PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-Q
August 01, 2012
Table of Contents

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 June 30, 2012

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission File Number: 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

Pennsylvania	**23-6216339**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 South Broad Street	
Philadelphia, PA	**19102**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (215) 875-0700

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common shares of beneficial interest, $1.00 par value per share, outstanding at July 30, 2012: 56,009,160

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONTENTS

Except as the context otherwise requires, references in this Quarterly Report on Form 10-Q to we, our, us, the Company and PREIT refer to Pennsylvania Real Estate Investment Trust and its subsidiaries, including our operating partnership, PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to PREIT Associates or the Operating Partnership refer to PREIT Associates, L.P.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)	**June 30, 2012 (Unaudited)**	**December 31, 2011**
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	$ 3,497,945	$ 3,470,167
Construction in progress	93,333	91,538
Land held for development	15,107	15,292
Total investments in real estate	3,606,385	3,576,997
Accumulated depreciation	(906,650)	(844,010)
Net investments in real estate	2,699,735	2,732,987
INVESTMENTS IN PARTNERSHIPS, at equity:	15,546	16,009
OTHER ASSETS:		
Cash and cash equivalents	14,582	21,798
Tenant and other receivables (net of allowance for doubtful accounts of $15,603 and $17,930 at June 30, 2012 and December 31, 2011, respectively)	31,961	39,832
Intangible assets (net of accumulated amortization of $21,011 and $51,625 at June 30, 2012 and December 31, 2011, respectively)	9,085	9,921
Deferred costs and other assets	92,941	89,707
Total assets	$ 2,863,850	$ 2,910,254
LIABILITIES:		
Mortgage loans payable (including debt premium of $112 and $282 at June 30, 2012 and December 31, 2011, respectively)	$ 1,741,841	$ 1,691,381
Exchangeable Notes (net of debt discount of $849 at December 31, 2011)		136,051
Term Loans	240,000	240,000
Revolving Facility	65,000	95,000
Tenants deposits and deferred rent	14,160	13,278
Distributions in excess of partnership investments	62,548	64,938
Fair value of derivative instruments	16,836	21,112
Accrued expenses and other liabilities	59,740	60,456
Total liabilities	2,200,125	2,322,216
COMMITMENTS AND CONTINGENCIES (Note 6)		
EQUITY:		
Preferred shares, $.01 par value per share; 25,000 shares authorized and 4,600 issued and outstanding at June 30, 2012 and 0 shares issued and outstanding at December 31, 2011	46	
Shares of beneficial interest, $1.00 par value per share; 200,000 shares authorized; issued and outstanding 56,001 shares at June 30, 2012 and 55,677 shares at December 31, 2011	56,001	55,677
Capital contributed in excess of par	1,160,858	1,047,487
Accumulated other comprehensive loss	(29,508)	(34,099)
Distributions in excess of net income	(565,348)	(524,738)
Total equity PREIT	622,049	544,327
Noncontrolling interest	41,676	43,711

Total equity	663,725	588,038
Total liabilities and equity	$ 2,863,850	$ 2,910,254

See accompanying notes to the unaudited consolidated financial statements.

