ACADIA REALTY TRUST
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number: 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	**23-2715194** (I.R.S. Employer Identification No.)
1311 MAMARONECK AVENUE, SUITE 260, WHITE PLAINS, NY (Address of principal executive offices)	**10605** (Zip Code)

(914) 288-8100

(Registrant s telephone number, including area code)

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

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)

Yes No

As of November 9, 2006, there were 31,772,952 common shares of beneficial interest, par value $.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

INDEX

Back to Index

Part I. Financial Information

Item 1. Financial Statements:

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2006	December 31, 2005
	(dollars in thousands)	
ASSETS		
Real estate		
Land	$138,909	$141,320
Buildings and improvements	498,679	564,779
Construction in progress	15,028	3,808
	652,616	709,907
Less: accumulated depreciation	(136,375)	(127,820)
Net real estate	516,241	582,087
Cash and cash equivalents	68,990	90,475
Cash in escrow	7,978	7,789
Restricted cash	549	548
Investments in and advances to unconsolidated affiliates	34,115	17,863
Investment in management contracts, net of accumulated amortization of $2,554 and $1,938, respectively	2,562	3,178
Preferred equity investment		19,000
Rents receivable, net	8,238	13,000
Notes receivable	40,275	15,733
Prepaid expenses	4,121	4,980
Deferred charges, net	28,150	23,739
Acquired lease intangibles	7,523	8,119
Other assets	22,883	15,354
Assets of discontinued operations	38,599	39,726
	$780,224	$841,591
LIABILITIES AND SHAREHOLDERS EQUITY		
Mortgage notes payable	$388,504	$411,000
Accounts payable and accrued expenses	9,593	18,302
Dividends and distributions payable	6,161	6,088
	21,338	10,315

Share of distributions in excess of share of income and investment in unconsolidated affiliates		
Other liabilities	6,462	13,955
Liabilities of discontinued operations	15,083	15,064
Total liabilities	447,141	474,724
Minority interest in operating partnership	8,299	9,204
Minority interests in partially-owned affiliates	104,533	137,087
Total minority interests	112,832	146,291
Shareholders equity		
Common shares	31	31
Additional paid-in capital	222,371	223,198
Accumulated other comprehensive income (loss)	490	(12)
Deficit	(2,641)	(2,641)
Total shareholders equity	220,251	220,576
	$780,224	$841,591

See accompanying notes

Back to Index

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
	(dollars in thousands, except per share amounts)			
Revenues				
Minimum rents	$17,079	$20,212	$51,377	$56,964
Percentage rents	677	978	988	1,329
Expense reimbursements	3,896	3,332	11,146	10,921
Other property income	367	1,175	823	1,680
Management fee income	1,773	888	4,254	2,445
Interest income	2,324	1,233	5,977	2,553
Total revenues	26,116	27,818	74,565	75,892
Operating expenses				
Property operating	3,793	3,833	11,138	12,965
Real estate taxes	2,732	2,769	7,786	7,453
General and administrative	5,786	3,583	15,872	10,519
Depreciation and amortization	6,449	6,940	19,015	19,123
Total operating expenses	18,760	17,125	53,811	50,060
Operating income	7,356	10,693	20,754	25,832
Equity in (losses) earnings of unconsolidated affiliates	(2,878)	18,528	4,261	18,915
Interest expense	(5,584)	(5,146)	(16,423)	(13,432)
Minority interests	4,216	(15,734)	3,471	(14,476)
Income from continuing operations before income taxes	3,110	8,341	12,063	16,839
Income taxes	638	(1,627)	(174)	(1,627)
Income from continuing operations	3,748	6,714	11,889	15,212

Back to Index

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (continued)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
	(dollars in thousands, except per share amounts)			
Discontinued operations				
Operating income from discontinued operations	$381	$571	$1,462	$1,635
Impairment of real estate				(770)
Loss on sale of real estate		(50)		(50)
Minority interest	(7)	(10)	(28)	(12)
Income from discontinued operations	374	511	1,434	803
Net income	$4,122	$7,225	$13,323	$16,015
Basic earnings per share				
Income from continuing operations	$0.12	$0.21	$0.37	$0.47
Income from discontinued operations	0.01	0.02	0.04	0.03
Basic earnings per share	$0.13	$0.23	$0.41	$0.50
Diluted earnings per share				
Income from continuing operations	$0.12	$0.20	$0.37	$0.47
Income from discontinued operations	0.01	0.02	0.04	0.03
Diluted earnings per share	$0.13	$0.22	$0.41	$0.50

See accompanying notes

Back to Index

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(unaudited)

