

FEDERAL REALTY INVESTMENT TRUST

Form 10-Q

August 03, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from            to

Commission file number: 1-07533

**FEDERAL REALTY INVESTMENT TRUST**

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

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**Maryland**  
(State of Organization)

**52-0782497**  
(IRS Employer

Identification No.)

**1626 East Jefferson Street,**

**Rockville, Maryland**  
(Address of Principal Executive Offices)

**20852**  
(Zip Code)

**(301) 998-8100**

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer    ☒

Accelerated Filer    ☐

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

Smaller reporting company    ☐

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

The number of Registrant's common shares outstanding on July 29, 2011 was 62,805,852.

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**FEDERAL REALTY INVESTMENT TRUST**

**QUARTERLY REPORT ON FORM 10-Q**

**QUARTER ENDED JUNE 30, 2011**

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

The following balance sheet as of December 31, 2010, which has been derived from audited financial statements, and unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the company's latest Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation for the periods presented have been included. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the full year.

**Table of Contents****Federal Realty Investment Trust****Consolidated Balance Sheets**

|                                                                                                                                                                                                              | June 30,<br>2011<br>(In thousands, except share data)<br>(Unaudited) | December 31,<br>2010 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                                |                                                                      |                      |
| Real estate, at cost                                                                                                                                                                                         |                                                                      |                      |
| Operating (including \$139,785 and \$78,846 of consolidated variable interest entities, respectively)                                                                                                        | \$ 3,795,754                                                         | \$ 3,695,848         |
| Construction-in-progress                                                                                                                                                                                     | 180,740                                                              | 163,200              |
| Assets held for sale/disposal (discontinued operations) (including \$0 and \$18,311 of consolidated variable interest entities, respectively)                                                                | 16,503                                                               | 36,894               |
|                                                                                                                                                                                                              | 3,992,997                                                            | 3,895,942            |
| Less accumulated depreciation and amortization (including \$5,329 and \$4,431 of consolidated variable interest entities, respectively)                                                                      | (1,084,806)                                                          | (1,035,204)          |
| Net real estate                                                                                                                                                                                              | 2,908,191                                                            | 2,860,738            |
| Cash and cash equivalents                                                                                                                                                                                    | 19,848                                                               | 15,797               |
| Accounts and notes receivable, net                                                                                                                                                                           | 73,917                                                               | 68,997               |
| Mortgage notes receivable, net                                                                                                                                                                               | 56,619                                                               | 44,813               |
| Investment in real estate partnerships                                                                                                                                                                       | 57,864                                                               | 51,606               |
| Prepaid expenses and other assets                                                                                                                                                                            | 98,339                                                               | 110,686              |
| Debt issuance costs, net of accumulated amortization of \$9,467 and \$9,075, respectively                                                                                                                    | 5,890                                                                | 6,916                |
| <b>TOTAL ASSETS</b>                                                                                                                                                                                          | <b>\$ 3,220,668</b>                                                  | <b>\$ 3,159,553</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                  |                                                                      |                      |
| <b>Liabilities</b>                                                                                                                                                                                           |                                                                      |                      |
| Mortgages payable (including \$22,455 and \$22,785 of consolidated variable interest entities, respectively)                                                                                                 | \$ 487,001                                                           | \$ 529,501           |
| Capital lease obligations                                                                                                                                                                                    | 59,252                                                               | 59,940               |
| Notes payable                                                                                                                                                                                                | 209,302                                                              | 97,881               |
| Senior notes and debentures                                                                                                                                                                                  | 1,004,737                                                            | 1,079,827            |
| Accounts payable and accrued expenses                                                                                                                                                                        | 86,552                                                               | 102,574              |
| Dividends payable                                                                                                                                                                                            | 42,452                                                               | 41,601               |
| Security deposits payable                                                                                                                                                                                    | 11,865                                                               | 11,751               |
| Other liabilities and deferred credits                                                                                                                                                                       | 55,611                                                               | 55,348               |
| Total liabilities                                                                                                                                                                                            | 1,956,772                                                            | 1,978,423            |
| Commitments and contingencies (Note 8)                                                                                                                                                                       |                                                                      |                      |
| <b>Shareholders' equity</b>                                                                                                                                                                                  |                                                                      |                      |
| Preferred shares, authorized 15,000,000 shares, \$.01 par: 5.417% Series 1 Cumulative Convertible Preferred Shares, (stated at liquidation preference \$25 per share), 399,896 shares issued and outstanding | 9,997                                                                | 9,997                |
| Common shares of beneficial interest, \$.01 par, 100,000,000 shares authorized, 62,798,348 and 61,526,418 shares issued and outstanding, respectively                                                        | 628                                                                  | 615                  |
| Additional paid-in capital                                                                                                                                                                                   | 1,767,529                                                            | 1,666,803            |
| Accumulated dividends in excess of net income                                                                                                                                                                | (545,589)                                                            | (527,582)            |
| Total shareholders' equity of the Trust                                                                                                                                                                      | 1,232,565                                                            | 1,149,833            |
| Noncontrolling interests                                                                                                                                                                                     | 31,331                                                               | 31,297               |
| <b>Total shareholders' equity</b>                                                                                                                                                                            | <b>1,263,896</b>                                                     | <b>1,181,130</b>     |

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|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 3,220,668 | \$ 3,159,553 |
|--------------------------------------------|--------------|--------------|

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

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**Federal Realty Investment Trust**  
**Consolidated Statements of Operations**  
**(Unaudited)**

|                                                          | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|----------------------------------------------------------|--------------------------------|------------------|------------------------------|------------------|
|                                                          | 2011                           | 2010             | 2011                         | 2010             |
| (In thousands, except per share data)                    |                                |                  |                              |                  |
| <b>REVENUE</b>                                           |                                |                  |                              |                  |
| Rental income                                            | \$ 132,999                     | \$ 129,636       | \$ 267,438                   | \$ 260,461       |
| Other property income                                    | 2,146                          | 2,509            | 4,236                        | 8,419            |
| Mortgage interest income                                 | 1,134                          | 1,071            | 2,255                        | 2,137            |
| <b>Total revenue</b>                                     | <b>136,279</b>                 | <b>133,216</b>   | <b>273,929</b>               | <b>271,017</b>   |
| <b>EXPENSES</b>                                          |                                |                  |                              |                  |
| Rental expenses                                          | 25,132                         | 25,511           | 54,535                       | 55,304           |
| Real estate taxes                                        | 15,547                         | 14,828           | 30,954                       | 29,855           |
| General and administrative                               | 6,395                          | 6,016            | 12,446                       | 11,505           |
| Depreciation and amortization                            | 31,871                         | 31,020           | 62,287                       | 59,793           |
| <b>Total operating expenses</b>                          | <b>78,945</b>                  | <b>77,375</b>    | <b>160,222</b>               | <b>156,457</b>   |
| <b>OPERATING INCOME</b>                                  | <b>57,334</b>                  | <b>55,841</b>    | <b>113,707</b>               | <b>114,560</b>   |
| Other interest income                                    | 20                             | 33               | 35                           | 215              |
| Interest expense                                         | (23,905)                       | (25,418)         | (48,949)                     | (51,380)         |
| Early extinguishment of debt                             |                                |                  | 296                          | (2,801)          |
| Income from real estate partnerships                     | 444                            | 188              | 767                          | 381              |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                 | <b>33,893</b>                  | <b>30,644</b>    | <b>65,856</b>                | <b>60,975</b>    |
| <b>DISCONTINUED OPERATIONS</b>                           |                                |                  |                              |                  |
| Discontinued operations - income                         | 509                            | 314              | 930                          | 537              |
| Discontinued operations - gain on deconsolidation of VIE | 2,026                          |                  | 2,026                        |                  |
| Discontinued operations - gain on sale of real estate    | 43                             | 1,000            | 43                           | 1,000            |
| <b>Results from discontinued operations</b>              | <b>2,578</b>                   | <b>1,314</b>     | <b>2,999</b>                 | <b>1,537</b>     |
| <b>INCOME BEFORE GAIN ON SALE OF REAL ESTATE</b>         | <b>36,471</b>                  | <b>31,958</b>    | <b>68,855</b>                | <b>62,512</b>    |
| Gain on sale of real estate                              |                                | 410              |                              | 410              |
| <b>NET INCOME</b>                                        | <b>36,471</b>                  | <b>32,368</b>    | <b>68,855</b>                | <b>62,922</b>    |
| Net income attributable to noncontrolling interests      | (1,714)                        | (1,254)          | (2,912)                      | (2,588)          |
| <b>NET INCOME ATTRIBUTABLE TO THE TRUST</b>              | <b>34,757</b>                  | <b>31,114</b>    | <b>65,943</b>                | <b>60,334</b>    |
| Dividends on preferred shares                            | (135)                          | (135)            | (271)                        | (271)            |
| <b>NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS</b>      | <b>\$ 34,622</b>               | <b>\$ 30,979</b> | <b>\$ 65,672</b>             | <b>\$ 60,063</b> |
| <b>EARNINGS PER COMMON SHARE, BASIC</b>                  |                                |                  |                              |                  |
| Continuing operations                                    | \$ 0.51                        | \$ 0.47          | \$ 1.01                      | \$ 0.95          |
| Discontinued operations                                  | 0.04                           | 0.02             | 0.05                         | 0.02             |

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|                                           |         |         |         |         |
|-------------------------------------------|---------|---------|---------|---------|
| Gain on sale of real estate               |         | 0.01    |         | 0.01    |
|                                           | \$ 0.55 | \$ 0.50 | \$ 1.06 | \$ 0.98 |
| <b>EARNINGS PER COMMON SHARE, DILUTED</b> |         |         |         |         |
| Continuing operations                     | \$ 0.51 | \$ 0.47 | \$ 1.00 | \$ 0.95 |
| Discontinued operations                   | 0.04    | 0.02    | 0.05    | 0.02    |
| Gain on sale of real estate               |         | 0.01    |         | 0.01    |
|                                           | \$ 0.55 | \$ 0.50 | \$ 1.05 | \$ 0.98 |

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

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**Federal Realty Investment Trust**  
**Consolidated Statement of Shareholders' Equity**  
**For the Six Months Ended June 30, 2011**  
**(Unaudited)**

|                                                    | Shareholders' Equity of the Trust |               |               |        |                            | Accumulated Dividends in Excess of Noncontrolling Interests | Total Shareholders' Equity |
|----------------------------------------------------|-----------------------------------|---------------|---------------|--------|----------------------------|-------------------------------------------------------------|----------------------------|
|                                                    | Preferred Shares                  | Shares Amount | Common Shares | Amount | Additional Paid-in Capital | Income                                                      |                            |
| (In thousands, except share data)                  |                                   |               |               |        |                            |                                                             |                            |
| BALANCE AT DECEMBER 31, 2010                       | 399,896                           | \$ 9,997      | 61,526,418    | \$ 615 | \$ 1,666,803               | \$ (527,582)                                                | \$ 31,297 \$ 1,181,130     |
| Net income/comprehensive income                    |                                   |               |               |        |                            | 65,943                                                      | 2,912 68,855               |
| Dividends declared to common shareholders          |                                   |               |               |        |                            | (83,679)                                                    | (83,679)                   |
| Dividends declared to preferred shareholders       |                                   |               |               |        |                            | (271)                                                       | (271)                      |
| Distributions declared to noncontrolling interests |                                   |               |               |        |                            |                                                             | (2,403) (2,403)            |
| Common shares issued                               |                                   |               | 1,085,705     | 11     | 90,121                     |                                                             | 90,132                     |
| Exercise of stock options                          |                                   |               | 82,716        | 1      | 5,439                      |                                                             | 5,440                      |
| Shares issued under dividend reinvestment plan     |                                   |               | 15,289        |        | 1,215                      |                                                             | 1,215                      |
| Share-based compensation expense, net              |                                   |               | 88,220        | 1      | 4,047                      |                                                             | 4,048                      |
| Conversion and redemption of OP units              |                                   |               |               |        | (96)                       |                                                             | (55) (151)                 |
| Deconsolidation of VIE                             |                                   |               |               |        |                            |                                                             | (420) (420)                |
| BALANCE AT JUNE 30, 2011                           | 399,896                           | \$ 9,997      | 62,798,348    | \$ 628 | \$ 1,767,529               | \$ (545,589)                                                | \$ 31,331 \$ 1,263,896     |

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

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**Federal Realty Investment Trust**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

|                                                                                    | Six Months Ended<br>June 30, |           |
|------------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                    | 2011                         | 2010      |
|                                                                                    | (In thousands)               |           |
| OPERATING ACTIVITIES                                                               |                              |           |
| Net income                                                                         | \$ 68,855                    | \$ 62,922 |
| Adjustments to reconcile net income to net cash provided by operating activities   |                              |           |
| Depreciation and amortization, including discontinued operations                   | 62,632                       | 60,110    |
| Gain on sale of real estate                                                        | (43)                         | (1,410)   |
| Gain on deconsolidation of VIE                                                     | (2,026)                      |           |
| Early extinguishment of debt                                                       | (296)                        | 2,801     |
| Income from real estate partnerships                                               | (767)                        | (381)     |
| Other, net                                                                         | 1,675                        | 1,018     |
| Changes in assets and liabilities, net of effects of acquisitions and dispositions |                              |           |
| (Increase) decrease in accounts receivable                                         | (2,921)                      | 2,418     |
| Decrease in prepaid expenses and other assets                                      | 10,579                       | 5,645     |
| Decrease in accounts payable and accrued expenses                                  | (16,868)                     | (1,835)   |
| Decrease in security deposits and other liabilities                                | (2,122)                      | (1,943)   |
| Net cash provided by operating activities                                          | 118,698                      | 129,345   |
| INVESTING ACTIVITIES                                                               |                              |           |
| Acquisition of real estate                                                         | (19,196)                     |           |
| Capital expenditures - development and redevelopment                               | (35,971)                     | (19,063)  |
| Capital expenditures - other                                                       | (19,031)                     | (9,850)   |
| Proceeds from sale of real estate                                                  | 1,497                        |           |
| Investment in real estate partnerships                                             | (6,947)                      | (16,720)  |
| Distribution from real estate partnership in excess of earnings                    | 511                          | 258       |
| Leasing costs                                                                      | (6,335)                      | (4,712)   |
| Repayment (issuance) of mortgage and other notes receivable, net                   | 8,712                        | (11,858)  |
| Net cash used in investing activities                                              | (76,760)                     | (61,945)  |
| FINANCING ACTIVITIES                                                               |                              |           |
| Net borrowings under revolving credit facility, net of costs                       | 112,000                      | (450)     |
| Issuance of senior notes, net of costs                                             |                              | 148,457   |
| Purchase and retirement of senior notes                                            | (75,000)                     |           |
| Issuance of mortgages, capital leases and notes payable, net of costs              |                              | 9,950     |
| Repayment of mortgages, capital leases and notes payable                           | (86,021)                     | (256,403) |
| Issuance of common shares                                                          | 96,787                       | 3,489     |
| Dividends paid to common and preferred shareholders                                | (83,098)                     | (81,165)  |
| Distributions to noncontrolling interests                                          | (2,555)                      | (3,110)   |
| Net cash used in financing activities                                              | (37,887)                     | (179,232) |
| Increase (decrease) in cash and cash equivalents                                   | 4,051                        | (111,832) |
| Cash and cash equivalents at beginning of year                                     | 15,797                       | 135,389   |
| Cash and cash equivalents at end of period                                         | \$ 19,848                    | \$ 23,557 |

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

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**Federal Realty Investment Trust**

**Notes to Consolidated Financial Statements**

**June 30, 2011**

**(Unaudited)**

**NOTE 1 BUSINESS AND ORGANIZATION**

Federal Realty Investment Trust (the "Trust") is an equity real estate investment trust ("REIT") specializing in the ownership, management, and redevelopment of retail and mixed-use properties. Our properties are located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Mid-Atlantic and Northeast regions of the United States, as well as in California. As of June 30, 2011, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 86 predominantly retail real estate projects.

