$ 10.1 to \$ 10.5
FUND III										
Broad Hollow Commons	100.0%	Farmingdale, NY	2021	180,000 - 200,000	—%	TBD	—	17.2	32.8 to 42.8	50.0 to 60.0
FUND IV										
717 N. Michigan Avenue	100.0%	Chicago, IL	2020	62,000	25.0%	Disney Store	66.6	107.9	12.1 to 19.6	120.0 to 127.5
							<u>\$ 66.6</u>	<u>\$ 135.2</u>	<u>\$ 44.9</u>	<u>\$ 62.8</u> <u>\$ 180.1</u> <u>\$ 198.0</u>
Redevelopment:										
CORE										
City Center	100.0%	San Francisco, CA	2020	241,000	90.0%	Target	\$ —	\$ 172.0	\$ 18.0 to \$ 28.0	\$ 190.0 to \$ 200.0
Route 6 Mall	100.0%	Honesdale, PA	TBD	TBD	100.0%	TBD	—	TBD	TBD	TBD
Mad River	100.0%	Dayton, OH	TBD	TBD	50.0%	TBD	—	TBD	TBD to TBD	TBD to TBD
							<u>\$ —</u>	<u>\$ 172.0</u>	<u>\$ 18.0</u>	<u>\$ 28.0</u> <u>\$ 190.0</u> <u>\$ 200.0</u>
Pre-Stabilized:										
CORE										
613-623 West Diversey	100.0%	Chicago, IL	2019	29,778	76.1%	TJ Maxx, Blue Mercury	\$ —			
FUND II										
City Point	94.2%	New York, NY	2020	475,000	81.7%	Century 21, Target, Alamo Drafthouse	264.6			
FUND III										
Cortlandt Crossing	100.0%	Mohegan Lake, NY	2019	125,906	73.6%	ShopRite, HomeSense	26.0			
654 Broadway	100.0%	New York, NY	2019	2,896	100.0%	—	—			
640 Broadway	63.1%	New York, NY	2019	4,637	53.2%	Swatch	49.5			
Nostrand Avenue	100.0%	Brooklyn, NY	2019	40,977	94.1%	—	10.1			
FUND IV										
Paramus Plaza	50.0%	Paramus, NJ	2019	150,660	74.1%	Ashley Furniture, Marshalls	17.6			
650 Bald Hill Road	90.0%	Warwick, RI	2019	168,764	81.1%	Dick's Sporting Goods, Burlington Coat Factory	16.5			
210 Bowery	100.0%	New York, NY	2019	2,538	—%	—	—			
801 Madison	100.0%	New York, NY	2019	2,625	—%	—	—			
27 E 61st Street	100.0%	New York, NY	2019	4,177	—%	—	—			
1035 Third Avenue	100.0%	New York, NY	2019	7,617	70.6%	—	38.4			
							<u>\$ 422.7</u>			

(a) 56 E Walton Street was moved from Development to Pre-Stabilized effective January 1, 2019.

(b) Incurred amounts include costs associated with the initial carrying value.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Market Information, Dividends and Holders of Record of our Common Shares

At February 13, 2019, there were 270 holders of record of our Common Shares, which are traded on the New York Stock Exchange under the symbol "AKR." Our quarterly dividends declared are discussed in Note 10 and the characterization of such dividends for Federal Income Tax purposes is discussed in Note 14.

Securities Authorized for Issuance Under Equity Compensation Plans

At the 2016 annual shareholders' meeting, the shareholders' approved the Second Amended and Restated 2006 Incentive Plan (the "Second Amended 2006 Plan"). This plan replaced all previous share incentive plans and increased the authorization to issue options, Restricted Shares and LTIP Units (collectively "Awards") available to officers and employees by 1.6 million shares, for a total of 3.7 million shares available to be issued. See Note 13 in the Notes to Consolidated Financial Statements, for a summary of our Share Incentive Plans.

The following table provides information related to the Second Amended 2006 Plan as of December 31, 2018:

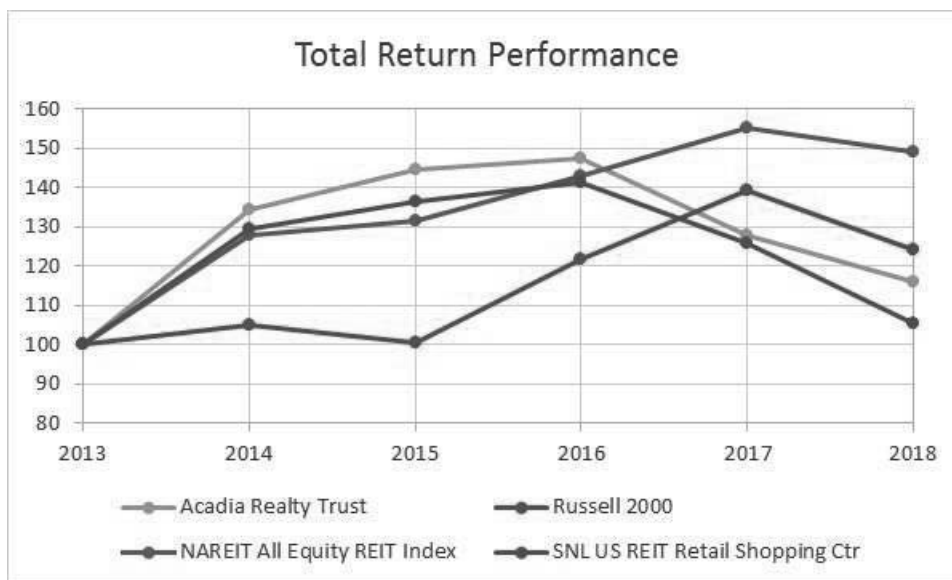
	Equity Compensation Plan Information		
	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	\$ —	1,173,692
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	1,173,692

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

Outstanding Common Shares as of December 31, 2018	81,557,472
Outstanding OP Units as of December 31, 2018	5,030,417
Total Outstanding Common Shares and OP Units	86,587,889
Common Shares and OP Units pursuant to the Second Amended 2006 Plan	8,893,681
Total Common Shares available under equity compensation plans	8,893,681
Less: Issuance of Restricted Shares and LTIP Units Granted	(4,948,216)
Issuance of Options Granted	(2,771,773)
Number of Common Shares remaining available	1,173,692

Share Price Performance

The following graph compares the cumulative total shareholder return for our Common Shares for the period commencing December 31, 2013, through December 31, 2018, with the cumulative total return on the Russell 2000 Index (“Russell 2000”), the NAREIT All Equity REIT Index (the “NAREIT”) and the SNL Shopping Center REITs (the “SNL”) over the same period. Total return values for the Russell 2000, the NAREIT, the SNL and the Common Shares were calculated based upon cumulative total return assuming the investment of \$100.00 in each of the Russell 2000, the NAREIT, the SNL and our Common Shares on December 31, 2013, and assuming reinvestment of dividends. The shareholder return as set forth in the table below is not necessarily indicative of future performance. The information in this section is not “soliciting material,” is not deemed “filed” with the SEC, and is not to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.



Index	At December 31,					
	2013	2014	2015	2016	2017	2018
Acadia Realty Trust	\$ 100.00	\$ 134.48	\$ 144.55	\$ 147.43	\$ 128.04	\$ 115.96
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
NAREIT All Equity REIT Index	100.00	128.03	131.64	143.00	155.41	149.12
SNL REIT Retail Shopping Ctr Index	100.00	129.58	136.51	141.27	125.62	105.42

Recent Sales of Unregistered Securities Use of Proceeds from Registered Securities

None.

Issuer Purchases of Equity Securities

During 2018, the Company revised its share repurchase program. The new share repurchase program authorizes management, at its discretion, to repurchase up to \$200.0 million of its outstanding Common Shares. The program may be discontinued or extended at any time. The Company repurchased 2,294,235 shares for \$55.1 million, inclusive of \$0.1 million of fees, during the year ended December 31, 2018. The Company did not repurchase any shares during the years ended December 31, 2017 or 2016. As of December 31, 2018, management may repurchase up to approximately \$144.9 million of the Company’s outstanding Common Shares under this program.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth, on a historical basis, our selected financial data. This information should be read in conjunction with our audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Report.

(dollars in thousands, except per share amounts)	Year Ended December 31,				
	2018	2017	2016	2015	2014
OPERATING DATA:					
Revenues	\$ 262,213	\$ 250,262	\$ 189,939	\$ 199,063	\$ 179,681
Operating expenses, excluding depreciation and impairment charges	(117,123)	(113,554)	(98,039)	(88,850)	(79,104)
Depreciation and amortization	(117,549)	(104,934)	(70,011)	(60,751)	(49,645)
Impairment charges	—	(14,455)	—	(5,000)	—
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	9,302	23,371	39,449	37,330	111,578
Interest income	13,231	29,143	25,829	16,603	12,607
Gain on change in control and other	—	5,571	—	1,596	2,724
Interest expense	(69,978)	(58,978)	(34,645)	(37,297)	(39,426)
(Loss) income from continuing operations before income taxes	(19,904)	16,426	52,522	62,694	138,415
Income tax (provision) benefit	(934)	(1,004)	105	(1,787)	(629)
(Loss) income from continuing operations before gain on disposition of properties	(20,838)	15,422	52,627	60,907	137,786
Income from discontinued operations, net of tax	—	—	—	—	1,222
Gain on disposition of properties, net of tax	5,140	48,886	81,965	89,063	13,138
Net (loss) income	(15,698)	64,308	134,592	149,970	152,146
Loss (income) attributable to noncontrolling interests:					
Continuing operations	47,137	(2,838)	(61,816)	(84,262)	(80,059)
Discontinued operations	—	—	—	—	(1,023)
Net loss (income) attributable to noncontrolling interests	47,137	(2,838)	(61,816)	(84,262)	(81,082)
Net income attributable to Acadia	\$ 31,439	\$ 61,470	\$ 72,776	\$ 65,708	\$ 71,064
Supplemental Information:					
Income from continuing operations attributable to Acadia	\$ 31,439	\$ 61,470	\$ 72,776	\$ 65,708	\$ 70,865
Income from discontinued operations attributable to Acadia	—	—	—	—	199
Net income attributable to Acadia	\$ 31,439	\$ 61,470	\$ 72,776	\$ 65,708	\$ 71,064
Basic earnings per share:					
Income from continuing operations	\$ 0.38	\$ 0.73	\$ 0.94	\$ 0.94	\$ 1.18
Income from discontinued operations	—	—	—	—	—
Basic earnings per share	\$ 0.38	\$ 0.73	\$ 0.94	\$ 0.94	\$ 1.18
Diluted earnings per share:					
Income from continuing operations	\$ 0.38	\$ 0.73	\$ 0.94	\$ 0.94	\$ 1.18
Income from discontinued operations	—	—	—	—	—
Diluted earnings per share	\$ 0.38	\$ 0.73	\$ 0.94	\$ 0.94	\$ 1.18
Weighted average number of Common Shares outstanding					
Basic	82,080	83,683	76,231	68,851	59,402
Diluted	82,080	83,685	76,244	68,870	59,426
Cash dividends declared per Common Share	\$ 1.09	\$ 1.05	\$ 1.16	\$ 1.22	\$ 1.23
BALANCE SHEET DATA:					
Real estate before accumulated depreciation	\$ 3,697,805	\$ 3,466,482	\$ 3,382,000	\$ 2,736,283	\$ 2,208,595
Total assets	3,958,780	3,960,247	3,995,960	3,032,319	2,720,721
Total indebtedness, net	1,550,545	1,424,409	1,488,718	1,358,606	1,118,602
Total common shareholders' equity	1,459,505	1,567,199	1,588,577	1,100,488	1,055,541
Noncontrolling interests	622,442	648,440	589,548	420,866	380,416
Total equity	2,081,947	2,215,639	2,178,125	1,521,354	1,435,957
OTHER:					
Funds from operations attributable to Common Shareholders and Common OP Unit holders ^(a)	118,870	134,667	117,070	111,560	78,882
Cash flows provided by (used in): ^(b)					
Operating activities	96,076	114,655	109,848	113,598	82,519
Investing activities	(136,619)	4,063	(613,564)	(354,503)	(268,516)
Financing activities	(10,278)	(127,758)	488,365	96,101	324,388

(a) Funds from operations is a non-GAAP measure. For an explanation of the measure and a reconciliation to the nearest GAAP measure, see "Item 7. Management's Discussion and Analysis — Supplemental Financial Measures."

(b) Cash flow activities for the years ended December 31, 2015 and 2014 have not been adjusted for the impact of ASUs 2016-15 and 2016-18 (Note 1).

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

As of December 31, 2018, there were 171 properties, which we own or have an ownership interest in, within our Core Portfolio and Funds. Our Core Portfolio consists of those properties either 100% owned, or partially owned through joint venture interests by the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Funds. These properties primarily consist of street and urban retail, and dense suburban shopping centers. See Item 2. Properties for a summary of our wholly-owned and partially-owned retail properties and their physical occupancies at December 31, 2018.

The majority of our operating income is derived from rental revenues from operating properties, including expense recoveries from tenants, offset by operating and overhead expenses. As our RCP Venture invests in operating companies, the Operating Partnership invests through a taxable REIT subsidiary (“TRS”).

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

- Own and operate a Core Portfolio of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas and create value through accretive development and re-tenanting activities coupled with the acquisition of high-quality assets that have the long-term potential to outperform the asset class as part of our Core asset recycling and acquisition initiative.
- Generate additional external growth through an opportunistic yet disciplined acquisition program within our Funds. We target transactions with high inherent opportunity for the creation of additional value through:
 - value-add investments in street retail properties, located in established and “next generation” submarkets, with re-tenanting or repositioning opportunities,
 - opportunistic acquisitions of well-located real-estate anchored by distressed retailers, and
 - other opportunistic acquisitions which may include high-yield acquisitions and purchases of distressed debt.

Some of these investments historically have also included, and may in the future include, joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets.

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

SIGNIFICANT DEVELOPMENTS DURING THE YEAR ENDED DECEMBER 31, 2018

Investments

During the year ended December 31, 2018, within our Fund portfolio we invested in three new consolidated properties aggregating \$149.0 million as follows (Note 2):

- On October 23, 2018, Fund V acquired a shopping center in Hiram, Georgia for \$44.4 million referred to as “Hiram Pavilion.”
- On July 18, 2018, Fund V acquired a suburban shopping center in Elk Grove, California for \$59.3 million referred to as “Elk Grove Commons.”
- On February 21, 2018, Fund V acquired a suburban shopping center in Trussville, Alabama for \$45.3 million referred to as “Trussville.”

On October 11, 2018, Fund IV obtained the venture partner’s interest in one of its equity method investments and consolidated 11 Broughton Street Portfolio properties (Note 4).

In addition, within our Core Portfolio, we converted a portion of an existing note receivable (Note 3) into an interest in the unconsolidated underlying real estate collateral as follows:

- On March 28, 2018, we exchanged a total of \$22.0 million of our Brandywine Note Receivable plus accrued interest of \$0.3 million for an incremental 14.11% undivided interest in Town Center (Note 4).

Dispositions of Real Estate

During the year ended December 31, 2018, within our Funds we sold six properties and four retail condominium units for an aggregate sales price of \$76.6 million as follows (Note 2, Note 4):

- On November 30, December 10, 17, and 21, Fund IV sold four consolidated condominium units for an aggregate of \$12.1 million, for which there was no gain or loss.
- On August 29, Fund IV sold one of its unconsolidated Broughton Street properties for \$2.0 million, resulting in a loss of \$0.3 million of which our share was \$0.1 million.
- On August 29, Fund IV sold its consolidated 1861 Union Street property for \$6.0 million, resulting in a gain of \$2.2 million at the property level of which our share was \$0.5 million.
- On August 27, Fund IV sold its consolidated Lake Montclair property for \$22.5 million and recognized a gain of \$2.9 million at the property level of which our share was \$0.7 million.
- On April 17, 2018, Fund II sold its consolidated Sherman Avenue property, which was previously classified as held for sale, for \$26.0 million.
- On January 18, 2018, Fund IV sold two unconsolidated Broughton Street properties for aggregate proceeds of \$8.0 million and recognized a loss of \$0.4 million at the property level, of which both Fund IV and our pro-rata share was negligible.

In addition, on June 29, 2018, a Fund IV unconsolidated investee terminated its master leases at two of its Broughton Street properties.

Financings

During the year ended December 31, 2018, we obtained aggregate net new financing of \$233.0 million including (Note 7):

- We obtained an aggregate of \$109.5 million in financings through four new mortgages for Fund V.
- We obtained a \$73.5 million mortgage for Sullivan Center, a Core property.
- We obtained a new \$500.0 million Core Credit Facility comprised of a \$150.0 million senior unsecured revolving credit facility and a \$350.0 million senior unsecured term loan and refinanced our existing \$300.0 million credit facility (comprised of the \$150.0 million Core unsecured revolving line of credit and the \$150.0 million term loan) and \$150.0 million in term loans.

During the year ended December 31, 2018, we utilized proceeds from the new term loan to repay one Core mortgage in the amount of \$40.4 million. The Funds also repaid three non-recourse Fund mortgages aggregating \$27.2 million in connection with three of the property sales noted above.

Structured Financing

During the year ended December 31, 2018 (Note 3) we entered into the following structured financing transactions:

- As discussed above, on March 28, 2018, we exchanged a total of \$22.0 million of our Core Brandywine Note Receivable plus accrued interest of \$0.3 million for an incremental 14.11% undivided interest in Town Center (Note 4).
- On March 16, 2018, we funded an additional \$2.8 million on an existing Core \$15.0 million note receivable.
- On January 24, 2018, we received full payment on a \$26.0 million Core note receivable plus \$0.2 million interest thereon.

Share Repurchase Plan

In February 2018, our Board of Trustees elected to terminate the existing repurchase program and authorized a new common share repurchase program under which we may repurchase, from time to time, up to a maximum of \$200.0 million of our common shares (Note 10). Through December 31, 2018, we repurchased 2,294,235 shares for \$55.1 million.

RESULTS OF OPERATIONS

See [Note 12](#) in the Notes to Consolidated Financial Statements for an overview of our three reportable segments.

Comparison of Results for the Year Ended December 31, 2018 to the Year Ended December 31, 2017

The results of operations by reportable segment for the year ended December 31, 2018 compared to the year ended December 31, 2017 are summarized in the table below (in millions, totals may not add due to rounding):

	Year Ended December 31, 2018				Year Ended December 31, 2017				Increase (Decrease)			
	Core	Funds	SF	Total	Core	Funds	SF	Total	Core	Funds	SF	Total
Revenues	\$ 167.9	\$ 94.3	\$ —	\$ 262.2	\$ 170.0	\$ 80.3	\$ —	\$ 250.3	\$ (2.1)	\$ 14.0	\$ —	\$ 11.9
Depreciation and amortization	(60.9)	(56.6)	—	(117.5)	(61.7)	(43.2)	—	(104.9)	(0.8)	13.4	—	12.6
Property operating expenses, other operating and real estate taxes	(45.1)	(37.6)	—	(82.8)	(45.3)	(34.4)	—	(79.8)	(0.2)	3.2	—	3.0
General and administrative expenses	—	—	—	(34.3)	—	—	—	(33.8)	—	—	—	0.5
Impairment charge	—	—	—	—	—	(14.5)	—	(14.5)	—	(14.5)	—	(14.5)
Operating income (loss)	61.9	—	—	27.5	62.9	(11.8)	—	17.3	(1.0)	11.8	—	10.2
Gain on disposition of properties, net of tax	—	5.1	—	5.1	—	48.9	—	48.9	—	(43.8)	—	(43.8)
Interest income	—	—	13.2	13.2	—	—	29.1	29.1	—	—	(15.9)	(15.9)
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	7.4	1.9	—	9.3	3.7	19.6	—	23.4	3.7	(17.7)	—	(14.1)
Interest expense	(27.6)	(42.4)	—	(70.0)	(28.6)	(30.4)	—	(59.0)	(1.0)	12.0	—	11.0
Gain on change in control	—	—	—	—	5.6	—	—	5.6	(5.6)	—	—	(5.6)
Income tax provision	—	—	—	(0.9)	—	—	—	(1.0)	—	—	—	0.1
Net income (loss)	41.7	(35.3)	13.2	(15.7)	43.6	26.3	29.1	64.3	(1.9)	(61.6)	(15.9)	(80.0)
Net loss (income) attributable to noncontrolling interests	0.8	46.4	—	47.1	(1.1)	(1.7)	—	(2.8)	(1.9)	(48.1)	—	(49.9)
Net income attributable to Acadia	\$ 42.4	\$ 11.0	\$ 13.2	\$ 31.4	\$ 42.5	\$ 24.6	\$ 29.1	\$ 61.5	\$ (0.1)	\$ (13.6)	\$ (15.9)	\$ (30.1)

Core Portfolio

The results of operations for our Core Portfolio segment are depicted in the table above under the headings labeled “Core.” Segment net income attributable to Acadia for our Core Portfolio decreased \$0.1 million for the year ended December 31, 2018 compared to the prior year as a result of the changes further described below.

Revenues for our Core Portfolio decreased \$2.1 million for the year ended December 31, 2018 compared to the prior year due primarily to a decrease of \$4.3 million related to tenant bankruptcies in 2018 and a decrease of \$2.5 million due to a real estate tax reassessment at a property in 2017. These decreases were partially offset by a \$2.4 million increase from the conversion of a portion of a note receivable into increased ownership in real estate during 2018 ([Note 4](#)) and a \$2.4 million increase from the write-off of below market leases at properties in 2018.

Equity in earnings of unconsolidated affiliates for our Core Portfolio increased \$3.7 million for the year ended December 31, 2018 compared to the prior year primarily due to the conversion of a portion of a note receivable into increased ownership in real estate as described above.

Interest expense for our Core Portfolio decreased \$1.0 million for the year ended December 31, 2018 compared to the prior year due to lower average outstanding borrowings in 2018 compared to 2017.

The gain on change in control of \$5.6 million during the year ended December 31, 2017 resulted from the consolidation of our investment in Market Square upon acquisition of the outstanding third-party interests ([Note 4](#)).

Net loss (income) attributable to noncontrolling interests for our Core Portfolio decreased \$1.9 million for the year ended December 31, 2018 compared to the prior year based on the noncontrolling interests’ share of the variances discussed above.

Funds

The results of operations for our Funds segment are depicted in the table above under the headings labeled “Funds.” Segment net income attributable to Acadia for the Funds decreased \$13.6 million for the year ended December 31, 2018 compared to the prior year as a result of the changes described below. The net loss for our Funds for the year ended December 31, 2018 is primarily related to depreciation and amortization on pre-stabilized assets.

Revenues for the Funds increased \$14.0 million for the year ended December 31, 2018 compared to the prior year primarily due to a \$22.5 million increase from Fund property acquisitions in 2017 and 2018, a \$2.6 million increase from development projects being placed in service during 2017. These increases were partially offset by a decrease of \$10.5 million related to property sales in 2017 and 2018.

Depreciation and amortization for the Funds increased \$13.4 million for the year ended December 31, 2018 compared to the prior year primarily due to an \$12.1 million increase from Fund property acquisitions in 2017 and 2018 and as well as \$5.7 million from development projects being placed in service during 2017. These increases were partially offset by a decrease of \$4.3 million related to property sales in 2017 and 2018.

Property operating expenses, other operating and real estate taxes for the Funds increased \$3.2 million for the year ended December 31, 2018 compared to the prior year primarily due to a \$6.8 million increase from Fund property acquisitions in 2017 and 2018 and a \$1.0 million increase from the City Point project being placed in service during 2017. These increases were partially offset by a decrease of \$4.5 million from property sales in 2017 and 2018.

Impairment charge during the year ended December, 31, 2017 totaled \$14.5 million, comprised of charges of \$10.6 million for a property classified as held for sale in 2017 and \$3.8 million for a property sold in 2017 (Note 8).

Gain on disposition of properties for the Funds decreased \$43.8 million for the year ended December 31, 2018 compared to the prior year due to the sales of Lake Montclair and 1861 Union in Fund IV in 2018, which aggregated \$5.1 million and the sales of 216th street, City Point Tower 1 and 161st street in Fund II, New Hyde Park Shopping Center in Fund III and 1151 Third Avenue in Fund IV in 2017, which aggregated \$48.9 million.

Equity in earnings of unconsolidated affiliates for the Funds decreased \$17.7 million for the year ended December 31, 2018 compared to the prior year primarily due to the Fund's proportionate share of \$14.8 million in aggregate gains from the sales of Arundel Plaza, 1701 Belmont Avenue and 2819 Kennedy Boulevard during 2017, \$3.1 million from distributions in excess of our carrying value related to Fund II's investment in Mervyns and Albertson's in 2017 and \$2.5 million from the recognition of 100% of the net loss from Broughton Street in 2018 as our partner is no longer absorbing their share of the losses. These decreases were partially offset by \$3.2 million for a distribution in excess of carrying value from Fund III's investment in the Self-Storage Management (Note 4) during 2018.

Interest expense for the Funds increased \$12.0 million for the year ended December 31, 2018 compared to the prior year due to \$8.2 million less interest capitalized primarily related to our Fund II City Point project during 2018 and a \$6.1 million increase related to higher average outstanding rates in 2018. These increases were offset by \$1.5 million of higher loan cost amortization in 2017 and \$1.0 million for lower average outstanding borrowings in 2018.

Net loss (income) attributable to noncontrolling interests for the Funds decreased \$48.1 million for the year ended December 31, 2018 compared to the prior year based on the noncontrolling interests' share of the variances discussed above. (Income) loss attributable to noncontrolling interests in the Funds includes asset management fees earned by the Company of \$18.0 million and \$18.4 million for the years ended December 31, 2018 and 2017, respectively.

