ACADIA REALTY TRUST
Form 10-Q
October 29, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2018

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	23-2715194
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
411 THEODORE FREMD AVENUE, SUITE 300, RYE, NY	10580
(Address of principal executive offices)	(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 o

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 o

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	Emerging Growth Company
Non-accelerated Filer	Smaller Reporting 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. o

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

As of October 19, 2018 there were 81,553,275 common shares of beneficial interest, par value $0.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q (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 2. 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 footnotes to the consolidated financial statements of the registrant referenced in Part I, Item 1. Financial Statements.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.
ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	September 30, 2018	December 31, 2017
ASSETS	(Unaudited)	
Investments in real estate, at cost		
Operating real estate, net	$ 3,027,710	$ 2,952,918
Real estate under development	189,387	173,702
Net investments in real estate	3,217,097	3,126,620
Notes receivable, net	109,410	153,829
Investments in and advances to unconsolidated affiliates	301,717	302,070
Other assets, net	209,875	214,959
Cash and cash equivalents	9,525	74,823
Rents receivable, net	58,584	51,738
Restricted cash	12,508	10,846
Assets of properties held for sale	—	25,362
Total assets	$ 3,918,716	$ 3,960,247
LIABILITIES		
Mortgage and other notes payable, net	$ 964,796	$ 909,174
Unsecured notes payable, net	488,933	473,735
Unsecured line of credit	28,000	41,500
Accounts payable and other liabilities	202,893	210,052
Capital lease obligation	70,983	70,611
Dividends and distributions payable	23,711	24,244
Distributions in excess of income from, and investments in, unconsolidated affiliates	15,596	15,292
Total liabilities	1,794,912	1,744,608
Commitments and contingencies		
EQUITY		
Acadia Shareholders' Equity		
Common shares, $0.001 par value, authorized 200,000,000 shares, issued and outstanding 81,550,171 and 83,708,140 shares, respectively	82	84
Additional paid-in capital	1,546,405	1,596,514
Accumulated other comprehensive income	13,267	2,614
Distributions in excess of accumulated earnings	(73,990)	(32,013)
Total Acadia shareholders’ equity	1,485,764	1,567,199
Noncontrolling interests	638,040	648,440
Total equity	2,123,804	2,215,639
Total liabilities and equity	$ 3,918,716	$ 3,960,247

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)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Revenues				
Rental income	$51,551	$51,707	$153,652	$148,760
Expense reimbursements	13,194	9,957	35,000	32,347
Other	1,330	1,014	4,116	3,074
Total revenues	66,075	62,678	192,768	184,181
Operating expenses				
Depreciation and amortization	28,676	26,652	86,755	77,245
General and administrative	7,982	7,953	24,359	25,286
Real estate taxes	11,538	8,822	27,528	27,462
Property operating	10,661	9,417	33,523	26,978
Impairment charge	—	3,840	—	3,840
Other operating	270	250	655	987
Total operating expenses	59,127	56,934	172,820	161,798
Operating income	6,948	5,744	19,948	22,383
Equity in earnings of unconsolidated affiliates inclusive of gain on disposition of properties of $0, $0, $0 and $14,771, respectively	376	4,001	7,079	21,044
Interest income	3,513	6,461	10,539	23,648
Interest expense	(18,077)	(15,428)	(50,882)	(39,666)
(Loss) income from continuing operations before income taxes	(7,240)	778	(13,316)	27,409
Income tax provision	(464)	(465)	(851)	(1,017)
(Loss) income from continuing operations before gain on disposition of properties	(7,704)	313	(14,167)	26,392
Gain on disposition of properties, net of tax	5,107	12,972	5,140	12,972
Net (loss) income	(2,597)	13,285	(9,027)	39,364
Net loss (income) attributable to noncontrolling interests	11,822	(418)	33,336	1,194
Net income attributable to Acadia	$9,225	$12,867	$24,309	$40,558
Basic and diluted earnings per share	$0.11	$0.15	$0.29	$0.48

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

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net (loss) income	$(2,597)	$13,285	$(9,027)	$39,364
Other comprehensive income (loss):				
Unrealized income (loss) on valuation of swap agreements	3,973	(644)	12,576	(2,652)
Reclassification of realized interest on swap agreements	(55)	734	417	2,637
Other comprehensive income (loss)	3,918	90	12,993	(15)
Comprehensive income	1,321	13,375	3,966	39,349
Comprehensive loss (income) attributable to noncontrolling interests	11,033	(541)	30,996	1,454
Comprehensive income attributable to Acadia	$12,354	$12,834	$34,962	$40,803

