

INLAND WESTERN RETAIL REAL ESTATE TRUST INC

Form 10-Q

November 07, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-51199

Inland Western Retail Real Estate Trust, Inc.

(Exact name of registrant as specified in its charter)

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Maryland

(State or other jurisdiction of incorporation or organization)

42-1579325

(I.R.S. Employer Identification No.)

2901 Butterfield Road, Oak Brook, Illinois

(Address of principal executive offices)

60523

(Zip Code)

630-218-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

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Item 1. Condensed Consolidated Financial Statements

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.**Condensed Consolidated Balance Sheets**

September 30, 2011 and December 31, 2010

(Unaudited)

(in thousands, except per share amounts)

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

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

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Statements of Operations and Other Comprehensive Loss

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

(Unaudited)

(in thousands, except per share amounts)

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

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(Loss) earnings per common share-basic and diluted:

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

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
Condensed Consolidated Statements of Equity

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

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

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

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

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

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

(continued)

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Condensed Consolidated Statements of Cash Flows

(Continued)

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

(in thousands, except per share amounts)

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

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Proceeds from sales of investment properties:

Land, building and other improvements, net	\$	190,013	\$	116,291
Acquired lease intangibles and other assets		9,430		3,130
Assumption of mortgage debt		(60,000)		(29,327)
Forgiveness of mortgage debt				(486)
Acquired below market lease intangibles and other liabilities		(5,485)		(911)
Deferred gains		2,505		
Gain on extinguishment of debt		991		
Gain on sales of investment properties, net		22,849		3,521
	\$	160,303	\$	92,218

Payments associated with dissolution of partnership:

Developments in progress	\$	14,235	\$	
Loan fees and other assets		21		
Repayment of construction loan by partner at closing		(5,730)		
Other liabilities		(64)		
Redeemable noncontrolling interests		(2)		
Distribution upon dissolution of partnership		(8,484)		
	\$	(24)	\$	

(concluded)

See accompanying notes to condensed consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

(1) Organization and Basis of Presentation

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

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

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

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

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during taxable years 2004 through 2006 being treated as preferential.

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

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

(2) Summary of Significant Accounting Policies

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

Recent Accounting Pronouncements

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

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

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

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

(3) Acquisitions

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

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

- (a) No debt was assumed in either acquisition, but both properties were subsequently added as collateral to the secured credit facility.
- (b) Amount represents the purchase price prior to customary prorations at closing. Separately, the Company recognized acquisition transaction costs of \$48 related to these acquisitions.

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

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

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

(4) Discontinued Operations and Investment Properties Held for Sale

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
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The Company sold six properties during the nine months ended September 30, 2011, as summarized below:

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

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

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

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

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

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

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

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

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

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

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

(5) Transactions with Related Parties

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

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

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

(6) Marketable Securities

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

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
Notes to Condensed Consolidated Financial Statements

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

(7) Stock Option Plan and Board of Directors Activity

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

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

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

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

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

(8) Leases

Master Lease Agreements

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

Operating Leases

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

(9) Mortgages and Notes Payable

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

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

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

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Notes to Condensed Consolidated Financial Statements

Mortgages Payable

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

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

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

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

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

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

- (a) Subsequent to September 30, 2011, the Company purchased a \$4,520 matured mortgage payable note from the lender for a discounted price of \$3,160, giving rise to debt forgiveness of \$1,360.
- (b) The Company has attempted to negotiate and has made offers to the lender with respect to a \$26,865 mortgage loan outstanding at September 30, 2011 to determine an appropriate course of action under the non-recourse loan agreement. No assurance can be provided that these negotiations will result in a favorable outcome for the Company. The lender has asserted that certain events have occurred that trigger recourse to the Company; however, the Company believes that it has substantive defenses with respect to those claims.

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

Notes Payable

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

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

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

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

Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

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

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

Table of Contents**INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.****Notes to Condensed Consolidated Financial Statements***Cash Flow Hedges of Interest Rate Risk*

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

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

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

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

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

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

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

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Derivatives designated as cash flow hedges:

Interest rate swaps	Other Liabilities	\$	3,130	Other Liabilities	\$	2,967
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The table below presents the effect of the Company's derivative financial instruments in the condensed consolidated statements of operations and other comprehensive loss for the three and nine months ended September 30, 2011 and 2010.

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

Credit-risk-related Contingent Features

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

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

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

Margin Payable

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

Debt Maturities

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

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

- (a) The debt maturity table does not include any premium or discount, of which \$11,243 and \$(2,120), net of accumulated amortization, respectively, were outstanding as of September 30, 2011.
- (b) Includes \$67,504 of variable rate debt that was swapped to a fixed rate.

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

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

(10) Secured Credit Facility

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

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

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

(11) Investment in Unconsolidated Joint Ventures

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

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

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

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Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements

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

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

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

(b) The Company contributed \$3,201 as its share of the acquisition price net of closing costs.

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

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

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

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

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

(12) Earnings per Share

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

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

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

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

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

- (a) Excluded from these weighted average amounts are 34 shares of restricted common stock, which equate to 34 and 21 shares, respectively, on a weighted average basis for the three and nine months ended September 30, 2011.
- (b) Outstanding options to purchase shares of common stock, the effect of which would be anti-dilutive, were 139 and 104 shares as of September 30, 2011 and 2010, respectively, at a weighted average exercise price of \$8.68 and \$9.31, respectively. These shares were not included in the computation of diluted EPS because a loss was reported for the respective periods.
- (c) Potential common shares issuable from the vesting of restricted share awards are anti-dilutive in periods in which a loss is reported and therefore excluded from the computation of diluted EPS as the Company had a loss from continuing operations for the three and nine months ended September 30, 2011.

(13) Provision for Impairment of Investment Properties

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

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

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

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

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

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

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

(14) Fair Value Measurements

Fair Value of Financial Instruments

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

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

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

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

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

- **Investment in marketable securities:** Marketable securities classified as available-for-sale are measured using quoted market prices at the reporting date multiplied by the quantity held.
- **Notes receivable:** The Company estimates the fair value of its notes receivable by discounting the future cash flows of each instrument at rates that approximate those offered by lending institutions for loans with similar terms to companies with comparable risk. The rates used are not directly observable in the marketplace and judgment is used in determining the appropriate rate based upon the specific terms of the individual notes receivable agreement.
- **Mortgages and notes payable:** The Company estimates the fair value of its mortgages and notes payable by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's lenders. The rates used are not directly observable in the marketplace and judgment is used in determining the appropriate rate for each of the Company's individual mortgages and notes payable based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying property and its leverage ratio.
- **Secured credit facility:** The carrying value of the Company's secured credit facility approximates fair value due to the periodic variable rate pricing and the loan pricing spreads based on the Company's leverage ratio.
- **Other financings:** Other financings on the condensed consolidated balance sheets represent the equity interest of the noncontrolling member in certain consolidated entities where the LLC or LP agreement contains put/call arrangements, which grant the right to the outside owners and the Company to require each LLC or LP to redeem the ownership interest in future periods for fixed amounts. The Company believes the fair value of other financings is that amount which is the fixed amount at which it would settle, which approximates its carrying value.

- **Co-venture obligation:** The Company estimates the fair value of its co-venture obligation based on the amount at which it believes the obligation will settle and the timing of such payment. The fair value of the co-venture obligation includes the estimated additional amount the Company would be required to pay upon exercise of the call option. The carrying value as of September 30, 2011 of the co-venture obligation includes \$2,139 of cumulative co-venture obligation expense accretion related to the estimated additional distribution.
- **Derivative liability:** The fair value of the derivative liability is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements.

Fair Value Hierarchy

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

- **Level 1 Inputs** Unadjusted quoted market prices for identical assets and liabilities in an active market which the Company has the ability to access.
- **Level 2 Inputs** Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
- **Level 3 Inputs** Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

(15) Commitments and Contingencies

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

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

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

Notes to Condensed Consolidated Financial Statements

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

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

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

(16) Subsequent Events

During the period from October 1, 2011 through the date of this filing, the Company:

- drew \$85,000 on its senior secured revolving line of credit and used the proceeds to repay \$68,700 of mortgage debt that was secured by one property, had an interest rate of 5.12% and matured on October 1, 2011. This property was added to the collateral pool, which increased the Company's borrowing availability by \$58,760;
- closed on a loan modification on one of its properties, which extended the maturity of a \$7,137 mortgage payable from May 28, 2012 to September 30, 2016;
- closed on the refinancing of an \$11,350 construction loan, which resulted in an increase in the outstanding principal balance to \$11,552, a change in the maximum borrowing amount to \$26,000 and an extension of the maturity date from December 31, 2012 to November 2, 2014. In conjunction with the refinancing, the Company has guaranteed 40% of the outstanding principal balance, up to a maximum of \$10,400, pursuant to the terms and conditions of the loan documents;

- closed on the sale of a 194,900 square foot multi-tenant retail property for a sales price of \$3,000, which resulted in no gain on sale and net cash proceeds of \$2,630, after customary prorations at closing;
- closed on the purchase from the lender of a matured \$4,520 mortgage payable note for a discounted price of \$3,160, giving rise to \$1,360 of debt forgiveness;
- repaid a \$5,336 mortgage payable with a stated interest rate of 5.15%; and
- filed the third amendment to the registration statement on Form S-11/A with the Securities and Exchange Commission regarding a proposed public offering of the Company's common stock.

