KITE REALTY GROUP TRUST
Form 10-Q
November 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

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

For the transition period from ________to________

Commission File Number: 001-32268

Kite Realty Group Trust

(Exact Name of Registrant as Specified in its Charter)

Maryland	**11-3715772**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**
30 S. Meridian Street, Suite 1100	
Indianapolis, Indiana	**46204**
(Address of principal executive offices)	**(Zip code)**

Telephone: (317) 577-5600
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Yes x No o

Indicate by check mark whether the registrant 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.

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Yes o No x

The number of Common Shares outstanding as of November 2, 2007 was 28,978,169 ($.01 par value)

KITE REALTY GROUP TRUST

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

Cautionary Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by Kite Realty Group Trust (the Company), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which cannot be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include but are not limited to:

- national and local economic, business, real estate and other market conditions;
- the ability of tenants to pay rent;
- the competitive environment in which the Company operates;
- financing risks;
- property ownership and management risks;
- the level and volatility of interest rates;
- the financial stability of tenants;
- the Company s ability to maintain its status as a real estate investment trust (REIT) for federal income tax purposes;
- acquisition, disposition, development and joint venture risks;
- potential environmental and other liabilities;
- other factors affecting the real estate industry generally; and
- other risks identified in this Quarterly Report on Form 10-Q and, from time to time, in other reports we file with the Securities and Exchange Commission (the SEC) or in other documents that we publicly disseminate, including, in particular, the section titled Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and in our quarterly reports on Form 10-Q.

The Company undertakes no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Part I. FINANCIAL INFORMATION

Item 1.

Kite Realty Group Trust

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2007	December 31, 2006
Assets:		
Investment properties, at cost:		
Land	$ 205,606,892	$ 190,886,884
Land held for development	23,622,458	21,687,309
Buildings and improvements	607,525,606	582,715,399
Furniture, equipment and other	4,634,331	5,492,726
Construction in progress	196,430,819	155,569,117
	1,037,820,106	956,351,435
Less: accumulated depreciation	(79,099,822)	(63,726,825)
	958,720,284	892,624,610
Cash and cash equivalents	12,305,177	23,952,594
Tenant receivables, including accrued straight-line rent of $5,925,643 and $4,774,063, respectively, net of allowance for uncollectible accounts	16,268,693	15,215,858
Other receivables	10,825,120	18,247,435
Investments in unconsolidated entities, at equity	1,083,221	1,174,371
Escrow deposits	10,626,792	8,604,580
Deferred costs, net	20,190,021	17,532,939
Prepaid and other assets	3,796,628	5,808,926
Total Assets	$ 1,033,815,936	$ 983,161,313
Liabilities and Shareholders Equity:		
Mortgage and other indebtedness	$ 631,286,273	$ 566,975,980
Accounts payable and accrued expenses	34,178,025	33,007,119
Deferred revenue and other liabilities	27,257,428	30,156,299
Cash distributions and losses in excess of net investment in unconsolidated entities, at equity	87,470	
Minority interest	4,143,246	4,295,723
Total Liabilities	696,952,442	634,435,121
Commitments and contingencies		
Limited Partners interests in Operating Partnership	75,794,286	78,812,120
Shareholders Equity:		
Preferred Shares, $.01 par value, 40,000,000 shares authorized, no shares issued and outstanding		
Common Shares, $.01 par value, 200,000,000 shares authorized, 28,916,641 shares and 28,842,831 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	289,166	288,428
Additional paid in capital and other	292,593,664	291,159,647
Accumulated other comprehensive (loss) income	(1,085,582)	297,540
Accumulated deficit	(30,728,040)	(21,831,543)
Total Shareholders Equity	261,069,208	269,914,072