1

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands of dollars)	**Three months ended June 30, 2012**	**Three months ended June 30, 2011**	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**
REVENUE:				
Real estate revenue:				
Base rent	$ 72,404	$ 70,934	$ 144,443	$ 142,694
Expense reimbursements	30,912	31,355	62,938	65,118
Percentage rent	509	715	1,427	1,696
Lease termination revenue	776	693	1,427	718
Other real estate revenue	3,636	3,694	6,858	6,727
Total real estate revenue	108,237	107,391	217,093	216,953
Interest and other income	884	809	1,645	1,727
Total revenue	109,121	108,200	218,738	218,680
EXPENSES:				
Operating expenses:				
CAM and real estate taxes	(35,940)	(35,260)	(72,149)	(72,564)
Utilities	(5,713)	(6,078)	(11,003)	(11,909)
Other operating expenses	(5,551)	(6,129)	(10,449)	(12,087)
Total operating expenses	(47,204)	(47,467)	(93,601)	(96,560)
Depreciation and amortization	(33,400)	(36,614)	(67,118)	(71,124)
Other expenses:				
General and administrative expenses	(10,240)	(10,433)	(20,124)	(20,015)
Provision for executive separation expenses	(796)		(796)	
Project costs and other expenses	(39)	(353)	(397)	(497)
Total other expenses	(11,075)	(10,786)	(21,317)	(20,512)
Interest expense, net	(31,795)	(34,941)	(63,464)	(68,554)
Total expenses	(123,474)	(129,808)	(245,500)	(256,750)
Loss before equity in income of partnerships and gains on sales of real estate	(14,353)	(21,608)	(26,762)	(38,070)
Equity in income of partnerships	1,952	1,147	3,945	2,690
Gains on sales of real estate		1,450		1,450
Net loss	(12,401)	(19,011)	(22,817)	(33,930)
Less: net loss attributable to noncontrolling interest	513	763	932	1,364
Net loss attributable to PREIT	(11,888)	(18,248)	(21,885)	(32,566)
Less: preferred share dividends	(1,845)		(1,845)	
Net loss attributable to PREIT common shareholders	$ (13,733)	$ (18,248)	$ (23,730)	$ (32,566)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

EARNINGS PER SHARE

(Unaudited)

(in thousands of dollars, except per share amounts)	**Three months ended June 30, 2012**	**Three months ended June 30, 2011**	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**
Net loss	$ (12,401)	$ (19,011)	$ (22,817)	$ (33,930)
Preferred share dividends	(1,845)		(1,845)	
Noncontrolling interest	513	763	932	1,364
Dividends on unvested restricted shares	(128)	(144)	(189)	(262)
Loss used to calculate earnings per share basic and diluted	$ (13,861)	$ (18,392)	$ (23,919)	$ (32,828)
Basic loss per share	$ (0.25)	$ (0.34)	$ (0.43)	$ (0.60)
Diluted loss per share	$ (0.25)	$ (0.34)	$ (0.43)	$ (0.60)
(in thousands of shares)				
Weighted average shares outstanding basic	55,143	54,680	55,026	54,567
Effect of common share equivalents [1]				
Weighted average shares outstanding diluted	55,143	54,680	55,026	54,567

[1] The Company had net losses from continuing operations for all periods presented. Therefore, the effect of common share equivalents of 1,007 and 851 for the three months ended June 30, 2012 and 2011, respectively, and 947 and 922 for the six months ended June 30, 2012 and 2011, respectively, are excluded from the calculation of diluted loss per share for these periods because they would be antidilutive.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands of dollars)	**2012**	**2011**	**2012**	**2011**
Comprehensive loss:				
Net loss	$ (12,401)	$ (19,011)	$ (22,817)	$ (33,930)
Unrealized gain (loss) on derivatives	2,825	(1,715)	4,276	1,775
Other	207	(255)	509	242
Total comprehensive loss	(9,369)	(20,981)	(18,032)	(31,913)
Less: Comprehensive loss attributable to noncontrolling interest	389	844	738	1,284
Comprehensive loss attributable to PREIT	$ (8,980)	$ (20,137)	$ (17,294)	$ (30,629)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Six Months Ended

June 30, 2012

(Unaudited)

		PREIT Shareholders					
(in thousands of dollars, except per share amounts)	**Total Equity**	**Series A Preferred Shares, $25 Liquidation Value**	**Shares of Beneficial Interest, $1.00 Par**	**Capital Contributed in Excess of Par**	**Accumulated Other Comprehensive Loss**	**Distributions in Excess of Net Income**	**Non-controlling Interest**
Balance January 1, 2012	$ 588,038	$	$ 55,677	$ 1,047,487	$ (34,099)	$ (524,738)	$ 43,711
Total comprehensive loss	(18,032)				4,591	(21,885)	(738)
Shares issued upon redemption of Operating Partnership Units			20	297			(317)
Shares issued under distribution reinvestment and share purchase plan	185		13	172			
Shares issued under employee share purchase plan	354		23	331			
Shares retired under equity incentive plans, net of shares issued	(2,556)		268	(2,824)			
Amortization of deferred compensation	4,691			4,691			
Preferred share offering	115,000	46		114,954			
Preferred share issuance costs	(4,250)			(4,250)			
Distributions paid to preferred shareholders ($0.3151 per share)	(1,449)					(1,449)	
Distributions paid to common shareholders ($0.31 per share)	(17,276)					(17,276)	
Noncontrolling interests:							
Distributions to Operating Partnership unit holders ($0.31 per unit)	(717)						(717)
Other distributions to noncontrolling interest, net	(263)						(263)
Balance June 30, 2012	$ 663,725	$ 46	$ 56,001	$ 1,160,858	$ (29,508)	$ (565,348)	$ 41,676

