FEDERAL REALTY INVESTMENT TRUST
Form 10-Q
August 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2013

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)

Maryland	52-0782497
(State of Organization)	(IRS Employer Identification No.)
1626 East Jefferson Street, Rockville, Maryland	20852
(Address of Principal Executive Offices)	(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. ý 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). ý 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. (Check one):

Large Accelerated Filer	ý	Accelerated Filer	¨
Non-Accelerated Filer	o (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 ý No

The number of Registrant's common shares outstanding on July 29, 2013 was 65,695,201.

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FEDERAL REALTY INVESTMENT TRUST
QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED JUNE 30, 2013

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following balance sheet as of December 31, 2012, 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, 2013 are not necessarily indicative of the results that may be expected for the full year.

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Federal Realty Investment Trust
Consolidated Balance Sheets

	June 30, 2013	December 31, 2012
	(In thousands, except share data)	
	(Unaudited)	
ASSETS		
Real estate, at cost		
Operating (including $264,821 and $264,506 of consolidated variable interest entities, respectively)	$ 4,550,534	$ 4,490,960
Construction-in-progress	401,385	288,714
	4,951,919	4,779,674
Less accumulated depreciation and amortization (including $15,579 and $12,024 of consolidated variable interest entities, respectively)	(1,286,923)	(1,224,295)
Net real estate	3,664,996	3,555,379
Cash and cash equivalents	108,366	36,988
Accounts and notes receivable, net	84,103	73,861
Mortgage notes receivable, net	55,494	55,648
Investment in real estate partnership	33,029	33,169
Prepaid expenses and other assets	125,804	132,659
Debt issuance costs, net of accumulated amortization of $10,488 and $10,140, respectively	13,411	10,861
TOTAL ASSETS	$ 4,085,203	$ 3,898,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgages payable (including $204,055 and $205,299 of consolidated variable interest entities, respectively)	$ 724,984	$ 760,789
Capital lease obligations	71,682	71,693
Notes payable	299,979	299,575
Senior notes and debentures	1,213,333	1,076,545
Accounts payable and accrued expenses	138,932	120,929
Dividends payable	48,296	47,685
Security deposits payable	12,758	12,957
Other liabilities and deferred credits	97,302	103,379
Total liabilities	2,607,266	2,493,552
Commitments and contingencies (Note 7)		
Redeemable noncontrolling interests	94,150	94,420
Shareholders' equity		
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, 65,687,234 and 64,815,446 shares issued and outstanding, respectively	657	648
Additional paid-in capital	1,963,000	1,875,525
Accumulated dividends in excess of net income	(610,569)	(586,970)
Accumulated other comprehensive loss	(2,368)	(12,388)
Total shareholders' equity of the Trust	1,360,717	1,286,812
Noncontrolling interests	23,070	23,781

Total shareholders’ equity	1,383,787	1,310,593
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 4,085,203	$ 3,898,565

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

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Federal Realty Investment Trust
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
REVENUE				
Rental income	$153,769	$141,796	$306,988	$282,457
Other property income	2,915	4,478	6,183	8,840
Mortgage interest income	1,263	1,286	2,528	2,552
Total revenue	157,947	147,560	315,699	293,849
EXPENSES				
Rental expenses	28,229	26,906	57,744	53,016
Real estate taxes	17,650	16,537	35,301	32,594
General and administrative	8,302	7,139	15,359	14,143
Depreciation and amortization	39,853	35,199	80,477	71,770
Total operating expenses	94,034	85,781	188,881	171,523
OPERATING INCOME	63,913	61,779	126,818	122,326
Other interest income	64	112	94	319
Interest expense	(27,147)	(28,733)	(54,552)	(57,526)
Early extinguishment of debt	(3,399)	—	(3,399)	—
Income from real estate partnerships	372	438	684	739
INCOME FROM CONTINUING OPERATIONS	33,803	33,596	69,645	65,858
Gain on sale of real estate	4,994	—	4,994	11,860
NET INCOME	38,797	33,596	74,639	77,718
Net income attributable to noncontrolling interests	(1,258)	(993)	(2,512)	(2,129)
NET INCOME ATTRIBUTABLE TO THE TRUST	37,539	32,603	72,127	75,589
Dividends on preferred shares	(135)	(135)	(271)	(271)
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS	$37,404	$32,468	$71,856	$75,318
EARNINGS PER COMMON SHARE, BASIC				
Continuing operations	$0.49	$0.51	$1.02	$0.99
Gain on sale of real estate	0.08	—	0.08	0.19
	$0.57	$0.51	$1.10	$1.18
Weighted average number of common shares, basic	65,149	63,700	64,922	63,556
EARNINGS PER COMMON SHARE, DILUTED				
Continuing operations	$0.49	$0.51	$1.02	$0.99
Gain on sale of real estate	0.08	—	0.08	0.19
	$0.57	$0.51	$1.10	$1.18
Weighted average number of common shares, diluted	65,311	63,880	65,080	63,732
COMPREHENSIVE INCOME	$47,202	$25,803	$84,659	$71,283
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE TRUST	$45,944	$24,810	$82,147	$69,154