On October 3, 2011, the Company's board of directors declared the distribution for the third quarter of 2011 of \$0.06 per share, which was paid on October 11, 2011 to shareholders of record at the close of business on October 3, 2011.

On October 11, 2011, the RioCan joint venture acquired a 486,900 square foot multi-tenant retail property in Cedar Park, Texas for an acquisition price of \$97,605, for which the Company contributed \$18,886, which represented its 20% share of the acquisition price, net of closing costs.

On October 11, 2011, under the Company's Independent Director Stock Option Plan, each non-employee, non-related party director was granted options to purchase an additional five shares of common stock.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, should, seeks, approximately, intends, plans, pro forma, estimates, contemplates, aims, continues, would or anticipates or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategies, plans or intentions. Risks, uncertainties and other factors could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- general economic, business and financial conditions, and changes in our industry and changes in the real estate markets in particular;
- adverse economic and other developments in the Dallas-Fort Worth-Arlington area, where we have a high concentration of properties;
- general volatility of the capital and credit markets;
- changes in our business strategy;
- defaults on, early terminations of or non-renewal of leases by tenants;
- bankruptcy or insolvency of a major tenant or a significant number of smaller tenants;
- increased interest rates and operating costs;
- declining real estate valuations and impairment charges;

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- availability, terms and deployment of capital;
- our failure to obtain necessary outside financing;
- our expected leverage;
- decreased rental rates or increased vacancy rates;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- difficulties in identifying properties to acquire and completing acquisitions;
- risks of real estate acquisitions, dispositions and redevelopment, including the cost of construction delays and cost overruns;
- our failure to successfully operate acquired properties and operations;
- our projected operating results;
- our ability to manage our growth effectively;
- our failure to successfully redevelop properties;
- estimates relating to our ability to make distributions to our shareholders in the future;
- impact of changes in governmental regulations, tax law and rates and similar matters;
- our failure to qualify as a REIT;

- future terrorist attacks in the U.S.;
- environmental uncertainties and risks related to natural disasters;
- lack or insufficient amounts of insurance;
- financial market fluctuations;
- availability of and our ability to attract and retain qualified personnel;
- retention of our senior management team;

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- the nature of our competition;
- changes in real estate and zoning laws and increases in real property tax rates; and
- our ability to comply with the laws, rules and regulations applicable to companies.

For a further discussion of these and other factors that could impact our future results, performance or transactions, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010. Readers should not place undue reliance on any forward-looking statements, which are based only on information currently available to us (or to third parties making the forward-looking statements). We undertake no obligation to publicly release any revisions to such forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, except as required by applicable law.

The following discussion and analysis compares the three months ended September 30, 2011 to the three months ended September 30, 2010 and the nine months ended September 30, 2011 to the nine months ended September 30, 2010, and should be read in conjunction with our condensed consolidated financial statements and the related notes included in this report.

Executive Summary

We are a fully-integrated, self-administered and self-managed real estate company that owns and operates high quality, strategically located shopping centers and single-user retail properties. We are one of the largest owners and operators of shopping centers in the United States. As of September 30, 2011, our retail operating portfolio consisted of 265 properties with approximately 34,835,000 square feet of gross leasable area (GLA), was geographically diversified across 35 states and includes power centers, community centers, neighborhood centers and lifestyle centers, as well as single-user retail properties. Our retail properties are primarily located in retail districts within densely populated areas in highly visible locations with convenient access to interstates and major thoroughfares. Our retail properties have a weighted average age, based on annualized base rent (ABR), of only approximately 9.6 years since the initial construction or most recent major renovation. As of September 30, 2011, our retail operating portfolio was 88.6% leased, including leases signed but not commenced. In addition to our retail operating portfolio, as of September 30, 2011, we also held interests in 15 other operating properties, including 12 office properties and three industrial properties, 22 retail operating properties held by three unconsolidated joint ventures and four retail properties under development. The following summarizes our consolidated operating portfolio as of September 30, 2011:

Description	Number of Properties	GLA (in thousands)	Percent Leased	Percent Leased and Leases Signed (a)
<u>Retail</u>				
Wholly-owned	209	28,293	85.4%	88.2%
Joint venture	56	6,542	89.6%	90.5%
Total retail	265	34,835	86.2%	88.6%
<u>Office/Industrial</u>				

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Wholly-owned	15	4,658	97.5%	97.5%
Total Consolidated Operating Portfolio	280	39,493	87.5%	89.6%

(a) Includes leases signed but not commenced.

Our shopping centers are primarily anchored or shadow anchored by strong national and regional grocers, discount retailers and other retailers that provide basic household goods or clothing, including Target, TJX Companies, PetSmart, Best Buy, Bed Bath & Beyond, Home Depot, Kohl's, Wal-Mart, Publix and Lowe's. As of September 30, 2011, over 90% of our shopping centers, based on GLA, were anchored or shadow anchored by a grocer, discount department store, wholesale club or retailer that sells basic household goods or clothing. Overall, we have a broad and highly diversified retail tenant base that includes approximately 1,600 tenants with no one tenant representing more than 3.2% of the total ABR generated from our retail operating properties, or our retail ABR.

We are encouraged by the leasing activity we have achieved during the nine months ended September 30, 2011. During the three and nine months ended September 30, 2011, we signed 136 and 374 new and renewal leases, respectively, for a total of approximately 833,000 and 2,837,000 square feet, respectively. As we continue to sign new leases, rental rates have generally been below the previous rates and we have continued to see demands for rent abatement and capital investment, in the form of tenant improvements and leasing commissions, required from us. However, such rental spreads appear to be stabilizing.

On February 16, 2011, Borders Group, Inc. (Borders), which, as of December 31, 2010, leased from us approximately 220,000 square feet at 10 locations, filed for bankruptcy. On July 18, 2011, Borders announced that it was seeking approval for the liquidation of its

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remaining store assets, which was approved on July 21, 2011. As of September 30, 2011, all Borders stores at locations within our portfolio had closed following completion of liquidation sales.

Company Highlights - Nine Months Ended September 30, 2011

Asset Dispositions and Debt Transactions

During the nine months ended September 30, 2011, we continued to focus on strengthening our balance sheet by deleveraging through asset dispositions and debt refinancing transactions. Specifically, we:

- sold six operating properties aggregating 2,499,000 square feet for a combined sales price of \$110,712, resulting in net proceeds of \$65,537,
- partially sold a 654,200 square foot multi-tenant retail property to our RioCan joint venture for a sales price of \$110,799, resulting in net proceeds of \$39,935, and
- borrowed \$150,000 on our secured term loan and an additional \$165,653 on our senior secured revolving line of credit, obtained mortgages payable proceeds of \$70,476, of which \$60,000 was subsequently assumed by our RioCan joint venture as part of the partial sale transaction noted above, made mortgages payable repayments of \$539,659 and received forgiveness of debt of \$14,438.

We plan to continue to pursue opportunistic dispositions of non-retail properties and free standing, triple-net retail properties to maintain the focus of our portfolio on well located, high quality shopping centers.

Asset Acquisitions

During the nine months ended September 30, 2011, consistent with our business and growth strategies, we also took advantage of opportunities to increase our core portfolio of high quality multi-tenant retail properties. Specifically, we acquired additional phases of two existing properties in our portfolio aggregating 120,100 square feet for a combined acquisition price of \$16,805. No debt was assumed in either acquisition, but both properties were added as collateral to our secured credit facility subsequent to closing.

Joint Ventures

During the nine months ended September 30, 2011, we dissolved a partnership with a partner in three of our development joint ventures resulting in increases to our ownership interests to 100% in Parkway Towne Crossing, 100% in three fully occupied outlots at Wheatland Towne Crossing and 50% in Lake Mead Crossing. The remaining property of Wheatland Towne Crossing (excluding the three outlots) was conveyed to our partner and our partner simultaneously repaid the related \$5,730 construction loan. Concurrently with this transaction, we also acquired a

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36.7% ownership interest in Lake Mead Crossing from another partner in that joint venture, increasing our total ownership interest in the property to 86.7%. We accounted for this transaction, including the conveyance of property, as a nonmonetary distribution of \$8,483, reflected in the condensed consolidated financial statements as an increase to Accumulated distributions in excess of earnings.

During the nine months ended September 30, 2011, our RioCan joint venture continued to expand through the acquisition of additional properties. Specifically, the RioCan joint venture acquired three additional properties aggregating 886,700 square feet, including the one property acquired from our portfolio as described above. For the two acquisitions from third parties, we made cash contributions of an aggregate of \$5,130, which represents our share of the acquisition prices, net of closing costs and mortgage proceeds.

On September 30, 2011, we paid \$300 to our partner in a consolidated development joint venture to simultaneously settle the outstanding development fee liability of the joint venture and fully redeem our partner's ownership interest in the joint venture. The transaction resulted in an increase in our ownership interest in South Billings Center from 49.0% as of June 30, 2011 to 100%.

Distributions

We declared quarterly distributions totaling \$0.19 per share for the nine months ended September 30, 2011 including the distribution for the third quarter of 2011 of \$0.06 per share declared on October 3, 2011. We have increased the quarterly distribution rate for eight consecutive quarters.

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Results of Operations

We believe that property net operating income (NOI) is a useful measure of our operating performance. We define NOI as operating revenues (rental income, tenant recovery income, other property income, excluding straight-line rental income, amortization of lease inducements and amortization of acquired above and below market lease intangibles) less property operating expenses (real estate tax expense and property operating expense, excluding straight-line ground rent expense and straight-line bad debt expense). Other real estate investment trusts (REITs) may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs.

