INLAND WESTERN RETAIL REAL ESTATE TRUST INC
Form 10-Q
November 07, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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: 000-51199

Inland Western Retail Real Estate Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**42-1579325**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2901 Butterfield Road, Oak Brook, Illinois	**60523**
(Address of principal executive offices)	(Zip Code)

630-218-8000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 2, 2011, there were 483,821,768 shares of common stock outstanding.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

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Part I Financial Information

Item 1. Condensed Consolidated Financial Statements

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Balance Sheets

September 30, 2011 and December 31, 2010

(Unaudited)

(in thousands, except per share amounts)

	September 30, 2011	December 31, 2010
Assets		
Investment properties:		
Land	$ 1,351,124	$ 1,375,155
Building and other improvements	5,068,259	5,258,992
Developments in progress	49,705	87,095
	6,469,088	6,721,242
Less accumulated depreciation	(1,136,037)	(1,034,769)
Net investment properties	5,333,051	5,686,473
Cash and cash equivalents	116,618	130,213
Investment in marketable securities	30,028	34,230
Investment in unconsolidated joint ventures	44,189	33,465
Accounts and notes receivable (net of allowances of $8,412 and $9,138, respectively)	98,901	112,915
Acquired lease intangibles, net	185,444	230,046
Other assets, net	167,257	159,494
Total assets	$ 5,975,488	$ 6,386,836
Liabilities and Equity		
Liabilities:		
Mortgages and notes payable	$ 3,014,069	$ 3,602,890
Secured credit facility	470,000	154,347
Accounts payable and accrued expenses	78,685	84,570
Distributions payable		26,851
Acquired below market lease intangibles, net	82,911	92,099
Other financings	8,477	8,477
Co-venture obligation	52,139	51,264
Other liabilities	68,313	69,746
Total liabilities	3,774,594	4,090,244
Redeemable noncontrolling interests	525	527
Commitments and contingencies		
Equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized, none issued or outstanding		

Common stock, $0.001 par value, 640,000 shares authorized, 482,161 and 477,345 issued and outstanding at September 30, 2011 and December 31, 2010, respectively		482		477
Additional paid-in capital		4,416,117		4,383,281
Accumulated distributions in excess of earnings		(2,236,857)		(2,111,138)
Accumulated other comprehensive income		19,133		22,282
Total shareholders equity		2,198,875		2,294,902
Noncontrolling interests		1,494		1,163
Total equity		2,200,369		2,296,065
Total liabilities and equity	$	5,975,488	$	6,386,836

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Statements of Operations and Other Comprehensive Loss

For the Three and Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Rental income	$ 121,195	$ 127,747	$ 365,374	$ 380,949
Tenant recovery income	28,298	29,809	81,215	90,101
Other property income	2,295	3,627	7,909	10,880
Insurance captive income		847		2,253
Total revenues	151,788	162,030	454,498	484,183
Expenses:				
Property operating expenses	23,946	24,973	76,800	79,847
Real estate taxes	19,755	23,440	59,079	68,435
Depreciation and amortization	59,242	60,713	177,783	182,154
Provision for impairment of investment properties	1,379	3,173	31,752	11,030
Loss on lease terminations	1,477	4,465	8,172	8,763
Insurance captive expenses		911		3,034
General and administrative expenses	5,011	4,169	16,416	13,412
Total expenses	110,810	121,844	370,002	366,675
Operating income	40,978	40,186	84,496	117,508
Dividend income	578	670	1,776	3,034
Interest income	157	188	507	548
Gain on extinguishment of debt	991		15,429	
Equity in (loss) income of unconsolidated joint ventures	(1,869)	875	(6,028)	1,609
Interest expense	(58,368)	(65,484)	(175,486)	(195,418)
Co-venture obligation expense	(1,791)	(1,791)	(5,375)	(5,375)
Recognized (loss) gain on marketable securities, net		(235)	277	536
Other income (expense)	567	1,239	1,320	(4,015)
Loss from continuing operations	(18,757)	(24,352)	(83,084)	(81,573)
Discontinued operations:				
Operating income (loss)	115	(854)	1,486	(12,260)
Gain on sales of investment properties	14,517		18,678	2,057
Income (loss) from discontinued operations	14,632	(854)	20,164	(10,203)
(Loss) gain on sales of investment properties	(891)		4,171	
Net loss	(5,016)	(25,206)	(58,749)	(91,776)
Net income attributable to noncontrolling interests	(7)	(321)	(23)	(656)
Net loss attributable to Company shareholders	$ (5,023)	$ (25,527)	$ (58,772)	$ (92,432)

(Loss) earnings per common share-basic and diluted:								
Continuing operations	$	(0.04)	$	(0.05)	$	(0.16)	$	(0.17)
Discontinued operations		0.03				0.04		(0.02)
Net loss per common share attributable to Company shareholders	$	(0.01)	$	(0.05)	$	(0.12)	$	(0.19)
Net loss	$	(5,016)	$	(25,206)	$	(58,749)	$	(91,776)
Other comprehensive loss:								
Net unrealized (loss) gain on derivative instruments		(140)		445		971		1,248
Net unrealized (loss) gain on marketable securities		(6,240)		1,688		(3,843)		8,065
Reversal of unrealized loss (gain) to recognized loss (gain) on marketable securities, net				235		(277)		(536)
Comprehensive loss		(11,396)		(22,838)		(61,898)		(82,999)
Comprehensive income attributable to noncontrolling interests		(7)		(321)		(23)		(656)
Comprehensive loss attributable to Company shareholders	$	(11,403)	$	(23,159)	$	(61,921)	$	(83,655)
Weighted average number of common shares outstanding - basic and diluted		481,948		484,865		480,318		483,619

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Statements of Equity

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	Shares	Common Stock	Additional Paid-in Capital	Accumulated Distributions in Excess of Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2010	481,743	$ 482	$ 4,350,484	$ (1,920,716)	$ 11,300	$ 2,441,550	$ 4,169	$ 2,445,719
Net (loss) income (excluding net income of $24 attributable to redeemable noncontrolling interests)				(92,432)		(92,432)	632	(91,800)
Net unrealized gain on derivative instruments					1,248	1,248		1,248
Net unrealized gain on marketable securities					8,065	8,065		8,065
Reversal of unrealized gain to recognized gain on marketable securities, net					(536)	(536)		(536)
Contributions from noncontrolling interests							112	112
Distributions declared ($0.14 per weighted average number of common shares outstanding)				(67,728)		(67,728)		(67,728)
Distribution reinvestment program (DRP)	3,232	3	23,350			23,353		23,353
Exercise of stock options	1		13			13		13
Stock based compensation expense			33			33		33
Balance at September 30, 2010	484,976	$ 485	$ 4,373,880	$ (2,080,876)	$ 20,077	$ 2,313,566	$ 4,913	$ 2,318,479
Balance at January 1, 2011	477,345	$ 477	$ 4,383,281	$ (2,111,138)	$ 22,282	$ 2,294,902	$ 1,163	$ 2,296,065
Net loss (excluding net income of $23 attributable to redeemable noncontrolling interests)				(58,772)		(58,772)		(58,772)
Distribution upon dissolution of partnership				(8,483)		(8,483)	(1)	(8,484)
Net unrealized gain on derivative instruments					971	971		971

Net unrealized loss on marketable securities					(3,843)	(3,843)		(3,843)
Reversal of unrealized gain to recognized gain on marketable securities, net					(277)	(277)		(277)
Contributions from noncontrolling interests							332	332
Distributions declared ($0.12 per weighted average number of common shares outstanding)				(58,464)		(58,464)		(58,464)
DRP	4,782	5	32,749			32,754		32,754
Issuance of restricted common stock	34							
Amortization of equity awards			39			39		39
Stock based compensation expense			48			48		48
Balance at September 30, 2011	482,161	$ 482	$ 4,416,117	$ (2,236,857)	$ 19,133	$ 2,198,875	$ 1,494	$ 2,200,369

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
Cash flows from operating activities:				
Net loss	$	(58,749)	$	(91,776)
Adjustments to reconcile net loss to net cash provided by operating activities (including discontinued operations):				
Depreciation and amortization		179,452		186,212
Provision for impairment of investment properties		31,752		19,657
Gain on sales of investment properties, net		(22,849)		(3,521)
Gain on extinguishment of debt		(15,429)		
Loss on lease terminations		8,172		8,869
Non-cash co-venture obligation expense		875		833
Amortization of loan fees		9,938		9,886
Amortization of acquired above and below market lease intangibles		(1,247)		(1,523)
Amortization of mortgage debt premium		(6,291)		(937)
Amortization of discount on debt assumed		382		382
Amortization of lease inducements		93		45
Straight-line rental income		22		(8,798)
Straight-line ground rent expense		2,852		3,121
Stock based compensation expense		48		33
Amortization of equity awards		39		
Equity in loss (income) of unconsolidated joint ventures		6,028		(1,609)
Distributions on investments in unconsolidated joint ventures		1,073		3,703
Recognized gain on sale of marketable securities		(277)		(536)
Provision for bad debt		1,827		3,627
Payment of leasing fees		(7,295)		(4,202)
Payments associated with dissolution of partnership		(24)		
Costs associated with refinancings		478		1,162
Changes in assets and liabilities:				
Accounts receivable, net		9,704		14,623
Other assets		(1,215)		2,003
Accounts payable and accrued expenses		(6,090)		16,189
Other liabilities		(4,882)		(3,771)
Net cash provided by operating activities		128,387		153,672
Cash flows from investing activities:				
Proceeds from sale of marketable securities		359		3,900
Changes in restricted escrows		(3,395)		(47,416)
Purchase of investment properties		(16,555)		(651)
Capital expenditures and tenant improvements		(20,205)		(22,670)