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, 2013
(Unaudited)

	Shareholders' Equity of the Trust								
	Preferred Shares		Common Shares		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
	(In thousands, except share data)								
BALANCE AT DECEMBER 31, 2012	399,896	$9,997	64,815,446	$648	$1,875,525	$(586,970)	$(12,388)	$23,781	$1,310,593
Net income, excluding $1,425 attributable to redeemable noncontrolling interests	—	—	—	—	—	72,127	—	1,087	73,214
Other comprehensive income - change in value of interest rate swaps	—	—	—	—	—	—	10,020	—	10,020
Dividends declared to common shareholders	—	—	—	—	—	(95,455)	—	—	(95,455)
Dividends declared to preferred shareholders	—	—	—	—	—	(271)	—	—	(271)
Distributions declared to noncontrolling interests	—	—	—	—	—	—	—	(962)	(962)
Common shares issued	—	—	734,636	8	81,989	—	—	—	81,997
Exercise of stock options	—	—	16,304	—	1,005	—	—	—	1,005
Shares issued under dividend reinvestment plan	—	—	10,207	—	1,112	—	—	—	1,112
Share-based compensation expense, net of shares withheld	—	—	88,165	1	3,924	—	—	—	3,925

for employee taxes									
Conversion and redemption of OP units	—	—	22,476	—	(555)	—	—	(836)	(1,391)
BALANCE AT JUNE 30, 2013	399,896	$9,997	65,687,234	$657	$1,963,000	$(610,569)	$(2,368)	$23,070	$1,383,787

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 June 30,	
	2013	2012
	(In thousands)	
OPERATING ACTIVITIES		
Net income	$74,639	$77,718
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation and amortization, including discontinued operations	80,477	71,770
Gain on sale of real estate	(4,994)	(11,860)
Income from real estate partnerships	(684)	(739)
Other, net	286	3,138
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
(Increase) decrease in accounts receivable	(7,756)	1,627
Decrease in prepaid expenses and other assets	7,683	5,170
Increase in accounts payable and accrued expenses	1,436	2,087
(Decrease) increase in security deposits and other liabilities	(4,391)	984
Net cash provided by operating activities	146,696	149,895
INVESTING ACTIVITIES		
Acquisition of real estate	(47,202)	—
Capital expenditures - development and redevelopment	(93,290)	(47,776)
Capital expenditures - other	(20,014)	(20,290)
Proceeds from sale of real estate	8,608	—
Distribution from real estate partnership in excess of earnings	68	248
Leasing costs	(6,609)	(5,581)
Repayment of mortgage and other notes receivable, net	261	51
Net cash used in investing activities	(158,178)	(73,348)
FINANCING ACTIVITIES		
Costs to upsize and extend revolving credit facility	(1,929)	—
Issuance of senior notes, net of costs	269,343	—
Redemption and retirement of senior notes	(135,000)	—
Issuance of mortgages, capital leases and notes payable, net of costs	—	5,399
Repayment of mortgages, capital leases and notes payable	(34,505)	(13,270)
Issuance of common shares	83,220	39,629
Dividends paid to common and preferred shareholders	(94,196)	(87,259)
Distributions to and redemptions of noncontrolling interests	(4,073)	(6,078)
Net cash provided by (used in) financing activities	82,860	(61,579)
Increase in cash and cash equivalents	71,378	14,968
Cash and cash equivalents at beginning of year	36,988	67,806
Cash and cash equivalents at end of period	$108,366	$82,774

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, 2013
(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, and California. As of June 30, 2013, we owned or had a controlling interest in community and neighborhood shopping centers and mixed-use properties which are operated as 89 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 or redeemable 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, using the equity method of accounting. Certain 2012 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.

Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 requires entities to disclose certain information relating to amounts reclassified out of accumulated other comprehensive income. We adopted the standard effective January 1, 2013 and it did not have a significant impact to our consolidated financial statements.

