

FEDERAL REALTY INVESTMENT TRUST
Form 10-Q
August 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO THE SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

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: 1-07533

FEDERAL REALTY INVESTMENT TRUST

(Exact Name of Registrant as Specified in its Declaration of Trust)

Maryland 52-0782497
(State of Organization) (IRS Employer Identification No.)

1626 East Jefferson Street, Rockville, Maryland 20852
(Address of Principal Executive Offices) (Zip Code)

(301) 998-8100
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

The number of Registrant's common shares outstanding on July 30, 2012 was 64,111,975.

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QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED JUNE 30, 2012

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following balance sheet as of December 31, 2011, which has been derived from audited financial statements, and unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the company's latest Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation for the periods presented have been included. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year.

Table of ContentsFederal Realty Investment Trust
Consolidated Balance Sheets

	June 30, 2012	December 31, 2011
	(In thousands, except share data) (Unaudited)	
ASSETS		
Real estate, at cost		
Operating (including \$263,631 and \$263,570 of consolidated variable interest entities, respectively)	\$ 4,264,527	\$ 4,232,608
Construction-in-progress	211,725	193,836
	4,476,252	4,426,444
Less accumulated depreciation and amortization (including \$8,497 and \$4,991 of consolidated variable interest entities, respectively)	(1,169,278)	(1,127,588)
Net real estate	3,306,974	3,298,856
Cash and cash equivalents	82,774	67,806
Accounts and notes receivable, net	76,601	75,921
Mortgage notes receivable, net	55,887	55,967
Investment in real estate partnership	34,055	34,352
Prepaid expenses and other assets	114,302	121,492
Debt issuance costs, net of accumulated amortization of \$10,574 and \$9,098, respectively	10,336	11,816
TOTAL ASSETS	\$ 3,680,929	\$ 3,666,210
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgages payable (including \$206,506 and \$207,683 of consolidated variable interest entities, respectively)	\$ 733,997	\$ 747,523
Capital lease obligations	71,703	63,093
Notes payable	300,089	295,159
Senior notes and debentures	1,004,532	1,004,635
Accounts payable and accrued expenses	110,786	104,660
Dividends payable	44,588	44,229
Security deposits payable	12,745	12,221
Other liabilities and deferred credits	54,173	68,761
Total liabilities	2,332,613	2,340,281
Commitments and contingencies (Note 7)		
Redeemable noncontrolling interests	81,858	85,325
Shareholders' equity		
Preferred shares, authorized 15,000,000 shares, \$.01 par: 5.417% Series 1 Cumulative Convertible Preferred Shares, (stated at liquidation preference \$25 per share), 399,896 shares issued and outstanding	9,997	9,997
Common shares of beneficial interest, \$.01 par, 100,000,000 shares authorized, 64,099,840 and 63,544,150 shares issued and outstanding, respectively	641	636
Additional paid-in capital	1,810,359	1,764,940
Accumulated dividends in excess of net income	(568,541)	(555,541)
Accumulated other comprehensive loss	(10,375)	(3,940)
Total shareholders' equity of the Trust	1,242,081	1,216,092
Noncontrolling interests	24,377	24,512

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Total shareholders' equity	1,266,458	1,240,604
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,680,929	\$ 3,666,210

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

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Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
REVENUE				
Rental income	\$141,796	\$133,000	\$282,457	\$267,438
Other property income	4,478	2,146	8,840	4,236
Mortgage interest income	1,286	1,134	2,552	2,255
Total revenue	147,560	136,280	293,849	273,929
EXPENSES				
Rental expenses	26,906	25,133	53,016	54,535
Real estate taxes	16,537	15,547	32,594	30,954
General and administrative	7,139	6,395	14,143	12,446
Depreciation and amortization	35,199	31,871	71,770	62,287
Total operating expenses	85,781	78,946	171,523	160,222
OPERATING INCOME	61,779	57,334	122,326	113,707
Other interest income	112	20	319	35
Interest expense	(28,733)	(23,905)	(57,526)	(48,949)
Early extinguishment of debt	—	—	—	296
Income from real estate partnerships	438	444	739	767
INCOME FROM CONTINUING OPERATIONS	33,596	33,893	65,858	65,856
DISCONTINUED OPERATIONS				
Discontinued operations - income	—	509	—	930
Discontinued operations - gain on deconsolidation of VIE	—	2,026	—	2,026
Discontinued operations - gain on sale of real estate	—	43	—	43
Results from discontinued operations	—	2,578	—	2,999
INCOME BEFORE GAIN ON SALE OF REAL ESTATE	33,596	36,471	65,858	68,855
Gain on sale of real estate in real estate partnership	—	—	11,860	—
NET INCOME	33,596	36,471	77,718	68,855
Net income attributable to noncontrolling interests	(993)	(1,714)	(2,129)	(2,912)
NET INCOME ATTRIBUTABLE TO THE TRUST	32,603	34,757	75,589	65,943
Dividends on preferred shares	(135)	(135)	(271)	(271)
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS	\$32,468	\$34,622	\$75,318	\$65,672
EARNINGS PER COMMON SHARE, BASIC				
Continuing operations	\$0.51	\$0.51	\$0.99	\$1.01
Discontinued operations	—	0.04	—	0.05
Gain on sale of real estate	—	—	0.19	—
	\$0.51	\$0.55	\$1.18	\$1.06
Weighted average number of common shares, basic	63,700	62,214	63,556	61,844
EARNINGS PER COMMON SHARE, DILUTED				
Continuing operations	\$0.51	\$0.51	\$0.99	\$1.00
Discontinued operations	—	0.04	—	0.05
Gain on sale of real estate	—	—	0.19	—
	\$0.51	\$0.55	\$1.18	\$1.05
Weighted average number of common shares, diluted	63,880	62,391	63,732	62,012