Proceeds from sales of investment properties		160,303		92,218
Investment in developments in progress		(2,441)		(2,705)
Investment in unconsolidated joint ventures		(9,557)		(3,307)
Distributions of investments in unconsolidated joint ventures		2,384		
Payments received under master lease agreements		194		456
Proceeds from notes receivable		20		20
Net cash provided by investing activities	$	111,107	$	19,845

(continued)

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Statements of Cash Flows

(Continued)

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

	Nine Months Ended September 30,			
		2011		2010
Cash flows from financing activities:				
Proceeds from margin debt related to marketable securities	$		$	22,860
Payoff of margin debt related to marketable securities		(2,073)		(4,706)
Proceeds from mortgages and notes payable		70,476		604,468
Principal payments on mortgages and notes payable		(31,488)		(22,651)
Repayments of mortgages and notes payable		(539,659)		(771,872)
Proceeds from secured credit facility		489,764		75,000
Payoff of secured credit facility		(174,111)		(33,758)
Funds released from escrow restrictions, net		(162)		
Payment of rate lock deposits				(12,290)
Refund of rate lock deposits				10,070
Payment of loan fees and deposits		(10,836)		(11,434)
Proceeds from issuance of common stock related to option exercises				13
Payment of offering costs		(2,748)		
Distributions paid, net of DRP		(52,561)		(35,783)
Distributions to redeemable noncontrolling interests		(23)		(24)
Contributions from noncontrolling interests		332		112
Repayment of other financings				(3,410)
Net cash used in financing activities		(253,089)		(183,405)
Net decrease in cash and cash equivalents		(13,595)		(9,888)
Cash and cash equivalents, at beginning of period		130,213		125,904
Cash and cash equivalents, at end of period	$	116,618	$	116,016
Supplemental cash flow disclosure, including non-cash activities:				
Cash paid for interest, net of interest capitalized	$	173,260	$	181,473
Distributions payable	$		$	24,248
Distributions reinvested	$	32,754	$	23,353
Accrued capital expenditures and tenant improvements	$	4,797	$	
Developments in progress placed in service	$	25,651	$	
Developments payable	$	849	$	523
Forgiveness of mortgage debt	$	14,438	$	19,561
Purchase of investment properties (after credits at closing):				
Land, building and other improvements, net	$	(12,546)	$	
Acquired lease intangibles and other assets		(4,547)		
Acquired below market lease intangibles and other liabilities		538		
	$	(16,555)	$	

Proceeds from sales of investment properties:				
Land, building and other improvements, net	$	190,013	$	116,291
Acquired lease intangibles and other assets		9,430		3,130
Assumption of mortgage debt		(60,000)		(29,327)
Forgiveness of mortgage debt				(486)
Acquired below market lease intangibles and other liabilities		(5,485)		(911)
Deferred gains		2,505		
Gain on extinguishment of debt		991		
Gain on sales of investment properties, net		22,849		3,521
	$	160,303	$	92,218
Payments associated with dissolution of partnership:				
Developments in progress	$	14,235	$	
Loan fees and other assets		21		
Repayment of construction loan by partner at closing		(5,730)		
Other liabilities		(64)		
Redeemable noncontrolling interests		(2)		
Distribution upon dissolution of partnership		(8,484)		
	$	(24)	$	

(concluded)

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Readers of this Quarterly Report should refer to the audited financial statements of Inland Western Retail Real Estate Trust, Inc. for the fiscal year ended December 31, 2010, which are included in the Company s 2010 Annual Report on Form 10-K as certain footnote disclosures which would substantially duplicate those contained in the Annual Report have been omitted from this Quarterly Report. In the opinion of management, all adjustments necessary, all of which were of normal recurring nature, for a fair presentation have been included in this Quarterly Report.

(1) Organization and Basis of Presentation

Inland Western Retail Real Estate Trust, Inc. (the Company) was formed on March 5, 2003 to acquire and manage a diversified portfolio of real estate, primarily multi-tenant shopping centers and single-user net lease properties.

All share amounts and dollar amounts in this Form 10-Q are stated in thousands with the exception of per share amounts and per square foot amounts.

The Company, through two public offerings from 2003 through 2005 and a merger consummated in 2007, issued a total of 459,484 shares of its common stock at $10.00 per share, resulting in gross proceeds, including merger consideration, of $4,595,193. In addition, as of September 30, 2011, the Company had issued 75,465 shares through its distribution reinvestment program (DRP) at prices ranging from $6.85 to $10.00 per share for gross proceeds of $708,257 and had repurchased a total of 43,823 shares through its share repurchase program (SRP) (suspended as of November 19, 2008) at prices ranging from $9.25 to $10.00 per share for an aggregate cost of $432,487. During the year ended December 31, 2010, one share was issued through the exercise of stock options at a price of $8.95 per share for gross proceeds of $13. In addition, in December 2010, 9,000 shares of common stock were transferred back to the Company from shares of common stock issued to the owners of certain entities that were acquired by the Company in its internalization transaction in conjunction with a litigation settlement. On April 12, 2011, the Company s board of directors granted an aggregate of 34 common shares to its executive officers under the Equity Compensation Plan in connection with the executive bonus program. Of the total 34 shares, 17 will vest after three years and 17 will vest after five years. As of September 30, 2011, amortization of these equity awards totaled $39. As a result, the Company had total shares outstanding of 482,161 and had realized total net offering proceeds of $4,871,015 as of September 30, 2011.

The Company has elected to be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended, or the Code, commencing with the tax year ended December 31, 2003. The Company believes it qualifies for taxation as a real estate investment trust (REIT) and, as such, the Company generally will not be subject to federal income tax on taxable income that is distributed to shareholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate tax rates. Certain aspects of the operation of the Company s DRP prior to May 2006 may have violated the prohibition against preferential dividends. To address those issues, on June 17, 2011, the Company entered into a closing agreement with the Internal Revenue Service, or IRS, whereby the IRS agreed the terms and administration of the Company s DRP did not result in the Company s dividends paid

during taxable years 2004 through 2006 being treated as preferential.

Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income, property or net worth and federal income and excise taxes on its undistributed income. The Company has one wholly-owned subsidiary that has elected to be treated as a taxable REIT subsidiary (TRS) for federal income tax purposes. A TRS is taxed on its taxable income at regular corporate tax rates. The income tax expense incurred as a result of the TRS did not have a material impact on the Company s accompanying condensed consolidated financial statements. Through the merger consummated on November 15, 2007, the Company acquired four qualified REIT subsidiaries. Their income is consolidated with REIT income for federal and state income tax purposes.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. For example, significant estimates and assumptions have been made with respect to useful lives of assets; capitalization of development and leasing costs; fair value measurements; provision for impairment, including estimates of holding periods, capitalization rates and discount rates (where applicable); provision for income taxes; recoverable amounts of receivables; deferred taxes and initial valuations and related amortization periods of deferred costs and intangibles, particularly with respect to property acquisitions. Actual results could differ from those estimates.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

Certain reclassifications, primarily as a result of discontinued operations, have been made to the 2010 condensed consolidated financial statements to conform to the 2011 presentation.

The accompanying condensed consolidated financial statements include the accounts of the Company, as well as all wholly-owned subsidiaries and consolidated joint venture investments. Wholly-owned subsidiaries generally consist of limited liability companies (LLCs) and limited partnerships (LPs).

The Company s property ownership as of September 30, 2011 is summarized below:

	Wholly-owned	Consolidated Joint Ventures (a)	Unconsolidated Joint Ventures (b)
Operating properties (c)	224	56	22
Development properties (c)	2	1	1

(a) The Company has ownership interests ranging from 50% to 87% in three LLCs or LPs
(b) The Company has ownership interests ranging from 20% to 96% in three LLCs or LPs
(c) During the nine months ended September 30, 2011, three properties previously considered development were transitioned to operating

The Company consolidates certain property holding entities and other subsidiaries in which it owns less than a 100% equity interest if it is deemed to be the primary beneficiary in a variable interest entity (VIE), (an entity in which the contractual, ownership, or pecuniary interests change with changes in the fair value of the entity s net assets, as defined by the Financial Accounting Standards Board (FASB)). The Company also consolidates entities that are not VIEs in which it has financial and operating control in accordance with GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in real estate joint ventures in which the Company has the ability to exercise significant influence, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company s share of the income (or loss) of these unconsolidated joint ventures is included in consolidated net (loss) income in the accompanying condensed consolidated statements of operations and other comprehensive loss.

The Company is the controlling member in various consolidated entities. The organizational documents of these entities contain provisions that require the entities to be liquidated through the sale of their assets upon reaching a future date as specified in each respective organizational document or through put/call arrangements. As controlling member, the Company has an obligation to cause these property-owning entities to distribute proceeds of liquidation to the noncontrolling interest partners in these partially-owned entities only if the net proceeds received by each of the entities from the sale of assets warrant a distribution based on the agreements. Some of the LLC or LP agreements for these entities contain put/call provisions which grant the right to the outside owners and the Company to require each LLC or LP to redeem the ownership interests of the outside owners during future periods. In instances where outside ownership interests are subject to put/call arrangements requiring settlement for fixed amounts, the LLC or LP is treated as a wholly-owned subsidiary by the Company with the amount due to the outside owner reflected as a financing arrangement and included in Other financings in the accompanying condensed consolidated balance sheets. Interest expense is recorded on such liabilities in amounts equal to the preferential returns due to the outside owners as provided in the

LLC or LP agreements. In instances where outside ownership interests are subject to call arrangements without fixed settlement amounts, the LLC is treated as a wholly-owned subsidiary by the Company with the amount due to the outside owner reflected as a financing and included in Co-venture obligation in the accompanying condensed consolidated balance sheets. Co-venture obligation expense is recorded on such liabilities in amounts equal to the preferential returns due to the outside owners as provided in the LLC agreement.