Structured Financing

The results of operations for our Structured Financing segment are depicted in the table above under the headings labeled "SF." Interest income for the Structured Financing portfolio decreased \$15.9 million for the year ended December 31, 2018 compared to the prior year primarily due to \$7.2 million from the conversion of a portion of a note receivable into increased ownership in the real estate (Note 4), the recognition of additional interest of \$3.9 million during 2017 on the repayment of a note (Note 3) and \$4.8 million from loan payoffs during 2017 and 2018.

Unallocated

The Company does not allocate general and administrative expense and income taxes to its reportable segments. These unallocated amounts are depicted in the table above under the headings labeled "Total."

Comparison of Results for the Year Ended December 31, 2017 to the Year Ended December 31, 2016

The results of operations by reportable segment for the year ended December 31, 2017 compared to the year ended December 31, 2016 are summarized in the table below (in millions, totals may not add due to rounding):

	Year Ended December 31, 2017				Year Ended December 31, 2016				Increase (Decrease)			
	Core	Funds	SF	Total	Core	Funds	SF	Total	Core	Funds	SF	Total
Revenues	\$ 170.0	\$ 80.3	\$ —	\$ 250.3	\$ 150.2	\$ 39.7	\$ —	\$ 189.9	\$ 19.8	\$ 40.6	\$ —	\$ 60.4
Depreciation and amortization	(61.7)	(43.2)	—	(104.9)	(54.6)	(15.4)	—	(70.0)	7.1	27.8	—	34.9
Property operating expenses, other operating and real estate taxes	(45.3)	(34.4)	—	(79.8)	(39.6)	(17.8)	—	(57.4)	5.7	16.6	—	22.4
General and administrative expenses	—	—	—	(33.8)	—	—	—	(40.6)	—	—	—	(6.8)
Impairment charge	—	(14.5)	—	(14.5)	—	—	—	—	—	14.5	—	14.5
Operating income (loss)	62.9	(11.8)	—	17.3	56.0	6.5	—	21.9	6.9	(18.3)	—	(4.6)
Gain on disposition of properties, net of tax	—	48.9	—	48.9	—	82.0	—	82.0	—	(33.1)	—	(33.1)
Interest income	—	—	29.1	29.1	—	—	25.8	25.8	—	—	3.3	3.3
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	3.7	19.6	—	23.4	3.8	35.7	—	39.4	(0.1)	(16.1)	—	(16.0)
Interest expense	(28.6)	(30.4)	—	(59.0)	(27.4)	(7.2)	—	(34.6)	1.2	23.2	—	24.4
Gain on change in control	5.6	—	—	5.6	—	—	—	—	5.6	—	—	5.6
Income tax (provision) benefit	—	—	—	(1.0)	—	—	—	0.1	—	—	—	(1.1)
Net income (loss)	43.6	26.3	29.1	64.3	32.4	116.9	25.8	134.6	11.2	(90.6)	3.3	(70.3)
Net income attributable to noncontrolling interests	(1.1)	(1.7)	—	(2.8)	(3.4)	(58.4)	—	(61.8)	(2.3)	(56.7)	—	(59.0)
Net income attributable to Acadia	\$ 42.5	\$ 24.6	\$ 29.1	\$ 61.5	\$ 29.0	\$ 58.5	\$ 25.8	\$ 72.8	\$ 13.5	\$ (33.9)	\$ 3.3	\$ (11.3)

Core Portfolio

The results of operations for our Core Portfolio segment are depicted in the table above under the headings labeled “Core.” Segment net income attributable to Acadia for our Core Portfolio increased by \$13.5 million for the year ended December 31, 2017 compared to the prior year as a result of the changes as further described below.

Revenues from our Core Portfolio increased by \$19.8 million for the year ended December 31, 2017 compared to 2016 due to \$22.7 million related to Core property acquisitions in 2016 partially offset by \$3.8 million attributable to the deconsolidation of the Brandywine Portfolio in 2016.

Depreciation and amortization for our Core Portfolio increased by \$7.1 million for the year ended December 31, 2017 compared to 2016 due to \$10.3 million of additional depreciation related to Core property acquisitions in 2016 partially offset by \$3.4 million of additional depreciation and amortization related to an adjustment for tenant kick-out options in 2016 (Note 1).

Property operating, other operating expenses and real estate taxes for our Core Portfolio increased by \$5.7 million for the year ended December 31, 2017 compared to 2016 primarily due to Core property acquisitions in 2016.

Interest expense for the Core Portfolio increased \$1.2 million for the year ended December 31, 2017 compared to 2016 due to \$2.1 million from higher average outstanding balances in 2017 and a \$0.9 million increase in capital lease interest in 2017, partially offset by \$1.0 million due to lower average interest rates.

The gain on change in control of \$5.6 million during the year ended December 31, 2017 resulted from the consolidation of our investment in Market Square upon acquisition of the outstanding third-party interests (Note 4).

Net income attributable to noncontrolling interests decreased \$2.3 million due to the change in control of the Brandywine Portfolio in 2016.

Funds

The results of operations for our Funds segment are depicted in the table above under the headings labeled “Funds.” Segment net income attributable to Acadia for the Funds decreased by \$33.9 million for the year ended December 31, 2017 compared to 2016 as a result of the changes described below.

Revenues from the Funds increased by \$40.6 million for the year ended December 31, 2017 compared to 2016 primarily due to \$26.1 million related to Fund property acquisitions in 2016 and 2017 as well as \$13.6 million from development projects being placed in service during 2017 (Note 2).

Depreciation and amortization for the Funds increased by \$27.8 million for the year ended December 31, 2017 compared to 2016 primarily due to \$15.9 million related to Fund property acquisitions in 2016 and 2017 as well as \$11.0 million from the development projects being placed in service during 2017.

Property operating, other operating expenses and real estate taxes for the Funds increased by \$16.6 million for the year ended December 31, 2017 compared to 2016 due to \$8.5 million from the development projects placed into service in 2017 as well as \$6.8 million from Fund property acquisitions in 2016 and 2017.

Impairment charges during the year ended December 31, 2017 totaled \$14.5 million, comprised of charges of \$10.7 million for a property classified as held for sale in 2017 and \$3.8 million for a property sold in 2017 (Note 8).

Gain on disposition of properties for the Funds decreased by \$33.1 million for the year ended December 31, 2017 compared to 2016. Gains during 2017 include \$31.5 million from the sale of Fund II's 260 E. 161st Street property, \$6.5 million from the sale of Fund II's 216th Street property, \$5.2 million from Fund IV's 1151 Third Avenue property and \$6.4 million from the sale of Fund III's New Hyde Park Shopping Center. Gains during 2016 comprised \$16.6 million from the sale of Fund III's Heritage Shops and \$65.4 million from the sale of a 65% interest in Cortlandt Town Center.

Equity in earnings of unconsolidated affiliates for the Funds decreased by \$16.1 million for the year ended December 31, 2017 compared to 2016 primarily due to the Fund's proportionate share of \$14.8 million in aggregate gains from the sales of 1701 Belmont Avenue, Arundel Plaza and 2819 Kennedy Boulevard during 2017 as well as distributions in excess of our carrying value related to investments in Mervyn's and Albertsons (Note 4) versus the Fund's proportionate share of \$36.0 million from the sale of Cortlandt Town Center in 2016.

Interest expense for the Funds increased \$23.2 million for the year ended December 31, 2017 compared to 2016 due to \$7.8 million less interest capitalized during 2017, a \$6.0 million increase related to higher average interest rates in 2017, a \$5.1 million increase related to higher average outstanding borrowings in 2017, and a \$2.9 million increase in amortization of additional loan costs in 2017.

Net income attributable to noncontrolling interests in the Funds decreased by \$56.7 million for the year ended December 31, 2017 compared to 2016 due to the noncontrolling interests' share of the variances discussed above. Income attributable to noncontrolling interests in the Funds includes asset management fees earned by the Company of \$18.4 million and \$15.6 million for the years ended December 31, 2017 and 2016, respectively.

Structured Financing

The results of operations for our Structured Financing segment are depicted in the table above under the headings labeled "SF." Net income for Structured Financing increased by \$3.3 million compared to the prior year primarily due to the recognition of additional interest of \$3.6 million during 2017 on the repayment of a note (Note 3) and new loans originated during 2016. These increases were partially offset by the conversion of a portion of a note receivable into increased ownership in the real estate in 2017 (Note 4).

Unallocated

The Company does not allocate general and administrative expense and income taxes to its reportable segments. These unallocated amounts are depicted in the table above under the headings labeled "Total." General and administrative expenses decreased by \$6.8 million primarily as a result of the acceleration of equity-based compensation awards related to retirements in 2016 totaling \$4.2 million as well as increased compensation expense in 2016, which included \$3.9 million related to the Program (Note 13).

The income tax provision for 2017 relates to increased income of the taxable REIT subsidiaries and adjustments to reflect the new provisions of the Tax Cuts and Jobs Act (Note 14).

SUPPLEMENTAL FINANCIAL MEASURES

Net Property Operating Income

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

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

A reconciliation of consolidated operating income to net operating income - Core Portfolio follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Consolidated operating income	\$ 27,541	\$ 17,319	\$ 21,889
Add back:			
General and administrative	34,343	33,756	40,648
Depreciation and amortization	117,549	104,934	70,011
Impairment charge	—	14,455	—
Less:			
Above/below market rent and straight-line rent	(23,521)	(21,110)	(5,313)
Consolidated NOI	155,912	149,354	127,235
Noncontrolling interest in consolidated NOI	(37,496)	(28,379)	(20,872)
Less: Operating Partnership's interest in Fund NOI included above	(9,790)	(7,927)	(4,981)
Add: Operating Partnership's share of unconsolidated joint ventures NOI ^(a)	24,919	19,539	16,547
NOI - Core Portfolio	<u>\$ 133,545</u>	<u>\$ 132,587</u>	<u>\$ 117,929</u>

(a) Does not include the Operating Partnership’s share of NOI from unconsolidated joint ventures within the Funds.

Same-Property NOI includes Core Portfolio properties that we owned for both the current and prior periods presented, but excludes those properties which we acquired, sold or expected to sell, and developed during these periods. The following table summarizes Same-Property NOI for our Core Portfolio (in thousands):

	Year Ended December 31,	
	2018	2017
Core Portfolio NOI	\$ 133,545	\$ 132,587
Less properties excluded from Same-Property NOI	(7,353)	(8,633)
Same-Property NOI	<u>\$ 126,192</u>	<u>\$ 123,954</u>
Percent change from prior year period	<u>1.8%</u>	
Components of Same-Property NOI:		
Same-Property Revenues	\$ 173,471	\$ 168,624
Same-Property Operating Expenses	(47,279)	(44,670)
Same-Property NOI	<u>\$ 126,192</u>	<u>\$ 123,954</u>

Rent Spreads on Core Portfolio New and Renewal Leases

The following table summarizes rent spreads on both a cash basis and straight-line basis for new and renewal leases based on leases executed within our Core Portfolio for the year ended December 31, 2018. Cash basis represents a comparison of rent most recently paid on the previous lease as compared to the initial rent paid on the new lease. Straight-line basis represents a comparison of rents as adjusted for contractual escalations, abated rent and lease incentives for the same comparable leases.

Core Portfolio New and Renewal Leases	Year Ended December 31, 2018	
	Cash Basis	Straight-Line Basis
Number of new and renewal leases executed	68	68
GLA commencing	562,304	562,304
New base rent	\$ 20.49	\$ 21.14
Expiring base rent	\$ 18.80	\$ 18.17
Percent growth in base rent	9.0%	16.4%
Average cost per square foot ^(a)	\$ 7.51	\$ 7.51
Weighted average lease term (years)	5.4	5.4

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

Funds from Operations

We consider 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 our performance. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (losses) from sales of depreciated property, depreciation and amortization, and impairment of depreciable real estate. Our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles (“GAAP”) and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property and impairment of depreciable real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. A reconciliation of net income attributable to Acadia to FFO follows (dollars in thousands, except per share amounts):

(dollars in thousands except per share data)	Year Ended December 31,		
	2018	2017	2016
Net income attributable to Acadia	\$ 31,439	\$ 61,470	\$ 72,776
Depreciation of real estate and amortization of leasing costs (net of noncontrolling interests' share)	85,852	83,515	67,446
Impairment charge (net of noncontrolling interests' share)	—	1,088	—
Gain on sale (net of noncontrolling interests' share)	(994)	(15,565)	(28,154)
Income attributable to Common OP Unit holders	2,033	3,609	4,442
Distributions - Preferred OP Units	540	550	560
Funds from operations attributable to Common Shareholders and Common OP Unit holders	\$ 118,870	\$ 134,667	\$ 117,070
Funds From Operations per Share - Diluted			
Basic weighted-average shares outstanding, GAAP earnings	82,080,159	83,682,789	76,231,000
Weighted-average OP Units outstanding	4,941,661	4,741,058	4,435,041
Basic weighted-average shares outstanding, FFO	87,021,820	88,423,847	80,666,041
Assumed conversion of Preferred OP Units to common shares	499,345	505,045	435,274
Assumed conversion of LTIP units and restricted share units to common shares	206,646	69,488	150,843
Diluted weighted-average number of Common Shares and Common OP Units outstanding, FFO	87,727,811	88,998,380	81,252,158
Diluted Funds from operations, per Common Share and Common OP Unit	\$ 1.35	\$ 1.51	\$ 1.44

LIQUIDITY AND CAPITAL RESOURCES

Uses of Liquidity and Cash Requirements

Our principal uses of liquidity are (i) distributions to our shareholders and OP unit holders, (ii) investments which include the funding of our capital committed to the Funds and property acquisitions and development/re-tenanting activities within our Core Portfolio, (iii) distributions to our Fund investors, (iv) debt service and loan repayments and (v) share repurchases.

Distributions

In order to qualify as a REIT for federal income tax purposes, we must currently distribute at least 90% of our taxable income to our shareholders. During the year ended December 31, 2018, we paid dividends and distributions on our Common Shares, Common OP Units and Preferred OP Units totaling \$95.9 million.

Investments in Real Estate

During the year ended December 31, 2018, within our Fund portfolio we invested in three new properties aggregating \$149.0 million as follows (Note 2):

- On October 23, 2018, Fund V acquired a consolidated suburban shopping center in Hiram, Georgia for \$44.4 million referred to as “Hiram Pavilion.”
- On July 18, 2018, Fund V acquired a consolidated suburban shopping center in Elk Grove, California for \$59.3 million referred to as “Elk Grove Commons.”
- On February 21, 2018, Fund V acquired a consolidated suburban shopping center in Trussville, Alabama for \$45.3 million referred to as “Trussville.”

For activity subsequent to December 31, 2018, see Note 15.

Capital Commitments

During the year ended December 31, 2018, we made capital contributions aggregating \$12.8 million to our Funds. At December 31, 2018, our share of the remaining capital commitments to our Funds aggregated \$119.0 million as follows:

- \$6.4 million to Fund III. Fund III was launched in May 2007 with total committed capital of \$450.0 million of which our original share was \$89.6 million. During 2015, we acquired an additional interest, which had an original capital commitment of \$20.9 million.
- \$25.2 million to Fund IV. Fund IV was launched in May 2012 with total committed capital of \$530.0 million of which our original share was \$122.5 million.
- \$87.4 million to Fund V. Fund V was launched in August 2016 with total committed capital of \$520.0 million of which our initial share is \$104.5 million.

In addition, during April 2018, a distribution was made to the Fund II investors, including \$4.3 million to the Operating Partnership. This amount remains subject to re-contribution to Fund II until April 2021.

Development Activities

During the year ended December 31, 2018, capitalized costs associated with development activities totaled \$45.9 million. At December 31, 2018, our Funds had a total of five properties under development and redevelopment for which the estimated total cost to complete these projects through 2020 was \$62.9 million to \$90.8 million and our share was approximately \$28.8 million to \$43.4 million.

Debt

A summary of our consolidated debt, which includes the full amount of Fund related obligations and excludes our pro rata share of debt at our unconsolidated subsidiaries, is as follows (in thousands):

	December 31,	
	2018	2017
Total Debt - Fixed and Effectively Fixed Rate	\$ 1,001,658	\$ 899,650
Total Debt - Variable Rate	558,675	538,736
	1,560,333	1,438,386
Net unamortized debt issuance costs	(10,541)	(14,833)
Unamortized premium	753	856
Total Indebtedness	\$ 1,550,545	\$ 1,424,409

As of December 31, 2018, our consolidated outstanding mortgage and notes payable aggregated \$1,560.3 million, excluding unamortized premium of \$0.8 million and unamortized loan costs of \$10.5 million, and were collateralized by 43 properties and related tenant leases. Interest rates on our outstanding indebtedness ranged from 1.00% to 6.00% with maturities that ranged from February 20, 2019 to August 23, 2042. Taking into consideration \$609.9 million of notional principal under variable to fixed-rate swap agreements currently in effect, \$1,001.7 million of the portfolio debt, or 64.2%, was fixed at a 3.85% weighted-average interest rate and \$558.7 million, or 35.8% was floating at a 4.11% weighted average interest rate as of December 31, 2018. Our variable-rate debt includes \$143.8 million of debt subject to interest rate caps.

There is \$212.7 million of debt maturing in 2019 at a weighted-average interest rate of 5.48%; there is \$6.4 million of scheduled principal amortization due in 2019; and our share of scheduled remaining 2019 principal payments and maturities on our unconsolidated debt was \$2.1 million at December 31, 2018. In addition, \$527.3 million of our total consolidated debt and \$10.2 million of our pro-rata share of unconsolidated debt will come due in 2020. As it relates to the maturing debt in 2019 and 2020, we may not have sufficient cash on hand to repay such indebtedness, and, therefore, we expect to refinance at least a portion of this indebtedness or select other alternatives based on market conditions as these loans mature; however, there can be no assurance that we will be able to obtain financing at acceptable terms.

A mortgage loan in the Company's Core Portfolio for \$26.3 million was in default and subject to litigation at December 31, 2018 and December 31, 2017 (Note 7).

Share Repurchases

The Company repurchased \$55.1 million, or 2,294,235 shares, pursuant to its new share repurchase program during the year ended December 31, 2018.

Sources of Liquidity

Our primary sources of capital for funding our liquidity needs include (i) the issuance of both public equity and OP Units, (ii) the issuance of both secured and unsecured debt, (iii) unfunded capital commitments from noncontrolling interests within our Funds, (iv) future sales of existing properties, (v) repayments of structured financing investments, and (vi) cash on hand and future cash flow from operating activities. Our cash on hand in our consolidated subsidiaries at December 31, 2018 totaled \$21.3 million. Our remaining sources of liquidity are described further below.

Issuance of Equity

We have an at-the-market ("ATM") equity issuance program which provides us an efficient and low-cost vehicle for raising public equity to fund our capital needs. Through this program, we have been able to effectively "match-fund" the required equity for our Core Portfolio and Fund acquisitions through the issuance of Common Shares over extended periods employing a price averaging strategy. In addition, from time to time, we have issued and intend to continue to issue, equity in follow-on offerings separate from our ATM program. Net proceeds raised through our ATM program and follow-on offerings are primarily used for acquisitions, both for our Core Portfolio and our pro-rata share of Fund acquisitions, and for general corporate purposes. There were no issuances of equity either through follow-on offerings or under the ATM program during the year ended December 31, 2018.

Fund Capital

During the year ended December 31, 2018, Fund III called capital contributions totaling \$12.4 million, Fund IV called capital contributions of \$8.1 million and Fund V called capital contributions of \$39.3 million, of which our aggregate share was \$12.8 million. At December 31, 2018, unfunded capital commitments from noncontrolling interests within our Funds III, IV and V were \$19.7 million, \$84.0 million and \$347.5 million, respectively.

Asset Sales

As previously discussed, during the year ended December 31, 2018, within our Fund portfolio we sold three unconsolidated properties, four consolidated retail condominium units and three consolidated properties for an aggregate sales price of \$76.6 million (Note 4, Note 2).

Structured Financing Repayments

During the year ended December 31, 2018, we received total collections on one note receivable of \$26.0 million (Note 3).

Financing and Debt

As of December 31, 2018, we had \$200.0 million of additional capacity under existing Core and Fund revolving debt facilities. In addition, at that date within our Core and Fund portfolios, we had 69 unleveraged consolidated properties with an aggregate carrying value of approximately \$1.5 billion and one unleveraged unconsolidated property for which our share of the carrying value was \$99.3 million, although there can be no assurance that we would be able to obtain financing for these properties at favorable terms, if at all.

HISTORICAL CASH FLOW

The following table compares the historical cash flow for the year ended December 31, 2018 with the cash flow for the year ended December 31, 2017 (in millions):

	Year Ended December 31,		
	2018	2017	Variance
Net cash provided by operating activities	\$ 96.1	\$ 114.7	\$ (18.6)
Net cash (used in) provided by investing activities	(136.6)	4.1	(140.7)
Net cash used in financing activities	(10.3)	(127.8)	117.5
Decrease in cash and restricted cash	<u>\$ (50.8)</u>	<u>\$ (9.0)</u>	<u>\$ (41.8)</u>

Operating Activities

Our operating activities provided \$18.6 million less cash during the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to a reduction in interest income, an increase in interest expense and an increase in property expenses partially offset by cash flows from the 2017 and 2018 Fund acquisitions.

Investing Activities

During the year ended December 31, 2018 as compared to the year ended December 31, 2017, our investing activities used \$140.7 million more cash, primarily due to (i) \$196.8 million less cash received from the proceeds from dispositions of properties, (ii) \$17.3 million less cash received from return of capital from unconsolidated affiliates, and (iii) \$6.0 million less cash received from repayments of notes receivable in 2018. These reductions in cash received were partially offset by (i) \$56.1 million less cash used for the acquisition of real estate, (ii) \$13.3 million less cash used for development and property improvement costs and (iii) \$7.6 million less cash used for the issuance of notes receivable.

Financing Activities

Our financing activities used \$117.5 million less cash during the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily from (i) an increase of \$189.2 million of cash provided from net borrowings, (ii) a decrease of \$10.6 million in cash paid for dividends to common shareholders and (iii) a decrease of \$8.4 million in distributions to noncontrolling interests. These items were partially offset by (i) \$55.1 million more cash used for the repurchase of Common Shares and (ii) a decrease in cash of \$37.6 million from capital contributions from noncontrolling interests.

Cash Flows for 2017 Compared to 2016

The following table compares the historical cash flow for the year ended December 31, 2017 with the cash flow for the year ended December 31, 2016 (dollars in millions):

	Year Ended December 31,		
	2017	2016	Variance
Net cash provided by operating activities	\$ 114.7	\$ 109.8	\$ 4.9
Net cash (used in) provided by investing activities	4.1	(613.6)	617.7
Net cash used in financing activities	(127.8)	488.4	(616.2)
Decrease in cash and restricted cash	<u>\$ (9.0)</u>	<u>\$ (15.4)</u>	<u>\$ 6.4</u>

Operating Activities

Our operating activities provided \$4.9 million more cash during the year ended December 31, 2017, primarily due to additional cash flow from 2016 and 2017 Core and Fund acquisitions partially offset by a \$27.0 million rent prepayment received from a tenant in 2016.

Investing Activities

During the year ended December 31, 2017 as compared to the year ended December 31, 2016, our investing activities used \$617.7 million less cash, primarily due to (i) \$291.8 million less cash used for the acquisition of real estate, (ii) \$146.8 million less cash used for the issuance of notes receivable, (iii) \$110.3 million more cash received from disposition of properties, including unconsolidated affiliates, (iv) \$65.6 million less cash used for investments and advances to unconsolidated investments, and (v) \$41.3 million less cash used for development and property improvement costs. These items were partially offset by (i) \$35.3 million less cash received from return of capital from unconsolidated affiliates, and (ii) \$10.8 million less cash received from repayments of notes receivable.

Financing Activities

Our financing activities provided \$616.2 million less cash during the year ended December 31, 2017, primarily from (i) \$450.1 million less cash received from the issuance of Common Shares, (ii) a decrease in cash of \$209.9 million from capital contributions from noncontrolling interests, and (iii) a decrease of \$19.4 million of cash provided from net borrowings. These items were partially offset by a decrease of \$66.1 million in cash distributions to noncontrolling interests.

CONTRACTUAL OBLIGATIONS

The following table summarizes: (i) principal and interest obligations under mortgage and other notes, (ii) rents due under non-cancelable operating and capital leases, which includes ground leases at seven of our properties and the lease for our corporate office and (iii) construction commitments as of December 31, 2018 (in millions):

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Principal obligations on debt	\$ 1,560.3	\$ 219.1	\$ 707.8	\$ 419.2	\$ 214.2
Interest obligations on debt	245.9	76.7	84.7	44.1	40.4
Lease obligations ^(a)	203.1	4.8	8.9	8.8	180.6
Construction commitments ^(b)	55.5	55.5	—	—	—
Total	<u>\$ 2,064.8</u>	<u>\$ 356.1</u>	<u>\$ 801.4</u>	<u>\$ 472.1</u>	<u>\$ 435.2</u>

(a) A ground lease expiring during 2078 provides the Company with an option to purchase the underlying land during 2031. If we do not exercise the option, the rents that will be due are based on future values and as such are not determinable at this time. Accordingly, the above table does not include rents for this lease beyond 2020.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

See [Note 4](#) in the Notes to Consolidated Financial Statements, for a discussion of our unconsolidated investments. The Operating Partnership's pro-rata share of unconsolidated non-recourse debt related to those investments is as follows (dollars in millions):

Investment	Operating Partnership		December 31, 2018	
	Ownership Percentage	Pro-rata Share of Mortgage Debt	Interest Rate	Maturity Date
230/240 W. Broughton	11.6%	\$ 1.1	5.35%	May 2019
650 Bald Hill	20.8%	3.4	5.00%	Apr 2020
Eden Square ^(a)	22.8%	5.7	4.50%	Jun 2020
Promenade at Manassas ^(b)	22.8%	5.9	4.10%	Dec 2021
Gotham Plaza ^(c)	49.0%	9.8	3.95%	Jun 2023
Renaissance Portfolio	20.0%	32.0	4.05%	Aug 2023
Crossroads	49.0%	32.4	3.94%	Oct 2024
840 N. Michigan	88.4%	65.0	4.36%	Feb 2025
Georgetown Portfolio	50.0%	8.3	4.72%	Dec 2027
Total		<u>\$ 163.6</u>		

- (a) Our unconsolidated affiliate is a party to two interest rate LIBOR caps. One of the interest rate LIBOR caps has a notional value of \$22.5 million, which effectively fixes the interest rate at 3.00%. The second interest rate LIBOR cap has a notional value of \$2.5 million, which effectively fixes the interest rate at 3.85%.
- (b) Our unconsolidated affiliate is a party to an interest rate LIBOR swap with a notional value of \$25.8 million, which effectively fixes the interest rate at 4.57%.
- (c) Our unconsolidated affiliate is a party to an interest rate LIBOR swap with a notional value of \$19.9 million, which effectively fixes the interest rate at 3.49%.

