WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
May 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarter ended March 31, 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 1-9876

Weingarten Realty Investors
(Exact name of registrant as specified in its charter)

TEXAS	74-1464203
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2600 Citadel Plaza Drive P.O. Box 924133 Houston, Texas	77292-4133
(Address of principal executive offices)	(Zip Code)

(713) 866-6000
(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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. (Check one):

Large accelerated filer x	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 x

As of April 29, 2011, there were 120,746,998 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

TABLE OF CONTENTS

PART I.		Financial Information:	Page Number
	Item 1.	Financial Statements (unaudited):	
		Condensed Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 31, 2011 and 2010	3
		Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	4
		Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010	5
		Condensed Consolidated Statements of Equity for the Three Months Ended March 31, 2011 and 2010	6
		Notes to Condensed Consolidated Financial Statements	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	38
	Item 4.	Controls and Procedures	39
PART II.		Other Information:	
	Item 1.	Legal Proceedings	39
	Item 1A.	Risk Factors	39
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
	Item 3.	Defaults Upon Senior Securities	39
	Item 4.	Removed and Reserved	39
	Item 5.	Other Information	39
	Item 6.	Exhibits	39
Signatures			40

Exhibit Index 41

PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Rentals, net	$132,380	$134,088
Other	2,746	3,017
Total	135,126	137,105
Expenses:		
Depreciation and amortization	38,735	36,145
Operating	24,464	25,974
Real estate taxes, net	16,912	16,922
Impairment loss	770	236
General and administrative	6,556	6,591
Total	87,437	85,868
Operating Income	47,689	51,237
Interest Expense, net	(36,846)	(37,617)
Interest and Other Income, net	2,055	2,863
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	3,397	3,236
Gain on Land and Merchant Development Sales	962	
Benefit (Provision) for Income Taxes	316	(476)
Income from Continuing Operations	17,573	19,243
Operating (Loss) Income from Discontinued Operations	(483)	31
Gain on Sale of Property from Discontinued Operations		
(Loss) Income from Discontinued Operations	(483)	31
Gain on Sale of Property	98	848
Net Income	17,188	20,122
Less: Net Income Attributable to Noncontrolling Interests	(1,092)	(1,014)
Net Income Adjusted for Noncontrolling Interests	16,096	19,108
Dividends on Preferred Shares	(8,869)	(8,869)
Net Income Attributable to Common Shareholders	$7,227	$10,239
Earnings Per Common Share - Basic:		
Income from continuing operations attributable to common shareholders	$0.06	$0.09
(Loss) income from discontinued operations		
Net income attributable to common shareholders	$0.06	$0.09
Earnings Per Common Share - Diluted:		
Income from continuing operations attributable to common shareholders	$0.06	$0.08

(Loss) income from discontinued operations		
Net income attributable to common shareholders	$0.06	$0.08
Comprehensive Income:		
Net Income	$17,188	$20,122
Net unrealized gain on derivatives	111	
Amortization of loss on derivatives	619	709
Comprehensive Income	17,918	20,831
Comprehensive Income Attributable to Noncontrolling Interests	(1,092)	(1,014)
Comprehensive Income Adjusted for Noncontrolling Interests	$16,826	$19,817

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	March 31, 2011	December 31, 2010
ASSETS		
Property	$4,803,498	$4,777,794
Accumulated Depreciation	(1,002,631)	(971,249)
Property, net *	3,800,867	3,806,545
Investment in Real Estate Joint Ventures and Partnerships, net	345,815	347,526
Total	4,146,682	4,154,071
Notes Receivable from Real Estate Joint Ventures and Partnerships	183,486	184,788
Unamortized Debt and Lease Costs, net	116,794	116,437
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $11,793 in 2011 and $10,137 in 2010) *	74,824	95,859
Cash and Cash Equivalents *	28,774	23,859
Restricted Deposits and Mortgage Escrows	20,954	10,208
Other, net	218,995	222,633
Total	$4,790,509	$4,807,855
LIABILITIES AND EQUITY		
Debt, net *	$2,644,875	$2,589,448
Accounts Payable and Accrued Expenses	80,274	126,767
Other, net	107,782	111,383
Total	2,832,931	2,827,598
Commitments and Contingencies		
Equity:		
Shareholders' Equity:		
Preferred Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest; 100 shares issued and outstanding in 2011 and 2010; liquidation preference $75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest; 29 shares issued and outstanding in 2011 and 2010; liquidation preference $72,500	1	1
6.5% Series F cumulative redeemable preferred shares of beneficial interest; 140 shares issued and outstanding in 2011 and 2010; liquidation preference $350,000	4	4
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 275,000; shares issued and outstanding: 120,711 in 2011 and 120,492 in 2010	3,636	3,630
Accumulated Additional Paid-In Capital	1,975,962	1,969,905
Net Income Less Than Accumulated Dividends	(177,731)	(151,780)
Accumulated Other Comprehensive Loss	(21,044)	(21,774)
Shareholders' Equity	1,780,831	1,799,989

Noncontrolling Interests	176,747	180,268
Total Equity	1,957,578	1,980,257
Total	$4,790,509	$4,807,855

* Consolidated Variable Interest Entities' Assets and Liabilities included in the above balances (See Note 3):		
Property, net	$232,750	$233,706
Accrued Rent and Accounts Receivable, net	6,218	9,514
Cash and Cash Equivalents	9,473	10,397
Debt, net	281,360	281,519

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net Income	$17,188	$20,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,749	36,153
Amortization of deferred financing costs and debt discount	694	992
Impairment loss	1,225	236
Equity in earnings of real estate joint ventures and partnerships, net	(3,397)	(3,236)
Gain on land and merchant development sales	(962)	
Gain on sale of property	(98)	(848)
Distributions of income from real estate joint ventures and partnerships	385	564
Changes in accrued rent and accounts receivable, net	19,961	21,233
Changes in other assets, net	(4,389)	(1,317)
Changes in accounts payable, accrued expenses and other liabilities, net	(44,167)	(41,564)
Other, net	2,844	3,650
Net cash provided by operating activities	28,033	35,985
Cash Flows from Investing Activities:		
Investment in property	(34,272)	(21,542)
Proceeds from sale and disposition of property, net	2,573	16,086
Change in restricted deposits and mortgage escrows	(10,746)	2,264
Notes receivable from real estate joint ventures and partnerships and other receivables:		
Advances	(1,821)	(1,728)
Collections	2,041	8,218
Real estate joint ventures and partnerships:		
Investments	(93)	(143)
Distributions of capital	4,141	4,433
Net cash (used in) provided by investing activities	(38,177)	7,588
Cash Flows from Financing Activities:		
Proceeds from issuance of common shares of beneficial interest, net	1,510	1,061
Principal payments of debt	(5,098)	(25,958)
Changes in unsecured revolving credit facilities	63,000	
Common and preferred dividends paid	(41,391)	(39,443)
Debt issuance costs paid	(97)	(6,071)
Other, net	(2,865)	(3,831)
Net cash provided by (used in) financing activities	15,059	(74,242)
Net increase (decrease) in cash and cash equivalents	4,915	(30,669)