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

Our consolidated financial statements include the accounts of the Trust, its corporate subsidiaries, and all entities in which the Trust has a controlling interest or has been determined to be the primary beneficiary of a variable interest entity ("VIE"). The equity interests of other investors are reflected as noncontrolling interests. All significant intercompany transactions and balances are eliminated in consolidation. We account for our interests in joint ventures, which we do not control or manage, using the equity method of accounting. Certain 2010 amounts have been reclassified to conform to current period presentation.

**Use of Estimates**

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

**Acquisition of Real Estate**

Our methodology of allocating the cost of acquisitions to assets acquired and liabilities assumed is based on estimated fair values, replacement cost and appraised values. When we acquire operating real estate properties, the purchase price is allocated to land, building, improvements, intangibles such as in-place leases, and to current assets and liabilities acquired, if any. The value allocated to in-place leases is amortized over the related lease term and reflected as rental income in the statement of operations. We consider qualitative and quantitative factors in evaluating the likelihood of a tenant exercising a below market renewal option and include such renewal options in the calculation of in-place lease value when we consider these to be bargain renewal options. If the value of below market lease intangibles includes renewal option periods, we include such renewal periods in the amortization period utilized. If a tenant vacates its space prior to contractual termination of its lease, the unamortized balance of any in-place lease value is written off to rental income.

**Recently Issued Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The pronouncement was issued to provide a uniform framework for fair value measurements and related disclosures between U.S. GAAP

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and International Financial Reporting Standards ( IFRS ). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. This pronouncement is effective for us in the first quarter of 2012 and is not expected to have a significant impact to our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity and requires the presentation of components of net income and components of other comprehensive

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income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This pronouncement is effective for us in the first quarter of 2012 and will not have a significant impact to our consolidated financial statements.

**Consolidated Statements of Cash Flows Supplemental Disclosures**

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

|                                                    | Six Months Ended June 30, |           |
|----------------------------------------------------|---------------------------|-----------|
|                                                    | 2011                      | 2010      |
|                                                    | (In thousands)            |           |
| SUPPLEMENTAL DISCLOSURES:                          |                           |           |
| Total interest costs incurred                      | \$ 52,585                 | \$ 54,370 |
| Interest capitalized                               | (3,636)                   | (2,990)   |
| Interest expense                                   | \$ 48,949                 | \$ 51,380 |
| Cash paid for interest, net of amounts capitalized | \$ 50,197                 | \$ 48,830 |
| Cash paid for income taxes                         | \$ 537                    | \$ 86     |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS:     |                           |           |
| Mortgage loan assumed with acquisition             | \$ 42,938                 | \$        |
| Deconsolidation of VIE                             | \$ 18,311                 | \$        |

**NOTE 3 REAL ESTATE**

On January 19, 2011, we acquired the fee interest in Tower Shops located in Davie, Florida for a net purchase price of \$66.1 million which includes the assumption of a mortgage loan with a face amount of \$41.0 million and a fair value of approximately \$42.9 million. The property contains approximately 372,000 square feet of gross leasable area on 67 acres and is shadow-anchored by Home Depot and Costco. Approximately \$1.2 million and \$4.4 million of net assets acquired were allocated to other assets for above market leases and other liabilities for below market leases, respectively. We incurred a total of \$0.4 million of acquisition costs of which \$0.2 million were incurred in 2011 and are included in general and administrative expenses for the six months ended June 30, 2011.

In conjunction with the acquisition, we entered into a reverse Section 1031 like-kind exchange agreement with a third party intermediary which is for a maximum of 180 days and allows us, for tax purposes, to defer gains on sale of other properties identified and sold within this period. Until July 12, 2011, the third party intermediary was the legal owner of the property. However, we control the activities that most significantly impact the property and retain all of the economic benefits and risks associated with the property. Therefore, we have determined we are the primary beneficiary of this VIE and consolidated the property and its operations as of January 19, 2011.

On July 12, 2011, we sold Feasterville Shopping Center located in Feasterville, Pennsylvania for a sales price of \$20.0 million. The operations of this property are included in discontinued operations in the consolidated statements of operations and included in assets held for sale/disposal in our consolidated balance sheets for all periods presented. The sale was completed as a Section 1031 tax deferred exchange transaction with the acquisition of Tower Shops.

**NOTE 4 MORTGAGE NOTES RECEIVABLE**

Prior to June 30, 2011, we were the lender on a first and second mortgage loan on a shopping center and an adjacent commercial building in Norwalk, Connecticut. Our carrying amount of the loans was approximately \$18.3 million. The loans were in default and foreclosure proceedings had been filed, however, we were in negotiations with the borrower to refinance the loans. On June 30, 2011, we refinanced the existing loans with a first mortgage loan which has a principal balance of \$11.9 million, bears interest at 6.0%, and matures on June 30, 2014, subject to a one year extension option. The loan is secured by the shopping center in Norwalk, Connecticut. As part of the refinancing, we received approximately \$8.7 million in cash.



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Because the loans were in default, we had certain rights under the first mortgage loan agreement that gave us the ability to direct the activities that most significantly impacted the shopping center. Although we did not exercise those rights, the existence of those rights in the loan agreement resulted in the entity being a VIE. Additionally, given our investment in both the first and second mortgage on the property, the overall decline in fair market value since the loans were initiated, and the default status of the loans, we also had the obligation to absorb losses or rights to receive benefits that could potentially be significant to the VIE. Consequently, we were the primary beneficiary of this VIE and consolidated the shopping center and adjacent building from March 30, 2010 to June 29, 2011. Our investment in the property is included in assets held for sale/disposal in the consolidated balance sheet at December 31, 2010 and the operations of the entity are included in discontinued operations for all periods presented.

In conjunction with the refinancing of the loans, we re-evaluated our status as the primary beneficiary of the VIE. As the loan is not in default, we no longer have certain rights that give us the ability to control the activities that most significantly impact the shopping center. Our current involvement in the property is solely as the lender on the \$11.9 million mortgage loan with protective rights as the lender. Therefore, we are no longer the primary beneficiary and deconsolidated the entity as of June 30, 2011. We recognized a \$2.0 million gain on deconsolidation as part of the refinancing which is included in discontinued operations - gain on deconsolidation of VIE for the three and six months ended June 30, 2011. The mortgage loan receivable was recorded at its estimated fair value of \$11.9 million and is included in mortgage notes receivable on the balance sheet at June 30, 2011. The \$11.9 million also reflects our maximum exposure to loss related to this investment.

The change in design of the entity including the refinancing of the loan was a VIE reconsideration event. Given that the loan is no longer in default, we, as lender, do not have the power to direct the activities that most significantly impact the entity, and the additional equity investment at risk provided by the entity's equity holders, the entity is no longer a VIE.

**NOTE 5 REAL ESTATE PARTNERSHIPS***Federal/Lion Venture LP*

We have a joint venture arrangement (the Partnership) with affiliates of a discretionary fund created and advised by ING Clarion Partners (Clarion). We own 30% of the equity in the Partnership and Clarion owns 70%. We hold a general partnership interest, however, Clarion also holds a general partnership interest and has substantive participating rights. We cannot make significant decisions without Clarion's approval. Accordingly, we account for our interest in the Partnership using the equity method. As of June 30, 2011, the Partnership owned seven retail real estate properties. We are the manager of the Partnership and its properties, earning fees for acquisitions, dispositions, management, leasing, and financing. Intercompany profit generated from fees is eliminated in consolidation. We also have the opportunity to receive performance-based earnings through our Partnership interest. Accounting policies for the Partnership are similar to accounting policies followed by the Trust. The Partnership is subject to a buy-sell provision which is customary for real estate joint venture agreements and the industry. Either partner may initiate this provision at any time, which could result in either the sale of our interest or the use of available cash or borrowings to acquire Clarion's interest.

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

|                                                      | Three Months Ended<br>June 30,<br>2011 |          | Six Months Ended<br>June 30,<br>2011 |          |
|------------------------------------------------------|----------------------------------------|----------|--------------------------------------|----------|
|                                                      | 2011                                   | 2010     | 2011                                 | 2010     |
|                                                      | (In thousands)                         |          |                                      |          |
| OPERATING RESULTS                                    |                                        |          |                                      |          |
| Revenue                                              | \$ 4,676                               | \$ 4,523 | \$ 9,644                             | \$ 9,178 |
| Expenses                                             |                                        |          |                                      |          |
| Other operating expenses                             | 1,228                                  | 1,380    | 2,984                                | 3,342    |
| Depreciation and amortization                        | 1,290                                  | 1,244    | 2,568                                | 2,512    |
| Interest expense                                     | 848                                    | 850      | 1,696                                | 1,702    |
| Total expenses                                       | 3,366                                  | 3,474    | 7,248                                | 7,556    |
| Net income                                           | \$ 1,310                               | \$ 1,049 | \$ 2,396                             | \$ 1,622 |
| Our share of net income from real estate partnership | \$ 444                                 | \$ 353   | \$ 801                               | \$ 546   |



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|                                                  | June 30,<br>2011  | December 31,<br>2010 |
|--------------------------------------------------|-------------------|----------------------|
| (In thousands)                                   |                   |                      |
| <b>BALANCE SHEETS</b>                            |                   |                      |
| Real estate, net                                 | \$ 179,481        | \$ 181,565           |
| Cash                                             | 3,679             | 3,054                |
| Other assets                                     | 6,340             | 7,336                |
| <b>Total assets</b>                              | <b>\$ 189,500</b> | <b>\$ 191,955</b>    |
| Mortgages payable                                | \$ 57,481         | \$ 57,584            |
| Other liabilities                                | 4,829             | 5,439                |
| Partners' capital                                | 127,190           | 128,932              |
| <b>Total liabilities and partners' capital</b>   | <b>\$ 189,500</b> | <b>\$ 191,955</b>    |
| Our share of unconsolidated debt                 | \$ 17,244         | \$ 17,275            |
| <b>Our investment in real estate partnership</b> | <b>\$ 34,963</b>  | <b>\$ 35,504</b>     |

*Taurus Newbury Street JV II Limited Partnership*

In May 2010, we formed Taurus Newbury Street JV II Limited Partnership (Newbury Street Partnership), a joint venture limited partnership with an affiliate of Taurus Investment Holdings, LLC (Taurus), which plans to acquire, operate and redevelop up to \$200 million of properties located primarily in the Back Bay section of Boston, Massachusetts. We hold an 85% limited partnership interest in Newbury Street Partnership and Taurus holds a 15% limited partnership interest and serves as general partner. As general partner, Taurus is responsible for the operation and management of the properties, subject to our approval on major decisions. We have evaluated the entity and determined that it is not a VIE. Accordingly, given Taurus' role as general partner, we account for our interest in Newbury Street Partnership using the equity method. Accounting policies for the Newbury Street Partnership are similar to accounting policies followed by the Trust. Intercompany profit generated from interest income on loans we have provided to the partnership is eliminated in consolidation. All amounts contributed and advanced to Newbury Street Partnership are included in Investment in real estate partnerships in the consolidated balance sheets.

Newbury Street Partnership is subject to a buy-sell provision which is customary for real estate joint venture agreements and the industry. The buy-sell can be exercised only in certain circumstances through May 2014 and may be initiated by either party at anytime thereafter which could result in either the sale of our interest or the use of available cash or borrowings to acquire Taurus' interest.

On May 26, 2011, Newbury Street Partnership acquired the fee interest in a 6,700 square foot building located on Newbury Street for a purchase price of \$6.2 million. We contributed approximately \$2.8 million towards the acquisition and provided a \$3.1 million interest-only loan secured by the building. This loan and the \$8.8 million loan secured by the other two buildings owned by the partnership bear interest at LIBOR plus 400 basis points and mature in May 2012, subject to a one-year extension option. This purchase increases Newbury Street Partnership's portfolio to three buildings all located on Newbury Street with a total of approximately 39,000 square feet of mixed-use gross leasable area. Our investment in Newbury Street Partnership was \$22.9 million and \$16.1 million, respectively, at June 30, 2011 and December 31, 2010.