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COMPREHENSIVE INCOME (Note 2)	\$25,803	\$36,471	\$71,283	\$68,855
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE TRUST (Note 2)	\$24,810	\$34,757	\$69,154	\$65,943

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

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Federal Realty Investment Trust
 Consolidated Statement of Shareholders' Equity
 For the Six Months Ended June 30, 2012
 (Unaudited)

	Shareholders' Equity of the Trust		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity		
	Preferred Shares	Common Shares							
	Shares	Amount	Shares	Amount					
(In thousands, except share data)									
BALANCE AT DECEMBER 31, 2011	399,896	\$9,997	63,544,150	\$636	\$1,764,940	\$(555,541)	\$(3,940)	\$24,512	\$1,240,604
Net income, excluding \$1,224 attributable to redeemable noncontrolling interests	—	—	—	—	75,589	—	905	76,494	
Other comprehensive loss	—	—	—	—	—	(6,435)	—	(6,435)	
Dividends declared to common shareholders	—	—	—	—	(88,318)	—	—	(88,318)	
Dividends declared to preferred shareholders	—	—	—	—	(271)	—	—	(271)	
Distributions declared to noncontrolling interests	—	—	—	—	—	—	(1,010)	(1,010)	
Common shares issued	—	—	382,194	4	37,052	—	—	37,056	
Exercise of stock options	—	—	43,870	—	2,390	—	—	2,390	
Shares issued under dividend reinvestment plan	—	—	12,319	—	1,129	—	—	1,129	
Share-based compensation expense, net	—	—	117,307	1	5,170	—	—	5,171	
Conversion and redemption of OP units	—	—	—	—	(322)	—	(135)	(457)	
	—	—	—	—	—	—	105	105	

Contributions
from
noncontrolling
interests

BALANCE AT JUNE 30, 2012	399,896	\$9,997	64,099,840	\$641	\$1,810,359	\$(568,541)	\$(10,375)	\$24,377	\$1,266,458
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The accompanying notes are an integral part of these consolidated statements.

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Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$77,718	\$68,855
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation and amortization, including discontinued operations	71,770	62,632
Gain on sale of real estate in real estate partnership	(11,860) —
Gain on sale of real estate	—	(43
Gain on deconsolidation of VIE	—	(2,026
Early extinguishment of debt	—	(296
Income from real estate partnerships	(739	) (767
Other, net	3,138	1,675
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease (increase) in accounts receivable	1,627	(2,921
Decrease in prepaid expenses and other assets	5,170	10,579
Increase (decrease) in accounts payable and accrued expenses	2,087	(16,868
Increase (decrease) in security deposits and other liabilities	984	(2,122
Net cash provided by operating activities	149,895	118,698
INVESTING ACTIVITIES		
Acquisition of real estate	—	(19,196
Capital expenditures - development and redevelopment	(47,776	) (35,971
Capital expenditures - other	(20,290	) (19,031
Proceeds from sale of real estate	—	1,497
Investment in real estate partnerships	—	(6,947
Distribution from real estate partnership in excess of earnings	248	511
Leasing costs	(5,581	) (6,335
Repayment of mortgage and other notes receivable, net	51	8,712
Net cash used in investing activities	(73,348	) (76,760
FINANCING ACTIVITIES		
Net borrowings under revolving credit facility, net of costs	—	112,000
Purchase and retirement of senior notes/debentures	—	(75,000
Issuance of mortgages, capital leases and notes payable, net of costs	5,399	—
Repayment of mortgages, capital leases and notes payable	(13,270	) (86,021
Issuance of common shares	40,575	96,787
Dividends paid to common and preferred shareholders	(88,205	) (83,098
Distributions to and redemptions of noncontrolling interests	(6,078	) (2,555
Net cash used in financing activities	(61,579	) (37,887
Increase in cash and cash equivalents	14,968	4,051
Cash and cash equivalents at beginning of year	67,806	15,797
Cash and cash equivalents at end of period	\$82,774	\$19,848

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

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Federal Realty Investment Trust
 Notes to Consolidated Financial Statements
 June 30, 2012
 (Unaudited)

NOTE 1—BUSINESS AND ORGANIZATION

Federal Realty Investment Trust (the “Trust”) is an equity real estate investment trust (“REIT”) specializing in the ownership, management, and redevelopment of retail and mixed-use properties. Our properties are located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Mid-Atlantic and Northeast regions of the United States, and California. As of June 30, 2012, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 87 predominantly retail real estate projects.