Cash and cash equivalents at January 1	23,859	153,584
Cash and cash equivalents at March 31	$28,774	$122,915

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(In thousands, except per share amounts)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Accumulated Additional Paid-In Capital	Net Income Less Than Accumulated Dividends	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2010	$ 8	$ 3,615	$ 1,958,975	$ (37,350)	$ (23,958)	$ 205,366	$ 2,106,656
Net income				19,108		1,014	20,122
Shares issued in exchange for noncontrolling interests			116			(116)	
Shares issued under benefit plans		2	1,712				1,714
Dividends declared – common shares (1)				(31,230)			(31,230)
Dividends declared – preferred shares (2)				(8,213)			(8,213)
Distributions to noncontrolling interests						(3,822)	(3,822)
Other comprehensive income					709		709
Other, net			656	(656)		(1,023)	(1,023)
Balance, March 31, 2010	$ 8	$ 3,617	$ 1,961,459	$ (58,341)	$ (23,249)	$ 201,419	$ 2,084,913
Balance, January 1, 2011	$ 8	$ 3,630	$ 1,969,905	$ (151,780)	$ (21,774)	$ 180,268	$ 1,980,257
Net income				16,096		1,092	17,188
Shares issued under benefit plans		6	3,824				3,830
Dividends declared – common shares (1)				(33,178)			(33,178)
Dividends declared – preferred shares (2)				(8,213)			(8,213)
						(4,438)	(4,438)

Distributions to noncontrolling interests							
Contributions from noncontrolling interests						1,600	1,600
Other comprehensive income					730		730
Other, net			2,233	(656)		(1,775)	(198)
Balance, March 31, 2011	$ 8	$ 3,636	$ 1,975,962	$ (177,731)	$ (21,044)	$ 176,747	$ 1,957,578

(1) Common dividend per share was $.26 and $.275 for the three months ended March 31, 2010 and 2011, respectively.

(2) Series D, E and F preferred dividend per share was $12.66, $43.44 and $40.63, respectively, for both the three months ended March 31, 2010 and 2011.

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Interim Financial Statements

Business
Weingarten Realty Investors is a real estate investment trust ("REIT") organized under the Texas Business Organizations Code. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties that include neighborhood and community shopping centers and industrial properties of approximately 72.5 million square feet. We have a diversified tenant base with our largest tenant comprising only 3.1% of total rental revenues during the first quarter of 2011.

We currently operate, and intend to operate in the future, as a REIT.

Basis of Presentation
Our condensed consolidated financial statements include the accounts of our subsidiaries, certain partially owned real estate joint ventures or partnerships and variable interest entities which meet the guidelines for consolidation. All intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2010 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and certain information included in our annual financial statements and notes has been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Such statements require management to make estimates and assumptions that affect the reported amounts on our consolidated financial statements. Actual results could differ from these estimates.

Impairment
Our property is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property, including any capitalized costs and any identifiable intangible assets, may not be recoverable.

If such an event occurs, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future, with consideration of applicable holding periods, on an undiscounted basis to the carrying amount of such property. If we determine the carrying amount is not recoverable, our basis in the property is reduced

to its estimated fair value to reflect impairment in the value of the asset. Fair values are determined by management utilizing cash flow models, market capitalization rates and market discount rates, or by obtaining third-party broker or appraisal estimates in accordance with our fair value measurements accounting policy.

We continuously review economic considerations at each reporting period, including the effects of tenant bankruptcies, the suspension of tenant expansion plans for new development projects, declines in real estate values, and any changes to plans related to our new development properties including land held for development, to identify properties where we believe market values may be deteriorating. Impairments of $1.2 million and $.2 million were recognized for the three months ended March 31, 2011 and 2010, respectively. Determining whether a property is impaired and, if impaired, the amount of write-down to fair value requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. If market conditions deteriorate or management's plans for certain properties change, additional write-downs could be required in the future.

Our investment in partially owned real estate joint ventures and partnerships is reviewed for impairment each reporting period. The ultimate realization is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the estimated fair value of an investment below its carrying amount is other than temporary. No impairment on these investments was recorded for the three months ended March 31, 2011 and 2010. However, there is no certainty that impairments would not occur in the future.

Restricted Deposits and Mortgage Escrows

Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held for a specific use or in a qualified escrow account for the purposes of completing like-kind exchange transactions. At March 31, 2011, we had $1.8 million of restricted cash and $19.2 million held in escrow related to our mortgages and acquisitions. At December 31, 2010, we had $1.8 million of restricted cash and $8.4 million held in escrow related to our mortgages.

Per Share Data

Earnings per common share – basic is computed using net income attributable to common shareholders and the weighted average shares outstanding. Earnings per common share – diluted include the effect of potentially dilutive securities. Income from continuing operations attributable to common shareholders includes gain on sale of property in accordance with SEC guidelines. Earnings per common share – basic and diluted components for the periods indicated are as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Numerator:		
Net income attributable to common shareholders – basic and diluted	$7,227	$10,239
Denominator:		
Weighted average shares outstanding – basic	120,142	119,779
Effect of dilutive securities:		
Share options and awards	959	768
Weighted average shares outstanding – diluted	121,101	120,547

Options to purchase common shares of beneficial interest ("common shares") of 2.9 million and 3.1 million for the three months ended March 31, 2011 and 2010, respectively, were not included in the calculation of net income per common share - diluted as the exercise prices were greater than the average market price for the period. For the three months ended March 31, 2011 and 2010, 1.6 million and 1.7 million, respectively, of operating partnership units were not

included in the calculation of net income per common share – diluted because these units had an anti-dilutive effect.

