NEW PLAN EXCEL REALTY TRUST INC
Form 10-K
March 05, 2004

Use these links to rapidly review the document

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED EFFECTIVE OCTOBER 7, 1996]**

For the fiscal year ended December 31, 2003

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from to
Commission File Number 1-12244

NEW PLAN EXCEL REALTY TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**33-0160389**
(State of Incorporation)	(I.R.S. Employer Identification No.)
1120 Avenue of the Americas	**(212) 869-3000**
New York, NY 10036	(Registrant's Telephone Number)
(Address of Principal Executive Offices)	

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

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

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

The aggregate market value of the Registrant's shares of common stock held by non-affiliates was approximately $2,017,079,616 as of June 30, 2003 based on the closing price of $21.35 on the NYSE on that date.

As of March 1, 2004, the number of shares of common stock of the Registrant outstanding was 99,500,522.

Documents incorporated by reference: Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

PART I

Forward-Looking Statements

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

national or local economic, business, real estate and other market conditions, including the ability of the general economy to recover timely from the current economic downturn

the competitive environment in which we operate

property management risks

financial risks, such as the inability to obtain debt or equity financing on favorable terms

possible future downgrades in our credit rating

the level and volatility of interest rates

financial stability of tenants, including the ability of tenants to pay rent, the decision of tenants to close stores and the effect of bankruptcy laws

the ability to maintain our status as a REIT for federal income tax purposes

governmental approvals, actions and initiatives

environmental/safety requirements and costs

risks of real estate acquisition and development, including the failure of acquisitions to close and pending developments and redevelopments to be completed on time and within budget; risks of disposition strategies, including the failure to complete sales on a timely basis and the failure to reinvest sale proceeds in a manner that generates favorable returns

risks of joint venture activities

other risks identified in this Annual Report on Form 10-K and, from time to time, in other reports we file with the Securities and Exchange Commission (the "SEC") or in other documents that we publicly disseminate.

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

Item 1. *Business*

General

We are one of the nation's largest owners and managers of community and neighborhood shopping centers. As of December 31, 2003, we owned 379 properties in 35 states. Our properties include 352 community and neighborhood shopping centers with approximately 49.5 million square feet of gross leasable area and 27 other related retail assets with approximately 2.2 million square feet of gross leasable area. We also owned through co-investments with our unconsolidated joint venture partners 22

community and neighborhood shopping centers with approximately 3.9 million square feet of gross leasable area as of December 31, 2003. The occupancy rate of our total portfolio (excluding joint venture properties) was approximately 90% as of December 31, 2003.

We are a self-administered and self-managed equity REIT that was formed in 1972 and is now incorporated in Maryland.

Refocus on Retail Franchise

In November 2000, we announced a long-term business plan designed to leverage our expertise, critical mass and working infrastructure in the community and neighborhood shopping center sector. Our strategy is to own and manage a quality portfolio of commercial retail properties, a majority of which are community and neighborhood shopping centers, which will provide increasing cash flow while protecting investor capital and providing potential for capital appreciation. We seek to implement this strategy by:

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

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

Aggressive Management

We aggressively manage our properties, with an emphasis on maintaining high occupancy rates and a strong base of nationally and regionally recognized anchor tenants. We regularly monitor the physical condition of our retail properties and the financial condition of our retail tenants. We follow a schedule of regular physical maintenance at our retail properties with a view towards tenant expansions, renovations and refurbishing to preserve and increase the value of these properties. In connection with these efforts, we have six regional offices and 10 satellite field offices throughout the country, each of which is responsible for managing the leasing, property management and maintenance of properties in its area, and we are currently improving the general appearance of certain of our properties by upgrading existing facades and roofs, updating signage, resurfacing parking lots and improving parking lot and exterior building lighting. In addition, we remain focused on enhancing our property management skills and our internal capabilities, systems and infrastructure.