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nine Months Ended September 30, 2018 and 2017

	Acadia Shareholders							
(in thousands, except per share amounts)	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	111	—	1,957	—	—	1,957	(1,957)	—
Repurchase of Common Shares	(2,294)	(2)	(55,055)	—	—	(55,057)	—	(55,057)
Dividends/distributions declared ($0.81 per Common Share/OP Unit)	—	—	—	—	(66,286)	(66,286)	(5,126)	(71,412)
Employee and trustee stock compensation, net	25	—	408	—	—	408	7,924	8,332
Noncontrolling interest distributions	—	—	—	—	—	—	(24,654)	(24,654)
Noncontrolling interest contributions	—	—	—	—	—	—	46,990	46,990
Comprehensive income	—	—	—	10,653	24,309	34,962	(30,996)	3,966
Reallocation of noncontrolling interests	—	—	2,581	—	—	2,581	(2,581)	—
Balance at September 30, 2018	81,550	$ 82	$ 1,546,405	$ 13,267	$ (73,990)	$ 1,485,764	$ 638,040	$ 2,123,804
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	61	—	1,086	—	—	1,086	(1,086)	—
Dividends/distributions declared ($0.78 per	—	—	—	—	(65,248)	(65,248)	(4,805)	(70,053)

Common Share/OP Unit)								
Employee and trustee stock compensation, net	21	—	425	—	—	425	8,704	9,129
Noncontrolling interest distributions	—	—	—	—	—	—	(7,278)	(7,278)
Noncontrolling interest contributions	—	—	—	—	—	—	20,522	20,522
Comprehensive income	—	—	—	245	40,558	40,803	(1,454)	39,349
Reallocation of noncontrolling interests	—	—	(2,105)	—	—	(2,105)	2,105	—
Balance at September 30, 2017	83,680	$ 84	$ 1,594,332	$ (553)	$ (30,325)	$ 1,563,538	$ 606,256	$ 2,169,794

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$(9,027)	$39,364
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Gain on disposition of properties	(5,140)	(12,972)
Depreciation and amortization	86,755	77,245
Distributions of operating income from unconsolidated affiliates	12,906	13,727
Equity in earnings and gains of unconsolidated affiliates	(7,079)	(21,044)
Stock compensation expense	8,332	9,129
Amortization of financing costs	4,350	3,996
Impairment charge	—	3,840
Other, net	(6,331)	(8,435)
Changes in assets and liabilities:		
Other liabilities	(61)	(1,556)
Prepaid expenses and other assets	(4,860)	(8,723)
Rents receivable, net	(7,452)	(6,646)
Accounts payable and accrued expenses	(5,210)	(736)
Net cash provided by operating activities	67,183	87,189
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate	(104,902)	(138,429)
Development, construction and property improvement costs	(66,238)	(84,554)
Issuance of or advances on notes receivable	(3,002)	(10,449)
Proceeds from the disposition of properties, net	52,759	47,025
Investments in and advances to unconsolidated affiliates	(3,481)	(4,555)
Return of capital from unconsolidated affiliates and other	23,777	31,720
Proceeds from notes receivable	26,000	12,000
Return of deposits for properties under contract	1,750	—
Payment of deferred leasing costs	(2,981)	(5,381)
Net cash used in investing activities	(76,318)	(152,623)

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)	Nine Months Ended September 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes	(69,050)	(130,736)
Principal payments on unsecured debt	(578,600)	(143,215)
Proceeds received on mortgage and other notes	122,332	120,252
Proceeds from unsecured debt	578,800	267,200
Payments for repurchase of Common Shares	(55,057)	—
Capital contributions from noncontrolling interests	46,990	20,522
Distributions to noncontrolling interests	(29,731)	(12,813)
Dividends paid to Common Shareholders	(66,869)	(77,770)
Deferred financing and other costs	(3,316)	(4,987)
Net cash (used in) provided by financing activities	(54,501)	38,453
Decrease in cash and restricted cash	(63,636)	(26,981)
Cash of $74,823 and $71,805 and restricted cash of $10,846 and $22,904, respectively, beginning of period	85,669	94,709
Cash of $9,525 and $48,255 and restricted cash of $12,508 and $19,473, respectively, end of period	$22,033	$67,728
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of $4,366 and $12,246 respectively	$45,251	$39,626
Cash paid for income taxes, net of (refunds)	$1,227	$773
Supplemental disclosure of non-cash investing activities		
Assumption of accounts payable and accrued expenses through acquisition of real estate	$1,014	$2,161
Acquisition of real estate through conversion of note receivable	$—	$9,142
Acquisition of undivided interest in a property through conversion of notes receivable	$22,201	$16,005

