ACADIA REALTY TRUST
Form 10-Q
April 25, 2019

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 March 31, 2019

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
	(Zip Code)

(Address of principal executive offices)

(914) 288-8100

(Registrant's telephone number, including area code)

Title of class of registered securities	Trading symbol	Name of exchange on which registered
Common shares of beneficial interest, par value $0.001 per share	AKR	The New York Stock Exchange

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 April 22, 2019 there were 82,768,837 common shares of beneficial interest, par value $0.001 per share ("Common Shares"), 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)	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Investments in real estate, at cost		
Operating real estate, net	$3,124,243	$ 3,160,851
Real estate under development	193,315	120,297
Net investments in real estate	3,317,558	3,281,148
Notes receivable, net	109,769	109,613
Investments in and advances to unconsolidated affiliates	309,349	262,410
Other assets, net	202,206	208,570
Cash and cash equivalents	27,765	21,268
Rents receivable, net	59,701	62,191
Restricted cash	12,527	13,580
Total assets	$4,038,875	$ 3,958,780
LIABILITIES		
Mortgage and other notes payable, net	$1,109,160	$ 1,017,288
Unsecured notes payable, net	481,019	533,257
Unsecured line of credit	9,000	—
Accounts payable and other liabilities	293,019	286,072
Dividends and distributions payable	24,910	24,593
Distributions in excess of income from, and investments in, unconsolidated affiliates	15,415	15,623
Total liabilities	1,932,523	1,876,833
Commitments and contingencies		
EQUITY		
Acadia Shareholders' Equity		
Common shares, $0.001 par value, authorized 200,000,000 shares, issued and outstanding 82,708,361 and 81,557,472 shares, respectively	83	82
Additional paid-in capital	1,577,503	1,548,603
Accumulated other comprehensive (loss) income	(11,021)	516
Distributions in excess of accumulated earnings	(100,634)	(89,696)
Total Acadia shareholders’ equity	1,465,931	1,459,505
Noncontrolling interests	640,421	622,442
Total equity	2,106,352	2,081,947
Total liabilities and equity	$4,038,875	$ 3,958,780

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

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)	Three Months Ended March 31, 2019	2018
Revenues		
Rental income	$74,003	$50,779
Expense reimbursements	—	11,208
Other	797	1,137
Total revenues	74,800	63,124
Operating expenses		
Depreciation and amortization	30,333	28,576
General and administrative	8,323	8,470
Real estate taxes	9,603	8,959
Property operating	12,347	10,338
Other operating	—	80
Total operating expenses	60,606	56,423
Operating income	14,194	6,701
Equity in earnings of unconsolidated affiliates	2,271	1,684
Interest income	2,270	3,737
Interest expense	(17,859)	(15,890)
Income (loss) from continuing operations before income taxes	876	(3,768)
Income tax benefit (provision)	46	(392)
Income (loss) from continuing operations before gain on disposition of properties	922	(4,160)
Gain on disposition of properties, net of tax	2,014	—
Net income (loss)	2,936	(4,160)
Net loss attributable to noncontrolling interests	9,261	11,579
Net income attributable to Acadia	$12,197	$7,419
Basic and diluted earnings per share	$0.15	$0.09

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(in thousands)	2019	2018
Net income (loss)	$2,936	$(4,160)
Other comprehensive (loss) income:		
Unrealized (loss) income on valuation of swap agreements	(13,306)	5,653
Reclassification of realized interest on swap agreements	(551)	363
Other comprehensive (loss) income	(13,857)	6,016
Comprehensive (loss) income	(10,921)	1,856
Comprehensive loss attributable to noncontrolling interests	11,581	10,325
Comprehensive income attributable to Acadia	$660	$12,181

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended March 31, 2019 and 2018