We seek to increase the cash flow and portfolio value of our existing properties primarily through contractual rent increases during the lease term, re-letting of existing space at higher rents, expansion and redevelopment of existing properties and the minimization of overhead and operating costs. During 2003, we completed 17 redevelopment projects, the aggregate cost of which (including costs incurred in prior years on these projects) was approximately $34 million. Our current redevelopment pipeline is comprised of an additional 32 redevelopment projects, the aggregate cost of which (including costs incurred in prior years on these projects) is expected to be approximately $119 million.

Acquisition of Properties

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

During 2003, we expanded our portfolio by opportunistically acquiring (1) a portfolio of seven grocery-anchored neighborhood shopping centers located in Michigan, (2) four individual shopping center properties and (3) the remaining 50 percent interest in a property in which we owned the other 50 percent interest. The acquisitions were completed in separate transactions during 2003 for an aggregate of approximately $127 million. The acquired properties were located within our existing regional concentrations.

We also derive additional growth capital for acquisitions through strategic joint ventures with institutional investors. In November 2003, we formed a joint venture with a fund advised by JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. During 2003, we, together with our joint venture partners, co-invested an aggregate of approximately $58 million in three individual properties.

Disposition of Properties

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

During 2003, we generated proceeds of approximately $122 million through the disposition of seven shopping centers, 17 single tenant properties, six miscellaneous properties, the sale of 70 percent of our interest in Arapahoe Crossings, a community shopping center located in a suburb of Denver, and the disposition of two properties held through joint ventures. The proceeds from these transactions were used to pay down outstanding debt.

Financing Strategy

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

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

Recent Developments

Michigan Portfolio Acquisition

On January 3, 2003, we acquired a portfolio of seven grocery-anchored neighborhood shopping centers located in Michigan for an aggregate purchase price of approximately $46 million in cash (the "Spartan Acquisition"). The Spartan Acquisition was financed through borrowings under our $350 million senior unsecured revolving credit facility (the "Fleet Revolving Facility"). The seven shopping centers contain an aggregate of approximately 534,386 square feet of gross leasable area and are located primarily in the northern and western suburbs of Detroit and the Grand Rapids area.

Repayment of Variable Rate REMIC

On March 3, 2003, we repaid in full $110.5 million outstanding under our variable rate REMIC through borrowings under the Fleet Revolving Facility.

Issuance of Public Equity

On April 21, 2003, we completed a public offering of 8,000,000 depositary shares (including the partial exercise of the underwriters' over-allotment option), each depositary share representing a $^{1}/_{10}$ fractional interest of a share of our 7.625% Series E Cumulative Redeemable Preferred Stock (the "Preferred Stock Offering"). The net proceeds to us from the Preferred Stock Offering were approximately $193 million and were used to redeem all of our outstanding Series B depositary shares, each of which represented a $^{1}/_{10}$ fractional interest of a share of our $8^{5}/_{8}$% Series B Cumulative Redeemable Preferred Stock, as well as to repay a portion of the amount outstanding under the Fleet Revolving Facility.

Redemption of Series B Preferred Stock

On May 5, 2003, we redeemed all of our 6,300,000 outstanding Series B depositary shares at an aggregate cost of $158 million (the "Series B Preferred Stock Redemption").

Issuance of Convertible Senior Notes

On May 19, 2003, we completed a public offering of $100 million aggregate principal amount of notes due 2023 (the "Convertible Debt Offering"). On June 10, 2003, the underwriters exercised their over-allotment option in full and purchased an additional $15 million aggregate principal amount of the 3.75% convertible senior notes. The notes are convertible into our common stock, upon the occurrence of certain events, at an initial conversion price of $25.00 per share. The notes may not be redeemed by us prior to June 9, 2008, but are redeemable for cash, in whole or in part, any time thereafter. Net proceeds to us from the offering were approximately $112 million, which were used to repay a portion of the amount outstanding under the Fleet Revolving Facility.