In the condensed consolidated statements of operations and other comprehensive loss, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to Company shareholders and noncontrolling interests. Condensed consolidated statements of equity are included in the quarterly financial statements, including beginning balances, activity for the period and ending balances for total shareholders equity, noncontrolling interests and total equity. Noncontrolling interests are adjusted for additional contributions by noncontrolling interest holders and distributions to noncontrolling interest holders, as well as the noncontrolling interest holders share of the net income or loss of each respective entity.

On September 30, 2011, the Company paid $300 to a partner in one of its consolidated development joint ventures to simultaneously settle the outstanding development fee liability of the joint venture and fully redeem the partner s ownership interest in such joint

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

venture. The transaction resulted in an increase in the Company s ownership interest in South Billings Center from 49.0% as of June 30, 2011 to 100%.

On April 29, 2011, the Company dissolved a partnership with a partner in three of its development joint ventures resulting in increases to the Company s ownership interests to 100% in Parkway Towne Crossing, 100% in three fully occupied outlots at Wheatland Towne Crossing and 50% in Lake Mead Crossing. The remaining property of Wheatland Towne Crossing (excluding the three outlots) was conveyed to the Company s partner who simultaneously repaid the related $5,730 construction loan. Concurrently with this transaction, the Company also acquired a 36.7% ownership interest in Lake Mead Crossing from another partner in that joint venture, increasing the Company s total ownership interest in the property to 86.7%. The Company accounted for this transaction, including the conveyance of property, as a nonmonetary distribution of $8,483, reflected in the accompanying condensed consolidated financial statements as an increase to Accumulated distributions in excess of earnings.

Below is a table reflecting the activity of the redeemable noncontrolling interests for the nine months ended September 30, 2011 and 2010:

	2011	2010
Balance at January 1,	$ 527	$ 527
Redeemable noncontrolling interest income	23	24
Distributions	(23)	(24)
Dissolution of partnership	(2)	
Balance at September 30,	$ 525	$ 527

The Company is party to an agreement with an LLC formed as an insurance association captive (the Captive), which is wholly-owned by the Company and three related parties, Inland Real Estate Corporation (IREC), Inland American Real Estate Trust, Inc. (IARETI) and Inland Diversified Real Estate Trust, Inc. (IDRETI). The Captive is serviced by a related party, Inland Risk and Management Services, Inc. for a fee of $25 per quarter. It has been determined that the Captive is a VIE and, as the Company received the most benefit of all members through November 30, 2010, the Company was deemed to be the primary beneficiary. Therefore, the Captive was consolidated by the Company through November 30, 2010. Prior to November 30, 2010, the other members interests are reflected as Noncontrolling interests in the accompanying condensed consolidated financial statements. Effective November 30, 2010, it was determined that the Company no longer received the most benefit, nor had the highest risk of loss and, therefore, was no longer the primary beneficiary. As a result, the Captive was deconsolidated and recorded under the equity method of accounting. As of September 30, 2011, the Company s interest in the Captive is reflected in Investment in unconsolidated joint ventures in the accompanying condensed consolidated balance sheets. The Company s share of net (loss) income of the Captive for the three and nine months ended September 30, 2011 is reflected in Equity in (loss) income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations and other comprehensive loss.

(2) Summary of Significant Accounting Policies

There have been no changes to the Company s significant accounting policies in the nine months ended September 30, 2011. Refer to the Company s 2010 Form 10-K for a summary of the Company s significant accounting policies.

Recent Accounting Pronouncements

Effective January 1, 2011, companies are required to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. This guidance did not have a material effect on the Company s financial statements.

Effective January 1, 2011, public companies that enter into a material business combination, or series of individually immaterial business combinations that are material in the aggregate, are required to disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. In addition, supplemental pro forma disclosures are expanded. If the Company enters into a qualifying business combination, it will comply with the disclosure requirements of this guidance.

Effective January 1, 2012, guidance on how to measure fair value and on what disclosures to provide about fair value measurements will be converged with international standards. The adoption will require some additional disclosures around fair value measurement; however, the Company does not expect the adoption will have a material effect on its financial statements.

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Effective January 1, 2012, public companies will be required to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This guidance does not change the items that must be reported in other comprehensive income. The Company does not expect the adoption will have any effect on its financial statements.

(3) Acquisitions

During the nine months ended September 30, 2011, the Company acquired two additional phases of existing wholly-owned multi-tenant retail operating properties, in separate transactions, as follows:

Date	Square Footage	Property Type	Location		Purchase Price (a)
July 1, 2011	76,100	Multi-tenant retail	Phillipsburg, New Jersey	$	9,720
July 22, 2011	44,000	Multi-tenant retail	College Station, Texas		7,085
	120,100			$	16,805(b)

(a) No debt was assumed in either acquisition, but both properties were subsequently added as collateral to the secured credit facility.

(b) Amount represents the purchase price prior to customary prorations at closing. Separately, the Company recognized acquisition transaction costs of $48 related to these acquisitions.

The Company allocates the purchase price of each acquired investment property based upon the estimated acquisition date fair values of the individual assets acquired and liabilities assumed, which generally include land, building and other improvements, in-place lease value, acquired above market and below market lease intangibles, any assumed financing that is determined to be above or below market, the value of customer relationships and goodwill, if any. Transaction costs are expensed as incurred and presented within General and administrative expenses in the accompanying condensed consolidated statements of operations and other comprehensive loss.

To augment the Company s estimates of the fair value of assets acquired and liabilities assumed, in some circumstances, the Company engages independent real estate appraisal firms to provide market information and evaluations; however, the Company is ultimately responsible for such estimates. For tangible assets acquired, including land, building and other improvements, the Company considers available comparable market and industry information in estimating acquisition date fair value. The Company allocates a portion of the purchase price to the estimated acquired in-place lease value based on estimated lease execution costs for similar leases as well as lost rental payments during an assumed lease-up period. The Company also evaluates each acquired lease as compared to current market rates. If an acquired lease is determined to be above or below market, the Company allocates a portion of the purchase price to such above or below market leases based upon the present value of the difference between the contractual lease payments and estimated market rent payments over the remaining lease term. For below market leases with fixed term renewal options, such renewal periods are included within the lease term in the calculation of below market lease values. Renewal periods are excluded from the remaining contractual term for leases determined to be above market as of the acquisition date. The discount rate used in the present value calculation of above and below market lease intangibles requires the Company s evaluation of subjective factors such as market knowledge, economics, demographics, location, visibility, age and physical condition of the property. For all

acquisition accounting fair value estimates, the Company considers various factors, including geographical location, size and location of the leased space within the acquired investment property, tenant profile, and the credit risk of tenants.

(4) Discontinued Operations and Investment Properties Held for Sale

The Company employs a business model that utilizes asset management as a key component of monitoring its investment properties to ensure that each property continues to meet expected investment returns and standards. This strategy incorporates the sale of non-core assets that no longer meet the Company s criteria.

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The Company sold six properties during the nine months ended September 30, 2011, as summarized below:

Date	Square Footage	Property Type	Location	Sales Price	Debt Extinguishment	Net Sales Proceeds / (Outflow)	Gain
August 18, 2011	1,000,400	Single-user industrial	Ottawa, Illinois	$ 48,648	$ 40,000(a)	$ 8,482	$ 12,862
July 1, 2011	110,200	Single-user retail	Douglasville, Georgia	3,250	3,250(b)	(57)	1,655
April 28, 2011	1,066,800	Single-user industrial	Various (c)	36,000		34,619	702
March 7, 2011	183,200	Single-user retail	Blytheville, Arkansas	12,632		12,438	2,069
March 7, 2011	88,400	Single-user retail	Georgetown, Kentucky	10,182		10,055	1,390
	2,449,000			$ 110,712	$ 43,250	$ 65,537	$ 18,678

(a) Of the proceeds received at closing, $40,000 was used to pay down borrowings on the secured credit facility.
(b) The debt was repaid in conjunction with the sale.
(c) The terms of the sale of two properties located in North Liberty, Iowa and El Paso, Texas were negotiated as a single transaction.

In addition, as part of its overall liquidity strategy, the Company continues to increase its participation in joint ventures. The Company partially sold one property during the nine months ended September 30, 2011 to the RioCan joint venture (an unconsolidated joint venture further discussed in Note 11), which, due to the Company s 20% ownership interest in the joint venture, did not qualify for discontinued operations accounting treatment, as summarized below:

Date	Square Footage	Property Type	Location	Sales Price (at 100%)	Debt Extinguishment (at 100%)	Net Sales Proceeds	Loss
August 22, 2011	654,200	Multi-tenant retail	Austin, Texas	$ 110,799	$ 60,000(a)	$ 39,935	$ (3,047)

(a) The debt was assumed by the RioCan joint venture in conjunction with the acquisition.

The Company also received net proceeds of $11,581 and recorded gains of $7,218 from condemnation awards, earnouts, and the sale of a parcel at one of its operating properties. The aggregate net proceeds from the property sales and additional transactions during the nine months ended September 30, 2011 totaled $160,303 with aggregate gains of $22,849.

During 2010, the Company sold eight properties, of which five were sold during the nine months ended September 30, 2010, which resulted in net sales proceeds of $18,416, gain on sale of $2,057 and extinguishment of $60,921 of debt. In addition, during 2010, the Company partially

sold eight properties to its RioCan joint venture, of which three were partially sold during the nine months ended September 30, 2010, which resulted in net sales proceeds of $13,367, gain on sale of $1,464 and extinguishment of $29,327 of debt.