CRITICAL ACCOUNTING POLICIES

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

Valuation of Properties

On a quarterly basis, we review the carrying value of properties held for use and for sale as well as our development properties. We perform an impairment analysis by calculating and reviewing net operating income on a property-by-property basis. We evaluate leasing projections and perform other analyses to conclude whether an asset is impaired. We record impairment losses and reduce the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where we do not expect to recover our carrying costs on properties held for use, we reduce our carrying cost to fair value. For properties held for sale, we reduce our carrying value to the fair value less costs to sell.

See [Note 8](#) of the Notes to the Consolidated Financial Statements for a discussion of impairments recognized during the periods presented.

Investments in and Advances to Unconsolidated Joint Ventures

We periodically review our investment in unconsolidated joint ventures for other than temporary declines in market value. Any decline that is not expected to be recovered in the next twelve months is considered other-than-temporary and an impairment charge is recorded as a reduction in the carrying value of the investment. No impairment charges related to our investment in unconsolidated joint ventures were recognized for the years ended December 31, 2018, 2017 and 2016.

Bad Debts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make payments on arrearages in billed rents, as well as the likelihood that tenants will not have the ability to make payments on unbilled rents including estimated expense recoveries. We also maintain a reserve for straight-line rent receivables. For the years ended December 31, 2018 and 2017, the allowance for doubtful accounts totaled \$7.9 million and \$5.9 million, respectively. If the financial condition of our tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Real Estate

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

Upon acquisitions of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with the FASB Accounting Standards Codification ("ASC") *Topic 805 "Business Combinations"* and ASC *Topic 350 "Intangibles – Goodwill and Other,"* and allocate purchase price based on these assessments. When acquisitions of properties do not meet the criteria for business combinations, as is the case for the majority of the Company's acquisitions, no goodwill is recorded and acquisition costs are capitalized. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Revenue Recognition and Accounts Receivable

Leases with tenants are accounted for as operating leases. Minimum rents are recognized on a straight-line basis over the non-cancelable term of the respective leases, beginning when the tenant takes possession of the space. Certain of these leases also provide for percentage rents based upon the level of sales achieved by the tenant. Percentage rent is recognized in the period when the tenants' sales breakpoint is met. In addition, leases typically provide for the reimbursement to us of real estate taxes, insurance and other property operating expenses. These reimbursements are recognized as revenue in the period the expenses are incurred.

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

Structured Financings

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

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

Recently Issued Accounting Pronouncements

Reference is made to Note 1 for information about recently issued and recently adopted accounting pronouncements.

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

Information as of December 31, 2018

Our primary market risk exposure is to changes in interest rates related to our mortgage and other debt. See [Note 7](#) in the Notes to Consolidated Financial Statements, for certain quantitative details related to our mortgage and other debt.

Currently, we manage our exposure to fluctuations in interest rates primarily through the use of fixed-rate debt and interest rate swap and cap agreements. As of December 31, 2018, we had total mortgage and other notes payable of \$1,560.3 million, excluding the unamortized premium of \$0.8 million and unamortized debt issuance costs of \$10.5 million, of which \$1,001.7 million, or 64.2% was fixed-rate, inclusive of debt with rates fixed through the use of derivative financial instruments, and \$558.7 million, or 35.8%, was variable-rate based upon LIBOR or Prime rates plus certain spreads. As of December 31, 2018, we were party to 29 interest rate swap and three interest rate cap agreements to hedge our exposure to changes in interest rates with respect to \$609.9 million and \$143.8 million of LIBOR-based variable-rate debt, respectively.

The following table sets forth information as of December 31, 2018 concerning our long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (dollars in millions):

Core Consolidated Mortgage and Other Debt

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2019	\$ 3.1	\$ 26.2	\$ 29.3	6.0%
2020	3.2	—	3.2	—%
2021	3.4	—	3.4	—%
2022	3.5	—	3.5	—%
2023	2.9	367.8	370.7	3.6%
Thereafter	15.4	185.3	200.7	4.0%
	<u>\$ 31.5</u>	<u>\$ 579.3</u>	<u>\$ 610.8</u>	

Fund Consolidated Mortgage and Other Debt

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2019	\$ 3.3	\$ 186.5	\$ 189.8	5.4%
2020	3.0	521.1	524.1	4.7%
2021	1.7	175.4	177.1	4.4%
2022	0.5	44.5	45.0	4.4%
2023	—	—	—	—%
Thereafter	—	13.5	13.5	2.6%
	<u>\$ 8.5</u>	<u>\$ 941.0</u>	<u>\$ 949.5</u>	

Mortgage Debt in Unconsolidated Partnerships (at our Pro-Rata Share)

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2019	\$ 1.0	\$ 1.1	\$ 2.1	5.3%
2020	1.1	9.1	10.2	4.3%
2021	1.1	5.9	7.0	4.1%
2022	1.2	—	1.2	—%
2023	1.0	40.6	41.6	4.0%
Thereafter	1.6	99.9	101.5	4.3%
	<u>\$ 7.0</u>	<u>\$ 156.6</u>	<u>\$ 163.6</u>	

In 2019, \$219.1 million of our total consolidated debt and \$2.1 million of our pro-rata share of unconsolidated outstanding debt will become due. In addition, \$527.3 million of our total consolidated debt and \$10.2 million of our pro-rata share of unconsolidated debt will become due in 2020. As we intend on refinancing some or all of such debt at the then-existing market interest rates, which may be greater than the current interest rate, our interest expense would increase by approximately \$7.5 million annually if the interest rate on the refinanced debt increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be \$1.8 million. Interest expense on our variable-rate debt of \$558.7 million, net of variable to fixed-rate swap agreements currently in effect, as of December 31, 2018, would increase \$5.6 million if LIBOR increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be \$0.9 million. We may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, we would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

Based on our outstanding debt balances as of December 31, 2018, the fair value of our total consolidated outstanding debt would decrease by approximately \$13.5 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding debt would increase by approximately \$14.7 million.

As of December 31, 2018, and December 31, 2017, we had consolidated notes receivable of \$109.6 million and \$153.8 million, respectively. We determined the estimated fair value of our notes receivable by discounting future cash receipts utilizing a discount rate equivalent to the rate at which similar notes receivable would be originated under conditions then existing.

Based on our outstanding notes receivable balances as of December 31, 2018, the fair value of our total outstanding notes receivable would decrease by approximately \$1.1 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding notes receivable would increase by approximately \$1.1 million.

Summarized Information as of December 31, 2017

As of December 31, 2017, we had total mortgage and other notes payable of \$1,438.4 million, excluding the unamortized premium of \$0.9 million and unamortized loan costs of \$14.8 million, of which \$899.7 million, or 62.5% was fixed-rate, inclusive of interest rate swaps, and \$538.7 million, or 37.5%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2017, we were party to 27 interest rate swaps and four interest rate cap agreements to hedge our exposure to changes in interest rates with respect to \$504.0 million and \$141.1 million of LIBOR-based variable-rate debt, respectively.

Interest expense on our variable-rate debt of \$538.7 million as of December 31, 2017, would have increased \$5.4 million if LIBOR increased by 100 basis points. Based on our outstanding debt balances as of December 31, 2017, the fair value of our total outstanding debt would have decreased by approximately \$15.9 million if interest rates increased by 1%. Conversely, if interest rates decreased by 1%, the fair value of our total outstanding debt would have increased by approximately \$17.3 million.

Changes in Market Risk Exposures from December 31, 2017 to December 31, 2018

Our interest rate risk exposure from December 31, 2017, to December 31, 2018, has increased on an absolute basis, as the \$538.7 million of variable-rate debt as of December 31, 2017, has increased to \$558.7 million as of December 31, 2018. As a percentage of our overall debt, our interest rate risk exposure has decreased as our variable-rate debt accounted for 37.5% of our consolidated debt as of December 31, 2017 compared to 35.8% as of December 31, 2018.

ITEM 8. FINANCIAL STATEMENTS.

ACADIA REALTY TRUST AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of Acadia Realty Trust

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Acadia Realty Trust and subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018 and the related notes and financial statement schedules listed in the Index at Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2005.

New York, New York
February 19, 2019

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
ASSETS		
Investments in real estate, at cost		
Operating real estate, net	\$ 3,160,851	\$ 2,952,918
Real estate under development	120,297	173,702
Net investments in real estate	3,281,148	3,126,620
Notes receivable, net	109,613	153,829
Investments in and advances to unconsolidated affiliates	262,410	302,070
Other assets, net	208,570	214,959
Cash and cash equivalents	21,268	74,823
Rents receivable, net	62,191	51,738
Restricted cash	13,580	10,846
Assets of properties held for sale	—	25,362
Total assets	<u>\$ 3,958,780</u>	<u>\$ 3,960,247</u>
LIABILITIES		
Mortgage and other notes payable, net	\$ 1,017,288	\$ 909,174
Unsecured notes payable, net	533,257	473,735
Unsecured line of credit	—	41,500
Accounts payable and other liabilities	214,961	210,052
Capital lease obligation	71,111	70,611
Dividends and distributions payable	24,593	24,244
Distributions in excess of income from, and investments in, unconsolidated affiliates	15,623	15,292
Total liabilities	1,876,833	1,744,608
Commitments and contingencies		
EQUITY		
Acadia Shareholders' Equity		
Common shares, \$0.001 par value, authorized 200,000,000 shares, issued and outstanding 81,557,472 and 83,708,140 shares, respectively	82	84
Additional paid-in capital	1,548,603	1,596,514
Accumulated other comprehensive income	516	2,614
Distributions in excess of accumulated earnings	(89,696)	(32,013)
Total Acadia shareholders' equity	1,459,505	1,567,199
Noncontrolling interests	622,442	648,440
Total equity	2,081,947	2,215,639
Total liabilities and equity	<u>\$ 3,958,780</u>	<u>\$ 3,960,247</u>

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)	Year Ended December 31,		
	2018	2017	2016
Revenues			
Rental income	\$ 208,756	\$ 198,941	\$ 152,814
Expense reimbursements	48,284	44,907	32,282
Other	5,173	6,414	4,843
Total revenues	<u>262,213</u>	<u>250,262</u>	<u>189,939</u>
Operating expenses			
Depreciation and amortization	117,549	104,934	70,011
General and administrative	34,343	33,756	40,648
Real estate taxes	36,712	35,946	25,630
Property operating	45,211	41,668	24,244
Impairment charge	—	14,455	—
Other operating	857	2,184	7,517
Total operating expenses	<u>234,672</u>	<u>232,943</u>	<u>168,050</u>
Operating income	27,541	17,319	21,889
Equity in earnings of unconsolidated affiliates inclusive of gain on disposition of properties of \$0, \$15,336 and \$35,950, respectively	9,302	23,371	39,449
Interest income	13,231	29,143	25,829
Interest expense	(69,978)	(58,978)	(34,645)
Gain on change in control	—	5,571	—
(Loss) income from continuing operations before income taxes	(19,904)	16,426	52,522
Income tax (provision) benefit	(934)	(1,004)	105
(Loss) income from continuing operations before gain on disposition of properties	(20,838)	15,422	52,627
Gain on disposition of properties, net of tax	5,140	48,886	81,965
Net (loss) income	(15,698)	64,308	134,592
Net loss (income) attributable to noncontrolling interests	47,137	(2,838)	(61,816)
Net income attributable to Acadia	<u>\$ 31,439</u>	<u>\$ 61,470</u>	<u>\$ 72,776</u>
Basic and diluted earnings per share	<u>\$ 0.38</u>	<u>\$ 0.73</u>	<u>\$ 0.94</u>

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Net (loss) income	\$ (15,698)	\$ 64,308	\$ 134,592
Other comprehensive (loss) income:			
Unrealized (loss) income on valuation of swap agreements	(2,659)	634	(646)
Reclassification of realized interest on swap agreements	71	3,317	4,576
Other comprehensive (loss) income	(2,588)	3,951	3,930
Comprehensive (loss) income	(18,286)	68,259	138,522
Comprehensive loss (income) attributable to noncontrolling interests	47,627	(3,377)	(62,081)
Comprehensive income attributable to Acadia	\$ 29,341	\$ 64,882	\$ 76,441

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2018, 2017 and 2016

(in thousands, except per share amounts)	Acadia Shareholders							
	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Accumulated Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2018	83,708	\$ 84	\$ 1,596,514	\$ 2,614	\$ (32,013)	\$ 1,567,199	\$ 648,440	\$ 2,215,639
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	117	—	2,068	—	—	2,068	(2,068)	—
Repurchase of Common Shares	(2,294)	(2)	(55,109)	—	—	(55,111)	—	(55,111)
Dividends/distributions declared (\$1.09 per Common Share/OP Unit)	—	—	—	—	(89,122)	(89,122)	(6,888)	(96,010)
Employee and trustee stock compensation, net	26	—	574	—	—	574	12,374	12,948
Noncontrolling interest distributions	—	—	—	—	—	—	(24,793)	(24,793)
Noncontrolling interest contributions	—	—	—	—	—	—	47,560	47,560
Comprehensive (loss) income	—	—	—	(2,098)	31,439	29,341	(47,627)	(18,286)
Reallocation of noncontrolling interests	—	—	4,556	—	—	4,556	(4,556)	—
Balance at December 31, 2018	81,557	\$ 82	\$ 1,548,603	\$ 516	\$ (89,696)	\$ 1,459,505	\$ 622,442	\$ 2,081,947
Balance at January 1, 2017	83,598	\$ 84	\$ 1,594,926	\$ (798)	\$ (5,635)	\$ 1,588,577	\$ 589,548	\$ 2,178,125
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	87	—	1,541	—	—	1,541	(1,541)	—
Dividends/distributions declared (\$1.05 per Common Share/OP Unit)	—	—	—	—	(87,848)	(87,848)	(6,453)	(94,301)
Employee and trustee stock compensation, net	23	—	698	—	—	698	10,457	11,155
Noncontrolling interest distributions	—	—	—	—	—	—	(32,805)	(32,805)
Noncontrolling interest contributions	—	—	—	—	—	—	85,206	85,206
Comprehensive income	—	—	—	3,412	61,470	64,882	3,377	68,259
Reallocation of noncontrolling interests	—	—	(651)	—	—	(651)	651	—
Balance at December 31, 2017	83,708	\$ 84	\$ 1,596,514	\$ 2,614	\$ (32,013)	\$ 1,567,199	\$ 648,440	\$ 2,215,639
Balance at January 1, 2016	70,258	\$ 70	\$ 1,092,239	\$ (4,463)	\$ 12,642	\$ 1,100,488	\$ 420,866	\$ 1,521,354
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	351	1	7,891	—	—	7,892	(7,892)	—
Issuance of Common Shares, net of issuance costs	12,961	13	450,117	—	—	450,130	—	450,130
Issuance of OP Units to acquire real estate	—	—	—	—	—	—	31,429	31,429
Dividends/distributions declared (\$1.16 per Common Share/OP Unit)	—	—	—	—	(91,053)	(91,053)	(6,753)	(97,806)
Employee and trustee stock compensation, net	28	—	926	—	—	926	12,768	13,694
Windfall tax benefit	—	—	555	—	—	555	—	555
Change in control of previously unconsolidated investment	—	—	—	—	—	—	(75,713)	(75,713)
Acquisition of noncontrolling interest	—	—	7,546	—	—	7,546	(25,925)	(18,379)
Noncontrolling interest distributions	—	—	—	—	—	—	(80,769)	(80,769)
Noncontrolling interest contributions	—	—	—	—	—	—	295,108	295,108
Comprehensive income	—	—	—	3,665	72,776	76,441	62,081	138,522
Reallocation of noncontrolling interests	—	—	35,652	—	—	35,652	(35,652)	—
Balance at December 31, 2016	83,598	\$ 84	\$ 1,594,926	\$ (798)	\$ (5,635)	\$ 1,588,577	\$ 589,548	\$ 2,178,125

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	\$ (15,698)	\$ 64,308	\$ 134,592
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Gain on disposition of properties	(5,140)	(48,886)	(81,965)
Gain on change in control	—	(5,571)	—
Depreciation and amortization	117,549	104,934	70,011
Distributions of operating income from unconsolidated affiliates	15,556	15,556	7,256
Equity in earnings and gains of unconsolidated affiliates	(9,302)	(23,371)	(39,449)
Stock compensation expense	12,948	11,155	13,695
Amortization of financing costs	6,008	5,985	3,204
Impairment charge	—	14,455	—
Other, net	(11,768)	(10,621)	(8,095)
Changes in assets and liabilities:			
Other liabilities	6,161	(4,285)	26,532
Prepaid expenses and other assets	(7,168)	(6,498)	(11,677)
Rents receivable, net	(10,044)	(11,274)	(4,847)
Accounts payable and accrued expenses	(3,026)	8,768	591
Net cash provided by operating activities	96,076	114,655	109,848
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of real estate	(147,985)	(200,429)	(495,644)
Development, construction and property improvement costs	(94,834)	(108,142)	(149,434)
Issuance of or advances on notes receivable	(3,002)	(10,600)	(157,352)
Proceeds from the disposition of properties, net	63,866	260,711	150,378
Investments in and advances to unconsolidated affiliates	(3,161)	(6,535)	(72,098)
Return of capital from unconsolidated affiliates and other	26,338	43,684	79,030
Proceeds from notes receivable	26,000	32,000	42,819
Return of deposits for properties under contract	1,692	(2,000)	1,424
Payment of deferred leasing costs	(6,106)	(5,202)	(7,515)
Change in control of previously unconsolidated (consolidated) affiliate	573	576	(5,172)
Net cash (used in) provided by investing activities	(136,619)	4,063	(613,564)

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Continued)</i>	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on mortgage and other notes	(81,726)	(306,119)	(394,864)
Principal payments on unsecured debt	(632,300)	(277,134)	(541,790)
Proceeds received on mortgage and other notes	187,173	156,344	222,071
Proceeds from unsecured debt	648,800	359,625	666,716
(Repurchase) issuance of Common Shares	(55,111)	—	450,130
Capital contributions from noncontrolling interests	47,560	85,206	295,108
Distributions to noncontrolling interests	(31,568)	(39,942)	(105,994)
Dividends paid to Common Shareholders	(88,887)	(99,527)	(91,334)
Deferred financing and other costs	(4,219)	(6,211)	(11,678)
Net cash (used in) provided by financing activities	(10,278)	(127,758)	488,365
Decrease in cash and restricted cash	(50,821)	(9,040)	(15,351)
Cash of \$74,823, \$71,805 and \$72,776 and restricted cash of \$10,846, \$22,904 and \$37,284, respectively, beginning of year	85,669	94,709	110,060
Cash of \$21,268, \$74,823 and \$71,805 and restricted cash of \$13,580, \$10,846 and \$22,904, respectively, end of year	<u>\$ 34,848</u>	<u>\$ 85,669</u>	<u>\$ 94,709</u>
Supplemental disclosure of cash flow information			
Cash paid during the period for interest, net of capitalized interest of \$5,625 and \$13,509 and \$21,109 respectively	<u>\$ 61,832</u>	<u>\$ 49,942</u>	<u>\$ 42,279</u>
Cash paid for income taxes, net of refunds	<u>\$ 1,227</u>	<u>\$ 875</u>	<u>\$ 2,036</u>
Supplemental disclosure of non-cash investing activities			
Assumption of accounts payable and accrued expenses through acquisition of real estate	<u>\$ 2,597</u>	<u>\$ 2,173</u>	<u>\$ 3,587</u>
Acquisition of real estate through conversion of note receivable	<u>\$ —</u>	<u>\$ 9,142</u>	<u>\$ —</u>
Acquisition of undivided interest in a property through conversion of notes receivable	<u>\$ 22,201</u>	<u>\$ 60,695</u>	<u>\$ —</u>
Acquisition of real estate through assumption of debt	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 120,672</u>
Acquisition of real estate through conversion of OP Units	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,336</u>
Acquisition of capital lease obligation	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 76,461</u>
Mortgage debt financed at time of acquisition	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 63,900</u>
Assumption of prepaid expenses and other assets through acquisition of real estate	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,226</u>
Change in control of previously unconsolidated (consolidated) investment			
(Increase) decrease in real estate, net	\$ (31,836)	\$ (39,322)	\$ 90,559
Gain on change in control	—	5,571	—
Decrease in notes receivable	—	32,010	—
Decrease (increase) in investments in and advances to unconsolidated affiliates	35,881	4,159	(21,421)
Decrease in noncontrolling interest	—	—	(75,713)
Change in other assets and liabilities	(3,472)	(1,842)	1,403
Increase (decrease) in cash and restricted cash upon change of control	<u>\$ 573</u>	<u>\$ 576</u>	<u>\$ (5,172)</u>

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

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization

Acadia Realty Trust and subsidiaries (collectively, the “Company”) is a fully-integrated equity real estate investment trust (“REIT”) focused on the ownership, acquisition, development, and management of retail properties located primarily in high-barrier-to-entry, supply-constrained, densely-populated metropolitan areas in the United States.

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of December 31, 2018 and December 31, 2017, the Company controlled approximately 94% of the Operating Partnership as the sole general partner and is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”) and employees who have been awarded restricted Common OP Units (“LTIP Units”) as long-term incentive compensation (Note 13). Limited partners holding Common OP and LTIP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company (“Common Shares”). This structure is referred to as an umbrella partnership REIT or “UPREIT.”

As of December 31, 2018, the Company has ownership interests in 118 properties within its core portfolio, which consist of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its funds (“Core Portfolio”). The Company also has ownership interests in 53 properties within its opportunity funds, Acadia Strategic Opportunity Fund II, LLC (“Fund II”), Acadia Strategic Opportunity Fund III LLC (“Fund III”), Acadia Strategic Opportunity Fund IV LLC (“Fund IV”), and Acadia Strategic Opportunity Fund V LLC (“Fund V”). Acadia Strategic Opportunity Fund I, LP (“Fund I,” together with Funds II, III, IV, and V, the “Funds”) was liquidated in 2015. The 171 Core Portfolio and Fund properties primarily consist of street and urban retail, and suburban shopping centers. In addition, the Company, together with the investors in the Funds, invest or invested in operating companies through Acadia Mervyn Investors I, LLC (“Mervyns I,” which was liquidated in 2018), Acadia Mervyn Investors II, LLC (“Mervyns II”) and Fund II, all on a non-recourse basis. The Company consolidates the Funds as it has (i) the power to direct the activities that most significantly impact the Funds’ economic performance, (ii) is obligated to absorb the Funds’ losses and (iii) has the right to receive benefits from the Funds that could potentially be significant.

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

The following table summarizes the general terms and Operating Partnership’s equity interests in the Funds and Mervyns II (dollars in millions):

Entity	Formation Date	Operating Partnership Share of Capital	Capital Called as of December 31, 2018	Unfunded Commitment	Equity Interest Held By Operating Partnership ^(a)	Preferred Return	Total Distributions as of December 31, 2018 ^(b)
Fund II and Mervyns II ^(c)	6/2004	28.33%	\$ 347.1	\$ —	28.33%	8%	\$ 146.6
Fund III	5/2007	24.54%	423.9	26.1	24.54%	6%	551.9
Fund IV	5/2012	23.12%	420.8	109.2	23.12%	6%	147.4
Fund V	8/2016	20.10%	85.1	434.9	20.10%	6%	—

(a) Amount represents the current economic ownership at December 31, 2018, which could differ from the stated legal ownership based upon the cumulative preferred returns of the respective fund.

(b) Represents the total for the Funds, including the Operating Partnership and noncontrolling interests’ shares.

(c) During April 2018, a distribution of \$15.0 million was made to the Fund II investors, including \$4.3 million to the Operating Partnership. This amount remains subject to re-contribution to Fund II until April 2021.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

Segments

At December 31, 2018, the Company had three reportable operating segments: Core Portfolio, Funds and Structured Financing. The Company's chief operating decision maker may review operational and financial data on a property basis and does not differentiate properties on a geographical basis for purposes of allocating resources or capital.

Principles of Consolidation

The consolidated financial statements include the consolidated accounts of the Company and its investments in partnerships and limited liability companies in which the Company has control in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 "Consolidation" ("ASC Topic 810"). The ownership interests of other investors in these entities are recorded as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities for which the Company has the ability to exercise significant influence over, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company's share of the earnings (or losses) of these entities are included in consolidated net income.

Use of Estimates

GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant assumptions and estimates relate to the valuation of real estate, depreciable lives, revenue recognition and the collectability of notes receivable and rents receivable. Application of these estimates and assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation in the statement of cash flows. These reclassifications had no effect on the reported results of operations.

