NEW PLAN EXCEL REALTY TRUST INC
Form 10-K
March 04, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

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 of Incorporation)	(I.R.S. Employer Identification No.)
420 Lexington Avenue	
New York, NY 10170	**(212) 869-3000**
(Address of Principal Executive Offices)	(Registrant's Telephone Number)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share	New York Stock Exchange
Series E Cumulative Redeemable Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ý NO o

The aggregate market value of the Registrant's shares of common stock held by non-affiliates was approximately $2,272,733,061 as of June 30, 2004 based on the closing price of $23.36 on the NYSE on that date.

As of March 1, 2005, the number of shares of common stock of the Registrant outstanding was 103,008,605.

Documents incorporated by reference: Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

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PART I

Forward-Looking Statements

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

- national or local economic, business, real estate and other market conditions, including the ability of the general economy to recover timely from economic downturns
- the competitive environment in which we operate
- property ownership and management risks
- financial risks, such as the inability to obtain debt or equity financing on favorable terms
- possible future downgrades in our credit rating
- the level and volatility of interest rates and changes in the capitalization rates with respect to the acquisition and disposition of properties
- financial stability of tenants, including the ability of tenants to pay rent, the decision of tenants to close stores and the effect of bankruptcy laws
- the ability to maintain our status as a REIT for federal income tax purposes
- governmental approvals, actions and initiatives
- environmental/safety requirements and costs
- risks of real estate acquisition and development, including the failure pending developments and redevelopments to be completed on time and within budget and the failure of newly acquired or developed properties to perform as expected
- risks of disposition strategies, including the failure to complete sales on a timely basis and the failure to reinvest sale proceeds in a manner that generates favorable returns
- risks of joint venture activities
- other risks identified in this Annual Report on Form 10-K and, from time to time, in other reports we file with the Securities and Exchange Commission (the "SEC") or in other documents that we publicly disseminate.

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

Item 1. ***Business***

General

We are one of the nation's largest owners and managers of community and neighborhood shopping centers. As of December 31, 2004, we owned 404 properties, including 26 properties held through joint ventures, in 35 states. Our properties include 384 community and neighborhood shopping centers with approximately 56 million square feet of gross leasable area and 20 other related retail assets with approximately 1.8 million square feet of gross leasable area. The occupancy rate of our total portfolio (both including and excluding our pro rata share of joint venture properties) was approximately 92% as of December 31, 2004.

We are a self-administered and self-managed equity real estate investment trust, which we refer to as a REIT, that was formed in 1972 and is incorporated in Maryland. We maintain our principal executive offices at 420 Lexington Avenue, New York, New York 10170, where our telephone number is (212) 869-3000.

Focused Product Strategy

Our strategy is to own and manage a quality portfolio of commercial retail properties, primarily community and neighborhood shopping centers, which will provide increasing cash flow while protecting investor capital and providing potential for capital appreciation. We seek to implement this strategy by:

- aggressively managing, and where appropriate, redeveloping and upgrading our properties,
- making selective acquisitions of well-located community and neighborhood shopping centers, either on an individual basis, in portfolio or corporate transactions or through joint venture arrangements,
- effecting non-strategic asset dispositions and recycling the capital created by those transactions, and
- continuing to maintain a strong and flexible financial position to facilitate growth.

By focusing our portfolio primarily on community and neighborhood shopping centers with anchors and other tenants providing "everyday necessities," we believe that our risk from changing shopping patterns due to economic cycles is minimized.

Aggressive Management

We aggressively manage our properties, with an emphasis on maintaining high occupancy rates and a strong base of nationally and regionally recognized anchor tenants. We regularly monitor the physical condition of our retail properties and the financial condition of our retail tenants. We continually seek opportunities for tenant expansion, renovations and refurbishing to preserve and increase the value of our properties. In connection with these efforts, we have six regional offices and 12 satellite field offices throughout the country, each of which is responsible for managing the leasing, property management and maintenance of properties in its area, and we are currently improving the general appearance of certain of our properties by upgrading existing facades and roofs, updating signage, resurfacing parking lots and improving parking lot and exterior building lighting. In addition, we remain focused on enhancing our property management skills and our internal capabilities, systems and infrastructure.

We seek to increase the cash flow and portfolio value of our existing properties primarily through contractual rent increases during the lease term, re-letting of existing space at increased rents, expansion and redevelopment of existing properties and the minimization of overhead and operating costs. During 2004, we completed 30 redevelopment projects, the aggregate cost of which (including costs incurred in prior years on these projects) was approximately $87.4 million. Our current redevelopment pipeline is comprised of an additional 32 redevelopment projects, the aggregate cost of which (including costs incurred in prior years on these projects) is expected to be approximately $128.5 million. We also have two new development projects underway, the aggregate cost of which (including costs incurred in prior years on these projects) is expected to be approximately $21.1 million. In addition, we have three outparcel development projects underway, the aggregate cost of which (including costs incurred in prior years on these projects) is expected to be approximately $3.5 million.

We also redevelop properties held in our joint ventures and our current pipeline for such properties is comprised of three redevelopment projects, the aggregate cost of which (including costs incurred in prior years) is expected to be approximately $12.5 million.

Acquisition of Properties

We intend to focus on retail properties, primarily community and neighborhood shopping centers that generate stable cash flows and present the opportunity for value appreciation. We may seek to expand our portfolio by making selective, opportunistic acquisitions of individual properties and portfolios of well-located community and neighborhood shopping centers and other retail properties.

During 2004, we expanded our portfolio by opportunistically acquiring (1) eleven individual shopping center properties, (2) the remaining 50% interests in two shopping centers in which we owned the other 50% interests and (3) one land parcel. The acquisitions were completed in separate transactions during 2004 for an aggregate purchase price of approximately $274.7 million. The acquired properties were located within our existing regional concentrations.

We also derive additional growth capital for acquisitions through strategic joint ventures with institutional investors. During 2004, we, together with our joint venture partners, acquired seven individual properties and one land parcel for an aggregate purchase price of approximately $159.8 million.

Disposition of Properties

We generally hold our properties for investment and the production of rental income and not for sale to customers or other buyers in the ordinary course of our business. However, we continually analyze each asset in our portfolio and identify those properties that can be sold or exchanged for optimal sales prices or exchange values, given prevailing market conditions and the particular characteristics of each property. Through this strategy, we seek to continually update our core property portfolio by disposing of properties that have limited growth potential or are not a strategic fit within our overall portfolio and redeploying such capital into newer properties or properties where our aggressive management techniques may maximize property values. We may engage from time to time in like-kind property exchanges, which allow us to dispose of properties and redeploy proceeds in a tax efficient manner.

During 2004, we generated proceeds of approximately $57.9 million, including approximately $8.5 million represented by a purchase money note, through the disposition of five shopping centers, seven single tenant properties, five miscellaneous properties and the transfer of 90 percent of our ownership interest in a neighborhood shopping center to a joint venture partner. We also generated approximately $4.3 million through the disposition of two properties held through joint ventures. The combined proceeds from these transactions were used to pay down outstanding debt.

Financing Strategy

We intend to finance future acquisitions with the most advantageous sources of capital available to us at the time, which may include the sale of common stock, preferred stock or debt securities through public offerings or private placements, the incurrence of additional indebtedness through secured or unsecured borrowings, and the reinvestment of proceeds from the disposition of properties or joint venture interests. We also may enter into additional joint ventures with institutions to acquire large properties or portfolios, reducing the amount of capital required by us to make such investments. Our financing strategy is to maintain a strong and flexible financial position by:

- maintaining a prudent level of leverage in order to maintain current credit ratings,
- maintaining a large pool of unencumbered properties, and
- managing our exposure to interest rate risk from our floating rate debt.

Recent Developments

Issuance of 4.50% Senior Unsecured Notes

On February 6, 2004, we completed a public offering of $150.0 million aggregate principal amount of unsecured, 7-year fixed rate notes with a coupon of 4.50% (the "2004 Debt Offering"). The notes are due February 1, 2011. The notes were priced at 99.409% of par value to yield 4.60%. Net proceeds from the offering were used to repay a portion of the borrowings outstanding under our then existing revolving credit facility. On January 30, 2004, concurrent with the pricing of the offering, we entered into three reverse arrears swap agreements, in notional amounts of $50.0 million, $35.0 million and $15.0 million, that effectively converted the interest rate on $100.0 million of the notes from a fixed rate to a blended floating rate of 39 basis points over the six-month LIBOR rate. On May 19, 2004, the Company settled the $35.0 million reverse arrears swap agreement for an aggregate payment of approximately $1.5 million. The remaining swaps will terminate on February 1, 2011.

Revolving Credit Facility

On June 29, 2004, we amended our existing $350.0 million unsecured revolving credit facility (the "Revolving Facility"). The Revolving Facility matures on June 29, 2007, with a one-year extension option. As of December 31, 2004, the Revolving Facility bore interest at LIBOR plus 65 basis points, based on our then current debt rating. In addition, we incur an annual facility fee of 20 basis points on this facility. As of December 31, 2004, $296.0 million was outstanding under the Revolving Facility.

Secured Term Loan

On June 29, 2004, we also amended our existing $100.0 million secured term loan facility, increasing the loan amount to $150.0 million (the "Secured Term Loan"). The Secured Term Loan matures on June 29, 2007. As of December 31, 2004, the Secured Term Loan bore interest at LIBOR plus 85 basis points, based on our then current debt rating. As of December 31, 2004, $150.0 million was outstanding under the Secured Term Loan.

Issuance of Public Equity

On August 23, 2004, we completed a public offering of 2,000,000 common shares (the "Common Stock Offering"). The net proceeds to us from the offering were approximately $50.0 million and were used to repay a portion of the borrowings outstanding under the Revolving Facility.

Issuance of 5.30% Senior Unsecured Notes

On January 13, 2005, we completed a public offering of $100.0 million aggregate principal amount of unsecured, 10-year fixed rate notes with a coupon of 5.30% (the "2005 Debt Offering"). The notes are due on January 15, 2015. The notes were priced at 99.930% of par value to yield 5.309%. Net proceeds from the offering were used to repay a portion of the borrowings outstanding under the Revolving Facility. Concurrent with the pricing of the $100.0 million aggregate principal amount of unsecured notes, we settled four of our seven 10-year forward starting interest rate swap agreements with an aggregate of approximately $100.0 million in notional amount for an aggregate cost of approximately $2.5 million.

New Medium-Term Notes Program

On January 19, 2005, we established, under our existing shelf registration statement, a new medium-term notes program with Banc of America Securities LLC, BNY Capital Markets, Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as agents, pursuant to which we may issue and sell, from time to time, up to $400.0 million aggregate principal amount of debt securities entitled Medium-Term Notes Due Nine Months or More from Date of Issue. This program replaced the existing medium-term notes program that we previously had in place. We have not yet issued any medium-term notes under the new program.

Winn-Dixie Stores Bankruptcy

On February 21, 2005, Winn-Dixie Stores filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. Prior to the bankruptcy filing, Winn-Dixie Stores leased space at 22 of our shopping centers. Winn-Dixie Stores has since rejected the leases at two of these locations. The store locations represented by these two leases aggregate approximately 91,000 square feet of gross leasable area and represent approximately $0.7 million of annual base rent. The 20 non-rejected leases include one lease location that was previously assigned to a third party.

The remaining 19 locations, which include four leases at properties held in a joint venture in which we have a 10% interest, are all currently physically occupied and aggregate (including our pro rata share of the joint venture properties) approximately 719,000 square feet of gross leasable area and represent approximately $4.5 million of annual base rent, or approximately $6.26 per square foot. This represents approximately 1.1% of our total annual base rent.

Employees

As of December 31, 2004, we employed approximately 375 individuals (including executive, administrative and field personnel).

Available Information

Our internet website address is *www.newplan.com*. You can obtain on our website, free of charge, a copy of our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the SEC. Also available on our website, free of charge, are copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and the charters for each of the committees of our Board of Directors the Audit Committee, the Corporate Governance Committee, the Executive Compensation and Stock Option Committee and the Nominating Committee. Copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and our committee charters are also available in print free of charge, upon request by any stockholder. You can obtain such copies in print by contacting our Senior Vice President of Corporate Communication, either by mail at our corporate office or by e-mail at corporatecommunications@newplan.com. We intend to disclose any amendment to, or a waiver from, a provision of our Code of Ethics for Principal Executive Officer and Senior Financial Officers on our website within four business days following the date of the amendment or waiver.

Financial Information about Industry Segments

Our principal business is the ownership and management of community and neighborhood shopping centers. We do not distinguish or group our operations on a geographical basis when measuring performance. All operations are within the United States and no tenant accounts for more than 10% of total revenue. Accordingly, we believe we have a single reportable segment for disclosure purposes in accordance with accounting principles generally accepted in the United States. See the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report on Form 10-K for certain information required by Item 1. See Business included in Item 1 above.