The Company does not allocate general corporate interest expense to discontinued operations. The results of operations for the three and nine months ended September 30, 2011 and 2010 for the investment properties that are accounted for as discontinued operations are presented in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues:				
Rental income	$ 398	$ 2,081	$ 3,411	$ 8,349
Tenant recovery income	92	427	572	831
Other property income		59	20	415
Total revenues	490	2,567	4,003	9,595
Expenses:				
Property operating expenses	119	241	227	2,081
Real estate taxes	5	395	249	1,205
Depreciation and amortization	250	1,176	1,669	4,058
Provision for impairment of investment properties				8,627
Loss on lease terminations				106
Interest expense		1,606	371	5,738
Other expense	1	3	1	40
Total expenses	375	3,421	2,517	21,855
Operating income (loss) from discontinued operations	$ 115	$ (854)	$ 1,486	$ (12,260)

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There were no consolidated properties classified as held for sale as of September 30, 2011 and December 31, 2010.

(5) Transactions with Related Parties

The Inland Group, Inc., or the Inland Group, and its affiliates are related parties because of the Company s relationships with Daniel L. Goodwin, Robert D. Parks and Brenda G. Gujral, each of whom are significant shareholders and/or principals of the Inland Group or hold directorships and are executive officers of affiliates of the Inland Group. Specifically, Mr. Goodwin is the Chairman, chief executive officer and a significant shareholder of the Inland Group. Mr. Parks is a principal and significant shareholder of the Inland Group. Messrs. Goodwin and Parks and Ms. Gujral hold a variety of positions as directors and executive officers of Inland Group affiliates. With respect to the Company, Mr. Goodwin is a beneficial owner of more than 5% of the Company s common stock, Mr. Parks was a director and Chairman of the Company s board of directors until October 12, 2010 and Ms. Gujral is currently one of the Company s directors and has held this directorship since 2003. Therefore, due to these relationships, transactions involving the Inland Group and/or its affiliates are set forth below.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Unpaid Amount as of	
Fee Category	2011	2010	2011	2010	September 30, 2011	December 31, 2010
Investment advisor	$ 68	$ 72	$ 209	$ 202	$ 23	$ 22
Loan servicing	45	54	143	173		
Legal	69	112	271	269	102	100
Computer services	407	271	1,128	974	314	166
Office and facilities management services	124	129	371	383	138	82
Other service agreements	323	155	824	545	65	
Office rent and reimbursements	243	243	727	707	271	155
Total	$ 1,279	$ 1,036	$ 3,673	$ 3,253	$ 913	$ 525

On December 1, 2009, the Company raised additional capital of $50,000 from a related party, Inland Equity Investors, LLC (Inland Equity), in exchange for a 23% noncontrolling interest in IW JV 2009, LLC (IW JV). IW JV, which is controlled by the Company, and therefore consolidated, will continue to be managed and operated by the Company. Inland Equity is owned by certain individuals, including Daniel L. Goodwin and Robert D. Parks. Pursuant to the terms of the IW JV agreement, Inland Equity earns a preferred return of 6% annually, paid monthly and cumulative on any unpaid balance. Inland Equity earns an additional 5% annually, set aside monthly and paid quarterly, if the portfolio net income is above a target amount as specified in the agreement. If Inland Equity retains an ownership interest in IW JV through the liquidation of the joint venture, Inland Equity may be entitled to receive an additional distribution of $5,000, depending on the availability of proceeds at the time of liquidation. The independent directors committee reviewed and recommended approval of this transaction to the Company s board of directors.

(6) Marketable Securities

The following tables summarize the Company s investment in marketable securities:

	Common Stock	Preferred Stock	Total Available-for-Sale Securities
As of September 30, 2011:			
Fair value	$ 10,667	$ 19,361	$ 30,028
Amortized cost basis	$ 28,997	$ 38,242	$ 67,239
Total other-than-temporary impairment recognized	$ 23,889	$ 31,308	$ 55,197
Adjusted cost basis	$ 5,108	$ 6,934	$ 12,042
Net gains in accumulated other comprehensive income (OCI)	$ 5,559	$ 12,427	$ 17,986
As of December 31, 2010:			
Fair value	$ 15,117	$ 19,113	$ 34,230
Amortized cost basis	$ 28,997	$ 38,592	$ 67,589
Total other-than-temporary impairment recognized	$ 23,889	$ 31,576	$ 55,465
Adjusted cost basis	$ 5,108	$ 7,016	$ 12,124
Net gains in accumulated OCI	$ 10,009	$ 12,097	$ 22,106

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Notes to Condensed Consolidated Financial Statements

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net unrealized OCI (loss) gain	$ (6,240)	$ 1,688	$ (3,843)	$ 8,065
Net (loss) gain on sales and redemptions of securities	$	$ (235)	$ 277	$ 536

(7) Stock Option Plan and Board of Directors Activity

On October 14, 2008, the Company s shareholders approved the establishment of the Equity Compensation Plan (Equity Plan), which, subject to certain conditions, authorizes the issuance of stock options, restricted stock, stock appreciation rights and other similar awards to the Company s employees in connection with compensation and incentive arrangements that may be established by the Company s board of directors. As of September 30, 2011, 34 shares under the Equity Plan had been granted. On April 12, 2011, these 34 shares were granted, 17 of which will vest after three years and 17 of which will vest after five years. The Company recorded compensation expense of $14 and $31 during the three and nine months ended September 30, 2011, respectively, related to these grants.

The Company s Independent Director Stock Option Plan (Option Plan), as amended, provides, subject to certain conditions, for the grant to each independent director of options to acquire shares following their becoming a director and for the grant of additional options to acquire shares on the date of each annual shareholders meeting. As of September 30, 2011 and December 31, 2010, options to purchase 140 shares of common stock had been granted, of which options to purchase one share had been exercised and none had expired.

The Company calculates the per share weighted average fair value of options granted on the date of the grant using the Black-Scholes option pricing model utilizing certain assumptions regarding the expected dividend yield (1.87%), risk-free interest rate (1.13%), expected life (five years) and expected volatility rate (35%). Compensation expense of $16 and $11 related to these stock options was recorded during the three months ended September 30, 2011 and 2010, respectively. Compensation expense of $48 and $33 related to these stock options was recorded during the nine months ended September 30, 2011 and 2010, respectively.

On March 8, 2011, the Company s board of directors increased the number of directors comprising the board of directors from eight to nine and elected Steven P. Grimes, who serves as Chief Executive Officer, President, Chief Financial Officer and Treasurer of the Company, to the board of directors effective immediately.

On June 14, 2011, the Company s board of directors established an estimated per-share value of the Company s common stock of $6.95 to assist broker dealers in connection with their obligations under applicable Financial Industry Regulatory Authority (FINRA) rules and to assist fiduciaries in discharging their obligations under Employee Retirement Income Security Act (ERISA) reporting requirements. As a result, the Company amended the DRP, effective August 31, 2011, solely to modify the purchase price. Thus, since August 31, 2011, additional shares of common stock purchased under the DRP have been be purchased at $6.95 per share.

(8) Leases

Master Lease Agreements

In conjunction with certain acquisitions, the Company receives payments under master lease agreements pertaining to certain non-revenue producing spaces at the date of purchase for periods generally ranging from three months to three years after the date of purchase or until the spaces are leased. As these payments are received, they are recorded as a reduction in the purchase price of the respective property rather than as rental income. The cumulative amount of such payments was $27,560 and $27,366, as of September 30, 2011 and December 31, 2010, respectively.

Operating Leases

The majority of revenues from the Company s properties consist of rents received under long-term operating leases. Some leases provide for the payment of fixed base rent paid monthly in advance, and for the reimbursement by tenants to the Company for the tenant s pro rata share of certain operating expenses including real estate taxes, special assessments, insurance, utilities, common area maintenance, management fees and certain building repairs paid by the landlord and recoverable under the terms of the lease. Under these leases, the landlord pays all expenses and is reimbursed by the tenant for the tenant s pro rata share of recoverable expenses paid. Certain other tenants are subject to net leases which provide that the tenant is responsible for fixed base rent, as well as all costs and expenses associated with occupancy. Under net leases where all expenses are paid directly by the tenant rather than the landlord,

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such expenses are not included in the accompanying condensed consolidated statements of operations and other comprehensive loss. Under net leases where all expenses are paid by the landlord, subject to reimbursement by the tenant, the expenses are included in Property operating expenses and reimbursements are included in Tenant recovery income in the accompanying condensed consolidated statements of operations and other comprehensive loss.

In certain municipalities, the Company is required to remit sales taxes to governmental authorities based upon the rental income received from properties in those regions. These taxes may be reimbursed by the tenant to the Company depending upon the terms of the applicable tenant lease. As with other recoverable expenses, the presentation of the remittance and reimbursement of these taxes is on a gross basis whereby sales tax expenses are included in Property operating expenses and sales tax reimbursements are included in Other property income in the accompanying condensed consolidated statements of operations and other comprehensive loss. Such taxes remitted to governmental authorities and reimbursed by tenants were $436 and $483 for the three months ended September 30, 2011 and 2010, respectively. Such taxes remitted to governmental authorities and reimbursed by tenants were $1,452 and $1,483 for the nine months ended September 30, 2011 and 2010, respectively.

In certain properties where there are large tenants, other tenants may have co-tenancy provisions within their leases that provide a right of termination or reduced rent if certain large tenants or shadow tenants discontinue operations. The Company does not expect that such co-tenancy provisions will have a material impact on the future operating results.