Total Liabilities and Shareholders Equity	$ 1,033,815,936	$ 983,161,313

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

Kite Realty Group Trust

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenue:				
Minimum rent	$ 18,094,316	$ 17,262,427	$ 54,043,116	$ 49,506,938
Tenant reimbursements	4,525,236	3,787,767	13,865,960	11,901,251
Other property related revenue	3,223,938	1,565,787	7,961,957	3,562,454
Construction and service fee revenue	7,583,235	10,293,822	23,630,103	27,227,754
Other income	519,760	158,632	719,355	243,820
Total revenue	33,946,485	33,068,435	100,220,491	92,442,217
Expenses:				
Property operating	3,827,380	3,439,853	11,436,959	9,749,011
Real estate taxes	3,132,986	2,323,799	8,848,531	7,953,433
Cost of construction and services	6,539,643	7,795,070	21,126,869	22,879,759
General, administrative, and other	1,702,354	1,305,599	4,758,278	4,250,312
Depreciation and amortization	7,041,516	7,209,586	23,924,437	22,574,735
Total expenses	22,243,879	22,073,907	70,095,074	67,407,250
Operating income	11,702,606	10,994,528	30,125,417	25,034,967
Interest expense	(6,681,071)	(6,139,761)	(19,093,748)	(15,324,928)
Loss on sale of asset				(764,008)
Income tax expense of taxable REIT subsidiary	(32,789)	(777,600)	(295,395)	(640,584)
Minority interest in income of consolidated subsidiaries	(14,781)	(2,993)	(264,002)	(78,503)
Equity in earnings of unconsolidated entities	48,024	72,261	217,899	221,983
Limited Partners interests in the Operating Partnership	(1,130,594)	(936,782)	(2,394,599)	(1,926,356)
Net income	$ 3,891,395	$ 3,209,653	$ 8,295,572	$ 6,522,571
Income per common share basic	$ 0.13	$ 0.11	$ 0.29	$ 0.23
Income per common share diluted	$ 0.13	$ 0.11	$ 0.28	$ 0.23
Weighted average Common Shares outstanding - basic	28,915,137	28,824,698	28,889,279	28,696,534
Weighted average Common Shares outstanding - diluted	29,139,244	28,979,356	29,180,860	28,830,042
Dividends declared per common share	$ 0.2050	$ 0.1950	$ 0.5950	$ 0.5700

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

5

Kite Realty Group Trust

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net income	$ 8,295,572	$ 6,522,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of asset		764,008
Minority interest in income of consolidated subsidiaries	264,002	78,503
Equity in earnings of unconsolidated entities	(217,899)	(221,983)
Limited Partners interests in Operating Partnership	2,394,599	1,926,356
Distributions of income from unconsolidated entities	289,792	205,406
Straight-line rent	(1,151,580)	(591,676)
Depreciation and amortization	24,724,006	24,034,661
Provision for credit losses	522,323	79,408
Compensation expense for equity awards	568,087	406,702
Amortization of debt fair value adjustment	(323,144)	(323,144)
Amortization of in-place lease liabilities	(3,826,101)	(3,177,990)
Minority interest distributions	(416,479)	(516,200)
Changes in assets and liabilities:		
Tenant receivables	(423,578)	(1,286,867)
Deferred costs and other assets	(1,702,652)	(3,697,277)
Accounts payable, accrued expenses, deferred revenue and other liabilities	(1,523,754)	3,216,880
Net cash provided by operating activities	27,473,194	27,419,358
Cash flows from investing activities:		
Acquisitions of interests in properties and capital expenditures, net	(87,038,239)	(204,988,645)
Net proceeds from sale of asset		11,068,559
Change in construction payables	2,356,155	(1,808,081)
Cash receipts on notes receivable	3,426,820	
Distributions of capital from unconsolidated entities	106,728	156,594
Net cash used in investing activities	(81,148,536)	(195,571,573)
Cash flows from financing activities:		
Offering proceeds, net of offering expenses	495,814	
Loan proceeds	202,975,750	372,178,219
Loan transaction costs	(1,249,080)	(1,447,027)
Loan payments	(138,342,313)	(176,071,266)
Proceeds from exercise of stock options	11,996	477,841
Purchase of Limited Partner s interests	(55,803)	
Distributions paid - shareholders	(16,895,064)	(16,115,078)
Distributions paid - unitholders	(4,913,375)	(4,807,865)
Net cash provided by financing activities	42,027,925	174,214,824
Net change in cash and cash equivalents	(11,647,417)	6,062,609
Cash and cash equivalents, beginning of period	23,952,594	15,208,835
Cash and cash equivalents, end of period	$ 12,305,177	$ 21,271,444