New Standby Equity Distribution Program

On July 21, 2003, we established a standby equity distribution program with BNY Capital Markets, Inc. pursuant to which we may issue and sell from time to time up to $50 million of common stock in "at the market" transactions. As of December 31, 2003, we had not issued any common stock under the program.

New Term Loan Facility

On September 29, 2003, we entered into a $100 million secured term loan facility with Fleet National Bank (the "Fleet Secured Term Loan"). Proceeds from the loan were used to refinance our $155 million senior unsecured term loan facility that was scheduled to mature on December 31, 2003.

The new facility matures on September 29, 2006, and under certain circumstances, the amount of the facility may be increased to $150 million. We expect to increase the amount of the facility to the maximum $150 million, pursuant to and in accordance with its terms, in the first six months of 2004. As of December 31, 2003, $100 million was outstanding under the Fleet Secured Term Loan, which loan bore interest at LIBOR plus 125 basis points, and was fully drawn.

Partial Sale of Arapahoe Crossings Ownership Interest

On September 30, 2003, a U.S. partnership comprised substantially of foreign investors purchased a 70% interest in Arapahoe Crossings, reducing our ownership interest to 30% from 100%. The sales price for our 70% interest was approximately $50 million and we will continue to receive leasing commissions and property management fees. Arapahoe Crossings is a 466,363 square foot grocery-anchored community shopping center located in Aurora, Colorado. Tenants include Borders, Colorado Theatres, King Soopers, Kohl's, Linens "N Things, Marshalls, Old Navy and Ross.

Non-Renewal of Poison Pill

We adopted a stockholders rights plan in May 1998, which plan had an expiration date of October 8, 2003. We elected not to renew the plan upon its expiration.

Issuance of Medium-Term Notes

On November 20, 2003, we issued $50 million of unsecured, 10-year fixed rate notes with a coupon of 5.50% (the "Medium-Term Notes Offering"). The notes are due on November 20, 2013. Net proceeds from the offering were used to repay $49 million of 7.33%, 4-year unsecured notes scheduled to mature on November 20, 2003. On May 8, 2003, we entered into a 10-year forward starting interest rate swap in anticipation of this offering, locking the LIBOR swap rate at 4.1135%. This swap settled upon the completion of this transaction. As a result of this swap, the effective interest rate on the $50 million of unsecured, fixed rate notes is 4.9815%.

Formation of Joint Venture with JPMorgan Fleming Asset Management

On November 24, 2003, we formed a strategic joint venture with JPMorgan Fleming Asset Management to acquire high-quality institutional grade community and neighborhood shopping centers on a nationwide basis. The joint venture, which is called NP/I&G Institutional Retail Company, LLC, has an equity commitment of $150 million based on a 20% / 80% contribution split between us and a fund advised by JPMorgan Fleming Asset Management, respectively. As the managing member, we will be responsible for initiating acquisitions, as well as providing management and leasing services. On November 25, 2003, the joint venture acquired Lake Grove Plaza, a 251,236 square foot grocery-anchored community shopping center located in Lake Grove, New York, for approximately $44.0 million. Tenants include Bally Total Fitness, DSW, Michaels, PETCO, Staples and Stop & Shop.

Clearwater Mall Acquisition

On January 30, 2004, we purchased the remaining 50% interest in Clearwater Mall, increasing our ownership interest to 100% from 50%. The purchase price for the acquisition was approximately $30 million. Clearwater Mall, located in Clearwater, Florida, is a community shopping center encompassing a 72-acre site with 284,184 square feet of leased space, as well as non-owned Costco, Lowe's and SuperTarget anchors.

Issuance of Senior Unsecured Notes

On February 6, 2004, we completed a public offering of $150 million aggregate principal amount of unsecured, 7-year fixed rate notes with a coupon of 4.50% (the "2004 Debt Offering"). The notes are

due February 1, 2011. The notes were priced at 99.409% of par value to yield 4.60%. Net proceeds from the offering were used to repay a portion of the borrowings outstanding under the Fleet Revolving Facility. On January 30, 2004, in anticipation of this offering, we entered into interest rate swaps that effectively converted the interest rate on $100 million of the notes from a fixed rate to a blended floating rate of 39 basis points over the 6-month LIBOR rate. The swaps will terminate on February 1, 2011.