The Company leases land under non-cancellable operating leases at certain of its properties expiring in various years from 2018 to 2105. The related ground lease rent expense is included in Property operating expenses in the accompanying condensed consolidated statements of operations and other comprehensive loss. In addition, the Company leases office space for certain management offices from third parties and subleases its corporate office space from an Inland affiliate. Office rent expense is included in Property operating expenses in the accompanying condensed consolidated statements of operations and other comprehensive loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Ground lease rent expense	$ 2,517	$ 2,524	$ 7,577	$ 7,720
Office rent expense - related party	$ 124	$ 124	$ 372	$ 372
Office rent expense - third party	$ 78	$ 23	$ 252	$ 191

(9) Mortgages and Notes Payable

The following table summarizes the Company s mortgages and notes payable at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Fixed rate mortgages payable:		
Mortgage loans (a)	$ 2,770,074	$ 3,334,784
Premium, net of accumulated amortization	11,243	17,534
Discount, net of accumulated amortization	(2,120)	(2,502)
	2,779,197	3,349,816
Variable rate mortgages payable:		
Mortgage loans	7,145	17,389
Construction loans	80,883	86,768
	88,028	104,157
Mortgages payable	2,867,225	3,453,973
Notes payable	138,900	138,900
Margin payable	7,944	10,017
Mortgages and notes payable	$ 3,014,069	$ 3,602,890

(a) Includes $67,504 of variable rate debt that was swapped to a fixed rate.

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Mortgages Payable

Mortgages payable outstanding as of September 30, 2011 were $2,867,225 and had a weighted average interest rate of 6.10%. Of this amount, $2,779,197 had fixed rates ranging from 4.61% to 8.00% (9.78% for matured mortgages payable) and a weighted average fixed rate of 6.17% at September 30, 2011. The weighted average interest rate for the fixed rate mortgages payable excludes the impact of the premium and discount amortization. The remaining $88,028 of mortgages payable represented variable rate loans with a weighted average interest rate of 3.97% at September 30, 2011. Properties with a net carrying value of $4,325,647 at September 30, 2011 and related tenant leases are pledged as collateral for the mortgage loans. Properties with a net carrying value of $134,683 at September 30, 2011 and related tenant leases are pledged as collateral for the construction loans. As of September 30, 2011, the Company s outstanding mortgage indebtedness had various scheduled maturity dates through March 1, 2037.

During the nine months ended September 30, 2011, the Company obtained mortgages payable proceeds of $70,476, of which a $60,000 mortgage payable was subsequently assumed by the RioCan joint venture on August 22, 2011, made mortgages payable repayments of $539,659 and received forgiveness of debt of $14,438. The new mortgages payable that the Company entered into during the nine months ended September 30, 2011 have interest rates ranging from 4.83% to 5.50%, a weighted average interest rate of 4.85% and maturities up to 15 years. The stated interest rates of the loans repaid during the nine months ended September 30, 2011 ranged from 4.44% to 8.00% and had a weighted average interest rate of 5.19%. The Company also entered into modifications of three existing loan agreements which extended the maturities of $16,179 of mortgages payable to May 1, 2014 and a matured mortgage payable with a balance of $5,336 to November 1, 2011, on which date it was repaid.

Mortgages payable outstanding as of December 31, 2010 were $3,453,973 and had a weighted average interest rate of 5.99% at December 31, 2010. Of this amount, $3,349,816 had fixed rates ranging from 4.44% to 8.00% (10.04% for matured mortgages payable) and a weighted average fixed rate of 6.04% at December 31, 2010. The weighted average interest rate for the fixed rate mortgages payable excludes the impact of the premium and discount amortization. The remaining $104,157 of mortgages payable represented variable rate loans with a weighted average interest rate of 4.47% at December 31, 2010. Properties with a net carrying value of $5,170,029 at December 31, 2010 and related tenant leases are pledged as collateral for the mortgage loans. Properties with a net carrying value of $62,704 at December 31, 2010 and related tenant leases are pledged as collateral for the construction loans. As of December 31, 2010, the Company s outstanding mortgage indebtedness had various scheduled maturity dates through March 1, 2037.

The majority of the Company s mortgages payable require monthly payments of principal and interest, as well as reserves for real estate taxes, insurance and certain other costs. Although the loans obtained by the Company are generally non-recourse, occasionally, when it is deemed necessary, the Company may guarantee all or a portion of the debt on a full-recourse basis. As of September 30, 2011, the Company had guaranteed $25,978 of the outstanding mortgages payable with maturity dates up to August 1, 2014 (see Note 15). At times, the Company has borrowed funds financed as part of a cross-collateralized package, with cross-default provisions, in order to enhance the financial benefits. In those circumstances, one or more of the properties may secure the debt of another of the Company s properties. Individual decisions regarding interest rates, loan-to-value, debt yield, fixed versus variable-rate financing, term and related matters are often based on the condition of the financial markets at the time the debt is issued, which may vary from time to time.

As of September 30, 2011, the Company had $57,276 of mortgages payable that had matured and had not been repaid or refinanced. During the second quarter of 2010, in order to prompt discussions with the lender, the Company ceased making the monthly debt service payment on a $29,965 mortgage loan. That loan has matured and the $26,865 that was outstanding at September 30, 2011 is included in the $57,276 of total matured debt. The non-payment of this monthly debt service amounts to $1,311 annualized and does not result in noncompliance under any of the Company s other mortgages payable or secured credit agreements. The Company has attempted to negotiate and has made offers to the lender to determine an appropriate course of action under the non-recourse loan agreement; however, no assurance can be provided that negotiations will result in a favorable outcome for the Company. The lender has asserted that certain events have occurred that trigger recourse to the Company. However, the Company believes that it has substantive defenses with respect to those claims. As of September 30, 2011, in addition to the $57,276 that had matured, the Company had $74,036 of mortgages payable, excluding principal amortization of $6,056, maturing in the remainder of 2011. The following table sets forth the Company s progress as of the date of this filing in addressing its 2011 maturities:

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	Matured as of September 30, 2011	Maturing in Remainder of 2011
Repaid and added the underlying property as collateral to the senior secured credit facility	$	$ 68,700
Other repayments including debt forgiveness	5,177(a)	5,336
Total addressed subsequent to September 30, 2011	5,177	74,036
Actively marketing to sell related properties or otherwise negotiating with the lender	52,099(b)	
	$ 57,276	$ 74,036

(a) Subsequent to September 30, 2011, the Company purchased a $4,520 matured mortgage payable note from the lender for a discounted price of $3,160, giving rise to debt forgiveness of $1,360.

(b) The Company has attempted to negotiate and has made offers to the lender with respect to a $26,865 mortgage loan outstanding at September 30, 2011 to determine an appropriate course of action under the non-recourse loan agreement. No assurance can be provided that these negotiations will result in a favorable outcome for the Company. The lender has asserted that certain events have occurred that trigger recourse to the Company; however, the Company believes that it has substantive defenses with respect to those claims.

Some of the mortgage payable agreements include periodic reporting requirements and/or debt service coverage ratios which allow the lender to control property cash flow if the Company fails to meet such requirements. Management believes the Company was in compliance with such provisions as of September 30, 2011.

Notes Payable

The following table summarizes the Company s notes payable as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
IW JV Senior Mezzanine Note	$ 85,000	$ 85,000
IW JV Junior Mezzanine Note	40,000	40,000
Mezzanine Note	13,900	13,900
	$ 138,900	$ 138,900

Notes payable outstanding as of September 30, 2011 were $138,900 and had a weighted average interest rate of 12.62%. Of this amount, $125,000 represents notes payable proceeds from a third party lender related to the debt refinancing transaction for IW JV. The notes have fixed interest rates ranging from 12.24% to 14.00%, mature on December 1, 2019 and are secured by 100% of the Company s equity interest in the entity owning the IW JV investment properties. The IW JV notes can be prepaid beginning in February 2013 for a fee ranging from 1% to 5% of the outstanding principal balance depending on the date the prepayment is made.

During the year ended December 31, 2010, the Company borrowed $13,900 from a third party in the form of a mezzanine note and used the proceeds as a partial paydown of the mortgage payable, as required by the lender. The mezzanine note bears interest at 11.00% and matures on December 16, 2013.

Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and, to a limited extent, the use of derivative instruments.

The Company has entered into derivative instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative instruments, described below, are used to manage differences in the amount, timing and duration of the Company s known or expected cash payments principally related to certain of the Company s borrowings.

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Cash Flow Hedges of Interest Rate Risk

The Company s objective in using interest rate derivatives is to manage its exposure to interest rate movements and add stability to interest expense. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement without exchange of the underlying notional amount.

The Company utilizes two interest rate swaps to hedge the variable cash flows associated with variable-rate debt. The effective portion of changes in the fair value of derivatives that are designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2011, the Company recorded hedge ineffectiveness of $148 loss and $157 loss, respectively, as a result of the off-market nature and notional mismatches related to its swaps. The Company has reclassified all of the previously deferred accumulated other comprehensive income into earnings as of September 30, 2011. During the three and nine months ended September 30, 2010, the Company recorded hedge ineffectiveness of $1 gain and $41 loss, respectively.

Amounts reported in Accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. Over the next year, the Company estimates that an additional $954 will be reclassified as an increase to interest expense. During the nine months ended September 30, 2011 and 2010, the Company accelerated none and $117 loss, respectively, from other comprehensive income into earnings as a result of the hedged forecasted transactions becoming probable not to occur.

As of September 30, 2011 and December 31, 2010, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivatives	Number of Instruments	Notional
Interest Rate Swap	2	$ 67,504

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010.