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands of dollars)	**Six months ended June 30, 2012**	**2011**
Cash flows from operating activities:		
Net loss	$ (22,817)	$ (33,930)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	62,860	64,960
Amortization	8,175	9,574
Straight-line rent adjustments	(326)	165
Provision for doubtful accounts	1,420	2,825
Amortization of deferred compensation	4,691	4,626
Gains on sales of real estate		(1,450)
Change in assets and liabilities:		
Net change in other assets	8,563	11,746
Net change in other liabilities	460	(6,748)
Net cash provided by operating activities	63,026	51,768
Cash flows from investing activities:		
Additions to construction in progress	(19,724)	(4,954)
Investments in real estate improvements	(10,190)	(17,269)
Cash proceeds from sales of real estate		7,346
Additions to leasehold improvements	(422)	(135)
Investments in partnerships	(3,598)	(64)
Capitalized leasing costs	(2,501)	(2,524)
(Increase) decrease in cash escrows	(7,779)	844
Cash distributions from partnerships in excess of equity in income	1,672	16,873
Net cash (used in) provided by investing activities	(42,542)	117
Cash flows from financing activities:		
Net proceeds from issuance of preferred shares	110,750	
Repayment of Exchangeable Notes	(136,900)	
Net repayment of Revolving Facility	(30,000)	(30,000)
Paydown of 2010 Term Loan		(7,200)
Proceeds from mortgage loans	65,750	
Principal installments on mortgage loans	(11,120)	(10,316)
Repayment of mortgage loans	(4,000)	
Payment of deferred financing costs	(721)	(3,592)
Dividends paid to common shareholders	(17,276)	(16,685)
Dividends paid to preferred shareholders	(1,449)	
Distributions paid to Operating Partnership unit holders and noncontrolling interest	(717)	(697)
Shares of beneficial interest issued	539	316
Shares retired under equity incentive plans, net of shares issued	(2,556)	(1,875)
Net cash used in financing activities	(27,700)	(70,049)

Net change in cash and cash equivalents	(7,216)	(18,164)
Cash and cash equivalents, beginning of period	21,798	42,327
Cash and cash equivalents, end of period	$ 14,582	$ 24,163

See accompanying notes to the unaudited the consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

1. BASIS OF PRESENTATION

Nature of Operations

Pennsylvania Real Estate Investment Trust (PREIT or the Company) prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. Our unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in PREIT s Annual Report on Form 10-K, as amended, for the year ended December 31, 2011. In our opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and the consolidated results of our operations and our cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

PREIT, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (REITs) in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of June 30, 2012, our portfolio consisted of a total of 49 properties in 13 states, including 38 shopping malls, eight strip and power centers and three development properties, with two of the development properties classified as mixed use (a combination of retail and other uses) and one of the development properties classified as other.

We hold our interest in our portfolio of properties through our operating partnership, PREIT Associates, L.P. (PREIT Associates or the Operating Partnership). We are the sole general partner of the Operating Partnership and, as of June 30, 2012, we held a 96.0% interest in the Class A and Class B limited partnership units of the Operating Partnership, and consolidated it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem such partner s units of limited partnership interest in the Operating Partnership (OP Units) for cash or, at our election, we may acquire such OP Units in exchange for our common shares on a one-for-one basis, in some cases beginning one year following the respective issue date of the OP Units and in other cases immediately. If all of the outstanding OP Units held by limited partners had been redeemed for cash, the total amount that would have been distributed as of June 30, 2012 would have been $34.6 million, which is calculated using our June 29, 2012 closing share price on the New York Stock Exchange of $14.98 multiplied by the number of outstanding OP Units held by limited partners, which was 2,309,118 as of June 30, 2012.