Summary of Significant Accounting Policies

Real Estate

Land, buildings, and personal property are carried at cost less accumulated depreciation. Improvements and significant renovations that extend the useful life of the properties are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Real estate under development includes costs for significant property expansion and development.

Depreciation is computed on the straight-line basis over estimated useful lives of the assets as follows:

Buildings and improvements	Useful lives of 40 years for buildings and 15 years for improvements
Furniture and fixtures	Useful lives, ranging from five years to 20 years
Tenant improvements	Shorter of economic life or lease terms

Purchase Accounting – Upon acquisitions of real estate, the Company assesses the fair value of acquired assets and assumed liabilities (including land, buildings and improvements, and identified intangibles such as above- and below-market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with *ASC Topic 805, "Business Combinations"* and *ASC Topic 350 "Intangibles – Goodwill and Other,"* and allocates the acquisition price based on these assessments. When acquisitions of properties do not meet the criteria for business combinations, no goodwill is recorded and acquisition costs are capitalized.

The Company assesses fair value of its tangible assets acquired and assumed liabilities based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information at the measurement period. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In determining the value of above- and below-market leases, the Company estimates the present value difference between contractual rent obligations and estimated market rate of leases at the time of the transaction. To the extent there were fixed-rate options at below-market rental rates, the Company included these along with the current term below-market rent in arriving at the fair value of the acquired leases. The discounted difference between contract and market rents is being amortized to rental income over the remaining applicable lease term, inclusive of any option periods.

In determining the value of acquired in-place leases and customer relationships, the Company considers market conditions at the time of the transaction and values the costs to execute similar leases during the expected lease-up period from vacancy to existing occupancy, including carrying costs. The value assigned to in-place leases and tenant relationships is amortized over the estimated remaining term of the leases. If a lease were to be terminated prior to its scheduled expiration, all unamortized costs relating to that lease would be written off.

The Company estimates the value of any assumption of mortgage debt based on market conditions at the time of acquisitions including prevailing interest rates, terms and ability to obtain financing for a similar asset. Mortgage debt discounts or premiums are amortized into interest expense over the remaining term of the related debt instrument.

Real Estate Under Development – The Company capitalizes certain costs related to the development of real estate. Interest and real estate taxes incurred during the period of the construction, expansion or development of real estate are capitalized and depreciated over the estimated useful life of the building. The Company will cease the capitalization of these costs when construction activities are substantially completed and the property is available for occupancy by tenants, but no later than one year from the completion of major construction activity at which time the project is placed in service and depreciation commences. If the Company suspends substantially all activities related to development of a qualifying asset, the Company will cease capitalization of interest and taxes until activities are resumed.

Real Estate Impairment – The Company reviews its real estate and real estate under development for impairment when there is an event or a change in circumstances that indicates that the carrying amount may not be recoverable. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying costs to fair value. The determination of anticipated undiscounted cash flows is inherently subjective, requiring significant estimates made by management, and considers the most likely expected course of action at the balance sheet date based on current plans, intended holding periods and available market information. If the Company is evaluating the potential sale of an asset, the undiscounted future cash flows analysis is probability-weighted based upon management's best estimate of the likelihood of the alternative courses of action as of the balance sheet date. Such cash flow projections consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. If an impairment is indicated, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. See Note 8 for information about impairment charges incurred during the periods presented.

Dispositions of Real Estate – The Company recognizes property sales in accordance with *ASC Topic 970 "Real Estate."* Sales of real estate include the sale of land, operating properties and investments in real estate joint ventures. Beginning January 1, 2018, gains on sale of investment properties are recognized, and the related real estate derecognized, when the Company has satisfied its performance obligations by transferring control of the property. Typically, the timing of payment and satisfaction of performance obligations occur simultaneously on the disposition date upon transfer of the property's ownership. Prior to January 1, 2018, gains from dispositions were recognized under the full accrual or partial sales method provided that various criteria relating to terms of sales and subsequent involvement by the Company with the asset sold are met.

Real Estate Held for Sale – The Company generally considers assets to be held for sale when it has entered into a contract to sell the property, all material due diligence requirements have been satisfied, and management believes it is probable that the disposition will occur within one year. Assets that are classified as held for sale are recorded at the lower of their carrying amount or fair value, less cost to sell.

Notes Receivable

Notes receivable include certain loans that are held for investment and are collateralized by real estate-related investments and may be subordinate to other senior loans. Notes receivable are recorded at stated principal amounts or at initial investment less accretive yield for loans purchased at a discount, which is accreted over the life of the note. The Company defers loan origination and commitment fees, net of origination costs, and amortizes them over the term of the related loan. The Company evaluates the collectability of both principal and interest based upon an assessment of the underlying collateral value to determine whether it is impaired. A reserve is recorded when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. The amount of the reserve is calculated by comparing the recorded investment to the value of the underlying collateral. As the underlying collateral for a majority of the notes receivable is real estate-related investments, the same valuation techniques are used to value the collateral as those used to determine the fair value of real estate investments for impairment purposes. Given the small number of notes outstanding, the Company does not provide for an additional reserve based on the grouping of loans, as the Company believes the characteristics of its notes are not sufficiently similar to allow an

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

evaluation of these notes as a group for a possible loan loss allowance. As such, all of the Company's notes are evaluated individually for this purpose. Interest income on performing notes is accrued as earned. A note is placed on non-accrual status when, based upon current information and events, it is probable that the Company will not be able to collect all amounts due according to the existing contractual terms. Recognition of interest income on an accrual basis on non-performing notes is resumed when it is probable that the Company will be able to collect amounts due according to the contractual terms.

Investments in and Advances to Unconsolidated Joint Ventures

Some of the Company's joint ventures obtain non-recourse third-party financing on their property investments, contractually limiting the Company's exposure to losses. The Company recognizes income for distributions in excess of its investment where there is no recourse to the Company and no intention or obligation to contribute additional capital. For investments in which there is recourse to the Company or an obligation or intention to contribute additional capital exists, distributions in excess of the investment are recorded as a liability.

When characterizing distributions from equity investees within the Company's consolidated statements of cash flows, all distributions received are first applied as returns on investment to the extent there are cumulative earnings related to the respective investment and are classified as cash inflows from operating activities. If cumulative distributions are in excess of cumulative earnings, distributions are considered return of investment. In such cases, the distribution is classified as cash inflows from investing activities.

To the extent that the Company's carrying basis in an unconsolidated affiliate is different from the basis reflected at the joint venture level, the basis difference is amortized over the life of the related assets and included in the Company's share of equity in net income (loss) of investments in unconsolidated affiliates the joint venture.

The Company periodically reviews its investments in unconsolidated joint ventures for other-than-temporary losses in investment value. Any decline that is not expected to be recovered based on the underlying assets of the investment, is considered other than temporary and an impairment charge is recorded as a reduction in the carrying value of the investment. During the periods presented there were no impairment charges related to the Company's investments in unconsolidated joint ventures.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed the limits insured by the Federal Deposit Insurance Corporation.

Restricted Cash

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

Deferred Costs

Fees and costs paid in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Fees and costs incurred in connection with obtaining financing are deferred and amortized as a component of interest expense over the term of the related debt obligation on a straight-line basis, which approximates the effective interest method. The Company capitalizes salaries, commissions and benefits related to time spent by leasing and legal department personnel involved in originating leases. Effective January 1, 2019, these internal leasing costs will no longer be capitalized as discussed further below under ASU 2016-02.

Derivative Instruments and Hedging Activities

The Company measures derivative instruments at fair value and records them as assets or liabilities, depending on its rights or obligations under the applicable derivative contract. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. For a derivative designated and that qualified as a cash flow hedge, the effective portion of the change in fair value of the derivative is recognized in Other comprehensive (loss) income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Although the Company's derivative contracts are subject to master netting arrangements, which serve as credit mitigants to both the Company and its counterparties under certain situations, the Company does not net its derivative fair values or any existing rights or obligations to cash collateral on the consolidated balance sheets. The Company does not use derivatives for trading or speculative purposes. For the periods

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

presented, all of the Company's derivatives qualified and were designated as cash flow hedges, and none of its derivatives were deemed ineffective.

Noncontrolling Interests

Noncontrolling interests represent the portion of equity that the Company does not own in those entities it consolidates. The Company identifies its noncontrolling interests separately within the equity section on the Company's consolidated balance sheets. The amounts of consolidated net earnings attributable to the Company and to the noncontrolling interests are presented separately on the Company's consolidated statements of income. Noncontrolling interests also include amounts related to common and preferred OP Units issued to unrelated third parties in connection with certain property acquisitions. In addition, the Company periodically issues common OP Units to certain employees of the Company under its share-based incentive program. Unit holders generally have the right to redeem their units for shares of the Company's common stock subject to blackout and other limitations. Common and restricted OP Units are included in the caption Noncontrolling interest within the equity section on the Company's consolidated balance sheets.

Revenue Recognition and Accounts Receivable

Minimum rents from tenants are recognized using the straight-line method over the non-cancelable lease term of the respective leases. Lease termination fees are recognized upon the effective termination of a tenant's lease when the Company has no further obligations under the lease. As of December 31, 2018 and 2017, unbilled rents receivable relating to the straight-lining of rents of \$47.2 million and \$37.4 million, respectively, are included in Rents Receivable, net on the accompanying consolidated balance sheets. Certain of these leases also provide for percentage rents based upon the level of sales achieved by the tenant. Percentage rent is recognized in the period when the tenants' sales breakpoint is met. In addition, leases typically provide for the reimbursement to the Company of real estate taxes, insurance and other property operating expenses. These reimbursements are recognized as revenue in the period the related expenses are incurred.

The Company makes estimates of the uncollectability of its accounts receivable related to tenant revenues. An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. Once the amount is ultimately deemed to be uncollectible, it is written off. Rents receivable at December 31, 2018 and 2017 are shown net of an allowance for doubtful accounts of \$7.9 million and \$5.9 million, respectively.

Stock-Based Compensation

Stock-based compensation expense for all equity-classified stock-based compensation awards is based on the grant date fair value estimated in accordance with current accounting guidance for share-based payments. The Company recognizes these compensation costs for only those shares or units expected to vest on a straight-line or graded-vesting basis, as appropriate, over the requisite service period of the award. The Company includes stock-based compensation within the Additional paid-in capital caption of equity.

Income Taxes

The Company has made an election to be taxed, and believes it qualifies, as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). To maintain REIT status for Federal income tax purposes, the Company is generally required to distribute at least 90% of its REIT taxable income to its shareholders as well as comply with certain other income, asset and organizational requirements as defined in the Code. Accordingly, the Company is generally not subject to Federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year.

In connection with the REIT Modernization Act, the Company is permitted to participate in certain activities and still maintain its qualification as a REIT, so long as these activities are conducted in entities that elect to be treated as taxable subsidiaries under the Code. As such, the Company is subject to Federal and state income taxes on the income from these activities.

The Tax Cuts and Jobs Act was enacted in December 2017 and is generally effective for tax years beginning in 2018. This new legislation is not expected to have a material adverse effect on the Company's business and allows non-corporate shareholders to deduct a portion of the Company's dividends.

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

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company records net deferred tax assets to the extent it believes it is more likely than not that these assets will be realized and would record a valuation allowance to reduce deferred tax assets when it has determined that an uncertainty exists regarding their realization, which would increase the provision for income taxes. In making such determination, the Company considers all available positive and negative evidence, including forecasts of future taxable income, the reversal of other existing temporary differences, available net operating loss carry-forwards, tax planning strategies and recent results of operations. Several of these considerations require assumptions and significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates that the Company is utilizing to manage its business. To the extent facts and circumstances change in the future, adjustments to the valuation allowances may be required.

Recently Adopted Accounting Pronouncements

Recently adopted accounting pronouncements include those adopted during the year ended December 31, 2018.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 does not apply to the Company’s lease revenues, but does apply to certain reimbursed tenant costs. Additionally, this guidance modifies disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year, until years beginning in 2018, with early adoption permitted but not before 2017. Substantially all of the Company’s revenue is derived from its leases and therefore falls outside of the scope of this guidance. The Company implemented the standard effective January 1, 2018, using the modified retrospective approach; however, there was no cumulative effect required to be recognized in retained earnings at the date of application. With respect to its fee-derived revenue, the Company had no changes to the timing of the revenue recognition. However, the recognition of gains on dispositions of properties may be impacted prospectively in limited circumstances under which collectability may not be reasonably assured or if the Company has continuing involvement with a sold property.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on certain specific cash flow issues, including, but not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees. The Company adopted ASU 2016-15 effective January 1, 2018 and elected the “cumulative distribution approach” whereby distributions received from equity method investments are classified as cash flows from operations to the extent of equity earnings and then as cash flows from investing activities thereafter. Accordingly, the Company has reclassified \$6.3 million of its cash inflows from investing activities to cash flows from operating activities in its historical presentation of cash flows related to its equity method investments for the year ended December 31, 2017. No such reclassification was required for the year ended December 31, 2016.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this guidance effective January 1, 2018. Accordingly, the Company has reclassified \$11.5 million and \$1.9 million of its cash inflows from operating activities and \$0.9 million and \$9.9 million of its cash inflows from financing activities to change in cash and restricted cash in its historical presentation of cash flows for the years ended December 31, 2017 and 2016, respectively.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations—Clarifying the Definition of a Business*. ASU 2017-01 clarifies that to be considered a business, the elements must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The new standard illustrates the circumstances under which real estate with in-place leases would be considered a business and provides guidance for the identification of assets and liabilities in purchase accounting. ASU 2017-01 is effective for periods beginning after December 15, 2017 and has been adopted by the Company effective January 1, 2018. Adoption of the new standard has reduced the number of real estate acquisitions that were accounted for as business combinations and, therefore, reduced the amount of acquisition costs that were expensed. Accordingly, the Company capitalized \$0.3 million of acquisition costs during the year ended December 31, 2018 and expensed \$2.1 million and \$8.2 million of acquisition costs during the years ended December 31, 2017 and 2016.

In January 2017, the FASB issued ASU No. 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323)*. ASU 2017-03 amends certain SEC guidance in the FASB Accounting Standards Codification in response to SEC

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staff announcements made during 2016 Emerging Issues Task Force (“EITF”) meetings which addressed (i) the additional qualitative disclosures that a registrant is expected to provide when it cannot reasonably estimate the impact that ASUs 2014-09, 2016-02 and 2016-13 will have in applying the guidance in Staff Accounting Bulletin Topic 11.M and (ii) guidance in ASC 323 related to the amendments made by ASU 2014-01 regarding use of the proportional amortization method in accounting for investments in qualified affordable housing projects (announcement made at the November 17, 2016, EITF meeting). The Company adopted 2017-03 effective January 1, 2018. The adoption of ASU 2017-03 did not have a material impact on the Company’s consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which amends the guidance on nonfinancial assets in ASC 610-20. The amendments clarify that (i) a financial asset is within the scope of ASC 610-20 if it meets the definition of an in substance nonfinancial asset and may include nonfinancial assets transferred within a legal entity to a counter-party, (ii) an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counter-party and de-recognize each asset when a counter-party obtains control of it, and (iii) an entity should allocate consideration to each distinct asset by applying the guidance in ASC 606 on allocating the transaction price to performance obligations. Further, ASU 2017-05 provides guidance on accounting for partial sales of nonfinancial assets. The amendments are effective at the same time as the amendments in ASU 2014-09. The Company adopted ASU 2017-05 effective January 1, 2018. The adoption of ASU 2017-05 did not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, which clarifies the scope of modification accounting with respect to changes to the terms or conditions of a share-based payment award. Modification accounting would not apply if a change to an award does not affect the total current fair value (or other applicable measurement), vesting conditions, or the classification of the award. For all entities, ASU 2017-09 is effective prospectively for awards modified in fiscal years beginning after December 15, 2017. The Company adopted ASU 2017-09 effective January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company’s consolidated financial statements because the Company has not had significant modifications of its awards.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company early adopted ASU 2017-12 effective January 1, 2018 and the adoption of ASU 2017-12 did not have a material impact on the Company’s consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which allowed public companies to record provisional amounts in earnings for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of the Tax Cuts and Jobs Act. ASU 2018-05 was effective upon issuance. The Company recognized the estimated income tax effects of the Tax Cuts and Jobs Act in its 2017 Consolidated Financial Statements in accordance with SEC Staff Accounting Bulletin No. 118.

Recently Issued Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 outlines a new model for accounting by lessees, whereby their rights and obligations under substantially all leases, existing and new, will be capitalized and recorded on the balance sheet. For lessors, however, the accounting remains largely unchanged from the current model, with the distinction between operating, sales-type and direct-financing leases retained, but updated to align with certain changes to the lessee model and the new revenue recognition standard discussed above. Under the new guidance, contract consideration will be allocated to its lease components (such as the lease of our retail properties) and non-lease components (such as maintenance). For us as a lessor, any non-lease components will be accounted for under ASC Topic 606, *Revenue from Contracts with Customers*, unless the Company elects a lessor practical expedient to not separate the nonlease components from the associated lease component (see discussion below). The new guidance also includes a definition of *initial direct costs* that is narrower than the prior definition in current GAAP (Topic 840, *Leases*). This will result in a change to the accounting for our internal leasing costs, which will be expensed as incurred, as opposed to being capitalized and deferred. Commissions subsequent to successful lease execution will continue to be capitalized. ASU 2016-02 is effective for the Company beginning January 1, 2019 and will require extensive quantitative and qualitative disclosures.

ASU 2016-02 initially provided for one retrospective transition method; however, a second transition method was later added with ASU 2018-11 as described below. To ease the transition, the new lease accounting guidance permits companies to utilize certain practical expedients in their implementation of the new standard:

- A package of three practical expedients that must be elected together for all leases and includes: (i) not reassessing expired or existing contracts as to whether they are or contain leases; (ii) not reassessing lease classification of existing leases and (iii) not reassessing the amount of capitalized initial direct costs for existing leases;

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- ASU 2016-02 also includes a practical expedient to use hindsight in determining the lease term or assessing purchase options for existing leases and in assessing impairment of right of use assets;
- ASU 2018-01, *Land Easements Practical Expedient for Transition to Topic 842* added a transition practical expedient to not reassess existing or expired land easement agreements not previously accounted for as leases; and
- A new practical expedient under ASU 2018-11, described below.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*. These amendments provide minor clarifications and corrections to ASU 2016-02, *Leases (Topic 842)*.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The amendments in this Update provide entities with an additional optional transition method to adopt ASU 2016-02. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting under this additional transition method for the comparative periods presented in the financial statements in which it adopts the new leases standard would continue to be in accordance with current GAAP (Topic 840, *Leases*). The amendments in this Update also provide lessors with a practical expedient, by class of underlying asset, to make a policy election to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance (Topic 606). Conditions are required to elect the practical expedient, and if met, the single component will be accounted for under either under Topic 842 or Topic 606 depending on which component(s) are predominant. The lessor practical expedient to not separate nonlease components from the associated component must be elected for all existing and new leases.

In December 2018, the FASB issued ASU 2018-20 *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. This ASU modifies ASU No. 2016-02 to permit lessors, as an accounting policy election, not to evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. Consequently, a lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures (includes sales, use, value added, and some excise taxes and excludes real estate taxes). The Company has elected not to evaluate whether the aforementioned costs are lessor or lessee costs. This ASU also provides that certain lessor costs require lessors to exclude from variable payments, and therefore revenue, specifically lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. A lessor will record those reimbursed costs as revenue.

The Company has adopted ASU No. 2016-02 (as amended by subsequent ASUs) effective January 1, 2019 utilizing the new transition method described in ASU 2018-11 and has availed itself of all the available practical expedients described above except it will not use hindsight in determining the lease term or assessing purchase options for existing leases and in assessing impairment of right of use assets. As lessor, the Company expects that post-adoption substantially all existing leases will have no change in the timing of revenue recognition until their expiration or termination. For common area maintenance income, currently reported within expense reimbursements, while this will be considered a nonlease component within the scope of Topic 606 for new leases, the Company has elected the lessor practical expedient to not separate maintenance from the associated lease for all existing and new leases and to account for the combined component as a single lease component. The Company has determined that the effect of electing this lessor practical expedient is that revenues related to leases will be reported on one line in the presentation within the statement of income. The timing of revenue recognition is expected to be the same for the majority of the Company's new leases as compared to similar existing leases. After adoption, the Company will no longer capitalize a significant portion of internal leasing costs that were previously capitalized (the Company capitalized \$1.4 million and \$1.3 million of internal leasing costs during the years ended December 31, 2018 and 2017, respectively).

As a lessee, the Company is party to several equipment, ground, and office leases with future payment obligations aggregating approximately \$203.1 million at December 31, 2018. As lessee, the Company has applied the following practical expedients in the implementation ASU 2016-02: (i) to not separate non-lease components from the associated lease component as described above and (ii) to not apply the right-of-use recognition requirements to short-term leases.

Other Accounting Topics

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. ASU 2016-13 introduces a new model for estimating credit losses for certain types of financial instruments, including loans receivable, held-to-maturity debt securities, and net investments in direct financing leases, amongst other financial instruments. ASU 2016-13 also modifies the impairment model for available-for-sale debt securities and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for losses. ASU 2016-13 is effective for periods beginning after December 15, 2019, with adoption permitted for fiscal years beginning after December 15, 2018. Retrospective adjustments shall be applied through a cumulative-effect adjustment to retained earnings. The adoption of ASU 2016-13 is not expected to have a material impact on the Company's consolidated financial statements.

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In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. The Company adopted this guidance, which did not have a material effect on the Company's financial statements, effective January 1, 2019.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. These amendments provide specific guidance for transactions for acquiring goods and services from nonemployees and specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (i) financing to the issuer or (ii) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2020. Early adoption is permitted but not earlier than the adoption of Topic 606. The Company does not believe that this guidance will have a material effect on its consolidated financial statements as it has not historically issued share-based payments in exchange for goods or services to be consumed within its operations.

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements*. These amendments provide clarifications and corrections to certain ASC subtopics including the following: 220-10 (Income Statement - Reporting Comprehensive Income - Overall), 470-50 (Debt - Modifications and Extinguishments), 480-10 (Distinguishing Liabilities from Equity - Overall), 718-740 (Compensation - Stock Compensation - Income Taxes), 805-740 (Business Combinations - Income Taxes), 815-10 (Derivatives and Hedging - Overall), and 820-10 (Fair Value Measurement - Overall). Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance; however, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement* which removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. This guidance is effective for public companies in fiscal years beginning after December 15, 2019 with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* to provide guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. The ASU aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of such arrangements that are service contracts and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized. This ASU, which is effective for fiscal years beginning after December 15, 2019, is not expected to have a material impact on the Company's financial statements as the Company has not incurred any significant costs associated with cloud computing arrangements.

In November 2018, the FASB issued ASU No. 2018-19 *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. This ASU modifies ASU 2016-13, which the Company expects to adopt effective January 1, 2019. The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measure at Amortized Cost*. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, *Leases*.

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2. Real Estate

The Company's consolidated real estate is comprised of the following (in thousands):

	December 31,	
	2018	2017
Land	\$ 710,469	\$ 658,835
Buildings and improvements	2,594,828	2,406,488
Tenant improvements	151,154	131,850
Construction in progress	44,092	18,642
Properties under capital lease	76,965	76,965
Total	3,577,508	3,292,780
Less: Accumulated depreciation	(416,657)	(339,862)
Operating real estate, net	3,160,851	2,952,918
Real estate under development, at cost	120,297	173,702
Net investments in real estate	<u>\$ 3,281,148</u>	<u>\$ 3,126,620</u>

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Acquisitions and Conversions

During the years ended December 31, 2018 and December 31, 2017, the Company acquired the following consolidated retail properties (dollars in thousands):

Property and Location	Percent Acquired	Date of Acquisition	Purchase Price
2018 Acquisitions and Conversions			
<u>Core</u>			
Bedford Green Land Parcel - Bedford Hills, NY	100%	Mar 23, 2018	\$ 1,337
Subtotal Core			1,337
<u>Fund IV</u>			
Broughton Street Partners I - Savannah, GA (Conversion) (Note 4)	100%	Oct 11, 2018	36,104
Subtotal Fund IV			36,104
<u>Fund V</u>			
Trussville Promenade - Trussville, AL	100%	Feb 21, 2018	45,259
Elk Grove Commons - Elk Grove, CA	100%	Jul 18, 2018	59,320
Hiram Pavilion - Hiram, GA	100%	Oct 23, 2018	44,443
Subtotal Fund V			149,022
Total 2018 Acquisitions and Conversions			\$ 186,463
2017 Acquisitions and Conversions			
<u>Core</u>			
Market Square Shopping Center - Wilmington, DE (Conversion) (Note 4)	100%	Nov 16, 2017	\$ 42,800
Subtotal Core			42,800
<u>Fund IV</u>			
Lincoln Place - Fairview Heights, IL	100%	Mar 13, 2017	35,350
Shaw's Plaza - Windham, ME (Conversion) (Note 3)	100%	Jun 30, 2017	9,142
Subtotal Fund IV			44,492
<u>Fund V</u>			
Plaza Santa Fe - Santa Fe, NM	100%	Jun 5, 2017	35,220
Hickory Ridge - Hickory, NC	100%	Jul 27, 2017	44,020
New Towne Plaza - Canton, MI	100%	Aug 4, 2017	26,000
Fairlane Green - Allen Park, MI	100%	Dec 20, 2017	62,000
Subtotal Fund V			167,240
Total 2017 Acquisitions and Conversions			\$ 254,532

The 2018 acquisitions were considered asset acquisitions based on accounting guidance effective as of January 1, 2018 (Note 1). The 2017 acquisitions and conversions were deemed to be business combinations. For the year ended December 31, 2018, the Company capitalized \$0.3 million of acquisition costs related to the Funds. The Company expensed \$2.1 million of acquisition costs for the year ended December 31, 2017, of which \$1.2 million related to the Core Portfolio and \$0.9 million related to the Funds. No debt was assumed in any of the 2018 Acquisitions or 2017 Acquisitions or Conversions.