Risk Factors

Set forth below are the risks that we believe are material to investors who purchase or own our securities that are not otherwise described in this Annual Report on Form 10-K. We have separated the risks into three groups:

- risks related to our properties and business;
- risks related to our organization and structure; and
- tax risks.

The occurrence of any of the following factors or circumstances could adversely affect our cash flows, financial condition, results of operations and/or our ability to service debt and make distributions to our stockholders, any or all of which could in turn cause a decline in the market value of our securities.

<u>Risks Related to Our Properties and Business</u>

Adverse market conditions and competition may impede our ability to generate sufficient income to pay expenses and maintain properties. The economic performance and value of our properties are subject to all of the risks associated with owning and operating real estate, including:

- changes in the national, regional and local economic climate, particularly in Texas, where properties that represented approximately 17% of our total annualized base rental income as of December 31, 2004 are located;
- local conditions, including an oversupply of space in properties like those that we own, or a reduction in demand for properties like those that we own;
- the attractiveness of our properties to tenants;
- the financial stability of tenants, including the ability of tenants to pay rent;
- competition from other available properties;
- changes in market rental rates;
- the need to periodically fund the costs to repair, renovate and re-let space;
- changes in operating costs, including costs for maintenance, insurance and real estate taxes;

earthquakes, tornados, hurricanes and other natural disasters, civil unrest, terrorist acts or acts of war, which may result in uninsured or underinsured losses;

the fact that the expenses of owning and operating properties are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the properties; and

changes in laws and governmental regulations, including those governing usage, zoning, the environment and taxes.

Downturns in the retailing industry likely will have a direct impact on our performance. Our properties consist of community and neighborhood shopping centers and other retail properties. Our performance therefore is linked to economic conditions in the market for retail space generally. The market for retail space has been or could be adversely affected by weakness in the national, regional and local economies, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, and increasing consumer purchases through catalogues and the Internet. To the extent that any of these conditions occur, they are likely to impact market rents for retail space.

Failure by any anchor tenant with leases in multiple locations to make rental payments to us, because of a deterioration of its financial condition or otherwise, could seriously harm our performance. Our performance depends on our ability to collect rent from tenants. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, our tenants may delay a number of lease commencements, decline to extend or renew a number of leases upon expiration, fail to make rental payments when due under a number of leases, close a number of stores or declare bankruptcy. Any of these actions could result in the termination of the tenant's leases, or expiration of existing leases without renewal, and the loss of rental income attributable to the terminated or expired leases. In addition, lease terminations by an anchor tenant or a failure by that anchor tenant to occupy the premises could result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases. In that event, we may be unable to re-lease the vacated space at attractive rents or at all. The occurrence of any of the situations described above, particularly if it involves a substantial tenant with leases in multiple locations, could seriously harm our performance. As of December 31, 2004, our largest tenants were The Kroger Co., Wal-Mart Stores and Kmart Corporation, the scheduled annualized base rents for which represented 3.9%, 3.3% and 2.6%, respectively, of our total annualized base rents.

We may be unable to collect balances due from any tenants in bankruptcy. We cannot assure you that any tenant that files for bankruptcy protection will continue to pay us rent. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would bar all efforts by us to collect pre-bankruptcy debts from that tenant or the lease guarantor, or their property, unless we receive an order permitting us to do so from the bankruptcy court. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any unsecured claim we hold may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we will recover substantially less than the full value of any unsecured claims we hold from a bankrupt tenant.

On February 21, 2005, Winn-Dixie Stores filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. Prior to the bankruptcy filing, Winn-Dixie Stores leased space at 22 of our shopping centers. Winn-Dixie Stores has since rejected the leases at two locations. The 20 non-rejected leases include one location that was previously assigned to a third party. The remaining 19 locations, which include four leases at properties held in a joint venture in which we have a 10% interest, are all currently physically occupied and aggregate (including our pro rata share of the joint venture properties) approximately 719,000 square feet of gross leasable area and represent approximately $4.5 million of annual base rent, or approximately $6.26 per square foot. This represents approximately 1.1% of our total annual base rent. Under federal bankruptcy law, Winn-Dixie Stores can reject all or any portion of the remaining 19 lease locations. We have no information at this time as to Winn-Dixie Stores' plans for the 19 remaining leases. The delay or failure of Winn-Dixie Stores to make payments under its leases, or the rejection by Winn-Dixie Stores of a substantial number of leases with us under federal bankruptcy laws, would adversely impact our performance, which impact could be material. In addition, Winn-Dixie Stores' termination of leases or closure of stores could result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases, the impact of which could be material to us.

We face considerable competition in the leasing market and may be unable to renew leases or re-let space as leases expire. We compete with a number of other companies in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If our tenants decide not to renew or extend their leases upon expiration, we may not be able to re-let the space. Even if the tenants do renew or we can re-let the space, the terms of renewal or re-letting, including the cost of required renovations or concessions to tenants, may be less favorable or more costly than current lease terms or than expectations for the space. As of December 31, 2004, leases were scheduled to expire on a total of approximately 10.6% of the space at our properties through 2005. We may be unable to promptly renew the leases or re-let this space, or the rental rates upon renewal or re-letting may be significantly lower than expected rates.

Future acquisitions of properties may not yield the returns we expect, may result in disruptions to our business and may strain management resources. We intend to continue acquiring select community and neighborhood shopping centers. Newly acquired properties may fail to perform as expected. Our management may underestimate the costs necessary to bring acquired properties up to standards established for their intended market position.

In particular, we may acquire large portfolios of community and neighborhood shopping centers. Large portfolio acquisitions pose risks for our ongoing operations in that:

- we may not achieve expected cost savings and operating efficiencies;
- management attention may be diverted to the integration of acquired properties;
- the acquired properties may not perform as well as we anticipate due to various factors, including changes in macro-economic conditions and the demand for retail space; and
- we may experience difficulties and incur expenses related to the assimilation and retention of employees that we have hired or intend to hire to manage and operate acquired properties.

We face significant competition for acquisitions of real properties, which may increase the costs of these acquisitions. We compete for acquisitions of, and investments in, properties and real estate companies with an indeterminate number of investors, including investors with access to significant capital such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. This competition may increase prices for the types of properties in which we invest.

Current and future development and redevelopment of real estate properties may not yield expected returns and may strain management resources. We are actively involved in several ongoing development and redevelopment projects. We also may invest in additional development and redevelopment projects in the future.

Redevelopment and new development of properties are subject to a number of risks, including construction delays, cost overruns, financing risks, failure to meet expected occupancy and rent levels, delays in and the inability to obtain zoning, occupancy and other governmental permits, and changes in zoning and land use laws. Overall project costs may significantly exceed the costs that were estimated when the project was originally undertaken, which will result in reduced returns, or even losses, from such investments.

We do not have exclusive control over our joint venture investments, so we are unable to ensure that our objectives will be pursued. We have invested in some cases as a co-venturer or partner in the development or redevelopment of new properties, instead of developing projects directly. These investments involve risks not present in a wholly owned development or redevelopment project. In these investments, we do not have exclusive control over the development, financing, leasing, management and other aspects of the project. As a result, the co-venturer or partner might have interests or goals that are inconsistent with our interests or goals, take action contrary to our interests or otherwise impede our objectives. The co-venturer or partner also might become insolvent or bankrupt. Other risks of joint venture investments include impasse on certain major decisions, such as sale, because neither we nor our partner or co-venturer typically would have full control over the joint venture.

Real estate property investments are illiquid, and therefore we may not be able to dispose of properties when appropriate or on favorable terms. Real estate property investments generally cannot be disposed of quickly. In addition, the federal tax code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms.

Some potential losses are not covered by insurance, so we could lose a significant portion of our investment in a property. We carry comprehensive liability, fire, extended coverage, rental loss and acts of terrorism insurance on all of our properties. We believe the policy specifications and insured limits of these policies are adequate and appropriate given the relative risk of loss, the cost of the coverage and industry practice. There are, however, certain types of losses, including lease and other contract claims, acts of war and acts of God that generally are not insured, either because such coverage is not available or is not available at commercially reasonable rates. Should an uninsured loss or a loss in excess of insured limits occur, we could lose a significant portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. If that happened, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property.

There can be no assurance as to future costs and the scope of coverage that may be available under insurance policies. Although we believe our properties are adequately covered by insurance, we cannot predict at this time if in the future we will be able to obtain full coverage at a reasonable cost. The costs associated with property and casualty renewals may be higher than anticipated.

We have substantial scheduled debt payments and may not be able to refinance debt at maturity. Our business is subject to risks normally associated with debt financing. Cash flow could be insufficient to pay expected dividends to stockholders and meet required payments of principal and interest. We may not be able to refinance existing debt, which in virtually all cases requires substantial principal payments at maturity, and, even if we can, the terms of a refinancing might not be as favorable as the terms of existing debt. The total principal amount of our outstanding debt was approximately $2.0 billion as of December 31, 2004. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, including new equity capital, cash flow may not be sufficient in all years to repay all maturing debt at the relevant time(s). Prevailing interest rates, our results of operations and financial condition, our senior debt ratings or other factors at the time of refinancing, including the possible reluctance of lenders to make loans, may result in higher interest rates and increased interest expense.

Mortgage debt obligations expose us to the possibility of foreclosure. If a property is mortgaged to secure payment of debt and we are unable to meet mortgage payments, the holder of the mortgage or lender could foreclose on the property, resulting in loss of our investment. Also, certain of these mortgages contain customary negative covenants which, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property, to enter into new leases or materially modify existing leases, and to discontinue insurance coverage.

Our financial covenants may restrict our operating and acquisition activities. Our revolving credit and secured term loan facilities and the indentures under which our senior unsecured debt is issued contain certain financial and operating covenants, including, among other things, certain coverage ratios, as well as limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets and engage in mergers and consolidations and certain acquisitions. These covenants may restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of the financial covenants could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us.

Our degree of leverage could limit our ability to obtain additional financing. Our organizational documents do not contain any limitation on the incurrence of debt. The degree of our leverage could have important consequences, including affecting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally. In addition, as a result of the financial and operating covenants described above, our leverage could reduce our flexibility in conducting our business and planning for, or reacting to, changes in our business and in the real estate industry.

We have substantial variable rate debt obligations, which may impede our operating performance and put us at a competitive disadvantage. Increases in interest rates, or the loss of the benefits of any hedging agreements that we might have, would increase our interest expense, which would adversely affect cash flow and our ability to service debt and pay dividends to stockholders. As of December 31, 2004, we had approximately $435.8 million of floating rate debt, including the impact of swaps, maturing at various times up to September 1, 2011. The rates on this debt increase when interest rates increase. Interest rates are currently low relative to historical levels and may increase significantly in the future.

Hedging agreements enable us to convert floating rate liabilities to fixed rate liabilities or fixed rate liabilities to floating rate liabilities. Hedging agreements expose us to the risk that the counterparties to such agreements may not perform, even though the counterparties to hedging agreements that we enter into are major financial institutions, which could increase our exposure to fluctuating interest rates. In addition, hedging agreements may involve costs, such as transaction fees or breakage costs, if we terminate them. As of December 31, 2004, we were a party to nine hedging agreements.

We may borrow additional money with floating interest rates in the future. Increases in interest rates, or the loss of the benefits of our existing or future hedging agreements, would increase our interest expense, which would adversely affect cash flow and our ability to service our debt. Future increases in interest rates will increase our interest expense as compared to the fixed rate debt underlying our hedging agreements and could result in our making payments to unwind such agreements.

A downgrade in our credit rating could negatively impact us. The floating rates of interest applicable to much of our debt, including debt under our credit facilities, are determined based on the credit ratings of our debt provided by independent rating agencies. Thus, if these credit ratings are downgraded, our interest expense will be, and our ability to raise additional debt may be, negatively impacted.

Environmental problems that exist at some of our properties could result in significant unexpected costs. Under various federal, state and local laws, ordinances and regulations, we 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 our property or disposed of by us, 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 we knew of, or were responsible for, the presence of these hazardous or toxic substances. As is common with community and neighborhood shopping centers, many of our properties had or have on-site dry cleaners and/or on-site gasoline facilities. These operations could potentially result in environmental contamination at the properties.

We are aware that soil and groundwater contamination exists at some of our 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). We also are aware that asbestos-containing materials exist at some of our properties. While we do not expect the environmental conditions at our properties, considered as a whole, to have a material adverse effect on us, there can be no assurance that this will be the case. 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 us or that a material environmental condition does not otherwise exist with respect to any of our properties.

Changes in market conditions could adversely affect the market price of our publicly traded securities. As with other publicly traded securities, the market price of our publicly traded securities depends on various market conditions, which may change from time to time. Among the market conditions that may affect the market price of our publicly traded securities are the following:

- the extent of institutional investor interest in the company;
- the reputation of REITs generally and the reputation of REITs with portfolios similar to ours;
- the attractiveness of the securities of REITs in comparison to securities issued by other entities (including securities issued by other real estate companies);
- our financial condition and performance;
- the market's perception of our growth potential and potential future cash dividends;
- an increase in market interest rates, which may lead prospective investors to demand a higher distribution rate in relation to the price paid for our shares; and
- general economic and financial market conditions.