Liability Derivatives			
September 30, 2011		December 31, 2010	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

Derivatives designated as cash flow hedges:						
Interest rate swaps	Other Liabilities	$	3,130	Other Liabilities	$	2,967

The table below presents the effect of the Company s derivative financial instruments in the condensed consolidated statements of operations and other comprehensive loss for the three and nine months ended September 30, 2011 and 2010.

Derivatives in Cash Flow Hedging Relationships	**Amount of Loss Recognized in OCI on Derivative (Effective Portion)**		**Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)**		**Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded From Effectiveness Testing)**	**Amount of (Loss) or Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing and Missed Forecasted Transactions)**	
Interest Rate Swaps	**Three Months Ended September 30,**	**Nine Months Ended September 30,**		**Three Months Ended September 30,**	**Nine Months Ended September 30,**		**Three Months Ended September 30,**	**Nine Months Ended September 30,**
2011	$ (419)	$ (1,289)	Interest Expense	$ (279)	$ (2,260)	Other Expense	$ (148)	$ (157)
2010	$ (332)	$ (1,225)	Interest Expense	$ (776)	$ (2,472)	Other Expense	$ 1	$ (158)

Credit-risk-related Contingent Features

Derivative financial investments expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes credit risk by transacting with major creditworthy

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financial institutions. As part of the Company s on-going control procedures, it monitors the credit ratings of counterparties and the exposure to any single entity, which minimizes credit risk concentration. The Company believes the potential impact of realized losses from counterparty non-performance is immaterial.

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on the related indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its corresponding derivative obligation. The Company was not in default with respect to these agreements at September 30, 2011.

The Company s agreements with each of its derivative counterparties also contain a provision whereby if the Company consolidates with, merges with or into, or transfers all or substantially all of its assets to another entity and the creditworthiness of the resulting, surviving or transferee entity is materially weaker than the Company s, the counterparty has the right to terminate the derivative obligations. As of September 30, 2011, the termination value of derivatives in a liability position, which includes accrued interest of $141 but excludes any adjustment for nonperformance risk, which the Company has deemed immaterial, was $3,392. As of September 30, 2011, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2011, it could have been required to settle its obligations under the agreements at their termination value of $3,392.

Margin Payable

The Company purchases a portion of its securities through a margin account. As of September 30, 2011 and December 31, 2010, the Company had recorded a payable of $7,944 and $10,017, respectively, for securities purchased on margin. This debt bears a variable interest rate of the London Interbank Offered Rate, or LIBOR, plus 35 basis points. At September 30, 2011, this rate was equal to 0.57%. Interest expense on this debt in the amount of $11 and $32 was recognized within Interest expense in the accompanying condensed consolidated statements of operations and other comprehensive loss for the three months ended September 30, 2011 and 2010, respectively. Interest expense on this debt in the amount of $39 and $76 was recognized for the nine months ended September 30, 2011 and 2010, respectively. This debt is due upon demand. The value of the Company s marketable securities serves as collateral for this debt. During the three and nine months ended September 30, 2011, the Company did not borrow on its margin account, but paid down $555 and $2,073, respectively.

Debt Maturities

The following table shows the scheduled maturities of the Company s mortgages payable, notes payable, margin payable and secured credit facility (as described in Note 10) as of September 30, 2011 for the remainder of 2011, the next four years and thereafter and does not reflect the impact of any debt activity that occurred after September 30, 2011:

	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
Maturing debt (a) :								
Fixed rate debt:								
Mortgages payable (b)	$ 137,339	$ 398,924	$ 310,085	$ 239,299	$ 470,662	$ 1,213,765	$ 2,770,074	$ 2,937,842
Notes payable			13,900			125,000	138,900	151,066
Total fixed rate debt	$ 137,339	$ 398,924	$ 323,985	$ 239,299	$ 470,662	$ 1,338,765	$ 2,908,974	$ 3,088,908
Variable rate debt:								
Mortgages payable	$ 29	$ 87,999	$	$	$	$	$ 88,028	$ 88,028
Secured credit facility			470,000				470,000	470,000
Margin payable	7,944						7,944	7,944
Total variable rate debt	7,973	87,999	470,000				565,972	565,972
Total maturing debt	$ 145,312	$ 486,923	$ 793,985	$ 239,299	$ 470,662	$ 1,338,765	$ 3,474,946	$ 3,654,880
Weighted average interest rate on debt:								
Fixed rate debt	6.00%	5.39%	5.55%	7.13%	5.77%	7.21%		
Variable rate debt	0.60%	3.97%	3.75%					
Total	5.70%	5.13%	4.48%	7.13%	5.77%	7.21%		

(a) The debt maturity table does not include any premium or discount, of which $11,243 and $(2,120), net of accumulated amortization, respectively, were outstanding as of September 30, 2011.

(b) Includes $67,504 of variable rate debt that was swapped to a fixed rate.

The maturity table excludes other financings and the co-venture obligation as described in Note 1. The maturity table also excludes accelerated principal payments that may be required as a result of covenants or conditions included in certain loan agreements due to the uncertainty in the timing and amount of these payments. In these cases, the total outstanding indebtedness is included in the year

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corresponding to the loan maturity date or, if the mortgage payable is amortizing, the payments are presented in accordance with the loan s original amortization schedule. As of September 30, 2011, the Company was making accelerated principal payments on three mortgages payable with a combined outstanding principal balance of $104,562, which are reflected in the year corresponding to the loan maturity date. See the mortgages payable section above for additional information on how the Company is addressing its remaining 2011 mortgages payable maturities.

(10) Secured Credit Facility

On February 4, 2011, the Company amended and restated its secured credit agreement with KeyBank National Association and other financial institutions and currently has a $585,000 senior secured credit facility that matures on February 3, 2013 (with the ability to extend for one year at the Company s option). The credit facility consists of a $435,000 senior secured revolving line of credit and a $150,000 secured term loan, with the ability to increase available borrowings up to $500,000 under the revolving line of credit in certain circumstances. As of September 30, 2011, the terms of the agreement stipulate:

- monthly interest-only payments on the outstanding balance at a rate of LIBOR plus a margin of 2.75% to 4.00%, depending on leverage levels;
- quarterly unused fees ranging from 0.40% to 0.50% per annum, depending on the undrawn amount;
- the requirement for a comprehensive collateral pool (secured by mortgage interests in each asset) subject to certain covenants, including a maximum advance rate on the appraised value of the collateral pool of 65% (reduces to 60% after the issuance of the Company s financial statements for the quarter ending March 31, 2012) and minimum requirements related to the value and number of properties included in the collateral pool; and
- $20,000 of recourse cross-default permissions and $100,000 of non-recourse cross-default permissions, subject to certain carve-outs and allowances for maturity defaults under non-recourse indebtedness for up to 90 days subject to extension at the discretion of the lenders.

This full recourse credit agreement requires compliance with certain covenants, such as, among other things, a leverage ratio, fixed charge coverage, debt service coverage, minimum net worth requirements, distribution limitations and investment restrictions, as well as limitations on the Company s ability to incur recourse indebtedness. It also contains customary default provisions including the failure to timely pay debt service payable thereunder, the failure to comply with the Company s financial and operating covenants and the failure to pay when the consolidated indebtedness becomes due. In the event the lenders under the credit agreement declare a default, as defined in the credit agreement, this could result in an acceleration of any outstanding borrowings on the line of credit. As of September 30, 2011, management believes the Company was in compliance with all of the financial covenants under the credit agreement. As of September 30, 2011, the interest rate of the revolving line of credit and secured term loan was 3.75%. Upon closing the amended credit agreement, the Company borrowed the full amount of the term loan. As of September 30, 2011, the total availability under the revolving line of credit was $418,000, of which the Company had borrowed $320,000. As of December 31, 2010, the outstanding balance on the line of credit was $154,347.

(11) Investment in Unconsolidated Joint Ventures

The following table summarizes the Company s investments in unconsolidated joint ventures:

				Ownership Interest		Investment at	
Joint Venture	**Location**	**Date of Investment**	**Date of Redemption**	**September 30, 2011**	**December 31, 2010**	**September 30, 2011**	**December 31, 2010**
MS Inland	Various	04/27/2007	N/A	20.0%	20.0%	$ 9,604	$ 9,884
Hampton Retail Colorado	Denver, CO	08/31/2007	N/A	95.8%	95.8%	845	4,059
RioCan	Various	09/30/2010	N/A	20.0%	20.0%	27,632	12,292
Oak Property and Casualty	Burlington, VT	10/01/2006	N/A	25.0%	25.0%	6,108	7,230
						$ 44,189	$ 33,465

The Company has the ability to exercise significant influence, but does not have the financial or operating control over these investments, and as a result the Company accounts for these investments using the equity method of accounting. Under the equity method of accounting, the net equity investment of the Company is reflected in the accompanying condensed consolidated balance sheets and the accompanying condensed consolidated statements of operations and other comprehensive loss includes the Company s share of net income or loss from the unconsolidated joint venture. Distributions from these investments that are related to income

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from operations are included as operating activities and distributions that are related to capital transactions are included in investing activities in the Company s condensed consolidated statements of cash flows.

Effective April 27, 2007, the Company formed a joint venture (MS Inland) with a large state pension fund (the institutional investor). Under the terms of the agreement, the profits and losses of MS Inland are split 80% and 20% between the institutional investor and the Company, respectively. The Company s share of net (loss) income in MS Inland was $(361) and $451, for the three months ended September 30, 2011 and 2010, respectively. The Company s share of net (loss) income in MS Inland was $(552) and $1,085, for the nine months ended September 30, 2011 and 2010, respectively. The Company (paid) received net cash (contributions) distributions (to) from MS Inland totaling $(30) and $3,703, for the nine months ended September 30, 2011 and 2010, respectively.