Employees

As of December 31, 2003, we employed approximately 376 individuals (including executive, administrative and field personnel).

Available Information

Our internet website address is *www.newplan.com*. You can obtain on our website, free of charge, a copy of our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the SEC. Also available on our website, free of charge, are copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate Governance Guidelines, and the charters for each of the committees of our Board of Directors the Audit Committee, the Corporate Governance Committee, the Executive Compensation and Stock Option Committee and the Nominating Committee. Copies of our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officer and Senior Financial Officers, our Corporate

Governance Guidelines, and our committee charters are also available free of charge, upon request, in print to any stockholder. You can obtain such copies in print by contacting our Vice President of Corporate Communication, either by mail at our corporate office or by e-mail at corporatecommunications@newplan.com. We intend to disclose any amendment to, or a waiver from, a provision of our Code of Ethics for Principal Executive Officer and Senior Financial Officers on our website within five business days following the date of the amendment or waiver.

Financial Information about Industry Segments

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

Risk Factors

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

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

Risks Related to Our Properties and Business

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

- changes in the national, regional and local economic climate, particularly in Texas, where properties that represented approximately 18.3% of our total annualized base rental income as of December 31, 2003 are located;
- local conditions, including an oversupply of space in properties like those that we own, or a reduction in demand for properties like those that we own;
- the attractiveness of our properties to tenants;
- the ability of tenants to pay rent;
- competition from other available properties;
- changes in market rental rates;
- the need to periodically pay for costs to repair, renovate and re-let space;

changes in operating costs, including costs for maintenance, insurance and real estate taxes;

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

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

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

Failure by any anchor tenant with leases in multiple locations to make rental payments to us, because of a deterioration of its financial condition or otherwise, could seriously harm our performance. Our performance depends on our ability to collect rent from tenants. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, our tenants may delay a number of lease commencements, decline to extend or renew a number of leases upon expiration, fail to make rental payments when due under a number of leases, close a number of stores or declare bankruptcy. Any of these actions could result in the termination of the tenant's leases and the loss of rental income attributable to the terminated leases. In addition, lease terminations by an anchor tenant or a failure by that anchor tenant to occupy the premises could result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases. In that event, we may be unable to re-lease the vacated space at attractive rents or at all. The occurrence of any of the situations described above, particularly if it involves a substantial tenant with leases in multiple locations, could seriously harm our performance. As of December 31, 2003, our largest tenants were The Kroger Co., Wal-Mart Stores and Kmart Corporation, the scheduled annualized base rents for which represented 4.1%, 3.7% and 2.9%, respectively, of our total annualized base rents.

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

We face considerable competition in the leasing market and may be unable to renew leases or re-let space as leases expire. We compete with a number of other companies in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If our tenants decide not to renew or extend their leases upon expiration, we may not be able to re-let the space. Even if the tenants do renew or we can re-let the space, the terms of renewal or re-letting, including the cost of required renovations, may be less favorable than current lease terms or than expectations for the space. As of December 31, 2003, leases were scheduled to expire on a total of approximately 10.4% of the space at our properties through 2004. We may be unable to promptly renew the leases or re-let this space or the rental rates upon renewal or re-letting may be significantly lower than expected rates.

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

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

we may not achieve expected cost savings and operating efficiencies;

management attention may be diverted to the integration of acquired properties;

the acquired properties may not perform as well as we anticipate due to various factors, including changes in macro-economic conditions and the demand for retail space; and

we may experience difficulties and incur expenses related to the assimilation and retention of employees that we have hired or intend to hire to manage and operate acquired properties.

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

Current and future development and redevelopment of real estate properties may not yield expected returns and may strain management resources. We are actively involved in several ongoing substantial redevelopment projects, including The Mall at 163rd Street. We also may invest in development projects in the future.