We operate in a manner intended to enable us to qualify as a REIT for federal income tax purposes. A REIT that distributes at least 90% of its taxable income to its shareholders each year and meets certain other conditions is not taxed on that portion of its taxable income which is distributed to its shareholders. Therefore, federal income taxes on our taxable income have been and are generally expected to be immaterial. We are obligated to pay state taxes, generally consisting of franchise or gross receipts taxes in certain states. Such state taxes also have not been material.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Principles of Consolidation**

Our consolidated financial statements include the accounts of the Trust, its corporate subsidiaries, and all entities in which the Trust has a controlling interest or has been determined to be the primary beneficiary of a variable interest entity (“VIE”). The equity interests of other investors are reflected as noncontrolling interests or redeemable noncontrolling interests. All significant intercompany transactions and balances are eliminated in consolidation. We account for our interests in joint ventures, which we do not control, using the equity method of accounting. Certain 2011 amounts have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, referred to as “GAAP,” requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management’s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders’ equity and requires the presentation of components of net income and components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB deferred the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. We adopted the standards effective January 1, 2012 and modified the presentation in our consolidated financial statements accordingly. Other comprehensive loss in our financial statements relates to the change in valuation on our interest rate swap agreements as further discussed in Note 6.

The components of comprehensive income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net income	\$33,596	\$36,471	\$77,718	\$68,855
Other comprehensive loss	(7,793) —	(6,435) —
Comprehensive income	25,803	36,471	71,283	68,855

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Net income attributable to noncontrolling interests	(993) (1,714) (2,129) (2,912)
Comprehensive income attributable to the Trust	\$24,810	\$34,757	\$69,154	\$65,943	

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Other Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” The pronouncement was issued to provide a uniform framework for fair value measurements and related disclosures between U.S. GAAP and International Financial Reporting Standards (“IFRS”). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. We adopted the standard effective January 1, 2012 and it did not have a significant impact to our consolidated financial statements.

Consolidated Statements of Cash Flows—Supplemental Disclosures

The following table provides supplemental disclosures related to the Consolidated Statements of Cash Flows:

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
SUPPLEMENTAL DISCLOSURES:		
Total interest costs incurred	\$62,515	\$52,585
Interest capitalized	(4,989	) (3,636
Interest expense	\$57,526	\$48,949
Cash paid for interest, net of amounts capitalized	\$58,132	\$50,197
Cash paid for income taxes	\$255	\$537
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Mortgage loan assumed with acquisition	\$—	\$42,938
Deconsolidation of VIE	\$—	\$18,311

NOTE 3—REAL ESTATE

During 2012, we finalized the purchase price allocations for our December 2011 acquisitions of controlling interests in Montrose Crossing and Plaza El Segundo. The purchase price for Montrose Crossing was \$141.5 million and our 89.9% ownership interest was \$127.2 million which was funded with cash and our pro-rata share of \$80.0 million of new mortgage debt. Approximately \$2.9 million and \$3.8 million of net assets acquired were allocated to other assets for "above market leases" and other liabilities for "below market leases", respectively. The purchase price for Plaza El Segundo was \$192.7 million and our 48.2% ownership interest was funded with \$8.5 million of cash and the assumption of our pro-rata share of the existing \$175.0 million mortgage debt. Approximately \$7.5 million and \$2.3 million of net assets acquired were allocated to other assets for "above market leases" and other liabilities for "below market leases", respectively. The balance sheet at December 31, 2011, has been adjusted to reflect the final purchase price allocation for both properties.

NOTE 4—REAL ESTATE PARTNERSHIPS

Federal/Lion Venture LP

We have a joint venture arrangement (the “Partnership”) with affiliates of a discretionary fund created and advised by ING Clarion Partners (“Clarion”). We own 30% of the equity in the Partnership and Clarion owns 70%. We hold a general partnership interest, however, Clarion also holds a general partnership interest and has substantive participating rights. We cannot make significant decisions without Clarion’s approval. Accordingly, we account for our interest in the Partnership using the equity method. As of June 30, 2012, the Partnership owned seven retail real estate properties. We are the manager of the Partnership and its properties, earning fees for acquisitions, dispositions, management, leasing, and financing. Intercompany profit generated from fees is eliminated in consolidation. We also have the opportunity to receive performance-based earnings through our Partnership interest. Accounting policies for the Partnership are similar to accounting policies followed by the Trust. The Partnership is subject to a buy-sell provision which is customary for real estate joint venture agreements and the industry. Either partner may initiate this

provision at any time, which could result in either the sale of our interest or the use of available cash or borrowings to acquire Clarion's interest.