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

Kite Realty Group Trust

Notes to Condensed Consolidated Financial Statements

September 30, 2007

(Unaudited)

Note 1. Organization

Kite Realty Group Trust (the Company), through its majority-owned subsidiary, Kite Realty Group, L.P. (the Operating Partnership), is engaged in the ownership, operation, management, leasing, acquisition, construction, expansion and development of neighborhood and community shopping centers and certain commercial real estate properties in selected growth markets in the United States. The Company also provides real estate facilities management, construction, development and other advisory services to third parties through its taxable REIT subsidiary. At September 30, 2007, the Company owned interests in 55 operating properties (consisting of 50 retail properties, four commercial operating properties and an associated parking garage) and owned 11 properties under development or redevelopment (including the Glendale Town Center and Shops at Eagle Creek properties, both of which are undergoing a major redevelopment see Note 5). Of the 66 total properties held at September 30, 2007, the Company owned non-controlling interests in two operating properties and one parcel of pre-development land that were each accounted for under the equity method.

Note 2. Basis of Presentation

The accompanying financial statements of the Company are presented on a consolidated basis and include all accounts of the Company, the Operating Partnership, the taxable REIT subsidiary of the Operating Partnership and any variable interest entities (VIEs) in which the Company is the primary beneficiary. The Company consolidates properties that are wholly owned as well as properties it controls but in which it owns less than a 100% interest. Control of a property is demonstrated by:

- the Company s ability to manage day-to-day operations of the property,
- the Company s ability to refinance debt and sell the property without the consent of any other partner or owner, and
- the inability of any other partner or owner to replace the Company as a manager of the property.

The Company s management has prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) may have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the presentation not misleading. The unaudited financial statements as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company s 2006 Annual Report on Form 10-K. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates. The results of operations for the interim periods are not necessarily indicative of the results that may be expected on an annual basis.

The Company allocates net operating results of the Operating Partnership based on the partners respective weighted average ownership interest. The Company adjusts the Limited Partners interests in the Operating Partnership at the end of each period to reflect their interests in the Operating Partnership. This adjustment is reflected in the Company s shareholders equity. The Company s and the Limited Partners interests in the Operating Partnership for the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Company s weighted average interest in Operating Partnership	77.6%	77.5%	77.6%	77.2%
Limited Partners weighted average interests in Operating Partnership	22.4%	22.5%	22.4%	22.8%

The Company s and the Limited Partners interests in the Operating Partnership at September 30, 2007 and December 31, 2006 were as follows:

	Balance at	
	September 30, 2007	December 31, 2006
Company s interest in Operating Partnership	77.5%	77.4%
Limited Partners interests in Operating Partnership	22.5%	22.6%

Note 3. Earnings Per Share

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the period. Diluted earnings per share is determined based on the weighted average number of shares outstanding combined with the incremental average shares that would have been outstanding assuming all potentially dilutive shares were converted into common shares as of the earliest date possible.

