NEW PLAN EXCEL REALTY TRUST INC
Form 10-Q
November 13, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002**

OR

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

Commission file number 1-12244

NEW PLAN EXCEL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**33-0160389**
(State or other Jurisdiction of Incorporation)	(IRS Employer Identification No.)

1120 Avenue of the Americas, New York, New York 10036
(Address of Principal Executive Office) (Zip Code)

212-869-3000
Registrant's Telephone Number

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

The number of shares of common stock outstanding at November 7, 2002 was 96,892,830.

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months and Nine Months Ended September 30, 2002 and 2001
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Rental revenues:				
Rental income	$ 87,720	$ 65,786	$ 247,209	$ 195,075
Percentage rents	1,597	1,656	6,212	5,436
Expense reimbursements	19,822	14,320	57,553	42,583
Total rental revenues	109,139	81,762	310,974	243,094
Expenses:				
Operating costs	19,452	13,244	53,426	38,428
Real estate and other taxes	12,817	8,631	34,984	25,661
Interest	24,617	20,141	68,371	60,775
Depreciation and amortization	17,713	14,332	52,143	41,456
Provision for doubtful accounts	2,265	1,062	7,093	4,691
General and administrative	4,197	2,100	13,329	6,830
Total expenses	81,061	59,510	229,346	177,841
Income before real estate sales, impairment of real estate, minority interest and other income and expenses	28,078	22,252	81,628	65,253
Other income and expenses:				
Interest, dividend and other income	3,042	3,181	8,792	10,652
Equity participation in ERT				(4,313)
Equity in income of unconsolidated ventures	1,177	44	3,733	44
Foreign currency loss	(397)	(369)	(13)	(499)
Gain on sale of real estate		700	371	683
Impairment of real estate		(8,774)	(1,750)	(12,148)
Minority interest in income of consolidated partnership	(74)	(215)	(418)	(641)
Income from continuing operations	31,826	16,819	92,343	59,031
Discontinued operations:				
Results of operations of discontinued garden apartment communities (Note 2)		5,115		15,179
(Loss) income from other discontinued operations (Note 3)	(2,035)	1,127	(9,803)	3,835
Net income	$ 29,791	$ 23,061	$ 82,540	$ 78,045
Preferred dividends	(4,859)	(5,660)	(16,164)	(16,979)
Discount on redemption of preferred stock	6,997		6,997	

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net income available to common stock basic	31,929	17,401	73,373	61,066
Minority interest in income of consolidated partnership	74	215	418	641
Net income available to common stock diluted	$ 32,003	$ 17,616	$ 73,791	$ 61,707
Basic earnings per common share:				
Income from continuing operations	$ 0.35	$ 0.13	$ 0.88	$ 0.48
Discontinued operations	(0.02)	0.07	(0.10)	0.22
Basic earnings per share	$ 0.33	$ 0.20	$ 0.78	$ 0.70
Diluted earnings per common share:				
Income from continuing operations	$ 0.35	$ 0.13	$ 0.87	$ 0.48
Discontinued operations	(0.02)	0.07	(0.10)	0.22
Diluted earnings per share	$ 0.33	$ 0.20	$ 0.77	$ 0.70
Average shares outstanding basic	96,617	87,210	94,519	87,208
Average shares outstanding diluted	97,934	88,800	96,123	88,718

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
September 30, 2002 and December 31, 2001
(In thousands, except per share amounts)

	September 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Real estate:		
Land	$ 731,480	$ 487,280
Building and improvements	2,599,462	2,142,636
Accumulated depreciation and amortization	(310,113)	(265,937)
Net real estate	3,020,829	2,363,979
Real estate held for sale	44,743	70,659
Cash and cash equivalents	6,384	7,163
Restricted cash	13,126	
Marketable securities	2,098	1,887
Receivables:		

	September 30, 2002	December 31, 2001
Trade, less allowance for doubtful accounts of $14,874 and $15,633 at September 30, 2002 and December 31, 2001, respectively	46,408	43,555
Other, net	18,965	8,736
Mortgages and notes receivable	2,939	45,360
Prepaid expenses and deferred charges	24,480	15,964
Investment in/advances to unconsolidated ventures	53,518	41,876
Other assets	21,663	23,687
Total assets	$ 3,255,153	$ 2,622,866
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages payable, including unamortized premium of $5,059 and $6,063 at September 30, 2002 and December 31, 2001, respectively	$ 504,743	$ 241,436
Notes payable, net of unamortized discount of $2,325 and $1,752 at September 30, 2002 and December 31, 2001, respectively	783,873	613,248
Credit facilities	185,000	95,000
Capital leases	28,961	29,170
Other liabilities	152,786	122,674
Tenant security deposits	8,213	5,833
Total liabilities	1,663,576	1,107,361
Minority interest in consolidated partnership	13,966	22,267
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000 shares authorized: 4,600 shares designated as 8 1/2% Series A: Cumulative Convertible Preferred, 0 and 1,507 outstanding at September 30, 2002 and December 31, 2001, respectively; Series B: 6,300 depository shares, each representing 1/10 of one share of 8 5/8% Series B Cumulative Redeemable Preferred, 630 outstanding at September 30, 2002 and December 31, 2001; Series D: 1,500 depositary shares, each representing 1/10 of one share of Series D Cumulative Voting Step-Up Premium Rate Preferred, 150 shares outstanding at September 30, 2002 and December 31, 2001	8	23
Common stock, $.01 par value, 250,000 shares authorized: 96,893 and 87,352 shares issued and outstanding as of September 30, 2002 and December 31, 2001, respectively	968	873
Additional paid-in capital	1,825,654	1,697,570
Accumulated other comprehensive loss	(979)	(1,965)
Accumulated distribution in excess of net income	(248,040)	(203,263)
Total stockholders' equity	$ 1,577,611	$ 1,493,238
Total liabilities and stockholders' equity	$ 3,255,153	$ 2,622,866

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

NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2002 and 2001
(Unaudited, in thousands)

	September 30, 2002	September 30, 2001
Cash flows from operating activities:		
Net income	$ 82,540	$ 78,045
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	52,735	51,079
Amortization of net premium/discount on mortgages and notes payable	(720)	(938)
Amortization of deferred debt and loan acquisition costs	2,926	1,128
Foreign currency (gain) loss	13	499
(Gain) loss on sale of real estate and securities, net	(371)	(2,200)
Gain on sale of discontinued operations	(1,338)	
Minority interest in income of consolidated partnership	418	641
Impairment of real estate assets	16,562	12,148
Equity participation in ERT		4,269
Equity in income of unconsolidated ventures	(3,733)	
Change in investment in and accrued interest on loans to ERT Development Corporation		(2,491)
Changes in operating assets and liabilities, net:		
Change in trade receivables	(2,852)	7,653
Change in other receivables	(1,231)	2,494
Change in other liabilities	32,688	17,111
Change in sundry assets and liabilities	2,686	(8,929)
Net cash provided by operating activities	180,323	160,509
Cash flows from investing activities:		
Real estate acquisitions and building improvements	(37,317)	(40,862)
Proceeds from real estate sales, net	33,067	387,879
Leasing commissions paid		(1,048)
Purchase of ERT Development Corporation common stock		(435)
Cash acquired from purchase of ERT Development Corporation		543
Restricted cash in escrow	(2,608)	
Advances for mortgage and notes receivable	(351)	(600)
Loans to ERT Development Corporation		(721)
Repayments of mortgage notes receivable	10,367	3,864
CenterAmerica Acquisition (Note 2)	(389,571)	
Superior Marketplace Acquisition (Note 2)	(13,617)	
Capital contributions to joint ventures	(4,296)	
Distributions from joint ventures	8,641	
Net cash (used in) provided by investing activities	(395,685)	348,620
Cash flows from financing activities:		
Principal payments of mortgages and notes payable	(105,445)	(63,692)
Reserves established for mortgaged payable		(28,199)
Dividends paid	(134,098)	(124,966)
Proceeds from credit facility borrowing	650,000	58,000
Repayment of credit facility	(560,000)	(226,750)

	September 30, 2002	September 30, 2001
Proceeds from exercise of stock options	5,491	149
Distributions paid to minority partners	(1,390)	(1,617)
Cash paid on forward starting swaps	(1,914)	
Payments for the repurchase of common stock	(800)	(1,598)
Repayment of loans receivable for the purchase of common stock	94	616
Financing fees	(7,412)	(1,271)
Proceeds from stock offering, net	120,907	
Proceeds from bond issuance, net	249,150	
Net cash provided by (used in) financing activities	214,583	(389,328)
Net increase in cash and cash equivalents	(779)	119,801
Cash and cash equivalents at beginning of period	7,163	1,170
Cash and cash equivalents at end of period	$ 6,384	$ 120,971
Supplemental Cash Flow Disclosure, including Non-cash Activities:		
Cash paid for interest	$ 63,921	$ 62,800
Capitalized interest	2,686	1,172
State and local taxes paid	368	200
Mortgage debt assumed in acquisition	288,500	83,600
Municipal bonds and tax incentive financing received in acquisition	16,892	

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

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NEW PLAN EXCEL REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of New Plan Excel Realty Trust, Inc. and its subsidiaries (collectively, the "Company"). All significant intercompany transactions have been eliminated.