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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,	
	2013	2012
	(In thousands)	
SUPPLEMENTAL DISCLOSURES:		
Total interest costs incurred	$61,155	$62,515
Interest capitalized	(6,603)	(4,989)
Interest expense	$54,552	$57,526
Cash paid for interest, net of amounts capitalized	$57,410	$58,132
Cash paid for income taxes	$378	$255
NON-CASH FINANCING TRANSACTION:		
Shares issued under dividend reinvestment plan	$(894)	$(946)

NOTE 3—REAL ESTATE

On April 3, 2013, we acquired the fee interest in a 95,000 square foot retail property located in Darien, Connecticut for $47.3 million. The purchase price allocation will be finalized after our valuation studies are complete. We incurred approximately $0.2 million of acquisition costs which are included in "general and administrative expenses" for the six months ended June 30, 2013.

On April 5, 2013, one of our tenants acquired our fee interest in the land under an office building at our Village of Shirlington property in Arlington, Virginia, that was subject to a long term ground lease. The ground lease included an option for the tenant to purchase the fee interest. The sales price was $6.5 million, and the gain was $5.0 million.

NOTE 4—REAL ESTATE PARTNERSHIP

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, 2013, 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
OPERATING RESULTS				
Revenue	$4,624	$4,709	$9,573	$9,298
Expenses				
Other operating expenses	1,318	1,228	3,135	2,567
Depreciation and amortization	1,361	1,375	2,730	2,751
Interest expense	841	844	1,683	1,689
Total expenses	3,520	3,447	7,548	7,007
Net income	$1,104	$1,262	$2,025	$2,291
Our share of net income from real estate partnership	$372	$438	$684	$796

	June 30, 2013	December 31, 2012
	(In thousands)	
BALANCE SHEETS		
Real estate, net	$172,602	$174,509
Cash	3,990	2,735
Other assets	5,413	5,536
Total assets	$182,005	$182,780
Mortgages payable	$57,040	$57,155
Other liabilities	4,397	4,771
Partners' capital	120,568	120,854
Total liabilities and partners' capital	$182,005	$182,780
Our share of unconsolidated debt	$17,112	$17,147
Our investment in real estate partnership	$33,029	$33,169

NOTE 5—DEBT

During the six months ended June 30, 2013, we repaid the following mortgage loans at par:

	Payoff Amount	Repayment Date	Maturity Date
	(In millions)		
White Marsh Plaza	$9.0	January 2, 2013	April 1, 2013
Crow Canyon	$19.3	June 11, 2013	August 11, 2013

On April 22, 2013, we upsized our $400.0 million revolving credit facility to $600.0 million and extended the maturity date to April 21, 2017, subject to a one-year extension at our option. Under the amended credit facility, the spread over LIBOR is 90 basis points based on our credit rating as of May 1, 2013.

On May 9, 2013, we issued $275.0 million of fixed rate senior notes that mature on June 1, 2023 and bear interest at 2.75%. The net proceeds from this note offering after issuance discounts, underwriting fees and other costs were approximately $269.3 million.

On June 9, 2013, we redeemed our $135.0 million 5.40% senior notes prior to the original maturity date of December 1, 2013. The redemption price of $138.5 million included a make-whole premium of approximately $3.3 million and accrued but unpaid interest of $0.2 million. The make-whole premium is included in "early extinguishment of debt" for the three and six months ended June 30, 2013.

During the three and six months ended June 30, 2013, the maximum amount of borrowings outstanding under our revolving credit facility was $76.0 million for both periods, the weighted average amount of borrowings outstanding was $22.4 million

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and $19.7 million, respectively, and the weighted average interest rate, before amortization of debt fees, was 1.23% and 1.29%, respectively. At June 30, 2013, there was no balance outstanding.

Our revolving credit facility, term loan 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, 2013, we were in compliance with all loan covenants.