Potentially dilutive securities include outstanding share options, units in the Operating Partnership, which may be exchanged for cash or shares under certain circumstances, and deferred share units, which may be credited to non-employee trustees in lieu of the payment of cash compensation or the issuance of common shares. The only securities that had a potentially dilutive effect for the three and nine month periods ended September 30, 2007 and 2006 were outstanding share options and deferred share units, the dilutive effect of which was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dilutive effect of outstanding share options to outstanding common shares	216,861	154,658	286,759	133,508
Dilutive effect of deferred share units to outstanding common shares	7,246		4,822	
Total dilutive effect	224,107	154,658	291,581	133,508

Note 4. Significant Acquisition and Disposition Activities

2007 Acquisition

- In January 2007, as also discussed in Note 6, the Company purchased approximately 10 acres of land in Naples, Florida for approximately $6.3 million with borrowings from its then-existing secured revolving credit facility. This land is adjacent to 15.4 acres previously purchased by the Company in 2005;
- In March 2007, as also discussed in Note 6, the Company purchased approximately 105 acres of land in Apex, North Carolina for approximately $14.5 million with borrowings from the unsecured revolving credit facility. The Company is in the process of developing this land into an approximately 345,000 total square foot shopping center. Some portions of land at this property may be sold to third parties in the future;
- In August 2007, the Company's unconsolidated joint venture with Prudential Real Estate Investors (the "Venture") purchased approximately 17 acres of land in Cary, North Carolina for a purchase price of approximately $3.4 million, including assignment costs, which was funded through draws from the Venture's variable rate construction loan. This land is adjacent to land previously purchased by the Company in July 2006. As of September 30, 2007, the Company owned a 40% interest in the Venture which, under the terms of the Venture, will be reduced to 20% upon the commencement of construction. The Venture is in the process of developing this land, along with the 100 acres purchased in 2006, into an approximately 1.5 million total square foot mixed used shopping center; and
- In August 2007, as further discussed in Note 6, the Company purchased approximately 14 acres of land in South Elgin, Illinois for approximately $6.0 million with borrowings from its unsecured revolving credit facility. The Company is in the process of developing this land into an approximately 308,000 total square foot shopping center.

2006 Acquisitions

In April 2006, the Company acquired Kedron Village, a neighborhood shopping center located in Peachtree, Georgia (a suburb of Atlanta) for a total purchase price of $34.9 million, net of purchase price adjustments, including tenant improvement and leasing commission credits, of $2.0 million. The Company funded the initial purchase price in April 2006 and completed the acquisition in July 2006.

In July 2006, the Company made the following significant operating property and land acquisitions:

- The Company acquired the remaining 15% economic interest from its joint venture partner in Wal-Mart Plaza in Gainesville, Florida for $3.9 million. The Company also assumed management responsibilities for the property;
- The Company acquired approximately 100 acres of land in Cary, North Carolina for a purchase price of approximately $35.6 million. This land was contributed to the Venture in December 2006; and
- The Company acquired three 100% leased neighborhood shopping centers located in Naples Florida (Courthouse Shadows, Pine Ridge Crossing, and Riverchase) for a total purchase price of approximately $57.9 million.

The Company allocates the purchase price of properties to tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards No 141, Business Combinations (SFAS No. 141). The fair value of real estate acquired is allocated to land and buildings, while the fair value of in-place leases, consisting of above-market and below-market rents and other intangibles, is allocated to intangible assets and liabilities.

2006 Disposition

In June 2006, the Company terminated its lease with Marsh Supermarkets and sold the store at its Naperville Marketplace property to Caputo s Fresh Markets and recorded a loss on the sale of approximately $0.8 million (approximately $458,000 after tax). The total proceeds from these transactions of $14 million included a $2.5 million note from Marsh Supermarkets with monthly installments payable through June 30, 2008, and $2.5 million of cash received from the termination of the Company s lease with Marsh Supermarkets. All monthly payments on the note have been made as scheduled through November 2007. The note is guaranteed by the parent company of Marsh Supermarkets. Marsh Supermarkets at Naperville Marketplace was owned by the Company s taxable REIT subsidiary. A portion of the proceeds from this sale was used to pay off related indebtedness of approximately $11.6 million.

Note 5. Redevelopment Activity

Glendale Town Center

In April 2007, the Company announced plans to redevelop the Glendale Mall property in Indianapolis, Indiana into a 685,000 total square foot power center (renamed Glendale Town Center) that will be anchored by a new 129,000 square foot Target (non-owned) and will also include Macy's and Lowe's Home Improvement (non-owned). During the period of redevelopment, approximately 330,000 square feet of space at this property is being leased by tenants that are also expected to occupy space upon completion of the redevelopment.