Cash Flow Information

We issued common shares valued at $.1 million during the first quarter of 2010, in exchange for interests in real estate joint ventures and partnerships, which had been formed to acquire properties. No such shares were issued during the first quarter of 2011. We also accrued $3.9 million and $5.3 million as of March 31, 2011 and 2010, respectively, associated with the construction of property. Cash payments for interest on debt, net of amounts capitalized, of $48.4 million and $47.9 million were made during the first quarter of 2011 and 2010, respectively. Cash payments of $.2 million for income taxes were made during the first quarter of 2011. No income tax payments were made during the first quarter of 2010.

Also, in February 2011, we acquired a partner's noncontrolling interests in a consolidated real estate joint venture that increased shareholders' equity by $1.7 million.

In connection with the sale of an 80% interest in two properties during the first quarter of 2010, we retained a 20% unconsolidated investment of $9.8 million. In addition, this transaction resulted in the unconsolidated joint venture assuming debt totaling $28.1 million.

Accumulated Other Comprehensive Loss
As of March 31, 2011, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $10.9 million and $10.1 million, respectively. As of December 31, 2010, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $11.7 million and $10.1 million, respectively.

Reclassifications
The reclassification of prior years' operating results for the three months ended March 31, 2010 for certain properties to discontinued operations was made to conform to the current year presentation. This reclassification had no impact on previously reported net income, earnings per share, the consolidated balance sheet or cash flows.

Note 2. Newly Issued Accounting Pronouncements

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which provides for additional disclosures about the credit quality of an entity's financing receivables, including loans and trade accounts receivables with contractual maturities exceeding one year and any related allowance for losses. The provisions of this update were effective for us at December 31, 2010, with the exception of disclosures related to activity occurring during a reporting period, which was effective for us in the first quarter of 2011. The adoption did not materially impact our consolidated financial statements.

Note 3. Variable Interest Entities

Management determines whether an entity is a variable interest entity ("VIE") and, if so, determines which party is the primary beneficiary by analyzing if we have both the power to direct the entity's significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. Significant judgments and assumptions inherent in this analysis include the design of the entity structure, the nature of the entity's operations, future cash flow projections, the entity's financing and capital structure, and contractual relationships and terms. We consolidate a VIE when we have determined that we are the primary beneficiary.

Risks associated with our involvement with our VIEs include primarily the potential of funding the VIE's debt obligations or making additional contributions to fund the VIE's operations.

Consolidated VIEs:
Two of our real estate joint ventures whose activities principally consist of owning and operating 30 neighborhood/community shopping centers, of which 22 are located in Texas, three in Georgia, two each in Tennessee and Florida and one in North Carolina, were determined to be VIEs. These VIEs have financing agreements that are guaranteed solely by us for tax planning purposes. We have determined that we are the primary beneficiary and have consolidated these joint ventures. Our maximum exposure to loss associated with these joint ventures is primarily limited to our guaranties of the debt, which were approximately $157.4 million at March 31, 2011.

Assets held by our consolidated VIEs approximate $272.4 million and $280.3 million at March 31, 2011 and December 31, 2010, respectively. Of these assets, $248.4 million and $253.6 million at March 31, 2011 and December 31, 2010, respectively, are collateral for debt.

Restrictions on the use of these assets are significant because they are collateral for the VIEs' debt, and we would generally be required to obtain our partners' approval in accordance with the joint venture agreements on any major transactions. The impact of these transactions on our consolidated financial statements has been limited to changes in noncontrolling interests and reductions in debt from our partners' contributions. We and our partners are subject to the provisions of the joint venture agreements which include provisions for when additional contributions may be required including operating cash shortfalls and unplanned capital expenditures. We have not provided any additional support as of March 31, 2011.

Unconsolidated VIEs:
We also have unconsolidated real estate joint ventures which engage in operating or developing real estate that have been determined to be VIEs due to agreements entered into by the joint ventures. We were not determined to be the primary beneficiary of the VIEs.

At March 31, 2011, two unconsolidated real estate joint ventures were determined to be VIEs through the issuance of secured loans, of which $21.7 million of debt associated with a tenancy-in-common arrangement is recorded in our Condensed Consolidated Balance Sheet, since the lenders have the ability to make decisions that could have a significant impact on the success of the entities. In addition, we have another unconsolidated real estate joint venture with an interest in an entity which is deemed to be a VIE since the unconsolidated joint venture provided a guaranty on debt obtained from its investment in a joint venture. A summary of our unconsolidated VIEs is as follows (in thousands):

Period	Investment in Real Estate Joint Ventures and Partnerships, net (1)	Maximum Risk of Loss (2)
March 31, 2011	$ 31,075	$ 78,251
December 31, 2010	$ 11,581	$ 56,448

(1) The carrying amount of the investments represents our contributions to the real estate joint ventures net of any distributions made and our portion of the equity in earnings of the joint ventures.
(2) The maximum risk of loss has been determined to be limited to our debt exposure for each real estate joint venture.

We and our partners are subject to the provisions of the joint venture agreements that specify conditions, including operating shortfalls and unplanned capital expenditures, under which additional contributions may be required.

Note 4. Business Combinations

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated joint ventures ("Sheridan") related to a development project in Sheridan, Colorado, which resulted in the consolidation of these joint ventures within our shopping center segment that had previously been accounted for under the equity method. Control was assumed through a modification of the joint venture agreements in which we assumed all management, voting and approval rights without transferring consideration to our joint venture partner. Each partner's percentage interest in the joint ventures remained unchanged. Management has determined that these transactions qualified as business combinations to be accounted for under the acquisition method. Accordingly, the assets and liabilities of the joint ventures were recorded in our consolidated balance sheet at their estimated fair values as of April 1, 2010, with our partner's share of the resulting net deficit included in noncontrolling interests. Fair value of assets acquired, liabilities assumed and equity interests was estimated using market-based measurements, including cash flow and other valuation techniques. The fair value measurement is based on both significant inputs for similar assets and liabilities in active markets and significant inputs that are not observable in the markets in accordance with our fair value measurements accounting policy. Key assumptions include third-party broker valuation estimates, discount rates ranging from 8% to 17%, a terminal cap rate for similar properties, and factors that we believe market participants would consider in estimating fair value. The results of the joint ventures are included in our Condensed Consolidated Statements of Income and Comprehensive Income beginning April 1, 2010.