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

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 September 30, 2018 and December 31, 2017, the Company controlled approximately 94% and 95%, respectively, 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 September 30, 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 52 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 170 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 September 30, 2018	Unfunded Commitment	Equity Interest Held By Operating Partnership [a]	Preferred Return	Total Distributions as of September 30, 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 September 30, 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 (Unaudited)

Basis of Presentation

Segments

At September 30, 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. Each property is considered a separate operating segment; however, each property on a stand-alone basis represents less than 10% of revenues, profit or loss, and assets of the combined reported operating segment and meets the majority of the aggregation criteria under the applicable standard.

Principles of Consolidation

The interim 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.

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full fiscal year. 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. Such adjustments consisted of normal recurring items.

These interim consolidated financial statements should be read in conjunction with the Company's 2017 Annual Report on Form 10-K, as filed with the SEC on February 27, 2018.

Use of Estimates

GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the interim 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.

Recently Adopted Accounting Pronouncements

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.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 nine months ended September 30, 2017.

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 $3.5 million of its cash inflows from operating activities and $0.1 million of its cash outflows from financing activities to change in cash and restricted cash in its historical presentation of cash flows for the nine months ended September 30, 2017.

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. It is expected that the new standard will reduce the number of future real estate acquisitions that will be accounted for as business combinations and, therefore, reduce the amount of acquisition costs that will be expensed. Accordingly, the Company capitalized $0.2 million of acquisition costs during the nine months ended September 30, 2018 and expensed $0.9 million of acquisition costs during the nine months ended September 30, 2017.

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 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.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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;
- 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.

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The Company will adopt ASU No. 2016-02 (as amended by subsequent ASUs) effective January 1, 2019 utilizing the new transition method described in ASU 2018-11 and will avail 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, we expect to elect 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 is still evaluating the effect of electing this lessor practical expedient on 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 nine months ended September 30, 2018 and the year ended December 31, 2017, respectively).

As a lessee, the Company is party to several equipment, ground, and office leases with future payment obligations aggregating approximately $204.0 million at September 30, 2018 for which the Company expects to record right-of-use assets and lease liabilities at the present value of the remaining minimum rental payments upon adoption of ASU 2016-02. As lessee, the Company will apply 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 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. Early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, 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,

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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 August 2018, the Securities and Exchange Commission issued a final rule that amends certain of its disclosure requirements. The rule simplifies various disclosure requirements for public companies including primarily that it (i) eliminates the requirement for public companies to disclose in their filings a schedule of earnings to fixed charges, (ii) requires an analysis of changes in stockholders' equity for the current and comparative year-to-date interim periods in interim reports, and (iii) reduces the requirements for market price information disclosures in annual reports. These changes are effective for public companies beginning on November 5, 2018. The Company will comply with these new requirements beginning with its 2018 Annual Report on Form 10-K.

2. Real Estate

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

	September 30, 2018	December 31, 2017
Land	$ 674,758	$ 658,835
Buildings and improvements	2,493,011	2,406,488
Tenant improvements	144,134	131,850
Construction in progress	34,919	18,642
Properties under capital lease	76,965	76,965
Total	3,423,787	3,292,780
Less: Accumulated depreciation	(396,077)	(339,862)
Operating real estate, net	3,027,710	2,952,918
Real estate under development, at cost	189,387	173,702
Net investments in real estate	$ 3,217,097	$ 3,126,620

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Acquisitions and Conversions

During the nine months ended September 30, 2018 and the year ended 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			
Core			
Bedford Green Land Parcel	100%	Mar 23, 2018	$1,337
Subtotal Core			1,337
Fund V			
Trussville Promenade - Trussville, AL	100%	Feb 21, 2018	45,259
Elk Grove Commons - Elk Grove, CA	100%	Jul 18, 2018	59,320
Subtotal Fund V			104,579
Total 2018 Acquisitions			$105,916
2017 Acquisitions and Conversions			
Core			
Market Square Shopping Center - Wilmington, DE (Conversion) (Note 4)	100%	Nov 16, 2017	$42,800
Subtotal Core			42,800
Fund IV			
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
Fund V			
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 nine months ended September 30, 2018, the Company capitalized $0.2 million of acquisition costs related to the Funds. The Company expensed $0.9 million of acquisition costs for the nine months ended September 30, 2017, of which $0.3 million related to the Core Portfolio and $0.6 million related to the Funds. No debt was assumed in any of the 2018

Acquisitions or 2017 Acquisitions or Conversions.