Sales of a substantial number of shares of our stock, or the perception that such sales could occur, also could adversely affect prevailing market prices for our stock. In addition to the possibility that we may sell shares of our stock in a public offering at any time, or pursuant to our standby equity distribution program, we also may issue shares of common stock upon redemption of units of partnership interest held by third parties in affiliated partnerships that we control, as well as in connection with grants of restricted stock or upon exercise of stock options that we grant to our officers and employees. All of these shares will be available for sale in the public markets from time to time.

Risks Related to Our Organization and Structure

Provisions of the company's charter and bylaws could inhibit changes in control of the company, and could prevent stockholders from obtaining a premium price for our common stock. A number of provisions of our charter and bylaws may delay or prevent a change in control of the company or other transactions that could provide stockholders with a premium over the then-prevailing market price of our common stock or that might otherwise be in the best interests of the stockholders. These include a staggered board of directors and our share ownership limit described below. Also, any future series of our preferred stock may have voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interests of the stockholders.

Our Board of Directors could adopt the limitations available under Maryland law on changes in control that could prevent transactions in the best interests of stockholders. Certain provisions of Maryland law applicable to us prohibit "business combinations," including certain issuances of equity securities, with any person who beneficially owns 10% or more of the voting power of our outstanding shares, or with an affiliate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our outstanding voting shares (which is referred to as a so-called "interested stockholder"), or with an affiliate of an interested stockholder. These prohibitions last for five years after the most recent date on which the stockholder became an interested stockholder. After the five-year period, a business combination with an interested stockholder must be approved by two super-majority stockholder votes unless, among other conditions, our common stockholders receive a minimum price for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares of common stock. Our Board of Directors has opted out of these business combination provisions. As a result, the five-year prohibition and the super-majority vote requirements will not apply to a business combination involving the company. Our Board of Directors may, however, repeal this election in most cases and cause the company to become subject to these provisions in the future.

Our share ownership limit may discourage a takeover of the company and depress our stock price. To facilitate maintenance of our REIT qualification and for other strategic reasons, our charter generally prohibits any person from acquiring or holding shares of our preferred and common stock in excess of 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of each class or series of our stock. Our Board of Directors may exempt a person from this ownership limit under specified conditions. Absent an exemption or a waiver, shares of stock that are purportedly transferred in excess of the ownership limit will be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the purported transferee will not acquire any rights in such shares. This ownership limit could delay or prevent a change in control of the company and, therefore, could adversely affect the stockholders' ability to realize a premium over the then-prevailing market price for our shares.

We are dependent on external sources of capital, which may not be available. To qualify as a REIT, we must, among other things, distribute to our stockholders each year at least 90% of our REIT taxable income (excluding any net capital gains). Because of these distribution requirements, we likely will not be able to fund all future capital needs, including capital for acquisitions, with income from operations. We therefore will have to rely on third-party sources of capital, which may or may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of things, including the market's perception of our growth potential and our current and potential future earnings. Moreover, additional equity offerings may result in substantial dilution of stockholders' interests, and additional debt financing may substantially increase leverage.

<u>Tax Risks</u>

The lower tax rate on dividends from non-REIT C corporations may adversely affect the value of our stock. While corporate dividends have traditionally been taxed at ordinary income rates, dividends received by individuals through December 31, 2008 from domestic corporations generally will be taxed at the maximum capital gains tax rate of 15% as opposed to the maximum ordinary income tax rate of 35%. This reduces substantially the so-called "double taxation" (that is, taxation at both the corporate and stockholder levels) that generally applies to non-REIT corporations but does not apply to REITs because REITs that distribute all of their taxable income generally do not pay any corporate income tax. REIT dividends are not eligible for the lower capital gains rates, except in certain circumstances where the dividends are attributable to income that has been subject to corporate-level tax. The application of capital gains rates to non-REIT C corporation dividends could cause individual investors to view stock in non-REIT C corporations as more attractive than stock in REITs, which may negatively affect the value of our common stock. We cannot predict what effect, if any, the application of the capital gains tax rate to dividends paid by non-REIT C corporations may have on the value of our stock, either in terms of price or relative to other potential investments.

Failure of the company to qualify as a REIT would have serious adverse consequences to stockholders. We believe that the company has qualified for taxation as a REIT for federal income tax purposes since September 28, 1998, the date of the merger of our predecessor companies, New Plan Realty Trust and Excel Realty Trust, Inc., and that our predecessor companies qualified for taxation as REITs for federal income tax purposes since their first elections to be taxed as REITs and for each taxable year where a failure to qualify would adversely affect the company. We plan to continue to operate so that the company meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. The determination that the company is a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from certain sources that are itemized in the REIT tax laws. We are also required to distribute to stockholders at least 90% of our REIT taxable income (excluding any net capital gains). The fact that we hold certain of our assets through partnerships and their subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize the company's REIT status. Furthermore, Congress and the Internal Revenue Service might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for the company to remain qualified as a REIT.

If the company fails to qualify as a REIT and any available relief provisions do not apply, the company would be subject to federal income tax at regular corporate rates. Also, unless the Internal Revenue Service granted the company relief under certain statutory provisions, the company would remain disqualified as a REIT for four years following the year the company first failed to qualify. If the company failed to qualify as a REIT, the company would have to pay significant income taxes and would therefore have less money available for investments, debt service and dividends to stockholders. This likely would have a significant adverse affect on the value of our securities. In addition, we would no longer be required to pay any dividends to stockholders.

New legislation, enacted October 22, 2004, contained several provisions applicable to REITs, including provisions that would provide relief in the event we violate a provision of the Internal Revenue Code that would result in our failure to qualify as a REIT. If these relief provisions, which generally would apply to us beginning January 1, 2005, are inapplicable to a particular set of circumstances, we would fail to qualify as a REIT. Even if those relief provisions apply, we would be subject to a penalty tax of at least $50,000 for each disqualifying event in most cases.

Even if the company qualifies as a REIT for federal income tax purposes, we are required to pay certain federal, state and local taxes on our income and property. For example, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While we have undertaken a significant number of asset sales in recent years, we do not believe that those sales should be considered prohibited transactions, but there can be no assurance that the Internal Revenue Service would not contend otherwise. In addition, any net taxable income earned directly by our taxable affiliates, including ERT Development Corporation, is subject to federal and state corporate income tax. The taxation of the company at the state and local levels may differ from the federal income tax treatment of the company. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our stockholders.

Subject to certain exceptions, including the one discussed in this paragraph, a REIT is generally prohibited from owning securities in any one issuer if the value of those securities exceeds 5% of the value of the REIT's total assets or the securities owned by the REIT represent more than 10% of the issuer's outstanding voting securities or more than 10% of the value of the issuer's outstanding securities. A REIT is permitted to own securities of a subsidiary in an amount that exceeds the 5% value test and the 10% vote or value test if the subsidiary elects to be a "taxable REIT subsidiary," which is taxable as a corporation. However, a REIT may not own securities of taxable REIT subsidiaries that represent in the aggregate more than 20% of the value of the REIT's total assets. We currently own 100% of the outstanding securities of ERT Development Corporation, which elected, effective January 1, 2001, to be a taxable REIT subsidiary of ours. Each corporate subsidiary in which ERT Development Corporation owns more than 35% of the outstanding voting securities or more than 35% of the value of the outstanding securities will also be treated as a taxable REIT subsidiary of ours. While we believe that we have satisfied the limitations on the ownership of securities with regard to our ownership of interests in ERT Development Corporation during each of the taxable years that each such limitation applied to us, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that the Internal Revenue Service would not disagree with our determination.

Several provisions of the applicable tax law ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax if the economic arrangements between the REIT, the REIT's tenants, and a taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties.

The company could be disqualified as a REIT or have to pay taxes if its predecessor companies did not qualify as REITs. If either New Plan Realty Trust or Excel Realty Trust, Inc., whose businesses were combined in a merger transaction on September 28, 1998 to form the company, failed to qualify as a REIT throughout the duration of its existence, we might have had undistributed "C corporation earnings and profits." If that were the case and either of our predecessor companies did not distribute such earnings and profits prior to the merger transaction, the company might not qualify as a REIT. We believe that each of the predecessor companies qualified as a REIT and that, in any event, neither of the predecessor companies had any undistributed "C corporation earnings and profits" at the time of the merger transaction. If New Plan Realty Trust failed to qualify as a REIT, it would have recognized taxable gain at the time of the merger transaction (and we would be liable for the tax on that gain). This would be the case even though the merger transaction qualified as a "tax-free reorganization," unless we made a special election that was available under the law at the time of the merger. We made that election with respect to the assets acquired from New Plan Realty Trust. This election has the effect of requiring us, if New Plan Realty Trust was not qualified as a REIT, to pay corporate income tax on any gain existing at the time of the merger transaction on assets acquired in the transaction if those assets are sold within 10 years after the transaction. Finally, if either of the predecessor companies did not qualify as a REIT, the company could have been precluded from electing REIT status for up to four years after the year in which that predecessor company failed to qualify if the company were determined to be a "successor" to that predecessor company.

Item 2. ***Properties***

As of December 31, 2004, we owned 378 properties, excluding our joint venture properties. The following table sets forth certain information as of December 31, 2004 regarding our properties on a state-by-state basis, and excludes our pro rata share of joint venture properties:

State	Number of Properties	Percent Leased	GLA (1)	Percent of Scheduled ABR (2)
Alabama	7	90%	760,014	1.1%
Arizona	5	91%	806,208	1.5%
Arkansas	2	97%	237,991	0.4%
California	14	96%	2,245,248	6.4%
Colorado	4	100%	853,666	2.4%
Delaware	1	100%	30,000	0.0%
Florida	30	89%	5,311,780	11.5%
Georgia	31	94%	3,637,659	6.2%
Illinois	9	90%	1,586,529	3.8%
Indiana	10	85%	1,352,287	1.7%
Iowa	3	97%	549,291	0.8%
Kentucky	12	92%	2,166,653	3.6%
Louisiana	5	98%	689,931	0.8%
Maryland	2	85%	282,336	0.5%
Massachusetts	2	99%	348,917	0.5%
Michigan	20	93%	3,009,599	6.4%
Minnesota	1	98%	55,715	0.1%
Mississippi	1	100%	87,721	0.1%
Nevada	3	91%	586,126	1.2%
New Jersey	6	93%	879,200	2.1%
New Mexico	2	96%	98,400	0.1%
New York	26	87%	3,600,469	5.8%
North Carolina	14	96%	1,887,898	2.8%
Ohio	23	92%	3,814,831	6.8%
Oklahoma	1	100%	186,851	0.4%
Pennsylvania	15	87%	2,595,397	5.5%
Rhode Island	1	100%	148,126	0.4%
South Carolina	7	96%	792,773	1.2%
Tennessee	15	96%	1,882,236	3.1%
Texas	83	90%	9,102,144	16.9%
Utah	3	99%	607,075	1.3%
Virginia	13	92%	1,709,881	3.1%
West Virginia	3	93%	356,721	0.6%
Wisconsin	3	94%	458,372	0.7%
Wyoming	1	90%	160,150	0.2%
	378	92%	52,878,195	100%

Region (3)				
East	102	91%	14,798,371	26.0%
Midwest	70	91%	10,986,774	20.6%
South	175	92%	21,896,327	40.5%
West	31	95%	5,196,723	12.9%
	378	92%	52,878,195	100.0%

(1) GLA represents gross leasable area in square feet.

(2) ABR represents 2004 scheduled annualized base rent based on contractual minimum lease payments as of December 31, 2004.

(3) NCREIF Regions

As of December 31, 2004, we owned interests in 404 properties, including 26 properties held through joint ventures. The following table sets forth certain information as of December 31, 2004 regarding our properties on a state-by-state basis, and includes our pro rata share of joint venture properties:

State	Number of Properties	Percent Leased	GLA (1)	Percent of Scheduled ABR (2)
Alabama	7	91%	760,014	1.0%
Arizona	5	91%	806,208	1.5%
Arkansas	2	97%	237,991	0.4%
California	14	96%	2,245,248	6.2%
Colorado	6	100%	1,005,796	2.8%
Delaware	2	95%	135,784	0.1%
Florida	36	89%	5,426,296	11.5%
Georgia	36	94%	3,793,935	6.4%
Illinois	9	90%	1,586,529	3.7%
Indiana	10	85%	1,352,287	1.7%
Iowa	3	97%	549,291	0.8%
Kentucky	12	92%	2,166,653	3.5%
Louisiana	6	98%	696,857	0.8%
Maryland	2	85%	282,336	0.5%
Massachusetts	2	99%	348,917	0.5%
Michigan	20	93%	3,009,599	6.2%
Minnesota	1	98%	55,715	0.1%
Mississippi	2	100%	90,341	0.1%
Nevada	3	91%	586,126	1.2%
New Jersey	6	93%	879,200	2.0%
New Mexico	3	96%	111,001	0.2%
New York	27	87%	3,650,696	5.9%
North Carolina	15	96%	1,893,803	2.7%
Ohio	24	92%	3,841,557	6.7%
Oklahoma	1	100%	186,851	0.4%
Pennsylvania	15	87%	2,595,397	5.3%
Rhode Island	1	100%	148,126	0.3%
South Carolina	7	96%	792,773	1.2%
Tennessee	15	96%	1,882,236	3.0%
Texas	89	90%	9,369,047	17.3%
Utah	3	99%	607,075	1.2%
Virginia	13	92%	1,709,881	3.0%
West Virginia	3	93%	356,721	0.6%
Wisconsin	3	94%	458,372	0.7%
Wyoming	1	90%	160,150	0.2%
	404	92%	53,778,809	100%

Region (3)				
East	105	91%	14,960,287	25.7%
Midwest	71	91%	11,013,500	20.1%
South	194	92%	22,443,568	41.0%
West	34	95%	5,361,454	13.1%
	404	92%	53,778,809	100.0%

(1)

GLA represents gross leasable area in square feet.