	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, 2019	81,557	$ 82	$ 1,548,603	$ 516	$ (89,696)	$ 1,459,505	$ 622,442	$ 2,081,947
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	175	—	2,953	—	—	2,953	(2,953)	—
Issuance of Common Shares	971	1	27,833	—	—	27,834	—	27,834
Dividends/distributions declared ($0.28 per Common Share/OP Unit)	—	—	—	—	(23,135)	(23,135)	(1,781)	(24,916)
Employee and trustee stock compensation, net	5	—	94	—	—	94	3,360	3,454
Noncontrolling interest distributions	—	—	—	—	—	—	(3,237)	(3,237)
Noncontrolling interest contributions	—	—	—	—	—	—	32,191	32,191
Comprehensive (loss) income	—	—	—	(11,537)	12,197	660	(11,581)	(10,921)
Reallocation of noncontrolling interests	—	—	(1,980)	—	—	(1,980)	1,980	—
Balance at March 31, 2019	82,708	$ 83	$ 1,577,503	$ (11,021)	$ (100,634)	$ 1,465,931	$ 640,421	$ 2,106,352
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	38	—	642	—	—	642	(642)	—

partners of the Operating Partnership								
Repurchase of Common Shares	(1,304)	(2)	(31,959)	—	—	(31,961)	—	(31,961)
Dividends/distributions declared ($0.27 per Common Share/OP Unit)	—	—	—	—	(22,262)	(22,262)	(1,721)	(23,983)
Employee and trustee stock compensation, net	9	—	95	—	—	95	3,716	3,811
Noncontrolling interest distributions	—	—	—	—	—	—	(695)	(695)
Comprehensive income (loss)	—	—	—	4,762	7,419	12,181	(10,325)	1,856
Reallocation of noncontrolling interests	—	—	(1,225)	—	—	(1,225)	1,225	—
Balance at March 31, 2018	82,451	$ 82	$ 1,564,067	$ 7,376	$ (46,856)	$ 1,524,669	$ 639,998	$ 2,164,667

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Three Months Ended March 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$2,936	$(4,160)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,333	28,576
Distributions of operating income from unconsolidated affiliates	2,054	4,724
Equity in earnings and gains of unconsolidated affiliates	(2,271)	(1,684)
Stock compensation expense	3,454	3,809
Amortization of financing costs	1,743	1,375
Gain on disposition of properties	(2,014)	—
Other, net	(6,614)	(1,889)
Changes in assets and liabilities:		
Other liabilities	(7,068)	1,461
Prepaid expenses and other assets	(390)	(2,240)
Rents receivable, net	2,283	(2,359)
Accounts payable and accrued expenses	(4,661)	(4,674)
Net cash provided by operating activities	19,785	22,939
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate	(32,034)	(46,171)
Development, construction and property improvement costs	(19,909)	(18,136)
Issuance of or advances on notes receivable	—	(2,951)
Proceeds from the disposition of properties, net	9,779	—
Investments in and advances to unconsolidated affiliates	(48,983)	(1,847)
Return of capital from unconsolidated affiliates and other	1,635	16,210
Proceeds from notes receivable	—	26,000
(Payment) return of deposits for properties under contract	(1,952)	1,750
Payment of deferred leasing costs	(1,549)	(1,134)
Net cash used in investing activities	(93,013)	(26,279)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes	(8,014)	(45,246)
Principal payments on unsecured debt	(124,140)	(420,500)
Proceeds received on mortgage and other notes	101,655	47,273
Proceeds from unsecured debt	80,940	447,800
Payments for repurchase of Common Shares	—	(31,961)
Payments of finance lease obligations	(625)	—
Proceeds from the sale of Common Stock	27,834	—
Capital contributions from noncontrolling interests	32,191	—
Distributions to noncontrolling interests	(4,999)	(2,411)
Dividends paid to Common Shareholders	(22,836)	(22,601)
Deferred financing and other costs	(3,334)	(2,822)
Net cash provided by (used in) financing activities	78,672	(30,468)

Increase (decrease) in cash and restricted cash	5,444	(33,808)
Cash of $21,268 and $74,823 and restricted cash of $13,580 and $10,846, respectively, beginning of period	34,848	85,669
Cash of $27,765 and $39,344 and restricted cash of $12,527 and $12,517, respectively, end of period	$40,292	$51,861
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of $2,575 and $1,492 respectively	$16,898	$11,910
Cash paid for income taxes, net of refunds	$113	$673
Supplemental disclosure of non-cash investing activities		
Assumption of accounts payable and accrued expenses through acquisition of real estate	$159	$425
Right-of-use assets, finance leases obtained in exchange for finance lease liabilities	$5,664	$—
Right-of-use assets, finance leases obtained in exchange for assets under capital lease	$76,965	$—
Right-of-use assets, operating leases obtained in exchange for operating lease liabilities	$11,871	$—
Capital lease obligation exchanged for finance lease liability	$71,111	$—
Other liabilities exchanged for operating lease liabilities	$946	$—
Acquisition of undivided interest in a property through conversion of notes receivable	$—	$22,201

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 March 31, 2019 and December 31, 2018, the Company controlled approximately 94% of the Operating Partnership as the sole general partner and is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”) and employees who have been awarded restricted Common OP Units (“LTIP Units”) as long-term incentive compensation (Note 13). Limited partners holding Common OP and LTIP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company (“Common Shares”). This structure is referred to as an umbrella partnership REIT or “UPREIT.”