The consolidated financial statements have been prepared by the Company pursuant to the rules of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated statements of income for the three and nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results expected for the full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

Net Earnings per Share of Common Stock

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share*, the Company presents both basic and diluted earnings per share. Net earnings per common share ("basic EPS") is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Net earnings per common share assuming dilution ("diluted EPS") is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon the conversion of preferred stock (using the "if converted" method), exercise of in-the-money stock options and upon conversion of ERP limited partnership units.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid debt instruments with maturities of three months or less at acquisition. Items classified as cash equivalents include insured bank certificates of deposit and commercial paper. At times, cash balances at a limited number of banks may exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions.

Restricted Cash

Restricted cash consists primarily of cash held in escrow accounts for deferred maintenance, capital improvements, environmental expenditures, taxes, insurance, operating expenses and debt service as required by the REMIC mortgage payable deed of trust agreement and other loan agreements. Substantially all restricted cash is invested in money market mutual funds and carried at market value.

Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts of $14.9 million and $15.6 million as of September 30, 2002 and December 31, 2001, respectively.

Real Estate

Land, buildings and building and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives; ordinary repairs and maintenance are expensed as incurred.

Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	35 to 40 years
Building Improvements	5 to 40 years
Tenant Improvements	The shorter of the term of the related lease or useful life

Long-Lived Assets

On a periodic basis, management assesses whether there are any indicators that the value of its real estate properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. Such cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If, in management's opinion, the net sales price of the assets which have been identified for sale is less than the net book value of the assets, a valuation allowance is established. For investments accounted for under the equity method, a loss is recognized if the loss in value of the investment is other than temporary.

Employee Loans

Prior to 2001, the Company had made loans to officers, directors and employees primarily for the purpose of purchasing common shares of the Company. These loans are demand and term notes bearing interest at rates ranging from 5% to 10%. Interest is payable quarterly. Loans made for the purchase of common shares are reported as a deduction from additional paid-in capital. At September 30, 2002 and December 31,

2001, the Company had aggregate loans to employees of approximately $6.9 million and $7.3 million, respectively.

Investments in /Advances to Unconsolidated Ventures

The Company has direct equity investments in several joint venture projects. The Company accounts for these investments in unconsolidated ventures using the equity method of accounting, as the Company exercises significant influence over, but does not control, these entities. These investments are initially recorded at cost, as "Investments in/advances to unconsolidated ventures", and subsequently adjusted for equity in earnings and cash contributions and distributions.

Deferred Leasing and Loan Acquisition Costs

Costs incurred in obtaining tenant leases are amortized using the straight-line method over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease. Costs incurred in obtaining long-term financing are amortized on a straight-line basis and charged to interest expense over the terms of the related debt agreements, which approximates the effective interest method.

Internal Leasing Costs

Effective January 1, 2002, the Company commenced capitalizing internal leasing costs in accordance with SFAS No. 91, *Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (approximately $0.6 million and $2.2 million for the three and nine months ended September 30, 2002, respectively).

Derivative/Financial Instruments

The Company accounts for derivative and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133") and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These accounting standards require the Company to measure derivatives, including certain derivatives embedded in other contracts, at fair value and to recognize them in the Consolidated Balance Sheet as assets or liabilities, depending on the Company's rights or obligations under the applicable derivative contract. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in other comprehensive income ("OCI") and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging instruments and ineffective portions of hedges are recognized in earnings in the current period.

Revenue Recognition

Rental revenue is recognized on the straight-line basis, which averages minimum rents over the terms of the leases. Certain leases provide for percentage rents based upon the level of sales achieved by the lessee. These percentage rents are recorded once the required sales levels are achieved. The leases also typically provide for tenant reimbursement of common area maintenance and other operating expenses.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to maintain its qualification as a REIT, among other things, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to that portion of its income which meets certain criteria and is distributed annually to the stockholders. Accordingly, no provision for federal income taxes is included in the accompanying consolidated financial statements. The Company plans to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to Federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in real estate and other taxes in the Company's consolidated statement of income.

Effective January 1, 2001, the Company may elect to treat one or more of its existing or newly created corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may

engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company has elected to treat certain of its existing and newly created corporate subsidiaries as TRS's.

Segment Information

As a result of the Company's disposition of its garden apartment portfolio in September 2001, the principal business of the Company and its consolidated subsidiaries is the ownership and operation of retail shopping centers. The Company does not distinguish or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company believes it has a single reportable segment for disclosure purposes in accordance with accounting principles generally accepted in the United States. Further, all operations are within the United States and no tenant comprises more than 10% of revenue.

Recently Issued Accounting Standards

In April 2002, FASB issued Statement 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections* ("SFAS No. 145"). This Statement rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. Debt extinguishments that do not meet the criteria for classification as extraordinary items in APB Opinion No. 30 should not be classified as extraordinary. The provisions of SFAS No. 145 shall be applied in fiscal years beginning after May 15, 2002. Debt extinguishments that were classified as extraordinary in prior periods presented that do not meet the criteria of Opinion 30 for classification as an extraordinary item shall be reclassified. The Company will adopt this statement, as required, effective January 1, 2003, and the impact of the adoption of SFAS No. 145 is not expected to be material to the financial statements of the Company.

Effective January 1, 2002, the Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). This statement addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 requires, among other things, that the primary assets and liabilities and the results of operations of the Company's real properties which have been sold during 2002, or otherwise qualify as held for sale (as defined by SFAS No. 144), be classified as discontinued operations and segregated in the Company's Consolidated Income Statements and Balance Sheets. Properties classified as real estate held for sale generally represent properties that are under contract for sale and are expected to close within the next twelve months. SFAS No. 144 requires that the provisions of this statement be adopted prospectively. Accordingly, real estate designated as held for sale prior to January 1, 2002 will continue to be accounted for under the provisions of SFAS No. 121 and the results of operations, including impairment, gains and losses, of these properties are included in income from continuing operations. Real estate designated as held for sale subsequent to January 1, 2002 will be accounted for in accordance with the provisions of SFAS No. 144 and the results of operations of these properties are included in income from discontinued operations. Prior periods have been restated for comparability, as required.

In June 2001, FASB issued Statement 141, *Business Combinations*. This Statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, *Business Combinations,* and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*. All business combinations in the scope of this Statement are to be accounted for using one method, the purchase method. This statement is effective June 30, 2001 and its adoption did not have a material impact on the financial statements of the Company.

In June 2001, FASB issued Statement 142, *Goodwill and Other Intangible Assets*. This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, *Intangible Assets.* It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. This statement is effective for fiscal years beginning after December 15, 2001,

and the impact of the adoption of this statement was not material to the financial statements of the Company.

Reclassifications

Certain prior period amounts have been reclassified to conform with current period presentation.

Note 2: Acquisition and Dispositions

Center America Acquisition

On March 1, 2002, the Company acquired a portfolio of 92 community and neighborhood shopping centers (the "CenterAmerica Acquisition") from CenterAmerica Property Trust, L.P., a private company majority owned by Morgan Stanley Real Estate Fund II. As part of the transaction, the Company also acquired a 10% managing membership interest in a joint venture with a private U.S. pension fund. The joint venture currently owns 13 grocery-anchored shopping centers located in six states. The aggregate purchase price for the acquisition was approximately $654 million, consisting of approximately $365 million in cash and the assumption of approximately $289 million of outstanding debt. The cash component of the acquisition was financed with the proceeds of a public equity offering of the Company's common stock and with borrowings under the Company's then existing credit facilities and a $125 million senior unsecured term loan facility.

Other Acquisitions

During the nine months ended September 30, 2002, the Company acquired two properties, Superior Marketplace and Whitestown Plaza. Superior Marketplace was acquired on July 31, 2002 from The Ellman Companies for approximately $13.6 million in cash and the satisfaction of $38.0 million of notes receivable and accrued interest. Included in the acquisition was approximately $10.0 million of municipal bonds, as well as certain other tax incentive financing. Superior Marketplace is an existing 114,615 square foot grocery-anchored community shopping center located in Superior, Colorado, northwest of Denver. The shopping center is in the later stages of development and is expected to total 295,602 square feet upon completion. Tenants include Costco (non-owned), Michaels, Office Max, PetsMart, Ross, Super-Target (non-owned) and T.J. Maxx. Whitestown Plaza, an 81,000 square foot shopping center located in Whitesboro, New York, was acquired on April 3, 2002 in consideration of $3.8 million of notes and interest receivable.

In fiscal 2001, the Company acquired two properties, Arapahoe Crossings and Stein Mart Center. The Arapahoe Crossings shopping center was acquired from The Ellman Companies for approximately $48 million in cash and the satisfaction of $13.6 million of notes receivable and accrued interest. Arapahoe Crossings is a 425,000 square foot grocery-anchored community shopping center located in Aurora, Colorado, southeast of Denver, which is in the final phase of development. Tenants include King Soopers (a division of The Kroger Co.), Kohl's, Borders, Marshalls, Office Max and Old Navy. The Stein Mart Center, a 113,000 square foot shopping center located in Poway, California, was acquired from one of the Company's former joint venture partners, in consideration of $4.9 million of notes receivable and interest due to ERT Development Corporation ("ERT").

Disposition of Garden Apartment Portfolio

On September 21, 2001, pursuant to an agreement dated May 11, 2001, the Company and a private investor group comprised of Houlihan-Parnes Realtors, LLC and C.L.K. Management Corp. ("Houlihan/C.L.K.") consummated the sale by the Company of its garden apartment community portfolio (excluding one apartment community which was under contract to be sold separately to a third party) to Houlihan/C.L.K. The one remaining apartment community (The Club Apartments) was sold to the Homewood City Board of Education of Homewood, Alabama on September 28, 2001.