(2)

ABR represents 2004 scheduled annualized base rent based on contractual minimum lease payments as of December 31, 2004.

(3)

NCREIF Regions

The following table sets forth a schedule of lease expirations for our leases in place as of December 31, 2004 (excluding our pro rata share of joint venture properties), for each of the next ten years and thereafter, assuming no exercise of renewal options or base rent escalations over the lease term.

	Number of Leases Expiring	Leased GLA	Percent of GLA	ABR Per Foot	Percent of Total ABR
2005	1,317	5,164,481	10.66%	$ 8.42	10.96%
2006	1,131	5,291,478	10.92%	8.73	11.64%
2007	1,111	5,310,591	10.96%	8.97	12.01%
2008	851	4,941,423	10.20%	8.50	10.59%
2009	771	5,403,030	11.15%	8.34	11.36%
2010	364	4,347,886	8.97%	6.64	7.27%
2011	150	2,423,245	5.00%	7.72	4.72%
2012	124	1,359,462	2.80%	8.86	3.04%
2013	139	2,204,777	4.55%	7.80	4.33%
2014	113	2,171,978	4.48%	7.94	4.35%
2015+	287	9,848,323	20.32%	7.94	19.72%
	6,358	48,466,674	100.0%	$ 8.18	100.0%

The following table sets forth a schedule of lease expirations for our leases in place as of December 31, 2004 (including our pro rata share of joint venture properties), for each of the next ten years and thereafter, assuming no exercise of renewal options or base rent escalations over the lease term.

	Number of Leases Expiring	Leased GLA	Percent of GLA	ABR Per Foot	Percent of Total ABR
2005	1,411	5,218,741	10.58%	$ 8.48	10.88%
2006	1,223	5,348,994	10.84%	8.80	11.57%
2007	1,213	5,356,651	10.86%	9.04	11.90%
2008	935	4,992,062	10.12%	8.55	10.49%
2009	854	5,451,387	11.05%	8.38	11.24%
2010	403	4,418,781	8.96%	6.70	7.28%
2011	177	2,468,858	5.00%	7.88	4.78%
2012	140	1,393,383	2.82%	9.03	3.09%
2013	157	2,223,700	4.51%	7.85	4.29%
2014	126	2,205,387	4.47%	8.03	4.35%
2015+	332	10,252,262	20.78%	7.98	20.11%
	6,971	49,330,206	100.0%	$ 8.25	100.0%

Item 3. ***Legal Proceedings***

We are not presently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties. We are involved in routine litigation arising in the ordinary course of business, none of which we believe to be material. We have, however, reserved approximately $2.3 million as of December 31, 2004 in connection with a particular tenant litigation. There can be no assurance as to the final outcome of this litigation and whether it will exceed or fall short of the amount reserved; however, even if our ultimate loss is more than the reserve we established, we do not expect that the amount of the loss in excess of the reserve would be material.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our stockholders during the fourth quarter of 2004.

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PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is listed on the New York Stock Exchange under the symbol "NXL". As of March 1, 2005, there were approximately 8,680 registered record holders of our common stock, plus those who hold their shares in street name. The following table shows the high and low sales prices, as reported by the New York Stock Exchange composite tape, and the cash dividends declared each calendar quarter during 2004 and 2003 for our common stock:

	High	Low	Cash Dividends Declared
2003:			
First quarter	$ 20.48	$ 18.05	$ 0.4125
Second quarter	22.49	19.61	0.4125
Third quarter	23.74	21.14	0.4125
Fourth quarter	25.77	22.10	0.4125
2004:			
First quarter	$ 27.63	$ 24.24	$ 0.4125
Second quarter	27.80	20.69	0.4125
Third quarter	26.66	23.09	0.4125
Fourth quarter	27.87	24.50	0.4125

We declared dividends of approximately $188.4 million for the year ended December 31, 2004 (amount does not include non-cash increases to the dividend payable on our Series D depositary shares to account for the "step-up" in the dividend rate).

Distributions to stockholders are usually taxable as ordinary income, although a portion of the dividend may be designated as capital gain or may constitute a tax-free return of capital. Annually, we provide each of our stockholders a statement detailing distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

We intend to continue to declare quarterly distributions. However, we cannot provide any assurance as to the amount or timing of future distributions. Under our existing credit facility and term loan, we are restricted from paying common stock dividends that would exceed 95% of our funds from operations during any four-quarter period, except as necessary to protect our REIT status.

On December 9, 2004, we issued 2,918 shares of our common stock to Unity Investors, LLC ("Unity") in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to (i) Section 4(2) of the Securities Act and Regulation D promulgated thereunder ("Regulation D"), and (ii) the status of Unity and any direct or indirect partner, member or other equity holder of Unity as an "accredited investor" as defined in Rule 501(a) of Regulation D. On May 30, 1996, in connection with our acquisition of the Unity Professional Building, we issued 2,247 units of limited partnership interest in Excel Realty Partners, L.P. (the "Partnership") to Unity, which units were redeemable pursuant to the Partnership's partnership agreement for cash or, at our option, shares of our common stock, on a one-to-one basis (subject to adjustment in the event of stock splits, stock dividends and similar events). In November 2004, Unity Investors, LLC notified us of its desire to require the Partnership to redeem its units by delivering a notice of redemption. We then exercised our right to issue shares of our common stock for such redeemed units and issued 2,918 shares of our common stock (the number of units redeemed multiplied by an adjustment factor that took in account various prior adjustments) to Unity upon redemption of its units of limited partnership interest the Partnership.

Item 6. ***Selected Financial Data***

The financial information included in the following table has been derived from the audited consolidated financial statements for the periods indicated. This information should be read together with our audited financial statements and Management's Discussion and Analysis of the Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

Statement of Income Data:	2004	2003	2002	2001	2000
	Years Ended December 31, (In thousands, except per share amounts)				
Rental revenues:					
Rental income	$ 389,510	$ 364,659	$ 292,040	$ 221,780	$ 224,846
Percentage rents	6,613	6,943	6,300	4,841	5,009
Expense reimbursements	99,414	99,066	79,910	58,955	52,000
Total rental revenues	495,537	470,668	378,250	285,576	281,855
Expenses:					
Operating costs	86,257	89,041	64,667	45,736	42,672
Real estate and other taxes	61,842	58,833	45,245	32,420	33,187
Depreciation and amortization	89,394	76,113	63,139	49,546	47,256
Provision for doubtful accounts	10,104	7,629	8,959	5,201	4,231
Severance costs				896	4,945
General and administrative	19,394	19,816	17,872	10,306	7,409
Total expenses	266,991	251,432	199,882	144,105	139,700
Income before real estate sales, minority interest and other income and expenses	228,546	219,236	178,368	141,471	142,155
Other income and expenses:					
Interest, dividend and other income	8,329	9,419	11,015	14,421	30,426
Equity participation in ERT				(4,313)	(17,867)
Equity in income of unconsolidated ventures	1,513	3,438	5,245	985	
Interest expense	(106,054)	(101,629)	(93,259)	(78,226)	(86,359)
Foreign currency loss			(13)	(560)	(437)
Gain on sale of real estate	1,217		202	1,610	9,200
Impairment of real estate	(43)	(3,536)	(70,616)	(13,107)	(3,620)
Minority interest in income of consolidated partnership	(853)	(1,555)	(642)	(848)	(952)
Income from continuing operations	132,655	125,373	30,300	61,433	72,546
Discontinued operations:					
Results of discontinued operations	2,512	6,583	27,870	42,229	50,535
(Loss) gain on sale of discontinued operations	(1,139)	4,018	100,837	1,500	
Impairment of real estate held for sale	(88)	(6,953)	(36,945)		
Income from discontinued operations	1,285	3,648	91,762	43,729	50,535
Net income	$ 133,940	$ 129,021	$ 122,062	$ 105,162	$ 123,081
Net income available to common stock basic	$ 112,470	$ 107,221	$ 108,036	$ 82,523	$ 100,446
Net income available to common stock diluted	$ 113,266	$ 108,776	$ 108,678	$ 83,371	$ 101,398
Basic earnings per common share:					
Earnings per share continuing operations	$ 1.10	$ 1.06	$ 0.17	$ 0.45	$ 0.57
Earnings per share discontinued operations	0.01	0.04	0.97	0.50	0.58
Basic earnings per common share	$ 1.11	$ 1.10	$ 1.14	$ 0.95	$ 1.15
Diluted earnings per common share:					
Earnings per share continuing operations	$ 1.09	$ 1.04	$ 0.18	$ 0.45	$ 0.57
Earnings per share discontinued operations	0.01	0.04	0.95	0.49	0.57

	Years Ended December 31,				
Diluted earnings per common share	$ 1.10	$ 1.08	$ 1.13	$ 0.94	$ 1.14
Average shares outstanding basic	100,894	97,318	95,119	87,241	87,608
Average shares outstanding diluted	103,345	100,269	96,552	88,799	88,951
Other Data:					
Distributions per common share	$ 1.650	$ 1.650	$ 1.650	$ 1.650	$ 1.650
Balance Sheet Data as of the End of Each Period:					
Net real estate	$ 3,559,763	$ 3,294,037	$ 3,269,476	$ 2,413,891	$ 2,233,993
Total assets	3,831,742	3,558,596	3,515,279	2,622,866	2,894,431
Long term debt, net (1)	1,996,319	1,776,004	1,713,476	949,684	1,185,545
Total liabilities	2,160,797	1,934,588	1,902,996	1,107,361	1,314,912
Minority interest in consolidated partnership	30,784	37,865	39,434	22,267	23,909
Total stockholders' equity	1,640,161	1,586,143	1,572,849	1,493,238	1,555,610

(1) Long-term debt includes mortgage loans, notes payable, net (including notes payable, other) and credit facilities.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Critical Accounting Policies

Our consolidated financial statements include our accounts and those of all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Revenue Recognition

We recognize rental revenue on a straight-line basis, which averages minimum rents over the terms of the leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as "deferred rent receivable", and is included in trade receivables in our consolidated balance sheets. Certain leases provide for percentage rents based upon the level of sales achieved by the lessee. Percentage rents are recorded once the required sales level is achieved. Leases also typically provide for tenant reimbursements of common area maintenance and other operating expenses. Rental income also includes lease termination fees.

We must make estimates of the uncollectability of our accounts receivables related to base rents, expense reimbursements and other revenue or income. We specifically analyze accounts receivable and historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. These estimates have a direct impact on our net income, because a higher bad debt reserve results in less net income.

The SEC's Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* ("SAB 104"), provides guidance on the application of GAAP to selected revenue recognition issues. We have concluded that our revenue recognition policy is appropriate and in accordance with GAAP and SAB 104.

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

We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on our net income. For example, if we were to lengthen the expected useful life of a particular building improvement, the improvement would be depreciated over a greater number of years, resulting in less depreciation expense and higher net income on an annual basis.

Business Combinations

In connection with our acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and tenant improvements, are determined as if vacant, that is, at replacement cost. Intangible assets, including the above-market or below-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values.

Above-market, below-market and in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition and (ii) management's estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market or below-market lease value is amortized as a reduction of, or increase to, rental income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market.

The total amount of other intangible assets allocated to in-place lease values and tenant relationship intangible values is based on management's evaluation of the specific characteristics of each lease and our overall relationship with each tenant. Factors considered in the allocation of these values include the nature of the existing relationship with the tenant, the tenant's credit quality, the expectation of lease renewals, the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases, among other factors. Management will also consider information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Management will estimate costs to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of a property. Management's estimates will be used to determine these values.

The value of in-place leases is amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles is amortized to expense over the initial and renewal terms of the leases; however, no amortization period for intangible assets will exceed the remaining depreciable life of the building.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including market rate adjustments, lease origination costs, in-place values and tenant relationship values, will be charged as an expense.