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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 nine months ended September 30, 2018 and the year ended December 31, 2017 (in thousands):

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Net Assets Acquired		
Land	$ 15,127	$ 48,138
Buildings and improvements	82,235	173,576
Other assets	—	84
Acquisition-related intangible assets (Note 6)	13,416	44,269
Acquisition-related intangible liabilities (Note 6)	(4,862)	(11,535)
Net assets acquired	$ 105,916	$ 254,532
Consideration		
Cash	$ 104,902	$ 200,429
Conversion of note receivable	—	41,010
Liabilities assumed	1,014	3,363
Existing interest in previously unconsolidated investment	—	4,159
Change in control of previously unconsolidated investment	—	5,571
Total Consideration	$ 105,916	$ 254,532

Dispositions

During the nine months ended September 30, 2018 and the year ended 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,	$ 26,000	$ 33

		2018		
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
Total 2018 Dispositions			$ 54,450	$ 5,140
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			$ 281,338	$ 48,886

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The aggregate rental revenue, expenses and pre-tax income reported within continuing operations for the aforementioned consolidated properties that were sold during the nine months ended September 30, 2018 and year ended December 31, 2017 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Rental revenues	$451	$5,067	$1,966	$14,112
Expenses	(525)	(4,722)	(1,853)	(16,593)
Loss (income) from continuing operations of disposed properties before gain on disposition of properties	(74)	345	113	(2,481)
Gain on disposition of properties	5,107	12,972	5,140	12,972
Net (income) loss attributable to noncontrolling interests	(3,540)	(9,440)	(3,381)	(7,429)
Net loss attributable to Acadia	$1,493	$3,877	$1,872	$3,062

Properties 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 nine months ended September 30, 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		Nine Months Ended September 30, 2018			September 30, 2018	
	Number of Properties	Carrying Value	Transfers In	Capitalized Costs	Transfers Out	Number of Properties	Carrying Value
Core	2	$21,897	$—	$489	$14,544	1	$7,842

Fund II	—	4,908	—	1,131	—	—	6,039
Fund III	2	63,939	—	27,124	—	2	91,063
Fund IV	1	82,958	—	1,485	—	1	84,443
Total	5	$ 173,702	$ —	$ 30,229	$ 14,544	4	$ 189,387

During the nine months ended September 30, 2018, the Company placed one Core 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 nine months ended September 30, 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	September 30, 2018	December 31, 2017	September 30, 2018 Number	Maturity Date	Interest Rate
Core Portfolio	$ 56,475	$ 101,695	2	Apr 2019 - Apr 2020	6.0% - 8.1%
Fund II	32,379	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%
	$ 109,410	$ 153,829	5		

During the nine months ended September 30, 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 $0.6 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 September 30, 2018		September 30, 2018	December 31, 2017
Core:					
	840 N. Michigan [a]	88.43	%	$ 66,632	$ 69,846
	Renaissance Portfolio	20	%	32,495	35,041
	Gotham Plaza	49	%	29,788	29,416
	Town Center [a, b]	75.22	%	99,741	78,801
	Georgetown Portfolio	50	%	4,615	3,479
				233,271	216,583
Mervyns I & II:	KLA/Mervyn's, LLC [c]	10.5	%	—	—
Fund III:					
	Fund III Other Portfolio	90	%	166	167
	Self Storage Management [d]	95	%	206	206
				372	373
Fund IV:					
	Broughton Street Portfolio [e]	50	%	38,764	48,335
	Fund IV Other Portfolio	90	%	15,648	20,199
	650 Bald Hill Road	90	%	12,993	13,609
				67,405	82,143
Various Funds:	Due from Related Parties [f]			113	2,415
	Other [g]			556	556
	Investments in and advances to unconsolidated affiliates			$ 301,717	$ 302,070
Core:					
	Crossroads [h]	49	%	$ 15,596	$ 15,292
	Distributions in excess of income from,			$ 15,596	$ 15,292

and investments in, unconsolidated affiliates

(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 $15.9 million and $15.4 million at September 30, 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 $36.7 million and $41.2 million at September 30, 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.