As consideration for the entire portfolio, the Company received gross proceeds of approximately $380 million. In connection with the garden apartment community portfolio transaction, the Company extended a letter of credit in the amount of approximately $30 million, which has a term of three years (subject to the right of Houlihan/C.L.K. to terminate or reduce the amount thereof after 18 months or, alternatively, to extend the term for one additional year), and for which the Company will receive a nine percent per annum fee on the undrawn face amount of the letter of credit while it remains outstanding. The Company also received a one percent commitment fee.

After costs associated with the disposition of the garden apartment community portfolio, the gain on sale was $18.5 million. Approximately $1.5 million of the gain has been recognized to date, with the balance to be recognized as a function of the reduction of the Company's exposure under the letter of credit. The deferred gain of $17.0 million is included in other liabilities in the consolidated balance sheet. Accordingly, the assets and operating results of the garden apartment communities have been reclassified and reported as discontinued operations.

Included in the Consolidated Statement of Income are the discontinued operations of garden apartment communities which are summarized as follows (in thousands):

	Three Months Ended	Nine Months Ended
	September 30, 2001	
Rental revenue	$ 17,534	$ 56,063
Operating costs	(8,061)	(25,063)
Real estate and other taxes	(1,217)	(4,039)
Interest expense	(1,366)	(4,899)
Depreciation and amortization	(3,034)	(7,947)
Provision for doubtful accounts	(241)	(436)
Total operating costs	(13,919)	(42,384)
Income from discontinued operations of garden apartment communities	3,615	13,679
Gain on sale of discontinued operations	1,500	1,500
Net income from discontinued operations of garden apartment communities	$ 5,115	$ 15,179

The Company has allocated interest to its discontinued garden apartment operations in accordance with EITF 87-24. Such interest includes (i) garden apartment portfolio mortgage interest for all periods and (ii) interest on a $50 million portion of the credit facilities subsequent to October 1, 2000, when an interest rate swap was entered into in contemplation of a possible sale of the portfolio.

Other Dispositions

During the nine months ended September 30, 2002, the Company sold 13 properties, one outparcel and approximately 0.2 acres of land for aggregate gross proceeds of approximately $34.3 million. In connection with the sale of these properties, and in accordance with SFAS No. 144 (Note 3), the Company recorded approximately $0.4 million and $(4.9) million for the three and nine months ended September 30, 2002, respectively, as income before impairment and (loss) gain on sale, and approximately $(0.3) million and $1.3 million for the three and nine months ended September 30, 2002, respectively, as (loss) gain on sale of discontinued operations.

During 2001, the Company sold, in addition to its garden apartment portfolio, 26 properties, seven land parcels and one outparcel for aggregate gross proceeds of approximately $49.8 million. In connection with the sale of these properties, and in accordance with APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions* ("APB Opinion No. 30") the Company

recorded approximately $0.6 million and $2.1 million for the three and nine months ended September 30, 2001, respectively, as results of discontinued operations.

Note 3: Income from Other Discontinued Operations

During the nine months ended September 30, 2002, the Company sold 13 properties, one outparcel and approximately 0.2 acres of land (Note 2). The results of operations of these properties are classified on the Consolidated Income Statements in the line item entitled "(Loss) income from discontinued operations". Properties designated as real estate held for sale contributed $1.2 million and $3.1 million of revenue and $(2.2) million and $(6.3) million of net income in the three and nine months ended September 30, 2002, respectively, and $1.0 million and $3.0 million of revenue and $0.6 million and $1.7 million of net income in the three and nine months ended September 30, 2001. Additionally, as a component of net income, the Company recorded approximately $3.0 million and $14.8 million of impairment loss on its discontinued operations for the three and nine months ended September 30, 2002, respectively.

The following is a summary of (loss) income from discontinued operations (excluding the results of operations of the discontinued garden apartment communities) for the three and nine month periods ended September 30, 2002 and 2001 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Rental revenue	$ 1,708	$ 2,172	$ 6,027	$ 7,028
Operating costs	325	444	1,210	1,321
Real estate and other taxes	95	135	404	410
Interest expense		61	50	176
Depreciation and amortization	79	385	592	1,153
Provision for doubtful accounts	(7)	20	90	133
General and administrative	9		10	
Total operating costs	501	1,045	2,356	3,193
Income before impairment and (loss) gain on sale	1,207	1,127	3,671	3,835
Impairment loss on real estate	(2,958)		(14,812)	
(Loss) gain on sale of discontinued operations	(284)		1,338	
Net (loss) income from discontinued operations	$ (2,035)	$ 1,127	$ (9,803)	$ 3,835

Note 4: Real Estate Held for Sale

As of September 30, 2002, 15 retail properties and two land parcels were classified as "Real estate held for sale". These properties are located in ten states and have an aggregate gross leasable area of approximately 0.8 million square feet. Such properties had an aggregate book value of approximately $44.7 million, net of accumulated depreciation of approximately $3.6 million and impairment charges of $8.1 million.

Note 5: ERT Development Corporation

In 1995, ERT Development Corporation ("ERT") was organized to finance, acquire, develop, hold and sell real estate in the short-term for capital gains and/or to receive fee income. Until July 1, 2001, the Company owned 100% of the outstanding preferred shares of ERT and an officer and director of

the Company owned all the common shares. The preferred shares are entitled to receive 95% of dividends, if any, and bear 100% of the losses. Cash requirements to facilitate ERT's transactions have primarily been obtained through borrowings from the Company. As of July 1, 2001, the Company purchased all of the common shares of ERT, and ERT became a wholly owned subsidiary of the Company. In 2001, ERT elected to become a "taxable REIT subsidiary" of the Company under the tax rules applicable to REITs.

For the three and nine months ended September 30, 2001 the equity in the losses of ERT recorded by the Company was $0 and $4.3 million, respectively.

ERT has a wholly owned subsidiary, Pointe Orlando Development Company, as well as an investment in joint venture partnerships related to a retail development project in Frisco, Texas (The Centre at Preston Ridge). In addition, ERT has a retail development project, Vail Ranch II, in Temecula, California.

ERT accounts for its investments in Preston Ridge and Vail Ranch II using the equity method. Equity in the losses of these investments recorded by ERT from January 1, 2001 to July 1, 2001 was approximately $132,400 and is included in Equity participation in ERT line item on the income statement.

On January 11, 2001, ERT acquired Stein Mart Center, a 112,700 square foot shopping center located in Poway, California, from Wilton Partners, one of its joint venture partners, in consideration for $4.9 million of notes receivable and accrued interest due to ERT.

Note 6: Pro Forma Information

The following pro forma financial information for the three months ended September 30, 2001 and nine months ended September 30, 2002 and 2001 is presented as if the stock offering, CenterAmerica Acquisition, and consolidation of ERT had occurred on January 1, 2002 and 2001. In management's opinion, all adjustments necessary to reflect the effects of these transactions have been made.

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2001	2002	2001
(in thousands, except for per share amounts)			
Rental revenues	$ 103,812	$ 326,217	$ 319,398
Expenses	(73,699)	(238,847)	(251,506)
Other (expense) income	(5,084)	10,715	(3,576)
Income from continuing operations	$ 25,029	$ 98,085	$ 64,316
Net Income	$ 31,271	$ 88,282	$ 83,330
Income from continuing operations per share basic	$ 0.21	$ 0.93	$ 0.50
Income from continuing operations per share diluted	0.20	0.92	0.50
Net income per share basic	$ 0.27	$ 0.83	$ 0.71
Net income per share diluted	0.27	0.82	0.69
Average shares outstanding basic	94,110	95,227	94,108
Average shares outstanding diluted	95,700	96,831	95,618

This pro forma financial information is not necessarily indicative of what the actual results of operations of the Company would have been assuming such transactions had been completed as of January 1, 2002 and 2001, nor do they represent the results of operations of future periods.

Note 7: Investments in/Advances to Unconsolidated Ventures

At September 30, 2002, the Company had investments in four joint ventures: (1) Benbrooke Ventures, (2) CA New Plan Venture Fund, (3) Vail Ranch II and (4) The Centre at Preston Ridge, Phase I and II. The latter two investments were acquired as a result of the consolidation of ERT on July 1, 2001. The Company accounts for these investments using the equity method. The following table summarizes the joint venture projects as of September 30, 2002 (in thousands):

	City	State	JV Partner	Percent Ownership	Investment in/ Advances to
Benbrooke Ventures[1]					
Rodney Village	Dover	DE	Benbrooke Partners	50%	*
Fruitland Plaza	Fruitland	MD	Benbrooke Partners	50%	*
Fredricksburg	Spotsylvania	VA	Benbrooke Partners	50%	*
					$ 8,516
CA New Plan Venture Fund[2]					
Ventura Downs	Kissimmee	FL	Major U.S. Pension Fund	10%	*
Flamingo Falls	Pembroke Pines	FL	Major U.S. Pension Fund	10%	*
Sarasota Village	Sarasota	FL	Major U.S. Pension Fund	10%	*
Atlantic Plaza	Satellite Beach	FL	Major U.S. Pension Fund	10%	*
Mableton Walk	Mableton	GA	Major U.S. Pension Fund	10%	*
Raymond Road	Jackson	MS	Major U.S. Pension Fund	10%	*
Mint Hill Festival	Charlotte	NC	Major U.S. Pension Fund	10%	*
Ladera	Albuquerque	NM	Major U.S. Pension Fund	10%	*
Harwood Central Village	Bedford	TX	Major U.S. Pension Fund	10%	*
Odessa-Winwood Town Center	Odessa	TX	Major U.S. Pension Fund	10%	*
Marketplace at Wycliff Phase 1	Lake Worth	FL	Major U.S. Pension Fund	10%	*
Marketplace at Wycliff Phase 2	Lake Worth	FL	Major U.S. Pension Fund	10%	*
Spring Valley Crossing	Dallas	TX	Major U.S. Pension Fund	10%	*
Windvale	The Woodlands	TX	Major U.S. Pension Fund	10%	*
					5,664
Vail Ranch II[3]					
Vail Ranch II	Temecula	CA	Land Grand Development	50%	1,268
The Centre at Preston Ridge[4]					
Phase I	Frisco	TX	George Allen/Milton Schaffer	50%	*
Phase II	Frisco	TX	George Allen/Milton Schaffer	50%	*
					38,070
			Investments in/Advances to Unconsolidated Ventures		$ 53,518

* Multiple properties held in a single investment joint venture.