Long Lived Assets

On a periodic basis, management assesses whether there are any indicators that the value of the 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 (taking into account the anticipated holding period of the asset) is 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 and reflected as an adjustment to the basis of the property.

When assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs, of such assets. If, in management's opinion, the net sales price of the assets which we have 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.

When we make subjective assessments as to whether there are impairments in the value of our real estate properties, we have a direct impact on our net income, because taking an impairment results in an immediate negative adjustment to net income.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement 123(R), *Share-Based Payment* ("SFAS No. 123(R)"). SFAS No. 123(R) amends Statement 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), and Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("Opinion 25"). SFAS No. 123(R) also establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. It requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date, and to recognize such cost over the period during which the employee is required to provide service. SFAS No. 123(R) is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005, but early adoption is encouraged. The adoption of SFAS No. 123(R) is not expected to have a material impact on our consolidated financial statements.

In December 2004, FASB also issued Statement 153, *Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29* ("SFAS No. 153"). This statement amends APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 becomes effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. SFAS No. 153 is not expected to have a material impact our consolidated financial statements.

In July 2004, the Emerging Issues Task Force ("EITF") issued EITF 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings per Share* ("EITF 04-8"), in which the EITF reached a tentative conclusion that contingently convertible debt instruments should be included in diluted earnings per share computations (if dilutive) regardless of whether the contingent features have been met. In September 2004, the EITF reached the final consensus that all instruments that have embedded conversion features (for example, contingently convertible debt or contingently convertible preferred stock) that are contingent on market conditions indexed to an issuer's share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the market conditions have been met. EITF 04-8 is effective for reporting periods ending after December 15, 2004. EITF 04-8 did not have a material impact on our consolidated financial statements.

In December 2003, the SEC issued SAB 104, which revises SAB No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"*)*. The primary purpose of SAB 104 is to rescind the accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superceded as a result of the issuance of Emerging Issues Task Force ("EITF") Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. SAB 104 did not impact our consolidated financial statements.

In May 2003, FASB issued Statement 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS No. 150"). This statement established principles for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the interim period beginning after June 15, 2003. The initial adoption of SFAS No. 150 did not have a material impact on our consolidated financial statements.

In April 2003, FASB issued Statement 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS No. 149"). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"). SFAS No. 149 improves financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this statement (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative as defined by SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to the language used in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and (4) amends certain other existing pronouncements. These changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and the adoption of SFAS No. 149 did not have a material impact on our consolidated financial statements.

In January 2003, FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"), an interpretation of Accounting Research Bulletin ("ARB") 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights, variable interest entities ("VIE"), and how to determine when and which business enterprises should consolidate the VIE. In addition, FIN 46 requires both the primary beneficiary and all other enterprises with significant variable interests in VIE to make additional disclosures. The transitional disclosure requirements are required for all financial statements initially issued after January 31, 2003. The consolidation provisions of FIN 46 are effective immediately for variable interests in VIE created after January 31, 2003. The FASB staff recently issued a FASB Staff Position ("FSP") which deferred the effective date of FIN 46 until reporting periods ending after March 15, 2004 for variable interests in VIE created before February 1, 2003. The adoption of FIN 46 did not have a material impact on our consolidated financial statements because our potential variable interests in VIE are our Investments in Unconsolidated Ventures.

In December 2002, FASB issued Statement 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FAS 123* ("SFAS No. 148"). This statement provides alternative transition methods for a voluntary change to the fair value basis of accounting for stock-based employee compensation. However, SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to fair value based methods made in fiscal years beginning after December 15, 2003. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No.123, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, a description of the transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are to be applied for fiscal years ending after December 15, 2002. The new interim disclosure provisions are effective for the first interim period beginning after December 15, 2002. Effective January 1, 2003, we adopted the prospective method provisions of SFAS No. 148, which apply the recognition provisions of SFAS No. 123 to all employee stock options granted, modified or settled after January 1, 2003. The adoption of SFAS No. 148 did not have a material impact on our consolidated financial statements.

In November 2002, FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45") (an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34). FIN 45 clarifies the requirements of FASB Statement No. 5, *Accounting for*

Contingencies. It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless of whether or not the guarantor receives separate identifiable consideration (i.e., a premium). We adopted the new disclosure requirements, effective beginning with our consolidated financial statements for the 2002 fiscal year. The initial recognition and measurement provisions of FIN 45 are effective on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on our consolidated financial statements.

In July 2002, FASB issued Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS No. 146"). This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in Restructuring)* ("EITF No. 94-3"). It addresses when to recognize a liability for a cost associated with an exit or disposal activity including, but not limited to, termination benefits provided to current employees that are involuntarily terminated, costs to terminate a contract that is not a capital lease and costs to consolidate facilities or relocate employees. SFAS No. 146 does not apply to entities newly acquired in a business combination or with a disposal activity covered by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144") or to costs associated with the retirement of long-lived assets covered by FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred and not at the date of an entity's commitment to a plan, as previously defined in EITF No. 94-3. The provisions of SFAS No. 146 have been and will continue to be applied for exit and disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on our consolidated financial statements.

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 prescribed in APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("Opinion 30"), should not be classified as extraordinary. The provisions of SFAS No. 145 have been and will continue to 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 will be reclassified. We adopted SFAS No. 145, as required, effective January 1, 2003, and reclassified approximately $0.3 million from extraordinary loss to interest expense on our consolidated statements of income for the year ended December 31, 2002. The adoption of SFAS No. 145 did not have a material impact on our consolidated financial statements.

Effective January 1, 2002, we adopted SFAS No. 144. This statement addresses financial accounting and reporting for the impairment of long-lived assets and for the disposition of long-lived assets. SFAS No. 144 requires, among other things, that the primary assets and liabilities and the results of operations of real properties which have been sold during 2002 or thereafter, or otherwise qualify as held for sale (as defined by SFAS No. 144), be classified as discontinued operations and segregated in our Consolidated Statements of Income and Comprehensive Income 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 FASB Statement 121, *Accounting for the Impairment of Long-Lived Assets,* 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 has been and will continue to 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. We have restated prior periods for comparability, as required.

Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and the accompanying notes thereto. Historical results and percentage relationships set forth in the Consolidated Statements of Income and Comprehensive 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 January 3, 2003, we acquired a portfolio of seven grocery-anchored neighborhood shopping centers located in Michigan (collectively, the "Spartan Acquisition"). Accordingly, our results of operations for the years ended December 31, 2004 and December 31, 2003 include the results of operations of the properties acquired in the Spartan Acquisition.

On December 12, 2002, we acquired a portfolio of 57 community and neighborhood shopping centers from Equity Investment Group, a private retail-focused REIT. The acquisition of one additional shopping center from Equity Investment Group was completed on January 3, 2003 (collectively, the "EIG Acquisition"). Accordingly, our results of operations for the years ended December 31, 2004, 2003 and 2002 include the results of operations of the properties acquired in the EIG Acquisition.

On March 1, 2002, we 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 acquisition, we also acquired a 10% managing membership interest in a joint venture with a private U.S. pension fund. Accordingly, our results of operations for the years ended December 31, 2004, 2003 and 2002 include the results of operations from the properties acquired in the CenterAmerica Acquisition.

In addition to the Spartan Acquisition, the EIG Acquisition and the CenterAmerica Acquisition, we acquired 21 individual properties during 2004, 2003 and 2002. During 2004, we acquired 11 shopping centers (New Britain Village Square, Elk Grove Town Center, Florence Square, Stockbridge Village, Starlite Plaza, Village Center, Annex of Arlington, Marketplace, The Shoppes at Southside, and Silver Pointe), 11 acres of unimproved land known as Unity Plaza, the remaining 50% interest in Clearwater Mall, a shopping center in which we owned the other 50% interest, and the remaining 50% interest in The Market at Preston Ridge, a shopping center in which we owned the other 50% interest (collectively, "2004 Acquisitions"). During 2003, we also acquired three other shopping centers (Panama City Square, Harpers Station and Dickson City Crossings) and the remaining 50% interest in Vail Ranch II that we did not already own (collectively, "2003 Other Acquisitions"). During 2002, we also acquired three other shopping centers (Superior Marketplace, Whitestown Plaza and Midway Market Square) (collectively, "2002 Other Acquisitions"). Accordingly, our results of operations for the years ended December 31, 2004, 2003 and 2002 include the results of operations of the 2004 Acquisitions, the 2003 Other Acquisitions and the 2002 Other Acquisitions.

In accordance with the provisions of FIN 46, our consolidated results of operations for the year ended December 31, 2004 include the results of operations of certain of our joint ventures, as applicable (collectively, "FIN 46 Consolidation Adjustments"), which were previously accounted for under the equity method.

In accordance with the provisions of SFAS No. 144, the results of operations of properties that have been disposed of (by sale, by abandonment, or in a distribution to owners) or classified as held for sale must be classified as discontinued operations and segregated in our Consolidated Statements of

Income and Comprehensive Income. Therefore, results of operations from prior periods have been restated to reflect the current pool of disposed of or held for sale assets.

Results of Operations for the Twelve Months Ended December 31, 2004 and 2003

Revenues:

Total rental revenues increased $24.8 million, or 5%, from $470.7 million in 2003 to $495.5 million in 2004. Significant changes are discussed below.

Rental income increased $24.8 million, or 7%, from $364.7 million in 2003 to $389.5 million in 2004. The following factors accounted for this variance:

- 2004 Acquisitions, which increased rental income by approximately $16.5 million
- 2003 Other Acquisitions, which increased rental income by approximately $4.5 million
- FIN 46 Consolidation Adjustments, which increased rental income by approximately $1.3 million
- Increases in occupancy and rental rates, which increased rental income by approximately $4.5 million
- Increased specialty rent, which increased rental income by approximately $0.3 million
- Increased capitalization with respect to our redevelopment projects, which decreased rental income by approximately $1.6 million
- Decreased cost of living adjustments, which accounted for the balance of the variance

Percentage rents decreased $0.3 million, or 4%, from $6.9 million in 2003 to $6.6 million in 2004. The following factors accounted for this variance:

- 2003 Other Acquisitions, which increased percentage rents by approximately $0.1 million
- A general decrease in tenants' sales, compounded by a general increase in rental rates on renewal leases in lieu of percentage rent provisions, which accounted for the balance of the variance

Expense reimbursements increased $0.3 million, or 0.3%, from $99.1 million in 2003 to $99.4 million in 2004. The following factors accounted for this variance:

- 2004 Acquisitions, which increased expense reimbursements by approximately $3.6 million
- 2003 Other Acquisitions, which increased expense reimbursements by approximately $0.9 million
- FIN 46 Consolidation Adjustments, which increased expense reimbursements by approximately $0.2 million

A general decrease in the amount of reimbursable real estate taxes, which decreased expense reimbursements by approximately $1.0 million

A general decrease in the amount of reimbursable property operating expenses, which decreased expense reimbursements by approximately $3.3 million

Increased capitalization with respect to our redevelopment projects, which accounted for the balance of the variance

Operating Expenses:

Total operating expenses increased $15.6 million, or 6%, from $251.4 million in 2003 to $267.0 million in 2004. Significant changes are discussed below.