This measure provides an operating perspective not immediately apparent from accounting principles generally accepted in the United States (GAAP) operating income or net (loss) income. We use NOI to evaluate our performance on a property-by-property basis because NOI allows us to evaluate the impact that factors such as lease structure, lease rates and tenant base, which vary by property, have on our operating results. However, NOI should only be used as an alternative measure of our financial performance. For reference and as an aid in understanding our computation of NOI, a reconciliation of NOI to net (loss) income as computed in accordance with GAAP has been presented.

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Comparison of the three months ended September 30, 2011 and 2010

The table below presents operating information for our same store portfolio consisting of 277 operating properties acquired or placed in service prior to July 1, 2010, along with reconciliation to net operating income. The properties in the same store portfolio as described were owned for the three months ended September 30, 2011 and 2010. The properties in Other investment properties include our development properties, some of which became operational during the periods presented, and the properties that were partially sold to our RioCan joint venture, none of which qualified for discontinued operations accounting treatment.

	Three Months Ended September 30,			
	2011	2010	Impact	Percentage
Revenues:				
Same store investment properties (277 properties):				
Rental income	\$ 118,317	\$ 117,085	\$ 1,232	1.1
Tenant recovery income	27,887	27,968	(81)	(0.3)
Other property income	2,292	3,559	(1,267)	(35.6)
Other investment properties:				
Rental income	3,045	6,734	(3,689)	(54.8)
Tenant recovery income	411	1,841	(1,430)	(77.7)
Other property income	3	68	(65)	(95.6)
Expenses:				
Same store investment properties (277 properties):				
Property operating expenses	(23,210)	(22,347)	(863)	(3.9)
Real estate taxes	(19,283)	(21,934)	2,651	12.1
Other investment properties:				
Property operating expenses	(859)	(1,440)	581	40.3
Real estate taxes	(472)	(1,506)	1,034	68.7
Property net operating income:				
Same store investment properties	106,003	104,331	1,672	1.6
Other investment properties	2,128	5,697	(3,569)	(62.6)
Total net operating income	108,131	110,028	(1,897)	(1.7)
Other income (expense):				
Straight-line rental income	(594)	3,464	(4,058)	
Amortization of acquired above and below market lease intangibles	442	479	(37)	
Amortization of lease inducements	(15)	(15)		
Straight-line ground rent expense	(948)	(996)	48	
Straight-line bad debt expense	1,071	(190)	1,261	
Insurance captive income		847	(847)	
Depreciation and amortization	(59,242)	(60,713)	1,471	
Provision for impairment of investment properties	(1,379)	(3,173)	1,794	
Loss on lease terminations	(1,477)	(4,465)	2,988	
Insurance captive expenses		(911)	911	
General and administrative expenses	(5,011)	(4,169)	(842)	
Dividend income	578	670	(92)	
Interest income	157	188	(31)	
Gain on extinguishment of debt	991		991	
Equity in (loss) income of unconsolidated joint ventures	(1,869)	875	(2,744)	
Interest expense	(58,368)	(65,484)	7,116	
Co-venture obligation expense	(1,791)	(1,791)		
Recognized loss on marketable securities, net		(235)	235	
Other income	567	1,239	(672)	

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Loss from continuing operations	(18,757)	(24,352)	5,595	23.0
Discontinued operations:				
Operating income (loss)	115	(854)	969	
Gain on sales of investment properties	14,517		14,517	
Income (loss) from discontinued operations	14,632	(854)	15,486	1,813.3
Loss on sales of investment properties	(891)		(891)	
Net loss	(5,016)	(25,206)	20,190	80.1
Net income attributable to noncontrolling interests	(7)	(321)	314	97.8
Net loss attributable to Company shareholders	\$ (5,023)	\$ (25,527)	\$ 20,504	80.3

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Total net operating income decreased by \$1,897, or 1.7%. Total rental income, tenant recovery and other property income decreased by \$5,300, or 3.4%, and total property operating expenses decreased by \$3,403, or 7.2%, for the three months ended September 30, 2011, as compared to September 30, 2010.

Rental income. Rental income increased \$1,232, or 1.1%, on a same store basis from \$117,085 to \$118,317. The same store increase is primarily due to:

- an increase of \$2,482 composed of \$6,845 as a result of contractual rent increases and new tenant leases replacing former tenants partially offset by a decrease of \$4,363 from early terminations and natural expirations of certain tenant leases, partially offset by
- a decrease of \$1,360 due to reduced rent as a result of co-tenancy provisions in certain leases, reduced percentage rent as a result of decreased tenant sales, and increased rent abatements as a result of efforts to increase occupancy.

Although same store rental income increased, overall rental income decreased \$2,457, or 2.0%, from \$123,819 to \$121,362, primarily due to a decrease of \$3,689 in other investment properties, which primarily consisted of a decrease of \$4,265 resulting from properties partially sold to our RioCan joint venture during the third and fourth quarters of 2010 and the third quarter of 2011.

Tenant recovery and other property income. Tenant recovery and other property income decreased \$1,348, or 4.3%, on a same store basis from \$31,527 to \$30,179, primarily due to:

- a 6.3% decrease in real estate tax recovery, primarily resulting from reduced real estate tax expense as described below, partially offset by
- a 0.9% increase in common area maintenance recovery income.

Overall, tenant recovery and other property income decreased \$2,843, or 8.5%, from \$33,436 to \$30,593, primarily due to the decrease in the same store portfolio described above and a decrease in recovery income of \$1,455 resulting from properties partially sold to our RioCan joint venture during the third and fourth quarters of 2010 and the third quarter of 2011.

Property operating expenses. Property operating expenses increased \$863, or 3.9%, on a same store basis from \$22,347 to \$23,210. The same store increase is primarily due to an increase in bad debt expense and certain non-recoverable property operating expenses of \$1,251 and \$816, respectively, partially offset by a decrease in certain recoverable property operating expenses of \$1,204.

Overall, property operating expenses increased \$282, or 1.2%, from \$23,787 to \$24,069, primarily due to the increase in the same store portfolio described above, partially offset by decreases in certain recoverable and non-recoverable property operating expenses and bad debt expense of \$463, \$83 and \$35, respectively in other investment properties.

Real estate taxes. Real estate taxes decreased \$2,651, or 12.1%, on a same store basis from \$21,934 to \$19,283. This decrease is primarily due to a net decrease of \$2,547 over 2010 real estate tax expense primarily due to decreases in assessed values.

Overall, real estate taxes decreased \$3,685, or 15.7%, from \$23,440 to \$19,755 primarily due to the decrease in the same store portfolio described above and a decrease in real estate tax expense of \$1,123 resulting from properties partially sold to our RioCan joint venture during the third and fourth quarters of 2010 and the third quarter of 2011.

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Other income (expense). Other income (expense) changed from net expense of \$134,380 to net expense of \$126,888. The decrease in net expense of \$7,492, or 5.6%, is primarily due to:

- a \$7,116 decrease in interest expense primarily due to:
- a \$9,206 decrease in interest on mortgages payable due to the repayment of mortgage debt;
- a decrease in interest related to our derivatives of \$491 mainly as a result of hedge ineffectiveness realized in 2011, which is recorded in other income (expense), partially offset by
- an increase in interest on our secured credit facility of \$2,501 due to increased borrowings used to repay 2011 debt maturities.
- a \$2,988 decrease in loss on lease terminations as a result of a decrease in tenants that vacated prior to lease expiration due to bankruptcies and other tenant specific matters in 2011 as compared to 2010;
- a \$1,794 decrease in provision for impairment of investment properties. Based on the results of our evaluations for impairment (see Notes 13 and 14 to the condensed consolidated financial statements), we recognized impairment charges of \$1,379 and \$3,173 for the three months ended September 30, 2011 and 2010, respectively. In addition to those properties that were impaired, 25 of our properties had impairment indicators at September 30, 2011, undiscounted cash flows for those properties exceeded their respective carrying values by a weighted average of 46%. Accordingly, no additional impairment provisions were warranted for these properties; partially offset by
- a \$4,058 decrease in straight-line rental income due to the terms of, modification to and early terminations of tenant leases within our portfolio, and
- a \$2,744 decrease in equity in income of unconsolidated joint ventures as a result of losses incurred at each of our unconsolidated joint ventures during the three months ended September 30, 2011.

Discontinued operations. Discontinued operations consist of amounts related to six properties and eight properties that were sold during the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. We closed on the sale of three single-user retail properties and three single-user industrial properties during the nine months ended September 30, 2011 aggregating 2,449,000 square feet, for a combined sales price of \$110,712, net sales proceeds totaling \$65,537, extinguishment or repayment of debt of \$43,250 and total gains of \$18,678. Of these six sales, two occurred during the three months ended September 30, 2011 aggregating 1,110,600 square feet, for a combined

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sales price of \$51,898, net sales proceeds totaling \$8,425, extinguishment or repayment of debt of \$43,250 and total gains of \$14,517. We closed on eight properties during the year ended December 31, 2010, three of which closed after July 1, 2010, aggregating 894,500 square feet, for a combined sales price of \$104,635. The aggregated sales resulted in the extinguishment or repayment of \$106,791 of debt, net sales proceeds totaling \$21,024 and total gains of \$23,806. The properties disposed of during 2010 included two office buildings, five single-user retail properties and one medical center. Included in this was an office building aggregating 382,600 square feet that was transferred through a deed in lieu of foreclosure to the property's lender resulting in a gain on sale of \$19,841. There were no properties that qualified for held for sale accounting treatment as of September 30, 2011 or December 31, 2010.