Due to the timing of receiving financial information from the general partner, our share of operating earnings is recorded one quarter in arrears. Consequently, the following tables provide summarized operating results for the six months ended March 31, 2011, and the financial position of the Newbury Street Partnership as of March 31, 2011 and December 31, 2010:

|                                         |        |
|-----------------------------------------|--------|
| <b>OPERATING RESULTS (in thousands)</b> |        |
| Revenue                                 | \$ 548 |
| Expenses                                |        |
| Other operating expenses                | 379    |
| Depreciation and amortization           | 176    |
| Interest expense                        | 194    |

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|                                                    |          |
|----------------------------------------------------|----------|
| Total expenses                                     | 749      |
| Net loss                                           | \$ (201) |
| Our share of net loss from real estate partnership | \$ (34)  |

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|                                                | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------------------|-------------------|----------------------|
|                                                | (In thousands)    |                      |
| <b>BALANCE SHEETS</b>                          |                   |                      |
| Real estate, net                               | \$ 17,463         | \$ 17,121            |
| Cash                                           | 379               | 264                  |
| Other assets                                   | 365               | 358                  |
| <b>Total assets</b>                            | <b>\$ 18,207</b>  | <b>\$ 17,743</b>     |
| Mortgages payable                              | \$ 8,750          | \$ 8,750             |
| Other liabilities                              | 816               | 393                  |
| Partners' capital                              | 8,641             | 8,600                |
| <b>Total liabilities and partners' capital</b> | <b>\$ 18,207</b>  | <b>\$ 17,743</b>     |

**NOTE 6 DEBT**

In connection with the acquisition of Tower Shops on January 19, 2011, we assumed a mortgage loan with a face amount of \$41.0 million and a fair value of approximately \$42.9 million. The mortgage loan bore interest at 6.52%, had a scheduled maturity in July 2015 and was contractually pre-payable after June 2011 with a 3% prepayment premium. On March 24, 2011, the lender unexpectedly allowed us to repay the \$41.0 million mortgage loan prior to the permitted prepayment date including the 3% prepayment premium of \$1.2 million. The \$0.3 million of income from early extinguishment of debt in the six months ended June 30, 2011, relates to the early payoff of this loan and includes the write-off of the unamortized debt premium of \$1.7 million net of the 3% prepayment premium and unamortized debt fees. The mortgage loan was repaid with funds borrowed on our \$300.0 million revolving credit facility.

On February 15, 2011, we repaid our \$75.0 million 4.50% senior notes on the maturity date using funds borrowed on our \$300.0 million revolving credit facility.

On April 29, 2011, we repaid the \$31.7 million mortgage loan on Federal Plaza which had an original maturity date of June 1, 2011. This loan was repaid with funds borrowed on our \$300.0 million revolving credit facility.

On June 1, 2011, we repaid the \$5.6 million mortgage loan on Tysons Station which had an original maturity date of September 1, 2011. This loan was repaid with funds borrowed on our \$300.0 million revolving credit facility.

During the three and six months ended June 30, 2011, the maximum amount of borrowings outstanding under our \$300.0 million revolving credit facility was \$265.0 million for both periods, the weighted average amount of borrowings outstanding was \$220.3 million and \$186.6 million, respectively, and the weighted average interest rate, before amortization of debt fees, was 0.66% and 0.68%, respectively. At June 30, 2011, there was \$189.0 million outstanding on our revolving credit facility.

Our revolving credit facility and certain notes require us to comply with various financial covenants, including the maintenance of minimum shareholders' equity and debt coverage ratios and a maximum ratio of debt to net worth. As of June 30, 2011, we were in compliance with all loan covenants.

**NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Except as disclosed below, the carrying amount of our financial instruments approximates their fair value. The fair value of our mortgages payable, notes payable and senior notes and debentures is sensitive to fluctuations in interest rates. Quoted market prices were used to estimate the fair value of our marketable senior notes and debentures and discounted cash flow analysis is generally used to estimate the fair value of our mortgages and notes payable. Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the carrying amount and fair value of our mortgages payable, notes payable and senior notes and debentures is as follows:

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|                             | June 30, 2011     |                              | December 31, 2010 |              |
|-----------------------------|-------------------|------------------------------|-------------------|--------------|
|                             | Carrying<br>Value | Fair Value<br>(In thousands) | Carrying<br>Value | Fair Value   |
| Mortgages and notes payable | \$ 696,303        | \$ 760,107                   | \$ 627,382        | \$ 685,552   |
| Senior notes and debentures | \$ 1,004,737      | \$ 1,105,001                 | \$ 1,079,827      | \$ 1,168,679 |

**Table of Contents****NOTE 8 COMMITMENTS AND CONTINGENCIES**

We are currently a party to various legal proceedings. Other than as described below, we do not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on our financial position or overall trends in results of operations; however, litigation is subject to inherent uncertainties. Also under our leases, tenants are typically obligated to indemnify us from and against all liabilities, costs and expenses imposed upon or asserted against us (1) as owner of the properties due to certain matters relating to the operation of the properties by the tenant, and (2) where appropriate, due to certain matters relating to the ownership of the properties prior to their acquisition by us.

In March 2011, we paid the final judgment of \$16.2 million related to a previously disclosed lawsuit regarding a parcel of land located adjacent to Santana Row. The final judgment was previously accrued and is included in accounts payable and accrued expenses in our consolidated balance sheet at December 31, 2010.

Under the terms of certain partnership agreements, the partners have the right to exchange their operating partnership units for cash or the same number of our common shares, at our option. A total of 360,314 operating partnership units are outstanding which have a total fair value of \$30.7 million, based on our closing stock price on June 30, 2011.

**NOTE 9 SHAREHOLDERS EQUITY**

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

|                                                  | Six Months Ended June 30,<br>2011 |          | 2010     |          |
|--------------------------------------------------|-----------------------------------|----------|----------|----------|
|                                                  | Declared                          | Paid     | Declared | Paid     |
| Common shares                                    | \$ 1.340                          | \$ 1.340 | \$ 1.320 | \$ 1.320 |
| 5.417% Series 1 Cumulative Convertible Preferred | \$ 0.677                          | \$ 0.677 | \$ 0.677 | \$ 0.677 |

On February 24, 2011, we entered into an at the market ( ATM ) equity program in which we may from time to time offer and sell common shares having an aggregate offering price of up to \$300.0 million. We intend to use the net proceeds to fund potential acquisition opportunities, fund our development and redevelopment pipeline, repay amounts outstanding under our revolving credit facility and/or for general corporate purposes. For the three months ended June 30, 2011, we issued 493,022 common shares at a weighted average price per share of \$86.93 for net cash proceeds of \$42.2 million and paid \$0.6 million in commissions related to the sales of these common shares. For the six months ended June 30, 2011, we issued 1,085,611 common shares at a weighted average price per share of \$84.48 for net cash proceeds of \$90.1 million and paid \$1.4 million in commissions related to the sales of these common shares.

**NOTE 10 COMPONENTS OF RENTAL INCOME**

The principal components of rental income are as follows:

|                       | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|-----------------------|--------------------------------|------------|------------------------------|------------|
|                       | 2011                           | 2010       | 2011                         | 2010       |
|                       | (In thousands)                 |            |                              |            |
| Minimum rents         |                                |            |                              |            |
| Retail and commercial | \$ 98,232                      | \$ 94,777  | \$ 194,968                   | \$ 188,276 |
| Residential (1)       | 5,687                          | 5,357      | 11,212                       | 10,650     |
| Cost reimbursement    | 25,538                         | 26,089     | 54,369                       | 54,839     |
| Percentage rent       | 1,530                          | 994        | 2,925                        | 2,450      |
| Other                 | 2,012                          | 2,419      | 3,964                        | 4,246      |
| Total rental income   | \$ 132,999                     | \$ 129,636 | \$ 267,438                   | \$ 260,461 |

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

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Minimum rents include the following:

|                                     | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|-------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                     | 2011                           | 2010     | 2011                         | 2010     |
|                                     | (In millions)                  |          |                              |          |
| Straight-line rents                 | \$ 1.3                         | \$ 1.3   | \$ 2.3                       | \$ 2.5   |
| Amortization of above market leases | \$ (0.6)                       | \$ (0.5) | \$ (1.2)                     | \$ (1.0) |
| Amortization of below market leases | \$ 1.0                         | \$ 1.0   | \$ 1.9                       | \$ 1.9   |

**NOTE 11 DISCONTINUED OPERATIONS**

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

|                                      | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                      | 2011                           | 2010   | 2011                         | 2010   |
|                                      | (In millions)                  |        |                              |        |
| Revenue from discontinued operations | \$ 1.0                         | \$ 0.6 | \$ 2.0                       | \$ 1.3 |
| Income from discontinued operations  | \$ 0.5                         | \$ 0.3 | \$ 0.9                       | \$ 0.5 |

**NOTE 12 SHARE-BASED COMPENSATION PLANS**

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

|                                      | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                      | 2011                           | 2010     | 2011                         | 2010     |
|                                      | (In thousands)                 |          |                              |          |
| Share-based compensation incurred    |                                |          |                              |          |
| Grants of common shares              | \$ 1,651                       | \$ 1,198 | \$ 3,586                     | \$ 2,752 |
| Grants of options                    | 208                            | 290      | 462                          | 562      |
|                                      | 1,859                          | 1,488    | 4,048                        | 3,314    |
| Capitalized share-based compensation | (176)                          | (191)    | (358)                        | (384)    |
| Share-based compensation expense     | \$ 1,683                       | \$ 1,297 | \$ 3,690                     | \$ 2,930 |

**NOTE 13 EARNINGS PER SHARE**

We have calculated earnings per share (EPS) under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common stock and participating securities is calculated according to dividends declared and participation rights in undistributed earnings. We had 0.3 million weighted average unvested shares outstanding for the three and six months ended June 30, 2011 and 0.2 million weighted average unvested shares outstanding for the three and six months ended June 30, 2010 which are considered participating securities. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares; the portion of earnings allocated to the unvested shares is reflected as earnings allocated to unvested shares in the reconciliation below.

In the dilutive EPS calculation, dilutive stock options were calculated using the treasury stock method consistent with prior periods; stock options of 0.1 million and 0.3 million for the three months ended June 30, 2011 and 2010, respectively, and stock options of 0.1 million and

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0.4 million for the six months ended June 30, 2011 and 2010, respectively, have been excluded as they were anti-dilutive. The conversions of downREIT operating partnership units and 5.417% Series 1 Cumulative Convertible Preferred Shares are anti-dilutive for all periods presented and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

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|                                                                                  | Three Months Ended |           | Six Months Ended |           |
|----------------------------------------------------------------------------------|--------------------|-----------|------------------|-----------|
|                                                                                  | June 30,           | June 30,  | June 30,         | June 30,  |
|                                                                                  | 2011               | 2010      | 2011             | 2010      |
| (In thousands, except per share data)                                            |                    |           |                  |           |
| NUMERATOR                                                                        |                    |           |                  |           |
| Income from continuing operations                                                | \$ 33,893          | \$ 30,644 | \$ 65,856        | \$ 60,975 |
| Less: Preferred share dividends                                                  | (135)              | (135)     | (271)            | (271)     |
| Less: Income from continuing operations attributable to noncontrolling interests | (1,504)            | (1,254)   | (2,692)          | (2,588)   |
| Less: Earnings allocated to unvested shares                                      | (125)              | (133)     | (316)            | (267)     |
| Income from continuing operations available for common shareholders              | 32,129             | 29,122    | 62,577           | 57,849    |
| Results from discontinued operations attributable to the Trust                   | 2,368              | 1,314     | 2,779            | 1,537     |
| Gain on sale of real estate                                                      |                    | 410       |                  | 410       |
| Net income available for common shareholders, basic and diluted                  | \$ 34,497          | \$ 30,846 | \$ 65,356        | \$ 59,796 |
| DENOMINATOR                                                                      |                    |           |                  |           |
| Weighted average common shares outstanding basic                                 | 62,214             | 61,169    | 61,844           | 61,129    |
| Effect of dilutive securities:                                                   |                    |           |                  |           |
| Stock options                                                                    | 177                | 142       | 168              | 137       |
| Weighted average common shares outstanding diluted                               | 62,391             | 61,311    | 62,012           | 61,266    |
| EARNINGS PER COMMON SHARE, BASIC                                                 |                    |           |                  |           |
| Continuing operations                                                            | \$ 0.51            | \$ 0.47   | \$ 1.01          | \$ 0.95   |
| Discontinued operations                                                          | 0.04               | 0.02      | 0.05             | 0.02      |
| Gain on sale of real estate                                                      |                    | 0.01      |                  | 0.01      |
|                                                                                  | \$ 0.55            | \$ 0.50   | \$ 1.06          | \$ 0.98   |
| EARNINGS PER COMMON SHARE, DILUTED                                               |                    |           |                  |           |
| Continuing operations                                                            | \$ 0.51            | \$ 0.47   | \$ 1.00          | \$ 0.95   |
| Discontinued operations                                                          | 0.04               | 0.02      | 0.05             | 0.02      |
| Gain on sale of real estate                                                      |                    | 0.01      |                  | 0.01      |
|                                                                                  | \$ 0.55            | \$ 0.50   | \$ 1.05          | \$ 0.98   |
| Income from continuing operations attributable to the Trust                      | \$ 32,389          | \$ 29,390 | \$ 63,164        | \$ 58,387 |

**NOTE 14 SUBSEQUENT EVENT**

On July 7, 2011, we replaced our existing \$300.0 million revolving credit facility with a new \$400.0 million unsecured revolving credit facility. This new revolving credit facility matures on July 6, 2015, subject to a one-year extension at our option, and bears interest at LIBOR plus 115 basis points. The spread over LIBOR is subject to adjustment based on our credit rating.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Forward-Looking Statements**

The following discussion should be read in conjunction with the consolidated interim financial statements and notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the "SEC") on February 15, 2011.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. When we refer to forward-looking statements or

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information, sometimes we use words such as may, will, could, should, plans, intends, expects, believes, estimates, anticipates. Forward-looking statements are not historical facts or guarantees of future performance and involve certain known and unknown risks, uncertainties, and other factors, many of which are outside our control, that could cause actual results to differ materially from those we describe.

Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements that we make, including those in this Quarterly Report on Form 10-Q. Except as may be required by law, we make no promise to update any

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of the forward-looking statements as a result of new information, future events or otherwise. You should carefully review the risks and the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2010 and under Part II, Item 1A in this Quarterly Report on Form 10-Q, before making any investments in us.

### **Overview**

We are an equity real estate investment trust ( REIT ) specializing in the ownership, management, and redevelopment of high quality retail and mixed-use properties located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Northeast and Mid-Atlantic regions of the United States, as well as in California. As of June 30, 2011, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 86 predominantly retail real estate projects comprising approximately 18.6 million square feet. In total, the real estate projects were 93.4% leased and 92.7% occupied at June 30, 2011. A joint venture in which we own a 30% interest owned seven retail real estate projects totaling approximately 1.0 million square feet as of June 30, 2011. In total, the joint venture properties in which we own a 30% interest were 90.8% leased and 90.2% occupied at June 30, 2011.