(1) The Company receives an 8.5% preferred return on its investment.

(2) Increased participation after 12% IRR.

(3) The Company receives a 12% preferred return on its investment.

(4)

The Company receives a 10% preferred return on its investment.

Combined summary unaudited financial information for the Company's investments in/advances to unconsolidated ventures is as follows (in thousands):

Condensed Combined Balance Sheets	September 30, 2002	December 31, 2001
Cash and cash equivalents	$ 9,214	$ 6,421
Receivables	1,400	1,336
Property and equipment, net of accumulated depreciation	243,692	120,861
Other assets, net of accumulated amortization	9,230	42,034
Total Assets	$ 263,536	$ 170,652
Notes payable	$ 168,788	$ 88,534
Accrued interest	1,068	
Other liabilities	4,550	1,873
Total liabilities	174,406	90,407
Total partners' capital	89,130	80,245
Total liabilities and partners' capital	$ 263,536	$ 170,652
Company's investment in/advances to	$ 53,518	$ 41,876

Condensed Combined Statements of Income	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001[1]
Rental revenues	$ 4,788	$ 310	$ 14,066	$ 310
Operating expenses	(651)	(24)	(1,859)	(24)
Interest expense	(1,304)	(103)	(3,881)	(103)
Other expense, net	(1,485)	(95)	(3,848)	(95)
Net income	$ 1,348	$ 88	$ 4,478	$ 88
Company's share of net income[2]	$ 1,177	$ 44	$ 3,733	$ 44

(1) Reflects only three months of results of operations due to the consolidation of ERT into operations on July 1, 2001.

(2) Includes preferred returns of $1.0 million and $3.0 million for the three and nine months ended September 30, 2002, respectively.

The following is a brief summary of the material obligations that the Company has as of September 30, 2002 with respect to the joint ventures detailed above:

Benbrooke Ventures. On May 1, 2002, the Company contributed three community shopping centers, located in Dover, Delaware; Fruitland, Maryland and Spotsylvania, Virginia to a newly formed joint venture. Under the terms of this joint venture, the Company has a 50% interest in the venture. While the Company has no obligation to contribute additional capital to the joint venture, it has agreed to contribute its pro rata share (80%) of any capital that might be required if the joint venture were to need capital.

CA New Plan Venture Fund. In connection with the CenterAmerica Acquisition, the Company assumed obligations under a joint venture agreement with a third-party institutional investor. The joint venture had loans outstanding of approximately $86.3 million as of September 30, 2002. Under the terms of this joint venture, the Company has a 10% interest in the venture, and is responsible for contributing its pro rata share of any capital that might be required if the joint venture were to need capital, up to a maximum amount of $8.3 million, of which approximately $5.7 million has been contributed as of September 30, 2002.

Vail Ranch II Joint Venture. The Company has an investment in a joint venture that owns a community shopping center in Temecula, California that is in the final stages of development. The joint venture had third-party loans outstanding of approximately $8.9 million as of September 30, 2002. The Company currently guarantees interest payments under the loan (which rate of interest is the prime rate of the lender), as well as the payment of taxes, insurance and general maintenance and upkeep on the property. Other than amounts required under the loan guaranty, the Company has no obligation to contribute additional capital to the joint venture however, it has agreed to contribute its pro rata share (50%) of any capital that might be required if the joint venture were to need capital.

Preston Ridge Joint Venture. The Company has an investment in a joint venture that owns a community shopping center in Frisco, Texas known as The Centre at Preston Ridge. The joint venture had third party loans outstanding of approximately $70.0 million as of September 30, 2002. While the Company has no obligation to contribute additional capital to the joint venture, it has agreed to contribute its pro rata share (50%) of any capital that might be required if the joint venture were to need capital.

Note 8: Debt Obligations

As of September 30, 2002 and December 31, 2001, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

		Carrying Value as of			
	Maximum Amount Available	**September 30, 2002**	**December 31, 2001**	**Stated Interest Rates**	**Scheduled Maturity Date**
CREDIT FACILITIES					
BNY Revolving Facility #2	$	$	$ 20,000	LIBOR + 87.5 bp (1)	N/A
Fleet Revolving Facility	350,000	10,000		LIBOR + 105 bp (1)	April 2005
Fleet Term Loan #1	50,000	50,000	75,000	LIBOR + 115 bp (1)	November 2002
Fleet Term Loan #2	125,000	125,000		LIBOR + 115 bp (1)	March 2003
Total Credit Facilities	$ 525,000	$ 185,000	$ 95,000		
MORTGAGES PAYABLE					

	Carrying Value as of			
Fixed Rate Mortgages	$ 369,957	$ 210,572	6.670% 9.625%	2003 2015
Variable Rate Mortgages	129,727	24,801	Variable (2)	2003 2011
Total Mortgages	499,684	235,373		
Net unamortized premium	5,059	6,063		
Total Mortgages, net	$ 504,743	$ 241,436		
NOTES PAYABLE				
6.80% unsecured notes	$	$ 81,000	6.800%	N/A
7.33% unsecured notes	49,000	49,000	7.330%	November 2003
6.88% unsecured notes	75,000	75,000	6.875%	October 2004
7.75% unsecured notes	100,000	100,000	7.750%	April 2005
7.35% unsecured notes	30,000	30,000	7.350%	June 2007
5.88% unsecured notes	250,000		5.875%	June 2007
7.40% unsecured notes	150,000	150,000	7.400%	September 2009
7.97% unsecured notes	10,000	10,000	7.970%	August 2026
7.65% unsecured notes	25,000	25,000	7.650%	November 2026
7.68% unsecured notes	10,000	10,000	7.680%	November 2026
7.68% unsecured notes	10,000	10,000	7.680%	November 2026
6.90% unsecured notes	25,000	25,000	6.900%	February 2028
6.90% unsecured notes	25,000	25,000	6.900%	February 2028
7.50% unsecured notes	25,000	25,000	7.500%	July 2029
Total Notes	784,000	615,000		
Net unamortized discount	(2,325)	(1,752)		
Impact of reverse swap agreement	2,198			
Total Notes, net	$ 783,873	$ 613,248		
CAPITAL LEASES	$ 28,961	$ 29,170	7.500%	June 2031
TOTAL DEBT	$ 1,502,577	$ 978,854		

(1) The Company incurs interest using the 30-day LIBOR rate which was 1.81% as of September 30, 2002.

(2) As determined by the applicable loan agreement, the Company incurs interest on these obligations using either the 30 day LIBOR rate, Moody's A Corporate Bond Index or a rate determined by the appropriate remarketing agent plus spreads ranging from 125 to 375 basis points.

The Fleet Revolving Facility and the Fleet Term Loan #2 require that the Company maintain certain financial coverage ratios. Taking into account amendments effected in November 2002 (Note 13), these coverage ratios currently include:

net operating income of unencumbered assets to interest on unsecured debt ratio of at least 2:1

EBITDA to fixed charges ratio of at least 1.75:1

minimum tangible net worth of approximately $1.3 billion

total debt to total adjusted assets of no more that 55% (57.5% until the earlier of December 31, 2003 or the date on which the Company has completed, from and after November 6, 2002, asset sales of at least $190 million)

total secured debt to total adjusted assets of no more than 40%

unsecured debt to unencumbered assets value ratio of no more than 55% (57.5% until the earlier of December 31, 2003 or the date on which the Company has completed, from and after November 6, 2002, asset sales of at least $190 million)

book value of ancillary assets to total adjusted assets of no more than 25%

book value of new construction assets to total adjusted assets of no more than 15%

FFO payout ratio no greater than 95%

On March 1, 2002, the Company entered into a new $125 million senior unsecured term loan facility ("Fleet Term Loan #2"). As of September 30, 2002, the facility matured on March 1, 2003 and contained covenants substantially similar to those that were contained in the Company's senior unsecured credit facilities that existed at the time the Fleet Term Loan #2 was entered into. The proceeds of the loan were used to finance a portion of the CenterAmerica Acquisition.

On April 26, 2002, the Company entered into a $350 million senior unsecured revolving credit facility ("Fleet Revolving Facility"), refinancing its then existing revolving credit facilities. The facility bears interest at LIBOR plus 105 basis points and matures on April 25, 2005, with a one-year extension option.