In connection with this redevelopment, through the first nine months of 2007, the Company terminated a number of leases and completed the demolition of major portions of the enclosed mall area. This demolition was done in preparation for the Company to sell a 10.5 acre pad to Target Corporation, on which Target has begun construction of a new Target store. The Company has been engaged as construction manager for the construction of this new store.

The Company received a commitment in the form of tax increment financing ("TIF") from the City of Indianapolis totaling approximately $5.7 million, which is receivable in six monthly installments from the date of the April 2007 closing. Through September 30, 2007, the Company received $4.6 million in proceeds from this TIF. The last installment of the TIF was received in October 2007.

The net proceeds of this sale of land to Target and amount of the TIF commitment have been applied to the overall cost of the redevelopment and, accordingly, no gain or loss was recorded. The Company's overall net investment of approximately $15 million is expected to be recoverable through projected future cash flows from the redeveloped property.

Shops at Eagle Creek

In 2005, Winn-Dixie Stores, Inc. filed for Chapter 11 bankruptcy protection to reorganize its business operations. In February 2006, Winn-Dixie announced plans to close its store at Shops at Eagle Creek in Naples, Florida but had not at that date rejected the lease at this property. In May 2006, the Company acquired the lease with Winn-Dixie in a bankruptcy auction for approximately $0.9 million, net of receivables of approximately $0.4 million due to the Company from Winn-Dixie. The space formerly occupied by Winn-Dixie at this property contained approximately 51,700 square feet, or approximately 68% of the total leasable square footage of the property.

The Company is currently redeveloping the former Winn-Dixie space into two smaller spaces, and has therefore classified it as a redevelopment property. In December 2006, the Company signed a lease with Staples for approximately 25,800 square feet of the space with rent expected to commence in November 2007 and is negotiating with several prospective tenants for the remaining space.

The Company anticipates its total investment in the redevelopment at Shops at Eagle Creek will be approximately $4 million.

Note 6. Mortgage and Other Indebtedness

Mortgage and other indebtedness consisted of the following at September 30, 2007 and December 31, 2006:

	Balance at	
	September 30,	

	2007	December 31, 2006
Line of credit	$ 148,774,024	$ 111,550,000
Mortgage notes payable - fixed rate	342,269,718	344,029,510
Construction notes payable - variable rate	133,672,418	94,505,099
Mortgage notes payable - variable rate	4,622,913	14,621,027
Net premiums on acquired debt	1,947,200	2,270,344
Total mortgage and other indebtedness	$ 631,286,273	$ 566,975,980

Consolidated indebtedness, including weighted average maturities and weighted average interest rates at September 30, 2007, is summarized below:

	September 30, 2007			
	Amount	Weighted Average Maturity (Years)	Weighted Average Interest Rate	Percentage of Total
Fixed rate debt	$ 342,269,718	7.2	6.00%	54%
Floating rate debt (hedged)	85,000,000	3.1	6.24%	14%
Total fixed rate debt	427,269,718	6.4	6.05%	68%
Construction debt	133,672,418	0.9	6.61%	21%
Other variable rate debt	153,396,937	3.3	6.39%	25%
Floating rate debt (hedged)	(85,000,000)	-3.1	-6.38%	-14%
Total variable rate debt	202,069,355	1.8	6.53%	32%
Net premiums on acquired debt	1,947,200	N/A	N/A	N/A
Total debt	$ 631,286,273	4.9	6.20%	100.0%

Mortgage and construction loans are collateralized by certain real estate properties and are generally due in monthly installments of interest and principal and mature over various terms through 2022. Variable interest rates on mortgage and construction loans are based on LIBOR plus a spread of 115 to 175 basis points. At September 30, 2007, one-month LIBOR and Prime interest rates were 5.13% and 7.75%, respectively. Fixed interest rates on mortgage loans range from 5.11% to 7.65%.