We provide management, leasing and real estate development services through two companies: PREIT Services, LLC (PREIT Services), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties owned by partnerships in which we own an interest and properties that are owned by third parties in which we do not have an interest. PREIT Services and PRI are consolidated. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer an expanded menu of services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law.

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate consolidated operations on a geographic basis. We do not have any significant revenue or asset concentrations, and thus the individual properties have been aggregated into one reportable segment based upon their similarities with regard to the nature of our properties and the nature of our tenants and operational processes, as well as long-term financial performance. In addition, no single tenant accounts for 10% or more of consolidated revenue, and none of our properties are located outside the United States.

Table of Contents

Fair Value

Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, these accounting requirements establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, and are typically based on an entity s own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. We utilize the fair value hierarchy in our accounting for derivatives (Level 2) and financial instruments (Level 2) and in our reviews for impairment of real estate assets (Level 3) and goodwill (Level 3).

New Accounting Developments

Effective January 1, 2012, in conjunction with our implementation of updates to the fair value measurements guidance, we made an accounting policy election to measure derivative financial instruments subject to master netting agreements on a net basis. This accounting policy election did not have a material effect on our financial statements.

2. REAL ESTATE ACTIVITIES

Investments in real estate as of June 30, 2012 and December 31, 2011 were comprised of the following:

(in thousands of dollars)	**As of June 30, 2012**	**As of December 31, 2011**
Buildings, improvements and construction in progress	$ 3,083,788	$ 3,060,095
Land, including land held for development	522,597	516,902
Total investments in real estate	3,606,385	3,576,997
Accumulated depreciation	(906,650)	(844,010)
Net investments in real estate	$ 2,699,735	$ 2,732,987

Table of Contents

Capitalization of Costs

The following table summarizes our capitalized salaries, commissions and benefits, real estate taxes and interest for the three and six months ended June 30, 2012 and 2011:

	Three months ended June 30,		Six months ended June 30,	
(in thousands of dollars)	**2012**	**2011**	**2012**	**2011**
Development/Redevelopment Activities:				
Salaries and benefits	$ 349	$ 206	$ 482	$ 422
Real estate taxes	92	22	485	69
Interest	557	367	1,105	765
Leasing Activities:				
Salaries, commissions and benefits	1,176	1,366	2,501	2,524

We expensed project costs that did not meet or no longer met our criteria for capitalization of $0.1 million for each of the three months ended June 30, 2012 and 2011, respectively, and $0.3 million and $0.2 million for the six months ended June 30, 2012 and 2011, respectively.

3. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in our unconsolidated partnerships as of June 30, 2012 and December 31, 2011:

(in thousands of dollars)	**As of June 30, 2012**	**As of December 31, 2011**
ASSETS:		
Investments in real estate, at cost:		
Retail properties	$ 411,926	$ 404,219
Construction in progress	2,273	2,092
Total investments in real estate	414,199	406,311
Accumulated depreciation	(151,099)	(144,671)
Net investments in real estate	263,100	261,640
Cash and cash equivalents	12,745	11,379
Deferred costs and other assets, net	18,151	19,687
Total assets	293,996	292,706
LIABILITIES AND PARTNERS DEFICIT:		
Mortgage loans payable	408,222	410,978
Other liabilities	6,690	6,645
Total liabilities	414,912	417,623
Net deficit	(120,916)	(124,917)
Partners share	(64,712)	(66,667)
PREIT s share	(56,204)	(58,250)
Excess investment [1]	9,202	9,321
Net investments and advances	$ (47,002)	$ (48,929)

Investment in partnerships, at equity	$	15,546	$	16,009
Distributions in excess of partnership investments		(62,548)		(64,938)
Net investments and advances	$	(47,002)	$	(48,929)

(1) Excess investment represents the unamortized difference between our investment and our share of the equity in the underlying net investment in the partnerships. The excess investment is amortized over the life of the properties, and the amortization is included in Equity in income of partnerships.