On May 8, 2002, the Company extended the maturity on its $50 million senior unsecured term loan facility ("Fleet Term Loan #1"), at original terms, until November 17, 2002.

On June 11, 2002, the Company priced an offering of $250 million of 5.875% senior unsecured notes due June 15, 2007. Interest on the notes will be payable semi-annually on June 15 and December 15. The notes were priced at 99.66% of par value to yield 5.955%. Net proceeds from the offering were used to repay a portion of the borrowings under the Company's Fleet Revolving Facility.

As of September 30, 2002, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands):

2002 (remaining three months)	$	53,423
2003		306,377
2004		120,427
2005		167,477
2006		9,720
Thereafter		840,221
Total debt maturities		1,497,645
Net unamortized premiums on mortgages		5,059
Net unamortized discount on notes		(2,325)
Fair value adjustment on debt subject to reverse swap agreement		2,198

Total debt obligations	$	1,502,577

Note 9: Risk Management and Use of Financial Instruments

Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The

Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of default on the Company's operations and tenants' inability or unwillingness to make contractually required payments. Market risk changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of properties held by the Company.

Use of Derivative Financial Instruments

The Company's use of derivative instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due.

During the three months ended June 30, 2002, in order to hedge a portion of the expected cash flows on the anticipated long-term fixed rate borrowing, the Company entered into certain derivative instruments based on LIBOR for an aggregate of approximately $90.0 million in notional amount. Under these agreements, the Company would generally settle the agreement upon consummation of the forecasted issuance of debt where upon the Company would receive additional cash flow settlement if interest rates rose and pay cash if interest rates fell. On June 11, 2002, upon consummation of the 5.875% senior unsecured note issuance, the Company settled these agreements for approximately $1.9 million. The effects of such payments are deferred in accumulated other comprehensive income and will be amortized into earnings as an increase in effective interest expense over the term of the fixed rate borrowing.

The following table summarizes the terms and fair values of the Company's derivative financial instruments at September 30, 2002 (in thousands). The notional amount at September 30, 2002 provides an indication of the extent of the Company's involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks.

Hedge Product	Hedge Type	Notional Amount	Strike	Maturity	Fair Value
Swap	Cash Flow	$ 75,000	6.670%	10/11/02	$ (304)
Cap	Cash Flow	110,500	8.000%	07/01/03	
Reverse Arrears Swap	Fair Value	50,000	4.357%	10/15/04	2,198
					$ 1,894

On September 30, 2002, the derivative instruments were reported at their fair value as Other Assets of $2.2 million and Other Liabilities of $0.3 million. Additionally, the reverse arrears swap debt of approximately $2.2 million at September 30, 2002 was reported as a component of the note payable to which it was assigned. As of September 30, 2002, there were $2.1 million in deferred losses represented in OCI.

Over time, the unrealized gains and losses held in OCI will be reclassified to earnings in the same period(s) in which the hedged items are recognized in earnings. Prior to the maturity of the swap agreement on October 11, 2002, the Company expects to reclassify to earnings approximately $0.3 million of the current balance held in OCI. The remaining balance is expected to be reclassified to

earnings over the lives of the current hedging instruments, or for realized losses on forecasted debt transactions, over the related term of the debt obligation, as applicable.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of borrowers or tenants related to the Company's investments or rental operations are engaged in similar business activities, or are located in the same geographic region, or have similar economic features that would cause their inability to meet contractual obligations, including those to the Company, to be similarly affected. The Company regularly monitors its tenant base to assess potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk. No tenant exceeds 5% of annual reported rental income.

On January 22, 2002, Kmart Corporation ("Kmart"), the Company's second largest tenant, filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. Since the bankruptcy filing (i) leases at six of the Company's locations were rejected, (ii) the designation rights with respect to one Company lease location were acquired by a third party and (iii) the Company has entered into agreements with Kmart to reduce the rent at four additional Company store locations. The Company's 35 Kmart locations (excluding the six rejected locations, but including the four locations where rental reductions were agreed to and the one designation rights location) contain a total of 3.3 million square feet of gross leasable area, or approximately 7.1% of the Company's total gross leasable area. As of September 30, 2002, Kmart's annualized base rent for these 35 locations (taking into account the agreed to rental reductions) was $13.5 million, or approximately $4.15 per square foot.

Note 10: Stockholders' Equity

Earnings per Share (EPS)

In accordance with the disclosure requirements of SFAS No. 128, a reconciliation of the numerator and denominator of basic and diluted EPS is provided as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
Basic EPS				
Numerator:				
Income from continuing operations	$ 31,826	$ 16,819	$ 92,343	$ 59,031
Results of operations of discontinued garden apartment communities		5,115		15,179
(Loss) income from other discontinued operations	(2,035)	1,127	(9,803)	3,835
Preferred dividends	(4,859)	(5,660)	(16,164)	(16,979)
Discount on redemption of preferred stock	6,997		6,997	
Net income available to common shares basic	$ 31,929	$ 17,401	$ 73,373	$ 61,066
Denominator:				
Weighted average of common shares outstanding	96,617	87,210	94,519	87,208
Earning per share continuing operations	$ 0.35	$ 0.13	$ 0.88	$ 0.48
Earnings per share discontinued operations	(0.02)	0.07	(0.10)	0.22

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic Earnings Per Share	$ 0.33	$ 0.20	$ 0.78	$ 0.70
Diluted EPS				
Numerator:				
Income from continuing operations	$ 31,826	$ 16,819	$ 92,343	$ 59,031
Results of operations of discontinued garden apartment communities		5,115		15,179
(Loss) income from other discontinued operations	(2,035)	1,127	(9,803)	3,835
Preferred dividends	(4,859)	(5,660)	(16,164)	(16,979)
Discount on redemption of preferred stock	6,997		6,997	
Minority interest	74	215	418	641
Net income available to common shares diluted	$ 32,003	$ 17,616	$ 73,791	$ 61,707
Denominator:				
Weighted average of common shares outstanding basic	96,617	87,210	94,519	87,208
Effect of diluted securities:				
Common stock options	519	355	581	275
Excel Realty Partners, L.P. third party units	798	1,235	1,023	1,235
Weighted average of common shares outstanding diluted	97,934	88,800	96,123	88,718
Earning per share continuing operations	$ 0.35	$ 0.13	$ 0.87	$ 0.48
Earnings per share discontinued operations	(0.02)	0.07	(0.10)	0.22
Diluted Earnings per Share	$ 0.33	$ 0.20	$ 0.77	$ 0.70

Note Preferred A shares are anti-dilutive for earnings per share calculations. On July 15, 2002, the Company redeemed all Preferred A shares outstanding, resulting in the issuance of approximately 1.9 million shares of common stock. The redemption resulted in a one-time discount, which is reflected above for the three and nine months ended September 30, 2002.

On January 29, 2002, the Company completed a public offering of 6,900,000 of its common shares at $18.52 per share. The net proceeds to the Company from the offering were approximately $120.7 million, and were used initially to pay down amounts outstanding under the Company's revolving credit facilities (which amounts were subsequently re-drawn to finance the CenterAmerica Acquisition).

On July 15, 2002, pursuant to a notice issued to shareholders on June 5, 2002, the Company redeemed all outstanding shares of its Series A Cumulative Convertible Preferred Stock. Each share of Series A stock was redeemed for 1.24384 shares of common stock, and resulted in the issuance of

approximately 1.9 million shares of common stock at an equivalent of $20.10 per share. The redemption occurred at a discount to the carrying value of the preferred stock aggregating approximately $7.0 million based on shares redeemed by the Company at the closing price at redemption. Such discount has been reflected as an adjustment to earnings attributable to common shareholders in the three and nine months ended September 30, 2002.

Note 11: Comprehensive Income

Total comprehensive income was $30.7 million and $23.3 million for the three months ended September 30, 2002 and 2001, respectively, and $83.5 million and $74.7 million for the nine months ended September 30, 2002 and 2001, respectively. The primary components of comprehensive income, other than net income, are the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and the Company's mark-to-market on its available-for-sale securities.

The reconciliation to other comprehensive income is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2002	2001	2002	2001
Net Income	$ 29,791	$ 23,061	$ 82,540	$ 78,045
Other comprehensive income:				
Unrealized (losses) gains on available-for-sale securities for the period	(108)	(239)	210	223
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income				(2,214)
Unrealized gains (losses) on interest hedges	1,015	519	776	(1,314)
Comprehensive income	$ 30,698	$ 23,341	$ 83,526	$ 74,740

As of September 30, 2002 and December 31, 2001, accumulated other comprehensive income reflected in the Company's equity on the balance sheet is comprised of the following (in thousands):

	As of September 30, 2002	As of December 31, 2001
Unrealized gains on available-for-sale securities	$ 1,123	$ 913
Unrealized losses on interest risk hedges	(304)	(2,878)
Realized losses on forecasted transactions	(1,798)[(1)]	
Accumulated other comprehensive loss	$ (979)	$ (1,965)

(1) As more fully described in Note 9, includes the results of three future fixed rate swaps used to hedge a fixed rate debt offering which were commenced and terminated by the Company during the three months ended June 30, 2002. The portion of this amount attributable to the three swaps will be amortized into interest expense.

Note 12: Commitments and Contingencies

General

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties. The Company is involved in routine litigation arising in the ordinary course of business.