For the nine months ended September 30, 2007, the Company had loan borrowing proceeds of $203.0 million and loan repayments of $138.3 million. The major components of this activity are as follows:

In January 2007, as also discussed in Note 4, the Company purchased approximately 10 acres of land in Naples, Florida for approximately $6.3 million with borrowings from its then-existing secured revolving credit facility;

In February 2007, as further described below, the Company entered into an amended and restated four-year $200 million unsecured revolving credit facility, replacing its then-existing secured credit facility. The new unsecured facility increased the Company s borrowing capacity from $150 million to $200 million, before considering either facility's expansion feature. Initial proceeds of $118.1 million were drawn from the new unsecured facility to repay the principal amount outstanding under the then-existing secured facility and retire the secured facility;

In February 2007, the Company repaid the $9.8 million outstanding balance on the variable rate loan on the Courthouse Shadows property with proceeds from its new unsecured revolving credit facility;

In March 2007, as also discussed in Note 4, the Company purchased approximately 105 acres of land in Apex, North Carolina for approximately $14.5 million with borrowings from the new unsecured revolving credit facility;

In August 2007, as also discussed in Note 4, the Company purchased approximately 14 acres of land in South Elgin, Illinois for approximately $6.0 million with borrowings from its unsecured revolving credit facility. To finance the development of this land, in September 2007 the Company borrowed approximately $4.4 million on a variable rate construction loan with a rate of LIBOR + 1.25% that matures in December 2007;

In September 2007, the Company repaid $8.0 million of the unsecured revolving credit facility using proceeds from recent land sales and available working capital;

In addition to preceding activity, for the nine months ended September 30, 2007, the Company used proceeds from its revolving credit facility and other borrowings (exclusive of repayments) totaling approximately $54.1 million for development, redevelopment, acquisitions and general working capital purposes; and

The Company made scheduled principal payments totaled approximately $2.0 million during the nine months ended September 30, 2007.

11

On February 20, 2007, the Operating Partnership entered into an amended and restated four-year $200 million unsecured revolving credit facility with a group of lenders and Key Bank National Association, as agent (the unsecured facility). The Company and several of the Operating Partnership s subsidiaries are guarantors of the Operating Partnership s obligations under the unsecured facility. The unsecured facility has a maturity date of February 20, 2011, with a one-year extension option. Borrowings under the new unsecured facility bear interest at a floating interest rate of LIBOR plus 115 to 135 basis points, depending on the Company's leverage. The unsecured facility has a 0.125% to 0.20% commitment fee applicable to the average daily unused amount. Subject to certain conditions, including the prior consent of the lenders, the Company has the option to increase its borrowings under the unsecured facility to a maximum of $400 million. The unsecured facility also includes a short-term borrowing line of $25 million with a variable interest rate. Borrowings under the short-term line may not be outstanding for more than five days.

The amount that the Company may borrow under the unsecured facility is based on the value of properties in the unencumbered property pool. The Company currently has 47 unencumbered assets, 44 of which are wholly owned and used to calculate the amount available for borrowing under the unsecured credit facility, and three of which are joint venture assets. The major unencumbered assets include: Silver Glen, Glendale Town Center, King's Lake, Hamilton Crossing, Waterford Lakes, Eastgate Pavilion, Wal-Mart Plaza, Market Street Village, and Courthouse Shadows. As of September 30, 2007, the total amount available for borrowing under the unsecured facility was approximately $196.7 million, of which $148.8 million was outstanding.

The Company s ability to borrow under the unsecured facility is subject to its ongoing compliance with a number of financial and other covenants, including with respect to the Company s amount of leverage, minimum interest and fixed charge coverage ratios, its minimum tangible net worth, the collateral pool properties generating sufficient net operating income to maintain a certain fixed charge ratio, and a minimum aggregate occupancy rate. Under the terms of the credit facility, the Company is permitted to make distributions to its shareholders of up to 95% of funds from operations provided that no event of default exists. If an event of default exists, the Company may only make distributions sufficient to maintain its REIT status. However, the Company may not make any distributions if an event of default resulting from nonpayment or bankruptcy exists, or if its obligations under the credit facility are accelerated.