Table of Contents

We record distributions from our equity investments as cash from operating activities up to an amount equal to the equity in income of partnerships. Amounts in excess of our share of the income in the equity investments are treated as a return of partnership capital and recorded as cash from investing activities.

The following table summarizes our share of equity in income of partnerships for the three and six months ended June 30, 2012 and 2011:

(in thousands of dollars)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Real estate revenue	$ 18,686	$ 18,604	$ 38,063	$ 37,312
Expenses:				
Operating expenses	(5,325)	(5,795)	(11,252)	(11,841)
Interest expense	(5,645)	(5,750)	(11,299)	(11,337)
Depreciation and amortization	(3,590)	(4,625)	(7,201)	(8,470)
Total expenses	(14,560)	(16,170)	(29,752)	(31,648)
Net income	4,126	2,434	8,311	5,664
Less: Partners share	(2,067)	(1,204)	(4,154)	(2,807)
Company s share	2,059	1,230	4,157	2,857
Amortization of excess investment	(107)	(83)	(212)	(167)
Equity in income of partnerships	$ 1,952	$ 1,147	$ 3,945	$ 2,690

The following table presents the mortgage loans secured by our unconsolidated properties entered into since January 1, 2012:

Financing Date	Property	Amount Financed (in millions of dollars)	Stated Rate	Maturity
July 2012	Pavilion East[1]	$9.4	LIBOR plus 2.75%	August 2017

(1) The unconsolidated entity that owns Pavilion East entered into the mortgage loan. Our interest in the unconsolidated entity is 40%. The mortgage loan has a term of five years.

4. FINANCING ACTIVITY

Amended, Restated and Consolidated Senior Secured Credit Agreement

Our credit facility consists of a revolving line of credit with a capacity of $250.0 million (the Revolving Facility) and term loans with an aggregate balance as of June 30, 2012 of $240.0 million (collectively, the 2010 Term Loan and, together with the Revolving Facility and as amended, the 2010 Credit Facility).

As of June 30, 2012, $65.0 million was outstanding under our Revolving Facility. No amounts were pledged as collateral for letters of credit, and the unused portion that was available to us was $185.0 million at June 30, 2012.

The weighted average interest rate on outstanding Revolving Facility borrowings as of June 30, 2012 was 4.25%. Interest expense related to the Revolving Facility was $0.6 million for each of the three months ended June 30, 2012 and 2011, respectively, and $1.5 million and $0.7 million for the six months ended June 30, 2012 and 2011, respectively, excluding non-cash amortization of deferred financing fees.

As of June 30, 2012, $240.0 million was outstanding under the 2010 Term Loan. The weighted average effective interest rates based on amounts borrowed under the 2010 Term Loan for the three and six months ended June 30, 2012 were 4.99% and 5.01%, respectively. Interest expense excluding non-cash amortization of deferred financing fees related to the 2010 Term Loan was $3.9 million and $5.6 million, respectively, for the three months ended June 30, 2012 and 2011, and $7.2 million and $10.7 million, respectively, for the six months ended June 30, 2012 and 2011.

Deferred financing fee amortization associated with the 2010 Credit Facility for the three months ended June 30, 2012 and 2011 was $0.9 million and $1.0 million, respectively. Deferred financing fee amortization associated with the 2010 Credit Facility for the six months ended June 30, 2012 and 2011 was $1.8 million and $1.9 million, respectively.

The 2010 Credit Facility contains affirmative and negative covenants of the type customarily found in credit facilities of this nature. As of June 30, 2012, we were in compliance with all financial covenants.

Table of Contents

Exchangeable Notes

In June 2012, we repaid in full the $136.9 million of our Exchangeable Notes outstanding upon their maturity and accrued interest of $2.7 million, using $74.6 million in cash and $65.0 million from our Revolving Facility.

Interest expense related to our Exchangeable Notes for the three months ended June 30, 2012 and 2011 was $0.9 million and $1.4 million, respectively, excluding the non-cash amortization of debt discount of $0.3 million and $0.5 million, respectively, and the non-cash amortization of deferred financing fees of $0.1 million and $0.2 million, respectively.