10

The following table summarizes the transactions related to the business combinations, including the assets acquired and liabilities assumed as of April 1, 2010 (in thousands):

Fair value of our equity interests before business combinations	$(21,858)
Amounts recognized for assets and liabilities assumed:	
Assets:	
Property	$32,940
Unamortized debt and lease costs	5,182
Accrued rent and accounts receivable	213
Cash and cash equivalents	1,522
Other, net (1)	151,464
Liabilities:	
Debt, net (2)	(101,741)
Accounts payable and accrued expenses	(647)
Other, net	(1,334)
Total net assets	$87,599
Noncontrolling interests of the real estate joint ventures	$(18,573)

(1) Includes primarily a $97.0 million debt service guaranty asset, tax increment revenue bonds of $51.3 million and intangible and other assets.

(2) Excludes the effect of $123.9 million in intercompany debt that is eliminated upon consolidation.

The following table summarizes the pro forma impact of the real estate joint ventures as if Sheridan had been consolidated at January 1, 2010 as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	Actual 2011	Pro Forma 2010 (1)
Revenues	$135,126	$137,540
Net income	$17,188	$19,528
Net income attributable to common shareholders	$7,227	$10,031
Earnings per share - basic	$.06	$.08
Earnings per share - diluted	$.06	$.08

(1) There are no non-recurring pro forma adjustments included within or excluded from the amounts in the preceding table.

Note 5. Derivatives and Hedging

Our policy is to manage interest cost using a mixture of fixed-rate and variable-rate debt. To manage our interest rate risk, we occasionally hedge the future cash flows of our debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate contracts with major financial institutions. Interest rate contracts

that meet specific criteria are accounted for as either assets or liabilities as a fair value or cash flow hedge.

Cash Flow Hedges of Interest Rate Risk:
Our objective in using interest rate contracts is to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate contracts as part of our interest rate risk management strategy. Interest rate contracts designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

At March 31, 2011 and December 31, 2010, we had two active interest rate contracts designated as cash flow hedges with an aggregate notional amount of $11.8 million, which have maturities through September 2017, and fix interest rates at 2.3% and 2.4%. We have determined that these contracts are highly effective in offsetting future variable interest cash flows. As of March 31, 2011 and December 31, 2010, the fair value of these derivatives included in net other assets was $.2 million and $.1 million, respectively, and included in net other liabilities was $.1 million in each respective period.

As of March 31, 2011 and December 31, 2010, the balance in accumulated other comprehensive loss relating to cash flow interest rate contracts was $10.9 million and $11.7 million, respectively, and will be reclassified to net interest expense as interest payments are made on our fixed-rate debt. Amounts reclassified from accumulated other comprehensive loss to net interest expense were $.6 million and $.7 million during the three months ended March 31, 2011 and 2010, respectively. Within the next 12 months, approximately $2.6 million of the balance in accumulated other comprehensive loss is expected to be amortized to net interest expense related to settled interest rate contracts.

Fair Value Hedges of Interest Rate Risk:
We are exposed to changes in the fair value of certain of our fixed-rate obligations due to changes in benchmark interest rates, such as LIBOR. We use interest rate contracts to manage our exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate contracts designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for us making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Changes in the fair value of interest rate contracts designated as fair value hedges, as well as changes in the fair value of the related debt being hedged, are recorded in earnings each reporting period.

As of March 31, 2011 and December 31, 2010, we had four interest rate contracts with an aggregate notional amount of $120.2 million and $120.4 million, respectively, that were designated as fair value hedges and convert fixed interest payments at rates from 4.2% to 7.5% to variable interest payments ranging from .3% to 4.3% and .3% to 4.4%, respectively. We have determined that our fair value hedges are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in interest rates.

For the three months ended March 31, 2011 and 2010, we recognized a net reduction in interest expense of $2.5 million and $1.5 million, respectively, related to our fair value hedges, which includes net settlements and any amortization adjustment of the basis in the hedged item. Also, for the three months ended March 31, 2010, we recognized a gain of $.2 million associated with hedge ineffectiveness with no such activity in the related period of 2011.

A summary of the changes in fair value of our interest rate contracts is as follows (in thousands):

	Gain (Loss) on Contracts	Gain (Loss) on Borrowings	Gain (Loss) Recognized in Income
Three Months Ended March 31, 2011:			
Interest expense, net	$ (1,505)	$ 1,505	
Three Months Ended March 31, 2010:			
Interest expense, net	$ 4,219	$ (3,978)	$ 241

The interest rate contracts at March 31, 2011 and December 31, 2010 were reported at their fair values as follows (in thousands):

	Assets		Liabilities	
Period	Balance Sheet Location	Amount	Balance Sheet Location	Amount
Designated Hedges:				
March 31, 2011	Other Assets, net	$ 5,758	Other Liabilities, net	$ 59
December 31, 2010	Other Assets, net	$ 7,192	Other Liabilities, net	$ 108

A summary of our derivatives is as follows (in thousands):

Derivatives Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended March 31, 2011:							
Cash Flow Interest Rate Contracts	$ (118)	Interest expense, net	$ (619)			Interest expense, net	$ 7
Fair Value Interest Rate Contracts				Interest expense, net	$ (470)		
Three Months Ended March 31, 2010:							
Cash Flow Interest Rate Contracts		Interest expense, net	$ (709)				
Fair Value Interest Rate Contracts				Interest expense, net	$ 3,121	Interest expense, net	$ 241

Note 6. Debt

Our debt consists of the following (in thousands):

	March 31, 2011	December 31, 2010
Debt payable to 2038 at 2.9% to 8.8%	$2,382,040	$2,389,532
Debt service guaranty liability	97,000	97,000
Unsecured notes payable under revolving credit facilities	143,000	80,000

Obligations under capital leases	21,000	21,000
Industrial revenue bonds payable to 2015 at 2.4%	1,835	1,916
Total	$2,644,875	$2,589,448

The grouping of total debt between fixed and variable-rate as well as between secured and unsecured is summarized below (in thousands):

	March 31, 2011	December 31, 2010
As to interest rate (including the effects of interest rate contracts):		
Fixed-rate debt	$2,344,143	$2,349,802
Variable-rate debt	300,732	239,646
Total	$2,644,875	$2,589,448
As to collateralization:		
Unsecured debt	$1,511,487	$1,450,148
Secured debt	1,133,388	1,139,300
Total	$2,644,875	$2,589,448

Effective February 11, 2010, we entered into an amended and restated $500 million unsecured revolving credit facility. The facility expires in February 2013 and provides borrowing rates that float at a margin over LIBOR plus a facility fee. The borrowing margin and facility fee are priced off a grid that is tied to our senior unsecured credit ratings, which are currently 275.0 and 50.0 basis points, respectively. The facility also contains a competitive bid feature that will allow us to request bids for up to $250 million. Additionally, an accordion feature allows us to increase the new facility amount up to $700 million.