NOTE 6—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 (Level 1) were used to estimate the fair value of our marketable senior notes and debentures and discounted cash flow analysis (Level 2) 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:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Mortgages and notes payable	$1,024,963	$1,064,453	$1,060,364	$1,110,757
Senior notes and debentures	$1,213,333	$1,262,466	$1,076,545	$1,190,833

As of June 30, 2013, we have two interest rate swap agreements with a notional amount of $275.0 million that are measured at fair value on a recurring basis. The interest rate swap agreements fix the variable portion of our $275.0 million term loan at 1.72% from December 1, 2011 through November 1, 2018. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. The effective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recorded in accumulated other comprehensive income/loss and is subsequently reclassified into interest expense as interest is incurred on the related variable rate debt. Within the next 12 months, we expect to reclassify an estimated $4.1 million as an increase to interest expense. Our cash flow hedges become ineffective if critical terms of the hedging instrument and the debt instrument do not perfectly match such as notional amounts, settlement dates, reset dates, calculation period and LIBOR rate. In addition, we evaluate the default risk of the counterparty by monitoring the credit-worthiness of the counterparty. When ineffectiveness exists, the ineffective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recognized in earnings in the period affected. Hedge ineffectiveness has not impacted earnings as of June 30, 2013, and we do not anticipate it will have a significant effect in the future.

The fair values of the interest rate swap agreements are based on the estimated amounts we would receive or pay to terminate the contracts at the reporting date and are determined using interest rate pricing models and interest rate related observable inputs. The fair value of our swaps at June 30, 2013 was a liability of $2.4 million and is included in "accounts payable and accrued expenses" on our consolidated balance sheets. For the three and six months ended June 30, 2013, the change in valuation on our interest rate swaps was $8.4 million and $10.0 million, respectively, (including $1.1 million and $2.1 million, respectively, reclassified from other comprehensive loss to interest expense) and is included in "accumulated other comprehensive loss."

A summary of our financial liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy is as follows:

	June 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)							
Interest rate swaps	$—	$2,368	$—	$2,368	$—	$12,388	$—	$12,388

NOTE 7—COMMITMENTS AND CONTINGENCIES

We are sometimes involved in lawsuits, warranty claims, and environmental matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

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We are currently a party to various legal proceedings. We accrue a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range; however, if no amount within the range is a better estimate than any other amount, the minimum within the range is accrued. Legal fees related to litigation are expensed as incurred. 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.
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 286,032 operating partnership units are outstanding which have a total fair value of $29.7 million, based on our closing stock price on June 30, 2013.

NOTE 8—SHAREHOLDERS’ EQUITY

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

	Six Months Ended June 30,			
	2013		2012	
	Declared	Paid	Declared	Paid
Common shares	$1.460	$1.460	$1.380	$1.380
5.417% Series 1 Cumulative Convertible Preferred shares	$0.677	$0.677	$0.677	$0.677

We have 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, 2013, we issued 432,522 common shares at a weighted average price per share of $116.55 for net cash proceeds of $49.8 million and paid $0.6 million in commissions and less than $0.1 million in additional offering expenses related to the sales of these common shares. For the six months ended June 30, 2013, we issued 734,579 common shares at a weighted average price per share of $113.08 for net cash proceeds of $82.0 million and paid $1.0 million in commissions and $0.1 million in additional offering expenses related to the sales of these common shares. As of June 30, 2013, we had the capacity to issue up to $130.3 million in common shares under our ATM equity program.

NOTE 9—COMPONENTS OF RENTAL INCOME

The principal components of rental income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Minimum rents				
Retail and commercial	$113,167	$104,455	$223,715	$207,590
Residential	7,190	6,941	14,329	13,351
Cost reimbursement	28,717	26,475	59,631	53,432
Percentage rent	1,963	1,543	4,124	3,500
Other	2,732	2,382	5,189	4,584
Total rental income	$153,769	$141,796	$306,988	$282,457

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Minimum rents include the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Straight-line rents	$1.8	$1.5	$2.6	$2.1
Amortization of above market leases	$(0.7)	$(0.9)	$(1.5)	$(1.8)
Amortization of below market leases	$1.5	$1.2	$3.0	$2.3

NOTE 10—SHARE-BASED COMPENSATION PLANS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Share-based compensation incurred				
Grants of common shares	$2,624	$2,216	$5,613	$4,890
Grants of options	68	123	154	281
	2,692	2,339	5,767	5,171
Capitalized share-based compensation	(186)	(223)	(388)	(453)
Share-based compensation expense	$2,506	$2,116	$5,379	$4,718