Operating costs decreased $2.7 million, or 3%, from $89.0 million in 2003 to $86.3 million in 2004. The following factors accounted for this variance:

FIN 46 Consolidation Adjustments, which increased operating costs by approximately $0.3 million

2004 Acquisitions, which increased operating costs by approximately $2.5 million

2003 Other Acquisitions, which increased operating costs by approximately $0.7 million

Combined increases in repairs and utility expenses, which increased operating costs by approximately $0.7 million

Decreased insurance expense attributable to lower premiums under our renewed policy that went into effect in April 2004, which decreased operating costs by approximately $4.1 million

Decreased snow removal costs attributable to unusually harsh winter conditions during 2003, which decreased operating costs by approximately $1.0 million

Decreased professional fees, which decreased operating costs by approximately $0.4 million

Increased capitalization with respect to our redevelopment projects, which decreased operating costs by approximately $1.4 million

Real estate and other taxes increased $3.0 million, or 5%, from $58.8 million in 2003 to $61.8 million in 2004. The following factors accounted for this variance:

FIN 46 Consolidation Adjustments, which increased real estate and other taxes by approximately $0.1 million

2004 Acquisitions, which increased real estate and other taxes by approximately $2.6 million

2003 Other Acquisitions, which increased real estate and other taxes by approximately $0.6 million

Property tax rate decreases at certain municipalities, combined with lower assessments at certain properties, which accounted for the balance of the variance

Depreciation and amortization increased $13.3 million, or 17%, from $76.1 million in 2003 to $89.4 million in 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased depreciation and amortization by approximately $6.2 million

2003 Other Acquisitions, which increased depreciation and amortization by approximately $1.4 million

Increased amortization expense attributable to deferred lease acquisition expenses, which increased depreciation and amortization by approximately $1.9 million

Increased depreciation expense on properties previously under redevelopment, combined with increased depreciation expense on tenant improvements made in 2004, which increased depreciation and amortization by approximately $3.8 million

Provision for doubtful accounts increased $2.5 million, or 33%, from $7.6 million in 2003 to $10.1 million in 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased provision for doubtful accounts by approximately $0.2 million

2003 Other Acquisitions, which in the aggregate increased provision for doubtful accounts by approximately $0.1 million

Increased reserves taken in anticipation of the redevelopment of certain assets, a more conservative approach to overall reserves and higher recoveries of previously reserved amounts in 2003, which increased provision for doubtful accounts by approximately $2.2 million

General and administrative expenses decreased $0.3 million, or 2%, from $19.8 million in 2003 to $19.5 million in 2004. The following factors accounted for this variance:

Increased payroll related expenses attributable to increased personnel, which increased general and administrative expenses by approximately $1.4 million

Increased professional fees, primarily attributable to costs incurred in connection with complying with regulations under the Sarbanes-Oxley Act of 2002, which increased general and administrative expenses by approximately $0.7 million

Combined increases in utilities, travel and promotion expenses and depreciation expense on non-real estate assets, which increased general and administrative expenses by approximately $0.7 million

Decreased legal expenses, resulting primarily from reserves taken for a specific tenant litigation in 2003, which decreased general and administrative expenses by approximately $2.5 million

Increased cost allocations, which accounted for the balance of the variance

Other Income and Expenses:

Interest, dividend and other income decreased $1.1 million, or 12%, from $9.4 million in 2003 to $8.3 million in 2004. The following factors accounted for this variance:

2004 Acquisitions, which increased interest, dividend and other income by approximately $0.4 million

Combined increases in management fee revenue and development fee revenue, which increased interest, dividend and other income by approximately $1.0 million

The payoff of certain notes receivable, which decreased interest, dividend and other income by approximately $0.5 million

The payoff of certain employee loans receivable, which decreased interest, dividend and other income by approximately $0.2 million

The payoff of a letter of credit on which we were earning fee income, which decreased interest, dividend and other income by approximately $1.4 million

Lower rates of return on certain investments, which accounted for the balance of the variance

Equity in income of unconsolidated ventures decreased $1.9 million, or 56%, from $3.4 million in 2003 to $1.5 million in 2004. The following factors accounted for this variance:

FIN 46 Consolidation Adjustments, which decreased equity in income of unconsolidated ventures by approximately $1.8 million

Increased operating performance by the NP / I&G Institutional Retail Company, LLC joint venture, primarily attributable to the acquisition of five new properties during 2004, which increased equity in income of unconsolidated ventures by approximately $1.1 million

A full year of operating performance by the Arapahoe Crossings, LP joint venture, which began operations on September 31, 2003, which increased equity in income of unconsolidated ventures by approximately $0.5 million

A $0.6 million gain on the sale of Flamingo Falls, a property owned by the CA New Plan Venture Fund, which was recorded in the second quarter of 2003

A $0.2 million loss on the sale of Fruitland Plaza, a property owned by Benbrooke Ventures, which was recorded in the first quarter of 2004

Lower operating performance by the Preston Ridge joint venture, which accounted for the balance of the variance

Interest expense increased $4.4 million, or 4%, from $101.6 million in 2003 to $106.0 million in 2004. The following factors accounted for this variance:

A net increase in the amount of public debt outstanding, primarily attributable to the 2004 Debt Offering, our public offering of $100.0 million aggregate principal amount of 3.75% convertible senior notes on May 19, 2003 ("the Convertible Debt Offering"), and our public offering of $50.0 million of 5.50% medium-term notes on November 20, 2003, partially offset by the repayment of $75.0 million of our 6.875% medium-term notes and $49.0 million of our 7.33% medium-term notes and lower relative rates on our new debt issuances, which increased interest expense by approximately $7.4 million

Financing fees incurred in connection with the Convertible Debt Offering and the 2004 Debt Offering, which increased interest expense by approximately $0.2 million

Increased amortization of debt issuance costs, primarily attributable to the write-off of costs associated with our previously existing revolving credit facility and secured term loan, which increased interest expense by approximately $1.1 million

An increase in the balance outstanding under the Revolving Facility, partially offset by a lower interest rate on the Revolving Facility, which increased interest expense by approximately $0.5 million

The refinancing of our previously existing senior unsecured term loan at a lower interest rate, which decreased interest expense by approximately $0.3 million

A net decrease in the amount of mortgage debt outstanding, primarily attributable to the payoff of several mortgages, partially offset by the assumption of mortgages in connection with the 2004 Acquisitions and the 2003 Other Acquisitions, which decreased interest expense by approximately $0.7 million

The repayment of the variable rate REMIC debt, which decreased interest expense by approximately $0.6 million

Increased capitalization with respect to our redevelopment projects, which decreased interest expense by approximately $2.2 million

Swap proceeds received, which decreased interest expense by approximately $1.0 million

Discontinued Operations:

Effective January 1, 2002, we adopted SFAS No. 144. This statement retains the requirement of APB Opinion 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. For the year ended December 31, 2004, such properties generated approximately $2.5 million, $0.1 million and $1.1 million in results of operations, impairment expense and gain on sale, respectively. For the year ended December 31, 2003, such properties generated approximately $6.6 million, $7.0 million and $4.0 million in results of

operations, impairment expense and gain on sale, respectively. Accordingly, these amounts have been classified as discontinued operations.

Results of Operations for the Twelve Months Ended December 31, 2003 and 2002

Revenues:

Total revenues increased $92.5 million, or 24%, from $378.2 million for in 2002 to $470.7 million in 2003. The major areas of change are discussed below.

Rental income increased $72.7 million, or 25%, from $292.0 million in 2002 to $364.7 million in 2003. The following factors accounted for this variance:

- The EIG Acquisition, which increased rental income by approximately $46.1 million
- The CenterAmerica Acquisition, which increased rental income by approximately $13.8 million
- The Spartan Acquisition, which increased rental income by approximately $5.2 million
- 2003 Other Acquisitions, which increased rental income by approximately $2.4 million
- 2002 Other Acquisitions, which increased rental income by approximately $4.3 million
- Combined increases in specialty rents and cost of living adjustments, which increased rental income by approximately $0.6 million
- Increases in occupancy and rental rates, which accounted for the balance of the variance

Percentage rents increased $0.6 million, or 10%, from $6.3 million in 2002 to $6.9 million in 2003. The following factors accounted for this variance:

- The EIG Acquisition, which increased percentage rents by approximately $0.4 million
- The CenterAmerica Acquisition, which increased percentage rents by approximately $0.7 million
- A general decrease in tenants' sales, which accounted for the balance of the variance

Expense reimbursements increased $19.2 million, or 24%, from $79.9 million in 2002 to $99.1 million in 2003. The following factors accounted for this variance:

- The EIG Acquisition, which increased expense reimbursements by approximately $11.5 million
- The CenterAmerica Acquisition, which increased expense reimbursements by approximately $4.2 million
- The Spartan Acquisition, which increased expense reimbursements by approximately $1.6 million

2003 Other Acquisitions, which increased expense reimbursements by approximately $0.6 million

2002 Other Acquisitions, which increased expense reimbursements by approximately $0.9 million

A general increase in the amount of reimbursable real estate taxes, which increased expense reimbursements by approximately $1.4 million

An increase in the amount of reimbursable insurance expenses, which increased expense reimbursements by approximately $1.8 million

A general decrease in the amount of reimbursable property operating expenses, which decreased expense reimbursements by approximately $2.6 million

Increased capitalization, which accounted for the balance of the variance

Operating Expenses:

Total operating expenses increased $51.5 million, or 26%, from $199.9 million in 2002 to $251.4 million in 2003. The major areas of change are discussed below.

Operating costs increased $24.3 million, or 38%, from $64.7 million in 2002 to $89.0 million in 2003. The following factors accounted for this variance:

- The EIG Acquisition, which increased operating costs by approximately $12.1 million
- The CenterAmerica Acquisition, which increased operating costs by approximately $4.8 million
- The Spartan Acquisition, which increased operating costs by approximately $0.9 million
- 2003 Other Acquisitions, which increased operating costs by approximately $0.4 million
- 2002 Other Acquisitions, which increased operating costs by approximately $0.8 million
- Increased insurance expense attributable to higher premiums under our renewed policy and our addition of a higher coverage terrorism clause, which increased operating costs by approximately $2.5 million
- Increased payroll related expenses, which increased operating costs by approximately $2.1 million
- Combined increases in snow removal costs, utilities, cleaning expenses, security expenses, professional fees and other expenses, which increased operating costs by approximately $3.4 million
- Increased capitalization of expenses, which decreased operating costs by approximately $2.1 million
- Combined decreases in repairs and office rent, which accounted for the balance of the variance

Real estate and other taxes increased $13.6 million, or 30%, from $45.2 million in 2002 to $58.8 million in 2003. The following factors accounted for this variance:

- The EIG Acquisition, which increased real estate and other taxes by approximately $7.6 million
- The CenterAmerica Acquisition, which increased real estate and other taxes by approximately $2.1 million
- The Spartan Acquisition, which increased real estate and other taxes by approximately $0.8 million
- 2003 Other Acquisitions, which increased real estate and other taxes by approximately $0.3 million
- 2002 Other Acquisitions, which increased real estate and other taxes by approximately $0.6 million
- Property tax rate increases at certain municipalities, combined with higher assessments at certain properties, which accounted for the balance of the variance

Depreciation and amortization increased $13.0 million, or 21%, from $63.1 million in 2002 to $76.1 million in 2003. The following factors accounted for this variance:

The EIG Acquisition, which increased depreciation and amortization by approximately $8.1 million

The CenterAmerica Acquisition, which increased depreciation and amortization by approximately $2.8 million

- The Spartan Acquisition, which increased depreciation and amortization by approximately $0.9 million
- 2003 Other Acquisitions, which increased depreciation and amortization by approximately $0.4 million
- 2002 Other Acquisitions, which increased depreciation and amortization by approximately $0.7 million
- Increased depreciation and amortization on properties previously under redevelopment, which accounted for the balance of the variance

Provision for doubtful accounts decreased $1.4 million, or 16%, from $9.0 million in 2002 to $7.6 million in 2003. The following factors accounted for this variance:

- The EIG Acquisition, which increased provision for doubtful accounts by approximately $1.5 million
- The Spartan Acquisition, which increased provision for doubtful accounts by approximately $0.1 million
- Reduced reserves attributable to the settlement of Kmart receivables, as well as lower write-offs, which accounted for the balance of the variance

General and administrative expenses increased $1.9 million, or 11%, from $17.9 million in 2002 to $19.8 million in 2003. The following factors accounted for this variance:

- The CenterAmerica Acquisition, which increased general and administrative expenses by approximately $0.1 million
- Increased payroll related expenses, primarily attributable to the establishment of our regional office structure in 2003, which increased general and administrative expenses by approximately $4.7 million
- Increased professional fees, primarily attributable to higher legal fees resulting from reserves taken for a specific tenant litigation, which increased general and administrative expenses by approximately $2.9 million
- Combined increases in office costs, utilities and travel and promotion expenses, primarily attributable to the establishment of our regional office structure in 2003, which increased general and administrative expenses by approximately $1.8 million
- Increased depreciation expense on non-real estate assets, which increased general and administrative expenses by approximately $0.2 million
- Decreased franchise tax, primarily attributable to reserves taken in 2002 for certain revised Pennsylvania tax legislation, which decreased general and administrative expenses by approximately $2.1 million
- Increased allocation of regional office costs to the individual property levels, which decreased general and administrative expenses by approximately $5.7 million

Other Income and Expense:

Interest, dividend and other income decreased $1.6 million, or 15%, from $11.0 million in 2002 to $9.4 million in 2003. This variance is primarily attributable to the loss of interest income from certain notes receivable, which were paid off during 2003.

Equity in income of unconsolidated ventures decreased $1.8 million, or 35%, from $5.2 million in 2002 to $3.4 million in 2003. This variance is primarily attributable to reduced income from our investment in the Preston Ridge joint venture The Centre at Preston Ridge, in which our ownership percentage decreased to 25% from 50% on November 25, 2002.