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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 September 30, 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.

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.

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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.

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 $2.1 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.

At September 30, 2018, the Broughton Street portfolio had 13 remaining properties. See Note 15 regarding the acquisition of venture partner interests in 11 of these properties.

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, 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 $0.3 million and $0.4 million for the three months ended September 30, 2018 and 2017, respectively, and $0.8 million and $1.0 million for the nine months ended September 30, 2018 and 2017, respectively, which is included in other revenues in the consolidated financial statements.

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In addition, the Company paid to certain unaffiliated partners of its joint ventures, $0.4 million and $0.5 million for the three months ended September 30, 2018 and 2017, respectively, and $1.3 million and $1.5 million for the nine months ended September 30, 2018 and 2017, 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):

	September 30, 2018	December 31, 2017
Combined and Condensed Balance Sheets		
Assets:		
Rental property, net	$ 526,857	$ 518,900
Real estate under development	—	26,681
Investment in unconsolidated affiliates	6,853	6,853
Other assets	90,143	100,901
Total assets	$ 623,853	$ 653,335
Liabilities and partners' equity:		
Mortgage notes payable	$ 406,117	$ 405,652
Other liabilities	56,060	61,932
Partners' equity	161,676	185,751
Total liabilities and partners' equity	$ 623,853	$ 653,335
Company's share of accumulated equity	$ 179,029	$ 185,533
Basis differential	104,810	95,358
Deferred fees, net of portion related to the Company's interest	2,169	3,472
Amounts receivable by the Company	113	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	286,121	286,778
Company's share of distributions in excess of income from and investments in unconsolidated affiliates	15,596	15,292
Investments in and advances to unconsolidated affiliates	$ 301,717	$ 302,070

	Three Months Ended September 30,	Nine Months Ended September 30,

	2018	2017	2018	2017
Combined and Condensed Statements of Income				
Total revenues	$19,971	$20,883	$59,730	$63,460
Operating and other expenses	(6,028)	(6,847)	(17,479)	(18,985)
Interest expense	(5,240)	(4,788)	(15,365)	(13,967)
Depreciation and amortization	(5,502)	(6,208)	(17,340)	(18,720)
Loss on debt extinguishment	—	—	—	(154)
(Loss) gain on disposition of properties	(263)	—	(1,673)	17,778
Net income attributable to unconsolidated affiliates	$2,938	$3,040	$7,873	$29,412
Company's share of equity in net income of unconsolidated affiliates	$1,136	$4,544	$9,396	$23,156
Basis differential amortization	(760)	(543)	(2,317)	(2,112)
Company's equity in earnings of unconsolidated affiliates	$376	$4,001	$7,079	$21,044

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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)	September 30, 2018	December 31, 2017
Other Assets, Net:		
Lease intangibles, net (Note 6)	$ 112,249	$ 127,571
Deferred charges, net [a]	26,931	24,589
Prepaid expenses	17,884	16,838
Other receivables	4,764	11,356
Accrued interest receivable	15,352	11,668
Deposits	4,505	6,296
Due from seller	4,300	4,300
Deferred tax assets	1,139	2,096
Derivative financial instruments (Note 8)	15,115	4,402
Due from related parties	2,386	1,479
Corporate assets	2,063	2,369
Income taxes receivable	3,187	1,995
	$ 209,875	$ 214,959
(a) Deferred Charges, Net:		
Deferred leasing and other costs	$ 43,399	$ 41,020
Deferred financing costs related to line of credit	8,873	7,786
	52,272	48,806
Accumulated amortization	(25,341)	(24,217)
Deferred charges, net	$ 26,931	$ 24,589
Accounts Payable and Other Liabilities:		
Lease intangibles, net (Note 6)	$ 97,777	$ 104,478
Accounts payable and accrued expenses	63,435	61,420
Deferred income	28,539	31,306
Tenant security deposits, escrow and other	10,364	10,029
Derivative financial instruments (Note 8)	361	1,467
Income taxes payable	19	176
Other	2,398	1,176
	$ 202,893	$ 210,052

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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):

	September 30, 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	$204,184	$ (97,028)	$ 107,156	$193,821	$ (72,749)	$ 121,072
Above-market rent	16,729	(11,636)	5,093	16,786	(10,287)	6,499
	$220,913	$ (108,664)	$ 112,249	$210,607	$ (83,036)	$ 127,571
Amortizable Intangible Liabilities						
Below-market rent	$(149,149)	$ 51,965	$ (97,184)	$(147,232)	$ 43,391	$ (103,841)
Above-market ground lease	(671)	78	(593)	(671)	34	(637)
	$(149,820)	$ 52,043	$ (97,777)	$(147,903)	$ 43,425	$ (104,478)