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The following tables provide summarized operating results and the financial position of the Partnership:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(In thousands)				
OPERATING RESULTS				
Revenue	\$4,709	\$4,676	\$9,298	\$9,644
Expenses				
Other operating expenses	1,228	1,228	2,567	2,984
Depreciation and amortization	1,375	1,290	2,751	2,568
Interest expense	844	848	1,689	1,696
Total expenses	3,447	3,366	7,007	7,248
Net income	\$1,262	\$1,310	\$2,291	\$2,396
Our share of net income from real estate partnership	\$438	\$444	\$796	\$801
			June 30,	December 31,
			2012	2011
(In thousands)				
BALANCE SHEETS				
Real estate, net			\$176,485	\$178,693
Cash			4,501	3,035
Other assets			5,003	6,116
Total assets			\$185,989	\$187,844
Mortgages payable			\$57,267	\$57,376
Other liabilities			4,434	5,391
Partners' capital			124,288	125,077
Total liabilities and partners' capital			\$185,989	\$187,844
Our share of unconsolidated debt			\$17,180	\$17,213
Our investment in real estate partnership			\$34,055	\$34,352

Taurus Newbury Street JV II Limited Partnership

On October 31, 2011, our Newbury Street Partnership sold its entire portfolio of three buildings for \$44.0 million. As part of the sale, we received \$34.6 million of the net proceeds which included the repayment of our \$11.8 million loans. Due to the timing of receiving financial information from the general partner, our share of earnings was recorded one quarter in arrears. Therefore, we recognized the gain on sale of \$11.9 million in the first quarter 2012. The deferred gain was included in "other liabilities and deferred credits" on the balance sheet at December 31, 2011.

NOTE 5—DEBT

During the three and six months ended June 30, 2012, our \$400.0 million revolving credit facility had no amounts outstanding. Our revolving credit facility, term loan and certain notes require us to comply with various financial covenants, including the maintenance of minimum shareholders' equity and debt coverage ratios and a maximum ratio of debt to net worth. As of June 30, 2012, we were in compliance with all loan covenants.

NOTE 6—FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed below, the carrying amount of our financial instruments approximates their fair value. The fair value of our mortgages payable, notes payable and senior notes and debentures is sensitive to fluctuations in interest rates. Quoted market prices (Level 1) were used to estimate the fair value of our marketable senior notes and debentures and discounted cash flow analysis (Level 2) is generally used to estimate the fair value of our mortgages and notes payable. Considerable judgment is necessary to estimate the fair value of financial instruments. The

estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the carrying amount and fair value of our mortgages payable, notes payable and senior notes and debentures is as follows:

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	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Mortgages and notes payable	\$1,034,086	\$1,082,723	\$1,042,682	\$1,099,273
Senior notes and debentures	\$1,004,532	\$1,102,285	\$1,004,635	\$1,085,309

As of June 30, 2012, we have two interest rate swap agreements with a notional amount of \$275.0 million that are measured at fair value on a recurring basis. The interest rate swaps agreements fix the variable portion of our \$275.0 million term loan at 1.72% from December 1, 2011 through November 1, 2018. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. The effective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recorded in accumulated other comprehensive income/loss and is subsequently reclassified into interest expense as interest is incurred on the related variable rate debt. Within the next 12 months, we expect to reclassify an estimated \$3.9 million as an increase to interest expense. Our cash flow hedges become ineffective if critical terms of the hedging instrument and the debt instrument do not perfectly match such as notional amounts, settlement dates, reset dates, calculation period and LIBOR rate. In addition, we evaluate the default risk of the counterparty by monitoring the credit-worthiness of the counterparty. When ineffectiveness exists, the ineffective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recognized in earnings in the period affected. Hedge ineffectiveness has not impacted earnings as of June 30, 2012, and we do not anticipate it will have a significant effect in the future.

The fair values of the interest rate swap agreements are based on the estimated amounts we would receive or pay to terminate the contracts at the reporting date and are determined using interest rate pricing models and interest rate related observable inputs. The fair value of our swaps at June 30, 2012 was a liability of \$10.4 million and is included in "accounts payable and accrued expenses" on our consolidated balance sheet. The change in valuation on our interest rate swaps was \$7.8 million and \$6.4 million (including \$1.0 million and \$2.0 million, respectively, reclassified from other comprehensive loss to earnings) for the three and six months ended June 30, 2012 and is included in "accumulated other comprehensive loss". A summary of our financial liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy is as follows:

	June 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)							
Interest rate swaps	\$—	\$10,375	\$—	\$10,375	\$—	\$3,940	\$—	\$3,940

NOTE 7—COMMITMENTS AND CONTINGENCIES

We are sometimes involved in lawsuits, warranty claims, and environmental matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

We are currently a party to various legal proceedings. We accrue a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range; however, if no amount within the range is a better estimate than any other amount, the minimum within the range is accrued. Legal fees related to litigation are expensed as incurred. We do not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on our financial position or overall trends in results of operations; however, litigation is subject to inherent uncertainties. Also under our leases, tenants are typically obligated to indemnify us from and against all liabilities, costs and expenses imposed upon or asserted against us (1) as owner of the properties due to certain matters relating to the operation of the properties by the tenant, and (2) where appropriate, due to certain matters relating to the ownership of the properties prior to their acquisition by us.

Under the terms of certain partnership agreements, the partners have the right to exchange their operating partnership units for cash or the same number of our common shares, at our option. A total of 324,140 operating partnership units

are outstanding which have a total fair value of \$33.7 million, based on our closing stock price on June 30, 2012.