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

We do not have exclusive control over our joint venture investments, so we are unable to ensure that our objectives will be pursued. We have invested in some cases as a borrower, co-venturer or partner in the development or redevelopment of new properties, instead of developing projects directly. These investments involve risks not present in a wholly owned development or redevelopment project. In these investments, we do not have exclusive control over the development, financing, leasing, management and other aspects of the project. As a result, the borrower, co-venturer or partner might have interests or goals that are inconsistent with our interests or goals, take action contrary to our interests or otherwise impede our objectives. The borrower, co-venturer or partner also might become insolvent or bankrupt.

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

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

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

We have substantial scheduled debt payments and may not be able to refinance debt at maturity. Our business is subject to risks normally associated with debt financing. Cash flow could be insufficient to pay expected dividends to stockholders and meet required payments of principal and interest. We may not be able to refinance existing debt, which in virtually all cases requires substantial principal payments at maturity, and, even if we can, the terms of a refinancing might not be as favorable as the terms of existing debt. The total principal amount of our outstanding debt was approximately $1.8 billion as of December 31, 2003. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, including new equity capital, cash flow may not be sufficient in all years to repay all maturing debt at the relevant time(s). Prevailing interest rates, our results of operations and financial condition, our senior debt ratings or other factors at the time of refinancing, including the possible reluctance of lenders to make loans, may result in higher interest rates and increased interest expense.

Our financial covenants may restrict our operating and acquisition activities. Our revolving credit and secured term loan facilities and the indentures under which our senior unsecured debt is issued contain certain financial and operating covenants, including, among other things, certain coverage

ratios, as well as limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets and engage in mergers and consolidations and certain acquisitions. These covenants may restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of the financial covenants could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us.

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

Our degree of leverage could limit our ability to obtain additional financing. Our organizational documents do not contain any limitation on the incurrence of debt. The degree of our leverage could have important consequences, including affecting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally.

We have substantial variable rate debt obligations, which may impede our operating performance and put us at a competitive disadvantage. Increases in interest rates, or the loss of the benefits of any hedging agreements that we might have, would increase our interest expense, which would adversely affect cash flow and our ability to service debt and pay dividends to stockholders. As of December 31, 2003, we had approximately $302 million of floating rate debt maturing at various times up to September 1, 2011, excluding $50 million of our fixed rate debt with respect to which we entered into a hedging agreement, thereby converting the fixed rate debt to floating rate debt. The rates on this debt increase when interest rates increase.

Hedging agreements enable us to convert floating rate liabilities to fixed rate liabilities or fixed rate liabilities to floating rate liabilities. Hedging agreements expose us to the risk that the counterparties to such agreements may not perform, which could increase our exposure to fluctuating interest rates, even though the counterparties to hedging agreements that we enter into are major financial institutions. As of December 31, 2003, we were a party to one hedging agreement with respect to $50 million of our fixed rate debt. On January 30, 2004, we entered into additional hedging agreements with respect to $100 million of our fixed rate debt.

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

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

Environmental problems that exist at some of our properties could result in significant unexpected costs. Under various federal, state and local laws, ordinances and regulations, we may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may become liable for the costs of removal or remediation of certain hazardous substances released on or in our property or disposed of by us, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). Such liability may be imposed whether or not we knew of, or were responsible for, the presence of these hazardous or toxic substances. As is common with community and neighborhood shopping centers, many of our properties had or have on-site dry cleaners and/or on-site gasoline facilities. These operations could potentially result in environmental contamination at the properties.

We are aware that soil and groundwater contamination exists at some of our properties. The primary contaminants of concern at these properties include perchloroethylene and trichloroethylene (associated with the operations of on-site dry cleaners) and petroleum hydrocarbons (associated with the operations of on-site gasoline facilities). We also are aware that asbestos-containing materials exist at some of our properties. While we do not expect the environmental conditions at our properties, considered as a whole, to have a material adverse effect on us, there can be no assurance that this will be the case. Further, no assurance can be given that any environmental studies performed have identified or will identify all material environmental conditions, that any prior owner of the properties did not create a material environmental condition not known to us or that a material environmental condition does not otherwise exist with respect to any of our properties.