Revenues and net income from the Company's consolidated 2018 acquisitions and conversions totaled \$9.0 million and \$0.5 million, respectively for the year ended December 31, 2018. Revenues and net loss from the Company's consolidated 2017 acquisitions and conversions totaled \$10.2 million and \$3.5 million, respectively for the year ended December 31, 2017.

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Purchase Price Allocations

The purchase prices for the 2018 acquisitions and the 2017 acquisitions and conversions were allocated to the acquired assets and assumed liabilities based on their estimated fair values at the dates of acquisition. The following table summarizes the allocation of the purchase price of properties acquired during the years ended December 31, 2018 and December 31, 2017 (in thousands):

	Year Ended December 31,	
	2018	2017
Net Assets Acquired		
Land	\$ 38,086	\$ 48,138
Buildings and improvements	129,586	173,576
Other assets	—	84
Acquisition-related intangible assets (Note 6)	26,693	44,269
Acquisition-related intangible liabilities (Note 6)	(7,902)	(11,535)
Net assets acquired	<u>\$ 186,463</u>	<u>\$ 254,532</u>
Consideration		
Cash	\$ 147,985	\$ 200,429
Conversion of note receivable	—	41,010
Liabilities assumed	2,597	3,363
Existing interest in previously unconsolidated investment	35,881	4,159
Change in control of previously unconsolidated investment	—	5,571
Total Consideration	<u>\$ 186,463</u>	<u>\$ 254,532</u>

Dispositions

During the years ended December 31, 2018 and December 31, 2017, the Company disposed of the following consolidated properties (in thousands):

Property and Location	Owner	Date Sold	Sale Price	Gain (Loss) on Sale
2018 Disposition				
Sherman Avenue - New York, NY	Fund II	Apr 17, 2018	\$ 26,000	\$ 33
Lake Montclair - Dumfries, VA	Fund IV	Aug 27, 2018	22,450	2,923
1861 Union Street - San Francisco, CA	Fund IV	Aug 29, 2018	6,000	2,184
210 Bowery - 4 Residential Condos - New York, NY	Fund IV	Nov 30, 2018, Dec 10, 2018, Dec 17, 2018, Dec 21, 2018	12,050	—
Total 2018 Dispositions			<u>\$ 66,500</u>	<u>\$ 5,140</u>
2017 Dispositions				
New Hyde Park Shopping Center - New Hyde Park, NY	Fund III	Jul 6, 2017	\$ 22,075	\$ 6,433
216th Street - New York, NY	Fund II	Sep 11, 2017	30,579	6,543
City Point Condominium Tower I - Brooklyn, NY	Fund II	Oct 13, 2017	96,000	(810)
1151 Third Avenue - New York, NY	Fund IV	Nov 16, 2017	27,000	5,183
260 E 161st Street - Bronx, NY	Fund II	Dec 13, 2017	105,684	31,537
Total 2017 Dispositions			<u>\$ 281,338</u>	<u>\$ 48,886</u>

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The aggregate revenue, expenses and pre-tax income reported within continuing operations for the aforementioned consolidated properties that were sold during the years ended December 31, 2018, December 31, 2017 and December 31, 2016 were as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Revenues	\$ 1,968	\$ 16,249	\$ 20,097
Expenses	(1,874)	(20,529)	(17,079)
Loss (income) from continuing operations of disposed properties before gain on disposition of properties	94	(4,280)	3,018
Gain on disposition of properties	5,140	48,886	81,965
Net income attributable to noncontrolling interests	(3,368)	(32,254)	(70,714)
Net income attributable to Acadia	<u>\$ 1,866</u>	<u>\$ 12,352</u>	<u>\$ 14,269</u>

Properties Held for Sale

At December 31, 2018, the Company had no properties classified as held-for-sale. At December 31, 2017, the Company had one property in Fund II classified as held-for-sale, Sherman Avenue, with total assets of \$25.4 million, which was sold on April 17, 2018 as noted in the disposition table above. This property's net operating loss of \$0.5 million and \$0.6 million for the year ended December 31, 2018 and 2017, respectively, is included in the table above. At December 31, 2017, the Company recognized an impairment charge of approximately \$10.6 million inclusive of an amount attributable to a noncontrolling interest of \$7.6 million (Note 8).

Real Estate Under Development and Construction in Progress

Real estate under development represents the Company's consolidated properties that have not yet been placed into service while undergoing substantial development or construction.

Development activity for the Company's consolidated properties comprised the following during the periods presented (dollars in thousands):

	December 31, 2017		Year Ended 2018			December 31, 2018	
	Number of Properties	Carrying Value	Transfers In	Capitalized Costs	Transfers Out	Number of Properties	Carrying Value
Core	2	\$ 21,897	\$ —	\$ 6,320	\$ 20,458	1	\$ 7,759
Fund II	—	4,908	—	2,554	—	—	7,462
Fund III	2	63,939	—	36,117	78,814	1	21,242
Fund IV	1	82,958	—	876	—	1	83,834
Total	<u>5</u>	<u>\$ 173,702</u>	<u>\$ —</u>	<u>\$ 45,867</u>	<u>\$ 99,272</u>	<u>3</u>	<u>\$ 120,297</u>

During the year ended December 31, 2018, the Company placed one Core development project into service and one Fund III development project into service. In addition to the consolidated projects noted above, the Company had one unconsolidated project in development at December 31, 2017, which it placed into service during the year ended December 31, 2018.

During the year ended December 31, 2017, the Company placed substantially all of Fund II's City Point project into service as well as three Fund IV properties, reclassified Fund II's Sherman Avenue property as held for sale and placed one Core property into development. In addition to the consolidated projects noted above, the Company had one unconsolidated project remaining in development after placing three of its four unconsolidated Fund IV development properties into service during the year ended December 31, 2017.

Construction in progress pertains to construction activity at the Company's operating properties which are in service and continue to operate during the construction period.

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3. Notes Receivable, Net

The Company's notes receivable, net were collateralized either by the underlying properties or the borrower's ownership interest in the entities that own the properties, and were as follows (dollars in thousands):

Description	December 31, 2018	December 31, 2017	Number	December 31, 2018 Maturity Date	Interest Rate
Core Portfolio	\$ 56,475	\$ 101,695	2	Apr 2019 - Apr 2020	6.0% - 8.1%
Fund II	32,582	31,778	1	May 2020	2.5%
Fund III	5,306	5,106	1	Jul 2020	18.0%
Fund IV	15,250	15,250	1	Feb 2021	15.3%
	<u>\$ 109,613</u>	<u>\$ 153,829</u>	<u>5</u>		

During the year ended December 31, 2018, the Company:

- exchanged \$22.0 million of a Core note receivable plus accrued interest thereon of \$0.3 million for an additional undivided interest in the Town Center property (Note 4);
- received full payment on \$26.0 million of Core notes receivable plus accrued interest of \$0.2 million;
- funded an additional \$2.8 million to its existing \$15.0 million Core note receivable and entered into an agreement to extend the maturity to April 1, 2020;
- advanced an additional \$0.2 million on a Fund III note receivable; and
- increased the balance of a Fund II note receivable by the interest accrued of \$0.8 million.

During the year ended December 31, 2017, the Company:

- recovered the full value of a \$12.0 million Core note receivable, which was previously in default, plus accrued interest and fees aggregating \$16.8 million;
- exchanged \$92.7 million of Core notes receivable plus accrued interest thereon of \$1.8 million for additional undivided interests in the Market Square and Town Center properties (Note 4);
- funded an additional \$10.0 million on an existing Core note receivable, which had a total commitment of \$20.0 million, and was subsequently repaid in full during the fourth quarter;
- entered into an agreement to extend the maturity of a \$15.0 million Core note receivable to June 1, 2018;
- increased the balance of a Fund II note receivable by the interest accrued of \$0.8 million;
- advanced an additional \$0.6 million on a Fund III note receivable; and
- exchanged a \$9.0 million Fund IV note receivable plus accrued interest of \$0.1 million thereon for an investment in a shopping center in Windham, Maine (Note 2).

The Company monitors the credit quality of its notes receivable on an ongoing basis and considers indicators of credit quality such as loan payment activity, the estimated fair value of the underlying collateral, the seniority of the Company's loan in relation to other debt secured by the collateral and the prospects of the borrower.

Earnings from these notes and mortgages receivable are reported within the Company's Structured Financing segment (Note 12).

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4. Investments in and Advances to Unconsolidated Affiliates

The Company accounts for its investments in and advances to unconsolidated affiliates primarily under the equity method of accounting as it has the ability to exercise significant influence, but does not have financial or operating control over the investment, which is maintained by each of the unaffiliated partners who co-invest with the Company. The Company's investments in and advances to unconsolidated affiliates consist of the following (dollars in thousands):

Portfolio	Property	Nominal Ownership Interest December 31, 2018	December 31, 2018	December 31, 2017
Core:				
	840 N. Michigan ^(a)	88.43%	\$ 65,013	\$ 69,846
	Renaissance Portfolio	20%	32,458	35,041
	Gotham Plaza	49%	29,550	29,416
	Town Center ^(a, b)	75.22%	99,758	78,801
	Georgetown Portfolio	50%	4,653	3,479
			<u>231,432</u>	<u>216,583</u>
Mervyns I & II:	KLA/Mervyn's, LLC ^(c)	10.5%	—	—
Fund III:				
	Fund III Other Portfolio	90%	21	167
	Self Storage Management ^(d)	95%	206	206
			<u>227</u>	<u>373</u>
Fund IV:				
	Broughton Street Portfolio ^(e)	50%	3,236	48,335
	Fund IV Other Portfolio	90%	14,540	20,199
	650 Bald Hill Road	90%	12,880	13,609
			<u>30,656</u>	<u>82,143</u>
Various Funds:	Due (to) from Related Parties ^(f)		(461)	2,415
	Other ^(g)		556	556
	Investments in and advances to unconsolidated affiliates		<u>\$ 262,410</u>	<u>\$ 302,070</u>
Core:				
	Crossroads ^(h)	49%	\$ 15,623	\$ 15,292
	Distributions in excess of income from, and investments in, unconsolidated affiliates		<u>\$ 15,623</u>	<u>\$ 15,292</u>

(a) Represents a tenancy-in-common interest.

(b) During November 2017 and March 2018, as discussed below, the Company increased its ownership in Town Center.

(c) Distributions, discussed below, have exceeded the Company's non-recourse investment, therefore the carrying value is zero.

(d) Represents a variable interest entity for which the Company was determined not to be the primary beneficiary.

(e) The Company is entitled to a 15% return on its cumulative capital contribution which was \$3.0 million and \$15.4 million at December 31, 2018 and December 31, 2017, respectively. In addition, the Company is entitled to a 9% preferred return on a portion of its equity, which was \$2.8 million and \$41.2 million at December 31, 2018 and December 31, 2017, respectively.

(f) Represents deferred fees.

(g) Includes a cost-method investment in Albertson's (Note 8), Storage Post and other investments.

(h) Distributions have exceeded the Company's investment; however, the Company recognizes a liability balance as it may be required to return distributions to fund future obligations of the entity.

ACADIA REALTY TRUST AND SUBSIDIARIES
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Core Portfolio

Acquisition of Unconsolidated Investment

On January 4, 2017, an entity in which the Company owns a 20% noncontrolling interest (the “Renaissance Portfolio”), acquired a 6,200 square foot property in Alexandria, Virginia referred to as (“907 King Street”) for \$3.0 million. The Renaissance Portfolio is now a 213,000 square-foot portfolio of 18 mixed-use properties, 16 of which are located in Georgetown, Washington D.C. and two of which are located in Alexandria, Virginia.

Brandywine Portfolio, Market Square and Town Center

The Company owns an interest in an approximately one million square foot retail portfolio (the “Brandywine Portfolio” joint venture) located in Wilmington, Delaware, which includes two properties referred to as “Market Square” and “Town Center.” Prior to the second quarter of 2016, the Company had a controlling interest in the Brandywine Portfolio, and it was therefore consolidated within the Company’s financial statements. During April 2016, the arrangement with the partners of the Brandywine Portfolio was modified to change the legal ownership from a partnership to a tenancy-in-common interest, as well as to provide certain participating rights to the outside partners. As a result of these modifications, the Company de-consolidated the Brandywine Portfolio and accounted for its interest under the equity method of accounting effective May 1, 2016. Furthermore, as the owners of the Brandywine Portfolio had consistent ownership interests before and after the modification and the underlying net assets were unchanged, the Company reflected the change from consolidation to equity method based upon its historical cost. The Brandywine Portfolio and Market Square ventures do not include the property held by Brandywine Holdings, an entity consolidated by the Company.

Additionally, in April 2016, the Company repaid the outstanding balance of \$140.0 million of non-recourse debt collateralized by the Brandywine Portfolio and provided a note receivable collateralized by the partners’ tenancy-in-common interest in the Brandywine Portfolio for their proportionate share of the repayment. On May 1, 2017, the Company exchanged \$16.0 million of the \$153.4 million notes receivable (the “Brandywine Notes Receivable”) (Note 3) plus accrued interest of \$0.3 million for one of the partner’s 38.89% tenancy-in-common interests in Market Square. The Company already had a 22.22% interest in Market Square and continued to apply the equity method of accounting for its aggregate 61.11% noncontrolling interest in Market Square and its 22.22% interest in Town Center through November 16, 2017. The incremental investment in Market Square was recorded at \$16.3 million and the excess of this amount over the venture’s book value associated with this interest, or \$9.8 million, was being amortized over the remaining depreciable lives of the venture’s assets through November 16, 2017. On November 16, 2017, the Company exchanged an additional \$16.0 million of Brandywine Notes Receivable plus accrued interest of \$0.6 million for the remaining 38.89% interest in Market Square, thereby obtaining a 100% controlling interest in the property. The exchange was deemed to be a business combination and as a result, the property was consolidated and a gain on change of control of \$5.6 million was recorded (Note 2).

On November 16, 2017, the Company exchanged \$60.7 million of the Brandywine Notes Receivable plus accrued interest of \$0.9 million for one of the partner’s 38.89% tenancy-in-common interests in Town Center. The incremental investment in Town Center was recorded at \$61.6 million and the excess of this amount over the venture’s book value associated with this interest, or \$34.5 million, is being amortized over the remaining depreciable lives of the venture’s assets. The Company previously had a 22.22% interest in Town Center which then became 61.11% following the November 2017 transaction.

On March 28, 2018, the Company exchanged \$22.0 million of its Brandywine Notes Receivable plus accrued interest of \$0.3 million for one of the partner’s 14.11% tenancy-in-common interests in Town Center. The incremental investment in Town Center was recorded at \$ 22.3 million and the excess of this amount over the venture’s book value associated with this interest, or \$12.7 million, is being amortized over the remaining depreciable lives of the venture’s assets. The Company continues to apply the equity method of accounting for its aggregate 75.22% noncontrolling interest in Town Center after the March 2018 transaction.

At December 31, 2018, \$38.7 million of the Brandywine Note Receivable remains outstanding (Note 3), which is collateralized by the remaining 24.78% undivided interest in Town Center.

ACADIA REALTY TRUST AND SUBSIDIARIES
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Fund Investments

Mervyn's I & II

In 2017, Mervyn's I and Mervyn's II received a total of \$1.1 million in distributions from certain investments. The Company had already reduced the carrying amount of these investments to zero, and consequently the entire amount received has been reflected as equity in earnings and gains of unconsolidated affiliates in the consolidated statements of income.

Albertson's

"Other" includes, among other investments, Fund II's cost method investment reflecting an effective 1.05% interest in Albertson's Companies, Inc. ("Albertson's"), a privately-held national supermarket chain. In 2017, the Company received \$2.4 million in distributions from Albertson's and reduced the carrying amount of its investment in Albertson's to zero (Note 8), reflecting the remaining \$2.0 million as equity in earnings and gains of unconsolidated affiliates in the consolidated statements of income.

Storage Post

On May 15, 2018, Fund III's Storage Post venture, which is a cost-method investment with no carrying value, distributed \$3.2 million of which the Operating Partnership's share was \$0.8 million.

Broughton Street Portfolio

During 2014, Fund IV acquired 50% interests in two joint ventures referred to as "BSP I" and "BSP II" with the same venture partner to acquire and operate a total of 23 properties in Savannah, Georgia referred to as the "Broughton Street Portfolio." Since that time, as described below, the ventures have sold eight of the properties and terminated the master leases on two of the properties. In October 2018, the venture partner relinquished its interest in BSP I resulting in Fund IV becoming the 100% owner of the BSP I venture, which holds 11 consolidated properties at December 31, 2018 (Note 2). Fund IV accounted for this transaction as an asset purchase at fair value whereby its existing preferred and common interests were deemed consideration for the properties and no gain or loss was recognized. At December 31, 2018, the Broughton Street portfolio had 13 remaining properties, two of which are unconsolidated and are held within the BSP II venture.

2018 Dispositions of Unconsolidated Investments

On January 18, 2018, Fund IV's Broughton Street Portfolio venture sold two properties for aggregate proceeds of \$8.0 million, resulting in a net loss of \$0.4 million at the property level of which the Fund's share and the Operating Partnership's proportionate share of the loss was zero, due to Fund IV's preferred return.

On June 29, 2018, Fund IV's Broughton Street Portfolio venture terminated its master leases on two of its properties resulting in a net loss of \$1.0 million at the property level for which the Operating Partnership's share was less than \$0.1 million.

On August 29, 2018, Fund IV's Broughton Street Portfolio venture sold a property for proceeds of \$2.0 million, resulting in a net loss of \$0.3 million at the property level, of which the Operating Partnership's share was less than \$0.1 million.

2017 Dispositions of Unconsolidated Investments

On January 31, 2017, Fund IV completed the disposition of 2819 Kennedy Boulevard, for \$19.0 million less \$8.4 million debt repayment for net proceeds of \$10.6 million, resulting in a gain on disposition of \$6.3 million at the property level, of which the Fund's share was \$6.2 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated statements of income. The Operating Partnership's proportionate share of the gain was \$1.4 million, net of noncontrolling interests.

On February 15, 2017, Fund III completed the disposition of Arundel Plaza, for \$28.8 million less \$10.0 million debt repayments for net proceeds of \$18.8 million, resulting in a gain on disposition of \$8.2 million at the property level, of which the Fund's share was \$5.3 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated statements of income. The Operating Partnership's proportionate share of the gain was \$1.3 million, net of noncontrolling interests.

On June 30, 2017, Fund IV completed the disposition of 1701 Belmont Avenue, for \$5.6 million less \$2.9 million debt repayments for net proceeds of \$2.7 million, resulting in a gain on disposition of \$3.3 million at the property level, of which the Fund's share was \$3.3 million,

ACADIA REALTY TRUST AND SUBSIDIARIES
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which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated statements of income. The Operating Partnership's proportionate share of the gain was \$0.8 million, net of noncontrolling interests.

On October 3 and December 21, 2017, Fund IV's Broughton Street Portfolio venture sold a total of five properties for aggregate proceeds of \$11.0 million resulting in a net gain of \$1.2 million at the property level, of which the Fund's share was \$0.6 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated financial statements. The Operating Partnership's proportionate share of the gain was \$0.1 million, net of noncontrolling interests.

Fees from Unconsolidated Affiliates

The Company earned property management, construction, development, legal and leasing fees from its investments in unconsolidated partnerships totaling \$1.1 million and \$1.3 million and \$1.2 million for the years ended December 31, 2018, 2017 and 2016, respectively, which is included in other revenues in the consolidated financial statements.

In addition, the Company paid to certain unaffiliated partners of its joint ventures, \$2.2 million and \$2.0 million and \$2.4 million for the years ended December 31, 2018, 2017 and 2016, respectively, for leasing commissions, development, management, construction and overhead fees.

Summarized Financial Information of Unconsolidated Affiliates

The following combined and condensed Balance Sheets and Statements of Income, in each period, summarize the financial information of the Company's investments in unconsolidated affiliates (in thousands):

	December 31,	
	2018	2017
Combined and Condensed Balance Sheets		
Assets:		
Rental property, net	\$ 488,000	\$ 518,900
Real estate under development	—	26,681
Investment in unconsolidated affiliates	6,853	6,853
Other assets	91,497	100,901
Total assets	\$ 586,350	\$ 653,335
Liabilities and partners' equity:		
Mortgage notes payable	\$ 408,967	\$ 405,652
Other liabilities	54,675	61,932
Partners' equity	122,708	185,751
Total liabilities and partners' equity	\$ 586,350	\$ 653,335
Company's share of accumulated equity	\$ 141,384	\$ 185,533
Basis differential	104,084	95,358
Deferred fees, net of portion related to the Company's interest	1,780	3,472
Amounts (payable) receivable by the Company	(461)	2,415
Investments in and advances to unconsolidated affiliates, net of Company's share of distributions in excess of income from and investments in unconsolidated affiliates	246,787	286,778
Company's share of distributions in excess of income from and investments in unconsolidated affiliates	15,623	15,292
Investments in and advances to unconsolidated affiliates	\$ 262,410	\$ 302,070

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31,		
	2018	2017	2016
Combined and Condensed Statements of Income			
Total revenues	\$ 80,184	\$ 83,222	\$ 84,218
Operating and other expenses	(23,586)	(24,711)	(25,724)
Interest expense	(19,954)	(18,733)	(16,300)
Depreciation and amortization	(22,228)	(24,192)	(35,432)
Loss on debt extinguishment	—	(154)	—
(Loss) gain on disposition of properties	(1,673)	18,957	(1,340)
Net income attributable to unconsolidated affiliates	<u>\$ 12,743</u>	<u>\$ 34,389</u>	<u>\$ 5,422</u>
Company's share of equity in net income of unconsolidated affiliates	\$ 12,345	\$ 26,039	\$ 40,538
Basis differential amortization	(3,043)	(2,668)	(1,089)
Company's equity in earnings of unconsolidated affiliates	<u>\$ 9,302</u>	<u>\$ 23,371</u>	<u>\$ 39,449</u>

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Other Assets, Net and Accounts Payable and Other Liabilities

Other assets, net and accounts payable and other liabilities are comprised of the following for the periods presented:

(in thousands)	December 31,	
	2018	2017
Other Assets, Net:		
Lease intangibles, net (Note 6)	\$ 115,939	\$ 127,571
Deferred charges, net ^(a)	28,619	24,589
Prepaid expenses	18,422	16,838
Other receivables	5,058	11,356
Accrued interest receivable	17,046	11,668
Deposits	4,611	6,296
Due from seller	4,000	4,300
Deferred tax assets	2,032	2,096
Derivative financial instruments (Note 8)	7,018	4,402
Due from related parties	1,802	1,479
Corporate assets	1,953	2,369
Income taxes receivable	2,070	1,995
	<u>\$ 208,570</u>	<u>\$ 214,959</u>
(a) Deferred Charges, Net:		
Deferred leasing and other costs	\$ 45,011	\$ 41,020
Deferred financing costs related to line of credit	8,960	7,786
	<u>53,971</u>	<u>48,806</u>
Accumulated amortization	(25,352)	(24,217)
Deferred charges, net	<u>\$ 28,619</u>	<u>\$ 24,589</u>
Accounts Payable and Other Liabilities:		
Lease intangibles, net (Note 6)	\$ 95,045	\$ 104,478
Accounts payable and accrued expenses	65,215	61,420
Deferred income	34,052	31,306
Tenant security deposits, escrow and other	10,588	10,029
Derivative financial instruments (Note 8)	7,304	1,467
Income taxes payable	19	176
Other	2,738	1,176
	<u>\$ 214,961</u>	<u>\$ 210,052</u>

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6. Lease Intangibles

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above- and below-market leases, including below-market options and acquired in-place leases) and assumed liabilities. The lease intangibles are amortized over the remaining terms of the respective leases, including option periods where applicable.

Intangible assets and liabilities are included in other assets and other liabilities (Note 5) on the consolidated balance sheet and summarized as follows (in thousands):

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable Intangible Assets						
In-place lease intangible assets	\$ 216,021	\$ (105,972)	\$ 110,049	\$ 193,821	\$ (72,749)	\$ 121,072
Above-market rent	18,169	(12,279)	5,890	16,786	(10,287)	6,499
	<u>\$ 234,190</u>	<u>\$ (118,251)</u>	<u>\$ 115,939</u>	<u>\$ 210,607</u>	<u>\$ (83,036)</u>	<u>\$ 127,571</u>
Amortizable Intangible Liabilities						
Below-market rent	\$ (152,188)	\$ 57,721	\$ (94,467)	\$ (147,232)	\$ 43,391	\$ (103,841)
Above-market ground lease	(671)	93	(578)	(671)	34	(637)
	<u>\$ (152,859)</u>	<u>\$ 57,814</u>	<u>\$ (95,045)</u>	<u>\$ (147,903)</u>	<u>\$ 43,425</u>	<u>\$ (104,478)</u>

During the year ended December 31, 2018, the Company acquired in-place lease intangible assets of \$24.2 million, above-market rents of \$2.5 million, and below-market rents of \$7.9 million with weighted-average useful lives of 5.2, 5.1, and 20.5 years, respectively. During the year ended December 31, 2017, the Company acquired in-place lease intangible assets of \$41.6 million, above-market rents of \$2.7 million, below-market rents of \$10.9 million, and an above-market ground lease of \$0.7 million with weighted-average useful lives of 4.1, 4.8, 12.1, and 11.5 years, respectively.