The Company believes it is in compliance with all applicable covenants under the unsecured facility as of September 30, 2007.

Note 7. Shareholders Equity

On August 7, 2007, the Company s Board of Trustees declared a cash distribution of $0.205 per common share for the third quarter of 2007. Simultaneously, the Company s Board of Trustees declared a cash distribution of $0.205 per Operating Partnership unit for the same period. These distributions were accrued as of September 30, 2007 and were paid on October 16, 2007 to shareholders and unitholders of record as of October 4, 2007.

Note 8. Derivative Instruments, Hedging Activities and Other Comprehensive Income

The Company is exposed to capital market risk, including changes in interest rates. In order to manage volatility relating to interest rate risk, the Company may enter into interest rate hedging transactions from time to time. The Company does not use derivatives for trading or speculative purposes nor does the Company currently have any derivatives that are not designated as hedges. For the first nine months of 2007, the Company's hedging activity was comprised of the following activities:

- On February 28, 2007, a portion of the unsecured facility was hedged by an interest rate swap with a notional amount of $25 million and a fixed interest rate of 6.17% maturing February 18, 2011;
- On August 1, 2007, two of the Company's outstanding interest rate swaps totaling $50 million matured. These swaps were entered into during 2005 to hedge variable cash flows associated with existing variable rate debt and had a fixed interest rate of 5.28% and 5.55%;
- On August 1, 2007, in connection with these maturities, an additional portion of the unsecured facility was hedged by an interest rate swap with a notional amount of $50 million and a fixed rate of 6.32% maturing February 20, 2011;

On August 17, 2007, a portion of the Company's variable rate construction loan at Naperville Marketplace was hedged by an interest rate swap agreement with a notional amount of $10 million and a fixed interest rate of 6.05% maturing December 30, 2008; and

On August 17, 2007, a portion of the Venture's variable rate construction loan at Parkside Town Commons was hedged by an interest rate swap agreement with a notional amount of $42 million and a fixed interest rate of 5.60% maturing March 2, 2009.

The following sets forth comprehensive income for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 3,891,395	$ 3,209,653	$ 8,295,572	$ 6,522,571
Other comprehensive loss[1]	(1,423,083)	(266,495)	(1,383,122)	(15,674)
Comprehensive income	$ 2,468,312	$ 2,943,158	$ 6,912,450	$ 6,506,897

1 Represents the changes in the fair value of derivative instruments accounted for as cash flow hedges.

Note 9. Segment Data

The operations of the Company are aligned into two business segments: (1) real estate operation and development and (2) construction and advisory services. Segment data of the Company for the three and nine months ended September 30, 2007 and 2006 are as follows:

Three Months Ended September 30, 2007	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	$ 26,894,582	$ 27,118,188	$ 54,012,770	$ (20,066,285)	$ 33,946,485
Operating expenses, cost of construction and services, general, administrative and other	7,952,844	25,898,013	33,850,857	(18,648,494)	15,202,363
Depreciation and amortization	7,004,858	36,658	7,041,516		7,041,516
Operating income	11,936,880	1,183,517	13,120,397	(1,417,791)	11,702,606
Interest expense	(6,773,119)	(225,625)	(6,998,744)	317,673	(6,681,071)
Income tax expense of taxable REIT subsidiary		(32,789)	(32,789)		(32,789)
Minority interest in income of consolidated subsidiaries	(14,781)		(14,781)		(14,781)
Equity in earnings of unconsolidated entities	48,024		48,024		48,024
Limited Partners interests in the Operating Partnership	(1,169,091)	(208,438)	(1,377,529)	246,935	(1,130,594)
Net income	$ 4,027,913	$ 716,665	$ 4,744,578	$ (853,183)	$ 3,891,395
Total assets	$ 1,032,727,425	$ 47,108,079	$ 1,079,835,504	$ (46,019,568)	$ 1,033,815,936