### **2011 Significant Property Acquisition and Dispositions**

On January 19, 2011, we acquired the fee interest in Tower Shops located in Davie, Florida for a net purchase price of \$66.1 million which includes the assumption of a mortgage loan with a face amount of \$41.0 million and a fair value of approximately \$42.9 million. The property contains approximately 372,000 square feet of gross leasable area on 67 acres and is shadow-anchored by Home Depot and Costco. Approximately \$1.2 million and \$4.4 million of net assets acquired were allocated to other assets for above market leases and other liabilities for below market leases, respectively. We incurred a total of \$0.4 million of acquisition costs of which \$0.2 million were incurred in 2011 and are included in general and administrative expenses for the six months ended June 30, 2011.

In conjunction with the acquisition, we entered into a reverse Section 1031 like-kind exchange agreement with a third party intermediary which is for a maximum of 180 days and allows us, for tax purposes, to defer gains on sale of other properties identified and sold within this period. Until July 12, 2011, the third party intermediary was the legal owner of the property. However, we control the activities that most significantly impact the property and retain all of the economic benefits and risks associated with the property. Therefore, we have determined we are the primary beneficiary of this VIE and consolidated the property and its operations as of January 19, 2011.

On May 26, 2011, Newbury Street Partnership acquired the fee interest in a 6,700 square foot building located on Newbury Street in Boston, Massachusetts, for a purchase price of \$6.2 million. We contributed approximately \$2.8 million towards the acquisition and provided a \$3.1 million interest-only loan secured by the building. The loan bears interest at LIBOR plus 400 basis points and matures in May 2012, subject to a one-year extension option. This purchase increases Newbury Street Partnership's portfolio to three buildings all located on Newbury Street with a total of approximately 39,000 square feet of mixed-use gross leasable area.

On July 12, 2011, we sold Feasterville Shopping Center located in Feasterville, Pennsylvania for a sales price of \$20.0 million. The operations of this property are included in discontinued operations in the consolidated statements of operations and included in assets held for sale/disposal in our consolidated balance sheets for all periods presented. The sale was completed as a Section 1031 tax deferred exchange transaction with the acquisition of Tower Shops.

### **2011 Significant Debt, Equity and Other Transactions**

In connection with the acquisition of Tower Shops on January 19, 2011, we assumed a mortgage loan with a face amount of \$41.0 million and a fair value of approximately \$42.9 million. The mortgage loan bore interest at 6.52%, had a scheduled maturity in July 2015 and was contractually pre-payable after June 2011 with a 3% prepayment premium. On March 24, 2011, the lender unexpectedly allowed us to repay the \$41.0 million mortgage loan prior to the permitted prepayment date including the 3% prepayment premium of \$1.2 million. The \$0.3 million of income from early extinguishment of debt in the six months ended June 30, 2011, relates to the early payoff of this loan and includes the write-off of the unamortized debt premium of \$1.7 million net of the 3% prepayment premium and unamortized debt fees. The mortgage loan was repaid with funds borrowed on our \$300.0 million revolving credit facility.

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On February 15, 2011, we repaid our \$75.0 million 4.50% senior notes on the maturity date using funds borrowed on our \$300.0 million revolving credit facility.

On February 24, 2011, we entered into an at the market ( ATM ) equity program in which we may from time to time offer and sell common shares having an aggregate offering price of up to \$300.0 million. We intend to use the net proceeds to fund potential acquisition opportunities, fund our development and redevelopment pipeline, repay amounts outstanding under our revolving credit facility and/or for general corporate purposes. For the three months ended June 30, 2011, we issued 493,022 common shares at a weighted average price per share of \$86.93 for net cash proceeds of \$42.2 million and paid \$0.6 million in commissions related to the sales of these common shares. For the six months ended June 30, 2011, we issued 1,085,611 common shares at a weighted average price per share of \$84.48 for net cash proceeds of \$90.1 million and paid \$1.4 million in commissions related to the sales of these common shares.

In March 2011, we paid the final judgment of \$16.2 million related to a previously disclosed lawsuit regarding a parcel of land located adjacent to Santana Row. The final judgment was previously accrued and is included in accounts payable and accrued expenses in our consolidated balance sheet at December 31, 2010.

On April 29, 2011, we repaid the \$31.7 million mortgage loan on Federal Plaza which had an original maturity date of June 1, 2011. This loan was repaid with funds borrowed on our \$300.0 million revolving credit facility.

On June 1, 2011, we repaid the \$5.6 million mortgage loan on Tysons Station which had an original maturity date of September 1, 2011. This loan was repaid with funds borrowed on our \$300.0 million revolving credit facility.

On July 7, 2011, we replaced our existing \$300.0 million revolving credit facility with a new \$400.0 million unsecured revolving credit facility. This new revolving credit facility matures on July 6, 2015, subject to a one-year extension at our option, and bears interest at LIBOR plus 115 basis points. The spread over LIBOR is subject to adjustment based on our credit rating.

### **Mortgage Loan Receivable Refinancing**

Prior to June 30, 2011, we were the lender on a first and second mortgage loan on a shopping center and an adjacent commercial building in Norwalk, Connecticut. Our carrying amount of the loans was approximately \$18.3 million. The loans were in default and foreclosure proceedings had been filed, however, we were in negotiations with the borrower to refinance the loans. On June 30, 2011, we refinanced the existing loans with a first mortgage loan which has a principal balance of \$11.9 million, bears interest at 6.0%, and matures on June 30, 2014, subject to a one year extension option. The loan is secured by the shopping center in Norwalk, Connecticut. As part of the refinancing, we received approximately \$8.7 million in cash.

Because the loans were in default, we had certain rights under the first mortgage loan agreement that gave us the ability to direct the activities that most significantly impacted the shopping center. Although we did not exercise those rights, the existence of those rights in the loan agreement resulted in the entity being a VIE. Additionally, given our investment in both the first and second mortgage on the property, the overall decline in fair market value since the loans were initiated, and the default status of the loans, we also had the obligation to absorb losses or rights to receive benefits that could potentially be significant to the VIE. Consequently, we were the primary beneficiary of this VIE and consolidated the shopping center and adjacent building from March 30, 2010 to June 29, 2011. Our investment in the property is included in assets held for sale/disposal in the consolidated balance sheet at December 31, 2010 and the operations of the entity are included in discontinued operations for all periods presented.

In conjunction with the refinancing of the loans, we re-evaluated our status as the primary beneficiary of the VIE. As the loan is not in default, we no longer have certain rights that give us the ability to control the activities that most significantly impact the shopping center. Our current involvement in the property is solely as the lender on the \$11.9 million mortgage loan with protective rights as the lender. Therefore, we are no longer the primary beneficiary and deconsolidated the entity as of June 30, 2011. We recognized a \$2.0 million gain on deconsolidation as part of the refinancing which is included in discontinued operations - gain on deconsolidation of VIE for the three and six months ended June 30, 2011. The mortgage loan receivable was recorded at its estimated fair value of \$11.9 million and is included in mortgage notes receivable on the balance sheet at June 30, 2011. The \$11.9 million also reflects our maximum exposure to loss related to this investment.

The change in design of the entity including the refinancing of the loan was a VIE reconsideration event. Given that the loan is no longer in default, we, as lender, do not have the power to direct the activities that most significantly impact the entity, and the additional equity investment at risk provided by the entity's equity holders, the entity is no longer a VIE.



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### **Capitalized Costs**

We capitalized external and internal costs related to both development and redevelopment activities of \$33 million and \$2 million, respectively, for the six months ended June 30, 2011 and \$22 million and \$2 million, respectively, for the six months ended June 30, 2010. We capitalized external and internal costs related to other property improvements of \$20 million and \$1 million, respectively, for the six months ended June 30, 2011 and \$9 million and \$1 million, respectively, for the six months ended June 30, 2010. We capitalized external and internal costs related to leasing activities of \$4 million and \$2 million, respectively, for the six months ended June 30, 2011 and \$3 million and \$2 million, respectively, for the six months ended June 30, 2010. The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities, other property improvements, and leasing activities were \$1 million, less than \$1 million, and \$2 million, respectively, for the six months ended June 30, 2011 and \$1 million, less than \$1 million, and \$2 million, respectively, for the six months ended June 30, 2010.

### **Outlook**

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

growth in our portfolio from property redevelopments,

expansion of our portfolio through property acquisitions, and

growth in our same-center portfolio.

Our properties are located in densely populated or affluent areas with high barriers to entry which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration, and/or retenanting. We evaluate our properties on an ongoing basis to identify these types of opportunities. In 2011 and 2012, we expect to have redevelopment projects stabilizing with projected costs of approximately \$47 million and \$59 million, respectively.

Additionally, we continue to invest in the development at Assembly Row which is a long-term development project we expect to be involved in over the coming years. The carrying value of the development portion of this project at June 30, 2011 is approximately \$121 million. The project currently has zoning entitlements to build 2.3 million square feet of commercial-use buildings, 2,100 residential units, and a 200 room hotel. We expect that we will structure any future development in a manner designed to mitigate our risk which may include transfers of entitlements or co-developing with other companies. We have entered into a preliminary agreement with a residential developer for the first phase of development and continue our current predevelopment work and infrastructure work. We expect to invest between \$20 million and \$40 million related to the development in 2011. However, we do not intend to move forward with construction of the first phase of the project until the Massachusetts Bay Transit Authority ( MBTA ) has received qualified bids from contractors showing that a new orange line T-stop can be built at the property for no more than the public and private funding that has been committed for this T-stop and the contingencies to releasing those funds have been satisfied. If the MBTA does not receive qualified bids demonstrating that the T-stop can be built for the amount committed for construction or the contingencies to releasing those funds are not satisfied, it is unlikely we would commence construction and be able to recover our basis in the property and as a result, would be required to record an impairment.

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

Our same-center growth is primarily driven by increases in rental rates on new leases and lease renewals and changes in portfolio occupancy. Over the long-term, the infill nature and strong demographics of our properties provide a strategic advantage allowing us to maintain relatively high occupancy and increase rental rates. The current economic environment may, however, impact our ability to increase rental rates in the short-term and may require us to decrease some rental rates. This will have a long-term impact over the contractual term of the lease agreement,

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which on average is between five and ten years. We expect to continue to see small changes in occupancy over the short term and expect increases in occupancy to be a driver of our same-center growth over the long term as we are able to re-lease vacant spaces. We seek to maintain a mix of strong national, regional, and local retailers. At June 30, 2011, no single tenant accounted for more than 2.6% of annualized base rent.

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The current economic environment has impacted the success of our tenants' retail operations and therefore the amount of rent and expense reimbursements we receive from our tenants. While we believe the locations of our centers and diverse tenant base mitigates the negative impact of the economic environment, any reduction in our tenants' abilities to pay base rent, percentage rent or other charges, will adversely affect our financial condition and results of operations. We expect our occupancy rate will decrease in the short term as we seek to re-lease approximately 103,000 square feet of space that became vacant in April 2011 due to the rejection of three leases by Borders Group and the rejection of five leases by Blockbuster in their respective bankruptcy proceedings. Additionally, Borders Group recently announced the closing of their remaining stores in late 2011 which includes our remaining Borders location totaling approximately 27,000 square feet. We are currently working to re-lease the spaces but expect the leasing and final occupancy of the spaces to take several quarters. Since the latter part of 2010, we have seen signs of improvement for some of our tenants as well as increased interest from prospective tenants for our retail spaces; however, there can be no assurance that these positive signs will continue. We continue to monitor our tenants' operating performances as well as trends in the retail industry to evaluate any future impact.

At June 30, 2011, the leasable square feet in our properties was 92.7% occupied and 93.4% leased. The leased rate is higher than the occupied rate due to leased spaces that are being redeveloped or improved or that are awaiting permits and, therefore, are not yet ready to be occupied. Our occupancy and leased rates are subject to variability over time due to factors including acquisitions, the timing of the start and stabilization of our redevelopment projects, lease expirations and tenant bankruptcies.

### *Lease Rollovers*

In second quarter 2011, we signed leases for a total of 396,000 square feet of retail space including 370,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 6% on a cash basis and 16% on a straight-line basis. New leases for comparable spaces were signed for 136,000 square feet at an average rental increase of 12% on a cash basis and 18% on a straight-line basis. Renewals for comparable spaces were signed for 234,000 square feet at an average rental increase of 3% on a cash basis and 15% on a straight-line basis.

For the six months ended June 30, 2011, we signed leases for a total of 777,000 square feet of retail space including 709,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 8% on a cash basis and 20% on a straight-line basis. New leases for comparable spaces were signed for 281,000 square feet at an average rental increase of 16% on a cash basis and 26% on a straight-line basis. Renewals for comparable spaces were signed for 428,000 square feet at an average rental increase of 4% on a cash basis and 16% on a straight-line basis.

The rental increases associated with comparable spaces generally include all leases signed in arms-length transactions reflecting market leverage between landlords and tenants during the period. The comparison between average rent for expiring leases and new leases is determined by including minimum rent and percentage rent paid on the expiring lease and minimum rent and in some instances, projections of first lease year percentage rent, to be paid on the new lease. In some instances, management exercises judgment as to how to most effectively reflect the comparability of spaces reported in this calculation. The change in rental income on comparable space leases is impacted by numerous factors including current market rates, location, individual tenant creditworthiness, use of space, market conditions when the expiring lease was signed, capital investment made in the space and the specific lease structure.

The leases signed in second quarter 2011 generally become effective over the following two years though some may not become effective until 2014 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing or other matters. However, these increases do provide information about the tenant/landlord relationship and the potential increase we may achieve in rental income over time.

In 2011, we expect a similar level of leasing activity compared to prior years with overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

**Table of Contents****Same-Center**

Throughout this section, we have provided certain information on a same-center basis. Information provided on a same-center basis includes the results of properties that we owned and operated for the entirety of both periods being compared except for properties for which significant redevelopment or expansion occurred during either of the periods being compared and properties classified as discontinued operations.

**RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 30, 2011 AND 2010**

|                                                          | 2011                          | 2010          | Change<br>Dollars | %         |
|----------------------------------------------------------|-------------------------------|---------------|-------------------|-----------|
|                                                          | (Dollar amounts in thousands) |               |                   |           |
| Rental income                                            | \$ 132,999                    | \$ 129,636    | \$ 3,363          | 2.6%      |
| Other property income                                    | 2,146                         | 2,509         | (363)             | -14.5%    |
| Mortgage interest income                                 | 1,134                         | 1,071         | 63                | 5.9%      |
| <br>Total property revenue                               | <br>136,279                   | <br>133,216   | <br>3,063         | <br>2.3%  |
| Rental expenses                                          | 25,132                        | 25,511        | (379)             | -1.5%     |
| Real estate taxes                                        | 15,547                        | 14,828        | 719               | 4.8%      |
| <br>Total property expenses                              | <br>40,679                    | <br>40,339    | <br>340           | <br>0.8%  |
| <br>Property operating income                            | <br>95,600                    | <br>92,877    | <br>2,723         | <br>2.9%  |
| Other interest income                                    | 20                            | 33            | (13)              | -39.4%    |
| Income from real estate partnerships                     | 444                           | 188           | 256               | 136.2%    |
| Interest expense                                         | (23,905)                      | (25,418)      | 1,513             | -6.0%     |
| General and administrative expense                       | (6,395)                       | (6,016)       | (379)             | 6.3%      |
| Depreciation and amortization                            | (31,871)                      | (31,020)      | (851)             | 2.7%      |
| <br>Total other, net                                     | <br>(61,707)                  | <br>(62,233)  | <br>526           | <br>-0.8% |
| <br>Income from continuing operations                    | <br>33,893                    | <br>30,644    | <br>3,249         | <br>10.6% |
| Discontinued operations - income                         | 509                           | 314           | 195               | 62.1%     |
| Discontinued operations - gain on deconsolidation of VIE | 2,026                         |               | 2,026             | 100.0%    |
| Discontinued operations - gain on sale of real estate    | 43                            | 1,000         | (957)             | -95.7%    |
| Gain on sale of real estate                              |                               | 410           | (410)             | -100.0%   |
| <br>Net income                                           | <br>36,471                    | <br>32,368    | <br>4,103         | <br>12.7% |
| Net income attributable to noncontrolling interests      | (1,714)                       | (1,254)       | (460)             | 36.7%     |
| <br>Net income attributable to the Trust                 | <br>\$ 34,757                 | <br>\$ 31,114 | <br>\$ 3,643      | <br>11.7% |

**Property Revenues**

Total property revenue increased \$3.1 million, or 2.3%, to \$136.3 million in the three months ended June 30, 2011 compared to \$133.2 million in the three months ended June 30, 2010. The percentage occupied at our shopping centers decreased to 92.7% for June 30, 2011 compared to 93.4% for June 30, 2010. Changes in the components of property revenue are discussed below.

*Rental Income*

Rental income consists primarily of minimum rent, cost reimbursements from tenants and percentage rent. Rental income increased \$3.4 million, or 2.6%, to \$133.0 million in the three months ended June 30, 2011 compared to \$129.6 million in the three months ended June 30, 2010 due primarily to the following:

an increase of \$2.1 million attributable to properties acquired in 2010 and 2011, and

an increase of \$1.2 million at redevelopment properties due primarily to increased occupancy and rental rates on new leases.

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### *Other Property Income*

Other property income decreased \$0.4 million, or 14.5%, to \$2.1 million in the three months ended June 30, 2011 compared to \$2.5 million in the three months ended June 30, 2010. Included in other property income are items which, although recurring, tend to fluctuate more than rental income from period to period, such as lease termination fees. This decrease is primarily due to a decrease in lease termination fees at same-center properties.

### **Property Expenses**

Total property expenses increased \$0.3 million, or 0.8%, to \$40.7 million in the three months ended June 30, 2011 compared to \$40.3 million in the three months ended June 30, 2010. Changes in the components of property expenses are discussed below.

#### *Rental Expenses*

Rental expenses decreased \$0.4 million, or 1.5%, to \$25.1 million in the three months ended June 30, 2011 compared to \$25.5 million in the three months ended June 30, 2010. This decrease is primarily due to the following:

a decrease of \$1.5 million in bad debt expense at same-center and redevelopment properties, and

a decrease of \$0.6 million in ground rent due to the fourth quarter 2010 purchases of the fee interest in the land under Pentagon Row and a portion of Bethesda Row,  
partially offset by

an increase of \$0.5 million in marketing expense primarily due to our Assembly Row project and other redevelopment properties,

an increase of \$0.5 million in other operating costs at same-center and redevelopment properties primarily due to higher demolition costs, and

an increase of \$0.4 million related to properties acquired in 2010 and 2011.

As a result of the changes in rental income, other property income and rental expenses as discussed above, rental expenses as a percentage of rental income plus other property income decreased to 18.6% in the three months ended June 30, 2011 from 19.3% in the three months ended June 30, 2010.

#### *Real Estate Taxes*

Real estate tax expense increased \$0.7 million, or 4.8% to \$15.5 million in the three months ended June 30, 2011 compared to \$14.8 million in the three months ended June 30, 2010 due primarily to properties acquired in 2010 and 2011 and higher assessments at same-center properties.

### **Property Operating Income**

Property operating income increased \$2.7 million, or 2.9%, to \$95.6 million in the three months ended June 30, 2011 compared to \$92.9 million in the three months ended June 30, 2010. This increase is primarily due to properties acquired in 2010 and 2011 and growth in earnings at same-center properties.

### **Other**

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### *Interest Expense*

Interest expense decreased \$1.5 million, or 6.0%, to \$23.9 million in the three months ended June 30, 2011 compared to \$25.4 million in the three months ended June 30, 2010. This decrease is due primarily to the following:

a decrease of \$2.8 million due to a lower overall weighted average borrowing rate, and

an increase of \$0.4 million in capitalized interest,  
partially offset by

an increase of \$1.7 million due to higher borrowings.

Gross interest costs were \$25.8 million and \$26.9 million in the three months ended June 30, 2011 and 2010, respectively. Capitalized interest was \$1.9 million and \$1.5 million in the three months ended June 30, 2011 and 2010, respectively.

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### *General and Administrative Expense*

General and administrative expense increased \$0.4 million, or 6.3%, to \$6.4 million in the three months ended June 30, 2011 from \$6.0 million in the three months ended June 30, 2010. This increase is due primarily to higher personnel related costs, higher acquisition costs as a result of expensing all transaction costs on higher acquisitions volume partially offset by lower legal fees primarily as a result of litigation regarding certain rights to acquire the land under Pentagon Row which was fully resolved in fourth quarter 2010.

### *Depreciation and Amortization*

Depreciation and amortization expense increased \$0.9 million, or 2.7%, to \$31.9 million in the three months ended June 30, 2011 from \$31.0 million in the three months ended June 30, 2010. This increase is due primarily to 2010 and 2011 acquisitions, accelerated depreciation due to the change in use of certain redevelopment buildings, and capital improvements at same-center and redevelopment properties.

### *Discontinued Operations Income*

Income from discontinued operations represents the operating income of properties that have been disposed or will be disposed, which is required to be reported separately from results of ongoing operations. The reported operating income of \$0.5 million and \$0.3 million for the three months ended June 30, 2011 and 2010, respectively, primarily represents the operating income for the period during which we owned properties sold/disposed of or held for sale in 2011 and 2010.

### *Discontinued Operations Gain on Deconsolidation of VIE*

The \$2.0 million gain on deconsolidation of VIE for the three months ended June 30, 2011, is the result of the refinancing of a mortgage note receivable on a shopping center in Norwalk, Connecticut, resulting in us no longer being the primary beneficiary of the VIE. See Note 4 to the consolidated financial statements for further discussion of this transaction.

### *Discontinued Operations Gain on Sale of Real Estate*

The \$1.0 million gain on sale of real estate from discontinued operations for the three months ended June 30, 2010 relates to the final settlement reached with the contractors responsible for performing defective work in previous years related to the work done in connection with the sale of certain condominium units at Santana Row.

### *Gain on Sale of Real Estate*

The \$0.4 million gain on sale of real estate for the three months ended June 30, 2010 is due to condemnation proceeds, net of costs, at one of our Northern Virginia properties in order to expand a local road.

**Table of Contents****RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2011 AND 2010**

|                                                          | 2011                          | 2010          | Change<br>Dollars | %         |
|----------------------------------------------------------|-------------------------------|---------------|-------------------|-----------|
|                                                          | (Dollar amounts in thousands) |               |                   |           |
| Rental income                                            | \$ 267,438                    | \$ 260,461    | \$ 6,977          | 2.7%      |
| Other property income                                    | 4,236                         | 8,419         | (4,183)           | -49.7%    |
| Mortgage interest income                                 | 2,255                         | 2,137         | 118               | 5.5%      |
| <br>Total property revenue                               | <br>273,929                   | <br>271,017   | <br>2,912         | <br>1.1%  |
| Rental expenses                                          | 54,535                        | 55,304        | (769)             | -1.4%     |
| Real estate taxes                                        | 30,954                        | 29,855        | 1,099             | 3.7%      |
| <br>Total property expenses                              | <br>85,489                    | <br>85,159    | <br>330           | <br>0.4%  |
| Property operating income                                | 188,440                       | 185,858       | 2,582             | 1.4%      |
| Other interest income                                    | 35                            | 215           | (180)             | -83.7%    |
| Income from real estate partnerships                     | 767                           | 381           | 386               | 101.3%    |
| Interest expense                                         | (48,949)                      | (51,380)      | 2,431             | -4.7%     |
| Early extinguishment of debt                             | 296                           | (2,801)       | 3,097             | -110.6%   |
| General and administrative expense                       | (12,446)                      | (11,505)      | (941)             | 8.2%      |
| Depreciation and amortization                            | (62,287)                      | (59,793)      | (2,494)           | 4.2%      |
| <br>Total other, net                                     | <br>(122,584)                 | <br>(124,883) | <br>2,299         | <br>-1.8% |
| <br>Income from continuing operations                    | <br>65,856                    | <br>60,975    | <br>4,881         | <br>8.0%  |
| Discontinued operations - income                         | 930                           | 537           | 393               | 73.2%     |
| Discontinued operations - gain on deconsolidation of VIE | 2,026                         |               | 2,026             | 100.0%    |
| Discontinued operations - gain on sale of real estate    | 43                            | 1,000         | (957)             | -95.7%    |
| Gain on sale of real estate                              |                               | 410           | (410)             | -100.0%   |
| <br>Net income                                           | <br>68,855                    | <br>62,922    | <br>5,933         | <br>9.4%  |
| Net income attributable to noncontrolling interests      | (2,912)                       | (2,588)       | (324)             | 12.5%     |
| <br>Net income attributable to the Trust                 | <br>\$ 65,943                 | <br>\$ 60,334 | <br>\$ 5,609      | <br>9.3%  |

**Property Revenues**

Total property revenue increased \$2.9 million, or 1.1%, to \$273.9 million in the six months ended June 30, 2011 compared to \$271.0 million in the six months ended June 30, 2010. The percentage occupied at our shopping centers decreased to 92.7% for June 30, 2011 compared to 93.4% for June 30, 2010. Changes in the components of property revenue are discussed below.

*Rental Income*

Rental income consists primarily of minimum rent, cost reimbursements from tenants and percentage rent. Rental income increased \$7.0 million, or 2.7%, to \$267.4 million in the six months ended June 30, 2011 compared to \$260.5 million in the six months ended June 30, 2010 due primarily to the following:

an increase of \$4.0 million attributable to properties acquired in 2010 and 2011,

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an increase of \$2.2 million at redevelopment properties due primarily to increased occupancy and rental rates on new leases, and

an increase of \$0.8 million at same-center properties due primarily to higher rental rates on new and renewal leases partially offset by lower recoveries.

### *Other Property Income*

Other property income decreased \$4.2 million, or 49.7%, to \$4.2 million in the six months ended June 30, 2011 compared to \$8.4 million in the six months ended June 30, 2010. Included in other property income are items which, although recurring, tend to fluctuate more than rental income from period to period, such as lease termination fees. This decrease is primarily due to a decrease in lease termination fees at same-center and redevelopment properties.

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### **Property Expenses**

Total property expenses increased \$0.3 million, or 0.4%, to \$85.5 million in the six months ended June 30, 2011 compared to \$85.2 million in the six months ended June 30, 2010. Changes in the components of property expenses are discussed below.

#### *Rental Expenses*

Rental expenses decreased \$0.8 million, or 1.4%, to \$54.5 million in the six months ended June 30, 2011 compared to \$55.3 million in the six months ended June 30, 2010. This decrease is primarily due to the following:

a decrease of \$2.1 million in bad debt expense at same-center and redevelopment properties, and

a decrease of \$1.2 million in ground rent due to the fourth quarter 2010 purchases of the fee interest in the land under Pentagon Row and a portion of Bethesda Row,  
partially offset by

an increase of \$1.0 million in marketing expense primarily due to our Assembly Row project and other redevelopment properties,

an increase of \$0.9 million related to properties acquired in 2010 and 2011, and

an increase of \$0.8 million in other operating costs at same-center and redevelopment properties primarily due to higher legal and demolition costs.

As a result of the changes in rental income, other property income and rental expenses as discussed above, rental expenses as a percentage of rental income plus other property income decreased to 20.1% in the six months ended June 30, 2011 from 20.6% in the six months ended June 30, 2010.

#### *Real Estate Taxes*

Real estate tax expense increased \$1.1 million, or 3.7% to \$31.0 million in the six months ended June 30, 2011 compared to \$29.9 million in the six months ended June 30, 2010 due primarily to properties acquired in 2010 and 2011 and higher assessments at same-center and redevelopment properties.

### **Property Operating Income**

Property operating income increased \$2.6 million, or 1.4%, to \$188.4 million in the six months ended June 30, 2011 compared to \$185.9 million in the six months ended June 30, 2010. This increase is primarily due to growth in earnings at same-center properties and properties acquired in 2010 and 2011 partially offset by a decrease in lease termination fees at redevelopment properties.

### **Other**

#### *Interest Expense*

Interest expense decreased \$2.4 million, or 4.7%, to \$48.9 million in the six months ended June 30, 2011 compared to \$51.4 million in the six months ended June 30, 2010. This decrease is due primarily to the following:

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a decrease of \$4.7 million due to a lower overall weighted average borrowing rate, and

an increase of \$0.6 million in capitalized interest,  
partially offset by

an increase of \$2.9 million due to higher borrowings.

Gross interest costs were \$52.6 million and \$54.4 million in the six months ended June 30, 2011 and 2010, respectively. Capitalized interest was \$3.6 million and \$3.0 million in the six months ended June 30, 2011 and 2010, respectively.

### *Early Extinguishment of Debt*

The \$0.3 million of income from early extinguishment of debt in the six months ended June 30, 2011 is due to the write-off of unamortized debt premium net of a 3% prepayment premium and unamortized debt fees related to the payoff of our mortgage loan on Tower Shops prior to its contractual prepayment date. The \$2.8 million early extinguishment of debt expense in the six months ended June 30, 2010 is due to the write-off of unamortized debt fees related to the \$250.0 million payoff of the term loan prior to its maturity date.