During the nine months ended September 30, 2018, the Company acquired in-place lease intangible assets of $12.4 million, above-market rents of $1.0 million, and below-market rents of $4.9 million with weighted-average useful lives of 4.3, 1.7, and 21.6 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 September 30, 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)
2018 (Remainder)	$ 2,246	$ (7,724)	$ 15	$ (5,463)
2019	9,462	(25,137)	58	(15,617)
2020	8,938	(18,264)	58	(9,268)
2021	7,720	(13,298)	58	(5,520)
2022	7,405	(9,362)	58	(1,899)
Thereafter	56,320	(33,371)	346	23,295
Total	$ 92,091	$ (107,156)	$ 593	$ (14,472)

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7. Debt

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

	Interest Rate at September 30, 2018	Interest Rate at December 31, 2017	Maturity Date at September 30, 2018	Carrying Value at September 30, 2018	Carrying Value at December 31, 2017
Mortgages Payable					
Core Fixed Rate	3.88%-6.00%	3.88%-5.89%	Feb 2024 - Apr 2035	$ 178,677	$ 179,870
Core Variable Rate - Swapped [(a)]	3.41%-5.67%	3.41%-5.67%	Jan 2023 - Jun 2026	32,834	74,152
Total Core Mortgages Payable				211,511	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	19,385	19,560
Total Fund II Mortgages Payable				224,647	224,822
Fund III Variable Rate	LIBOR+2.65%	Prime+0.50%-LIBOR+2.65%	Jun 2020 - Dec 2021	75,393	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%	Nov 2018 - Aug 2021	244,654	250,584
Fund IV Variable Rate - Swapped [(a)]	3.67%-4.23%	3.67%-4.23%	May 2019 - Dec 2022	72,074	86,851
Total Fund IV Mortgages Payable				324,917	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				(10,527)	(12,943)
Unamortized premium				779	856
Total Mortgages Payable				$ 964,796	$ 909,174
Unsecured Notes Payable					
Core Variable Rate Unsecured					
Term Loans - Swapped [(a)]	2.49%-4.05%	2.54%-3.59%	Mar 2023	$ 350,000	$ 300,000
Fund II Unsecured Notes Payable	LIBOR+1.65%	LIBOR+1.40%	Sep 2020	37,000	31,500
	LIBOR+1.65%-LIBOR+2.75%	LIBOR+1.65%-LIBOR+2.75%		40,825	40,825

Fund IV Term Loan/Subscription Facility			Dec 2018 - Oct 2019		
Fund V Subscription Facility	LIBOR+1.60%	LIBOR+1.60%	May 2020	61,500	103,300
Net unamortized debt issuance costs				(392)	(1,890)
Total Unsecured Notes Payable				$488,933	$473,735
Unsecured Line of Credit					
Core Unsecured Line of Credit	LIBOR+1.35%	LIBOR+1.40%	Mar 2022	$13,324	$18,048
Core Unsecured Line of Credit - Swapped [(a)]	4.15%-5.02%	4.20%-5.07%	Mar 2022	14,676	23,452
Total Unsecured Line of Credit				$28,000	$41,500
Total Debt - Fixed Rate [(b)]				$967,667	$899,650
Total Debt - Variable Rate [(c)]				524,202	538,736
Total Debt				1,491,869	1,438,386
Net unamortized debt issuance costs				(10,919)	(14,833)
Unamortized premium				779	856
Total Indebtedness				$1,481,729	$1,424,409

(a) At September 30, 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 $575.5 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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ACADIA REALTY TRUST AND SUBSIDIARIES

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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 nine months ended September 30, 2018, the Company obtained four new non-recourse Fund mortgages totaling $109.5 million with a weighted-average interest rate of LIBOR + 1.99% collateralized by four properties and maturing in 2021. The Company entered into interest rate swap contracts to effectively fix the variable portion of the interest rates of three of these obligations with a notional value of $86.6 million at an interest rate of 2.75%. In addition, the Company drew down $9.8 million on a Fund III construction loan. During the nine months ended September 30, 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 two Fund IV mortgages in full, which had balances of $15.5 million and $2.3 million and interest rates of LIBOR + 2.15% and 3.40%, respectively. The Company also made scheduled principal payments of $5.1 million. At September 30, 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 September 30, 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.