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NOTE 11—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. For the three and six months ended June 30, 2013 and 2012, we had 0.3 million weighted average unvested shares outstanding, 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. There were no anti-dilutive stock options for the three and six months ended June 30, 2013 and 2012. 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.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
NUMERATOR				
Income from continuing operations	$33,803	$33,596	$69,645	$65,858
Less: Preferred share dividends	(135)	(135)	(271)	(271)
Less: Income from continuing operations attributable to noncontrolling interests	(1,258)	(993)	(2,512)	(2,129)
Less: Earnings allocated to unvested shares	(214)	(208)	(428)	(416)
Income from continuing operations available for common shareholders	32,196	32,260	66,434	63,042
Gain on sale of real estate	4,994	—	4,994	11,860
Net income available for common shareholders, basic and diluted	$37,190	$32,260	$71,428	$74,902
DENOMINATOR				
Weighted average common shares outstanding—basic	65,149	63,700	64,922	63,556
Effect of dilutive securities:				
Stock options	162	180	158	176
Weighted average common shares outstanding—diluted	65,311	63,880	65,080	63,732
EARNINGS PER COMMON SHARE, BASIC				
Continuing operations	$0.49	$0.51	$1.02	$0.99
Gain on sale of real estate	0.08	—	0.08	0.19
	$0.57	$0.51	$1.10	$1.18
EARNINGS PER COMMON SHARE, DILUTED				
Continuing operations	$0.49	$0.51	$1.02	$0.99
Gain on sale of real estate	0.08	—	0.08	0.19
	$0.57	$0.51	$1.10	$1.18
Income from continuing operations attributable to the Trust	$32,545	$32,603	$67,133	$63,729

NOTE 12—SUBSEQUENT EVENT

On July 22, 2013, we sold the fee interest in our final building at Fifth Avenue in San Diego, California for a sales price of $15.3 million resulting in a gain of approximately $11 million.

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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, 2012 filed with the Securities and Exchange Commission (the “SEC”) on February 12, 2013.

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 information, sometimes we use words such as “may,” “will,” “could,” “should,” “plans,” “intends,” “expects,” “believes,” “estimates,” “anticipates” and “continues.” Forward-looking statements are 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 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, 2012 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, and California. As of June 30, 2013, we owned or had a controlling interest in community and neighborhood shopping centers and mixed-use properties which are operated as 89 predominantly retail real estate projects comprising approximately 19.6 million square feet (excludes unconsolidated joint venture properties). In total, the real estate projects were 95.3% leased and 94.5% occupied at June 30, 2013. 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, 2013. In total, the joint venture properties in which we own a 30% interest were 86.2% leased and 85.8% occupied at June 30, 2013.

2013 Significant Property Acquisition & Dispositions

On April 3, 2013, we acquired the fee interest in a 95,000 square foot retail property located in Darien, Connecticut for $47.3 million. The purchase price allocation will be finalized after our valuation studies are complete. We incurred approximately $0.2 million of acquisition costs which are included in "general and administrative expenses" for the six months ended June 30, 2013.

On April 5, 2013, one of our tenants acquired our fee interest in the land under an office building at our Village of Shirlington property in Arlington, Virginia, that was subject to a long term ground lease. The ground lease included an option for the tenant to purchase the fee interest. The sales price was $6.5 million, and the gain was $5.0 million.

On July 22, 2013, we sold the fee interest in our final building at Fifth Avenue in San Diego, California for a sales price of $15.3 million resulting in a gain of approximately $11 million.

2013 Significant Debt and Equity Transactions

During the six months ended June 30, 2013, we repaid the following mortgage loans at par:

	Payoff Amount (In millions)	Repayment Date	Maturity Date
White Marsh Plaza	$9.0	January 2, 2013	April 1, 2013
Crow Canyon	$19.3	June 11, 2013	August 11, 2013

On April 22, 2013, we upsized our $400.0 million revolving credit facility to $600.0 million and extended the maturity date to April 21, 2017, subject to a one-year extension at our option. Under the amended credit facility, the spread over LIBOR is 90 basis points based on our credit rating as of May 1, 2013.

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On May 9, 2013, we issued $275.0 million of fixed rate senior notes that mature on June 1, 2023 and bear interest at 2.75%. The net proceeds from this note offering after issuance discounts, underwriting fees and other costs were approximately $269.3 million.

On June 9, 2013, we redeemed our $135.0 million 5.40% senior notes prior to the original maturity date of December 1, 2013. The redemption price of $138.5 million included a make-whole premium of approximately $3.3 million and accrued but unpaid interest of $0.2 million. The make-whole premium is included in "early extinguishment of debt" for the three and six months ended June 30, 2013.