Funding Commitments

In addition to the joint venture funding commitments described in Note 7 above, the Company also has the following contractual obligations as of September 30, 2002:

Letter of Credit Extension. In connection with the sale of its garden apartment portfolio, the Company indirectly provided a letter of credit to the buyer in the amount of approximately $30 million, which can remain outstanding through September 2004 (subject to extensions for up to one year). The letter of credit was used by the buyer as collateral for a loan obtained to finance the purchase of the garden apartment portfolio. If the letter of credit is drawn (for example, following a default by the buyer under the loan), the Company will be obligated to reimburse the providing bank for the amount of the draw.

Non-Recourse Debt Guarantees. Under certain Company and joint venture non-recourse mortgage loans, under certain circumstances, the Company could be responsible for portions of the mortgage indebtedness in connection with certain customary non-recourse carve out provisions such as environmental conditions, misuse of funds and material misrepresentations. As of September 30, 2002, the Company had mortgage loans outstanding of approximately $504.7 million and joint ventures in which the Company has a direct or indirect interest had mortgage loans outstanding of approximately $165.2 million.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, the Company may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may become liable for the costs of removal or remediation of certain hazardous substances released on or in its property or disposed of by it, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). Such liability may be imposed whether or not the Company knew of, or was responsible for, the presence of these hazardous or toxic substances. As is common with neighborhood and community shopping centers, many of the Company's properties had or currently have on-site dry cleaners and/or on-site gasoline facilities. These operations could potentially result in environmental contamination at the properties. Except as discussed below, the Company is not aware of any material environmental condition at any of its properties.

The Company is aware that soil and groundwater contamination, above applicable clean-up standards, exists at certain of its properties. The primary contaminants of concern at these properties include perchloroethylene and trichloroethylene (associated with the operations of on-site dry cleaners) and petroleum hydrocarbons (associated with the operations of on-site gasoline facilities). The Company currently estimates that the total cost of remediation of environmental conditions for these properties will not exceed $3 million, although there can be no assurance that this estimate will prove accurate. In connection with some properties, the Company has entered into remediation and indemnity agreements, which obligate the prior owners to perform the remediation and to indemnify the Company for any losses the Company may suffer because of the contamination or remediation. In connection with some other properties, the Company has assumed the obligation to perform the necessary remediation in connection with its purchase of the properties and in some cases an escrow has been established to provide the funds necessary to pay for the remediation costs. In connection with some other properties, the current or former tenants at the properties are in the process of, or are responsible for, performing the necessary remediation.

In addition to the environmental conditions discussed above, asbestos-containing materials (associated with spray applied fireproofing materials) exist at some of the Company's properties. As a general matter, removal of these materials occurs when the property undergoes significant renovation or when significant tenant improvements are undertaken. As of September 30, 2002 and December 31,

2001, the Company's reserve for removal of asbestos-containing materials at these properties was approximately $0 and $3.2 million, respectively, although there can be no assurance that this estimate will prove accurate. Included in other liabilities in its Consolidated Balance Sheet as of December 31, 2001 is $3.2 million related to the clean-up of certain asbestos-containing materials.

While the Company does not expect the environmental conditions at its properties, considered as a whole, to have a material adverse effect on the Company, there can be no assurance that its remediation estimates will prove accurate, that the prior owners or current or former tenants will perform their obligations to remediate, or that established escrow funds will be sufficient to pay for all necessary remediation costs. Further, no assurance can be given that any environmental studies performed have identified or will identify all material environmental conditions, that any prior owner of the properties did not create a material environmental condition not known to the Company or that a material environmental condition does not otherwise exist with respect to any of the Company's properties.

Note 13: Subsequent Events

On November 12, 2002, the Company announced that it had entered into a definitive agreement to sell four of its factory outlet centers to Chelsea Property Group, Inc. The four properties include St. Augustine Outlet Center, located in St. Augustine, Florida; Factory Merchants Branson, located in Branson, Missouri; Factory Outlet Village Osage Beach, located in Osage Beach, Missouri; and Jackson Outlet Village, located in Jackson, New Jersey. In a separate transaction on October 22, 2002, the Company completed the sale of Factory Merchants Ft. Chiswell, located in Max Meadows, Virginia. Gross proceeds from the sale of the five properties will be approximately $194.5 million, reflecting a capitalization rate of approximately 11.0 percent on estimated 2003 net operating income. The transaction with Chelsea Property Group is expected to close on or about December 31, 2002. The agreement is subject to certain customary closing conditions and there can be no assurance that the transaction will be consummated.

On November 11, 2002, the Company announced that it had entered into a definitive agreement with Equity Investment Group, a private retail focused REIT, to acquire a portfolio of 58 community and neighborhood shopping centers for approximately $437.0 million. The purchase price consists of the assumption of approximately $152.0 million of outstanding indebtedness, the issuance of approximately $25.0 million of units in a partnership controlled by the Company and approximately $260.0 million of cash. The 58 properties represent a select compilation of Equity Investments Group's 118 community and neighborhood shopping centers and were chosen based on their strategic fit with the retail format and the demographic, geographic and tenancy characteristics of the Company's shopping center portfolio. The assets total 7.9 million square feet of gross leasable area ("GLA"), of which 74 percent is grocery-anchored, and were 92 percent leased (excluding redevelopment properties) as of September 30, 2002. The properties are located in 22 states, predominantly in the Central and Eastern regions of the United States. The portfolio includes one Kmart store that contains approximately 83,000 square feet of GLA and has an annualized base rent of approximately $137,000 (or approximately $1.65 per square foot) as of September 30, 2002. The transaction is expected to close by year end 2002. The agreement is not contingent on financing or on further economic, physical or environmental due diligence, but is subject to certain closing conditions and there can be no assurance that the transaction will be consummated.

To facilitate the proposed acquisition described above, on November 6, 2002, the Company entered into an amendment to its Fleet Revolving Facility. Under this amendment, certain of the Company's financial covenants were modified. In particular, the banks agreed, effective as of the closing of the proposed acquisition, to raise the limit on the Company's permitted consolidated total indebtedness from 55% of total capital to 57.5% of total capital, and to raise the limit on the Company's permitted consolidated unsecured indebtedness from 55% of the value of its unencumbered assets to 57.5% of

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the value of its unencumbered assets. In both cases, the increased debt levels are permitted only until the earlier of December 31, 2003, or such time as the Company engages in asset sales from and after November 6, 2002 that raise a total of at least $190.0 million of net proceeds.

On November 6, 2002, the Company also amended its existing Fleet Term Loan #2, increasing the borrowing base to $155.0 million and extending the maturity date until December 2003, and amending its covenants to be consistent with those contained in the Fleet Revolving Facility agreement (including the amended covenants described above). The Fleet Term Loan #2continues to bear interest at LIBOR plus 115 basis points, based on the Company's current debt rating.

On October 7, 2002, the Company repaid the $50.0 million outstanding under its Fleet Term Loan #1, and that loan was cancelled and retired.

Clearwater Mall, located in Clearwater, Florida is currently being redeveloped through a joint venture with The Sembler Company as a large, open-air community shopping center, encompassing approximately 740,000 square feet of retail space. On October 11, 2002, the Company sold individual land parcels accounting for approximately 450,000 square feet of anchor space to Costco, Lowe's and Target. The Company then contributed the remaining mall property to the joint venture. Also on October 11, 2002, the joint venture closed an approximately $36.0 million construction loan with Wells Fargo. The Company received approximately $28.0 million from the land sales and loan transaction and does not anticipate that it will be required to make any additional capital contributions to complete the project.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto. Historical results and percentage relationships set forth in the Consolidated Statements of Income contained in the Consolidated Financial Statements and accompanying notes, including trends which might appear, should not be taken as indicative of future operations.

On March 1, 2002, the Company acquired a portfolio of 92 community and neighborhood shopping centers (the "CenterAmerica Acquisition") from CenterAmerica Property Trust, L.P., a private company majority owned by Morgan Stanley Real Estate Fund II. As part of the transaction, the Company also acquired a 10% managing membership interest in a joint venture with a private U.S. pension fund. Accordingly, the Company's results of operations for the three and nine months ended September 30, 2002 include the results of operations from the CenterAmerica Acquisition.

During the nine months ended September 30, 2002, the Company acquired two properties, Superior Marketplace and Whitestown Plaza. Additionally, during the fourth quarter of 2001, the Company acquired Arapahoe Crossings (collectively "Other Acquisitions"). Accordingly, the Company's results of operations for the three and nine months ended September 30, 2002 include the results of operations of the Other Acquisitions.

On September 21, 2001, the Company and a private investor group comprised of Houlihan-Parnes Realtors, LLC and C.L.K. Management Corp. consummated the sale by the Company of its garden apartment community portfolio (excluding one apartment community which was sold separately to an unrelated third party on September 28, 2001). The one remaining apartment community (The Club Apartments) was sold to Homewood City Board of Education of Homewood, Alabama. Accordingly, the assets and operating results of the garden apartment communities were reclassified and reported as a component of discontinued operations and are not reflected in the following discussion.

On July 1, 2001, the Company acquired 100% of the common stock in ERT Development Corporation ("ERT"). Effective July 1, 2001, ERT was consolidated with the Company. Prior to July 1, 2001, the Company owned 100% of the outstanding preferred shares of ERT. The Company accounted for ERT using the equity method of accounting prior to July 1, 2001.