13

Three Months Ended September 30, 2006	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	$ 23,090,004	$ 23,870,555	$ 46,960,559	$ (13,892,124)	$ 33,068,435
Operating expenses, cost of construction and services, general, administrative and other	7,449,179	21,016,002	28,465,181	(13,600,860)	14,864,321
Depreciation and amortization	7,192,536	17,050	7,209,586		7,209,586
Operating income	8,448,289	2,837,503	11,285,792	(291,264)	10,994,528
Interest expense	(6,139,774)	(109,563)	(6,249,337)	109,576	(6,139,761)
Income tax expense of taxable REIT subsidiary		(777,600)	(777,600)		(777,600)
Minority interest in income of consolidated subsidiaries	(9,578)	6,585	(2,993)		(2,993)
Equity in earnings of unconsolidated entities	72,261		72,261		72,261
Limited Partners interests in the Operating Partnership	(535,712)	(442,118)	(977,830)	41,048	(936,782)
Net income	$ 1,835,486	$ 1,514,807	$ 3,350,293	$ (140,640)	$ 3,209,653
Total assets	$ 972,245,408	$ 38,459,614	$ 1,010,705,022	$ (18,647,360)	$ 992,057,662

Nine Months Ended September 30, 2007	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	$ 77,903,771	$ 73,771,873	$ 151,675,644	$ (51,455,153)	$ 100,220,491
Operating expenses, cost of construction and services, general, administrative and other	24,553,099	70,734,886	95,287,985	(49,117,348)	46,170,637
Depreciation and amortization	23,851,222	73,215	23,924,437		23,924,437
Operating income	29,499,450	2,963,772	32,463,222	(2,337,805)	30,125,417
Interest expense	(19,294,244)	(528,301)	(19,822,545)	728,797	(19,093,748)
Income tax expense of taxable REIT subsidiary		(295,395)	(295,395)		(295,395)
Minority interest in income of consolidated subsidiaries	(264,002)		(264,002)		(264,002)
Equity in earnings of unconsolidated entities	217,899		217,899		217,899
Limited Partners interests in the Operating Partnership	(2,275,640)	(479,377)	(2,755,017)	360,418	(2,394,599)
Net income	$ 7,883,463	$ 1,660,699	$ 9,544,162	$ (1,248,590)	$ 8,295,572
Total assets	$ 1,032,727,425	$ 47,108,079	$ 1,079,835,504	$ (46,019,568)	$ 1,033,815,936

14

Nine Months Ended September 30, 2006	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	$ 66,126,227	$ 59,342,039	$ 125,468,266	$ (33,026,049)	$ 92,442,217
Operating expenses, cost of construction and services, general, administrative and other	22,094,120	54,593,802	76,687,922	(31,855,407)	44,832,515
Depreciation and amortization	22,524,191	50,544	22,574,735		22,574,735
Operating income	21,507,916	4,697,693	26,205,609	(1,170,642)	25,034,967
Interest expense	(15,324,927)	(375,740)	(15,700,667)	375,739	(15,324,928)
Loss on sale of asset	(764,008)		(764,008)		(764,008)
Income tax benefit (expense) of taxable REIT subsidiary	305,603	(946,187)	(640,584)		(640,584)
Minority interest in income of consolidated subsidiaries	(78,503)		(78,503)		(78,503)
Equity in earnings of unconsolidated entities	221,983		221,983		221,983
Limited Partners interests in the Operating Partnership	(1,337,919)	(769,675)	(2,107,594)	181,238	(1,926,356)
Net income	$ 4,530,145	$ 2,606,091	$ 7,136,236	$ (613,665)	$ 6,522,571
Total assets	$ 972,245,408	$ 38,459,614			