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Comparison of the nine months ended September 30, 2011 and 2010

The table below presents operating information for our same store portfolio consisting of 277 operating properties acquired or placed in service prior to January 1, 2010, along with reconciliation to net operating income. The properties in the same store portfolio as described were owned for the nine months ended September 30, 2011 and 2010. The properties in Other investment properties include our development properties, some of which became operational during the periods presented, and the properties that were partially sold to our RioCan joint venture, none of which qualified for discontinued operations accounting treatment.

	Nine Months Ended September 30,			
	2011	2010	Impact	Percentage
Revenues:				
Same store investment properties (277 properties):				
Rental income	\$ 354,143	\$ 350,662	\$ 3,481	1.0
Tenant recovery income	79,665	84,832	(5,167)	(6.1)
Other property income	7,843	10,496	(2,653)	(25.3)
Other investment properties:				
Rental income	10,007	20,106	(10,099)	(50.2)
Tenant recovery income	1,550	5,269	(3,719)	(70.6)
Other property income	66	384	(318)	(82.8)
Expenses:				
Same store investment properties (277 properties):				
Property operating expenses	(71,508)	(71,463)	(45)	(0.1)
Real estate taxes	(57,177)	(64,250)	7,073	11.0
Other investment properties:				
Property operating expenses	(2,656)	(4,427)	1,771	40.0
Real estate taxes	(1,902)	(4,185)	2,283	54.6
Property net operating income:				
Same store investment properties	312,966	310,277	2,689	0.9
Other investment properties	7,065	17,147	(10,082)	(58.8)
Total net operating income	320,031	327,424	(7,393)	(2.3)
Other income (expense):				
Straight-line rental income	22	8,703	(8,681)	
Amortization of acquired above and below market lease intangibles	1,247	1,523	(276)	
Amortization of lease inducements	(45)	(45)		
Straight-line ground rent expense	(2,852)	(3,121)	269	
Straight-line bad debt expense	216	(836)	1,052	
Insurance captive income		2,253	(2,253)	
Depreciation and amortization	(177,783)	(182,154)	4,371	
Provision for impairment of investment properties	(31,752)	(11,030)	(20,722)	
Loss on lease terminations	(8,172)	(8,763)	591	
Insurance captive expenses		(3,034)	3,034	
General and administrative expenses	(16,416)	(13,412)	(3,004)	
Dividend income	1,776	3,034	(1,258)	
Interest income	507	548	(41)	
Gain on extinguishment of debt	15,429		15,429	
Equity in (loss) income of unconsolidated joint ventures	(6,028)	1,609	(7,637)	
Interest expense	(175,486)	(195,418)	19,932	
Co-venture obligation expense	(5,375)	(5,375)		
Recognized gain on marketable securities, net	277	536	(259)	
Other income (expense)	1,320	(4,015)	5,335	

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Loss from continuing operations	(83,084)	(81,573)	(1,511)	(1.9)
Discontinued operations:				
Operating income (loss)	1,486	(12,260)	13,746	
Gain on sales of investment properties	18,678	2,057	16,621	
Income (loss) from discontinued operations	20,164	(10,203)	30,367	297.6
Gain on sales of investment properties	4,171		4,171	
Net loss	(58,749)	(91,776)	33,027	36.0
Net income attributable to noncontrolling interests	(23)	(656)	633	96.5
Net loss attributable to Company shareholders	\$ (58,772)	\$ (92,432)	\$ 33,660	36.4

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Total net operating income decreased by \$7,393, or 2.3%. Total rental income, tenant recovery and other property income decreased by \$18,475, or 3.9%, and total property operating expenses decreased by \$11,082, or 7.7%, for the nine months ended September 30, 2011, as compared to September 30, 2010.

Rental income. Rental income increased \$3,481, or 1.0%, on a same store basis from \$350,662 to \$354,143. The same store increase is primarily due to:

- an increase of \$5,394 composed of \$18,811 as a result of contractual rent increases and new tenant leases replacing former tenants partially offset by \$13,417 from early terminations and natural expirations of certain tenant leases, partially offset by
- a decrease of \$2,096 due to reduced rent as a result of co-tenancy provisions in certain leases, reduced percentage rent as a result of decreased tenant sales, and increased rent abatements as a result of efforts to increase occupancy.

Although same store rental income increased, overall rental income decreased \$6,618, or 1.8%, from \$370,768 to \$364,150 primarily due to a decrease of \$10,099 in other investment properties primarily consisting of a decrease of \$10,951 resulting from properties partially sold to our RioCan joint venture during the third and fourth quarters of 2010 and the third quarter of 2011.

Tenant recovery and other property income. Tenant recovery and other property income decreased \$7,820, or 8.2%, on a same store basis from \$95,328 to \$87,508, primarily due to:

- a 5.5% decrease in real estate tax recovery, primarily resulting from reduced real estate tax expense as described below, and
- a 3.1% decrease in common area maintenance recovery income, primarily due to a decrease in certain recoverable property operating expenses described below.

Overall, tenant recovery and other property income decreased \$11,857, or 11.7%, from \$100,981 to \$89,124, primarily due to the decrease in the same store portfolio described above and a decrease in recovery income of \$3,429 resulting from properties partially sold to our RioCan joint venture during the third and fourth quarters of 2010 and the third quarter of 2011.

Property operating expenses. Property operating expenses increased \$45, or 0.1%, on a same store basis from \$71,463 to \$71,508. The same store increase is primarily due to increases in certain non-recoverable property operating expenses and bad debt expense of \$1,389 and \$99, respectively, partially offset by a decrease in certain recoverable property operating expenses of \$1,443.

Overall, property operating expenses decreased \$1,726, or 2.3%, from \$75,890 to \$74,164, due to decreases in certain recoverable and non-recoverable property operating expenses and bad debt expense of \$1,322, \$365 and \$84, respectively, in other investment properties, partially offset by the increase in the same store portfolio described above.

Real estate taxes. Real estate taxes decreased \$7,073, or 11.0%, on a same store basis from \$64,250 to \$57,177. This decrease is primarily due to:

- a net decrease of \$4,824 over 2010 real estate tax expense primarily due to decreases in assessed values;
- a decrease of \$1,994 in prior year estimates adjusted during the nine months ended September 30, 2011, based on actual real estate taxes paid; and
- an increase of \$196 in real estate tax refunds received during the nine months ended September 30, 2011 for prior year tax assessment adjustments.

Overall, real estate taxes decreased \$9,356, or 13.7%, from \$68,435 to \$59,079, primarily due to the decrease in the same store portfolio described above and a decrease in real estate tax expense of \$2,662 resulting from properties partially sold to our RioCan joint venture during the third and fourth quarters of 2010 and the third quarter of 2011.

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Other income (expense). Other income (expense) changed from net expense of \$408,997 to net expense of \$403,115. The decrease in net expense of \$5,882, or 1.4%, is primarily due to:

- a \$19,932 decrease in interest expense primarily due to:
- an \$18,381 decrease in interest on mortgages payable due to the repayment of mortgage debt;
- the acceleration of mortgage premium amortization in conjunction with the debt repayment on one property in the amount of \$4,750;
- a decrease in prepayment penalties and other costs associated with refinancings of \$1,883;
- a \$641 decrease in interest on notes payable as a result of the repayment of a \$50,000 note payable that bore interest at 4.80% to MS Inland in December 2010, partially offset by
- an increase in interest on our secured credit facility of \$6,300 due to increased borrowings used to repay 2011 debt maturities.
- a \$15,429 increase in gain on extinguishment of debt due to debt forgiveness of \$14,438 related to three properties which were added as collateral to our secured credit facility (see Note 10 to the condensed consolidated financial statements) and a \$991 gain realized on the partial sale of one property to the RioCan joint venture, partially offset by
- a \$20,722 increase in provision for impairment of investment properties. Based on the results of our evaluations for impairment (see Notes 13 and 14 to the condensed consolidated financial statements), we recognized impairment charges of \$31,752 and \$11,030 for the nine months ended September 30, 2011 and 2010, respectively. In addition to those properties that were impaired, 25 of our properties had impairment indicators at September 30, 2011, undiscounted cash flows for those properties exceeded their respective carrying values by a weighted average of 46%. Accordingly, no additional impairment provisions were warranted for these properties, and
- an \$8,681 decrease in straight-line rental income due to the terms of, modifications to and early terminations of tenant leases within our portfolio.

Discontinued operations. Discontinued operations consist of amounts related to six and eight properties that were sold during the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. We closed on the sale of three single-user retail properties and three single-user industrial properties during the nine months ended September 30, 2011 aggregating 2,449,000 square feet, for a combined sales price of \$110,712, net sales proceeds totaling \$65,537, extinguishment or repayment of debt of \$43,250 and total gains of \$18,678. We closed on eight properties during the year ended December 31, 2010 aggregating 894,500 square feet, for a combined sales price of \$104,635. The aggregated sales resulted in the extinguishment or repayment of \$106,791 of debt, net sales proceeds totaling \$21,024 and total gains of \$23,806. The properties disposed of during 2010 included two office buildings, five single-user retail properties and one medical center. Included in this was an office building aggregating 382,600 square feet that was transferred through a deed in lieu of foreclosure to the property's lender resulting in a gain on sale of \$19,841. There were no properties that qualified as held for sale accounting treatment as of September 30, 2011 or December 31, 2010.