Results of operations for the three months ended September 30, 2002 and 2001

Revenues:

Rental income increased $21.9 million, or 33.3%, from $65.8 million for the three months ended September 30, 2001 to $87.7 million for the same period in 2002. The CenterAmerica Acquisition resulted in an increase in revenue of approximately $18.0 million, while Other Acquisitions contributed revenue of approximately $1.9 million. Additionally, the Company recognized increased lease settlement income of approximately $1.2 million and approximately $0.8 million from increases in electricity, insurance, protection services and water and sewer revenues. These increases were partially offset by a $1.0 million decrease resulting from the sale of 26 retail properties during fiscal 2001. The remaining increase is attributable to increases in other rental income.

Expense reimbursements increased $5.5 million, or 38.5%, from $14.3 million for the three months ended September 30, 2001 to $19.8 million for the same period in 2002. The CenterAmerica Acquisition resulted in an increase of approximately $4.3 million, while Other Acquisitions resulted in an increase of $0.4 million. The balance of the change is due to an increase in reimbursable expenses.

As a result of the CenterAmerica Acquisition and consolidation of ERT, the Company acquired direct equity investments in the CA New Plan Venture Fund, Vail Ranch II and The Centre at Preston Ridge joint venture projects. The Company also maintains a joint venture interest in Benbrooke

Ventures. These projects resulted in combined income of approximately $1.2 million, which is recorded in "Equity in income of unconsolidated ventures" for the three months ended September 30, 2002.

Expenses:

Total expenses increased $21.6 million, or 36.3%, from $59.5 million for the three months ended September 30, 2001 to $81.1 million for the same period in 2002. The major areas of change are discussed below.

Operating costs increased $6.3 million, or 47.7%, from $13.2 million for the three months ended September 30, 2001 to $19.5 million for the same period in 2002. The increase is primarily attributable to the CenterAmerica Acquisition, which accounted for $3.6 million of the total increase, and higher insurance expense which increased $1.1 million as a result of higher premiums under the Company's renewed policy and the Company's addition of a higher coverage terrorism clause. Additionally, Other Acquisitions contributed $0.3 million. The remainder of the increase is attributable to increased payroll, advertising, repairs and maintenance.

Real estate and other taxes increased $4.2 million, or 48.8%, from $8.6 million for the three months ended September 30, 2001 to $12.8 million for the same period in 2002. Approximately $3.4 million and $0.2 million of the increase is attributable to the CenterAmerica Acquisition and Other Acquisitions, respectively. The balance of the increase is due to property tax rate increases in certain municipalities combined with higher assessments at certain properties in 2002.

Interest expense increased $4.5 million, or 22.4%, from $20.1 million for the three months ended September 30, 2001 to $24.6 million for the same period in 2002. Interest expense increased $4.0 million as a result of debt assumed in connection with the CenterAmerica Acquisition. Additionally, the Company's issuance of $250 million of bonds during the second quarter ended June 30, 2002, resulted in an increase in interest expense of $3.8 million. This increase was partially offset by the repayment of $81 million in bonds in May 2002, which resulted in a decrease of $1.6 million. Interest on the Company's revolving credit facilities decreased approximately $0.7 million due to lower outstanding balances as compared to prior year, as well as lower interest rates. Mortgage interest decreased approximately $1.5 million, as a result of payoffs and decreased interest rates. The balance of the increase is attributable to increased amortization of debt issuance costs associated with various debt issued during the year.

Provision for doubtful accounts increased $1.2 million, or 109%, from $1.1 million for the three months ended September 30, 2001 to $2.3 million for the same period in 2002. This increase reflects the inclusion of expense associated with the CenterAmerica Acquisition of approximately $0.6 million, compounded by reserves of $1.6 million attributable to certain Kmart leases. These increases were partially offset by a $0.7 million decrease attributable to sold properties, as well as reduced reserve levels attributable to lower write-offs.

Depreciation and amortization expense increased $3.4 million, or 23.8%, from $14.3 million for the three months ended September 30, 2001 to $17.7 million for the same period in 2002. This increase is primarily attributable to the CenterAmerica Acquisition, which accounted for approximately $2.8 million. The balance of the change is attributable to Other Acquisitions.

General and administrative expenses increased $2.1 million, or 100%, from $2.1 million for the three months ended September 30, 2001 to $4.2 million for the same period in 2002. This increase reflects the inclusion of costs associated with the CenterAmerica Acquisition of approximately $1.6 million. The remainder of the increase is attributable to increased payroll, legal and consulting fees.

Gain (loss) on Sale of Real Estate:

During the three months ended September 30, 2001, the Company sold seven properties, two land parcels and one outparcel, which resulted in a gain of approximately $0.7 million.

Impairment of Real Estate:

The estimated fair value of certain properties classified as "Real estate held for sale" was less than the book value of these properties. This resulted in an impairment of real estate expense of $8.8 million for the three months ended September 30, 2001. For the three months ended September 30, 2002, impairment expense of $3.0 million is included in discontinued operations as discussed below.

Discontinued Operations:

Effective January 1, 2002, the Company adopted SFAS No. 144 (Note 3). This Statement retains the requirement of APB Opinion No. 30 to report discontinued operations separately from continuing operations, and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale.

As of September 30, 2002, the Company classified fourteen previously operating properties and one land parcel as "Real estate held for sale" and sold seven properties, including two properties not previously classified as "Real estate held for sale". Accordingly, the results of operations, impairment expense and loss on sale for the three months ended September 30, 2002 of $1.2 million, $3.0 million and $0.3 million, respectively, associated with these properties have been reported as discontinued operations. The results of operations of approximately $1.1 million, as well as the operating results of the Company's garden apartment communities (Note 2), have also been reclassified to "Discontinued Operations" for the same period in 2001.

Results of operations for the nine months ended September 30, 2002 and 2001

Revenues:

Rental income increased $52.1 million, or 26.7%, from $195.1 million for the nine months ended September 30, 2001 to $247.2 million for the same period in 2002. The CenterAmerica Acquisition resulted in an increase in revenue of approximately $42.4 million, while Other Acquisitions contributed revenue of $4.8 million. The consolidation of ERT for the full nine months resulted in an increase of approximately $6.7 million and lease settlement income increased by $1.9 million. These increases were partially offset by a $3.7 million decrease resulting from the sale of 26 retail properties ("sold properties") during the nine months ended September 30, 2002.

Expense reimbursements increased $15.0 million, or 35.2%, from $42.6 million for the nine months ended September 30, 2001 to $57.6 million for the same period in 2002. The CenterAmerica Acquisition resulted in an increase of approximately $10.1 million, while Other Acquisitions contributed $0.8 million and the consolidation of ERT for the full nine months resulted in an additional increase of $1.6 million. The balance of the change is due to an increase in reimbursable expenses, partially offset by a $0.3 million decrease resulting from sold properties.

Interest, dividend and other revenue decreased approximately $1.9 million, or 17.8%, from $10.7 million for the nine months ended September 30, 2001 to $8.8 million for the same period in 2002. The decrease is primarily attributable to lower amounts of interest income earned from ERT and the Company's development projects. The decrease in interest income from ERT is due to the consolidation of ERT as of July 1, 2001.

Equity participation in ERT for the nine months ended September 30, 2001 was approximately $(4.3) million. No equity participation has been recorded for the nine months ended September 30, 2002 as ERT was consolidated for financial statement purposes with the Company for periods effective after July 1, 2001 and the results of its operations are reflected in consolidated net income.

As a result of the CenterAmerica Acquisition and consolidation of ERT, the Company acquired direct equity investments in the CA New Plan Venture Fund, Vail Ranch II and The Centre at Preston Ridge joint venture projects. The Company also maintains a joint venture interest in Benbrooke Ventures. These projects resulted in combined income of approximately $3.7 million, which is recorded in "Equity in income of unconsolidated ventures" for the nine months ended September 30, 2002.

Expenses:

Total expenses increased $51.5 million, or 29.0%, from $177.8 million for the nine months ended September 30, 2001 to $229.3 million for the same period in 2002. The major areas of change are discussed below.

Operating costs increased $15.0 million, or 39.0%, from $38.4 million for the nine months ended September 30, 2001 to $53.4 million for the same period in 2002. The increase is primarily attributable to the CenterAmerica Acquisition and consolidation of ERT, which accounted for $8.5 million and $3.1 million of the increase, respectively. Other Acquisitions resulted in an increase of $0.7 million. Additionally, insurance expense increased approximately $3.3 million as a result of higher premiums under the Company's renewed policy and the Company's addition of a higher coverage terrorism clause. These increases were partially offset by a decrease of $0.6 million attributable to sold properties.

Real estate and other taxes increased $9.3 million, or 36.2%, from $25.7 million for the nine months ended September 30, 2001 to $35.0 million for the same period in 2002. Approximately $7.5 million and $0.6 million of the increase are attributable to the CenterAmerica Acquisition and ERT consolidation, respectively, while Other Acquisitions accounted for $0.6 million of the increase. The balance of the increase is due to property tax rate increases in certain municipalities combined with higher assessments at certain properties in 2002.