As of March 31, 2019, the Company has ownership interests in 121 properties within its core portfolio, which consist of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its funds (“Core Portfolio”). The Company also has ownership interests in 53 properties within its opportunity funds (the “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”). The 174 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, invested in operating companies through Acadia Mervyn Investors I, LLC (“Mervyns I,” which was liquidated in 2018) and Acadia Mervyn Investors II, LLC (“Mervyns 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 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 March 31, 2019	Unfunded Commitment	Equity Interest Held By Operating Partnership [a]		Preferred Return		Total Distributions as of March 31, 2019 [b]
Fund II and Mervyns II [c]	6/2004	28.33	%	$ 347.1	$ —	28.33	%	8	%	$ 146.6
Fund III	5/2007	24.54	%	426.3	23.7	24.54	%	6	%	554.8
Fund IV	5/2012	23.12	%	425.4	104.6	23.12	%	6	%	147.4
Fund V	8/2016	20.10	%	118.3	401.7	20.10	%	6	%	—

(a) Amount represents the current economic ownership at March 31, 2019, 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 March 31, 2019, the Company had three reportable operating segments: Core Portfolio, Funds and Structured Financing. The Company's chief operating decision maker may review operational and financial data on a property basis and does not differentiate properties on a geographical basis for purposes of allocating resources or capital.

Principles of Consolidation

The 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 2018 Annual Report on Form 10-K, as filed with the SEC on February 19, 2019.

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

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). 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 former 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, ASC Topic 606, Revenue from Contracts with Customers ("Topic 606"). 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;
- 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;
- Lessees may make an accounting policy election by class of underlying asset not to separate lease components from non-lease components; and
- Lessees may make an accounting policy election not to apply the recognition and measurement requirements to short-term leases.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

ASU 2016-02 was modified by the following subsequently issued ASU's (together with ASU 2016-02, "Topic 842"), many of which provided additional transition practical expedients:

- 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
- ASU No. 2018-10, Codification Improvements to Topic 842, Leases. These amendments provide minor clarifications and corrections to ASU 2016-02.
- ASU 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 former 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 non-lease components from the associated component must be elected for all existing and new leases.
- ASU 2018-20, Leases (Topic 842), Narrow-Scope Improvements for Lessors. This ASU modifies ASU No. 2016-02 to permit lessors, as an accounting policy election, not to evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. Consequently, a lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures (includes sales, use, value added, and some excise taxes and excludes real estate taxes).
- ASU 2019-01, Leases (Topic 842), Codification Improvements. There are three codification updates to Topic 842 covered by this ASU: Issue 1 provides guidance on how to compute fair value of leased items for lessors who are non-dealers or manufacturers; Issue 2 relates to cash flow presentation for lessors of sales-type and direct financing leases; and Issue 3 clarifies that certain transition disclosures will only be required in annual disclosures.

Under the new leasing guidance, contract consideration shall be allocated to its lease components (such as the lease of retail properties) and non-lease components (such as maintenance). For lessors, any non-lease components will be accounted for under Topic 606 unless the entity elects the lessor practical expedient to not separate the non-lease components from the associated lease component as described above. The new guidance also includes a definition of initial direct costs that is narrower than the prior definition in former GAAP (Topic 840, Leases). Topic 842 was effective for the Company beginning January 1, 2019.