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

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

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

<u>Risks Related to Our Organization and Structure</u>

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

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

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

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

Tax Risks

The lower tax rate on dividends from non-REIT C corporations may adversely affect the value of our stock. While corporate dividends have traditionally been taxed at ordinary income rates, dividends received by individuals through December 31, 2008 from domestic corporations generally will be taxed at the maximum capital gains tax rate of 15% as opposed to the maximum ordinary income tax rate of 35%. This reduces substantially the so-called "double taxation" (that is, taxation at both the corporate and stockholder levels) that generally applies to non-REIT corporations but does not apply to REITs because REITs that distribute all of their taxable income generally do not pay any corporate income tax. REIT dividends are not eligible for the lower capital gains rates, except in certain circumstances where the dividends are attributable to income that has been subject to corporate-level tax. The

application of capital gains rates to non-REIT C corporation dividends could cause individual investors to view stock in non-REIT C corporations as more attractive than stock in REITs, which may negatively affect the value of our common stock. We cannot predict what effect, if any, the application of the capital gains tax rate to dividends paid by non-REIT C corporations may have on the value of our stock, either in terms of price or relative to other potential investments.

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

If the company fails to qualify as a REIT, the company would be subject to federal income tax at regular corporate rates. Also, unless the Internal Revenue Service granted the company relief under certain statutory provisions, the company would remain disqualified as a REIT for four years following the year the company first failed to qualify. If the company failed to qualify as a REIT, the company would have to pay significant income taxes and would therefore have less money available for investments, debt service and dividends to stockholders. This likely would have a significant adverse affect on the value of our securities. In addition, we would no longer be required to pay any dividends to stockholders.

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

Subject to certain exceptions, including the one discussed in this paragraph, a REIT is generally prohibited from owning securities in any one issuer if the value of those securities exceeds 5% of the value of the REIT's total assets or the securities owned by the REIT represent more than 10% of the issuer's outstanding voting securities or more than 10% of the value of the issuer's outstanding securities. A REIT is permitted to own securities of a subsidiary in an amount that exceeds the 5% value test and the 10% vote or value test if the subsidiary elects to be a "taxable REIT subsidiary,"

which is taxable as a corporation. However, a REIT may not own securities of taxable REIT subsidiaries that represent in the aggregate more than 20% of the value of the REIT's total assets. We currently own 100% of the outstanding securities of ERT Development Corporation, which elected, effective January 1, 2001, to be a taxable REIT subsidiary of ours. Each corporate subsidiary in which ERT Development Corporation owns more than 35% of the outstanding voting securities or more than 35% of the value of the outstanding securities will also be treated as a taxable REIT subsidiary of ours. While we believe that we have satisfied the limitations on the ownership of securities with regard to our ownership of interests in ERT Development Corporation during each of the taxable years that each such limitation applied to us, given the highly complex nature of the rules governing REITs and the ongoing importance of factual determinations, we cannot provide any assurance that the Internal Revenue Service would not disagree with our determination.

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

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

Item 2. ***Properties***

As of December 31, 2003, we owned interests in 379 properties, excluding properties held through unconsolidated joint ventures. The following table sets forth certain information as of December 31, 2003 regarding our properties on a state-by-state basis:

State	Number of Properties	Percent Leased	GLA (1)	Percent of Scheduled ABR (2)
Alabama	7	90%	760,014	1.2%
Arizona	7	86%	935,173	1.9%
Arkansas	2	95%	237,991	0.4%
California	15	87%	2,573,573	7.2%
Colorado	4	100%	763,272	2.2%
Delaware	1	100%	30,000	0.0%
Florida	30	85%	5,090,610	10.4%
Georgia	32	91%	3,469,563	5.9%
Illinois	7	84%	1,290,805	2.8%
Indiana	10	84%	1,333,487	1.7%
Iowa	3	97%	547,493	0.8%
Kentucky	11	91%	1,805,198	2.9%
Louisiana	6	97%	738,341	0.9%
Maryland	2	90%	278,888	0.5%
Massachusetts	2	100%	348,917	0.6%
Michigan	19	96%	2,924,526	6.4%
Minnesota	1	100%	55,715	0.1%
Mississippi	1	100%	87,721	0.1%
Nebraska	1	100%	4,000	0.0%
Nevada	3	85%	586,126	1.1%
New Jersey	6	93%	880,817	2.1%
New Mexico	2	45%	106,000	0.1%
New York	25	82%	3,531,797	5.9%
North Carolina	14	95%	1,888,078	3.2%
Ohio	23	87%	3,747,045	6.8%
Pennsylvania	15	88%	2,462,526	5.2%
Rhode Island	1	91%	148,258	0.3%
South Carolina	7	86%	790,817	1.2%
Tennessee	15	97%	1,882,236	3.4%
Texas	84	91%	9,184,167	18.3%
Utah	3	99%	606,935	1.4%
Virginia	13	92%	1,709,881	3.2%
West Virginia	3	90%	356,721	0.6%
Wisconsin	3	94%	458,267	0.8%
Wyoming	1	96%	160,150	0.3%
	379	90%	51,775,108	100%

Region (3)				
East	100	89%	14,231,898	25.8%
Midwest	68	90%	10,521,488	19.7%
South	177	90%	21,450,643	40.6%
West	34	89%	5,571,079	13.9%

State	Number of Properties	Percent Leased	GLA (1)	Percent of Scheduled ABR (2)
	379	90%	51,775,108	100.0%

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

(2) ABR represents 2003 scheduled annualized base rent based on contractual minimum lease payments as of December 31, 2003.

(3) NCREIF Regions

Item 3. ***Legal Proceedings***

We are not presently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties. We are involved in routine litigation arising in the ordinary course of business, none of which is believe to be material. We have, however, reserved approximately $2.3 million as of December 31, 2003 in connection with a particular tenant litigation. There can be no assurance as to the final outcome of this litigation and whether it will exceed or fall short of the amount reserved; however, even if our ultimate loss is more than the reserve we established, we do not expect that the amount of the loss in excess of the reserve would be material.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of 2003.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

Our common stock is listed on the New York Stock Exchange under the symbol "NXL". As of March 1, 2004, there were approximately 9,220 registered record holders of our common stock, plus those who hold their shares in street name. The following table shows the high and low sales prices, as reported by the New York Stock Exchange composite tape, and the cash dividends declared each calendar quarter during 2003 and 2002 for our common stock:

	High	Low	Cash Dividends Declared
2002:			
First quarter	$ 20.49	$ 17.55	$ 0.4125
Second quarter	21.00	18.70	0.4125

	High	Low	Cash Dividends Declared
Third quarter	20.77	15.51	0.4125
Fourth quarter	19.69	15.77	0.4125
2003:			
First quarter	$ 20.48	$ 18.05	$ 0.4125
Second quarter	22.49	19.61	0.4125
Third quarter	23.74	21.14	0.4125
Fourth quarter	25.77	22.10	0.4125

We declared dividends of approximately $182.0 million for the year ended December 31, 2003.

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

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

Item 6. *Selected Financial Data*

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

	Years Ended December 31,				
Statement of Income Data:	**2003**	**2002**	**2001**	**2000**	**1999**
	(In thousands, except per share amounts)				
Rental revenues:					
Rental income	$ 371,320	$ 299,223	$ 227,933	$ 231,828	$ 237,664
Percentage rents	7,340	6,688	5,211	5,397	3,787
Expense reimbursements	101,222	82,141	60,858	54,082	52,706
Total rental revenues	479,882	388,052			