Interest expense increased $7.6 million, or 12.5%, from $60.8 million for the nine months ended September 30, 2001 to $68.4 million for the same period in 2002. Debt assumed in connection with the CenterAmerica Acquisition accounted for an increase of approximately $9.5 million. Interest on unsecured notes increased approximately $2.0 million due to the issuance of $250 million of bonds during the second quarter ended June 30, 2002, which was partially offset by the payoff of $81 million of bonds on May 15, 2002. Amortization of debt issuance costs increased approximately $1.8 million. These increases were partially offset by decreased mortgage interest of approximately $3.0 million and decreased interest on the Company's variable rate credit facilities of approximately $1.5 million. The decreases are attributable to lower interest rates on the Company's variable rate credit facilities and mortgages, as well as the pay down of the credit facilities and mortgages with the proceeds from the sale of the garden apartment portfolio, the stock offering and the bond issuance. These decreases were further compounded by increased capitalization of interest of approximately $1.2 million due to the increase in redevelopment projects during 2002.

Provision for doubtful accounts increased $2.4 million, or 51.1%, from $4.7 million for the nine months ended September 30, 2001 to $7.1 million for the same period in 2002. This increase reflects the inclusion of expenses associated with the CenterAmerica Acquisition and consolidation of ERT of approximately $1.6 million and $1.0 million, respectively, compounded by increased reserves attributable to certain

Kmart leases. These increases were partially offset by reduced reserve levels attributable to lower write-offs.

Depreciation and amortization expense increased $10.6 million, or 25.5%, from $41.5 million for the nine months ended September 30, 2001 to $52.1 million for the same period in 2002. This increase is primarily attributable to the CenterAmerica Acquisition and ERT consolidation, which accounted for approximately $6.4 million and $3.3 million, respectively. Other Acquisitions resulted in an increase of $0.9 million. These increases are partially offset by a decrease of $0.5 million attributable to sold properties. The balance of the change is attributable to increased capital spending during 2002.

General and administrative expenses increased $6.5 million, or 95.6%, from $6.8 million for the nine months ended September 30, 2001 to $13.3 million for the same period in 2002. This increase reflects the inclusion of costs associated with the CenterAmerica Acquisition of approximately $2.6 million, as well as approximately $1.8 million of franchise tax expense, resulting from newly passed Pennsylvania tax legislation. The balance of the increase is attributable to increased legal and consulting costs, as well as depreciation expense on non-real estate assets.

Gain (loss) on Sale of Real Estate:

The Company sold one outparcel and one land parcel during the nine months ended September 30, 2002. The sale of these properties resulted in a gain of approximately $0.4 million. The Company sold 14 properties, four land parcels and one outparcel during the same period in 2001 which resulted in a loss of approximately $0.7 million.

Impairment of Real Estate:

The estimated fair value of certain properties classified as "Real estate held for sale" was less than the book value of these properties. This resulted in an impairment of real estate expense of $12.1 million for the nine months ended September 30, 2001. For the nine months ended September 30, 2002, impairment expense was $16.6 million, of which $14.8 million is included in discontinued operations, as discussed below.

Discontinued Operations:

Effective January 1, 2002, the Company adopted SFAS No. 144 (Note 3). This Statement retains the requirement of APB Opinion No. 30 to report discontinued operations separately from continuing operations, and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. As of September 30, 2002, such properties generated approximately $3.7 million, $14.8 million and $1.3 million in results of operations, impairment expense and gain on sale, respectively. Accordingly, these amounts have been classified as discontinued operations. The results of operations for these properties, as well as the operating results of the Company's garden apartment communities (Note 2), have also been reclassified to "Discontinued Operations" for the same period in 2001.

Same Property Analysis

Included in the Company's consolidated results of operations are the results of operations of properties that have been owned for the full periods presented ("Same-Store Properties"). The Same-Store Properties results exclude the results of operations of properties that have undergone or are undergoing redevelopment during the applicable periods, as well as properties acquired or disposed

of during the periods presented. Same-Store Properties financial information and statistics are as follows (in thousands, except for number of properties included in analysis):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001

	Three Months Ended September 30,		Nine Months Ended September 30,	
Number of properties included in analysis	223	223	222	222
Percent leased (weighted average)	89.9%	91.8%	90.3%	92.2%
Rental revenues:				
Rental income	$ 57,986	$ 58,150	$ 172,414	$ 174,578
Percentage rents	1,627	1,262	5,235	5,086
Expense reimbursements	13,376	11,575	41,523	37,701
Total rental revenues	72,989	70,987	219,172	217,365
Expenses:				
Operating costs	13,202	11,773	38,227	35,570
Real estate and other taxes	7,688	7,301	22,616	21,916
Provision for doubtful accounts	1,117	463	4,326	4,104
Total expenses	22,007	19,537	65,169	61,590
Net operating income	$ 50,982	$ 51,450	$ 154,003	$ 155,775

Results of Operations for the three months ended September 30, 2002 and 2001

Revenues:

Rental income for the Same-Store Properties decreased $0.2 million, or 0.3%, from $58.2 million for the three months ended September 30, 2001 to $58.0 million for the same period in 2002. The decrease results primarily from a 1.9% decline in occupancy, 1.3% of which is attributable to the four Kmart leases that were rejected in bankruptcy.

Expense reimbursements increased $1.8 million, or 15.5%, from $11.6 million for the three months ended September 30, 2001 to $13.4 million for the same period in 2002. This increase is due primarily to the recovery of an increased amount of total property expenses in 2002, as well as increased tenant billings, partially offset by a decrease of $0.3 million attributable to the four Kmart leases which were rejected in bankruptcy.

Expenses:

Total expenses increased $2.5 million, or 12.8%, from $19.5 million for the three months ended September 30, 2001 to $22 million for the same period in 2002. The major areas of change are discussed below.

Operating expenses increased $1.4 million, or 11.9%, from $11.8 million for the three months ended September 30, 2001 to $13.2 million for the same period in 2002. This increase is primarily attributable to increased insurance expense as a result of higher premiums under the Company's renewed policy, and the Company's addition of increased terrorism coverage.

Real estate and other taxes increased $0.4 million, or 5.5%, from $7.3 million for the three months ended September 30, 2001 to $7.7 million for the same period in 2002. This increase is due primarily to property tax rate increases in certain municipalities combined with higher assessments at certain properties in 2002.

Provision for doubtful accounts increased $0.7 million, or 141%, from $0.5 million for the three months ended September 30, 2001 to $1.1 million for the same period in 2002. This increase is primarily attributable to a $1.6 million reserve related to the four Kmart leases that were rejected in bankruptcy, which was partially offset by reduced reserve levels attributable to lower write-offs.

Results of Operations for the nine months ended September 30, 2002 and 2001

Revenues:

Rental income for the Same-Store Properties decreased $2.2 million, or 1.3%, from 174.6 million for the nine months ended September 30, 2001 to $172.4 million for the same period in 2002. The decrease results primarily from a decrease of $0.8 million as a result of the four Kmart leases that were rejected in bankruptcy combined with general decreases in occupancy levels at these properties.

Expense reimbursements increased $3.8 million, or 10.4%, from $5.1 million for the nine months ended September 30, 2001 to $5.2 million for the same period in 2002. This increase is due to primarily to the recovery of an increased amount of total property expenses in 2002, as well as increased tenant billings, partially offset by a decrease of $0.6 million attributable to the four Kmart leases which were rejected in bankruptcy.

Expenses:

Total expenses increased $3.6 million, or 5.8%, from $61.6 million for the nine-months ended September 30, 2001 to $65.2 million for the same period in 2002. The major areas are discussed below.

Operating expenses increased $2.6 million, or 7.3%, from $35.6 million for the nine months ended September 30, 2001 to $38.2 million for the same period in 2002. This increase is primarily attributable to increased insurance expense as a result of higher premiums under the Company's renewed policy, and the Company's addition of increased terrorism coverage.

Real estate and other taxes increased $0.7 million, or 3.2%, from $21.9 million for the nine months ended September 30, 2001 to $22.6 million for the same period in 2002. This increase is due primarily to property tax rate increases in certain municipalities combined with higher assessments at certain properties in 2002.

Provision for doubtful accounts increased $0.2 million, or 4.9%, from $4.1 million for the nine-months ended September 30, 2001 to $4.3 million for the same period in 2002. This increase is primarily attributable to a $2.8 million reserve related to the four Kmart leases that were rejected in bankruptcy, partially offset by reduced reserve levels attributable to lower write-offs.

Funds from Operations

The Company calculates funds from operations ("FFO") as net income attributable to common shareholders on a diluted basis before gain or loss on sales of real estate and securities and before extraordinary items, plus depreciation and amortization on real estate, amortized leasing commission costs and the minority interest share of income. FFO is not a substitute for cash flows from operations or net income as defined by generally accepted accounting principles, and may not be comparable to

other similarly titled measures of other REITs. FFO is presented because industry analysts and the Company consider FFO to be an appropriate supplemental measure of performance of REITs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands, except per share amounts)			
Net income	$ 29,791	$ 23,061	$ 82,540	$ 78,045
Add:				
Depreciation and amortization				
Continuing operations real estate assets[(1)]	18,040	14,382	53,119	44,426

	Three Months Ended September 30,		Nine Months Ended September 30,	
Discontinued operations real estate assets	79	3,419	592	9,100
Impairment of real estate				
Impairment of real estate		8,774	1,750	12,891
Impairment of real estate held for sale	2,958		14,812	
Deduct:				
Preferred Dividends	(4,859)	(5,660)	(16,164)	(16,979)
Loss (gain) on the sale of real estate[2]		63	(202)	702
Loss (gain) on the sale of discontinued operations	284	(1,500)	(1,338)	