The difference between the Company s investment in MS Inland and the amount of the underlying equity in net assets of MS Inland is due to basis differences resulting from the Company s contribution of property assets at their historical net book value versus the fair value of the contributed properties. Such differences are amortized over the depreciable lives of MS Inland s property assets. The Company recorded $81 and $80 of amortization related to this difference for the three months ended September 30, 2011 and 2010, respectively, which is included in Equity in (loss) income of unconsolidated joint ventures in the condensed consolidated statements of operations and other comprehensive loss. The Company recorded $242 of amortization related to this difference during each of the nine months ended September 30, 2011 and 2010.

The Company is the managing member of MS Inland and earns fees for providing property management, acquisition and leasing services to MS Inland. The Company earned fees of $244 and $259 during the three months ended September 30, 2011 and 2010, respectively. The Company earned fees of $795 and $863 during the nine months ended September 30, 2011 and 2010, respectively.

On August 28, 2007, the Company formed an unconsolidated joint venture, Hampton Retail Colorado (Hampton), which subsequently, through wholly-owned subsidiaries Hampton Owned Colorado (Hampton Owned) and Hampton Leased Colorado (Hampton Leased), acquired nine single-user retail properties and eight leasehold assets, respectively. The ownership percentages associated with Hampton at September 30, 2011 and December 31, 2010, are based upon the Company s pro rata share of capital contributions to date. Based upon the maximum capital contribution obligations outlined in the joint venture agreement, the Company s ownership percentage could increase to 96.3%. During the three months ended September 30, 2011, the carrying values of the five properties remaining in the Hampton joint venture were determined to be recoverable and no impairment charges were recorded. During the nine months ended September 30, 2011, Hampton determined that the carrying value of certain of its assets were not recoverable and, accordingly, recorded impairment charges in the amount of $4,067 of which the Company s share was $3,897. No impairment charges were recorded during the three and nine months ended September 30, 2010. The joint venture s estimated fair value relating to these impairment assessments was based upon estimated contract prices. The Company s share of net (loss) income in Hampton was $(1) and $398 for the three months ended September 30, 2011 and 2010, respectively, and is included in Equity in (loss) income of unconsolidated joint ventures in the condensed consolidated statements of operations and other comprehensive loss. The Company s share of net (loss) income in Hampton was $(3,547) and $357 for the nine months ended September 30, 2011 and 2010, respectively.

During the nine months ended September 30, 2011, Hampton Owned completed the sale of one single-user retail property consisting of 50,000 square feet for a sales price of $1,400. The sale resulted in the repayment of debt of $1,400 and a loss on sale of $29. As of September 30, 2011, there were five properties remaining in the Hampton joint venture, all of which are included in Hampton Owned. All other properties

from the original portfolio of nine single-user retail properties and eight leasehold assets have been disposed of primarily through sales and assignment.

On May 20, 2010, the Company entered into definitive agreements to form a joint venture with RioCan Real Estate Investment Trust (RioCan), a REIT based in Canada. The initial RioCan joint venture investment included up to eight grocery and necessity-based-anchored shopping centers located in Texas. Under the terms of the joint venture agreements, RioCan contributed cash for an 80% interest in the venture and the Company contributed a 20% interest in the properties. The joint venture acquired an 80% interest in the properties from the Company in exchange for cash, each of which was accounted for as a partial sale of real estate. Each property closing occurred individually over time based on timing of lender consent or refinance of the related mortgages payable. Certain of the properties contain earnout provisions which, if met, would result in additional sales proceeds to the Company. All eight of the initial investment properties were acquired in 2010. On August 22, 2011, the Company closed on the partial sale of an additional property to the venture with terms substantially consistent with the eight previous partial sales. The sales price of the property, a 654,200 square foot multi-tenant retail property in Austin, Texas, was $110,799, which resulted in a net loss of $3,047, net proceeds of $39,935 and the venture assuming the $60,000 of related mortgage debt. These transactions do not qualify as discontinued operations in the Company s condensed consolidated statements of operations and other comprehensive loss as a result of the Company s 20% ownership interest in the joint venture.

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During the nine months ended September 30, 2011, the RioCan joint venture acquired two additional multi-tenant retail properties from unaffiliated third parties, as follows:

Date	Square Footage	Property Type	Location		Purchase Price
May 20, 2011	124,900	Multi-tenant retail	Temple, Texas	$	21,239(a)
July 1, 2011	107,600	Multi-tenant retail	Houston, Texas		35,000(b)
	232,500			$	56,239

(a) The Company contributed $1,929 as its share of the acquisition price net of closing costs and mortgage proceeds.
(b) The Company contributed $3,201 as its share of the acquisition price net of closing costs.

The Company s share of net loss in the RioCan joint venture was $464 and $1,041 for the three and nine months ended September 30, 2011, respectively. The Company paid net cash contributions to the RioCan joint venture totaling $3,088 and $4,800 for the three and nine months ended September 30, 2011, respectively.

The difference between the Company s investment in the RioCan joint venture and the amount of the underlying equity in net assets of the joint venture is due to basis differences resulting from the Company s contribution of property assets at their historical net book value versus the fair value of the contributed properties. Such differences are amortized over the depreciable lives of the RioCan joint venture s property assets.

The Company is the general partner of the RioCan joint venture and earns fees for providing property management, asset management and other customary fees for the joint venture. The Company earned fees of $308 and $722 during the three and nine months ended September 30, 2011, respectively.

On December 1, 2010, it was determined that the Company was no longer the primary beneficiary of the Captive, or Oak Property & Casualty. As a result, the Captive has been reflected as an equity method investment by the Company since December 1, 2010. Refer to Note 1 for further information. The Company s share of net loss in the Captive was $(1,090) and $(1,063) for the three and nine months ended September 30, 2011, respectively.

The Company s investments in unconsolidated joint ventures are reviewed for potential impairment, in addition to impairment evaluations of the individual assets underlying these investments, whenever events or changes in circumstances warrant such an evaluation. To determine whether impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until the carrying value is fully recovered. As a result, the carrying value of its investment in the unconsolidated joint ventures was determined to be fully recoverable as of September 30, 2011 and December 31, 2010.

(12) Earnings per Share

In connection with the April 12, 2011 issuance of restricted common stock to certain executive officers, beginning with the June 30, 2011 computations, earnings (loss) per share (EPS) is calculated pursuant to the two-class method which specifies that all outstanding unvested share-based payment awards that contain nonforfeitable rights to distributions are considered participating securities and should be included in the computation of EPS.

The Company presents both basic and diluted EPS amounts. Basic EPS is calculated by dividing net distributed and undistributed earnings attributable to common shareholders, excluding participating securities, by the weighted-average number of common shares outstanding. As of September 30, 2011, distributions totaling $2 had been paid on the unvested shares. Diluted EPS includes the components of basic EPS and, in addition, reflects the impact of other potentially dilutive shares outstanding during the period using the two-class method.

Shares of the Company s common stock related to the restricted common stock issuance are not included in the denominator of basic EPS until contingencies are resolved and the shares are released.

The following is a reconciliation between weighted average shares used in the basic and diluted EPS calculations, excluding amounts attributable to noncontrolling interests:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Numerator:				
Net loss from continuing operations	$ (18,757)	$ (24,352)	$ (83,084)	$ (81,573)
(Loss) gain on sales of investment properties	(891)		4,171	
Income from continuing operations attributable to noncontrolling interests	(7)	(321)	(23)	(656)
Loss from continuing operations attributable to Company shareholders	(19,655)	(24,673)	(78,936)	(82,229)
Income (loss) from discontinued operations	14,632	(854)	20,164	(10,203)
Net loss attributable to Company shareholders	(5,023)	(25,527)	(58,772)	(92,432)
Distributions paid on unvested restricted shares	(2)		(2)	
Net loss attributable to Company shareholders excluding amounts attributable to unvested restricted shares	$ (5,025)	$ (25,527)	$ (58,774)	$ (92,432)
Denominator:				
Denominator for loss per common share-basic:				
Weighted average number of common shares outstanding	481,948 (a)	484,865	480,318 (a)	483,619
Effect of dilutive securities:				
Stock options	(b)	(b)	(b)	(b)
Equity awards	(c)		(c)	
Denominator for loss per common share-diluted:				
Weighted average number of common and common equivalent shares outstanding	481,948	484,865	480,318	483,619

(a) Excluded from these weighted average amounts are 34 shares of restricted common stock, which equate to 34 and 21 shares, respectively, on a weighted average basis for the three and nine months ended September 30, 2011.

(b) Outstanding options to purchase shares of common stock, the effect of which would be anti-dilutive, were 139 and 104 shares as of September 30, 2011 and 2010, respectively, at a weighted average exercise price of $8.68 and $9.31, respectively. These shares were not included in the computation of diluted EPS because a loss was reported for the respective periods.

(c) Potential common shares issuable from the vesting of restricted share awards are anti-dilutive in periods in which a loss is reported and therefore excluded from the computation of diluted EPS as the Company had a loss from continuing operations for the three and nine months ended September 30, 2011.

(13) Provision for Impairment of Investment Properties

The Company identified certain indicators of impairment for certain of its properties, such as a low occupancy rate, difficulty in leasing space and related cost of re-leasing, reduced anticipated holding periods and financially troubled tenants. The Company performed cash flow analyses and determined that the carrying value of two of these properties exceeded the projected undiscounted cash flows based upon the estimated holding periods for the assets. Therefore, the Company has recorded impairment charges related to these properties consisting of the excess carrying value of the assets over the estimated fair value within the accompanying condensed consolidated statements of operations and other comprehensive loss.