We have 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, 2013, we issued 432,522 common shares at the weighted average price per share of $116.55 for net cash proceeds of $49.8 million and paid $0.6 million in commissions and less than $0.1 million in additional offering expenses related to the sales of these common shares. For the six months ended June 30, 2013, we issued 734,579 common shares at a weighted average price per share of $113.08 for net cash proceeds of $82.0 million and paid $1.0 million in commissions and $0.1 million in additional offering expenses related to the sales of these common shares. As of June 30, 2013, we had the capacity to issue up to $130.3 million in common shares under our ATM equity program.

Capitalized Costs

Certain external and internal costs directly related to the development, redevelopment and leasing of real estate, including pre-construction costs, real estate taxes, insurance, construction costs and salaries and related costs of personnel directly involved, are capitalized. We capitalized external and internal costs related to both development and redevelopment activities of $121 million and $3 million, respectively, for the six months ended June 30, 2013 and $45 million and $3 million, respectively, for the six months ended June 30, 2012. We capitalized external and internal costs related to other property improvements of $17 million and $1 million, respectively, for the six months ended June 30, 2013 and $21 million and $1 million, respectively, for the six months ended June 30, 2012. We capitalized external and internal costs related to leasing activities of $5 million and $3 million, respectively, for the six months ended June 30, 2013 and $3 million and $3 million, respectively, for the six months ended June 30, 2012. The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities, other property improvements, and leasing activities were $3 million, $1 million, and $2 million, respectively, for the six months ended June 30, 2013 and $2 million, $1 million, and $3 million, respectively, for the six months ended June 30, 2012.

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 development and redevelopments,
- growth in our same-center portfolio, and
- expansion of our portfolio through property acquisitions.

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 2013, we expect to have redevelopment projects stabilizing with projected costs of approximately $29 million.

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, 2013 is approximately $204 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. In December 2011, we entered into agreements with AvalonBay Communities ("AvalonBay") for a portion of the first phase of development at Assembly Row which will include 450 residential units (by AvalonBay) and approximately 326,000 square feet of retail space and 98,000 square feet of office space (both by the Trust). The Massachusetts Bay Transit Authority (MBTA) is constructing the new orange line T-Stop at the property. Our construction on the first phase commenced during first quarter 2012. Total expected costs for Phase I of Assembly Row range from $190 million to $200 million of which $67 million has been incurred to date. We expect Phase I to stabilize in 2015. Additionally during 2013, we are continuing our infrastructure work. In total, we expect to invest between $95 million and $105 million in Assembly Row in 2013, net of expected public funding.

In the third quarter 2012, we broke ground on the first phase of Pike & Rose in Rockville, MD, a long-term multi-phased mixed-use project located on a portion of our Mid-Pike Plaza property. The property currently has zoning entitlements to build 1.7 million square feet of commercial-use buildings and 1,583 residential units. Phase I of Pike & Rose involves demolition of roughly 25% of the existing gross leasable area at Mid-Pike Plaza (which was completed during the second quarter 2012) and construction of 493 residential units, 151,000 square feet of retail space and 79,000 square feet of office space. Total expected costs for Phase I of Pike & Rose range from $245 million to $255 million of which $58 million has been incurred to date. We expect Phase I of the project to stabilize in 2015/2016. We expect to invest between $85 million and $105 million in 2013.

We continue our ongoing redevelopment efforts at Santana Row and are currently under construction on a 212 unit residential building which we expect to stabilize in 2014. Santana Row currently has zoning entitlements to build an additional 348 residential units and 305,000 square feet of retail and office space. Projected costs of the 212 unit residential building are $70 million to $75 million of which $41 million has been incurred to date. We expect to incur the remaining costs for the project throughout 2013 and early 2014.

The development of future phases of Assembly Row, Pike & Rose and Santana Row will be pursued opportunistically based on, among other things, market conditions, and our evaluation of whether those phases will generate an appropriate risk adjusted financial return.

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. We have continued to see signs of improvement for many of our tenants as well as increased interest from prospective tenants for our retail spaces. While there can be no assurance that these positive signs will continue, we remain cautiously optimistic regarding the improved trends we have seen over the past few years. We believe the locations of our centers and diverse tenant base mitigates the negative impact of the economic environment, however, 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. During 2013, we expect to see increases in rental income as a result of our significant leasing activity over the past two years which resulted in higher occupancy in the latter half of 2012. We seek to maintain a mix of strong national, regional, and local retailers. At June 30, 2013, no single tenant accounted for more than 3.4% of annualized base rent.

We continue to review acquisition opportunities in our primary markets that complement our portfolio and provide long-term growth opportunities. Some of our acquisitions do not initially contribute significantly to earnings growth; however, we believe 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 new or assumed mortgages.