Effective May 2010, we entered into an agreement with a bank for an unsecured and uncommitted overnight facility totaling $99 million that we intend to maintain for cash management purposes. The facility provides for fixed interest rate loans at a 30 day LIBOR rate plus a borrowing margin based on market liquidity.

At March 31, 2011, $48.0 million was outstanding under our revolving credit facility. At December 31, 2010, no amounts under our revolving credit facility were outstanding. Letters of credit totaling $51.3 million and $52.4 million were outstanding under the revolving credit facility at March 31, 2011 and December 31, 2010, respectively. The balance outstanding under our unsecured and uncommitted overnight facility was $95.0 million and $80.0 million at March 31, 2011 and December 31, 2010, respectively, at a variable interest rate of 1.8% for both periods. The available balance under our revolving credit facility was $400.7 million and $447.6 million at March 31, 2011 and December 31, 2010, respectively. During 2011, the maximum balance and weighted average balance outstanding under both facilities combined were $143.0 million and $87.1 million, respectively, at a weighted average interest rate of 1.9%. During 2010, the maximum balance and weighted average balance outstanding under both facilities combined were $80.0 million and $12.2 million, respectively, at a weighted average interest rate of 1.8%.

Effective April 1, 2010, we consolidated a real estate joint venture which includes our investment in a development project in Sheridan, Colorado. We, our joint venture partner and the joint venture have each provided a guaranty for the payment of any debt service shortfalls until a coverage rate of 1.4 is met on tax increment revenue bonds issued in connection with the project. The bonds are to be repaid with incremental sales and property taxes and a public improvement fee ("PIF") to be assessed on current and future retail sales and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the bond liability has been paid in full or 2030 (unless such date is otherwise extended by the Sheridan Redevelopment Agency). Therefore, a debt service guaranty liability of $97.0 million was recorded by the joint venture equal to the fair value of the amounts funded under the bonds.

At March 31, 2011 and December 31, 2010, respectively, we had $130.5 million and $129.9 million of 3.95% convertible senior unsecured notes outstanding due 2026. These bonds are recorded at a discount of $.8 million and $1.3 million as of March 31, 2011 and December 31, 2010, respectively, which will be amortized through July 2011 resulting in an effective interest rate for both periods of 5.75%. Interest is payable semi-annually in arrears on February 1 and August 1 of each year. The debentures are convertible under certain circumstances for our common shares at an initial conversion rate of 20.3770 common shares per $1,000 of principal amount of debentures (an initial conversion price of $49.075). In addition, the conversion rate may be adjusted if certain change in control transactions or other specified events occur on or prior to August 4, 2011. Upon the conversion of debentures, we will deliver cash for the principal return, as defined, and cash or common shares, at our option, for the excess of the conversion value, as defined, over the principal return. The debentures are redeemable for cash at our option beginning in August 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures for cash equal to the principal of the debentures plus accrued and unpaid interest in August 2011, 2016 and 2021 and in the event of a change in control. Net interest expense associated with this debt for the three months ended March 31, 2011 and 2010, totaled $2.0 million including the amortization of the discount totaling $.6 million for both periods. The carrying value of the equity component as of both March 31, 2011 and December 31, 2010 was $23.4 million.

Various leases and properties, and current and future rentals from those lease and properties, collateralize certain debt. At March 31, 2011 and December 31, 2010, the carrying value of such property aggregated $1.9 billion and $1.8 billion, respectively.

Scheduled principal payments on our debt (excluding $143.0 million due under our revolving credit facilities, $21.0 million of certain capital leases, $5.6 million fair value of interest rate contracts, $3.8 million net premium/(discount) on debt, $11.5 million of non-cash debt-related items, and $97.0 million debt service guaranty liability) are due during the following years (in thousands):

2011 remaining	$207,217
2012	307,549
2013	440,829
2014	387,547
2015	248,404
2016	209,209
2017	142,088
2018	64,411
2019	153,747
2020	3,772
Thereafter (1)	198,177
Total	$2,362,950

(1) Includes $131.3 million of our 3.95% convertible senior unsecured notes outstanding due 2026; which have a call/put option feature beginning in August 2011.

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios, minimum net worth requirements and maximum total debt levels. We believe we were in compliance with all restrictive covenants as of March 31, 2011.

Note 7. Preferred Shares of Beneficial Interest

We issued $150 million and $200 million of depositary shares on June 6, 2008 and January 30, 2007, respectively. Each depositary share represents one-hundredth of a Series F Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, on or after January 30, 2012 at our option, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series F Preferred Shares pay a 6.5% annual dividend and have a liquidation value of $2,500 per share. The Series F Preferred Shares issued in June 2008 were issued at a discount, resulting in an effective rate of 8.25%.

In July 2004, we issued $72.5 million of depositary shares with each share representing one-hundredth of a Series E Cumulative Redeemable Preferred Share. The depositary shares are redeemable at our option, in whole or in part, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series E preferred shares pay a 6.95% annual dividend and have a liquidation value of $2,500 per share.

In April 2003, we issued $75 million of depositary shares with each share representing one-thirtieth of a Series D Cumulative Redeemable Preferred Share. The depositary shares are redeemable at our option, in whole or in part, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our property or securities. The Series D preferred shares pay a 6.75% annual dividend and have a liquidation value of $750 per share.

Currently, we do not anticipate redeeming either the Series E or Series D preferred shares due to current market conditions; however, no assurance can be given if conditions change.