The Company adopted Topic 842 effective January 1, 2019 utilizing the new transition method described in ASU 2018-11 and has availed itself of all the available practical expedients described above except it did 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 has more than 1,000 leases primarily with retail tenants and to a lesser extent with office and residential tenants. A significant majority of its leases are on a triple-net basis. The impact of adoption of ASU 2016-02 for the Company as lessor was as follows:

- The Company has elected the lessor practical expedient to not separate common area maintenance from the associated lease for all existing and new leases and to account for the combined component as a single lease component. Common area maintenance is considered a non-lease component within the scope of Topic 606 and reimbursements of taxes and insurance are considered contractual payments that do not transfer a good or service to the tenant; however, such revenues related to leases, which were formerly reported as reimbursed expenses, will be reported within lease revenues in the presentation of the statement of income subsequent to the implementation of ASC 842. Prior year classifications under ASC 840 will not be adjusted.
- Due to its election of available practical expedients, the Company expects that post-adoption substantially all existing leases, and new leases compared to similar existing leases, will have no change in the timing of revenue recognition.
- The Company's internal leasing costs will be expensed as incurred, as opposed to being capitalized and deferred. Commissions subsequent to successful lease execution will continue to be capitalized. After adoption, the Company will no longer capitalize internal leasing costs that were previously capitalized (the Company capitalized $1.8 million of internal leasing costs during the year ended December 31, 2018).

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

- The Company has existing easement arrangements that have not been previously identified as leases. The Company expects that its existing and similar future easement arrangements will not be classified as rental revenue but as other revenues as these arrangements do not transfer control to the counterparty.
- The Company makes a policy election to continue to account for only those taxes described under ASU 2018-20 that it pays on behalf of the tenant as reimbursable costs and will not account for those taxes paid directly by the lessee which are considered lessee costs.

As lessee, the Company is party to 13 ground, office and equipment leases with future payment obligations aggregating $203.1 million at December 31, 2018. The impact of adoption of ASU 2016-02 for the Company as lessee was as follows (Note 11):

- As lessee, the Company has applied the following practical expedients in the implementation ASU 2016-02: (i) to not separate non-lease components from the associated lease component as described above and (ii) to not apply the right-of-use recognition requirements to short-term leases. As such, there were no changes in the timing of recognition of expenses related to its operating leases.
- The Company recognized right-of-use assets and lease liabilities of $11.9 million and $12.8 million, respectively, related to its operating leases.
- The Company reclassified its existing capital lease asset of $77.0 million and capital lease liability of $71.1 million to a right-of-use asset and a lease liability, respectively, pertaining to finance leases.
- Subsequent to the adoption of and in accordance with Topic 842, the Company reassessed the circumstances surrounding three of its operating ground leases and determined that it had made significant leasehold improvements and was now reasonably certain to exercise their purchase options. Accordingly, the Company reclassified the existing right-of-use assets and lease liabilities from operating leases to finance leases and adjusted the leases' right-of-use assets and corresponding lease liabilities to $5.7 million and $5.7 million, respectively, to incorporate the present value of the purchase options, which totaled $4.7 million at January 1, 2019.
- With the adoption of ASC Topic 842, the Company will no longer provide a reserve for uncollectible receivables; they will be written-off. Accordingly, tenant receivables will not be presented net of an allowance for doubtful accounts on the balance sheet. The write-off of the tenant receivables will be presented as a reduction of revenue rather than as an operating expense on the income statement. In addition, rental income related to tenants with uncollectible receivables will be recorded on a cash basis and straight-line rent will be suspended.

The Company did not record any cumulative effect of change in accounting principle upon the adoption of ASC Topic 842 as lessor or lessee. Consistent with the transition guidance under ASU 2018-11, all prior period disclosures remain in accordance with ASC Topic 840.

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. The Company adopted this guidance effective January 1, 2019, which had no effect on the Company's financial statements.

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 were effective upon issuance; however, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. For those amendments that were effective January 1, 2019 or earlier, there was no material effect on the Company's financial statements.

Recently Issued Accounting Pronouncements

In November 2018, the FASB issued ASU No. 2018-19 Codification Improvements to Topic 326, Financial Instruments – Credit Losses. This ASU modifies ASU 2016-13 (discussed below). The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20, Financial Instruments – Credit Losses – Measure at Amortized Cost. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. ASU 2018-19 is effective for periods beginning after December 15, 2019, with adoption permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact on the Company's consolidated financial statements.