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NOTE 8—SHAREHOLDERS' EQUITY

The following table provides a summary of dividends declared and paid per share:

	Six Months Ended June 30,			
	2012		2011	
	Declared	Paid	Declared	Paid
Common shares	\$1.380	\$1.380	\$1.340	\$1.340
5.417% Series 1 Cumulative Convertible Preferred shares	\$0.677	\$0.677	\$0.677	\$0.677

On May 8, 2012, we replaced our existing at the market ("ATM") equity program with a new ATM equity program in which we may from time to time offer and sell common shares having an aggregate offering price of up to \$300.0 million. We intend to use the net proceeds to fund potential acquisition opportunities, fund our development and redevelopment pipeline, repay amounts outstanding under our revolving credit facility and/or for general corporate purposes. For the three months ended June 30, 2012, we issued 161,324 common shares at a weighted average price per share of \$101.23 for net cash proceeds of \$16.0 million and paid \$0.2 million in commissions related to the sales of these common shares. For the six months ended June 30, 2012, we issued 382,116 common shares at a weighted average price per share of \$98.54 for net cash proceeds of \$37.0 million and paid \$0.5 million in commissions related to the sales of these common shares.

NOTE 9—COMPONENTS OF RENTAL INCOME

The principal components of rental income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Minimum rents				
Retail and commercial	\$104,455	\$98,232	\$207,590	\$194,968
Residential (1)	6,941	5,687	13,351	11,212
Cost reimbursement	26,475	25,539	53,432	54,369
Percentage rent	1,543	1,530	3,500	2,925
Other	2,382	2,012	4,584	3,964
Total rental income	\$141,796	\$133,000	\$282,457	\$267,438

(1) Residential minimum rents consist of the rental amounts for residential units at Rollingwood Apartments, The Crest at Congressional Plaza Apartments, Santana Row and Bethesda Row.

Minimum rents include the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Straight-line rents	\$1.5	\$1.3	\$2.1	\$2.3
Amortization of above market leases	\$(0.9)	\$(0.6)	\$(1.8)	\$(1.2)
Amortization of below market leases	\$1.2	\$1.0	\$2.3	\$1.9

NOTE 10—DISCONTINUED OPERATIONS

Results of properties disposed or held for disposal which meet certain requirements, constitute discontinued operations and as such, the operations of these properties are classified as discontinued operations for all periods presented. A summary of the financial information for the discontinued operations is as follows:

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	Three Months Ended June 30, 2011 (in millions)	Six Months Ended June 30, 2011
Revenue from discontinued operations	\$1.0	\$2.0
Income from discontinued operations	\$0.5	\$0.9

NOTE 11—SHARE-BASED COMPENSATION PLANS

A summary of share-based compensation expense included in net income is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
	(In thousands)			
Share-based compensation incurred				
Grants of common shares	\$2,216	\$1,651	\$4,890	\$3,586
Grants of options	123	208	281	462
	2,339	1,859	5,171	4,048
Capitalized share-based compensation	(223	) (176	) (453	) (358
Share-based compensation expense	\$2,116	\$1,683	\$4,718	\$3,690

NOTE 12—EARNINGS PER SHARE

We have calculated earnings per share (“EPS”) under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common stock and participating securities is calculated according to dividends declared and participation rights in undistributed earnings. For the three and six months ended June 30, 2012 and 2011, we had 0.3 million weighted average unvested shares outstanding, which are considered participating securities. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares; the portion of earnings allocated to the unvested shares is reflected as “earnings allocated to unvested shares” in the reconciliation below.

In the dilutive EPS calculation, dilutive stock options were calculated using the treasury stock method consistent with prior periods. There were no anti-dilutive stock options for the three and six months ended June 30, 2012.

Approximately 0.1 million stock options have been excluded for the three and six months ended June 30, 2011 as they were anti-dilutive. The conversions of downREIT operating partnership units and 5.417% Series 1 Cumulative Convertible Preferred Shares are anti-dilutive for all periods presented and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

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	Three Months Ended		Six Months Ended	
	June 30,	2011	June 30,	2011
	2012		2012	
	(In thousands, except per share data)			
NUMERATOR				
Income from continuing operations	\$33,596	\$33,893	\$65,858	\$65,856
Less: Preferred share dividends	(135)	(135)	(271)	(271)
Less: Income from continuing operations attributable to noncontrolling interests	(993)	(1,504)	(2,129)	(2,692)
Less: Earnings allocated to unvested shares	(208)	(125)	(416)	(316)
Income from continuing operations available for common shareholders	32,260	32,129	63,042	62,577
Results from discontinued operations attributable to the Trust	—	2,368	—	2,779
Gain on sale of real estate in real estate partnership	—	—	11,860	—
Net income available for common shareholders, basic and diluted	\$32,260	\$34,497	\$74,902	\$65,356
DENOMINATOR				
Weighted average common shares outstanding—basic	63,700	62,214	63,556	61,844
Effect of dilutive securities:				
Stock options	180	177	176	168
Weighted average common shares outstanding—diluted	63,880	62,391	63,732	62,012
EARNINGS PER COMMON SHARE, BASIC				
Continuing operations	\$0.51	\$0.51	\$0.99	\$1.01
Discontinued operations	—	0.04	—	0.05
Gain on sale of real estate	—	—	0.19	—
	\$0.51	\$0.55	\$1.18	\$1.06
EARNINGS PER COMMON SHARE, DILUTED				
Continuing operations	\$0.51	\$0.51	\$0.99	\$1.00
Discontinued operations	—	0.04	—	0.05
Gain on sale of real estate	—	—	0.19	—
	\$0.51	\$0.55	\$1.18	\$1.05
Income from continuing operations attributable to the Trust	\$32,603	\$32,389	\$63,729	\$63,164

NOTE 13—SUBSEQUENT EVENTS

On July 16, 2012, we repaid our \$175.0 million 6.00% senior notes on the maturity date.