At June 30, 2013, the leasable square feet in our properties was 94.5% occupied and 95.3% 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

For the second quarter 2013, we signed leases for a total of 505,000 square feet of retail space including 471,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 15% on a cash basis and 29% on a straight-line basis. New leases for comparable spaces were signed for 258,000 square feet at an average rental increase of 24% on a cash basis and 40% on a straight-line basis. Renewals for comparable spaces were signed for 213,000 square feet at an average rental increase of 6% on a cash basis and 18% on a straight-line basis.

For the six months ended June 30, 2013, we signed leases for a total of 771,000 square feet of retail space including 725,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 14% on a cash basis and 27% on a straight-line basis. New leases for comparable spaces were signed for 397,000 square feet at an average rental increase of 24% on a cash basis and 37% on a straight-line basis. Renewals for comparable spaces were signed for 328,000 square feet at an average rental increase of 5% on a cash basis and 17% on a straight-line basis.

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Tenant improvements and incentives were $51.43 per square foot for new leases and $0.10 per square foot for renewals for the six months ended June 30, 2013. Tenant improvements and incentives increased for new deals relative to our historical experience primarily due to a replacement tenant for Best Buy at Santana Row and one grocery anchor lease at Ellisburg Shopping Center. We expect the amount to return to levels more in line with our historical experience for the rest of 2013.

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. Tenant improvements and incentives include the total dollars committed for the improvement (fit-out) of a space as it relates to a specific lease but may also include base building costs (i.e. expansion, escalators or new entrances) which are required to make the space leasable. Incentives include amounts paid to tenants as an inducement to sign a lease that do not represent building improvements.

The leases signed in 2013 generally become effective over the following two years though some may not become effective until 2016 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 2013, we believe our leasing volume will be in-line with our historical averages 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.

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. For the three and six months ended June 30, 2013, all or a portion of 81 properties were considered same-center and nine properties were considered redevelopment or expansion for both periods. For the six months ended June 30, 2013, two properties were moved from acquisitions to same-center designation and one property was moved from redevelopment to same-center designation when compared to the designations as of December 31, 2012. While there is judgment surrounding changes in designations, we typically move redevelopment properties to same-center once they have stabilized, which is typically considered 95% occupancy or when the growth expected from the redevelopment has been included in the comparable periods. We typically remove properties from same center when the redevelopment has or is expected to have a significant impact to property operating income within the calendar year. Acquisitions are moved to same-center once we have owned the property for the entirety of comparable periods and the property is not under significant development or expansion.

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RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2013 AND 2012

	2013	2012	Change Dollars	%
	(Dollar amounts in thousands)			
Rental income	$153,769	$141,796	$11,973	8.4 %
Other property income	2,915	4,478	(1,563)	(34.9)%
Mortgage interest income	1,263	1,286	(23)	(1.8)%
Total property revenue	157,947	147,560	10,387	7.0 %
Rental expenses	28,229	26,906	1,323	4.9 %
Real estate taxes	17,650	16,537	1,113	6.7 %
Total property expenses	45,879	43,443	2,436	5.6 %
Property operating income	112,068	104,117	7,951	7.6 %
Other interest income	64	112	(48)	(42.9)%
Income from real estate partnerships	372	438	(66)	(15.1)%
Interest expense	(27,147)	(28,733)	1,586	(5.5)%
Early extinguishment of debt	(3,399)	—	(3,399)	100.0 %
General and administrative expense	(8,302)	(7,139)	(1,163)	16.3 %
Depreciation and amortization	(39,853)	(35,199)	(4,654)	13.2 %
Total other, net	(78,265)	(70,521)	(7,744)	11.0 %
Income from continuing operations	33,803	33,596	207	0.6 %
Gain on sale of real estate	4,994	—	4,994	100.0 %
Net income	38,797	33,596	5,201	15.5 %
Net income attributable to noncontrolling interests	(1,258)	(993)	(265)	26.7 %
Net income attributable to the Trust	$37,539	$32,603	$4,936	15.1 %

Property Revenues

Total property revenue increased $10.4 million, or 7.0%, to $157.9 million in the three months ended June 30, 2013 compared to $147.6 million in the three months ended June 30, 2012. The percentage occupied at our shopping centers increased to 94.5% at June 30, 2013 compared to 93.4% at June 30, 2012. 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 $12.0 million, or 8.4%, to $153.8 million in the three months ended June 30, 2013 compared to $141.8 million in the three months ended June 30, 2012 due primarily to the following:

- an increase of $6.7 million at same-center properties due primarily to approximately $3.0 million related to higher rental rates, increased occupancy of approximately $1.8 million, and an increase in recovery income,
- an increase of $3.8 million attributable to properties acquired in 2013 and 2012, and
- an increase of $0.9 million at redevelopment properties due primarily to the lease-up and stabilization of certain of our redevelopment properties partially offset by lower income from Mid-Pike Plaza as the property is prepared for the development of Pike & Rose.