Note 8. Common Shares of Beneficial Interest

The dividend rate per share for our common shares was $.275 and $.26 for three months ended March 31, 2011 and 2010, respectively.

In May 2010, our shareholders approved an amendment to our declaration of trust increasing the number of our authorized common shares, $.03 par value per share, from 150.0 million to 275.0 million.

Note 9. Property

Our property consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Land	$946,400	$925,497
Land held for development	169,688	170,213
Land under development	16,543	22,967
Buildings and improvements	3,636,689	3,610,889
Construction in-progress	34,178	48,228
Total	$4,803,498	$4,777,794

The following carrying charges were capitalized (in thousands):

	Three Months Ended March 31,	
	2011	2010
Interest	$337	$1,123
Real estate taxes	11	155
Total	$348	$1,278

During the three months ended March 31, 2011, we invested $18.4 million in the acquisition of an operating property and $1.6 million in new development projects.

Note 10. Discontinued Operations

For the three months ended March 31, 2011, we sold an industrial building located in Georgia. During 2010, we sold a shopping center located in Texas. The operating results of these properties have been reclassified and reported as discontinued operations in the Condensed Consolidated Statements of Income and Comprehensive Income. No revenue was recorded in the operating loss from discontinued operations for the three months ended March 31, 2011. Revenues recorded in operating income from discontinued operations for the three months ended March 31, 2010 totaled $.1 million. Included in the Condensed Consolidated Balance Sheet at December 31, 2010 were $1.9 million of property and $.1 million of accumulated depreciation related to the property sold during the three months ended March 31, 2011.

For the three months ended March 31, 2011, an impairment loss of $.4 million was reported in discontinued operations. No impairment was recognized during the three months ended March 31, 2010.

We do not allocate other consolidated interest to discontinued operations because the interest savings to be realized from the proceeds of the sale of these operations was not material.

Note 11. Notes Receivable from Real Estate Joint Ventures and Partnerships

We have ownership interests in a number of real estate joint ventures and partnerships. Notes receivable from these entities bear interest ranging from approximately 2.0% to 10.0%. These notes are due at various dates through 2013 and are generally secured by real estate assets. We believe these notes are fully collectible, and no allowance has been recorded. Interest income recognized on these notes was $.9 million and $1.4 million for three months ended March 31, 2011 and 2010, respectively.

Note 12. Related Parties

Through our management activities and transactions with our real estate joint venture and partnerships, we had accounts receivable of $1.3 million and $2.7 million outstanding as of March 31, 2011 and December 31, 2010, respectively. We also had accounts payable and accrued expenses of $9.4 million and $9.6 million outstanding as of March 31, 2011 and December 31, 2010, respectively. For the three months ended March 31, 2011 and 2010, we recorded joint venture fee income of $1.6 million and $1.5 million, respectively.

As of March 31, 2010, we contributed the final two properties to an unconsolidated joint venture for $47.3 million, which included loan assumptions of $28.1 million and the receipt of net proceeds totaling $14.0 million.

Note 13. Investment in Real Estate Joint Ventures and Partnerships

We own interests in real estate joint ventures or limited partnerships and have tenancy-in-common interests in which we exercise significant influence, but do not have financial and operating control. We account for these investments using the equity method, and our interests range from 7.8% to 75%. Combined condensed financial information of these ventures (at 100%) is summarized as follows (in thousands):

	March 31, 2011	December 31, 2010
Combined Condensed Balance Sheets		
Property	$2,139,684	$2,142,524
Accumulated depreciation	(262,516)	(247,996)
Property, net	1,877,168	1,894,528
Other assets, net	167,042	168,091
Total	$2,044,210	$2,062,619
Debt, net (primarily mortgages payable)	$549,864	$552,552
Amounts payable to Weingarten Realty Investors	201,487	202,092
Other liabilities, net	45,942	45,331
Total	797,293	799,975
Accumulated equity	1,246,917	1,262,644
Total	$2,044,210	$2,062,619

	Three Months Ended March 31,	
	2011	2010
Combined Condensed Statements of Income		
Revenues, net	$51,326	$47,527
Expenses:		
Depreciation and amortization	17,631	15,345
Interest, net	9,264	9,399
Operating	8,894	8,230
Real estate taxes, net	6,478	6,029
General and administrative	1,092	896
Provision for income taxes	85	60
Impairment loss	2,058	
Total	45,502	39,959
Loss on sale of property	(21)	(3)
Net income	$5,803	$7,565

Our investment in real estate joint ventures and partnerships, as reported in our Condensed Consolidated Balance Sheets, differs from our proportionate share of the entities' underlying net assets due to basis differentials, which arose upon the transfer of assets to the joint ventures. The net basis differentials, which totaled $7.8 million and $8.8 million at March 31, 2011 and December 31, 2010, respectively, are generally amortized over the useful lives of the related assets.

Our real estate joint ventures and partnerships determined that the carrying amount of certain properties was not recoverable and that the properties should be written down to fair value. For the three months ended March 31, 2011, our unconsolidated real estate joint ventures and partnerships recorded an impairment charge of $2.1 million. No such activity is present for the three months ended March 31, 2010.

Fees earned by us for the management of these real estate joint ventures and partnerships totaled $1.6 million and $1.5 million for the three months ended March 31, 2011 and 2010, respectively.

In March 2011, an unconsolidated real estate joint venture sold an industrial building with gross sales proceeds of $4.0 million.

Subsequent to March 31, 2011, we acquired a 50%-owned unconsolidated real estate joint venture interest in three retail properties for approximately $11.6 million.

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated real estate joint ventures related to a development project in Sheridan, Colorado that we had previously accounted for under the equity method. This transaction resulted in the consolidation of the joint ventures in our consolidated financial statements.

During 2010, activity in our unconsolidated real estate joint ventures consisted of the sale of two retail buildings and two land parcels. In addition, we sold an unconsolidated real estate joint venture interest. Total aggregate gross sales

proceeds for these transactions totaled $8.3 million.

Also, in the fourth quarter of 2010, we acquired two unconsolidated real estate joint venture interests for approximately $35.8 million.