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### *General and Administrative Expense*

General and administrative expense increased \$0.9 million, or 8.2%, to \$12.4 million in the six months ended June 30, 2011 from \$11.5 million in the six months ended June 30, 2010. This increase is due primarily to higher personnel related costs, higher acquisition costs as a result of expensing all transaction costs on higher acquisitions volume partially offset by lower legal fees primarily as a result of litigation regarding certain rights to acquire the land under Pentagon Row which was fully resolved in fourth quarter 2010.

### *Depreciation and Amortization*

Depreciation and amortization expense increased \$2.5 million, or 4.2%, to \$62.3 million in the six months ended June 30, 2011 from \$59.8 million in the six months ended June 30, 2010. This increase is due primarily to 2010 and 2011 acquisitions, accelerated depreciation due to the change in use of certain redevelopment buildings, and capital improvements at same-center and redevelopment properties.

### *Discontinued Operations Income*

Income from discontinued operations represents the operating income of properties that have been disposed or will be disposed, which is required to be reported separately from results of ongoing operations. The reported operating income of \$0.9 million and \$0.5 million for the six months ended June 30, 2011 and 2010, respectively, primarily represents the operating income for the period during which we owned properties sold/disposed of or held for sale in 2011 and 2010.

### *Discontinued Operations Gain on Deconsolidation of VIE*

The \$2.0 million gain on deconsolidation of VIE for the six months ended June 30, 2011, is the result of the refinancing of a mortgage note receivable on a shopping center in Norwalk, Connecticut, resulting in us no longer being the primary beneficiary of the VIE. See Note 4 to the consolidated financial statements for further discussion of this transaction.

### *Discontinued Operations Gain on Sale of Real Estate*

The \$1.0 million gain on sale of real estate from discontinued operations for the six months ended June 30, 2010 relates to the final settlement reached with the contractors responsible for performing defective work in previous years related to the work done in connection with the sale of certain condominium units at Santana Row.

### *Gain on Sale of Real Estate*

The \$0.4 million gain on sale of real estate for the six months ended June 30, 2010 is due to condemnation proceeds, net of costs, at one of our Northern Virginia properties in order to expand a local road.

## **Recently Issued Accounting Pronouncements**

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

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity and requires the presentation of components of net income and components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This pronouncement is effective for us in the first quarter of 2012 and will not have a significant impact to our consolidated financial statements.

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### **Liquidity and Capital Resources**

Due to the nature of our business and strategy, we typically generate significant amounts of cash from operations. The cash generated from operations is primarily paid to our common and preferred shareholders in the form of dividends. As a REIT, we must generally make annual distributions to shareholders of at least 90% of our taxable income.

Our short-term liquidity requirements consist primarily of normal recurring operating expenses, obligations under our capital and operating leases, regular debt service requirements (including debt service relating to additional or replacement debt, as well as scheduled debt maturities), recurring expenditures, non-recurring expenditures (such as tenant improvements and redevelopments) and dividends to common and preferred shareholders. Our long-term capital requirements consist primarily of maturities under our long-term debt agreements, development and redevelopment costs and potential acquisitions.

We intend to operate with and maintain a conservative capital structure that will allow us to maintain strong debt service coverage and fixed-charge coverage ratios as part of our commitment to investment-grade debt ratings. In the short and long term, we may seek to obtain funds through the issuance of additional equity, unsecured and/or secured debt financings, joint venture relationships relating to existing properties or new acquisitions, and property dispositions that are consistent with this conservative structure.

On February 24, 2011, we entered into an ATM equity program in which we may from time to time offer and sell common shares having an aggregate offering price of up to \$300.0 million. Through June 30, 2011, we have issued 1,085,611 common shares for net cash proceeds of \$90.1 million under the program.

Cash and cash equivalents increased \$4.1 million to \$19.8 million at June 30, 2011; however, cash and cash equivalents are not the only indicator of our liquidity. We also had a \$300.0 million unsecured revolving credit facility which had an outstanding balance of \$189.0 million at June 30, 2011. On July 7, 2011 we replaced the \$300.0 million facility with a new \$400.0 million unsecured revolving credit facility. This new revolving credit facility matures on July 6, 2015, subject to a one-year extension at our option, and bears interest at LIBOR plus 115 basis points. The spread over LIBOR is subject to adjustment based on our credit rating. In addition, we have an option to increase the credit facility through an accordion feature to \$800 million.

For the six months ended June 30, 2011, the maximum amount of borrowings outstanding under our \$300.0 million revolving credit facility was \$265.0 million, the weighted average amount of borrowings outstanding was \$186.6 million and the weighted average interest rate, before amortization of debt fees, was 0.68%. Also, as of June 30, 2011, we had the capacity to issue up to \$208.3 million in common shares under our ATM equity program. As of June 30, 2011, we have no debt maturities related to mortgages payable or senior notes and debentures during the remainder of 2011. We currently believe that cash flows from operations, cash on hand, our ATM equity program and our revolving credit facility will be sufficient to finance our operations and fund our capital expenditures.

Our overall capital requirements during the remainder of 2011 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of Assembly Row and future phases of existing properties. While the amount of future expenditures will depend on numerous factors, we expect to incur at least similar levels of capital expenditures in 2011 compared to prior periods which will be funded on a short-term basis with cash flow from operations, cash on hand, our revolving credit facility and/or shares issued under our ATM equity program, and on a long-term basis, with long-term debt or equity. If necessary, we may access the debt or equity capital markets to finance significant acquisitions. Given our past success as well as the status of the capital markets, we expect debt or equity to be available to us. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of certain development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures, or re-evaluate our dividend policy.

In addition to conditions in the capital markets which could affect our ability to access those markets, the following factors could affect our ability to meet our liquidity requirements:

restrictions in our debt instruments or preferred shares may limit us from incurring debt or issuing equity at all, or on acceptable terms under then-prevailing market conditions; and

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we may be unable to service additional or replacement debt due to increases in interest rates or a decline in our operating performance.

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### Summary of Cash Flows

|                                                  | Six Months Ended June 30, |            |
|--------------------------------------------------|---------------------------|------------|
|                                                  | 2011                      | 2010       |
|                                                  | (In thousands)            |            |
| Cash provided by operating activities            | \$ 118,698                | \$ 129,345 |
| Cash used in investing activities                | (76,760)                  | (61,945)   |
| Cash used in financing activities                | (37,887)                  | (179,232)  |
| Increase (decrease) in cash and cash equivalents | 4,051                     | (111,832)  |
| Cash and cash equivalents, beginning of year     | 15,797                    | 135,389    |
| Cash and cash equivalents, end of period         | \$ 19,848                 | \$ 23,557  |

Net cash provided by operating activities decreased \$10.6 million to \$118.7 million during the six months ended June 30, 2011 from \$129.3 million during the six months ended June 30, 2010. The decrease was primarily attributable to the \$16.2 million payment of the final judgment related to a previously disclosed lawsuit offset by higher net income before certain non-cash items.

Net cash used in investing activities increased \$14.8 million to \$76.8 million during the six months ended June 30, 2011 from \$61.9 million during the six months ended June 30, 2010. The increase was primarily attributable to:

\$26.1 million increase in capital investments, and

\$18.9 million related to the acquisition of Tower Shops in January 2011,  
partially offset by

\$10.5 million acquisition of a first mortgage loan in March 2010,

\$9.8 million decrease in contributions to the Newbury Street Partnership due to the \$16.7 million initial investment in 2010, and

\$8.7 million payment received in June 2011 related to the refinancing of a mortgage loan receivable.

Net cash used in financing activities decreased \$141.3 million to \$37.9 million during the six months ended June 30, 2011 from \$179.2 million during the six months ended June 30, 2010. The decrease was primarily attributable to:

\$170.4 million decrease in repayment of mortgages, capital leases and notes payable due substantially to the \$250.0 million payoff of our term loan in 2010 offset by the payoff of two mortgages totaling \$37.4 million in 2011,

\$112.0 million increase in net borrowings on our revolving credit facility, and

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\$93.3 million increase in net proceeds from the issuance of common shares due primarily to the sale of 1.1 million shares under our ATM equity program entered into in February 2011, partially offset by

\$148.5 million in net proceeds from the issuance of 5.90% senior notes in March 2010 and no issuances in 2011,

\$75.0 million repayment of 4.50% senior notes in February 2011, and

\$10.0 million in public funding received for the development at Assembly Row in April 2010.

### *Off-Balance Sheet Arrangements*

We have a joint venture arrangement (the Partnership) with affiliates of a discretionary fund created and advised by ING Clarion Partners (Clarion). We own 30% of the equity in the Partnership and Clarion owns 70%. We hold a general partnership interest, however, Clarion also holds a general partnership interest and has substantive participating rights. We cannot make significant decisions without Clarion's approval. Accordingly, we account for our interest in the Partnership using the equity method. As of June 30, 2011, the Partnership owned seven retail real estate properties. We are the manager of the Partnership and its properties, earning fees for acquisitions, management, leasing and financing. We also have the opportunity to receive performance-based earnings through our Partnership interest. The Partnership is subject to a buy-sell provision which is customary in real estate joint venture agreements and the industry. Either partner may initiate this provision at any time, which could result in either the sale of our interest or the use of available cash or borrowings to acquire Clarion's interest. Accounting policies for the Partnership are similar to accounting policies followed by the Trust. At June 30, 2011, our investment in the Partnership was \$35.0 million and the Partnership had approximately \$57.5 million of mortgages payable outstanding. Our share of principal and interest payments is as follows:

|                                          | Joint Venture Commitments Due by Period |                     |                |              |                  |
|------------------------------------------|-----------------------------------------|---------------------|----------------|--------------|------------------|
|                                          | Total                                   | Less Than<br>1 Year | 1-3<br>Years   | 3-5<br>Years | After 5<br>Years |
|                                          |                                         |                     | (In thousands) |              |                  |
| Fixed rate debt (principal and interest) | \$ 21,586                               | \$ 528              | \$ 2,112       | \$ 8,272     | \$ 10,674        |

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In May 2010, we formed Taurus Newbury Street JV II Limited Partnership ( Newbury Street Partnership ), a joint venture limited partnership with an affiliate of Taurus Investment Holdings, LLC ( Taurus ), which plans to acquire, operate and redevelop up to \$200 million in properties located primarily in the Back Bay section of Boston, Massachusetts. We hold an 85% limited partnership interest in Newbury Street Partnership and Taurus holds a 15% limited partnership interest and serves as general partner. As general partner, Taurus is responsible for the operation and management of the properties, subject to our approval on major decisions. We have evaluated the entity and determined that it is not a VIE. Accordingly, given Taurus' role as general partner, we account for our interest in Newbury Street Partnership using the equity method. Accounting policies for the Newbury Street Partnership are similar to accounting policies followed by the Trust. The entity is subject to a buy-sell provision which is customary for real estate joint venture agreements and the industry. The buy-sell can be exercised only in certain circumstances through May 2014 and may be initiated by either party at anytime thereafter which could result in either the sale of our interest or the use of available cash or borrowings to acquire Taurus' interest.

On May 26, 2011, Newbury Street Partnership acquired the fee interest in a 6,700 square foot building located on Newbury Street for a purchase price of \$6.2 million. We contributed approximately \$2.8 million towards the acquisition and provided a \$3.1 million interest-only loan secured by the building. This loan and the \$8.8 million loan secured by the other two buildings owned by the partnership bear interest at LIBOR plus 400 basis points and mature in May 2012, subject to a one-year extension option. This purchase increases Newbury Street Partnership's portfolio to three buildings all located on Newbury Street with a total of approximately 39,000 square feet of mixed-use gross leasable area. At June 30, 2011, we had invested approximately \$23.7 million in Newbury Street Partnership including \$11.8 million in mortgage loans.

**Table of Contents***Debt Financing Arrangements*

The following is a summary of our total debt outstanding as of June 30, 2011:

| Description of Debt                | Original<br>Debt<br>Issued<br>(Dollars in thousands) | Principal Balance<br>as of<br>June 30, 2011 | Stated Interest Rate<br>as of<br>June 30, 2011 | Maturity Date        |
|------------------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------------------|----------------------|
| <b>Mortgages payable (1)</b>       |                                                      |                                             |                                                |                      |
| <i>Secured fixed rate</i>          |                                                      |                                             |                                                |                      |
| Courtyard Shops                    | Acquired                                             | 7,169                                       | 6.87%                                          | July 1, 2012         |
| Bethesda Row                       | Acquired                                             | 19,994                                      | 5.37%                                          | January 1, 2013      |
| Bethesda Row                       | Acquired                                             | 4,090                                       | 5.05%                                          | February 1, 2013     |
| White Marsh Plaza (2)              | Acquired                                             | 9,434                                       | 6.04%                                          | April 1, 2013        |
| Crow Canyon                        | Acquired                                             | 20,174                                      | 5.40%                                          | August 11, 2013      |
| Idylwood Plaza                     | 16,910                                               | 16,413                                      | 7.50%                                          | June 5, 2014         |
| Leesburg Plaza                     | 29,423                                               | 28,558                                      | 7.50%                                          | June 5, 2014         |
| Loehmann's Plaza                   | 38,047                                               | 36,928                                      | 7.50%                                          | June 5, 2014         |
| Pentagon Row                       | 54,619                                               | 53,012                                      | 7.50%                                          | June 5, 2014         |
| Melville Mall (3)                  | Acquired                                             | 22,703                                      | 5.25%                                          | September 1, 2014    |
| THE AVENUE at White Marsh          | Acquired                                             | 57,211                                      | 5.46%                                          | January 1, 2015      |
| Barracks Road                      | 44,300                                               | 39,431                                      | 7.95%                                          | November 1, 2015     |
| Hauppauge                          | 16,700                                               | 14,864                                      | 7.95%                                          | November 1, 2015     |
| Lawrence Park                      | 31,400                                               | 27,949                                      | 7.95%                                          | November 1, 2015     |
| Wildwood                           | 27,600                                               | 24,566                                      | 7.95%                                          | November 1, 2015     |
| Wynnewood                          | 32,000                                               | 28,483                                      | 7.95%                                          | November 1, 2015     |
| Brick Plaza                        | 33,000                                               | 29,099                                      | 7.42%                                          | November 1, 2015     |
| Rollingwood Apartments             | 24,050                                               | 23,402                                      | 5.54%                                          | May 1, 2019          |
| Shoppers World                     | Acquired                                             | 5,520                                       | 5.91%                                          | January 31, 2021     |
| Mount Vernon (4)                   | 13,250                                               | 10,749                                      | 5.66%                                          | April 15, 2028       |
| Chelsea                            | Acquired                                             | 7,712                                       | 5.36%                                          | January 15, 2031     |
| Subtotal                           |                                                      | 487,461                                     |                                                |                      |
| Net unamortized discount           |                                                      | (460)                                       |                                                |                      |
| Total mortgages payable            |                                                      | 487,001                                     |                                                |                      |
| <b>Notes payable</b>               |                                                      |                                             |                                                |                      |
| <i>Unsecured fixed rate</i>        |                                                      |                                             |                                                |                      |
| Various (5)                        | 15,308                                               | 10,902                                      | 3.37%                                          | Various through 2013 |
| <i>Unsecured variable rate</i>     |                                                      |                                             |                                                |                      |
| Revolving credit facility (6)      | 300,000                                              | 189,000                                     | LIBOR + 0.425%                                 | July 27, 2011        |
| Escondido (Municipal bonds) (7)    | 9,400                                                | 9,400                                       | 0.21%                                          | October 1, 2016      |
| Total notes payable                |                                                      | 209,302                                     |                                                |                      |
| <b>Senior notes and debentures</b> |                                                      |                                             |                                                |                      |
| <i>Unsecured fixed rate</i>        |                                                      |                                             |                                                |                      |
| 6.00% notes                        | 175,000                                              | 175,000                                     | 6.00%                                          | July 15, 2012        |
| 5.40% notes                        | 135,000                                              | 135,000                                     | 5.40%                                          | December 1, 2013     |
| 5.95% notes                        | 150,000                                              | 150,000                                     | 5.95%                                          | August 15, 2014      |
| 5.65% notes                        | 125,000                                              | 125,000                                     | 5.65%                                          | June 1, 2016         |
| 6.20% notes                        | 200,000                                              | 200,000                                     | 6.20%                                          | January 15, 2017     |