On July 19, 2012, we issued \$250.0 million of fixed rate senior notes that mature on August 1, 2022 and bear interest at 3.00%. The net proceeds from this note offering after issuance discounts, underwriting fees and other costs were approximately \$244.7 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion should be read in conjunction with the consolidated interim financial statements and notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (the "SEC") on February 16, 2012.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. When we refer to forward-looking statements or information, sometimes we use words such as "may," "will," "could," "should," "plans," "intends," "expects," "believes," "estimates," "anticipates" and "continues." Forward-looking statements are not historical facts or guarantees of future performance and involve certain known and unknown risks, uncertainties, and other factors, many of which are outside our control, that could cause actual results to differ materially from those we describe.

Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements that we make, including those in this Quarterly Report on Form 10-Q. Except as may be required by law, we make no promise to update any of the forward-looking statements as a result of new information, future events or otherwise. You should carefully review the risks and the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2011 and under Part II, Item 1A in this Quarterly Report on Form 10-Q, before making any investments in us.

Overview

We are an equity real estate investment trust ("REIT") specializing in the ownership, management, and redevelopment of high quality retail and mixed-use properties located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Northeast and Mid-Atlantic regions of the United States, and California. As of June 30, 2012, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 87 predominantly retail real estate projects comprising approximately 19.2 million square feet (excludes unconsolidated joint venture properties). In total, the real estate projects were 94.2% leased and 93.4% occupied at June 30, 2012. A joint venture in which we own a 30% interest owned seven retail real estate projects totaling approximately 1.0 million square feet as of June 30, 2012. In total, the joint venture properties in which we own a 30% interest were 88.2% leased and 87.7% occupied at June 30, 2012.

2012 Significant Equity and Debt Transactions

On May 8, 2012, we replaced our existing at the market ("ATM") equity program with a new ATM equity program in which we may from time to time offer and sell common shares having an aggregate offering price of up to \$300.0 million. We intend to use the net proceeds to fund potential acquisition opportunities, fund our development and redevelopment pipeline, repay amounts outstanding under our revolving credit facility and/or for general corporate purposes. For the three months ended June 30, 2012, we issued 161,324 common shares at a weighted average price per share of \$101.23 for net cash proceeds of \$16.0 million and paid \$0.2 million in commissions related to the sales of these common shares. For the six months ended June 30, 2012, we issued 382,116 common shares at a weighted average price per share of \$98.54 for net cash proceeds of \$37.0 million and paid \$0.5 million in commissions related to the sales of these common shares. As of June 30, 2012, we had the capacity to issue up to \$283.7 million in common shares under our ATM equity program.

On July 16, 2012, we repaid our \$175.0 million 6.00% senior notes on the maturity date.

On July 19, 2012, we issued \$250.0 million of fixed rate senior notes that mature on August 1, 2022 and bear interest at 3.00%. The net proceeds from this note offering after issuance discounts, underwriting fees and other costs were approximately \$244.7 million.

Final Purchase Price Allocation of 2011 Property Acquisitions

During 2012, we finalized the purchase price allocations for our December 2011 acquisitions of controlling interests in Montrose Crossing and Plaza El Segundo. The purchase price for Montrose Crossing was \$141.5 million and our

89.9% ownership interest was \$127.2 million which was funded with cash and our pro-rata share of \$80.0 million of new mortgage debt. Approximately \$2.9 million and \$3.8 million of net assets acquired were allocated to other assets for "above market leases" and other liabilities for "below market leases", respectively. The purchase price for Plaza El Segundo was \$192.7 million and our 48.2% ownership interest was funded with \$8.5 million of cash and the assumption of our pro-rata share of the

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existing \$175.0 million mortgage debt. Approximately \$7.5 million and \$2.3 million of net assets acquired were allocated to other assets for "above market leases" and other liabilities for "below market leases", respectively. The balance sheet at December 31, 2011, has been adjusted to reflect the final purchase price allocation for both properties.

Capitalized Costs

Certain external and internal costs directly related to the development, redevelopment and leasing of real estate, including pre-construction costs, real estate taxes, insurance, construction costs and salaries and related costs of personnel directly involved, are capitalized. We capitalized external and internal costs related to both development and redevelopment activities of \$42 million and \$3 million, respectively, for the six months ended June 30, 2012 and \$33 million and \$2 million, respectively, for the six months ended June 30, 2011. We capitalized external and internal costs related to other property improvements of \$24 million and \$1 million, respectively, for the six months ended June 30, 2012 and \$20 million and \$1 million, respectively, for the six months ended June 30, 2011. We capitalized external and internal costs related to leasing activities of \$3 million and \$3 million, respectively, for the six months ended June 30, 2012 and \$4 million and \$2 million, respectively, for the six months ended June 30, 2011. The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities, other property improvements, and leasing activities were \$2 million, \$1 million, and \$3 million, respectively, for the six months ended June 30, 2012 and \$1 million, less than \$1 million, and \$2 million, respectively, for the six months ended June 30, 2011.