Funds From Operations

One of our objectives is to provide cash distributions to our shareholders from cash generated by our operations. Cash generated from operations is not equivalent to our loss from continuing operations as determined under GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts (NAREIT), an industry trade group, has promulgated a standard known as funds from operations, or FFO. We believe that FFO, which is a non-GAAP performance measure, provides an additional and useful means to assess the operating performance of REITs. As defined by NAREIT, FFO means net loss computed in accordance with GAAP, excluding gains (or losses) from sales of investment properties, plus depreciation and amortization on investment properties including adjustments for unconsolidated joint ventures in which the REIT holds an interest. We have adopted the NAREIT definition for computing FFO because management believes that, subject to the following limitations, FFO provides a basis for comparing our performance and operations to those of other REITs. FFO is not intended to be an alternative to Net Income as an indicator of our performance nor to Cash Flows from Operating Activities as determined by GAAP as a measure of our capacity to pay distributions.

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FFO is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss attributable to Company shareholders	\$ (5,023)	\$ (25,527)	\$ (58,772)	\$ (92,432)
Add:				
Depreciation and amortization	63,549	67,171	193,385	198,806
Less:				
Gain on sales of investment properties	(13,626)	(2,248)	(22,849)	(3,778)
Noncontrolling interests share of depreciation related to consolidated joint ventures	(2,478)	(2,837)	(7,827)	(8,439)
Funds from operations	\$ 42,422	\$ 36,559	\$ 103,937	\$ 94,157

Depreciation and amortization related to investment properties for purposes of calculating FFO includes the associated components of loss on lease terminations, which encompasses the write-off of tenant related assets, including tenant improvements and in-place lease values, as a result of early lease terminations. Total loss on lease terminations included in depreciation and amortization above for the three months ended September 30, 2011 and 2010 were \$2,152 and \$4,550, respectively. Such amounts for the nine months ended September 30, 2011 and 2010 were \$9,153 and \$10,170, respectively.

The increase in FFO for the three months ended September 30, 2011 compared to the same period in 2010, including amounts related to discontinued operations, is primarily due to a decrease in interest expense of \$8,722, a decrease in real estate taxes of \$4,075, a decrease in impairment of investment properties of \$1,794, a change from net other expense to net other income of \$1,578 and a decrease in property operating expenses of \$1,149, partially offset by a decrease in revenues of \$11,729.

The increase in FFO for the nine months ended September 30, 2011 compared to the same period in 2010, including amounts related to discontinued operations, is primarily due to a decrease in interest expense of \$25,299, an increase in gain on debt extinguishment of \$15,429, a decrease in real estate taxes of \$10,312, a change from net other expense to net other income of \$7,622 and a decrease in property operating expenses of \$4,901, partially offset by a decrease in revenues of \$35,703, an increase in impairment of investment properties of \$12,095 and a change in equity in income of unconsolidated joint ventures to equity in loss of unconsolidated joint ventures of \$5,332.

Distributions declared per common share are based upon the weighted average number of common shares outstanding. The distribution of \$0.19 per share, or \$89,202, declared for the nine months ended September 30, 2011, which includes the distribution for the third quarter of 2011 of \$0.06 per share, or \$30,738, declared on October 3, 2011, represented 85.8% of our FFO for the period. The \$0.14 per share, or \$67,728, distribution declared for the nine months ended September 30, 2010, represented 71.9% of our FFO for the period.

Liquidity and Capital Resources

We anticipate that cash flows from all sources will provide adequate capital for the next 12 months and beyond for all scheduled monthly principal and interest payments on outstanding indebtedness, including maturing debt, current and anticipated tenant improvement or other capital obligations, the shareholder distribution required to maintain REIT status and compliance with financial covenants of our credit

agreement.

The primary expected uses and sources of our consolidated cash and cash equivalents are as follows:

USES		SOURCES	
Short-Term:		Short-Term:	
•	Tenant improvement allowances	•	Operating cash flow
•	Improvements made to individual properties that	•	Available borrowings under our existing revolving
	are not recoverable through common area		credit facility or an amended or new credit facility
	maintenance charges to tenants	•	Asset sales
•	Distribution payments	•	Distribution reinvestment plan
•	Debt repayment requirements, including	•	Secured loans collateralized by individual properties
	principal, interest and costs to refinance	•	Cash and cash equivalents
•	Corporate and administrative expenses		

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Long-Term:		Long-Term:	
•	Acquisitions	•	Secured loans collateralized by individual properties
•	New development	•	Asset sales
•	Major redevelopment, renovation or expansion	•	Long-term construction project financing
	programs at individual properties	•	Joint venture equity from institutional partners
•	Debt repayment requirements, including both	•	Sales of marketable securities
	principal and interest		

One of our main areas of focus over the last several years has been on strengthening our balance sheet and addressing debt maturities. We have pursued this goal through a combination of the refinancing or repayment of maturing debt, a reduction in our distribution rate to shareholders as compared to a few years ago, the suspension of our share repurchase program and total or partial dispositions of assets through sales or contributions to joint ventures. In addition, we focused on controlling operating expenses and deferring certain discretionary capital expenditures to preserve cash. As of September 30, 2011, we had \$632,235 of debt scheduled to mature through the end of 2012. As of the date of this filing, we had repaid or received debt forgiveness for \$79,213 of that debt. For substantially all of the remaining \$553,022 of debt, we plan on satisfying our obligations by refinancing this debt by using our senior secured credit facility or securing loans collateralized by individual properties, or by using proceeds from asset sales. In certain circumstances, for non-recourse mortgage indebtedness, we may seek to negotiate a discounted payoff amount or satisfy our obligation by delivering the property to the lender. We may not be able to refinance our existing debt when it becomes due or obtain new financing for acquisitions or development projects, or we may be forced to accept less favorable terms, including increased collateral to secure development projects, higher interest rates and/or more restrictive covenants. If we are not successful in refinancing our debt when it becomes due, we may default under our loan obligations, enter into foreclosure proceedings, or be forced to dispose of properties on disadvantageous terms, any of which might adversely affect our ability to service other debt and meet our other obligations.

The table below summarizes our consolidated indebtedness, net of premium and discount, at September 30, 2011:

Debt	Aggregate Principal Amount at September 30, 2011	Interest Rate / Weighted Average Interest Rate	Years to Maturity / Weighted Average Years to Maturity
Mortgages payable	\$ 2,294,128	5.88%	6.0 years
IW JV mortgages payable (a)	492,214	7.50%	8.2 years
IW JV senior mezzanine note (b)	85,000	12.24%	8.2 years
IW JV junior mezzanine note (b)	40,000	14.00%	8.2 years
Construction loans	80,883	3.71%	0.6 years
Mezzanine note	13,900	11.00%	2.2 years
Margin payable	7,944	0.57%	0.3 years
Mortgages and notes payable	3,014,069		
Secured credit facility	470,000	3.75%	1.3 years
Total consolidated indebtedness	\$ 3,484,069		

(a) Mortgages payable can be defeased beginning January 2014.

(b) Notes payable can be prepaid beginning in February 2013 for a fee ranging from 1% to 5% of the outstanding principal balance depending on the date the prepayment is made.

Mortgages Payable and Construction Loans

Mortgages payable outstanding as of September 30, 2011, including construction loans and IW JV 2009, LLC (IW JV) mortgages payable which are discussed further below, were \$2,867,225 and had a weighted average interest rate of 6.10%. Of this amount, \$2,779,197 had fixed rates ranging from 4.61% to 8.00% (9.78% for matured mortgages payable) and a weighted average fixed rate of 6.17% at September 30, 2011. The remaining \$88,028 of mortgages payable represented variable rate loans with a weighted average interest rate of 3.97% at September 30, 2011. Properties with a net carrying value of \$4,325,647 at September 30, 2011 and related tenant leases are pledged as collateral for the mortgage loans and wholly-owned and consolidated joint venture properties with a net carrying value of \$134,683 at September 30, 2011 and related tenant leases are pledged as collateral for the construction loans. Generally, other than IW JV mortgages payable, our mortgages payable are secured by individual properties or small groups of properties. As of September 30, 2011, our outstanding mortgage indebtedness had various scheduled maturity dates through March 1, 2037.

During the nine months ended September 30, 2011, we obtained mortgages payable proceeds of \$70,476, of which a \$60,000 mortgage payable was subsequently assumed by the RioCan joint venture on August 22, 2011, made mortgages payable repayments of \$539,659 and received debt forgiveness of \$14,438. The new mortgages payable that we entered into during the nine months ended

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September 30, 2011 have interest rates ranging from 4.83% to 5.50%, a weighted average interest rate of 4.85% and maturities up to 15 years. The stated interest rates of the loans repaid during the nine months ended September 30, 2011 ranged from 4.44% to 8.00% and had a weighted average interest rate of 5.19%. We also entered into modifications of three existing loan agreements which extended the maturities of \$16,179 of mortgages payable to May 1, 2014 and a matured mortgage payable with a balance of \$5,336 to November 1, 2011, on which date it was repaid.