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|                                                 |         |                     |         |                      |
|-------------------------------------------------|---------|---------------------|---------|----------------------|
| 5.90% notes                                     | 150,000 | 150,000             | 5.90%   | April 1, 2020        |
| 7.48% debentures                                | 50,000  | 29,200              | 7.48%   | August 15, 2026      |
| 6.82% medium term notes                         | 40,000  | 40,000              | 6.82%   | August 1, 2027       |
| Subtotal                                        |         | 1,004,200           |         |                      |
| Net unamortized premium                         |         | 537                 |         |                      |
| Total senior notes and debentures               |         | 1,004,737           |         |                      |
| <b>Capital lease obligations</b>                |         |                     |         |                      |
| Various                                         |         | 59,252              | Various | Various through 2106 |
| <b>Total debt and capital lease obligations</b> |         | <b>\$ 1,760,292</b> |         |                      |

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- 1) Mortgages payable do not include our 30% share (\$17.2 million) of the \$57.5 million debt of the partnership with a discretionary fund created and advised by ING Clarion Partners. It also excludes \$11.8 million in mortgage loans on our Newbury Street Partnership for which we are the lender.
- 2) The interest rate of 6.04% represents the weighted average interest rate for two mortgage loans secured by this property. The loan balance represents an interest only loan of \$4.4 million at a stated rate of 6.18% and the remaining balance at a stated rate of 5.96%.
- 3) We acquired control of Melville Mall through a 20-year master lease and secondary financing. Because we control the activities that most significantly impact this property and retain substantially all of the economic benefit and risk associated with it, this property is consolidated and the mortgage loan is reflected on the balance sheet, though it is not our legal obligation.
- 4) The interest rate is fixed at 5.66% for the first ten years and then will be reset to a market rate in 2013. The lender has the option to call the loan on April 15, 2013 or any time thereafter.
- 5) The interest rate of 3.37% represents the weighted average interest rate for three unsecured fixed rate notes payable. These notes mature between April 1, 2012 and January 31, 2013.
- 6) The maximum amount drawn under our revolving credit facility during the three and six months ended June 30, 2011 was \$265.0 million. The weighted average effective interest rate on borrowings under our revolving credit facility, before amortization of debt fees, was 0.66% and 0.68% for the three and six months ended June 30, 2011, respectively. On July 7, 2011, we replaced our existing revolving credit facility with a new \$400.0 million unsecured revolving credit facility. This new revolving credit facility matures on July 6, 2015, subject to a one-year extension at our option, and bears interest at LIBOR plus 115 basis points.
- 7) The bonds require monthly interest only payments through maturity. The bonds bear interest at a variable rate determined weekly, which would enable the bonds to be remarketed at 100% of their principal amount. The property is not encumbered by a lien.

Our revolving credit facility and other debt agreements include financial and other covenants that may limit our operating activities in the future. As of June 30, 2011, we were in compliance with all of the financial and other covenants. If we were to breach any of our debt covenants and did not cure the breach within an applicable cure period, our lenders could require us to repay the debt immediately and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Many of our debt arrangements, including our public notes and our revolving credit facility, are cross-defaulted, which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a default under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares. Our organizational documents do not limit the level or amount of debt that we may incur.

The following is a summary of our scheduled principal repayments as of June 30, 2011:

|                   | Unsecured     | Secured<br>(In thousands) | Capital Lease | Total           |
|-------------------|---------------|---------------------------|---------------|-----------------|
| Remainder of 2011 | \$ 189,145(1) | \$ 4,857                  | \$ 715        | \$ 194,717      |
| 2012              | 185,727       | 17,380                    | 1,500         | 204,607         |
| 2013              | 135,030       | 72,107                    | 1,609         | 208,746         |
| 2014              | 150,000       | 156,364                   | 1,725         | 308,089         |
| 2015              |               | 203,398                   | 1,851         | 205,249         |
| Thereafter        | 553,600       | 33,355                    | 51,852        | 638,807         |
|                   | \$ 1,213,502  | \$ 487,461                | \$ 59,252     | \$ 1,760,215(2) |

- 1) Our \$300.0 million revolving credit facility was scheduled to mature on July 27, 2011. As of June 30, 2011, there was \$189.0 million drawn under this credit facility. On July 7, 2011, we replaced our existing revolving credit facility with a new \$400.0 million unsecured revolving credit facility that matures on July 6, 2015, subject to a one-year extension at our option.
- 2) The total debt maturities differs from the total reported on the consolidated balance sheet due to the unamortized net premium or discount on certain mortgage loans, senior notes and debentures as of June 30, 2011.

*Interest Rate Hedging*

We had no hedging instruments outstanding during the three and six months ended June 30, 2011. We may use derivative instruments to manage exposure to variable interest rate risk. We generally enter into interest rate swaps to manage our



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exposure to variable interest rate risk and treasury locks to manage the risk of interest rates rising prior to the issuance of debt. We enter into derivative instruments that qualify as cash flow hedges and do not enter into derivative instruments for speculative purposes.

**Funds From Operations**

Funds from operations ( FFO ) is a supplemental non-GAAP financial measure of real estate companies' operating performance. The National Association of Real Estate Investment Trusts ( NAREIT ) defines FFO as follows: net income, computed in accordance with the U.S. GAAP, plus depreciation and amortization of real estate assets and excluding extraordinary items and gains and losses on the sale of real estate. We compute FFO in accordance with the NAREIT definition, and we have historically reported our FFO available for common shareholders in addition to our net income and net cash provided by operating activities. It should be noted that FFO:

does not represent cash flows from operating activities in accordance with GAAP (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income);

should not be considered an alternative to net income as an indication of our performance; and

is not necessarily indicative of cash flow as a measure of liquidity or ability to fund cash needs, including the payment of dividends. We consider FFO available for common shareholders a meaningful, additional measure of operating performance primarily because it excludes the assumption that the value of the real estate assets diminishes predictably over time, as implied by the historical cost convention of GAAP and the recording of depreciation. We use FFO primarily as one of several means of assessing our operating performance in comparison with other REITs. Comparison of our presentation of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

An increase or decrease in FFO available for common shareholders does not necessarily result in an increase or decrease in aggregate distributions because our Board of Trustees is not required to increase distributions on a quarterly basis unless necessary for us to maintain REIT status. However, we must distribute at least 90% of our taxable income to remain qualified as a REIT. Therefore, a significant increase in FFO will generally require an increase in distributions to shareholders although not necessarily on a proportionate basis.

The reconciliation of net income to FFO available for common shareholders is as follows:

|                                                         | Three Months Ended<br>June 30,        |           | Six Months Ended<br>June 30, |            |
|---------------------------------------------------------|---------------------------------------|-----------|------------------------------|------------|
|                                                         | 2011                                  | 2010      | 2011                         | 2010       |
|                                                         | (In thousands, except per share data) |           |                              |            |
| Net income                                              | \$ 36,471                             | \$ 32,368 | \$ 68,855                    | \$ 62,922  |
| Net income attributable to noncontrolling interests     | (1,714)                               | (1,254)   | (2,912)                      | (2,588)    |
| Gain on sale of real estate                             | (43)                                  | (1,410)   | (43)                         | (1,410)    |
| Gain on deconsolidation of VIE                          | (2,026)                               |           | (2,026)                      |            |
| Depreciation and amortization of real estate assets     | 28,463                                | 27,797    | 56,052                       | 53,884     |
| Amortization of initial direct costs of leases          | 2,813                                 | 2,561     | 5,053                        | 4,797      |
| Depreciation of joint venture real estate assets        | 431                                   | 345       | 858                          | 696        |
| Funds from operations                                   | 64,395                                | 60,407    | 125,837                      | 118,301    |
| Dividends on preferred shares                           | (135)                                 | (135)     | (271)                        | (271)      |
| Income attributable to operating partnership units      | 241                                   | 244       | 484                          | 489        |
| Income attributable to unvested shares                  | (228)                                 | (201)     | (508)                        | (392)      |
| Funds from operations available for common shareholders | \$ 64,273                             | \$ 60,315 | \$ 125,542                   | \$ 118,127 |

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|                                                                            |         |         |         |         |
|----------------------------------------------------------------------------|---------|---------|---------|---------|
| Weighted average number of common shares, diluted (1)                      | 62,752  | 61,680  | 62,373  | 61,636  |
| Funds from operations available for common shareholders, per diluted share | \$ 1.02 | \$ 0.98 | \$ 2.01 | \$ 1.92 |

- (1) For the three and six months ended June 30, 2011 and 2010, the weighted average common shares used to compute FFO per diluted common share includes operating partnership units that were excluded from the computation of diluted EPS. Conversion of these operating partnership units is dilutive in the computation of FFO per diluted common share but is anti-dilutive for the computation of diluted EPS for the periods presented.

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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our use of financial instruments, such as debt instruments, subjects us to market risk which may affect our future earnings and cash flows, as well as the fair value of our assets. Market risk generally refers to the risk of loss from changes in interest rates and market prices. We manage our market risk by attempting to match anticipated inflow of cash from our operating, investing and financing activities with anticipated outflow of cash to fund debt payments, dividends to common and preferred shareholders, investments, capital expenditures and other cash requirements.

As of June 30, 2011, we were not party to any open derivative financial instruments. We may enter into certain types of derivative financial instruments to further reduce interest rate risk. We use interest rate protection and swap agreements, for example, to convert some of our variable rate debt to a fixed-rate basis or to hedge anticipated financing transactions. We use derivatives for hedging purposes rather than speculation and do not enter into financial instruments for trading purposes.

#### **Interest Rate Risk**

The following discusses the effect of hypothetical changes in market rates of interest on interest expense for our variable rate debt and on the fair value of our total outstanding debt, including our fixed-rate debt. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our debt. Quoted market prices were used to estimate the fair value of our marketable senior notes and debentures and discounted cash flow analysis is generally used to estimate the fair value of our mortgages and notes payable. Considerable judgment is necessary to estimate the fair value of financial instruments. This analysis does not purport to take into account all of the factors that may affect our debt, such as the effect that a changing interest rate environment could have on the overall level of economic activity or the action that our management might take to reduce our exposure to the change. This analysis assumes no change in our financial structure.

#### *Fixed Interest Rate Debt*

The majority of our outstanding debt obligations (maturing at various times through 2031 or through 2106 including capital lease obligations) have fixed interest rates which limit the risk of fluctuating interest rates. However, interest rate fluctuations may affect the fair value of our fixed rate debt instruments. At June 30, 2011, we had \$1.5 billion of fixed-rate debt outstanding and \$59.3 million of capital lease obligations. If market interest rates used to calculate the fair value on our fixed-rate debt instruments at June 30, 2011 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately \$61.7 million. If market interest rates used to calculate the fair value on our fixed-rate debt instruments at June 30, 2011 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately \$65.7 million.

#### *Variable Interest Rate Debt*

Generally, we believe that our primary interest rate risk is due to fluctuations in interest rates on our variable rate debt. At June 30, 2011, we had \$198.4 million of variable rate debt outstanding which consisted of \$189.0 million outstanding on our revolving credit facility and \$9.4 million of municipal bonds. Based upon this amount of variable rate debt and the specific terms, if market interest rates increased 1.0%, our annual interest expense would increase by approximately \$2.0 million, and our net income and cash flows for the year would decrease by approximately \$2.0 million. Conversely, if market interest rates decreased 1.0%, our annual interest expense would decrease by approximately \$1.1 million with a corresponding increase in our net income and cash flows for the year.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Periodic Evaluation and Conclusion of Disclosure Controls and Procedures**

An evaluation has been performed, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2011. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2011 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

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### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal controls over financial reporting during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed in our Annual Report for the year ended December 31, 2010 filed with the SEC on February 15, 2011. These factors include, but are not limited to, the following:

risks that our tenants will not pay rent, may vacate early or may file for bankruptcy or that we may be unable to renew leases or re-let space at favorable rents as leases expire;

risks that we may not be able to proceed with or obtain necessary approvals for any redevelopment or renovation project, and that completion of anticipated or ongoing property redevelopment or renovation projects that we do pursue may cost more, take more time to complete or fail to perform as expected;

risks that the number of properties we acquire for our own account, and therefore the amount of capital we invest in acquisitions, may be impacted by our real estate partnerships;

risks normally associated with the real estate industry, including risks that:

occupancy levels at our properties and the amount of rent that we receive from our properties may be lower than expected,

new acquisitions may fail to perform as expected,

competition for acquisitions could result in increased prices for acquisitions,

costs associated with the periodic maintenance and repair or renovation of space, insurance and other operations may increase;

environmental issues may develop at our properties and result in unanticipated costs, and

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because real estate is illiquid, we may not be able to sell properties when appropriate;

risks that our growth will be limited if we cannot obtain additional capital;

risks associated with general economic conditions, including local economic conditions in our geographic markets;

risks of financing, such as our ability to consummate additional financings or obtain replacement financing on terms which are acceptable to us, our ability to meet existing financial covenants and the limitations imposed on our operations by those covenants, and the possibility of increases in interest rates that would result in increased interest expense; and

risks related to our status as a REIT, for federal income tax purposes, such as the existence of complex tax regulations relating to our status as a REIT, the effect of future changes in REIT requirements as a result of new legislation, and the adverse consequences of the failure to qualify as a REIT.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Under the terms of various operating partnership agreements of certain of our affiliated limited partnerships, the interests of limited partners in those limited partnerships may be redeemed, subject to certain conditions, for cash or an equivalent number of our common shares, at our option. On April 4, 2011, we redeemed 2,000 operating partnership units for cash.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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**ITEM 4. [REMOVED AND RESERVED]**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

A list of exhibits to this Quarterly Report on Form 10-Q is set forth on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto authorized.