Amortization of in-place lease intangible assets is recorded in depreciation and amortization expense and amortization of above-market rent and below-market rent is recorded as a reduction to and increase to rental income, respectively, in the consolidated statements of income. Amortization of above-market ground leases are recorded as a reduction to rent expense in the consolidated statements of income.

The scheduled amortization of acquired lease intangible assets and assumed liabilities as of December 31, 2018 is as follows (in thousands):

Years Ending December 31,	Net Increase in Lease Revenues	Increase to Amortization	Reduction of Rent Expense	Net Income (Expense)
2019	\$ 8,431	\$ (27,309)	\$ 58	\$ (18,820)
2020	8,206	(20,511)	58	(12,247)
2021	7,725	(15,196)	58	(7,413)
2022	7,346	(10,467)	58	(3,063)
2023	7,053	(8,192)	58	(1,081)
Thereafter	49,816	(28,374)	288	21,730
Total	<u>\$ 88,577</u>	<u>\$ (110,049)</u>	<u>\$ 578</u>	<u>\$ (20,894)</u>

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7. Debt

A summary of the Company's consolidated indebtedness is as follows (dollars in thousands):

	Interest Rate at		Maturity Date at December 31, 2018	Carrying Value at	
	December 31, 2018	December 31, 2017		December 31, 2018	December 31, 2017
Mortgages Payable					
Core Fixed Rate	3.88%-6.00%	3.88%-5.89%	Feb 2024 - Apr 2035	\$ 178,271	\$ 179,870
Core Variable Rate - Swapped ^(a)	3.41%-5.67%	3.41%-5.67%	Jan 2023 - Nov 2028	82,583	74,152
Total Core Mortgages Payable				260,854	254,022
Fund II Fixed Rate	1.00%-4.75%	1.00%-4.75%	May 2020 - Aug 2042	205,262	205,262
Fund II Variable Rate - Swapped ^(a)	4.27%	4.27%	Nov 2021	19,325	19,560
Total Fund II Mortgages Payable				224,587	224,822
Fund III Variable Rate	LIBOR+2.65%-LIBOR+4.65%	Prime+0.50%-LIBOR+4.65%	Jun 2020 - Dec 2021	90,096	65,866
Fund IV Fixed Rate	3.40%-4.50%	3.40%-4.50%	Oct 2025 - Jun 2026	8,189	10,503
Fund IV Variable Rate	LIBOR+1.60%-LIBOR+3.95%	LIBOR+1.70%-LIBOR+3.95%	Feb 2019 - Aug 2021	233,065	250,584
Fund IV Variable Rate - Swapped ^(a)	3.67%-4.23%	3.67%-4.23%	May 2019 - Dec 2022	71,841	86,851
Total Fund IV Mortgages Payable				313,095	347,938
Fund V Variable Rate	LIBOR+2.15%-LIBOR+2.25%	LIBOR+2.25%	Oct 2020 - Jan 2021	51,506	28,613
Fund V Variable Rate - Swapped ^(a)	4.61%-4.78%	—	Feb 2021 - Jun 2021	86,570	—
Total Fund V Mortgage Payable				138,076	28,613
Net unamortized debt issuance costs				(10,173)	(12,943)
Unamortized premium				753	856
Total Mortgages Payable				\$ 1,017,288	\$ 909,174
Unsecured Notes Payable					
Core Term Loans	LIBOR+1.25%	—	Mar 2023	\$ 383	\$ —
Core Variable Rate Unsecured Term Loans - Swapped ^(a)	2.49%-4.05%	2.54%-3.59%	Mar 2023	349,617	300,000
Total Core Unsecured Notes Payable				350,000	300,000
Fund II Unsecured Notes Payable	LIBOR+1.65%	LIBOR+1.40%	Sep 2020	40,000	31,500
Fund IV Term Loan/Subscription Facility	LIBOR+1.65%-LIBOR+2.75%	LIBOR+1.65%-LIBOR+2.75%	Oct 2019 - Dec 2019	40,825	40,825
Fund V Subscription Facility	LIBOR+1.60%	LIBOR+1.60%	May 2020	102,800	103,300
Net unamortized debt issuance costs				(368)	(1,890)
Total Unsecured Notes Payable				\$ 533,257	\$ 473,735
Unsecured Line of Credit					
Core Unsecured Line of Credit	LIBOR+1.35%	LIBOR+1.40%	Mar 2022	\$ —	\$ 18,048
Core Unsecured Line of Credit - Swapped ^(a)	4.15%-5.02%	4.20%-5.07%	Mar 2022	—	23,452
Total Unsecured Line of Credit				\$ —	\$ 41,500
Total Debt - Fixed Rate ^(b)				\$ 1,001,658	\$ 899,650
Total Debt - Variable Rate ^(c)				558,675	538,736
Total Debt				1,560,333	1,438,386
Net unamortized debt issuance costs				(10,541)	(14,833)
Unamortized premium				753	856
Total Indebtedness				\$ 1,550,545	\$ 1,424,409

(a) At December 31, 2018, the stated rates ranged from LIBOR + 1.70% to LIBOR + 1.90% for Core variable-rate debt; LIBOR + 1.39% for Fund II variable-rate debt; LIBOR + 2.65% to LIBOR + 4.65% for Fund III variable-rate debt; LIBOR + 1.60% to LIBOR + 3.95% for Fund IV variable-rate debt; LIBOR + 2.15% to LIBOR + 2.25% for Fund V variable-rate debt; LIBOR + 1.25% for Core variable-rate unsecured term loans; and LIBOR + 1.35% for Core variable-rate unsecured lines of credit.

(b) Includes \$609.9 million and \$504.0 million, respectively, of variable-rate debt that has been fixed with interest rate swap agreements as of the periods presented.

(c) Includes \$143.8 million and \$141.1 million, respectively, of variable-rate debt that is subject to interest cap agreements.

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Credit Facility

On February 20, 2018, the Company entered into a \$500.0 million senior unsecured credit facility (the “Credit Facility”), comprised of a \$150.0 million senior unsecured revolving credit facility (the “Revolver”) which bears interest at LIBOR + 1.35%, and a \$350.0 million senior unsecured term loan (the “Term Loan”) which bears interest at LIBOR + 1.25%. The Credit Facility refinanced the Company’s existing \$300.0 million credit facility (comprised of the \$150.0 million Core unsecured revolving line of credit and the \$150.0 million term loan), \$150.0 million in Core unsecured term loans and repaid a \$40.4 million mortgage secured by its 664 North Michigan Property. The Revolver and Term Loans mature on March 31, 2022 and March 31, 2023, respectively.

Mortgages Payable

During the year ended December 31, 2018, the Company obtained four new Fund V mortgages totaling \$109.5 million with a weighted-average interest rate of LIBOR + 1.99% collateralized by four properties and maturing in 2021. In addition, the Company obtained a \$73.5 million Core mortgage with an interest rate of LIBOR + 1.50% collateralized by one property and maturing in 2028. As of December 31, 2018, the Company had drawn \$50.0 million on this loan. The Company entered into interest rate swap contracts to effectively fix the variable portion of the interest rates of four of these obligations with a notional value of \$136.6 million at an interest rate of 2.86%. In addition, the Company drew down \$24.6 million on a Fund III construction loan. During the year ended December 31, 2018, the Company repaid one Core mortgage in full, which had a balance of \$40.4 million and an interest rate of LIBOR + 1.65%, and three Fund IV mortgages in full, totaling \$27.2 million with a weighted-average interest rate of LIBOR + 2.81%. The Company also made scheduled principal payments of \$6.7 million during the year. At December 31, 2018 and December 31, 2017, the Company’s mortgages were collateralized by 43 and 42 properties, respectively, and the related tenant leases. Certain loans are cross-collateralized and contain cross-default provisions. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with affirmative and negative covenants, including the maintenance of debt service coverage and leverage ratios. A portion of the Company’s variable-rate mortgage debt has been effectively fixed through certain cash flow hedge transactions (Note 8).

The mortgage loan related to Brandywine Holdings in the Company’s Core Portfolio, which was originated in June 2006 and had an original principal amount of \$26.3 million, was in default and subject to litigation at December 31, 2018 and December 31, 2017. This loan bears interest at 6.00%, excluding default interest of 5%, and is collateralized by a property, in which the Company holds a 22% controlling interest. In April 2017, the lender on this mortgage initiated a lawsuit against the Company for the full balance of the principal, accrued interest as well as penalties and fees. The Company believes it has valid defenses and intends to vigorously defend itself.

Unsecured Notes Payable

Unsecured notes payable for which total availability was \$62.3 million and \$70.3 million at December 31, 2018 and December 31, 2017, respectively, are comprised of the following:

- As discussed above, the Core unsecured term loans totaling \$300.0 million were refinanced in February 2018, into one \$350.0 million term loan with an interest rate of LIBOR+ 1.25% and maturing in March 2023. The outstanding balance of the Core term loans was \$350.0 million and \$300.0 million, respectively, at December 31, 2018 and December 31, 2017. During the year ended December 31, 2018, the Company entered into an interest rate swap contract to effectively fix the variable portion of the interest rate with a notional value of \$50.0 million at an interest rate of 2.80%. The Company previously entered into swap agreements fixing the rates of the remaining Core term loans.
- Fund II has a \$40.0 million term loan secured by the real estate assets of City Point Phase II and guaranteed by the Company and the Operating Partnership. The outstanding balance of the Fund II term loan was \$40.0 million and \$31.5 million at December 31, 2018 and December 31, 2017, respectively. Total availability was \$0.0 and \$8.5 million at December 31, 2018 and December 31, 2017, respectively.
- At Fund IV there are a \$41.8 million bridge facility and a \$21.5 million subscription line. The outstanding balance of the Fund IV bridge facility was \$40.8 million at each of December 31, 2018 and December 31, 2017. Total availability was \$1.0 million at each of December 31, 2018 and December 31, 2017. The outstanding balance of the Fund IV subscription line was \$0.0 million and total available credit was \$14.1 million at each of December 31, 2018 and December 31, 2017, reflecting letters of credit of \$7.4 million.
- Fund V has a \$150.0 million subscription line collateralized by Fund V’s unfunded capital commitments and guaranteed by the Operating Partnership. The outstanding balance and total available credit of the Fund V subscription line was \$102.8 million and \$47.2 million, respectively at December 31, 2018. The outstanding balance and total available credit of the Fund V subscription line was \$103.3 million and \$46.7 million, respectively at December 31, 2017.

ACADIA REALTY TRUST AND SUBSIDIARIES
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Unsecured Revolving Line of Credit

As discussed above, the Core unsecured revolving line of credit was refinanced in February 2018. The Company had a total of \$137.7 million and \$96.2 million, respectively, available under its \$150.0 million Core unsecured revolving lines of credit reflecting borrowings of \$0.0 and \$41.5 million, respectively, and letters of credit of \$12.3 million at each of December 31, 2018 and December 31, 2017. At December 31, 2017, a portion of the Core unsecured revolving line of credit was swapped to a fixed rate.

Scheduled Debt Principal Payments

The scheduled principal repayments of the Company's consolidated indebtedness, as of December 31, 2018 are as follows (in thousands):

Year Ending December 31,		
2019	\$	219,118
2020		527,304
2021		180,511
2022		48,528
2023		370,680
Thereafter		214,192
		1,560,333
Unamortized premium		753
Net unamortized debt issuance costs		(10,541)
Total indebtedness	\$	<u>1,550,545</u>

See [Note 4](#) for information about liabilities of the Company's unconsolidated affiliates.

8. Financial Instruments and Fair Value Measurements

The fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities, and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments including interest rate caps and interest rate swaps; and Level 3, for financial instruments or other assets/liabilities that do not fall into Level 1 or Level 2 and for which little or no market data exists, therefore requiring the Company to develop its own assumptions.

Items Measured at Fair Value on a Recurring Basis

The methods and assumptions described below were used to estimate the fair value of each class of financial instrument. For significant Level 3 items, the Company has also provided the unobservable inputs along with their weighted-average ranges.

Money Market Funds — The Company has money market funds, which are included in Cash and cash equivalents in the consolidated financial statements, are comprised of government securities and/or U.S. Treasury bills. These funds were classified as Level 1 as we used quoted prices from active markets to determine their fair values.

Derivative Assets — The Company has derivative assets, which are included in Other assets, net in the consolidated financial statements, are comprised of interest rate swaps and caps. The derivative instruments were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. See "Derivative Financial Instruments," below.

Derivative Liabilities — The Company has derivative liabilities, which are included in Accounts payable and other liabilities in the consolidated financial statements, are comprised of interest rate swaps and caps. These derivative instruments were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 because they are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. See "Derivative Financial Instruments," below.

ACADIA REALTY TRUST AND SUBSIDIARIES
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The Company did not have any transfers into or out of Level 1, Level 2, and Level 3 measurements during the year ended December 31, 2018 or 2017.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands):

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<u>Assets</u>						
Money Market Funds	\$ 4,504	\$ —	\$ —	\$ 3	\$ —	\$ —
Derivative financial instruments	—	7,018	—	—	4,402	—
<u>Liabilities</u>						
Derivative financial instruments	—	7,304	—	—	1,467	—

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Items Measured at Fair Value on a Nonrecurring Basis (Including Impairment Charges)

The Company did not record any impairment charges during the year ended December 31, 2018. During the year ended December 31, 2017, the Company recognized an impairment charge of \$3.8 million, inclusive of an amount attributable to a noncontrolling interest of \$2.7 million, on a property classified as held for sale at September 30, 2017, in order to reduce the carrying value of the property to its estimated fair value. In addition, the Company recognized an impairment charge of \$10.6 million, inclusive of an amount attributable to a noncontrolling interest of \$7.6 million, on a property classified as held for sale at December 31, 2017 ([Note 2](#)), in order to reduce the carrying value of the property to its estimated fair value. This property was sold in April 2018. These fair value measurements approximated the estimated selling prices less estimated costs to sell.

ACADIA REALTY TRUST AND SUBSIDIARIES
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Derivative Financial Instruments

The Company had the following interest rate swaps for the periods presented (dollars in thousands):

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Strike Rate		Balance Sheet Location	Fair Value		
				Low	High		December 31, 2018	December 31, 2017	
Core									
Interest Rate Swaps	\$ 111,117	Dec 2012 - Jul 2020	Dec 2022 - Jul 2030	2.80%	—	3.77%	Other Liabilities ^(a)	\$ (6,332)	\$ (1,438)
Interest Rate Swaps	321,083	Feb 2013 - Dec 2017	Nov 2019 - Jul 2027	1.24%	—	3.77%	Other Assets	6,022	4,076
	<u>\$ 432,200</u>							<u>\$ (310)</u>	<u>\$ 2,638</u>
Fund II									
Interest Rate Swap	\$ 19,325	Oct 2014	Nov 2021	2.88%	—	2.88%	Other Assets	\$ 108	\$ —
Interest Rate Swap	—	Oct 2014	Nov 2021	2.88%	—	2.88%	Other Liabilities	—	(29)
	<u>\$ 19,325</u>							<u>\$ 108</u>	<u>\$ (29)</u>
Fund III									
Interest Rate Cap	<u>\$ 58,000</u>	Dec 2016	Jan 2020	3.00%	—	3.00%	Other Assets	<u>\$ 8</u>	<u>\$ 14</u>
Fund IV									
Interest Rate Swaps	\$ 71,841	Mar 2017 - Nov 2017	Mar 2020 - Dec 2022	1.82%	—	2.11%	Other Assets	\$ 851	\$ 295
Interest Rate Caps	108,900	July 2016 - Nov 2016	Aug 2019 - Dec 2019	3.00%	—	3.00%	Other Assets	8	17
	<u>\$ 180,741</u>							<u>\$ 859</u>	<u>\$ 312</u>
Fund V									
Interest Rate Swap	\$ 16,900	Jan 2018	Feb 2021	2.41%	—	2.41%	Other Assets	\$ 21	\$ —
Interest Rate Swaps	69,670	Jun 2018	Jun 2021 - Jun 2023	2.78%	—	2.88%	Other Liabilities	(972)	—
	<u>\$ 86,570</u>							<u>\$ (951)</u>	<u>\$ —</u>
Total asset derivatives								<u>\$ 7,018</u>	<u>\$ 4,402</u>
Total liability derivatives								<u>\$ (7,304)</u>	<u>\$ (1,467)</u>

(a) Includes two swaps with a fair value of (\$2.9) million which were acquired during July 2018 and are not effective until July 2020.

All of the Company's derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable-rate debt (Note 7). It is estimated that approximately \$2.3 million included in accumulated other comprehensive (loss) income related to derivatives will be reclassified to interest expense within the next twelve months. As of December 31, 2018 and December 31, 2017, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated hedges.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and, from time to time, through the use of derivative financial instruments. The Company enters into derivative financial instruments to manage exposures that result in the receipt or payment of future known and uncertain cash amounts, the values of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

The Company is exposed to credit risk in the event of non-performance by the counterparties to the swaps if the derivative position has a positive balance. The Company believes it mitigates its credit risk by entering into swaps with major financial institutions. The Company continually monitors and actively manages interest costs on its variable-rate debt portfolio and may enter into additional interest rate swap positions or other

ACADIA REALTY TRUST AND SUBSIDIARIES
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derivative interest rate instruments based on market conditions. The Company has not entered, and does not plan to enter, into any derivative financial instruments for trading or speculative purposes.

The following table presents the location in the financial statements of the income (losses) recognized related to the Company's cash flow hedges (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Amount of (loss) income recognized in other comprehensive income	\$ (2,659)	\$ 634	\$ (646)
Amount of loss subsequently reclassified to earnings	71	3,317	4,576

Credit Risk-Related Contingent Features

The Company has agreements with each of its swap counterparties that contain a provision whereby if the Company defaults on certain of its unsecured indebtedness, the Company could also be declared in default on its swaps, resulting in an acceleration of payment under the swaps.

Other Financial Instruments

The Company's other financial instruments had the following carrying values and fair values as of the dates shown (dollars in thousands, inclusive of amounts attributable to noncontrolling interests where applicable):

	Level	December 31, 2018		December 31, 2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable ^(a)	3	\$ 109,613	\$ 107,370	\$ 153,829	\$ 151,712
Mortgage and Other Notes Payable ^(a)	3	1,026,708	1,021,075	921,261	921,891
Investment in non-traded equity securities ^(b)	3	—	23,208	—	22,824
Unsecured notes payable and Unsecured line of credit ^(c)	2	533,625	533,954	517,125	515,330

(a) The Company determined the estimated fair value of these financial instruments using a discounted cash flow model with rates that take into account the credit of the borrower or tenant, where applicable, and interest rate risk. The Company also considered the value of the underlying collateral, taking into account the quality of the collateral, the credit quality of the borrower, the time until maturity and the current market interest rate environment.

(b) Represents Fund II's cost-method investment in Albertson's supermarkets (Note 4).

(c) The Company determined the estimated fair value of the unsecured notes payable and unsecured line of credit using quoted market prices in an open market with limited trading volume where available. In cases where there was no trading volume, the Company determined the estimated fair value using a discounted cash flow model using a rate that reflects the average yield of similar market participants.

The Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and certain financial instruments included in other assets and other liabilities had fair values that approximated their carrying values at December 31, 2018.

9. Commitments and Contingencies

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

Commitments and Guaranties

In conjunction with the development and expansion of various properties, the Company has entered into agreements with general contractors for the construction or development of properties aggregating approximately \$55.5 million and \$98.7 million as of December 31, 2018 and December 31, 2017, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES
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At each of December 31, 2018 and December 31, 2017, the Company had letters of credit outstanding of \$19.7 million. The Company has not recorded any obligation associated with these letters of credit. The majority of the letters of credit are collateral for existing indebtedness and other obligations of the Company.

10. Shareholders' Equity, Noncontrolling Interests and Other Comprehensive Income

Common Shares and Units

The Company completed the following transactions in its common shares during the year ended December 31, 2018:

- The Company withheld 3,288 Restricted Shares to pay the employees' statutory minimum income taxes due on the value of the portion of their Restricted Shares that vested.
- The Company recognized Common Share and Common OP Unit-based compensation totaling \$8.4 million in connection with Restricted Shares and Units (Note 13).

The Company completed the following transactions in its common shares during the year ended December 31, 2017:

- The Company withheld 4,314 Restricted Shares to pay the employees' statutory minimum income taxes due on the value of the portion of their Restricted Shares that vested.
- The Company recognized Common Share and Common OP Unit-based compensation totaling \$8.4 million in connection with Restricted Shares and Units (Note 13).
- At the May 10 Shareholder Meeting, Shareholders approved an amendment to the Company's Declaration of Trust to increase the authorized share capital of the Company from 100 million shares of beneficial interest to 200 million shares which became effective on July 24, 2017.

Share Repurchases

During 2018, the Company revised its share repurchase program. The new share repurchase program authorizes management, at its discretion, to repurchase up to \$200.0 million of its outstanding Common Shares. The program may be discontinued or extended at any time. The Company repurchased 2,294,235 shares for \$55.1 million, inclusive of \$0.1 million of fees, during the year ended December 31, 2018. The Company did not repurchase any shares during the year ended December 31, 2017. As of December 31, 2018, management may repurchase up to approximately \$144.9 million of the Company's outstanding Common Shares under this program.

Dividends and Distributions

On November 13, 2018, the Board of Trustees declared an increase of \$0.01 to the \$0.28 per Common Share regular quarterly cash dividend, which was paid on January 15, 2019 to holders of record as of December 31, 2018.

On August 7, 2018, the Board of Trustees declared a regular quarterly cash dividend of \$0.27 per Common Share, which was paid on October 15, 2018 to the holders of record as of September 28, 2018.

On May 11, 2018, the Board of Trustees declared a regular quarterly cash dividend of \$0.27 per Common Share, which was paid on July 13, 2018 to holders of record as of June 29, 2018.

On February 27, 2018, the Board of Trustees declared a regular quarterly cash dividend of \$0.27 per Common Share, which was paid on April 13, 2018 to holders of record as of March 30, 2018.

On November 8, 2017, the Board of Trustees declared an increase of \$0.01 to the \$0.27 per Common Share regular quarterly cash dividend, which was paid on January 13, 2018 to holders of record as of December 29, 2017.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accumulated Other Comprehensive Income

The following table sets forth the activity in accumulated other comprehensive income for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Gains or Losses on Derivative Instruments
Balance at January 1, 2018	\$ 2,614
Other comprehensive loss before reclassifications	(2,659)
Reclassification of realized interest on swap agreements	71
Net current period other comprehensive loss	(2,588)
Net current period other comprehensive loss attributable to noncontrolling interests	490
Balance at December 31, 2018	\$ 516
Balance at January 1, 2017	\$ (798)
Other comprehensive income before reclassifications	634
Reclassification of realized interest on swap agreements	3,317
Net current period other comprehensive income	3,951
Net current period other comprehensive income attributable to noncontrolling interests	(539)
Balance at December 31, 2017	\$ 2,614
Balance at January 1, 2016	\$ (4,463)
Other comprehensive loss before reclassifications	(646)
Reclassification of realized interest on swap agreements	4,576
Net current period other comprehensive income	3,930
Net current period other comprehensive income attributable to noncontrolling interests	(265)
Balance at December 31, 2016	\$ (798)

ACADIA REALTY TRUST AND SUBSIDIARIES
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Noncontrolling Interests

The following table summarizes the change in the noncontrolling interests for the years ended December 31, 2018, 2017 and 2016 (dollars in thousands):

	Noncontrolling Interests in Operating Partnership ^(a)	Noncontrolling Interests in Partially- Owned Affiliates ^(b)	Total
Balance at January 1, 2018	\$ 102,921	\$ 545,519	\$ 648,440
Distributions declared of \$1.09 per Common OP Unit	(6,888)	—	(6,888)
Net income (loss) for the year ended December 31, 2018	2,572	(49,709)	(47,137)
Conversion of 117,978 Common OP Units to Common Shares by limited partners of the Operating Partnership	(2,068)	—	(2,068)
Other comprehensive loss - unrealized loss on valuation of swap agreements	(129)	(681)	(810)
Reclassification of realized interest expense on swap agreements	(3)	323	320
Noncontrolling interest contributions	—	47,560	47,560
Noncontrolling interest distributions	—	(24,793)	(24,793)
Employee Long-term Incentive Plan Unit Awards	12,374	—	12,374
Rebalancing adjustment ^(c)	(4,556)	—	(4,556)
Balance at December 31, 2018	\$ 104,223	\$ 518,219	\$ 622,442
Balance at January 1, 2017	\$ 95,422	\$ 494,126	\$ 589,548
Distributions declared of \$1.05 per Common OP Unit	(6,453)	—	(6,453)
Net income (loss) for the year ended December 31, 2017	4,159	(1,321)	2,838
Conversion of 81,453 Common OP Units and 5,000 Preferred OP Units to Common Shares by limited partners of the Operating Partnership	(1,541)	—	(1,541)
Other comprehensive income (loss) - unrealized gain (loss) on valuation of swap agreements	85	(232)	(147)
Reclassification of realized interest expense on swap agreements	141	545	686
Noncontrolling interest contributions	—	85,206	85,206
Noncontrolling interest distributions	—	(32,805)	(32,805)
Employee Long-term Incentive Plan Unit Awards	10,457	—	10,457
Rebalancing adjustment ^(c)	651	—	651
Balance at December 31, 2017	\$ 102,921	\$ 545,519	\$ 648,440
Balance at January 1, 2016	\$ 96,340	\$ 324,526	\$ 420,866
Distributions declared of \$1.16 per Common OP Unit	(6,753)	—	(6,753)
Net income for the year ended December 31, 2016	5,002	56,814	61,816
Conversion of 351,250 Common OP Units to Common Shares by limited partners of the Operating Partnership	(7,892)	—	(7,892)
Issuance of Common and Preferred OP Units to acquire real estate	31,429	—	31,429
Acquisition of noncontrolling interests	—	(25,925)	(25,925)
Other comprehensive loss - unrealized loss on valuation of swap agreements	(43)	(289)	(332)
Change in control of previously unconsolidated investment	—	(75,713)	(75,713)
Reclassification of realized interest expense on swap agreements	223	374	597
Noncontrolling interest contributions	—	295,108	295,108
Noncontrolling interest distributions	—	(80,769)	(80,769)
Employee Long-term Incentive Plan Unit Awards	12,768	—	12,768
Rebalancing adjustment ^(c)	(35,652)	—	(35,652)
Balance at December 31, 2016	\$ 95,422	\$ 494,126	\$ 589,548

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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- (a) Noncontrolling interests in the Operating Partnership are comprised of (i) the limited partners' 3,329,640, 3,328,873 and 3,308,875 Common OP Units at December 31, 2018, 2017 and 2016, respectively; (ii) 188 Series A Preferred OP Units at December 31, 2018, 2017 and 2016; (iii) 136,593 Series C Preferred OP Units at December 31, 2018, 2017 and 2016; and (iv) 2,569,044, 2,274,147 and 1,997,099 LTIP units at December 31, 2018, 2017 and 2016, respectively, as discussed in Share Incentive Plan (Note 13). Distributions declared for Preferred OP Units are reflected in net income (loss) in the table above.
- (b) Noncontrolling interests in partially-owned affiliates comprise third-party interests in Funds II, III, IV and V, and Mervyns I and II, and six other subsidiaries.
- (c) Adjustment reflects the difference between the fair value of the consideration received or paid and the book value of the Common Shares, Common OP Units, Preferred OP Units, and LTIP Units involving changes in ownership (the "Rebalancing").