IW JV 2009 Mortgages Payable and Mezzanine Notes

On November 29, 2009, we transferred a portfolio of 55 investment properties and the entities which owned them into IW JV, which at the time was a newly formed wholly-owned subsidiary. Subsequently, in connection with a \$625,000 debt refinancing transaction, which consisted of \$500,000 of mortgages payable and \$125,000 of notes payable, on December 1, 2009, we raised additional capital of \$50,000 from a related party, Inland Equity Investors, LLC (Inland Equity), in exchange for a 23% noncontrolling interest in IW JV. IW JV, which is controlled by us and therefore consolidated, will continue to be managed and operated by us. Inland Equity is owned by certain individuals, including Daniel L. Goodwin, who beneficially owns more than 5% of our common stock, and Robert D. Parks, who was the Chairman of our Board until October 12, 2010 and who is chairman of the board of certain affiliates of The Inland Group, Inc. The independent directors committee reviewed and recommended approval of this transaction to our Board.

Mezzanine Note and Margin Payable

During the year ended December 31, 2010, we borrowed \$13,900 from a third party in the form of a mezzanine note and used the proceeds as a partial paydown of the mortgage payable, as required by the lender. The mezzanine note bears interest at 11.00% and matures on December 16, 2013. Additionally, we purchase a portion of our securities through a margin account. As of September 30, 2011 and December 31, 2010, we had recorded a payable of \$7,944 and \$10,017, respectively, for securities purchased on margin. This debt bears a variable interest rate of the London Interbank Offered Rate, or LIBOR, plus 35 basis points, which equated to 0.57% at September 30, 2011. This debt is due upon demand. The value of our marketable securities serves as collateral for this debt. During the nine months ended September 30, 2011, we did not borrow on our margin account and paid down \$2,073.

Secured Credit Facility

On February 4, 2011, we amended and restated our existing credit agreement to provide for a senior secured credit facility in the aggregate amount of \$585,000, consisting of a \$435,000 senior secured revolving line of credit and a \$150,000 secured term loan from a number of financial institutions. The senior secured revolving line of credit also contains an accordion feature that allows us to increase the availability thereunder to up to \$500,000 in certain circumstances.

Upon closing, we borrowed the full amount of the term loan and, as of September 30, 2011, we had a total of \$320,000 outstanding under the senior secured line of credit, including \$154,347 that had been outstanding under our line of credit prior to the amendment and restatement of our credit agreement and \$165,653 of additional borrowings. We used the secured term loan and the additional borrowings under our senior secured revolving line of credit to, among other things, repay \$513,164 of mortgage debt, excluding debt forgiveness of \$14,438, which was secured by 36 properties (including one partial property) and had a weighted average interest rate of 5.14%. As of September 30, 2011,

management believes we were in compliance with all financial covenants under the credit agreement.

Availability. The aggregate availability under the senior secured revolving line of credit shall at no time exceed the lesser of (x) 65% of the appraised value of the borrowing base properties through the date of issuance of our financial statements for the quarter ending March 31, 2012 and 60% thereafter and (y) the amount that would result in a debt service coverage ratio for the borrowing base properties of not less than 1.50x through the date of issuance of our financial statements for the quarter ending March 31, 2012 and 1.60x thereafter, in each case, less the outstanding balance under the secured term loan. As of September 30, 2011, the total availability under the revolving line of credit was \$418,000, of which we had borrowed \$320,000.

Maturity and Interest. The senior secured revolving line of credit and secured term loan mature on February 3, 2013 with a one-year extension option that we may exercise as long as there is no existing default, we are in compliance with all covenants and we pay an extension fee. The senior secured revolving line of credit and secured term loan bear interest at a rate per annum equal to LIBOR plus a margin of between 2.75% and 4.00% based on our leverage ratio as calculated under the credit agreement. As of September 30, 2011, the interest rate under the senior secured revolving line of credit and secured term loan was 3.75%.

Security. The senior secured revolving line of credit and secured term loan are secured by mortgages on the borrowing base properties and are our direct recourse obligation.

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Financial Covenants. The senior secured revolving line of credit and secured term loan include the following financial covenants: (i) maximum leverage ratio not to exceed 67.5%, which ratio will be reduced to 65% beginning on the date of issuance of our financial statements for the quarter ending December 31, 2011 and 60% beginning on the date of issuance of our financial statements for the quarter ending June 30, 2012, (ii) minimum fixed charge coverage ratio of not less than 1.40x, which ratio will be increased to 1.45x beginning on the date of issuance of our financial statements for the quarter ending December 31, 2011 and 1.50x beginning on the date of issuance of our financial statements for the quarter ending December 31, 2012, (iii) consolidated net worth of not less than \$1,750,000 plus 75% of the net proceeds of any future equity contributions or sales of treasury stock received by us, (iv) minimum average economic occupancy rate of greater than 80% excluding pre-stabilization properties under construction, (v) unhedged variable rate debt of not more than 20% of total asset value, (vi) maximum dividend payout ratio of 95% of FFO as defined in the credit agreement (which equals FFO, as set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds From Operations, excluding gains or losses from extraordinary items, impairments and other non-cash charges) or an amount necessary to maintain REIT status and (vii) secured recourse indebtedness and guarantee obligations excluding the senior secured revolving line of credit and secured term loan may not exceed \$100,000.

Other Covenants and Events of Default. The senior secured revolving line of credit and secured term loan limit the percentage of our total asset value that may be invested in unimproved land, unconsolidated joint ventures, construction in progress and mortgage notes receivable, require that we obtain consent for any sale of assets with a value greater than 10% of our total asset value or merger resulting in an increase to our total asset value by more than 25% and contain other customary covenants. The senior secured revolving line of credit and secured term loan also contain customary events of default, including but not limited to, non-payment of principal, interest, fees or other amounts, breaches of covenants, defaults on any recourse indebtedness in excess of \$20,000 or any non-recourse indebtedness in excess of \$100,000 in the aggregate (subject to certain carveouts, including \$26,865 of non-recourse indebtedness that is currently in default), failure of certain members of management (or a reasonably satisfactory replacement) to continue to be active on a daily basis in our management and bankruptcy or other insolvency events.

Debt Maturities

The following table shows the scheduled maturities of our mortgages payable, notes payable, margin payable and the secured credit facility as of September 30, 2011 and for the remainder of 2011, each of the next four years and thereafter and does not reflect the impact of any debt activity that occurred after September 30, 2011:

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

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- (a) The debt maturity table does not include any premium or discount, of which \$11,243 and \$(2,120), net of accumulated amortization, respectively, were outstanding as of September 30, 2011.
- (b) Includes \$67,504 of variable rate debt that was swapped to a fixed rate.

The maturity table excludes other financings and the co-venture obligation as described in Note 1 to the condensed consolidated financial statements. The maturity table also excludes accelerated principal payments that may be required as a result of covenants or conditions included in certain loan agreements due to the uncertainty in the timing and amount of these payments. In these cases, the total outstanding mortgage payable is included in the year corresponding to the loan maturity date or, if the mortgage payable is amortizing, the payments are presented in accordance with the loan's original amortization schedule. As of September 30, 2011, we were making accelerated principal payments on three mortgages payable with a combined outstanding principal balance of \$104,562, which are reflected in the year corresponding to the loan maturity date.

As of September 30, 2011, we had \$57,276 of mortgages payable that had matured and had not been repaid or refinanced. During the second quarter of 2010, in order to prompt discussions with the lender, we ceased making the monthly debt service payment on a

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

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

- (a) Subsequent to September 30, 2011, we purchased a \$4,520 matured mortgage payable note from the lender for a discounted price of \$3,160, giving rise to debt forgiveness of \$1,360.
- (b) We have attempted to negotiate and have made offers to the lender with respect to a \$26,865 mortgage loan outstanding at September 30, 2011 to determine an appropriate course of action under the non-recourse loan agreement. No assurance can be provided that these negotiations will result in a favorable outcome for us. The lender has asserted that certain events have occurred that trigger recourse to us; however, we believe that we have substantive defenses with respect to those claims.

We continue to pursue opportunities with the nation's largest banks, life insurance companies, regional and local banks, and believe we have demonstrated reasonable success in addressing our maturing debt.

Distributions and Equity Transactions

Our distribution of current and accumulated earnings and profits for federal income tax purposes are taxable to shareholders as ordinary income. Distributions in excess of these earnings and profits generally are treated as a non-taxable reduction of the shareholders' basis in the shares to the extent thereof (a return of capital) and thereafter as taxable gain. The distributions in excess of earnings and profits will have the effect of deferring taxation on the amount of the distribution until the sale of the shareholders' shares. We intend to continue to qualify as a REIT for U.S. federal income tax purposes. The Internal Revenue Code of 1986, as amended, or the Code, generally requires that a REIT distribute annually at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain, in order to qualify as a REIT, and the Code generally taxes a REIT on any retained income.

To satisfy the requirements for qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of all or substantially all of our REIT taxable income to holders of our common stock out of assets legally available for such purposes. Our future distributions will be at the sole discretion of our board of directors. When determining the amount of future distributions, we expect that our board of directors will consider, among other factors, (i) the amount of cash generated from our operating

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activities, (ii) our expectations of future cash flows, (iii) our determination of near-term cash needs for debt repayments, existing or future share repurchases, and selective acquisitions of new properties, (iv) the timing of significant re-leasing activities and the establishment of additional cash reserves for anticipated tenant improvements and general property capital improvements, (v) our ability to continue to access additional sources of capital, (vi) the amount required to be distributed to maintain our status as a REIT and to reduce any income and excise taxes that we otherwise would be required to pay and (vii) any limitations on our distributions contained in our credit or other agreements, including, without limitation, in our senior secured revolving line of credit and secured term loan, which limit our distributions to the greater of 95% of FFO as defined in the credit agreement (which equals FFO, as set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations, excluding gains or losses from extraordinary items, impairments and other non-cash charges) or the amount necessary for us to maintain our qualification as a REIT. Under certain circumstances, we may be required to make distributions in excess of cash available for distribution in order to meet the REIT distribution requirements.