Interest expense related to our Exchangeable Notes for the six months ended June 30, 2012 and 2011 was $2.3 million and $2.7 million, respectively, excluding the non-cash amortization of debt discount of $0.8 million and $1.0 million, respectively, and the non-cash amortization of deferred financing fees of $0.3 million and $0.4 million, respectively.

Mortgage Loans

The carrying value (including debt premium of $0.1 million and $0.3 million as of June 30, 2012 and December 31, 2011, respectively) and estimated fair values of mortgage loans based on interest rates and market conditions at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012		December 31, 2011	
(in millions of dollars)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Mortgage loans	$ 1,741.8	$ 1,769.4	$ 1,691.4	$ 1,683.4

The mortgage loans contain various customary default provisions. As of June 30, 2012, we were not in default on any of the mortgage loans.

Mortgage Loan Activity

The following table presents the mortgage loans we have entered into since January 1, 2012 relating to our consolidated properties:

Financing Date	**Property**	**Amount Financed or Extended (in millions of dollars)**	**Stated Rate**	**Maturity**
January	New River Valley Mall	$28.1	LIBOR plus 3.00%	January 2019
February	Capital City Mall	65.8	5.30% fixed	March 2022
July	Christiana Center	50.0	4.64% fixed	August 2022

Other 2012 Activity

In June 2012, we exercised our remaining one-year extension option on the mortgage loan secured by Paxton Towne Centre in Harrisburg, Pennsylvania. In connection with the exercise of this extension option, we repaid $4.0 million of the outstanding balance, which reduced the principal balance to $50.0 million.

5. CASH FLOW INFORMATION

Cash paid for interest was $58.9 million (net of capitalized interest of $1.1 million) and $63.8 million (net of capitalized interest of $0.7 million) for the six months ended June 30, 2012 and 2011, respectively.

6. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

As of June 30, 2012, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of $12.5 million in the form of tenant allowances, lease termination fees, and contracts with general service providers and other professional service providers.

Employment Agreements

In April 2012, we entered into amended employment agreements with Joseph F. Coradino and Ronald Rubin that became effective on June 7, 2012, the date that Mr. Coradino became our Chief Executive Officer and Mr. Rubin became our Executive Chairman.

Mr. Coradino s employment agreement will have an initial term of two years, after which it will renew annually for one-year terms unless either party gives notice of non-renewal at least 120 days prior to the end of the then current term.

Mr. Rubin s employment agreement will have an initial term of three years, after which it will renew annually for one-year terms unless either party gives notice of non-renewal at least 120 days prior to the end of the then current term.

Provision for Executive Separation Expenses

In connection with the appointment of Joseph F. Coradino as Chief Executive Officer in June 2012, conditions in President and Chief Operating Officer Edward Glickman s employment agreement were triggered that caused us to record a provision for executive separation expense of $0.5 million in June 2012. Upon Mr. Rubin s cessation of service as Chief Executive Officer of the Company, and the beginning of Mr. Coradino s service in that position on June 7, 2012, Edward Glickman became contractually entitled to voluntarily terminate his employment for good reason during the period from December 4, 2012 to June 2, 2013. Mr. Glickman would be entitled to a cash payment, all time-based equity awards made to him would vest, and all outstanding performance-based equity awards would remain outstanding and would vest or be forfeited based on the terms of such awards as if Mr. Glickman s employment had not terminated. Mr. Glickman also would be entitled to receive other benefits as set forth in his employment agreement. Through December 2012, we expect to record a total provision of $4.0 million related to Mr. Glickman s employment agreement.

Also, in April 2012, Ronald Rubin executed a new employment agreement which required us to record a provision for executive separation expense of $0.3 million in June 2012. We expect to record a total provision for executive separation of $4.5 million ($2.6 million through December 2012 and an additional $1.9 million through June 2013) related to Mr. Rubin s employment agreement.