Unsecured Notes Payable

Unsecured notes payable for which total availability was $106.6 million and $70.3 million at September 30, 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 September 30, 2018 and December 31, 2017. During the nine months ended September 30, 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.
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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 $37.0 million and $31.5 million at September 30, 2018 and December 31, 2017, respectively. Total availability was $3.0 million and $8.5 million at September 30, 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 September 30, 2018 and December 31, 2017. Total availability was $1.0 million at each of September 30, 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 September 30, 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 $61.5 million and $88.5 million, respectively at September 30, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 $109.7 million and $96.2 million, respectively, available under its $150.0 million Core unsecured revolving lines of credit reflecting borrowings of $28.0 million and $41.5 million, respectively, and letters of credit of $12.3 million at each of September 30, 2018 and December 31, 2017. At September 30, 2018 and 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 September 30, 2018 are as follows (in thousands):

Year Ending December 31,	
2018 (Remainder)	$38,938
2019	192,839
2020	468,162
2021	180,514
2022	76,529
Thereafter	534,887
	1,491,869
Unamortized premium	779
Net unamortized debt issuance costs	(10,919)
Total indebtedness	$1,481,729

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.

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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 nine months ended September 30, 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):

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Money Market Funds	$106	$—	$ —	$3	$—	$ —
Derivative financial instruments	—	15,115	—	—	4,402	—
Liabilities						
Derivative financial instruments	—	361	—	—	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 nine months ended September 30, 2018. During the nine months ended September 30, 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 and December 31, 2017 (Note 2), in order to reduce the carrying value of the property to its estimated fair value. The fair value measurement approximated the estimated selling price less estimated costs to sell. This property was sold in April 2018.

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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 Low	Strike Rate High	Balance Sheet Location	Fair Value September 30, 2018	Fair Value December 31, 2017
Core								
Interest Rate Swaps	$11,176	Dec 2012	Dec 2022	3.77%	—3.77%	Other Liabilities	$(361)	$(1,438)
Interest Rate Swaps	386,334	Feb 2013 - Jul 2020	Nov 2018 - Jul 2030	1.24%	—3.77%	Other Assets	12,755	4,076
	$397,510						$12,394	$2,638
Fund II								
Interest Rate Swap	$19,385	Oct 2014	Nov 2021	2.88%	—2.88%	Other Assets	$287	$—
Interest Rate Swaps	—	Oct 2014	Nov 2021	2.88%	—2.88%	Other Liabilities	—	(29)
	$19,385						$287	$(29)
Fund III								
Interest Rate Cap	$58,000	Dec 2016	Jan 2020	3.00%	—3.00%	Other Assets	$39	$14
Fund IV								
Interest Rate Swaps	$72,074	Mar 2017 - Nov 2017	Mar 2020 - Dec 2022	1.82%	—2.11%	Other Assets	$1,728	$295
Interest Rate Caps	108,900	July 2016 - Nov 2016	Aug 2019 - Dec 2019	3.00%	—3.00%	Other Assets	43	17
	$180,974						$1,771	$312
Fund V								
Interest Rate Swap	$86,570	Jan 2018 - Jun 2018	Feb 2021 - Jun 2023	2.41%	—2.88%	Other Assets	$263	$—
	$86,570						$263	$—
Total asset derivatives							$15,115	$4,402
Total liability derivatives							$(361)	$(1,467)

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 $3.2 million included in accumulated other comprehensive (loss) income related to derivatives will be reclassified to interest expense within the next twelve months. As of September 30, 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. During July 2018, the Company acquired two swaps to hedge future borrowings up to $125.0 million on its Core portfolio with a fair value of $0.9 million at September 30, 2018, which are not effective until July 2020.

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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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):

	Nine Months Ended September 30,	
	2018	2017
Amount of income (loss) recognized in other comprehensive income	$ 12,576	$ (2,652)
Amount of loss subsequently reclassified to earnings	417	2,637

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):

		September 30, 2018		December 31, 2017	
	Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable [(a)]	3	$ 109,410	$ 107,146	$ 153,829	$ 151,712
Mortgage and Other Notes Payable [(a)]	3	974,544	961,901	921,261	921,891
Investment in non-traded equity securities [(b)]	3	—	22,824	—	22,824
Unsecured notes payable and Unsecured line of credit [(c)]	2	517,325	517,352	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 September 30, 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 $73.0 million and $92.2 million as of September 30, 2018 and December 31, 2017, respectively.