As part of the strengthening of our balance sheet over the last several years, we have reduced the rate of our distributions to shareholders as compared to a few years ago. However, we have steadily increased the quarterly distribution rate and the distribution declared for the third quarter of 2011 represents the eighth consecutive quarterly increase. The following table sets forth the amount

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of our distributions declared during the three and nine months ended September 30, 2011 and 2010 compared to cash flows provided by operating activities for each of these periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cash flows provided by operating activities	\$ 43,376	\$ 59,661	\$ 128,387	\$ 153,672
Distributions declared (a)	30,738	24,248	89,202	67,728
Excess	\$ 12,638	\$ 35,413	\$ 39,185	\$ 85,944

- (a) Distributions for the quarter ended September 30, 2011 were declared on October 3, 2011 to shareholders of record on that date and were paid on October 11, 2011. As such, the \$30,738 included in both the three and nine months ended September 30, 2011 figures was not recorded until October 3, 2011.

Effective November 19, 2008, the board of directors voted to suspend our share repurchase program. We maintain a distribution reinvestment program (DRP) which allows our shareholders who have purchased shares in our offerings to automatically reinvest distributions by purchasing additional shares from us. Such purchases under our DRP are not subject to brokerage commission fees or service charges. In conjunction with our estimate of the value of a share of our stock for annual statement of value purposes, the board of directors amended our DRP, effective March 1, 2010, solely to modify the purchase price. Since March 1, 2010, additional shares of our stock purchased under our DRP have been purchased at a price of \$6.85 per share. On June 14, 2011, the board of directors established an estimated per-share value of our stock of \$6.95 and amended the DRP, effective August 31, 2011, solely to modify the purchase price. The estimated value was determined by using a combination of different indicators and an internal assessment of value utilizing internal financial information under a common means of valuation under the direct capitalization method. No independent appraisals were obtained. Specifically, the estimate of the per-share value was made with primary consideration of the valuation of our real estate assets which was determined by our management using methodologies consistent with publicly traded real estate investment trusts in establishing net asset values, and the estimated values of other assets and liabilities determined by our management as of March 31, 2011. In arriving at this estimated value, the board of directors considered, among other things, the continuing impact of adverse trends in the economy, the real estate industry and the current public equity markets. As of September 30, 2011, we had issued approximately 75,465 shares pursuant to the DRP for an aggregate amount of \$708,257. During the nine months ended September 30, 2011, we received \$32,754 in investor proceeds through our DRP.

Capital Expenditures and Development Joint Venture Activity

We anticipate that capital demands to meet obligations related to capital improvements with respect to properties will be minimal for the foreseeable future (as many of our properties have recently been constructed or renovated) and can be met with funds from operations and working capital.

The following table provides summary information regarding our consolidated and unconsolidated properties under development as of September 30, 2011. As of September 30, 2011, we did not have any significant active construction ongoing at our development properties, and, currently, we only intend to develop the remaining estimated total GLA to the extent that we have pre-leased the space to be developed. As of September 30, 2011, the ABR from the portion of our development properties with respect to which construction has been completed was \$994.

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Location	Description	Our Ownership Percentage	Carrying Value at September 30, 2011 (a)	Construction Loan Balance at September 30, 2011
Henderson, Nevada	Green Valley Crossing	50.0%	\$ 27,114	\$ 11,350
Billings, Montana	South Billings Center	100.0% (b)	4,763	
Nashville, Tennessee	Bellevue Mall	100.0%	26,448	
Denver, Colorado	Hampton Retail Colorado	95.8%	2,450(c)	2,631(d)
			\$ 60,775	\$ 13,981

- (a) Represents the total investment less accumulated depreciation.
- (b) On September 30, 2011, we paid our partner \$300 to simultaneously settle the outstanding development fee liability and fully redeem our partner's ownership interest.
- (c) Represents the total investment less accumulated depreciation for one property under development. There is an additional \$17,862 of carrying value related to four operational properties held by the joint venture.
- (d) The construction loan balance is only the portion related to one property under development held by the joint venture. There is an additional \$16,233 construction loan related to four operational properties held by the joint venture.

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Asset Disposition and Operating Joint Venture Activity

During 2010 and the nine months ended September 30, 2011, our asset sales and partial sales of assets to operating joint ventures were an integral factor in our deleveraging and recapitalization efforts. The following table highlights the results of our asset dispositions, including partial sales, during 2010 and the nine months ended September 30, 2011:

	Number of Assets Sold	Square Footage	Combined Sales Price	Total Debt Extinguished	Net Sales Proceeds
2011 Partial Sales (through September 30, 2011)	1	654,200	\$ 110,799	\$ 60,000	\$ 39,935
2011 Dispositions (through September 30, 2011)	6	2,449,000	\$ 110,712	\$ 43,250	\$ 65,537
2010 Partial Sales	8	1,146,200	\$ 159,918	\$ 97,888	\$ 48,616
2010 Dispositions	8	894,500	\$ 104,635	\$ 106,791	\$ 21,024

Asset Acquisitions

During the nine months ended September 30, 2011, consistent with our core operating property growth strategy, we acquired additional phases of two of our existing multi-tenant retail operating properties. The following table highlights our asset acquisitions during the nine months ended September 30, 2011:

	Number of Assets Acquired	Square Footage	Combined Purchase Price	Debt (a)
2011 Acquisitions (through September 30, 2011)	2	120,100	\$ 16,805	

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

We did not acquire any properties during 2010.

Statement of Cash Flows Comparison for the Nine Months Ended September 30, 2011 and 2010

Cash Flows from Operating Activities

Cash flows provided by operating activities were \$128,387 and \$153,672 for the nine months ended September 30, 2011 and 2010, respectively, which consist primarily of net income from property operations, adjusted for non-cash charges for depreciation and amortization, provision for impairment of investment properties and marketable securities and gain on extinguishment of debt. The \$25,285 decrease in operating cash flows is primarily attributable to a decrease in total NOI of \$10,824, of which \$7,393 was generated from continuing operations, an increase in

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payments of leasing fees of \$3,093, a decrease in distributions on investments in unconsolidated joint ventures of \$2,630, a decrease in dividends received of \$1,282 and timing of payments for property operating expenses.

Cash Flows from Investing Activities

Cash flows provided by investing activities were \$111,107 and \$19,845, respectively, for the nine months ended September 30, 2011 and 2010. During the nine months ended September 30, 2011 and 2010, we sold certain properties and received condemnation and earnout proceeds which resulted in sales proceeds of \$160,303 and \$92,218, respectively, and we received distributions of investments in unconsolidated joint ventures of \$2,384 and none, respectively. During the nine months ended September 30, 2011 and 2010, cash used for acquisitions of additional phases of existing properties and earnouts at existing properties totaled \$16,555 and \$651, respectively. Amounts used to fund restricted escrow accounts, some of which are required under certain mortgage arrangements, were \$3,395 and \$47,416, respectively. In addition, \$20,205 and \$22,670, respectively, were used for capital expenditures and tenant improvements, \$2,441 and \$2,705, respectively, were used for existing developments projects and \$9,557 and \$3,307, respectively, were invested in our unconsolidated joint ventures.

We will continue to execute our strategy to dispose of select non-retail properties and free standing, triple-net retail and other properties on an opportunistic basis; however, it is uncertain given current market conditions when and whether we will be successful in disposing of these assets and whether such sales could recover our original cost. Additionally, tenant improvement costs associated with re-leasing vacant space could continue to be significant.

Cash Flows from Financing Activities

Cash flows used in financing activities were \$253,089 and \$183,405, respectively, for the nine months ended September 30, 2011 and 2010. We used \$195,854 and \$165,877, respectively, related to the net activity from principal payments, payoffs, the payment and

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refund of fees and deposits, other financings, the co-venture arrangement, net proceeds from our secured credit facility and new mortgages secured by our properties. During the nine months ended September 30, 2011 and 2010, we also (used) generated \$(2,073) and \$18,154, respectively, through the net borrowing of margin debt. We paid \$52,561 and \$35,783, respectively, in distributions, net of distributions reinvested through the DRP, to our shareholders for the nine months ended September 30, 2011 and 2010.

We have addressed a significant amount of mortgage debt exposure over the past few years and with our focus on leasing activity to increase occupancy and operating cash flows, we believe that we will be able to meet our short-term and long-term cash requirements.

Off-Balance-Sheet Arrangements

Effective April 27, 2007, we formed a joint venture (MS Inland) with a large state pension fund. Under the joint venture agreement we contributed 20% of the equity and our joint venture partner contributed 80% of the equity. As of September 30, 2011, the joint venture had acquired seven properties (which we contributed) with a purchase price of approximately \$336,000 and had assumed from us mortgages on these properties totaling approximately \$188,000 at the time of assumption.

On May 20, 2010, we entered into definitive agreements to form our RioCan joint venture. As of September 30, 2011, our RioCan joint venture had acquired nine multi-tenant retail properties from us, eight of which were acquired during 2010, for an aggregate purchase price of \$270,241 and had assumed from us mortgages payable on these properties totaling approximately \$157,888. During the nine months ended September 30, 2011, our RioCan joint venture acquired one multi-tenant retail property from us for a purchase price of \$110,799 and assumed the related mortgage payable of \$60,000. In addition, during the nine months ended September 30, 2011, our RioCan joint venture acquired two multi-tenant retail properties in Texas from unaffiliated third parties for which we contributed \$5,130 as our share of the acquisition price net of closing costs and mortgage proceeds. We had a 20% equity interest in our RioCan joint venture as of September 30, 2011.