	September 30, 2006	**September 30, 2005**
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$13,323	$16,015
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	20,376	18,577
Minority interests	(3,443)	14,488
Equity in earnings of unconsolidated affiliates	(4,261)	(18,915)
Amortization of derivative settlement included in interest expense	329	329
Distributions of operating income from unconsolidated affiliates	1,708	439
Restricted share compensation	2,994	763
Trustee share compensation	75	
Changes in assets and liabilities		
Restricted cash	(1)	202
Funding of escrows, net	(1,726)	(719)
Rents receivable	2,410	(4,119)
Prepaid expenses	(188)	(3,272)
Other assets	(8,052)	(7,868)
Accounts payable and accrued expenses	(2,333)	(2,409)
Other liabilities	514	7,517
Net cash provided by operating activities	21,725	21,028
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for real estate and improvements	(74,261)	(101,862)
Investments in and advances to unconsolidated affiliates	(23,709)	(2,430)
Return of capital from unconsolidated affiliates	25,557	776
Payments of deferred costs	(7,664)	(10,276)
Advances of notes receivable	(18,890)	(4,862)
Preferred equity investment	19,000	(19,500)
Net cash used in investing activities	(79,967)	(138,154)

Back to Index

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(unaudited)

	September 30, 2006	September 30, 2005
	(dollars in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgages	$(94,249)	$(56,078)
Additional borrowings under mortgage notes	141,673	169,466
Dividends paid	(17,936)	(16,429)
Dividends paid to minority interests	(359)	(312)
Increase in dividend payable	73	79
Distributions to minority interests in partially-owned affiliates	(34,762)	(373)
Preferred distributions on Operating Partnership Units	(187)	
Contributions from minority interests in partially-owned affiliates	42,628	46,147
Redemption of Operating Partnership Units	(246)	
Exercise of options	43	344
Common Shares issued under Employee Stock Purchase Plan	79	76
Net cash provided by financing activities	36,757	142,920
(Decrease) increase in cash and cash equivalents	(21,485)	25,794
Cash and cash equivalents, beginning of period	90,475	16,043
Cash and cash equivalents, end of period	$68,990	$41,837
Supplemental disclosure of cash flow information		
Cash paid for interest	$17,325	$14,891
Supplemental disclosure of non-cash investing and financing activities		
Acquisition of management contract rights through the issuance of Preferred Operating Partnership Units	$	$4,000
Increase in share of distributions in excess of share of income and investment in unconsolidated affiliates as a result of the Brandywine recapitalization (Note 2)	$10,428	$

See accompanying notes

Back to Index

ACADIA REALTY TRUST

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Acadia Realty Trust (the Company) is a fully integrated and self-managed real estate investment trust (REIT) focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers.

All of the Company s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the Operating Partnership or OP) and partnerships in which the OP owns a controlling interest. As of September 30, 2006, the Company controlled 98% of the Operating Partnership as the sole general partner.

In 2001, the Company formed a partnership, Acadia Strategic Opportunity Fund I, LP (Fund I), and in 2004 formed a limited liability company, Acadia Mervyn I, LLC (Mervyns I), with four institutional investors. The Company committed a total of $20.0 million to Fund I and Mervyns I, and the four institutional shareholders committed $70.0 million, for the purpose of acquiring a total of approximately $300.0 million in investments. As of September 30, 2006, the Company has contributed $16.2 million to Fund I and $2.7 million to Mervyns I.

The Company is the sole general partner of Fund I and managing member of Mervyns I, with a 22.2% interest in both Fund I and Mervyns I and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. Decisions made by the general partner, as it relates to purchasing, financing, and disposition of properties, are subject to the unanimous disapproval of the Advisory Committee of Fund I, which is comprised of representatives from each of the four institutional investors. Cash flow is distributed pro-rata to the partners (including the Company) until they receive a 9% cumulative return, and the return of all capital contributions. Thereafter, remaining cash flow will be distributed 80% to the partners (including the Company) and 20% to the Company as a carried interest (Promote). Through December 31, 2005, the Company also earned a fee for asset management services equal to 1.5% of the allocated equity in the remaining Fund I assets, as well as market-rate fees for property management, leasing and construction services. Effective January 1, 2006, the Company converted the asset and property management fees to priority distributions of the same amount as the fees, which entitles the Company to a special allocation of income equal to the amount of the priority distribution. Thereafter, cash flow is distributed as previously mentioned and the Company continues to earn market-rate leasing and construction fees. Following the recapitalization of the Brandywine Portfolio in January 2006, all capital contributions and the required 9% cumulative preferred return were distributed to the institutional investors. Accordingly, the Company is now entitled to a Promote on all future earnings and distributions.