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In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses. ASU 2016-13 introduces a new model for estimating credit losses for certain types of financial instruments, including loans receivable, held-to-maturity debt securities, and net investments in direct financing leases, amongst other financial instruments. ASU 2016-13 also modifies the impairment model for available-for-sale debt securities and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for losses. ASU 2016-13 is effective for periods beginning after December 15, 2019, with adoption permitted for fiscal years beginning after December 15, 2018. Retrospective adjustments shall be applied through a cumulative-effect adjustment to retained earnings. The Company is currently evaluating the impact on the Company's 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 August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement which removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. This guidance is effective for public companies in fiscal years beginning after December 15, 2019 with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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

2. Real Estate

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

	March 31, 2019	December 31, 2018
Land	$705,402	$ 710,469
Buildings and improvements	2,574,459	2,594,828
Tenant improvements	157,502	151,154
Construction in progress	30,413	44,092
Properties under capital lease	—	76,965
Right-of-use assets - finance leases	82,629	—
Right-of-use assets - operating leases	11,871	—
Total	3,562,276	3,577,508
Less: Accumulated depreciation	(438,033)	(416,657)
Operating real estate, net	3,124,243	3,160,851
Real estate under development, at cost	193,315	120,297
Net investments in real estate	$3,317,558	$ 3,281,148

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Acquisitions and Conversions

During the three months ended March 31, 2019 and the year ended December 31, 2018, the Company acquired the following consolidated retail properties (dollars in thousands):

Property and Location	Percent Acquired	Date of Acquisition	Purchase Price
2019 Acquisitions			
Core			
Soho Portfolio - 51 and 53 Greene Street [(a)]	100%	Mar 15, 2019 Mar 27, 2019	$32,194
Total 2019 Acquisitions			$32,194
2018 Acquisitions and Conversions			
Core			
Bedford Green Land Parcel - Bedford Hills, NY	100%	Mar 23, 2018	$1,337
Subtotal Core			1,337
Fund IV			
Broughton Street Partners I - Savannah, GA (Conversion) (Note 4)	100%	Oct 11, 2018	36,104
Subtotal Fund IV			36,104
Fund V			
Trussville Promenade - Trussville, AL	100%	Feb 21, 2018	45,259
Elk Grove Commons - Elk Grove, CA	100%	Jul 18, 2018	59,320
Hiram Pavilion - Hiram, GA	100%	Oct 23, 2018	44,443
Subtotal Fund V			149,022
Total 2018 Acquisitions and Conversions			$186,463

(a) The Soho Portfolio is a collection of six properties located in New York, NY with an aggregate purchase price of approximately $96.0 million. The acquisitions of the remaining four properties are expected to be finalized through early 2020.

The 2019 Acquisitions and 2018 Acquisitions and Conversions were considered asset acquisitions based on accounting guidance effective as of January 1, 2018. For the three months ended March 31, 2019 and 2018, the Company capitalized $0.4 million and $0.1 million, respectively, of acquisition costs. No debt was assumed in any of the 2019 Acquisitions or 2018 Acquisitions or Conversions.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Purchase Price Allocations

The purchase prices for the 2019 Acquisitions and the 2018 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 three months ended March 31, 2019 and the year ended December 31, 2018 (in thousands):

	Three Months Ended March 31, 2019	Year Ended December 31, 2018
Net Assets Acquired		
Land	$ 8,094	$ 38,086
Buildings and improvements	21,169	129,586
Acquisition-related intangible assets (Note 6)	2,931	26,693
Acquisition-related intangible liabilities (Note 6)	—	(7,902)
Net assets acquired	$ 32,194	$ 186,463
Consideration		
Cash	$ 32,034	$ 147,985
Liabilities assumed	160	2,597
Existing interest in previously unconsolidated investment	—	35,881
Total Consideration	$ 32,194	$ 186,463

Dispositions

During the three months ended March 31, 2019 and the year ended December 31, 2018, the Company disposed of the following consolidated properties (in thousands):

Property and Location	Owner	Date Sold	Sale Price	Gain on Sale
2019 Dispositions				
3104 M Street - Washington, DC (Note 4)	Fund III	Jan 24, 2019	$ 10,500	$ 2,014
Total 2019 Dispositions			$ 10,500	$ 2,014

2018 Dispositions				
Sherman Avenue - New York, NY	Fund II	Apr 17, 2018	$ 26,000	$ 33
Lake Montclair - Dumfries, VA	Fund IV	Aug 27, 2018	22,450	2,923
1861 Union Street - San Francisco, CA	Fund IV	Aug 29, 2018	6,000	2,184
210 Bowery - 4 Residential Condos - New York, NY	Fund IV	Nov 30, 2018, Dec 10, 2018, Dec 17, 2018, Dec 21, 2018	12,050	—
Total 2018 Dispositions				