In addition, we have entered into the two other unconsolidated joint ventures that are described in Note 11 to the condensed consolidated financial statements.

The table below summarizes the outstanding debt of our unconsolidated joint ventures as of September 30, 2011, none of which has been guaranteed by us:

Joint Venture	Ownership Interest	Aggregate Principal Amount	Weighted Average Interest Rate	Years to Maturity/ Weighted Average Years to Maturity
RioCan (a)	20.0%	\$ 187,827	5.16%	5.0 years
MS Inland (b)	20.0%	\$ 176,587	5.29%	2.5 years
Hampton Retail Colorado (c)	95.8%	\$ 18,864	5.40%	2.9 years

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- (a) Aggregate principal amount excludes mortgage premiums of \$1,632 and discounts of \$1,253, net of accumulated amortization. As of September 30, 2011, our RioCan joint venture has two mortgages payable maturing in the remainder of 2011 or 2012, with an aggregate principal balance of \$19,025 and a weighted average interest rate of 5.54%.
- (b) Aggregate principal amount excludes mortgage premiums of \$30 and discounts of \$125, net of accumulated amortization. As of September 30, 2011, our MS Inland joint venture has four mortgages payable maturing in the remainder of 2011 or 2012, with an aggregate principal balance of \$89,366 and a weighted average interest rate of 5.49%.
- (c) The weighted average interest rate increases to 6.15% on September 5, 2012 and to 6.90% on September 5, 2013. Aggregate principal amount excludes mortgage premiums of \$3,557, net of accumulated amortization.

Other than described above, we have no off-balance-sheet arrangements as of September 30, 2011 that are reasonably likely to have a current or future material effect on our financial condition, results of operations and cash flows.

Contracts and Commitments

We have acquired certain properties which have earnout components, meaning that we did not pay for portions of these properties that were not rent producing at the time of acquisition. We are obligated, under these agreements, to pay for those portions, as additional purchase price, when a tenant moves into its space and begins to pay rent. The earnout payments are based on a predetermined formula. Each earnout agreement has a time limit regarding the obligation to pay any additional monies. The time limits generally range from one to three years. If, at the end of the time period allowed, certain space has not been leased and occupied, generally, we will own that space without any further payment obligation. As of September 30, 2011, we may pay as much as \$1,400 in the future if retail space covered by earnout agreements is leased.

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We previously entered into one construction loan agreement, one secured installment note and one other installment note agreement, one of which was impaired as of December 31, 2009 and written off on March 31, 2010. In conjunction with the two remaining note agreements, we have funded our total commitments of \$8,680. The combined receivable balance included in Accounts and notes receivable in the accompanying condensed consolidated balance sheets at September 30, 2011 and December 31, 2010 was \$8,270 and \$8,290, respectively, net of allowances of \$300.

Critical Accounting Policies and Estimates

Our 2010 Annual Report on Form 10-K contains a description of our critical accounting policies, including acquisition of investment property, impairment of long-lived assets, cost capitalization, depreciation and amortization, loss on lease terminations, investment properties held for sale, revenue recognition, marketable securities, partially-owned entities, derivatives and hedging and allowance for doubtful accounts. For the nine months ended September 30, 2011, there were no significant changes to these policies.

Impact of Recently Issued Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies to our condensed consolidated financial statements regarding certain recent accounting pronouncements that we have recently adopted and that we expect to adopt in 2012.

Subsequent Events

During the period from October 1, 2011 through the date of this filing, we:

- drew \$85,000 on our senior secured revolving line of credit and used the proceeds to repay \$68,700 of mortgage debt that was secured by one property, had an interest rate of 5.12% and matured on October 1, 2011. This property was added to the collateral pool, which increased our borrowing availability by \$58,760;
- closed on a loan modification on one of our properties, which extended the maturity of a \$7,137 mortgage payable from May 28, 2012 to September 30, 2016;
- closed on the refinancing of an \$11,350 construction loan, which resulted in an increase in the outstanding principal balance to \$11,552, a change in the maximum borrowing amount to \$26,000 and an extension of the maturity date from December 31, 2012 to November 2, 2014. In conjunction with the refinancing, we have guaranteed 40% of the outstanding principal balance, up to a maximum of \$10,400, pursuant to the terms and conditions of the loan documents;

- closed on the sale of a 194,900 square foot multi-tenant retail property for a sales price of \$3,000, which resulted in no gain on sale and net cash proceeds of \$2,630, after customary prorations at closing;
- closed on the purchase from the lender of a matured \$4,520 mortgage payable note for a discounted price of \$3,160, giving rise to \$1,360 of debt forgiveness;
- repaid a \$5,336 mortgage payable with a stated interest rate of 5.15%; and
- filed the third amendment to the registration statement on Form S-11/A with the Securities and Exchange Commission regarding a proposed public offering of our common stock.

On October 3, 2011, our board of directors declared the distribution for the third quarter of 2011 of \$0.06 per share, which was paid on October 11, 2011 to shareholders of record at the close of business on October 3, 2011.

On October 11, 2011, the RioCan joint venture acquired a 486,900 square foot multi-tenant retail property in Cedar Park, Texas for an acquisition price of \$97,605, for which we contributed \$18,886, which represented our 20% share of the acquisition price, net of closing costs.

On October 11, 2011, under our Independent Director Stock Option Plan, each non-employee, non-related party director was granted options to purchase an additional five shares of common stock.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity and fund capital expenditures and expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives we borrow primarily at fixed rates or variable rates with the lowest margins available and in some cases, with the ability to convert variable rates to fixed rates.

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With regard to variable-rate financing, we assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding or forecasted debt obligations as well as our potential offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on our future cash flows.

We may use additional derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our properties. To the extent we do, we are exposed to market and credit risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, we generally are not exposed to the credit risk of the counterparty. It is our policy to enter into these transactions with the same party providing the financing, with the right of offset. Alternatively, we will minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

The combined carrying amount of our mortgages payable, notes payable, secured credit facility and co-venture obligation is approximately \$173,672 lower than the fair value as of September 30, 2011.

We had \$565,972 of variable-rate debt, with interest rates varying based upon LIBOR, with a weighted average interest rate of 3.74% at September 30, 2011. An increase in the variable interest rate on this debt constitutes a market risk. If interest rates increase by 1% based on debt outstanding as of September 30, 2011, interest expense would increase by approximately \$5,660 on an annualized basis.

We are exposed to equity price risk as a result of our investments in marketable securities. Equity price risk changes as the volatility of equity prices change or the values of corresponding equity indices change.

As of September 30, 2011, our investment in marketable securities totaled \$30,028, which included \$17,986 of accumulated unrealized gain. In the event that the value of our marketable securities declined by 50%, our investment would be reduced to \$15,014 and, if we then sold all of our marketable securities at this value, we would recognize a gain on marketable securities of \$2,972. For the nine months ended September 30, 2011, our cash flows from operating activities included \$1,753 that we received as distributions on our marketable securities. We could lose some or all of these cash flows if these distributions were reduced or eliminated in the future. Because all of our marketable securities are equity securities, the issuers of these securities could determine to reduce or eliminate these distributions at any time in their discretion.

The information presented herein is merely an estimate and has limited predictive value. As a result, the ultimate realized gain or loss with respect to interest rate fluctuations will depend on the interest rate exposures that arise during the period, our hedging strategies at that time and future changes in the level of interest rates.

Item 4. Controls and Procedures

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We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to the members of senior management and the board of directors.

Based on management's evaluation as of September 30, 2011, our chief executive officer, president, chief financial officer and treasurer and chief accounting officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our chief executive officer, president, chief financial officer and treasurer and our chief accounting officer to allow timely decisions regarding required disclosure.

There were no changes to our internal controls over financial reporting during the fiscal quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Part II Other Information

Item 1A. Risk Factors

As a result of events that occurred during the six months ended June 30, 2011 which are described above and were described in our second quarter 2011 Form 10-Q, management believes that the risk factor relating to the requested closing agreement with respect to the past administration of our DRP that is presented in our annual report on Form 10-K for the year ended December 31, 2010 is no longer applicable.

There have been no other material changes to our risk factors during the nine months ended September 30, 2011 compared to those risk factors presented in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer, President, Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (filed herewith).
31.2	Certification of Chief Accounting Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (filed herewith).
32.1	Certification of Chief Executive Officer, President, Chief Financial Officer and Treasurer and Chief Accounting Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 (filed herewith).
101	Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the Three-Month Periods and Nine-Month Periods Ended September 30, 2011 and 2010, (iii) Condensed Consolidated Statements of Equity for the Nine-Month Periods Ended September 30, 2011 and 2010, (iv) Condensed Consolidated Statements of Cash Flows for the Nine-Month Periods Ended September 30, 2011 and 2010, and (v) Notes to Condensed Consolidated Financial Statements.*

* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURES

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

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

By: /s/ Steven P. Grimes

Steven P. Grimes
Chief Executive Officer, President,
Chief Financial Officer and Treasurer

Date: November 7, 2011

By: /s/ James W. Kleifges

James W. Kleifges
Chief Accounting Officer

Date: November 7, 2011