Chief Financial Officer Transition

On July 11, 2012, we announced that James M. Taylor, a senior managing director in the real estate investment banking group of an affiliate of Wells Fargo, will succeed Andrew Blocher as our chief financial officer on August 15, 2012. Mr. Blocher will remain as our chief financial officer through August 14, 2012, and he is expected to remain an employee of the company through February 20, 2013. We believe that the addition of Mr. Taylor to our executive ranks will enhance our ability to source and evaluate corporate business development and strategic opportunities. For more information about Mr. Taylor's appointment and Mr. Blocher's change of job responsibilities, see our Current Report on Form 8-K filed with the SEC on July 11, 2012.

Outlook

We seek growth in earnings, funds from operations, and cash flows primarily through a combination of the following:

- growth in our portfolio from property development and redevelopments,
- growth in our same-center portfolio, and
- expansion of our portfolio through property acquisitions.

Our properties are predominately located in densely populated, affluent areas with high barriers to entry which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration, and/or retensing. We evaluate our properties on an ongoing basis to identify these types of opportunities. In 2012, we expect to have redevelopment projects stabilizing with projected costs of approximately \$55 million.

Additionally, we continue to invest in the development at Assembly Row which is a long-term development project we expect to be involved in over the coming years. The carrying value of the development portion of this project at June 30, 2012 is approximately \$158 million. The project currently has zoning entitlements to build 2.3 million square feet of commercial-use buildings, 2,100 residential units, and a 200 room hotel. In December 2011, we entered into agreements with AvalonBay Communities ("AvalonBay") for a portion of the first phase of residential and retail development at Assembly Row which will include 575 residential units (by AvalonBay) and approximately 323,000 square feet of retail space. The Massachusetts Bay Transit Authority (MBTA) will also construct the new orange line T-Stop at the property. Construction commenced during first quarter 2012 and we expect the first phase to be stabilized in 2015. We will also continue our infrastructure work during 2012. We expect to invest between \$25 million and \$35 million in 2012, net of expected public funding.

We continue our predevelopment work related to the long-term redevelopment of Mid-Pike Plaza in Rockville, Maryland, which will be renamed Pike & Rose, a long-term, multi-phased, mixed-use project. The property currently has zoning entitlements to build 1.7 million square feet of commercial-use buildings and 1,583 residential units. Phase

I of Pike & Rose involves demolition of roughly 25% of the existing gross leasable area at Mid-Pike Plaza (which was completed during the second quarter 2012) and construction of 493 residential units, 151,000 square feet of retail space and 79,000 square of office space. Construction of Phase I will commence in the third quarter 2012 with stabilization in 2015/2016. We expect to invest between \$45 million and \$55 million in 2012.

The development of future phases of Assembly Row, Pike & Rose and Santana Row will be pursued opportunistically based

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on, among other things, market conditions, our evaluation of whether those phases will generate an appropriate financial return and our ability to structure the development of those future phases, through entitlement sales, third party capital investment or otherwise, in a way that should mitigate our risk of those future phases.

Our same-center growth is primarily driven by increases in rental rates on new leases and lease renewals and changes in portfolio occupancy. Over the long-term, the infill nature and strong demographics of our properties provide a strategic advantage allowing us to maintain relatively high occupancy and increase rental rates. We have continued to see signs of improvement for many of our tenants as well as increased interest from prospective tenants for our retail spaces. While there can be no assurance that these positive signs will continue, we remain cautiously optimistic regarding the improved trends we have seen over the past two years. While we have seen improvements over much of our portfolio, we continue to see some tenants being negatively impacted by the economic environment and some filing for bankruptcy, though at a lower rate than in previous years. We believe the locations of our centers and diverse tenant base mitigates the negative impact of the economic environment, however, any reduction in our tenants' abilities to pay base rent, percentage rent or other charges, will adversely affect our financial condition and results of operations. We expect to continue to see small changes in occupancy over the short term and expect increases in occupancy and rental rates to be a driver of our same-center growth over the long term as we are able to re-lease vacant spaces. We seek to maintain a mix of strong national, regional, and local retailers. At June 30, 2012, no single tenant accounted for more than 2.5% of annualized base rent.

We continue to review acquisition opportunities in our primary markets that complement our portfolio and provide long-term growth opportunities. Generally, our acquisitions do not initially contribute significantly to earnings growth; however, they provide long-term re-leasing growth, redevelopment opportunities, and other strategic opportunities. Any growth from acquisitions is contingent on our ability to find properties that meet our qualitative standards at prices that meet our financial hurdles. Changes in interest rates may affect our success in achieving earnings growth through acquisitions by affecting both the price that must be paid to acquire a property, as well as our ability to economically finance the property acquisition. Generally, our acquisitions are initially financed by available cash and/or borrowings under our revolving credit facility which may be repaid later with funds raised through the issuance of new equity or new long-term debt. On occasion we also finance our acquisitions through the issuance of common shares, preferred shares, or downREIT units as well as through new or assumed mortgages.