In June 2004, the Company formed a limited liability company, Acadia Strategic Opportunity Fund II, LLC (Fund II), and in August 2004 formed another limited liability company, Mervyn II, LLC (Mervyns II), with the investors from Fund I as well as two additional institutional investors. With $300.0 million of committed discretionary capital, Fund II and Mervyns II expect to be able to acquire up to $900.0 million of investments on a leveraged basis. The Company s share of committed capital is $60.0 million. The Company is the sole managing member with a 20% interest in both Fund II and Mervyns II and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The terms and structure of Fund II are substantially the same as Fund I with the exception that the preferred return is 8%. As of September 30, 2006, the Company has contributed $16.5 million to Fund II and $6.9 million to Mervyns II.

2. BASIS OF PRESENTATION

The consolidated financial statements include the consolidated accounts of the Company and its controlling investments in partnerships and limited liability companies, including the Operating Partnership, and have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Non-controlling investments in partnerships are accounted for under the equity method of accounting as the Company exercises significant influence. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. For further information refer to the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

Back to Index

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION (continued)

In 2005, the Emerging Issues Task Force (EITF) reached a consensus that the general partners in a limited partnership should determine whether they control a limited partnership based on the application of the framework as discussed in EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights . Under EITF 04-5, the general partners in a limited partnership are presumed to control that limited partnership regardless of the extent of the general partner s ownership interest in the limited partnership. The assessment of whether the rights of the limited partners should overcome the presumption of control by the general partners is a matter of judgment that depends on facts and circumstances. If the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights, the general partners do not control the limited partnership. EITF 04-5 was effective immediately for new partnerships formed and existing limited partnerships for which the partnership agreements were modified on or after June 29, 2005, and for all other partnerships, EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The provisions of EITF 04-5 may be initially applied through either one of two methods: (1) similar to a cumulative effect of a change in accounting principle or (2) retrospective application. The Company assessed the impact of EITF 04-5 as it related to the method of accounting utilized for its equity investments and determined that its investments in Fund I**,** Fund II, Mervyns I and Mervyns II which were accounted for under the equity method of accounting, should be consolidated, effective upon adoption of EITF 04-5 on January 1, 2006. The Company utilized the retrospective approach in the application of EITF 04-5 and has presented all historical periods prior to 2006 on a consistent basis with 2006 and thereafter. There was no impact on net income or shareholders equity for any of the reported periods in the accompanying consolidated financial statements due to the consolidation of these investments.

On January 4, 2006, Fund I recapitalized its investment in a one million square foot shopping center portfolio located in Wilmington, Delaware (Brandywine Portfolio). The recapitalization was effected through the conversion of the 77.8% interest which was previously held by the institutional investors in Fund I to affiliates of GDC Properties (GDC) through a merger of interests in exchange for cash. The Company has retained its existing 22.2% interest in the Brandywine Portfolio in partnership with GDC and continues to operate the portfolio and earn fees for such services.

Pursuant to EITF 04-5, the Company has presented the 2005 financial statements to reflect the consolidation of Fund I, including the Brandywine Portfolio which, at the time, was a wholly-owned investment of Fund I. Following the January 2006 recapitalization of the Brandywine Portfolio, the Company no longer has a controlling interest in this investment and, accordingly, currently accounts for this investment under the equity method of accounting.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. This Bulletin provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in this Bulletin must be applied to financial reports covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the guidance in this Bulletin.

Also in September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements. This SFAS defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to accounting pronouncements that require or permit fair value measurements, except for share-based payments transactions under SFAS No. 123. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As SFAS No. 157 does not require any new fair value measurements or remeasurements of previously computed fair values, the Company does not believe adoption of this Statement will have a material effect on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109. This Interpretation defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect of this Interpretation.

Back to Index

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. EARNINGS PER COMMON SHARE

Basic earnings per share was determined by dividing net income for the period by the weighted average number of common shares of beneficial interest (Common Shares) outstanding during each period consistent with SFAS No. 128 Earnings Per Share . Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted into Common Shares or resulted in the issuance of Common Shares that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated.

	Three months ended September 30,		**Nine months ended September 30,**	
	2006	**2005**	**2006**	**2005**
	(dollars in thousands, except per share amounts)			
Numerator				
Income from continuing operations basic and diluted	$3,748	$6,714	$11,889	$15,212
Denominator				
Weighted average shares basic earnings per share	32,513	32,009	32,497	31,925
Effect of dilutive securities				
Employee stock options	323	697	308	262
Denominator for diluted earnings per share	32,836	32,706	32,805	32,187
Basic earnings per share from continuing operations	$0.12	0.21	$0.37	$