Preferred OP Units

There were no issuances of Preferred OP Units during the year ended December 31, 2018.

In 1999 the Operating Partnership issued 1,580 Series A Preferred OP Units in connection with the acquisition of a property, which have a stated value of \$1,000 per unit, and are entitled to a preferred quarterly distribution of the greater of (i) \$22.50 (9% annually) per Series A Preferred OP Unit or (ii) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit was converted into a Common OP Unit. Through December 31, 2018, 1,392 Series A Preferred OP Units were converted into 185,600 Common OP Units and then into Common Shares. The 188 remaining Series A Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by \$7.50. Either the Company or the holders can currently call for the conversion of the Series A Preferred OP Units at the lesser of \$7.50 or the market price of the Common Shares as of the conversion date.

During 2016, the Operating Partnership issued 442,478 Common OP Units and 141,593 Series C Preferred OP Units to a third party to acquire Gotham Plaza (Note 4). The Series C Preferred OP Units have a value of \$100.00 per unit and are entitled to a preferred quarterly distribution of \$0.9375 per unit and are convertible into Common OP Units at a rate based on the share price at the time of conversion. If the share price is below \$28.80 on the conversion date, each Series C Preferred OP Unit will be convertible into 3.4722 Common OP Units. If the share price is between \$28.80 and \$35.20 on the conversion date, each Series C Preferred OP Unit will be convertible into a number of Common OP Units equal to \$100.00 divided by the closing share price. If the share price is above \$35.20 on the conversion date, each Series C Preferred OP Unit will be convertible into 2.8409 Common OP Units. The Series C Preferred OP Units have a mandatory conversion date of December 31, 2025, at which time all units that have not been converted will automatically be converted into Common OP Units based on the same calculations. Through December 31, 2018, 5,000 Series C Preferred OP Units were converted into 17,165 Common OP Units and then into Common Shares.

11. Leases

Operating Leases

The Company is engaged in the operation of shopping centers and other retail properties that are either owned or, with respect to certain shopping centers, operated under long-term ground leases that expire at various dates through June 20, 2066, with renewal options. Space in the shopping centers is leased to tenants pursuant to agreements that provide for terms ranging generally from one month to sixty years and generally provide for additional rents based on certain operating expenses as well as tenants' sales volumes.

The Company leases land at six of its shopping centers, which are accounted for as operating leases and generally provide the Company with renewal options. Ground rent expense was \$1.7 million, \$1.4 million and \$1.2 million (including capitalized ground rent at a property under development of \$0, \$0.1 million and \$0.6 million) for the years ended December 31, 2018, 2017 and 2016 respectively. The leases terminate at various dates between 2020 and 2066. These leases provide the Company with options to renew for additional terms aggregating up to 22 years. The Company also leases space for its corporate office. Office rent expense under these leases was \$1.0 million for each of the years ended December 31, 2018, 2017 and 2016, respectively.

Capital Lease

During 2016, the Company entered into a 49-year master lease, which is accounted for as a capital lease. During the years ended December 31, 2018, 2017 and 2016, payments for this lease totaled \$2.5 million, \$2.5 million and \$1.3 million, respectively. The property under the capital lease is included in Note 2.

ACADIA REALTY TRUST AND SUBSIDIARIES
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Lease Obligations

The scheduled future minimum (i) rental revenues from rental properties under the terms of non-cancelable tenant leases greater than one year (assuming no new or renegotiated leases or option extensions for such premises) and (ii) rental payments under the terms of all non-cancelable operating and capital leases in which the Company is the lessee, principally for office space, land and equipment, as of December 31, 2018, are summarized as follows (in thousands):

Year Ending December 31,	Minimum Rental Revenues	Minimum Rental Payments
2019	\$ 187,158	\$ 4,775
2020	178,691	4,571
2021	159,749	4,354
2022	139,294	4,404
2023	121,456	4,425
Thereafter	513,853	180,618
Total	\$ 1,300,201	\$ 203,147

A ground lease expiring during 2078 provides the Company with an option to purchase the underlying land during 2031. If the Company does not exercise the option, the rents that will be due are based on future values and as such are not determinable at this time. Accordingly, the above table does not include rents for this lease beyond 2020.

During the years ended December 31, 2018, 2017 and 2016, no single tenant collectively comprised more than 10% of the Company's consolidated total revenues.

12. Segment Reporting

The Company has three reportable segments: Core Portfolio, Funds and Structured Financing. The Company's Core Portfolio consists primarily of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas with a long-term investment horizon. The Company's Funds hold primarily retail real estate in which the Company co-invests with high-quality institutional investors. The Company's Structured Financing segment consists of earnings and expenses related to notes and mortgages receivable which are held within the Core Portfolio or the Funds (Note 3). Fees earned by the Company as the general partner or managing member of the Funds are eliminated in the Company's consolidated financial statements and are not presented in the Company's segments.

ACADIA REALTY TRUST AND SUBSIDIARIES
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The following tables set forth certain segment information for the Company (in thousands):

	As of or for the Year Ended December 31, 2018				
	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 167,894	\$ 94,319	\$ —	\$ —	\$ 262,213
Depreciation and amortization	(60,903)	(56,646)	—	—	(117,549)
Property operating expenses, other operating and real estate taxes	(45,138)	(37,642)	—	—	(82,780)
General and administrative expenses	—	—	—	(34,343)	(34,343)
Operating income	61,853	31	—	(34,343)	27,541
Gain on disposition of properties	—	5,140	—	—	5,140
Interest income	—	—	13,231	—	13,231
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties ^(a)	7,415	1,887	—	—	9,302
Interest expense	(27,575)	(42,403)	—	—	(69,978)
Income tax provision	—	—	—	(934)	(934)
Net income	41,693	(35,345)	13,231	(35,277)	(15,698)
Net loss attributable to noncontrolling interests	752	46,385	—	—	47,137
Net income attributable to Acadia	<u>\$ 42,445</u>	<u>\$ 11,040</u>	<u>\$ 13,231</u>	<u>\$ (35,277)</u>	<u>\$ 31,439</u>
Real estate at cost	<u>\$ 2,069,439</u>	<u>\$ 1,628,366</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,697,805</u>
Total assets	<u>\$ 2,232,695</u>	<u>\$ 1,616,472</u>	<u>\$ 109,613</u>	<u>\$ —</u>	<u>\$ 3,958,780</u>
Cash paid for acquisition of real estate	<u>\$ 1,343</u>	<u>\$ 146,642</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 147,985</u>
Cash paid for development and property improvement costs	<u>\$ 32,662</u>	<u>\$ 62,172</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 94,834</u>

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	As of or for the Year Ended December 31, 2017				
	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 169,975	\$ 80,287	\$ —	\$ —	\$ 250,262
Depreciation and amortization	(61,705)	(43,229)	—	—	(104,934)
Property operating expenses, other operating and real estate taxes	(45,349)	(34,449)	—	—	(79,798)
General and administrative expenses	—	—	—	(33,756)	(33,756)
Impairment charge	—	(14,455)	—	—	(14,455)
Operating income (loss)	62,921	(11,846)	—	(33,756)	17,319
Gain on disposition of properties	—	48,886	—	—	48,886
Interest income	—	—	29,143	—	29,143
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties ^(a)	3,735	19,636	—	—	23,371
Interest expense	(28,618)	(30,360)	—	—	(58,978)
Gain on change in control	5,571	—	—	—	5,571
Income tax provision	—	—	—	(1,004)	(1,004)
Net income	43,609	26,316	29,143	(34,760)	64,308
Net income attributable to noncontrolling interests	(1,107)	(1,731)	—	—	(2,838)
Net income attributable to Acadia	<u>\$ 42,502</u>	<u>\$ 24,585</u>	<u>\$ 29,143</u>	<u>\$ (34,760)</u>	<u>\$ 61,470</u>
Real estate at cost	<u>\$ 2,032,485</u>	<u>\$ 1,433,997</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,466,482</u>
Total assets	<u>\$ 2,305,663</u>	<u>\$ 1,500,755</u>	<u>\$ 153,829</u>	<u>\$ —</u>	<u>\$ 3,960,247</u>
Cash paid for acquisition of real estate	<u>\$ —</u>	<u>\$ 200,429</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 200,429</u>
Cash paid for development and property improvement costs	<u>\$ 42,026</u>	<u>\$ 66,116</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 108,142</u>

	As of or for the Year Ended December 31, 2016				
	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 150,211	\$ 39,728	\$ —	\$ —	\$ 189,939
Depreciation and amortization	(54,582)	(15,429)	—	—	(70,011)
Property operating expenses, other operating and real estate taxes	(39,598)	(17,793)	—	—	(57,391)
General and administrative expenses	—	—	—	(40,648)	(40,648)
Operating income	56,031	6,506	—	(40,648)	21,889
Gain on disposition of properties	—	81,965	—	—	81,965
Interest income	—	—	25,829	—	25,829
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties ^(a)	3,774	35,675	—	—	39,449
Interest expense	(27,435)	(7,210)	—	—	(34,645)
Income tax benefit	—	—	—	105	105
Net income	32,370	116,936	25,829	(40,543)	134,592
Net income attributable to noncontrolling interests	(3,411)	(58,405)	—	—	(61,816)
Net income attributable to Acadia	<u>\$ 28,959</u>	<u>\$ 58,531</u>	<u>\$ 25,829</u>	<u>\$ (40,543)</u>	<u>\$ 72,776</u>
Real estate at cost	<u>\$ 1,982,763</u>	<u>\$ 1,399,237</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,382,000</u>
Total assets	<u>\$ 2,271,620</u>	<u>\$ 1,448,177</u>	<u>\$ 276,163</u>	<u>\$ —</u>	<u>\$ 3,995,960</u>
Cash paid for acquisition of real estate	<u>\$ 323,880</u>	<u>\$ 171,764</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 495,644</u>
Cash paid for development and property improvement costs	<u>\$ 13,434</u>	<u>\$ 136,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 149,434</u>

ACADIA REALTY TRUST AND SUBSIDIARIES
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- (a) Equity in earnings of unconsolidated affiliates for the Core segment includes \$5.8 million, \$1.9 million and \$0.9 million related to one unconsolidated affiliate, Town Center, for the years ended December 31, 2018, 2017 and 2016, respectively. During 2017 and 2018, the Company increased its ownership in its Town Center investment from 22.22% to 75.22% (Note 4). Effective in 2018, the Company consolidated a property association entity that incurs all property-related costs associated with Town Center. Such costs aggregated \$0.7 million for the year ended December 31, 2018 and are included in depreciation and amortization and property operating expenses other operating and real estate taxes within the Core segment.

13. Share Incentive and Other Compensation

Share Incentive Plan

The Second Amended and Restated 2006 Incentive Plan (the “Share Incentive Plan”) authorizes the Company to issue options, Restricted Shares, LTIP Units and other securities (collectively “Awards”) to, among others, the Company’s officers, trustees and employees. At December 31, 2018 a total of 1,176,340 shares remained available to be issued under the Share Incentive Plan.

Restricted Shares and LTIP Units

During the year ended December 31, 2018, the Company issued 381,821 LTIP Units and 5,767 Restricted Share Units to employees of the Company pursuant to the Share Incentive Plan. The fair value of the Restricted Share Units and LTIP Units as of the grant date was \$10.4 million. Certain of these equity awards were granted in performance-based Restricted Share Units or LTIP Units to market conditions as described below (“2018 Performance Shares”). These awards were measured at their fair value on the grant date, incorporating the following factors:

- A portion of these annual equity award is granted in performance-based Restricted Share Units or LTIP Units that may be earned based on the Company’s attainment of specified relative total shareholder returns (“Relative TSR”) hurdles.
- In the event the Relative TSR percentile falls between the 25th percentile and the 50th percentile, Relative TSR vesting percentage is determined using a straight-line linear interpolation between 50% and 100% and in the event that the Relative TSR percentile falls between the 50th percentile and 75th percentile, the Relative TSR vesting percentage is determined using a straight-line linear interpolation between 100% and 200%.
- Two-thirds (2/3) of the performance-based LTIP Units will vest based on the Company’s total shareholder return (“TSR”) for the three-year forward-looking performance period ending December 31, 2020 relative to the constituents of the SNL U.S. REIT Retail Shopping Center Index and one-third (1/3) on the Company’s TSR for the three-year forward-looking performance period as compared to the constituents of the SNL U.S. REIT Retail Index (both on a non-weighted basis).
- If the Company’s performance fails to achieve the aforementioned hurdles at the culmination of the three-year performance period, all performance-based shares will be forfeited. Any earned performance-based shares vest 60% at the end of the performance period, with the remaining 40% of shares vesting ratably over the next two years.

For valuation of the 2018 Performance Shares, a Monte Carlo simulation was used to estimate the fair values based on probability of satisfying the market conditions and the projected share prices at the time of payments, discounted to the valuation dates over the three-year performance periods. The assumptions include volatility (18.0%) and risk-free interest rates (2.4%).

Total long-term incentive compensation expense, including the expense related to the Share Incentive Plan, was \$8.4 million each for the years ended December 31, 2018 and 2017, respectively and is recorded in General and Administrative in the Consolidated Statements of Income.

In addition, during the quarter ended December 31, 2018, in connection with the retirement of an executive, an additional 26,632 LTIP Units were issued. The value of these LTIP Units was \$0.6 million and was recognized as compensation expense in 2018. Also, in connection with this retirement, the Company recognized \$1.7 million as compensation expense relating to the acceleration of previously granted LTIP Units.

In addition, members of the Board of Trustees (the “Board”) have been issued shares and units under the Share Incentive Plan. During 2018, the Company issued 17,427 LTIP Units and 17,050 Restricted Shares to Trustees of the Company in connection with Trustee fees. Vesting with respect to 8,949 of the LTIP Units and 5,181 of the Restricted Shares will be on the first anniversary of the date of issuance and 8,478 of the LTIP Units and 11,869 of the Restricted Shares vest over three years with 33% vesting on each of the next three anniversaries of the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively from the issuance date through the applicable vesting date of such Restricted Shares. Total trustee fee expense, including the expense related to the Share Incentive Plan, was \$1.3 million and \$1.2 million for the years ended December 31, 2018 and 2017, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES
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In 2009, the Company adopted the Long-Term Investment Alignment Program (the “Program”) pursuant to which the Company may grant awards to employees, entitling them to receive up to 25% of any potential future payments of Promote to the Operating Partnership from Funds III and IV. The Company has granted such awards to employees representing 25% of the potential Promote payments from Fund III to the Operating Partnership and 22.8% of the potential Promote payments from Fund IV to the Operating Partnership. Payments to senior executives under the Program require further Board approval at the time any potential payments are due pursuant to these grants. Compensation relating to these awards will be recognized in each reporting period in which Board approval is granted.

As payments to other employees are not subject to further Board approval, compensation relating to these awards will be recorded based on the estimated fair value at each reporting period in accordance with ASC Topic 718, *Compensation— Stock Compensation*. The awards in connection with Fund IV were determined to have no intrinsic value as of December 31, 2018.

Compensation expense of \$0 and \$0.6 million was recognized for the year ended December 31, 2018 and 2017, respectively, related to the Program in connection with Fund III.

A summary of the status of the Company’s unvested Restricted Shares and LTIP Units is presented below:

Unvested Restricted Shares and LTIP Units	Common Restricted Shares	Weighted Grant-Date Fair Value	LTIP Units	Weighted Grant-Date Fair Value
Unvested at January 1, 2016	49,899	\$ 25.90	1,020,121	\$ 23.92
Granted	21,675	33.35	359,484	34.40
Vested	(24,886)	29.17	(522,680)	26.08
Forfeited	(189)	35.37	(48)	35.37
Unvested at December 31, 2016	46,499	\$ 27.58	856,877	\$ 26.99
Granted	19,442	29.85	310,551	31.80
Vested	(23,430)	30.47	(257,124)	28.27
Forfeited	(1,184)	32.65	(205)	32.49
Unvested at December 31, 2017	41,327	26.92	910,099	28.28
Granted	22,817	23.65	425,880	26.80
Vested	(25,261)	30.79	(431,827)	29.72
Forfeited	(428)	27.25	(12,266)	28.57
Unvested at December 31, 2018	38,455	\$ 22.44	891,886	\$ 26.87

The weighted-average grant date fair value for Restricted Shares and LTIP Units granted for the years ended December 31, 2018 and 2017 were \$26.64 and \$31.69, respectively. As of December 31, 2018, there was \$14.1 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Share Incentive Plan. That cost is expected to be recognized over a weighted-average period of 1.6 years. The total fair value of Restricted Shares that vested for the years ended December 31, 2018 and 2017, was \$0.8 million and \$0.7 million, respectively. The total fair value of LTIP Units that vested during the years ended December 31, 2018 and 2017, was \$12.8 million and \$7.3 million, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES
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Other Plans

On a combined basis, the Company incurred a total of \$0.3 million, \$0.2 million and \$0.2 million related to the following employee benefit plans for each of the years ended December 31, 2018, 2017 and 2016, respectively:

Employee Share Purchase Plan

The Acadia Realty Trust Employee Share Purchase Plan (the “Purchase Plan”), allows eligible employees of the Company to purchase Common Shares through payroll deductions. The Purchase Plan provides for employees to purchase Common Shares on a quarterly basis at a 15% discount to the closing price of the Company’s Common Shares on either the first day or the last day of the quarter, whichever is lower. A participant may not purchase more than \$25,000 in Common Shares per year. Compensation expense will be recognized by the Company to the extent of the above discount to the closing price of the Common Shares with respect to the applicable quarter. A total of 3,495 and 4,514 Common Shares were purchased by employees under the Purchase Plan for the year ended December 31, 2018 and 2017, respectively.

Deferred Share Plan

During 2006, the Company adopted a Trustee Deferral and Distribution Election, under which the participating Trustees earn deferred compensation.

Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant’s contribution up to 6% of the employee’s annual salary. A plan participant may contribute up to a maximum of 15% of their compensation, up to \$18,500, for the year ended December 31, 2018.

14. Federal Income Taxes

The Company has elected to qualify as a REIT in accordance with Sections 856 through 860 of the Code, and intends at all times to qualify as a REIT under the Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual REIT taxable income to its shareholders. As a REIT, the Company generally will not be subject to corporate Federal income tax, provided that distributions to its shareholders equal at least the amount of its REIT taxable income as defined under the Code. As the Company distributed sufficient taxable income for the years ended December 31, 2018, 2017 and 2016, no U.S. Federal income or excise taxes were incurred. If the Company fails to qualify as a REIT in any taxable year, it will be subject to Federal income taxes at the regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even though the Company qualifies for taxation as a REIT, the Company is subject to certain state and local taxes on its income and property and Federal income and excise taxes on any undistributed taxable income. In addition, taxable income from non-REIT activities managed through the Company’s TRS’s is subject to Federal, state and local income taxes. No more than 20% of the value of our total assets may consist of the securities of one or more taxable REIT subsidiaries.

In the normal course of business, the Company or one or more of its subsidiaries is subject to examination by Federal, state and local jurisdictions as well as certain jurisdictions outside the United States, in which it operates, where applicable. The Company expects to recognize interest and penalties related to uncertain tax positions, if any, as income tax expense. For the three years ended December 31, 2018, the Company recognized no material adjustments regarding its tax accounting treatment for uncertain tax provisions. As of December 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions under applicable statutes of limitations are generally the year 2015 and forward.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of Net Income to Taxable Income

Reconciliation of GAAP net income attributable to Acadia to taxable income is as follows:

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Net income attributable to Acadia	\$ 31,439	\$ 61,470	\$ 72,776
Deferred cancellation of indebtedness income	2,050	2,050	2,050
Deferred rental and other income ^(a)	1,222	(934)	1,610
Book/tax difference - depreciation and amortization ^(a)	23,166	21,334	15,189
Straight-line rent and above- and below-market rent adjustments ^(a)	(12,129)	(10,559)	(7,882)
Book/tax differences - equity-based compensation	6,042	5,325	10,307
Joint venture equity in earnings, net ^(a)	13,905	9,114	(2,011)
Impairment charges and reserves	—	—	769
Acquisition costs ^(a)	326	1,135	5,116
Gains	—	(5,181)	—
Book/tax differences - miscellaneous	(2,821)	930	(4,924)
Taxable income	<u>\$ 63,200</u>	<u>\$ 84,684</u>	<u>\$ 93,000</u>
Distributions declared	<u>\$ 89,122</u>	<u>\$ 87,848</u>	<u>\$ 91,053</u>

(a) Adjustments from certain subsidiaries and affiliates, which are consolidated for financial reporting but not for tax reporting, are included in the reconciliation item "Joint venture equity in earnings, net."

Characterization of Distributions

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

	Year Ended December 31,					
	2018		2017		2016	
	Per Share	%	Per Share	%	Per Share	%
Ordinary income - Non-Section 199A	—	—%	\$ 0.82	78%	\$ 0.77	66%
Ordinary income - Section 199A	\$ 0.87	100%	—	—%	—	—%
Qualified dividend	—	—%	—	—%	—	—%
Capital gain	—	—%	0.23	22%	0.39	34%
Total ^(b)	<u>\$ 0.87</u>	<u>100%</u>	<u>\$ 1.05</u>	<u>100%</u>	<u>\$ 1.16</u>	<u>100%</u>

(b) The fourth quarter 2018 regular dividend was \$0.28 per common share of which approximately \$0.06 was allocable to 2018 and approximately \$0.22 is allocable to 2019.

Taxable REIT Subsidiaries

Income taxes have been provided for using the liability method as required by ASC Topic 740, "Income Taxes." The Company's TRS income and provision for income taxes associated with the TRS for the periods presented are summarized as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
TRS loss before income taxes	\$ (2,609)	\$ (3,604)	\$ (1,583)
(Provision) benefit for income taxes:			
Federal	(377)	(982)	378
State and local	26	423	97
TRS net loss before noncontrolling interests	(2,960)	(4,163)	(1,108)
Noncontrolling interests	4	8	(9)
TRS net loss	<u>\$ (2,956)</u>	<u>\$ (4,155)</u>	<u>\$ (1,117)</u>

ACADIA REALTY TRUST AND SUBSIDIARIES
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The income tax provision for the Company differs from the amount computed by applying the statutory Federal income tax rate to income before income taxes as follows. Amounts are not adjusted for temporary book/tax differences (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Federal tax benefit at statutory tax rate	\$ (548)	\$ (1,225)	\$ (538)
TRS state and local taxes, net of Federal benefit	(165)	(190)	(84)
Tax effect of:			
Permanent differences, net	951	1,131	1,663
Prior year over-accrual, net	—	(1,541)	—
Effect of Tax Cuts and Jobs Act	—	1,982	—
Other	172	404	(1,516)
REIT state and local income and franchise taxes	524	443	370
Total provision (benefit) for income taxes	<u>\$ 934</u>	<u>\$ 1,004</u>	<u>\$ (105)</u>

As of December 31, 2018, and 2017, the Company's deferred tax assets (net of applicable reserves) in its taxable REIT subsidiaries consisted of the following: additional tax basis in RCP investments of \$0 and \$1.0 million, capital loss carryovers of \$0.1 million and \$0 and net operating loss carryovers of \$2.0 million and \$1.1 million, respectively.

15. Earnings Per Common Share

Basic earnings per Common Share is computed by dividing net income attributable to Common Shareholders by the weighted average Common Shares outstanding (Note 10). During the periods presented, the Company had unvested LTIP Units which provide for non-forfeitable rights to dividend equivalent payments. Accordingly, these unvested LTIP Units are considered participating securities and are included in the computation of basic earnings per Common Share pursuant to the two-class method.

Diluted earnings per Common Share reflects the potential dilution of the conversion of obligations and the assumed exercises of securities including the effects of restricted share units ("Restricted Share Units") issued under the Company's Share Incentive Plans (Note 13). The effect of such shares is excluded from the calculation of earnings per share when anti-dilutive as indicated in the table below.

ACADIA REALTY TRUST AND SUBSIDIARIES
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The effect of the conversion of Common OP Units is not reflected in the computation of basic and diluted earnings per share, as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as noncontrolling interests in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share.