At June 30, 2012, the leasable square feet in our properties was 93.4% occupied and 94.2% leased. The leased rate is higher than the occupied rate due to leased spaces that are being redeveloped or improved or that are awaiting permits and, therefore, are not yet ready to be occupied. Our occupancy and leased rates are subject to variability over time due to factors including acquisitions, the timing of the start and stabilization of our redevelopment projects, lease expirations and tenant bankruptcies.

Lease Rollovers

For the second quarter 2012, we signed leases for a total of 369,000 square feet of retail space including 356,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 11% on a cash basis and 21% on a straight-line basis. New leases for comparable spaces were signed for 195,000 square feet at an average rental increase of 15% on a cash basis and 24% on a straight-line basis. Renewals for comparable spaces were signed for 161,000 square feet at an average rental increase of 7% on a cash basis and 18% on a straight-line basis.

For the six months ended June 30, 2012, we signed leases for a total of 948,000 square feet of retail space including 817,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 14% on a cash basis and 23% on a straight-line basis. New leases for comparable spaces were signed for 419,000 square feet at an average rental increase of 23% on a cash basis and 32% on a straight-line basis. Renewals for comparable spaces were signed for 398,000 square feet at an average rental increase of 5% on a cash basis and 14% on a straight-line basis.

The rental increases associated with comparable spaces generally include all leases signed in arms-length transactions reflecting market leverage between landlords and tenants during the period. The comparison between average rent for expiring leases and new leases is determined by including minimum rent and percentage rent paid on the expiring

lease and minimum rent and in some instances, projections of first lease year percentage rent, to be paid on the new lease. In some instances, management exercises judgment as to how to most effectively reflect the comparability of spaces reported in this calculation. The change in rental income on comparable space leases is impacted by numerous factors including current market rates, location, individual tenant creditworthiness, use of space, market conditions when the expiring lease was signed, capital investment made in the space and the specific lease structure.

The leases signed in 2012 generally become effective over the following two years though some may not become effective until 2014 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing or other matters. However, these increases do provide information about the tenant/landlord relationship and the potential increase we may achieve in

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rental income over time.

In 2012, we expect a similar level of leasing activity compared to prior years with overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

Same-Center

Throughout this section, we have provided certain information on a “same-center” basis. Information provided on a same-center basis includes the results of properties that we owned and operated for the entirety of both periods being compared except for properties for which significant redevelopment or expansion occurred during either of the periods being compared and properties classified as discontinued operations. For the three and six months ended June 30, 2012, all or a portion of 79 and 78 properties, respectively, were considered same-center and for both periods, seven properties were considered redevelopment or expansion. For the six months ended June 30, 2012, three properties were removed from same-center and one property was added to same-center compared to the designations as of December 31, 2011. For the three months ended June 30, 2012, one additional property was moved from acquisitions to same-center designation. While there is judgment surrounding changes in designations, we typically move redevelopment properties to same-center once they have stabilized, which is typically considered 95% occupancy or when the growth expected from the redevelopment has been included in the comparable periods. We typically remove properties from same center when the redevelopment has or is expected to have a significant impact to property operating income within the calendar year. Acquisitions are moved to same-center once we have owned the property for the entirety of comparable periods and the property is not under significant development or expansion.

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RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2012 AND 2011

	2012	2011	Change Dollars	%	
	(Dollar amounts in thousands)				
Rental income	\$141,796	\$133,000	\$8,796	6.6	%
Other property income	4,478	2,146	2,332	108.7	%
Mortgage interest income	1,286	1,134	152	13.4	%
Total property revenue	147,560	136,280	11,280	8.3	%
Rental expenses	26,906	25,133	1,773	7.1	%
Real estate taxes	16,537	15,547	990	6.4	%
Total property expenses	43,443	40,680	2,763	6.8	%
Property operating income	104,117	95,600	8,517	8.9	%
Other interest income	112	20	92	460.0	%
Income from real estate partnerships	438	444	(6)	(1.4))%
Interest expense	(28,733)	(23,905)	(4,828)	20.2)%
General and administrative expense	(7,139)	(6,395)	(744)	11.6)%
Depreciation and amortization	(35,199)	(31,871)	(3,328)	10.4)%
Total other, net	(70,521)	(61,707)	(8,814)	14.3)%
Income from continuing operations	33,596	33,893	(297)	(0.9))%
Discontinued operations - income	—	509	(509)	(100.0))%
Discontinued operations - gain on deconsolidation of VIE	—	2,026	(2,026)	(100.0))%
Discontinued operations - gain on sale of real estate	—	43	(43)	(100.0))%
Net income	33,596	36,471	(2,875)	(7.9))%
Net income attributable to noncontrolling interests	(993)	(1,714)	721	(42.1))%
Net income attributable to the Trust	\$32,603	\$34,757	\$(2,154))