Interest expense increased $8.3 million, or 9%, from $93.3 million in 2002 to $101.6 million in 2003. The following factors accounted for this variance:

- A net increase in the amount of mortgage debt outstanding, primarily attributable to mortgages assumed in connection with the EIG Acquisition, the CenterAmerica Acquisition, 2003 Other Acquisitions and 2002 Other Acquisitions, partially offset by the payoff of our variable rate REMIC, which increased interest expense by approximately $8.7 million

- An increase in the amount of public debt outstanding, primarily attributable to the Convertible Debt Offering, as well as our public offering of $250 million aggregate principal amount of 5.875% senior unsecured notes on June 11, 2002, which increased interest expense by approximately $7.3 million

- The refinancing of our previously existing senior unsecured term loan facility at a lower interest rate, compounded by a lower interest rate on our then existing revolving credit facility, which decreased interest expense by approximately $0.2 million

- The expiration of a two-year interest rate swap agreement in October 2002, compounded by payments received from our reverse arrears swap agreement, which decreased interest expense by approximately $3.6 million

- Increased capitalization with respect to our redevelopment projects, which decreased interest expense by approximately $0.5 million

- Reduced amortization of debt issuance costs, which decreased interest expense by approximately $2.2 million

- Lower financing fees, which decreased interest expense by approximately $0.9 million

- The write-off of the mortgage premium / discount resulting from the prepayment of two mortgages in 2002, which decreased interest expense by approximately $0.3 million

Impairment of real estate decreased $67.1 million, or 95%, from $70.6 million in 2002 to $3.5 million in 2003. In the fourth quarter of 2002, as part of the periodic assessment of our real estate properties relative to both the extent to which such assets are consistent with our long-term real estate investment objectives and the performance and prospects of each asset, we determined that our investment in one of our properties was impaired. Given the substantial culmination during the fourth quarter of 2002 of our non-core asset recycling program and therefore achievement of our goal relative to executing a product strategy focused on our core assets of community and neighborhood shopping centers, we reduced our anticipated holding period of certain of our remaining non-core assets. As a result of the reduction in the anticipated holding period, together with a reassessment of the anticipated future operating income of the properties and the effects of new competition and demand for the properties, we determined that our investment in Pointe Orlando was impaired and recorded an impairment of real estate of approximately $70.0 million, reducing the book value of this asset to $88.0 million.

Discontinued Operations:

Effective January 1, 2002, we adopted SFAS No. 144. This statement retains the requirement of Opinion 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. For the year ended December 31, 2003, such properties generated approximately $6.6 million, $7.0 million and $4.0 million in results of operations, impairment expense and gain on sale, respectively. For the year ended December 31, 2002, such properties generated approximately $27.9 million, $36.9 million and $100.8 million in results of operations, impairment expense and gain on sale, respectively. Accordingly, these amounts have been classified as discontinued operations.

Funds from Operations

Funds from Operations ("FFO") is a widely used performance measure for real estate companies and is provided here as a supplemental measure of operating performance. We calculate FFO in accordance with the best practices described in the April 2002 National Policy Bulletin of the National Association of Real Estate Investment Trusts (the "White Paper"). The White Paper defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

On October 1, 2003, the National Association of Real Estate Investment Trusts ("NAREIT"), based on discussions with the SEC, provided revised guidance regarding the calculation of FFO. This revised guidance provides that impairments should not be added back to net income in calculating FFO and that original issuance costs associated with preferred stock that has been redeemed should be factored into the calculation of FFO. Prior to this pronouncement, we had added back impairments in calculating FFO, in accordance with prior NAREIT guidance, and had not factored in original issuance costs of preferred stock that had been redeemed in the calculation of FFO. We have revised our calculation of FFO in accordance with NAREIT's revised guidance in the table set forth below. Prior year amounts reflect the revised guidance.

Given the nature of our business as a real estate owner and operator, we believe that FFO is helpful to investors as a starting point in measuring our operational performance because it excludes various items included in net income that do not relate to or are not indicative of our operating performance such as gains (or losses) from sales of property and depreciation and amortization, which can make periodic and peer analyses of operating performance more difficult. However, it should be noted that there are certain items, such as impairments, that are included within the definition of FFO that do not relate to and are not indicative of our operating performance. Furthermore, FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance, is not an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, and is not indicative of funds available to fund our cash needs, including our ability to make distributions. Our computation of FFO may differ from the methodology utilized by other equity REITs to calculate FFO and, therefore, may not be comparable to such other REITs.

The following information is provided to reconcile net income, the most comparable GAAP number, to FFO, and to show the items included in our FFO for the past periods indicated (in thousands, except footnotes):

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Net income available to common stockholders diluted	$ 113,266	$ 108,776	$ 108,678
Deduct:			
Minority interest in income of consolidated partnership	(796)	(1,555)	(642)
Net income available to common stockholders basic	112,470	107,221	108,036
Add:			
Depreciation and amortization			
Continuing operations real estate assets	89,394	76,113	63,139
Discontinued operations real estate assets	1,184	2,000	7,085
Pro rata share of joint venture real estate assets	1,629	1,016	1,405
Deduct:			
Gain on sale of real estate (1)	(1,217)		(202)
Gain on sale of discontinued operations (1)	5,622	(1,534)	(98,876)
Pro rata share of joint venture loss (gain) on sale of real estate (1)	433	(643)	
Funds from operations basic	209,515	184,173	80,587
Add:			
Preferred A dividends			1,587
Minority interest in income of consolidated partnership	796	1,555	642
Funds from operations diluted	$ 210,311	$ 185,728(2)	$ 82,816(3)
Net cash provided by operating activities	$ 220,726	$ 197,752	$ 229,685
Net cash used in investing activities	(253,065)	(123,029)	(426,952)
Net cash provided by (used in) financing activities	34,303	(77,923)	198,632

Note Preferred A shares have a dilutive effect for FFO calculations, but are anti-dilutive for earnings per share calculations. On July 15, 2002, we 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 in the year ended December 31, 2002.

(1) Excludes gain/loss on sale of land.

(2) As noted above, the calculation of FFO has been revised in accordance with revised NAREIT guidance. FFO for the year ended December 31, 2003 includes a deduction in FFO of approximately $10.5 million relating to impairments (which amounts previously were added back in the calculation of FFO, thereby increasing previously disclosed FFO by such amounts from that set forth above). FFO for the year ended December 31, 2003 also includes a deduction of approximately $0.6 million relating to the premium on our redemption of preferred stock in May 2003 (which amount previously was not factored in the calculation of FFO, thereby increasing previously disclosed FFO by such amount from that set forth above).

(3) As noted above, the calculation of FFO has been revised in accordance with revised NAREIT guidance. As a result, the revised calculation of FFO for the year ended December 31, 2002 now reflects changes from previously disclosed FFO for such period, consisting of (i) an increase in

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FFO of approximately $7.0 million relating to the discount on our redemption of preferred stock in July 2002 (which amount previously was not included in the calculation of FFO, thereby decreasing previously disclosed FFO by such amount from that set forth above) for the year ended December 31, 2002, and (ii) a decrease in FFO of approximately $107.6 million for impairments (which amounts previously were added back in the calculation of FFO, thereby increasing previously disclosed FFO by such amounts from that set forth above) for the year ended December 31, 2002.

Liquidity and Capital Resources

As of December 31, 2004, we had approximately $11.0 million in available cash, cash equivalents and marketable securities. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. Therefore, as a general matter, it is unlikely that we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

As of December 31, 2004, approximately $54.0 million was available for draw under the Revolving Facility. As of February 28, 2005, taking into account the pay-down of the Revolving Facility with net proceeds from the 2005 Debt Offering and draws under the Revolving Facility subsequent to December 31, 2004, the amount available for draw under the Revolving Facility was approximately $109.0 million.

Short-Term Liquidity Needs

Our short-term liquidity requirements consist primarily of funds necessary to pay for operating and other expenses directly associated with our portfolio of properties (including regular maintenance items), interest expense and scheduled principal payments on our outstanding debt, capital expenditures incurred to facilitate the leasing of space (*e.g.*, tenant improvements and leasing commissions), capital expenditures incurred in our development and redevelopment projects, and quarterly dividends and distributions that we pay to our common and preferred stockholders and holders of partnership units in a partnership that we control. We believe that cash generated from operations and borrowings under the Revolving Facility will be sufficient to meet our short-term liquidity requirements; however, there are certain factors that may have a material adverse effect on our cash flow.

We derive substantially all of our revenue from tenants under existing leases at our properties. Therefore, our operating cash flow is dependent on the rents that we are able to charge to our tenants, and the ability of these tenants to make their rental payments. We believe that the nature of the properties in which we typically invest primarily community and neighborhood shopping centers provides a more stable revenue flow in uncertain economic times, because even in difficult economic times consumers still need to purchase basic living essentials such as food and soft goods. However, general economic downturns, or economic downturns in one or more markets in which we own properties, still may adversely impact the ability of our tenants to make lease payments and our ability to re-lease space on favorable terms as leases expire. In either of these instances, our cash flow would be adversely affected. We are not currently aware of any pending tenant bankruptcies that are likely to materially affect our aggregate rental revenues.

On February 21, 2005, Winn-Dixie Stores filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. Prior to the bankruptcy filing, Winn-Dixie Stores leased space at 22 of our shopping centers. Winn-Dixie Stores has since rejected the leases at two locations. The 20 non-rejected leases include one lease location that was previously assigned to a third party.

The remaining 19 locations, which include four leases at properties held in a joint venture in which we have a 10% interest, are all currently physically occupied and aggregate (including our pro rata share of the joint venture properties) approximately 719,000 square feet of gross leasable area and represent approximately $4.5 million of annual base rent, or approximately $6.26 per square foot. This represents approximately 1.1% of our total annual base rent.

Under federal bankruptcy laws, Winn-Dixie Stores can affirm or reject its 19 remaining leases with us. It could also seek to receive rent reductions or deferrals or other lease modifications from us. At this time, Winn-Dixie Stores has not announced its plans with respect to these 19 remaining leases. In the event that leases are terminated, we would seek to re-lease those spaces to new tenants. In some cases, we believe we could re-lease the space currently occupied by Winn-Dixie Stores on terms that would be at least as favorable as the current lease with Winn-Dixie Stores. In other cases, however, we may not be able to achieve the rental rates that Winn-Dixie Stores is currently paying. It may also take a significant amount of time to re-lease any space vacated by Winn-Dixie Stores, during which period we would not be collecting any rent for that space. In addition, if Winn-Dixie Stores terminates additional leases, other tenants at the effected properties may have the right to terminate their leases with us, or to pay less rent that they currently pay.

If Winn-Dixie Stores terminates a substantial number of leases with us, or if Winn-Dixie Stores receives a substantial rent reductions or deferrals, it will adversely affect our rental revenues, and the impact may be material. In addition, Winn-Dixie Stores' termination of leases or closure of stores could result in lease terminations or reductions in rent by other tenants in the same shopping centers, the impact of which could be material to us.

We do not believe that there are any other pending tenant bankruptcies that are likely to materially affect our rental revenues.

We may acquire large portfolios of community and neighborhood shopping centers, either through direct acquisitions or business combinations. While we believe that the cash generated by any newly- acquired properties will more than offset the operating and interest expenses associated with those properties, it is possible that the properties may not perform as well as expected and as a result, our cash needs may increase. In addition, there may be other costs incurred as a result of the acquisition of properties, including increased general and administrative costs while we assimilate the properties into our operating system.

In some cases, we have invested as a co-venturer or partner in the development or redevelopment of new properties, instead of developing projects directly. Pursuant to the terms of two of our joint venture agreements, we have agreed to contribute up to an aggregate of $14.6 million of additional capital that may be required by such joint ventures. We expect to fund the additional capital required by these joint ventures either out of excess cash from operations, or through draws on the Revolving Facility.

We completed 30 redevelopment projects in 2004, the aggregate cost of which (including costs incurred in prior years on these projects) was approximately $87.4 million. Our current redevelopment pipeline is comprised of an additional 32 redevelopment projects, the aggregate future cost of which is expected to be approximately $84.7 million. We also redevelop properties held in our joint ventures and our current pipeline for such properties is comprised of three redevelopment projects, the aggregate future cost of which is expected to be approximately $9.7 million. We also have two new development projects underway, the aggregate future cost of which is expected to be approximately $12.3 million. In addition, we have three outparcel development projects underway, the aggregate future cost of which is expected to be approximately $3.2 million. We intend on financing our redevelopment projects, our joint venture redevelopment projects, our new development projects and our outparcel development projects through cash from operations or draws on the Revolving Facility.

We regularly incur significant expenditures in connection with the re-leasing of our retail space, principally in the form of tenant improvements and leasing commissions. The amounts of these expenditures can vary significantly, depending on negotiations with tenants and the willingness of tenants to pay higher base rents over the life of the leases. We expect to pay for these capital expenditures out of excess cash from operations or, to the extent necessary, through draws on the Revolving Facility. We believe that a significant portion of these expenditures is recouped in the form of continuing lease payments.

We have established a stock repurchase program under which we may repurchase up to $75 million of our outstanding common stock through periodic open market transactions or through privately negotiated transactions. We did not repurchase any shares of common stock under this program in 2004 or 2003. In light of current market conditions, we do not anticipate effecting additional stock repurchases in the near future, although we could reevaluate this determination at any time based on market conditions.

We have also established a repurchase program under which we may repurchase up to $125 million of our outstanding preferred stock and public debt through periodic open market transactions or through privately negotiated transactions. As of December 31, 2004, no purchases had been made under this program.