Other Property Income

Other property income decreased $1.6 million, or 34.9%, to $2.9 million in the three months ended June 30, 2013 compared to $4.5 million in the three months ended June 30, 2012. Included in other property income are items which, although recurring, inherently 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.

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Property Expenses

Total property expenses increased $2.4 million, or 5.6%, to $45.9 million in the three months ended June 30, 2013 compared to $43.4 million in the three months ended June 30, 2012. Changes in the components of property expenses are discussed below.

Rental Expenses

Rental expenses increased $1.3 million, or 4.9%, to $28.2 million in the three months ended June 30, 2013 compared to $26.9 million in the three months ended June 30, 2012. This increase is primarily due to the following:

- an increase of $0.6 million related to properties acquired in 2013 and 2012,
- an increase of $0.5 million in repairs and maintenance at same-center and redevelopment properties, and
- an increase of $0.3 million in marketing expenses at our Assembly Row and Pike & Rose projects,

partially offset by

- a decrease of $0.4 million in bad debt expense at same-center properties.

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 18.0% in the three months ended June 30, 2013 from 18.4% in the three months ended June 30, 2012.

Real Estate Taxes

Real estate tax expense increased $1.1 million, or 6.7% to $17.7 million in the three months ended June 30, 2013 compared to $16.5 million in the three months ended June 30, 2012 due primarily to properties acquired in 2013 and 2012 and annual increases in assessments.

Property Operating Income

Property operating income increased $8.0 million, or 7.6%, to $112.1 million in the three months ended June 30, 2013 compared to $104.1 million in the three months ended June 30, 2012. This increase is primarily due to growth in earnings at same-center properties and properties acquired in 2013 and 2012.

Other

Interest Expense

Interest expense decreased $1.6 million, or 5.5%, to $27.1 million in the three months ended June 30, 2013 compared to $28.7 million in the three months ended June 30, 2012. This decrease is due primarily to the following:

- a decrease of $3.7 million due to a lower overall weighted average borrowing rate, and
- an increase of $1.2 million in capitalized interest,

partially offset by

- an increase of $3.4 million due to higher borrowings.

Gross interest costs were $30.9 million and $31.3 million in the three months ended June 30, 2013 and 2012, respectively. Capitalized interest was $3.8 million and $2.5 million in the three months ended June 30, 2013 and 2012, respectively.

Early Extinguishment of Debt

The $3.4 million of early extinguishment of debt in the three months ended June 30, 2013 relates to the make-whole premium paid as part of the early redemption of our 5.40% senior notes and the related write-off of unamortized debt fees.

General and Administrative Expense

General and administrative expense increased $1.2 million, or 16.3%, to $8.3 million in the three months ended June 30, 2013 from $7.1 million in the three months ended June 30, 2012. This increase is due primarily to higher personnel related costs.

Depreciation and Amortization

Depreciation and amortization expense increased $4.7 million, or 13.2%, to $39.9 million in the three months ended June 30, 2013 from $35.2 million in the three months ended June 30, 2012. This increase is due primarily to 2013 and 2012 acquisitions and accelerated depreciation due to the change in use of a redevelopment property.

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Gain on Sale of Real Estate

The $5.0 million gain on sale of real estate for the three months ended June 30, 2013 is primarily due to the sale of the fee interest in the land under an office building at our Village of Shirlington property in Arlington, Virginia, that was subject to a long term ground lease. The ground lease included an option for the tenant to purchase the fee interest.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 2013 AND 2012

	2013	2012	Change Dollars		Dollars	
	(Dollar amounts in thousands)					
Rental income	$306,988	$282,457	$24,531		8.7	%
Other property income	6,183	8,840	(2,657	)	(30.1	)%
Mortgage interest income	2,528	2,552	(24	)	(0.9	)%
Total property revenue	315,699	293,849	21,850		7.4	%
Rental expenses	57,744	53,016	4,728		8.9	%
Real estate taxes	35,301	32,594	2,707		8.3	%
Total property expenses	93,045					