Note 14. Federal Income Tax Considerations

We qualify as a REIT under the provisions of the Internal Revenue Code, and therefore, no tax is imposed on our taxable income distributed to shareholders. To maintain our REIT status, we must distribute at least 90% of our ordinary taxable income to our shareholders and meet certain income source and investment restriction requirements. Our shareholders must report their share of income distributed in the form of dividends.

Our taxable REIT subsidiary is subject to federal, state and local income taxes. We have recorded a federal income tax (benefit) provision of $(.7) million and $.1 million during the three months ended March 31, 2011 and 2010, respectively. Also, we did not have a current tax obligation as of both March 31, 2011 and December 31, 2010 in association with this tax.

Our deferred tax assets and liabilities, including a valuation allowance, consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Deferred tax assets:		
Impairment loss	$15,350	$13,584
Allowance on other assets	1,423	1,423
Interest expense	8,183	7,256
Net operating loss carryforward	4,927	4,684
Other	738	672
Total deferred tax assets	30,621	27,619
Valuation allowance	(18,511)	(15,818)
Total deferred tax assets, net of allowance	$12,110	$11,801
Deferred tax liabilities:		
Straight-line rentals	$1,326	$1,290
Book-tax basis differential	4,285	4,708
Total deferred tax liabilities	$5,611	$5,998

At March 31, 2011 and December 31, 2010, we have recorded a net deferred tax asset of $12.1 million and $11.8 million; including the benefit of $15.4 million and $13.6 million of impairment losses, respectively, which will not be recognized until the related properties are sold. Realization is dependent on generating sufficient taxable income in the year the property is sold. Management believes it is more likely than not that a portion of these deferred tax assets, which primarily consists of impairment losses, will not be realized and established a valuation allowance totaling $18.5 million and $15.8 million as of March 31, 2011 and December 31, 2010, respectively. However, the amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income are reduced.

Note 15. Commitments and Contingencies

As of March 31, 2011, we participate in five real estate ventures structured as DownREIT partnerships that have properties in Arkansas, California, Georgia, North Carolina, Texas and Utah. As a general partner, we have operating and financial control over these ventures and consolidate them in our consolidated financial statements. These ventures allow the outside limited partners to put their interest to the partnership for our common shares or an

equivalent amount in cash. We may acquire any limited partnership interests that are put to the partnership, and we have the option to redeem the interest in cash or a fixed number of our common shares, at our discretion. We also participate in a real estate venture that has a property in Texas that allows its outside partner to put operating partnership units to us. We have the option to redeem these units in cash or a fixed number of our common shares, at our discretion. During the three months ended March 31, 2010, we issued common shares valued at $.1 million in exchange for certain of these interests. No shares were issued in exchange for certain of these interests during the three months ended March 31, 2011. The aggregate redemption value of these interests was approximately $41 million and $39 million as of March 31, 2011 and December 31, 2010, respectively.

In January 2007, we acquired two retail properties in Arizona. This purchase transaction includes an earnout provision of approximately $29 million that is contingent upon the subsequent development of space by the property seller. This contingency agreement expired in July 2010, of which we have paid $18.9 million since inception through the final settlement in January 2011. Amounts paid under this earnout provision were treated as additional purchase price and capitalized to the related property.

We are subject to numerous federal, state and local environmental laws, ordinances and regulations in the areas where we own or operate properties. We are not aware of any material contamination which may have been caused by us or any of our tenants that would have a material adverse effect on our consolidated financial statements.

As part of our risk management activities, we have applied and been accepted into state sponsored environmental programs which will limit our expenses if contaminants need to be remediated. We also have an environmental insurance policy that covers us against third party liabilities and remediation costs.

While we believe that we do not have any material exposure to environmental remediation costs, we cannot give absolute assurance that changes in the law or new discoveries of contamination will not result in increased liabilities to us.

Related to our investment in a development project in Sheridan, Colorado, we, our joint venture partner and the joint venture have each provided a guaranty for the payment of any debt service shortfalls on tax increment revenue bonds issued in connection with the project. The Sheridan Redevelopment Agency (“Agency”) issued $97 million of Series A bonds used for an urban renewal project. The bonds are to be repaid with incremental sales and property taxes and a PIF to be assessed on current and future retail sales, and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the bond liability has been paid in full or 2030 (unless such date is otherwise extended by the Agency).

In connection with the above project and a lawsuit settlement in 2009, the joint venture purchased a portion of the bonds in the amount of $51.3 million at par, and we established a $46.3 million letter of credit.

Also, in connection with the Sheridan, Colorado joint venture and the issuance of the related Series A bonds, we, our joint venture partner and the joint venture have also provided a performance guaranty on behalf of the Agency for the satisfaction of all obligations arising from two interest rate contracts for the combined notional amount of $97 million that matures in December 2029. We evaluated and determined that the fair value of the guaranty both at inception and March 31, 2011 was nominal.

On April 28, 2011, the Agency remarketed the bonds in which the incremental taxes and PIF were extended for an additional 10 years. All of the outstanding bonds were recalled, and $74.1 million in senior bonds and $57.7 million in subordinate bonds were issued. This transaction resulted in the receipt of approximately $16.5 million in cash proceeds and $57.7 million in new subordinated bonds replacing the face value of our $51.3 million of senior bonds and $22.4 million of subordinate bonds, which have been written down to a fair value of $10.7 million. Furthermore, with the completion of this transaction, we will record a loss on the exchange of bonds of approximately $18.7 million, and our $46.3 million letter of credit was terminated.

We have evaluated the remaining outstanding guaranties and have determined that the fair value of these guaranties is nominal.

We have entered into commitments aggregating $51.9 million comprised principally of construction contracts which are generally due in 12 to 36 months.

We are also involved in various matters of litigation arising in the normal course of business. While we are unable to predict with certainty the amounts involved, our management and counsel are of the opinion that, when such litigation is resolved, any additional liability, if any, will not have a material adverse effect on our consolidated financial statements.