The current quarterly dividend on our common stock is $0.4125 per share. We also pay regular quarterly dividends on our preferred stock. The maintenance of these dividends is subject to various factors, including the discretion of our Board of Directors, our ability to pay dividends under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income to be distributed to stockholders. We also make regular quarterly distributions on units in a partnership that we control.

In addition, under the Revolving Facility and the Secured Term Loan, we are restricted from paying common stock dividends that would exceed 95% of our Funds From Operations (as defined in the applicable debt agreement) during any four-quarter period.

Long-Term Liquidity Needs

Our long-term liquidity requirements consist primarily of funds necessary to pay for the principal amount of our long-term debt as it matures, significant non-recurring capital expenditures that need to be made periodically at our properties and the costs associated with acquisitions of properties that we pursue. Historically, we have satisfied these requirements principally through the most advantageous source of capital at the time, which has included the incurrence of new debt through borrowings (through public offerings of unsecured debt and private incurrence of secured and unsecured debt), sales of common and preferred stock, capital raised through the disposition of assets, repayment by third parties of notes receivable and joint venture capital transactions. We believe that these sources of capital will continue to be available in the future to fund our long-term capital needs; however, there are certain factors that may have a material adverse effect on our ability to access these capital sources.

Our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets, our credit rating and borrowing restrictions imposed by existing lenders. Currently, we have investment grade credit ratings for prospective unsecured debt offerings from three major rating agencies Standard & Poor's (BBB), Moody's Investor Service (Baa2) and Fitch Ratings (BBB+). A downgrade in outlook or rating by a rating agency can occur at any time if the agency perceives an adverse change in our financial condition, results of operations or ability to service debt. If such a downgrade occurs, it would increase the interest rate currently payable under our existing credit facilities, it likely would increase the costs associated with obtaining future financing, and it potentially could adversely affect our ability to obtain future financing.

Based on an internal evaluation, the estimated value of our properties is above the outstanding amount of mortgage debt encumbering the properties. Therefore, at this time, we believe that additional financing could be obtained, either in the form of mortgage debt or additional unsecured borrowings, and without violating the financial covenants contained in our existing debt agreements. In January 2005, we issued $100.0 million of unsecured notes in the 2005 Debt Offering, net proceeds of which were used to repay a portion of the borrowings outstanding under the Revolving Facility. In 2004, we increased the borrowed amount under the Secured Term Loan from $100.0 million to $150.0 million, and we issued $150.0 million of unsecured notes in the 2004 Debt Offering. Net proceeds from the 2004 Debt Offering were used to repay a portion of the borrowings outstanding under our then existing revolving credit facility. In 2003, we entered into the Secured Term Loan and issued an aggregate of $165.0 million of unsecured notes in the Convertible Debt Offering and the Medium-Term Notes Offering.

Our ability to raise funds through sales of common stock and preferred stock is dependent on, among other things, general market conditions for REITs, market perceptions about our company and the current trading price of our stock. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the equity markets may not be consistently available on attractive terms.

We have selectively effected asset sales to generate cash proceeds over the last two years. In particular, in 2004, we generated an aggregate of approximately $57.9 million in gross proceeds, including approximately $8.5 million represented by a purchase money note issued in connection with the sale of Factory Merchants Barstow, through the culling of non-core and non-strategic properties and the transfer of one property to a joint venture. In addition, we generated approximately $4.3 million in gross proceeds from the disposition of certain properties held through joint ventures. In 2003, we generated an aggregate of approximately $117.1 million in gross proceeds from the culling of non-core and non-strategic properties and approximately $4.6 million in gross proceeds from the sale of certain properties held through our joint ventures. Our ability to generate cash from asset sales is limited by market conditions and certain rules applicable to REITs. Our ability to sell properties in the future in order to raise cash will necessarily be limited if market conditions make such sales unattractive.

The following table summarizes all of our known contractual cash obligations, excluding interest, to pay third parties as of December 31, 2004 (dollars in thousands):

Contractual Cash Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt (1)	$ 1,952,122	$ 140,233	$ 810,736	$ 380,736	$ 620,417
Capital Lease Obligations	28,234	353	762	820	26,299
Operating Leases	49,483	1,853	4,363	4,579	38,688
Total	$ 2,029,839	$ 142,439	$ 815,861	$ 386,135	$ 685,404

(1) Long-term debt includes scheduled amortization and scheduled maturities for mortgage loans, notes payable and credit facilities.

On January 13, 2005, we completed the 2005 Debt Offering. Net proceeds from the offering (approximately $99.3 million) were used to repay a portion of the borrowings outstanding under the Revolving Facility. We intend to repay $100.0 million issued under our medium-term note program that matures in April 2005, as well as the balance of the mortgages due in 2005 (approximately $24.8 million), either through draws under the Revolving Facility, from proceeds generated through the sale of assets or from the proceeds generated through the issuance of public or private secured or unsecured debt, or a combination thereof. We anticipate repaying the balance of the 2005 contractual cash obligations, which consists primarily of scheduled amortization, through draws under the Revolving Facility.

On June 29, 2004, we amended our existing $350 million unsecured revolving credit facility. The Revolving Facility matures on June 29, 2007, with a one-year extension option. As of December 31, 2004, the Revolving Facility bore interest at LIBOR plus 65 basis points, based on our then current debt rating. In addition, we incur an annual facility fee of 20 basis points on this facility.

On June 29, 2004, we also amended our $100 million secured term loan facility, increasing the loan amount to $150 million. The Secured Term Loan matures on June 29, 2007. As of December 31, 2004, the Secured Term Loan bore interest at LIBOR plus 85 basis points, based on our then current debt rating.

The following table summarizes certain terms of our existing credit facilities as of December 31, 2004:

Loan	Amount Available to be Drawn (in thousands)	Amount Drawn as of December 31, 2004 (in thousands)	Current Interest Rate (1)	Maturity Date
Revolving Facility	$ 350,000	$ 296,000	LIBOR plus 65 bp (2)	June 29, 2007
Secured Term Loan	150,000	150,000	LIBOR plus 85 bp	June 29, 2007
Total	$ 500,000	$ 446,000		

(1) We incur interest using a 30-day LIBOR rate, which was 2.40% at December 31, 2004.

(2) We also incur an annual facility fee of 20 basis points on this facility.

The Revolving Facility and the Secured Term Loan require that we maintain certain financial coverage ratios. 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 than 57.5%
- total secured debt to total adjusted assets of no more than 40%
- unsecured debt to unencumbered assets value ratio of no more than 55%
- 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%
- Funds from Operations (as defined in the applicable debt agreement) payout ratio no greater than 95%

Under the terms of each of the Revolving Facility and the Secured Term Loan, the respective covenants will be modified to be consistent with any more restrictive covenant contained in any other existing or new senior unsecured credit facility that we enter into. The Secured Term

Loan also contains certain financial covenants relating to the operating performance of certain properties that collateralize the Secured Term Loan.

As of December 31, 2004, we had also issued approximately $1.0 billion of indebtedness, excluding the impact of unamortized discounts, under five public indentures, having a weighted average interest rate of 6.1%. These indentures also contain covenants that require us to maintain certain financial coverage ratios. These covenants are generally less onerous than the covenants contained in our existing credit facilities, as described above.

As of December 31, 2004, we were in compliance with all of the financial covenants under our existing credit facilities and public indentures, and we believe that we will continue to remain in compliance with these covenants. However, if our properties do not perform as expected, or if unexpected events occur that require us to borrow additional funds, compliance with these covenants may become difficult and may restrict our ability to pursue certain business initiatives. In addition, these financial covenants may restrict our ability to pursue particular acquisition transactions (for example, acquiring a portfolio of properties that is highly leveraged) and could significantly impact our ability to pursue growth initiatives.

In addition to our existing credit facilities and public indebtedness, we had approximately $531.1 million of mortgage debt outstanding, excluding the impact of unamortized premiums, as of December 31, 2004, having a weighted average interest rate of 7.4% per annum.

Off-Balance Sheet Arrangements

We do not believe that we currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

However, in a few cases, we have made commitments to provide funds to unconsolidated joint ventures under certain circumstances. The liabilities associated with these joint ventures do not show up as liabilities on our consolidated financial statements.

The following is a brief summary of the unconsolidated joint venture obligations that we have as of December 31, 2004, and in which we expect to make additional capital contributions to the joint venture:

CA New Plan Venture Fund. We, together with a third-party institutional investor, have an investment in a joint venture which owned 14 operating retail properties and three retail properties under redevelopment as of December 31, 2004. Under the terms of this joint venture, we have a 10% interest in the venture, and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum amount of $8.3 million, of which approximately $5.7 million had been contributed by us as of December 31, 2004. We anticipate contributing the remaining $2.6 million during 2005. The joint venture had loans outstanding of approximately $130.0 million as of December 31, 2004. As of December 31, 2004, the book value of our investment in CA New Plan Venture Fund was approximately $7.0 million.

NP/I&G Institutional Retail Company, LLC. In November 2003, we formed a strategic joint venture with JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture owned six retail properties as of December 31, 2004. Under the terms of this joint venture, we have a 20% interest in the venture and are responsible for contributing our pro rata share of any capital that might be required by the joint venture, up to a maximum amount of $30.0 million, of which we have contributed approximately $12.5 million as of December 31, 2004. We anticipate contributing the remaining $17.5 million during 2005. The joint venture had loans outstanding of approximately $115.9 million as of December 31, 2004. As of December 31, 2004, the book value of our investment in the NP/I&G Institutional Retail Company, LLC was approximately $12.5 million.

The following is a brief summary of the other unconsolidated joint venture obligations that we have as of December 31, 2004. Although we have agreed to contribute certain amounts of capital that may be required by these joint ventures, as more fully described below, we do not expect that any significant capital contributions to the following joint ventures will be required.

Arapahoe Crossings, LP. On September 30, 2003, a U.S. partnership comprised substantially of foreign investors purchased a 70% interest in Arapahoe Crossings, reducing our ownership interest from 100% to 30%. Under the terms of this joint venture, we have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately $49.2 million as of December 31, 2004. As of December 31, 2004, the book value of our investment in Arapahoe Crossings, LP was approximately $6.7 million.

Preston Ridge. We have investments in various joint ventures that own a community shopping center (The Centre at Preston Ridge) and parcels of undeveloped land in Frisco, Texas. As of December 31, 2004, the combined book value of our investment in The Centre at Preston Ridge and the undeveloped land parcels was approximately $5.7 million.

The Centre at Preston Ridge. Under the terms of this joint venture, we have a 25% interest in a venture that owns The Centre at Preston Ridge. We have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had loans outstanding of approximately $69.3 million as of December 31, 2004.

Undeveloped Land Parcels. We have a 50% interest in a joint venture that owns approximately 38.6 acres of undeveloped land in Frisco, Texas. We have agreed to contribute our pro rata share of any capital that might be required by the joint venture. The joint venture had no loans outstanding as of December 31, 2004.

In addition, as of December 31, 2004, we had investments in two joint ventures (Benbrooke Ventures and BPR West) which have been included as consolidated entities in our financial statements in accordance with the provisions of FIN 46.

Other Funding Obligations

In addition to the joint venture obligations described above, we also had the following contingent contractual obligations as of December 31, 2004, none of which we believe will materially adversely affect us:

Letters of Credit. We have arranged for the provision of three separate letters of credit in connection with certain property related matters. If these letters of credit are drawn, we will be obligated to reimburse the providing bank for the amount of the draw. As of December 31, 2004, there was no balance outstanding under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be approximately $3.5 million.

Non-Recourse Debt Guarantees. Under certain of our non-recourse loans and those of our joint ventures, we could, under certain circumstances, 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 December 31, 2004, we had mortgage loans outstanding of approximately $551.5 million and our joint ventures had mortgage loans outstanding of approximately $364.7 million.

Leasing Commitments. We have entered into leases, as lessee, in connection with ground leases for shopping centers which we operate, an office building which we sublet, and our administrative office space. These leases are accounted for as operating leases. The minimum annual rental commitments for these leases during the next five fiscal years and thereafter are approximately as follows (in thousands):

Year	
2005	$ 1,853
2006	1,948
2007	2,415
2008	2,299
2009	2,280
Thereafter	38,688

For a discussion of other factors which may adversely affect our liquidity and capital resources, please see the section titled "Risk Factors" in Item I of this Annual Report on Form 10-K.

Inflation

The majority of our leases contain provisions designed to mitigate the adverse impact of inflation. Such provisions contain clauses enabling us to receive percentage rents, which generally increase as prices rise but may be adversely impacted by tenant sales decreases, and/or escalation clauses which are typically related to increases in the consumer price index or similar inflation indices. In addition, we believe that many of our existing lease rates are below current market levels for comparable space and that upon renewal or re-rental such rates may be increased to be consistent with, or get closer to, current market rates. This belief is based upon an analysis of relevant market conditions, including a comparison of comparable market rental rates, and upon the fact that many of our leases have been in place for a number of years and may not contain escalation clauses sufficient to match the increase in market rental rates over such time. Most of our leases require the tenant to pay its share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in