At each of September 30, 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.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 nine months ended September 30, 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 $6.3 million in connection with Restricted Shares and Units (Note 13) compared to $6.5 million for the nine months ended September 30, 2017.

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 nine months ended September 30, 2018. The Company did not repurchase any shares during the year ended December 31, 2017. As of September 30, 2018, management may repurchase up to approximately $144.9 million of the Company's outstanding Common Shares under this program.

Dividends and Distributions

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.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.

Accumulated Other Comprehensive Income

The following table sets forth the activity in accumulated other comprehensive income for the nine months ended September 30, 2018 and 2017 (in thousands):

	Gains or Losses on Derivative Instruments
Balance at January 1, 2018	$ 2,614
Other comprehensive income before reclassifications	12,576
Reclassification of realized interest on swap agreements	417
Net current period other comprehensive income	12,993
Net current period other comprehensive income attributable to noncontrolling interests	(2,340)
Balance at September 30, 2018	$ 13,267
Balance at January 1, 2017	$ (798)
Other comprehensive income before reclassifications	(2,652)
Reclassification of realized interest on swap agreements	2,637
Net current period other comprehensive income	(15)
Net current period other comprehensive loss attributable to noncontrolling interests	260
Balance at September 30, 2017	$ (553)

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Noncontrolling Interests

The following table summarizes the change in the noncontrolling interests for the nine months ended September 30, 2018 and 2017 (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 $0.81 per Common OP Unit	(5,126)	—	(5,126)
Net income (loss) for the nine months ended September 30, 2018	1,977	(35,313)	(33,336)
Conversion of 111,588 Common OP Units to Common Shares by limited partners of the Operating Partnership	(1,957)	—	(1,957)
Other comprehensive income - unrealized gain on valuation of swap agreements	625	1,435	2,060
Reclassification of realized interest expense on swap agreements	10	270	280
Noncontrolling interest contributions	—	46,990	46,990
Noncontrolling interest distributions	—	(24,654)	(24,654)
Employee Long-term Incentive Plan Unit Awards	7,924	—	7,924
Rebalancing adjustment [(c)]	(2,581)	—	(2,581)
Balance at September 30, 2018	$ 103,793	$ 534,247	$ 638,040
Balance at January 1, 2017	$ 95,422	$ 494,126	$ 589,548
Distributions declared of $0.78 per Common OP Unit	(4,805)	—	(4,805)
Net income (loss) for the nine months ended September 30, 2017	2,816	(4,010)	(1,194)
Conversion of 61,150 Common OP Units to Common Shares by limited partners of the Operating Partnership	(1,086)	—	(1,086)
Other comprehensive income - unrealized loss on valuation of swap agreements	(68)	(726)	(794)
Reclassification of realized interest expense on swap agreements	116	418	534
Noncontrolling interest contributions	—	20,522	20,522
Noncontrolling interest distributions	—	(7,278)	(7,278)
Employee Long-term Incentive Plan Unit Awards	8,704	—	8,704
Rebalancing adjustment [(c)]	2,105	—	2,105
Balance at September 30, 2017	$ 103,204	$ 503,052	$ 606,256

(a) Noncontrolling interests in the Operating Partnership are comprised of (i) the limited partners' 3,331,440 and 3,328,873 Common OP Units at September 30, 2018 and December 31, 2017; (ii) 188 Series A Preferred OP Units at September 30, 2018 and December 31, 2017; (iii) 136,593 Series C Preferred OP Units at September 30, 2018 and December 31, 2017; and (iv) 2,547,002 and 2,274,147 LTIP units at September 30, 2018 and December 31, 2017, 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 nine months ended September 30, 2018.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 September 30, 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 September 30, 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 $1.2 million and $1.0 million (including capitalized ground rent at a property under development of $0.5 million and $0.4 million) for the nine months ended September 30, 2018 and 2017, 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 this lease was $0.7 million for each of the nine months ended September 30, 2018 and 2017.

Capital Lease

During 2016, the Company entered into a 49-year master lease, which is accounted for as a capital lease. During each of the nine months ended September 30, 2018 and 2017, payments for this lease totaled $1.9 million. The property under the capital lease is included in Note 2.

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 September 30, 2018, are summarized as follows (in thousands):

Year Ending December 31,	Minimum Rental Revenues	Minimum Rental Payments
2018 (Remainder)	$43,085	$ 1,216
2019	179,408	4,775
2020	167,449	4,571