Note 16. Identified Intangible Assets and Liabilities

Identified intangible assets and liabilities associated with our property acquisitions are as follows (in thousands):

	March 31, 2011	December 31, 2010
Identified Intangible Assets:		
Above-Market Leases (included in Other Assets, net)	$16,597	$16,825
Above-Market Leases – Accumulated Amortization	(10,604)	(10,507)
Below-Market Assumed Mortgages (included in Debt, net)	5,722	5,722
Below-Market Assumed Mortgages – Accumulated Amortization	(1,308)	(1,157)
Valuation of In Place Leases (included in Unamortized Debt and Lease Cost, net)	72,631	71,272
Valuation of In Place Leases – Accumulated Amortization	(36,735)	(35,984)
	$46,303	$46,171
Identified Intangible Liabilities:		
Below-Market Leases (included in Other Liabilities, net)	$39,634	$37,668
Below-Market Leases – Accumulated Amortization	(24,535)	(23,585)
Above-Market Assumed Mortgages (included in Debt, net)	47,455	48,149
Above-Market Assumed Mortgages – Accumulated Amortization	(31,559)	(31,288)
	$30,995	$30,944

These identified intangible assets and liabilities are amortized over the applicable lease terms or the remaining lives of the assumed mortgages, as applicable.

The net amortization of above-market and below-market leases increased rental revenues by $.6 million and $.3 million for the three months ended March 31, 2011 and 2010, respectively. The estimated net amortization of these intangible assets and liabilities will increase rental revenues for each of the next five years as follows (in thousands):

2011 remaining	$1,191
2012	1,070
2013	1,046
2014	721
2015	691

The amortization of the in place lease intangible assets recorded in depreciation and amortization, was $1.5 million for both the three months ended March 31, 2011 and 2010. The estimated amortization of this intangible asset will increase depreciation and amortization for each of the next five years as follows (in thousands):

2011 remaining	$4,250
2012	5,062
2013	4,228
2014	3,715
2015	3,154

The amortization of above-market and below-market assumed mortgages decreased net interest expense by $.8 million and $.9 million for the three months ended March 31, 2011 and 2010, respectively. The estimated amortization of these intangible assets and liabilities will decrease net interest expense for each of the next five years as follows (in thousands):

2011 remaining	$ 1,224
2012	833
2013	465
2014	500
2015	513

Note 17. Fair Value Measurements

Recurring Fair Value Measurements:
Investments held in grantor trusts
These assets are valued based on publicly quoted market prices for identical assets.

Tax Increment Revenue Bonds
These assets represent tax increment revenue bonds which were issued by the Agency in connection with our investment in a redevelopment project in Sheridan, Colorado. The senior tax increment revenue bonds are valued based on quoted prices for similar assets in an active market. As a result, we have determined that the senior tax increment revenue bonds are classified within Level 2 of the fair value hierarchy. The valuation of our subordinated tax increment revenue bonds is determined based on assumptions that management believes market participants would use in pricing using widely accepted valuation techniques including discounted cash flow analysis based on the expected future sales tax revenues of the redevelopment project. This analysis reflects the contractual terms of the bonds, including the period to maturity, and uses observable market-based inputs, such as market discount rates and unobservable market-based inputs, such as future growth and inflation rates. Since the majority of our inputs are unobservable, we have determined that the subordinate tax increment revenue bonds fall within the Level 3 classification of the fair value hierarchy. At March 31, 2011 and December 31, 2010, the carrying value of these bonds is equal to its fair value.

Derivative instruments
We use interest rate contracts with major financial institutions to manage our interest rate risk. The valuation of these instruments is determined based on assumptions that management believes market participants would use in pricing, using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of our interest rate contracts have been determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counter-party’s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral, thresholds and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counter-parties. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, aggregated by the level in the fair value hierarchy in which those measurements fall, are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at March 31, 2011
Assets:				
Investments in grantor trusts	$15,080			$15,080
Tax increment revenue bonds		$51,255	$ 10,700	61,955
Derivative instruments:				
Interest rate contracts		5,758		5,758
Total	$15,080	$57,013	$ 10,700	$82,793
Liabilities:				
Derivative instruments:				
Interest rate contracts		$59		$59
Deferred compensation plan obligations	$15,080			15,080
Total	$15,080	$59		$15,139

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2010
Assets:				
Investments in grantor trusts	$15,055			$15,055
Tax increment revenue bonds		$51,255	$ 10,700	61,955
Derivative instruments:				
Interest rate contracts		7,192		7,192
Total	$15,055	$58,447	$ 10,700	$84,202
Liabilities:				
Derivative instruments:				
Interest rate contracts		$108		$108
Deferred compensation plan obligations	$15,055			15,055
Total	$15,055	$108		$15,163

A reconciliation of the outstanding balance of the subordinate tax increment revenue bonds using significant unobservable inputs (Level 3) is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Outstanding, January 1, 2010	$ -
Additions (1)	22,417
Loss included in earnings (2)	(11,717)
Outstanding, December 31, 2010	10,700
Gain/(loss) included in earnings	-
Outstanding, March 31, 2011	$ 10,700

(1) Additions represent an investment including accrued interest in a subordinate tax increment revenue bond that was classified as available for sale on December 31, 2010.

(2) Represents the change in unrealized losses recognized in impairment loss in the Statement of Consolidated Income and Comprehensive Income for the year ended December 31, 2010.

Nonrecurring Fair Value Measurements:
Property Impairments
Property is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property, including any identifiable intangible assets, site costs and capitalized interest, may not be recoverable. In such an event, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future on an undiscounted basis to the carrying amount of such property. If we conclude that an impairment may have occurred, estimated fair values are determined by management utilizing cash flow models, market capitalization rates and market discount rates, or by obtaining third-party broker valuation estimates, appraisals, bona fide purchase offers or the expected sales price of an executed sales agreement in accordance with our fair value measurements accounting policy.

Assets measured at fair value on a nonrecurring basis during 2011, aggregated by the level in the fair value hierarchy in which those measurements fall, are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Total Gains (Losses) (1)
Property		$ 13,305		$ 13,305	$ (770)

(1) Total gains (losses) exclude impairments on disposed assets.

In accordance with our policy of evaluating and recording impairments on the disposal of long-lived assets, properties with a total carrying amount of $13.1 million were written down to a fair value of $13.3 million less costs to sell of $1.0 million, resulting in a loss of $.8 million, which was included in earnings for the period. Management's estimate of the fair value of these properties was determined using expected sales prices of executed agreements for the Level 2 inputs.

Assets measured at fair value on a nonrecurring basis at December 31, 2010, aggregated by the level in the fair value hierarchy in which those measurements fall, are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Total Gains (Losses) (1)