**FEDERAL REALTY INVESTMENT TRUST**

August 3, 2011

/s/ Donald C. Wood  
**Donald C. Wood,**  
**President, Chief Executive Officer and Trustee**  
**(Principal Executive Officer)**

August 3, 2011

/s/ Andrew P. Blocher  
**Andrew P. Blocher,**  
**Senior Vice President -**  
**Chief Financial Officer and Treasurer**  
**(Principal Financial and Accounting Officer)**

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**EXHIBIT INDEX**

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1        | Declaration of Trust of Federal Realty Investment Trust dated May 5, 1999 as amended by the Articles of Amendment of Declaration of Trust of Federal Realty Investment Trust dated May 6, 2004, as corrected by the Certificate of Correction of Articles of Amendment of Declaration of Trust of Federal Realty Investment Trust dated June 17, 2004, as amended by the Articles of Amendment of Declaration of Trust of Federal Realty Investment Trust dated May 6, 2009 (previously filed as Exhibit 3.1 to the Trust's Registration Statement on Form S-3 (File No. 333-160009) and incorporated herein by reference) |
| 3.2        | Amended and Restated Bylaws of Federal Realty Investment Trust dated February 12, 2003, as amended October 29, 2003, May 5, 2004, February 17, 2006 and May 6, 2009 (previously filed as Exhibit 3.2 to the Trust's Registration Statement on Form S-3 (File No. 333-160009) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                         |
| 4.1        | Specimen Common Share certificate (previously filed as Exhibit 4(i) to the Trust's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                                                                                                                |
| 4.2        | Articles Supplementary relating to the 5.417% Series 1 Cumulative Convertible Preferred Shares of Beneficial Interest (previously filed as Exhibit 4.1 to the Trust's Current Report on Form 8-K filed on March 13, 2007, (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                                         |
| 4.3        | Amended and Restated Rights Agreement, dated March 11, 1999, between the Trust and American Stock Transfer & Trust Company (previously filed as Exhibit 1 to the Trust's Registration Statement on Form 8-A/A filed on March 11, 1999 (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                             |
| 4.4        | First Amendment to Amended and Restated Rights Agreement, dated as of November 2003, between the Trust and American Stock Transfer & Trust Company (previously filed as Exhibit 4.5 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                |
| 4.5        | Second Amendment to Amended and Restated Rights Agreement, dated as of March 11, 2009, between the Trust and American Stock Transfer & Trust Company (previously filed as Exhibit 4.3 to the Trust's current Report on Form 8-K (File No. 001-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                                 |
| 4.6        | Indenture dated December 1, 1993 related to the Trust's 7.48% Debentures due August 15, 2026; and 6.82% Medium Term Notes due August 1, 2027; (previously filed as Exhibit 4(a) to the Trust's Registration Statement on Form S-3 (File No. 33-51029), and amended on Form S-3 (File No. 33-63687), filed on December 13, 1993 and incorporated herein by reference)                                                                                                                                                                                                                                                       |
| 4.7        | Indenture dated September 1, 1998 related to the Trust's 5.65% Notes due 2016; 6.00% Notes due 2012; 6.20% Notes due 2017; 5.40% Notes due 2013; 5.95% Notes due 2014 and the 5.90% Notes due 2020 (previously filed as Exhibit 4(a) to the Trust's Registration Statement on Form S-3 (File No. 333-63619) filed on September 17, 1998 and incorporated herein by reference)                                                                                                                                                                                                                                              |
| 4.8        | Pursuant to Regulation S-K Item 601(b)(4)(iii), the Trust by this filing agrees, upon request, to furnish to the Securities and Exchange Commission a copy of other instruments defining the rights of holders of long-term debt of the Trust                                                                                                                                                                                                                                                                                                                                                                              |
| 10.1       | Amended and Restated 1993 Long-Term Incentive Plan, as amended on October 6, 1997 and further amended on May 6, 1998 (previously filed as Exhibit 10.26 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                            |
| 10.2       | Severance Agreement between the Trust and Donald C. Wood dated February 22, 1999 (previously filed as a portion of Exhibit 10 to the Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (File No. 1-07533) (the 1999 1Q Form 10-Q) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                           |
| 10.3       | Executive Agreement between Federal Realty Investment Trust and Donald C. Wood dated February 22, 1999 (previously filed as a portion of Exhibit 10 to the 1999 1Q Form 10-Q and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.4       | Amendment to Executive Agreement between Federal Realty Investment Trust and Donald C. Wood dated February 16, 2005 (previously filed as Exhibit 10.12 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-07533) (the 2004 Form 10-K) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                        |



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### **Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                             |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.5       | Split Dollar Life Insurance Agreement dated August 12, 1998 between the Trust and Donald C. Wood (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-07533) and incorporated herein by reference)                                                                          |
| 10.6       | Severance Agreement between the Trust and Jeffrey S. Berkes dated March 1, 2000 (previously filed as a portion of Exhibit 10 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-07533) and incorporated herein by reference)                                                                                           |
| 10.7       | Amendment to Severance Agreement between Federal Realty Investment Trust and Jeffrey S. Berkes dated February 16, 2005 (previously filed as Exhibit 10.17 to the 2004 Form 10-K and incorporated herein by reference)                                                                                                                                          |
| 10.8       | 2001 Long-Term Incentive Plan (previously filed as Exhibit 99.1 to the Trust's S-8 Registration Number 333-60364 filed on May 7, 2001 and incorporated herein by reference)                                                                                                                                                                                    |
| 10.9       | Health Coverage Continuation Agreement between Federal Realty Investment Trust and Donald C. Wood dated February 16, 2005 (previously filed as Exhibit 10.26 to the 2004 Form 10-K and incorporated herein by reference)                                                                                                                                       |
| 10.10      | Severance Agreement between the Trust and Dawn M. Becker dated April 19, 2000 (previously filed as Exhibit 10.26 to the Trust's 2005 2Q Form 10-Q and incorporated herein by reference)                                                                                                                                                                        |
| 10.11      | Amendment to Severance Agreement between the Trust and Dawn M. Becker dated February 16, 2005 (previously filed as Exhibit 10.27 to the 2004 Form 10-K and incorporated herein by reference)                                                                                                                                                                   |
| 10.12      | Form of Restricted Share Award Agreement for awards made under the Trust's 2003 Long-Term Incentive Award Program for shares issued out of 2001 Long-Term Incentive Plan (previously filed as Exhibit 10.28 to the 2004 Form 10-K and incorporated herein by reference)                                                                                        |
| 10.13      | Form of Restricted Share Award Agreement for awards made under the Trust's Annual Incentive Bonus Program for shares issued out of 2001 Long-Term Incentive Plan (previously filed as Exhibit 10.29 to the 2004 Form 10-K and incorporated herein by reference)                                                                                                |
| 10.14      | Form of Option Award Agreement for options awarded under 2001 Long-Term Incentive Plan (previously filed as Exhibit 10.30 to the 2004 Form 10-K and incorporated herein by reference)                                                                                                                                                                          |
| 10.15      | Form of Option Award Agreement for awards made under the Trust's 2003 Long-Term Incentive Award Program for shares issued out of the 2001 Long-Term Incentive Plan (previously filed as Exhibit 10.32 to the 2005 Form 10-K and incorporated herein by reference)                                                                                              |
| 10.16      | Credit Agreement dated as of July 28, 2006, by and between the Trust, Wachovia Capital Markets LLC, Wachovia Bank, National Association and various other financial institutions (previously filed as Exhibit 10.20 to the Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 1-07533) and incorporated herein by reference) |
| 10.17      | Amended and Restated 2001 Long-Term Incentive Plan (previously filed as Exhibit 10.34 to the Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 1-07533) and incorporated herein by reference)                                                                                                                                |
| 10.18      | Change in Control Agreement between the Trust and Andrew P. Blocher dated February 12, 2007 (previously filed as Exhibit 10.27 to the Trust's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-07533) and incorporated herein by reference)                                                                                  |
| 10.19      | Amendment to Severance Agreement between the Trust and Donald C. Wood dated January 1, 2009 (previously filed as Exhibit 10.26 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-07533) (the 2008 Form 10-K) and incorporated herein by reference)                                                                    |
| 10.20      | Second Amendment to Executive Agreement between the Trust and Donald C. Wood dated January 1, 2009 (previously filed as Exhibit 10.27 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                      |
| 10.21      | Amendment to Health Coverage Continuation Agreement between the Trust and Donald C. Wood dated January 1, 2009 (previously filed as Exhibit 10.28 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                          |
| 10.22      | Second Amendment to Severance Agreement between the Trust and Jeffrey S. Berkes dated January 1, 2009 (previously filed as Exhibit 10.29 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                   |



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### **Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.23      | Second Amendment to Severance Agreement between the Trust and Dawn M. Becker dated January 1, 2009 (previously filed as Exhibit 10.30 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                                                                                               |
| 10.24      | Amendment to Change in Control Agreement between the Trust and Andrew P. Blocher dated January 1, 2009 (previously filed as Exhibit 10.31 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                                                                                           |
| 10.25      | Amendment to Stock Option Agreements between the Trust and Andrew P. Blocher dated February 17, 2009 (previously filed as Exhibit 10.32 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                                                                                             |
| 10.26      | Restricted Share Award Agreement between the Trust and Andrew P. Blocher dated February 17, 2009 (previously filed as Exhibit 10.33 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                                                                                                 |
| 10.27      | Combined Incentive and Non-Qualified Stock Option Agreement between the Trust and Andrew P. Blocher dated February 17, 2009 (previously filed as Exhibit 10.34 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                                                                      |
| 10.28      | Severance Agreement between the Trust and Andrew P. Blocher dated February 17, 2009 (previously filed as Exhibit 10.35 to the Trust's 2008 Form 10-K and incorporated herein by reference)                                                                                                                                                                                                                                              |
| 10.29      | 2010 Performance Incentive Plan (previously filed as Appendix A to the Trust's Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders (File No. 01-07533) and incorporated herein by reference)                                                                                                                                                                                                                         |
| 10.30      | Amendment to 2010 Performance Incentive Plan (the 2010 Plan) (previously filed as Appendix A to the Trust's Proxy Supplement for the 2010 Annual Meeting of Shareholders (File No. 01-07533) and incorporated herein by reference)                                                                                                                                                                                                      |
| 10.31      | Restricted Share Award Agreement between the Trust and Donald C. Wood dated October 12, 2010 (previously filed as Exhibit 10.36 to the Trust's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 01-07533) and incorporated herein by reference)                                                                                                                                                         |
| 10.32      | Form of Restricted Share Award Agreement for awards made under the Trust's Long-Term Incentive Award Program and the Trust's Annual Incentive Bonus Program and basic awards with annual vesting for shares issued out of the 2010 Plan (previously filed as Exhibit 10.34 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-07533) (the 2010 Form 10-K) and incorporated herein by reference) |
| 10.33      | Form of Restricted Share Award Agreement for long-term vesting and retention awards made under the Trust's Long-Term Incentive Award Program for shares issued out of the 2010 Plan (previously filed as Exhibit 10.35 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                           |
| 10.34      | Form of Restricted Share Award Agreement for front loaded awards made under the Trust's Long-Term Incentive Award Program for shares issued out of the 2010 Plan (previously filed as Exhibit 10.36 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                                              |
| 10.35      | Form of Performance Share Award Agreement for awards made under the Trust's Long-Term Incentive Award Program for shares issued out of the 2010 Plan (previously filed as Exhibit 10.37 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                          |
| 10.36      | Form of Option Award Agreement for awards made under the Trust's Long-Term Incentive Award Program for shares issued out of the 2010 Plan (previously filed as Exhibit 10.38 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                     |
| 10.37      | Form of Option Award Agreement for front loaded awards made under the Trust's Long-Term Incentive Award Program for shares issued out of the 2010 Plan (previously filed as Exhibit 10.39 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                        |
| 10.38      | Form of Option Award Agreement for basic options awarded out of the 2010 Plan (previously filed as Exhibit 10.40 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                 |

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### **Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.39      | Form of Restricted Share Award Agreement, dated as of February 10, 2011, between the Trust and each of Dawn M. Becker, Jeffrey S. Berkes and Andrew P. Blocher (previously filed as Exhibit 10.41 to the Trust's 2010 Form 10-K (File No. 1-07533) and incorporated herein by reference)                                                                                                                                                                                                                                                                                                                       |
| 10.40      | Credit Agreement dated as of July 7, 2011, by and among the Trust, as Borrower, the financial institutions party thereto and their permitted assignees under Section 12.6., as Lenders, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Wells Fargo Securities, LLC, as a Lead Arranger and Book Manager, and PNC Capital Markets LLC, as a Lead Arranger and Book Manager (previously filed as Exhibit 10.1 to the Trust's Current Report on Form 8-K (File No. 1-07533), filed on July 11, 2011 and incorporated herein by reference) |
| 31.1       | Rule 13a-14(a) Certification of Chief Executive Officer (filed herewith)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 31.2       | Rule 13a-14(a) Certification of Chief Financial Officer (filed herewith)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 32.1       | Section 1350 Certification of Chief Executive Officer (filed herewith)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 32.2       | Section 1350 Certification of Chief Financial Officer (filed herewith)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 101        | The following materials from Federal Realty Investment Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Operations, (3) the Consolidated Statement of Shareholders' Equity, (4) the Consolidated Statements of Cash Flows, and (5) Notes to Consolidated Financial Statements that have been detail tagged.                                                                                                                                      |