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During the nine months ended September 30, 2011, the Company recorded investment property impairment charges as summarized below:

Location	Property Type	Impairment Date	Approximate Square Footage		Provision for Impairment of Investment Properties
Mesa, Arizona	Multi-tenant retail	September 30, 2011	195,000	$	1,379
Winston-Salem, North Carolina	Single-user office	March 31, 2011	501,000		30,373
			Total	$	31,752
		Estimated fair value of impaired properties		$	19,502

During the nine months ended September 30, 2010, the Company recorded investment property impairment charges as summarized below:

Location	Property Type	Impairment Date	Approximate Square Footage		Provision for Impairment of Investment Properties
Coppell, Texas (a)	Multi-tenant retail	September 30, 2010	91,000	$	1,851
Southlake, Texas (a)	Multi-tenant retail	September 30, 2010	96,000		1,322
Sugarland, Texas (a)	Multi-tenant retail	June 30, 2010	61,000		1,576
University Heights, Ohio	Multi-tenant retail	June 30, 2010	287,000		6,281
					11,030
Discontinued Operations:					
Richmond, Virginia	Single-user office	June 30, 2010	383,000		7,806
Hinsdale, Illinois	Single-user retail	May 28, 2010	49,000		821
					8,627
			Total	$	19,657
		Estimated fair value of impaired properties		$	68,351

(a) Property was subsequently acquired by the RioCan joint venture. The impairment charge was based upon the estimated net realizable value inclusive of the projected fair value of earnout proceeds.

The Company can provide no assurance that material impairment charges with respect to the Company s investment properties will not occur in future periods.

(14) Fair Value Measurements

Fair Value of Financial Instruments

The following table presents the carrying value and estimated fair value of the Company s financial instruments at September 30, 2011 and December 31, 2010. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date.

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investment in marketable securities	$ 30,028	$ 30,028	$ 34,230	$ 34,230
Notes receivable	$ 8,270	$ 8,354	$ 8,290	$ 8,245
Financial liabilities:				
Mortgages and notes payable	$ 3,014,069	$ 3,184,880	$ 3,602,890	$ 3,628,042
Secured credit facility	$ 470,000	$ 470,000	$ 154,347	$ 154,347
Other financings	$ 8,477	$ 8,477	$ 8,477	$ 8,477
Co-venture obligation	$ 52,139	$ 55,000	$ 51,264	$ 55,000
Derivative liability	$ 3,130	$ 3,130	$ 2,967	$ 2,967

The carrying values shown in the table are included in the condensed consolidated balance sheets under the indicated captions, except for notes receivable and derivative liability, which are included in Accounts and notes receivable and Other liabilities, respectively.

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The fair value of the financial instruments shown in the above table as of September 30, 2011 and December 31, 2010 represent the Company s best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in a transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company s own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in those circumstances.

The following methods and assumptions were used to estimate the fair value of each financial instrument:

- ***Investment in marketable securities*****:** Marketable securities classified as available-for-sale are measured using quoted market prices at the reporting date multiplied by the quantity held.

- ***Notes receivable*****:** The Company estimates the fair value of its notes receivable by discounting the future cash flows of each instrument at rates that approximate those offered by lending institutions for loans with similar terms to companies with comparable risk. The rates used are not directly observable in the marketplace and judgment is used in determining the appropriate rate based upon the specific terms of the individual notes receivable agreement.

- ***Mortgages and notes payable:*** The Company estimates the fair value of its mortgages and notes payable by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company s lenders. The rates used are not directly observable in the marketplace and judgment is used in determining the appropriate rate for each of the Company s individual mortgages and notes payable based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying property and its leverage ratio.

- ***Secured credit facility:*** The carrying value of the Company s secured credit facility approximates fair value due to the periodic variable rate pricing and the loan pricing spreads based on the Company s leverage ratio.

- ***Other financings:*** Other financings on the condensed consolidated balance sheets represent the equity interest of the noncontrolling member in certain consolidated entities where the LLC or LP agreement contains put/call arrangements, which grant the right to the outside owners and the Company to require each LLC or LP to redeem the ownership interest in future periods for fixed amounts. The Company believes the fair value of other financings is that amount which is the fixed amount at which it would settle, which approximates its carrying value.

• ***Co-venture obligation***: The Company estimates the fair value of its co-venture obligation based on the amount at which it believes the obligation will settle and the timing of such payment. The fair value of the co-venture obligation includes the estimated additional amount the Company would be required to pay upon exercise of the call option. The carrying value as of September 30, 2011 of the co-venture obligation includes $2,139 of cumulative co-venture obligation expense accretion related to the estimated additional distribution.

• ***Derivative liability****:* The fair value of the derivative liability is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements.

Fair Value Hierarchy

GAAP specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The fair value hierarchy is summarized as follows:

• Level 1 Inputs Unadjusted quoted market prices for identical assets and liabilities in an active market which the Company has the ability to access.

• Level 2 Inputs Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

• Level 3 Inputs Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

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The guidance requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2011 and December 31, 2010, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation. As a result, the Company has determined that its derivative valuations in their entirety are classified within Level 2 of the fair value hierarchy.

The following table presents the Company s financial instruments, which are measured at fair value on a recurring basis, by the level in the fair value hierarchy within which those measurements fall as of September 30, 2011 and December 31, 2010.

	Level 1	Level 2	Level 3	Total
September 30, 2011				
Investment in marketable securities	$ 30,028			$ 30,028
Derivative liability	$	3,130		$ 3,130
December 31, 2010				
Investment in marketable securities	$ 34,230			$ 34,230
Derivative liability	$	2,967		$ 2,967

There were no transfers of assets or liabilities between the levels of the fair value hierarchy and there were no purchases, sales, issuances or settlements of Level 3 assets or liabilities during the nine months ended September 30, 2011.

During the nine months ended September 30, 2011, the Company recorded asset impairment charges of $31,752 related to two of its consolidated operating properties with an estimated fair value of $19,502. There was one asset impairment charge recorded during the three months ended September 30, 2011 related to one of the Company s consolidated operating properties with an estimated fair value of $2,788 based upon the negotiated sales price of the related asset. During the nine months ended September 30, 2010, the Company recorded asset impairment charges of $19,657 related to one of its consolidated operating properties, three consolidated operating properties that were partially sold to the RioCan joint venture subsequent to September 30, 2010, and two properties that have been sold with a combined estimated value of $68,351. During the three months ended September 30, 2010, the Company recorded asset impairment charges of $3,173 related to two of its consolidated operating properties that were contributed to the RioCan joint venture subsequent to September 30, 2010. The Company s estimated fair value, measured on a non-recurring basis, relating to this impairment assessment was based upon a discounted cash flow model that included all estimated cash inflows and outflows over a specific holding period or the negotiated sales price, if applicable. These cash flows are comprised of unobservable inputs which include contractual rental revenues and forecasted rental revenues and expenses based upon market conditions and expectation for growth. Capitalization rates and discount rates utilized in this model were based upon observable rates that the Company believed to be within a reasonable range of current market rates for the property. Based on these inputs, the Company determined that

its valuations of properties using a discounted cash flow model were classified within Level 3 of the fair value hierarchy. For the Company s properties for which the estimated fair value was based on estimated contract prices, the Company determined that its valuation was classified within Level 2 of the fair value hierarchy.

(15) Commitments and Contingencies

The Company has acquired certain properties which have earnout components, meaning the Company did not pay for portions of these properties that were not rent producing at the time of acquisition. The Company is obligated, under these agreements, to pay for those portions when a tenant moves into its space and begins to pay rent. The earnout payments are based on a predetermined formula. Each earnout agreement has a time limit regarding the obligation to pay any additional monies. The time limits generally range from one to three years. If, at the end of the time period allowed, certain space has not been leased and occupied, the Company will generally not have any further payment obligation to the seller. As of September 30, 2011, the Company could pay as much as $1,400 in the future pursuant to earnout agreements.

The Company previously entered into one construction loan agreement, one secured installment note and one other installment note agreement, one of which was impaired as of December 31, 2009 and written off on March 31, 2010. In conjunction with the two remaining agreements, the Company has funded its total commitments of $8,680. One of the two remaining loans requires monthly interest payments with the entire principal balance due at maturity. The combined receivable balance included in Accounts and notes

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Notes to Condensed Consolidated Financial Statements

receivable in the accompanying condensed consolidated balance sheets at September 30, 2011 and December 31, 2010 was $8,270, and $8,290, respectively, net of allowances of $300.

Although the loans obtained by the Company are generally non-recourse, occasionally, when it is deemed necessary, the Company may guarantee all or a portion of the debt on a full-recourse basis. As of September 30, 2011, the Company has guaranteed $470,000 and $25,978 of its outstanding secured credit facility and mortgage loans, respectively, with maturity dates up to August 1, 2014. As of September 30, 2011, the Company also guaranteed $25,911 which represents a portion of the construction debt associated with certain of its wholly-owned and consolidated joint venture properties. The guarantees are released as certain leasing parameters are met. The following table summarizes these guarantees:

Location	Property	Construction Loan Balance at September 30, 2011	Percentage/Amount Guaranteed by the Company	Guarantee Amount
Frisco, Texas	Parkway Towne Crossing	$ 20,654	35%	$ 7,229
Henderson, Nevada	Lake Mead Crossing	48,879	15%	7,332
Henderson, Nevada	Green Valley Crossing	11,350	$ 11,350	11,350
		$ 80,883		$ 25,911