(dollars in thousands)	Year Ended December 31,		
	2018	2017	2016
Numerator:			
Net income attributable to Acadia	\$ 31,439	\$ 61,470	\$ 72,776
Less: net income attributable to participating securities	(267)	(642)	(793)
Income from continuing operations net of income attributable to participating securities	\$ 31,172	\$ 60,828	\$ 71,983
Denominator:			
Weighted average shares for basic earnings per share	82,080,159	83,682,789	76,231,000
Effect of dilutive securities:			
Employee unvested restricted shares	—	2,682	12,550
Denominator for diluted earnings per share	82,080,159	83,685,471	76,243,550
Basic and diluted earnings per Common Share from continuing operations attributable to Acadia	\$ 0.38	\$ 0.73	\$ 0.94
Anti-Dilutive Shares Excluded from Denominator:			
Series A Preferred OP Units	188	188	188
Series A Preferred OP Units - Common share equivalent	25,067	25,067	25,067
Series C Preferred OP Units	136,593	136,593	141,593
Series C Preferred OP Units - Common share equivalent	474,278	479,978	410,207
Restricted shares	36,879	41,299	50,156

16. Summary of Quarterly Financial Information (Unaudited)

The quarterly results of operations of the Company for the years ended December 31, 2018 and 2017 are as follows (in thousands, except per share amounts):

	Three Months Ended ^(a)			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Revenues	\$ 63,124	\$ 63,569	\$ 66,075	\$ 69,445
Net loss	(4,160)	(2,270)	(2,597)	(6,671)
Net loss attributable to noncontrolling interests	11,579	9,935	11,822	13,801
Net income attributable to Acadia	7,419	7,665	9,225	7,130
Earnings per share attributable to Acadia:				
Basic	\$ 0.09	\$ 0.09	\$ 0.11	\$ 0.09
Diluted	0.09	0.09	0.11	0.09
Weighted average number of shares:				
Basic	83,434	81,756	81,566	81,591
Diluted	83,438	81,756	81,566	81,591
Cash dividends declared per Common Share	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.28

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (a) The three months ended September 30, 2018 includes an aggregate \$5.1 million gain on the sales of two consolidated Fund IV properties (Note 2), of which \$3.9 million was attributable to noncontrolling interests.

	Three Months Ended ^(a, b, c, d)			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Revenues	\$ 61,999	\$ 59,504	\$ 62,678	\$ 66,081
Net income	19,971	6,108	13,285	24,944
Net (income) loss attributable to noncontrolling interests	(4,340)	5,952	(418)	(4,032)
Net income attributable to Acadia	15,631	12,060	12,867	20,912
Earnings per share attributable to Acadia:				
Basic				
Diluted	\$ 0.18	\$ 0.14	\$ 0.15	\$ 0.25
	0.18	0.14	0.15	0.25
Weighted average number of shares:				
Basic	83,635	83,662	83,700	83,733
Diluted	83,646	83,662	83,700	83,733
Cash dividends declared per Common Share	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.27

- (a) The three months ended March 31, 2017 includes the Company's \$2.7 million proportionate share of aggregate gains of \$14.5 million on the sales of two unconsolidated properties (Note 4).
- (b) The three months ended June 30, 2017 includes the Company's \$0.8 million proportionate share of a \$3.3 million gain on sale of an unconsolidated property (Note 4).
- (c) The three months ended September 30, 2017 includes an aggregate \$13.0 million gain on the sales of two consolidated properties (Note 2), of which \$10.7 million was attributable to noncontrolling interests as well as an impairment charge of \$3.8 million, inclusive of an amount attributable to a noncontrolling interest of \$2.7 million (Note 8).
- (d) The three months ended December 31, 2017 includes a \$5.6 million gain on change in control of interests (Note 4), an aggregate \$35.9 million gain on the sales of three consolidated properties (Note 2), of which \$26.7 million was attributable to noncontrolling interests; and an impairment charge of \$10.6 million, of which \$7.6 million was attributable to noncontrolling interests (Note 8).

17. Subsequent Events

Capital Called

Effective January 9, 2019, Fund V called capital of \$33.2 million of which the Company's share was \$6.7 million.

Financing and Hedging Transactions

On January 4, 2019, the Company entered into \$100.0 million notional amounts of 10-year interest rate swaps at a fixed rate of approximately 2.6%.

On January 11, 2019, Fund V obtained a mortgage for its Elk Grove Commons property in the amount of \$41.5 million, and also entered into a swap to fix the rate.

Acquisition and Disposition

On January 23, 2019, Fund III sold its 3104 M Street property for \$10.5 million to an unconsolidated venture in which the Company holds a 20% interest, referred to as the Renaissance Portfolio (Note 4). In addition, the Renaissance Portfolio venture assumed the related Fund III mortgage of \$4.7 million.

ACADIA REALTY TRUST
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Charged to Expenses	Adjustments to Valuation Accounts	Deductions	Balance at End of Year
<u>Year Ended December 31, 2018:</u>					
Allowance for deferred tax asset	\$ 1,530	\$ —	\$ —	\$ (1,530)	\$ —
Allowance for uncollectible accounts	5,920	2,532	(531)	—	7,921
Allowance for notes receivable	—	—	—	—	—
<u>Year Ended December 31, 2017:</u>					
Allowance for deferred tax asset	\$ 859	\$ —	\$ 671	\$ —	\$ 1,530
Allowance for uncollectible accounts	5,720	200	—	—	5,920
Allowance for notes receivable	—	—	—	—	—
<u>Year Ended December 31, 2016:</u>					
Allowance for deferred tax asset	\$ —	\$ —	\$ 859	\$ —	\$ 859
Allowance for uncollectible accounts	7,451	—	—	(1,731)	5,720
Allowance for notes receivable	—	—	—	—	—

ACADIA REALTY TRUST
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

Description and Location	Encumbrances	Initial Cost to Company			Amount at Which Carried at December 31, 2018			Accumulated Depreciation	Date of Acquisition (a) Construction (c)	Life on which Depreciation in Latest Statement of Income is Compared
		Land	Buildings & Improvements	Increase (Decrease) in Net Investments	Land	Buildings & Improvements	Total			
Core Portfolio:										
Crescent Plaza Brockton, MA	\$ —	\$ 1,147	\$ 7,425	\$ 3,222	\$ 1,147	\$ 10,647	\$ 11,794	\$ 8,112	1993(a)	40 years
New Loudon Center Latham, NY	—	505	4,161	13,965	505	18,126	18,631	14,890	1993(a)	40 years
Mark Plaza Edwardsville, PA	—	—	3,396	—	—	3,396	3,396	2,981	1993(c)	40 years
Plaza 422 Lebanon, PA	—	190	3,004	2,809	190	5,813	6,003	5,227	1993(c)	40 years
Route 6 Mall Honesdale, PA	—	1,664	—	12,490	1,664	12,490	14,154	9,813	1994(c)	40 years
Abington Towne Center Abington, PA	—	799	3,197	2,876	799	6,073	6,872	4,016	1998(a)	40 years
Bloomfield Town Square Bloomfield Hills, MI	—	3,207	13,774	25,803	3,207	39,577	42,784	23,366	1998(a)	40 years
Elmwood Park Shopping Center Elmwood Park, NJ	—	3,248	12,992	15,738	3,798	28,180	31,978	19,867	1998(a)	40 years
Merrillville Plaza Hobart, IN	—	4,288	17,152	5,726	4,288	22,878	27,166	13,173	1998(a)	40 years
Marketplace of Absecon Absecon, NJ	—	2,573	10,294	4,920	2,577	15,210	17,787	8,603	1998(a)	40 years
239 Greenwich Avenue Greenwich, CT	27,000	1,817	15,846	1,086	1,817	16,932	18,749	8,285	1998(a)	40 years
Hobson West Plaza Naperville, IL	—	1,793	7,172	4,069	1,793	11,241	13,034	5,431	1998(a)	40 years
Village Commons Shopping Center Smithtown, NY	—	3,229	12,917	4,597	3,229	17,514	20,743	9,918	1998(a)	40 years
Town Line Plaza Rocky Hill, CT	—	878	3,510	7,736	907	11,217	12,124	9,206	1998(a)	40 years
Branch Shopping Center Smithtown, NY	—	3,156	12,545	16,119	3,401	28,419	31,820	12,757	1998(a)	40 years
Methuen Shopping Center Methuen, MA	—	956	3,826	1,484	961	5,305	6,266	2,683	1998(a)	40 years
The Gateway Shopping Center South Burlington, VT	—	1,273	5,091	12,413	1,273	17,504	18,777	10,169	1999(a)	40 years
Mad River Station Dayton, OH	—	2,350	9,404	2,173	2,350	11,577	13,927	5,955	1999(a)	40 years
Pacesetter Park Shopping Center Ramapo, NY	—	1,475	5,899	3,743	1,475	9,642	11,117	5,439	1999(a)	40 years
Brandywine Holdings Wilmington, DE	26,250	5,063	15,252	2,495	5,201	17,609	22,810	7,199	2003(a)	40 years
Bartow Avenue Bronx, NY	—	1,691	5,803	1,190	1,691	6,993	8,684	3,250	2005(c)	40 years
Amboy Road Staten Island, NY	—	—	11,909	2,632	—	14,541	14,541	7,319	2005(a)	40 years
Chestnut Hill Philadelphia, PA	—	8,289	5,691	4,509	8,289	10,200	18,489	4,447	2006(a)	40 years
2914 Third Avenue Bronx, NY	—	11,108	8,038	4,788	11,855	12,079	23,934	3,085	2006(a)	40 years
West Shore Expressway Staten Island, NY	—	3,380	13,499	—	3,380	13,499	16,879	4,496	2007(a)	40 years
West 54th Street Manhattan, NY	—	16,699	18,704	1,234	16,699	19,938	36,637	6,184	2007(a)	40 years
5-7 East 17th Street Manhattan, NY	—	3,048	7,281	6,133	3,048	13,414	16,462	2,855	2008(a)	40 years
651-671 W Diversey Chicago, IL	—	8,576	17,256	8	8,576	17,264	25,840	3,273	2011(a)	40 years

ACADIA REALTY TRUST
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

Description and Location	Encumbrances	Initial Cost to Company			Amount at Which Carried at December 31, 2018			Accumulated Depreciation	Date of Acquisition (a) Construction (c)	Life on which Depreciation in Latest Statement of Income is Compared
		Land	Buildings & Improvements	Increase (Decrease) in Net Investments	Land	Buildings & Improvements	Total			
15 Mercer Street New York, NY	—	1,887	2,483	—	1,887	2,483	4,370	466	2011(a)	40 years
4401 White Plains Bronx, NY	—	1,581	5,054	—	1,581	5,054	6,635	927	2011(a)	40 years
Chicago Street Retail Portfolio Chicago, IL	—	27,588	52,274	14,804	27,626	67,040	94,666	13,063	2012(a)	40 years
1520 Milwaukee Avenue Chicago, IL	—	2,110	1,306	290	2,110	1,596	3,706	243	2012(a)	40 years
330-340 River Street Cambridge, MA	11,396	8,404	14,235	—	8,404	14,235	22,639	2,547	2012(a)	40 years
Rhode Island Place Shopping Center Washington, D.C.	—	7,458	15,968	1,924	7,458	17,892	25,350	3,314	2012(a)	40 years
930 Rush Street Chicago, IL	—	4,933	14,587	—	4,933	14,587	19,520	2,461	2012(a)	40 years
28 Jericho Turnpike Westbury, NY	13,918	6,220	24,416	—	6,220	24,416	30,636	4,215	2012(a)	40 years
181 Main Street Westport, CT	—	1,908	12,158	407	1,908	12,565	14,473	1,943	2012(a)	40 years
83 Spring Street Manhattan, NY	—	1,754	9,200	—	1,754	9,200	10,954	1,495	2012(a)	40 years
60 Orange Street Bloomfield, NJ	7,266	3,609	10,790	—	3,609	10,790	14,399	1,859	2012(a)	40 years
179-53 & 1801-03 Connecticut Avenue Washington, D.C.	—	11,690	10,135	1,014	11,690	11,149	22,839	1,863	2012(a)	40 years
639 West Diversey Chicago, IL	—	4,429	6,102	916	4,429	7,018	11,447	1,283	2012(a)	40 years
664 North Michigan Chicago, IL	—	15,240	65,331	—	15,240	65,331	80,571	9,601	2013(a)	40 years
8-12 E. Walton Chicago, IL	—	5,398	15,601	977	5,398	16,578	21,976	2,394	2013(a)	40 years
3200-3204 M Street Washington, DC	—	6,899	4,249	168	6,899	4,417	11,316	693	2013(a)	40 years
868 Broadway Manhattan, NY	—	3,519	9,247	5	3,519	9,252	12,771	1,174	2013(a)	40 years
313-315 Bowery Manhattan, NY	—	—	5,516	—	—	5,516	5,516	1,116	2013(a)	40 years
120 West Broadway Manhattan, NY	—	—	32,819	1,116	—	33,935	33,935	2,798	2013(a)	40 years
11 E. Walton Chicago, IL	—	16,744	28,346	192	16,744	28,538	45,282	3,648	2014(a)	40 years
61 Main Street Westport, CT	—	4,578	2,645	706	4,578	3,351	7,929	371	2014(a)	40 years
865 W. North Avenue Chicago, IL	—	1,893	11,594	23	1,893	11,617	13,510	1,396	2014(a)	40 years
152-154 Spring St. Manhattan, NY	—	8,544	27,001	—	8,544	27,001	35,545	3,184	2014(a)	40 years
2520 Flatbush Ave Brooklyn, NY	—	6,613	10,419	248	6,613	10,667	17,280	1,299	2014(a)	40 years
252-256 Greenwich Avenue Greenwich, CT	—	10,175	12,641	544	10,175	13,185	23,360	1,647	2014(a)	40 years
Bedford Green Bedford Hills, NY	—	12,425	32,730	4,102	13,763	35,494	49,257	4,245	2014(a)	40 years
131-135 Prince Street Manhattan, NY	—	—	57,536	242	—	57,778	57,778	11,605	2014(a)	40 years
Shops at Grand Ave Queens, NY	—	20,264	33,131	1,965	20,264	35,096	55,360	3,651	2014(a)	40 years

ACADIA REALTY TRUST
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

Description and Location	Initial Cost to Company				Amount at Which Carried at December 31, 2018			Accumulated Depreciation	Date of Acquisition (a) Construction (c)	Life on which Depreciation in Latest Statement of Income is Compared
	Encumbrances	Land	Buildings & Improvements	Increase (Decrease) in Net Investments	Land	Buildings & Improvements	Total			
201 Needham Street Newton, MA	—	4,550	4,459	105	4,550	4,564	9,114	536	2014(a)	40 years
City Center San Francisco, CA	—	36,063	109,098	16,814	36,063	125,912	161,975	10,585	2015(a)	40 years
163 Highland Avenue Needham, MA	8,852	12,679	11,213	—	12,679	11,213	23,892	1,198	2015(a)	40 years
Roosevelt Galleria Chicago, IL	—	4,838	14,574	13	4,838	14,587	19,425	1,223	2015(a)	40 years
Route 202 Shopping Center Wilmington, DE	—	—	6,346	501	—	6,847	6,847	673	2015(a)	40 years
991 Madison Avenue New York, NY	—	—	76,965	1,506	—	78,471	78,471	4,413	2016(a)	40 years
165 Newbury Street Boston, MA	—	1,918	3,980	—	1,918	3,980	5,898	265	2016(a)	40 years
Concord & Milwaukee Chicago, IL	2,728	2,739	2,746	—	2,739	2,746	5,485	175	2016(a)	40 years
State & Washington Chicago, IL	24,439	3,907	70,943	20	3,907	70,963	74,870	4,138	2016(a)	40 years
151 N. State Street Chicago, IL	13,882	1,941	25,529	—	1,941	25,529	27,470	1,542	2016(a)	40 years
North & Kingsbury Chicago, IL	12,555	18,731	16,292	52	18,731	16,344	35,075	989	2016(a)	40 years
Sullivan Center Chicago, IL	50,000	13,443	137,327	419	13,443	137,746	151,189	8,052	2016(a)	40 years
California & Armitage Chicago, IL	2,566	6,770	2,292	2	6,770	2,294	9,064	148	2016(a)	40 years
555 9th Street San Francisco, CA	60,000	75,591	73,268	1	75,591	73,269	148,860	4,000	2016(a)	40 years
Market Square Wilmington, DE	—	8,100	31,221	228	8,100	31,449	39,549	937	2017(a)	40 years
Undeveloped Land	—	100	—	—	100	—	100	—		
Fund II:										
City Point Brooklyn, NY	224,587	—	100,316	468,337	—	568,653	568,653	29,640	2007(c)	40 years
Fund III:										
654 Broadway Manhattan, NY	—	9,040	3,654	3,497	9,040	7,151	16,191	1,209	2011(a)	40 years
640 Broadway Manhattan, NY	49,470	12,503	19,960	14,304	12,503	34,264	46,767	5,798	2012(a)	40 years
Cortlandt Crossing Mohegan Lake, NY	26,000	11,000	—	64,870	12,750	63,120	75,870	415	2012(c)	40 years
3104 M Street Washington, DC	4,531	750	2,115	5,162	750	7,277	8,027	566	2013(c)	40 years
3780-3858 Nostrand Avenue Brooklyn, NY	10,097	6,229	11,216	6,365	6,229	17,581	23,810	2,857	2013(a)	40 years
Fund IV:										
210 Bowery Manhattan, NY	—	1,875	5,625	6,021	1,875	11,646	13,521	26	2012(c)	40 years
Paramus Plaza Paramus, NJ	17,627	11,052	7,037	11,934	11,052	18,971	30,023	2,836	2013(a)	40 years
938 W. North Avenue Chicago, IL	14,100	2,314	17,067	5,362	2,314	22,429	24,743	2,473	2013(a)	40 years
27 E. 61st Street Manhattan, NY	—	4,813	14,438	7,100	4,813	21,538	26,351	666	2014(c)	40 years
17 E. 71st Street Manhattan, NY	18,906	7,391	20,176	280	7,391	20,456	27,847	2,211	2014(a)	40 years
1035 Third Avenue Manhattan, NY	38,434	12,759	37,431	5,386	14,099	41,477	55,576	4,222	2015(a)	40 years

ACADIA REALTY TRUST
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

Description and Location	Initial Cost to Company				Amount at Which Carried at December 31, 2018			Accumulated Depreciation	Date of Acquisition (a) Construction (c)	Life on which Depreciation in Latest Statement of Income is Compared
	Encumbrances	Land	Buildings & Improvements	Increase (Decrease) in Net Investments	Land	Buildings & Improvements	Total			
801 Madison Avenue Manhattan, NY	—	4,178	28,470	5,608	4,178	34,078	38,256	1,054	2015(c)	40 years
2208-2216 Fillmore Street San Francisco, CA	5,606	3,027	6,376	32	3,027	6,408	9,435	511	2015(a)	40 years
146 Geary Street San Francisco, CA	27,700	9,500	28,500	489	9,500	28,989	38,489	2,257	2015(a)	40 years
2207 Fillmore Street San Francisco, CA	1,120	1,498	1,735	118	1,498	1,853	3,351	143	2015(a)	40 years
1964 Union Street San Francisco, CA	1,463	563	1,688	1,867	563	3,555	4,118	121	2016(c)	40 years
Restaurants at Fort Point Boston, MA	6,201	1,041	10,905	—	1,041	10,905	11,946	818	2016(a)	40 years
Wakeforest Crossing Wake Forest, NC	23,706	7,570	24,829	220	7,570	25,049	32,619	1,799	2016(a)	40 years
Airport Mall Bangor, ME	5,476	2,294	7,067	458	2,294	7,525	9,819	526	2016(a)	40 years
Colonie Plaza Albany, NY	11,890	2,852	9,619	271	2,852	9,890	12,742	632	2016(a)	40 years
Dauphin Plaza Harrisburg, PA	10,021	5,290	9,464	2,235	5,290	11,699	16,989	793	2016(a)	40 years
JFK Plaza Waterville, ME	4,381	751	5,991	9	751	6,000	6,751	412	2016(a)	40 years
Mayfair Shopping Center Philadelphia, PA	—	6,178	9,266	741	6,178	10,007	16,185	602	2016(a)	40 years
Shaw's Plaza Waterville, ME	7,840	828	11,814	56	828	11,870	12,698	721	2016(a)	40 years
Wells Plaza Wells, ME	3,286	1,892	2,585	236	1,892	2,821	4,713	245	2016(a)	40 years
717 N. Michigan Chicago, IL	18,972	20,674	10,093	1	20,674	10,094	30,768	523	2016(c)	40 years
Shaw's Plaza North Windham, ME	5,848	1,876	6,696	1	1,876	6,697	8,573	281	2017(a)	40 years
Lincoln Place Fairview Heights, IL	23,100	7,149	22,201	920	7,149	23,121	30,270	1,218	2017(a)	40 years
Broughton Street Portfolio (BSP I) Savannah, GA	19,773	9,930	21,905	—	9,930	21,905	31,835	136	2018(a)	40 years
Fund V:										
Plaza Santa Fe Santa Fe, NM	22,893	—	28,214	69	—	28,283	28,283	1,228	2017(a)	40 years
Hickory Ridge Hickory, NC	28,613	7,852	29,998	75	7,852	30,073	37,925	1,166	2017(a)	40 years
New Towne Plaza Canton, MI	16,900	5,040	17,391	106	5,040	17,497	22,537	713	2017(a)	40 years
Fairlane Green Allen Park, MI	40,300	18,121	37,143	247	18,121	37,390	55,511	1,026	2017(a)	40 years
Trussville Promenade Birmingham, AL	29,370	7,587	34,285	—	7,587	34,285	41,872	778	2018(a)	40 years
Elk Grove Commons Elk Grove, CA	—	6,204	48,008	28	6,204	48,036	54,240	525	2018(a)	40 years
Hiram Pavilion I & II Hiram, GA	—	13,029	25,446	27	13,029	25,473	38,502	137	2018(a)	40 years

ACADIA REALTY TRUST
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

Description and Location	Encumbrances	Initial Cost to Company			Amount at Which Carried at December 31, 2018			Accumulated Depreciation	Date of Acquisition (a) Construction (c)	Life on which Depreciation in Latest Statement of Income is Compared
		Land	Buildings & Improvements	Increase (Decrease) in Net Investments	Land	Buildings & Improvements	Total			
Real Estate Under Development	47,645	65,297	31,473	23,527	65,297	55,000	120,297	—		
Debt of Assets Held for Sale	—	—	—	—	—	—	—	—		
Unamortized Loan Costs	(10,173)	—	—	—	—	—	—	—		
Unamortized Premium	753	—	—	—	—	—	—	—		
Total	\$ 1,017,288	\$ 769,582	\$ 2,079,002	\$ 849,221	\$ 775,766	\$ 2,922,039	\$ 3,697,805	\$ 416,657		

Notes:

1. Depreciation on buildings and improvements reflected in the consolidated statements of income is calculated over the estimated useful life of the assets as follows: Buildings at 40 years and improvements at the shorter of lease term or useful life.
2. The aggregate gross cost of property included above for Federal income tax purposes was approximately \$3.4 billion as of December 31, 2018.

The following table reconciles the activity for real estate properties from January 1, 2016 to December 31, 2018 (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	\$ 3,466,482	\$ 3,382,000	\$ 2,736,283
Other improvements	100,077	55,763	152,129
Property acquisitions	134,559	179,292	761,400
Property dispositions or held for sale assets	(34,666)	(189,895)	(134,332)
Other	(483)	—	(9,844)
Deconsolidation of previously consolidated investments	—	—	(123,636)
Consolidation of previously unconsolidated investments	31,836	39,322	—
Balance at end of year	<u>\$ 3,697,805</u>	<u>\$ 3,466,482</u>	<u>\$ 3,382,000</u>

The following table reconciles accumulated depreciation from January 1, 2016 to December 31, 2018 (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	\$ 339,862	\$ 287,066	\$ 298,703
Depreciation related to real estate	78,453	73,268	49,269
Property dispositions	(1,658)	(20,472)	(27,829)
Deconsolidation of previously consolidated investments	—	—	(33,077)
Balance at end of year	<u>\$ 416,657</u>	<u>\$ 339,862</u>	<u>\$ 287,066</u>

ACADIA REALTY TRUST
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 2018

(in thousands)

Description	Effective Interest Rate	Final Maturity Date	Face Amount of Notes Receivable	Net Carrying Amount of Notes Receivable as of December 31, 2018
First Mortgage Loan	6.0%	4/30/2020	\$ 15,000	\$ 17,802
First Mortgage Loan	8.1%	4/30/2019	153,400	38,673
Zero Coupon Loan	2.5%	5/31/2020	29,793	32,582
Mezzanine Loan	18.0%	7/1/2020	3,007	5,306
Preferred Equity	15.3%	2/3/2021	14,000	15,250
Total			<u>\$ 215,200</u>	<u>\$ 109,613</u>

The Company monitors the credit quality of its notes receivable on an ongoing basis and considers indicators of credit quality such as loan payment activity, the estimated fair value of the underlying collateral, the seniority of the Company's loan in relation to other debt secured by the collateral, the personal guarantees of the borrower and the prospects of the borrower.

The following table reconciles the activity for loans on real estate from January 1, 2016 to December 31, 2018 (in thousands):

	Reconciliation of Loans on Real Estate		
	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	\$ 153,829	\$ 276,163	\$ 147,188
Additions	3,805	11,371	171,794
Repayments	(26,000)	(32,000)	(42,819)
Conversion to real estate through receipt of deed	(22,021)	(101,705)	—
Balance at end of year	<u>\$ 109,613</u>	<u>\$ 153,829</u>	<u>\$ 276,163</u>