7. RELATED PARTY TRANSACTIONS

We lease our principal executive offices from Bellevue Associates (the Landlord), an entity in which certain of our officers/trustees have an interest. Under the original lease, our annual base rent was $1.5 million. Our total rent expense in 2011 was $1.8 million. The office lease had an initial 10 year term that commenced on November 1, 2004. We had the option to renew the office lease for up to two additional five year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord.

Under the office lease, we also had the right on one occasion at any time during the seventh lease year to terminate the lease upon the satisfaction of certain conditions. In April 2012, we entered into an amendment to our office lease with the Landlord, effective June 1, 2012. The amendment was negotiated in light of the aforementioned termination right. Under this amendment, the term has been extended for five years to October 31, 2019, and we have the option to renew the amended office lease for up to two additional periods for an aggregate of 10 years, at the then-current market base rental rate calculated in accordance with the terms of the amended office lease. The first extension period shall be no less than three and no more than seven years, at our discretion, and the second shall be for 10 years less the number of years of the first extension. The base rent will be approximately $1.2 million per year, increasing incrementally to approximately $1.4 million in 2019. Total rent expense under this lease was $0.4 million and $0.5 million for the three months ended June 30, 2012 and 2011, respectively, and $0.9 million for each of the six months ended June 30, 2012 and 2011, respectively.

In accordance with PREIT s related party transactions policy, PREIT s Special Committee considered and approved the terms of the amended lease.

8. DERIVATIVES

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest bearing liabilities. We attempt to limit these risks by following established risk management policies, procedures and strategies, including the use of financial instruments such as derivatives. We do not use financial instruments for trading or speculative purposes.

Table of Contents

Cash Flow Hedges of Interest Rate Risk

Our outstanding derivatives have been designated under applicable accounting authority as cash flow hedges. The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in Accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. To the extent these instruments are ineffective as cash flow hedges, changes in the fair value of these instruments are recorded in Interest expense, net. We recognize all derivatives at fair value as either assets or liabilities in the accompanying consolidated balance sheets. Our derivative assets and liabilities are recorded in Fair value of derivative instruments.

Amounts reported in Accumulated other comprehensive loss that are related to derivatives will be reclassified to Interest expense, net as interest payments are made on our corresponding debt. During the next twelve months, we estimate that $15.7 million will be reclassified as an increase to interest expense in connection with derivatives.

Interest Rate Swaps and Cap

As of June 30, 2012, we had entered into nine interest rate swap agreements with a weighted average interest rate of 2.93% on a notional amount of $617.3 million maturing on various dates through November 2013, and two forward starting interest rate swap agreements with a weighted average interest rate of 1.25% on a notional amount of $53.1 million maturing on various dates through January 2017.

We entered into these interest rate swap agreements (including the forward starting swap agreements) in order to hedge the interest payments associated with the 2010 Credit Facility and our issuances of variable interest rate long-term debt. We have assessed the effectiveness of these interest rate swap agreements as hedges at inception and on a quarterly basis. On June 30, 2012, we considered these interest rate swap agreements to be highly effective as cash flow hedges. The interest rate swap agreements are net settled monthly.

Accumulated other comprehensive loss as of June 30, 2012 includes a net loss of $9.9 million relating to forward-starting swaps that we cash settled in prior years that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

The following table summarizes the terms and estimated fair values of our interest rate swap, cap and forward starting swap derivative instruments at June 30, 2012 and December 31, 2011. The notional amounts provide an indication of the extent of our involvement in these instruments, but do not represent exposure to credit, interest rate or market risks. The fair values of our derivative instruments are recorded in Fair value of derivative instruments on our balance sheet.

(in millions of dollars)

Notional Value	**Fair Value at June 30, 2012 (1)**	**Fair Value at December 31, 2011 (1)**	**Interest Rate**	**Effective Date**	**Maturity Date**
Interest Rate Swaps					
$200.0	$ N/A	$ (0.7)	1.78%		April 2, 2012
25.0	(0.2)	(0.3)	1.83%		December 31, 2012
60.0	(0.6)	(0.9)	1.74%		March 11, 2013
200.0	(3.7)	(4.5)	2.96%		March 11, 2013
40.0	(0.4)	(0.6)	1.82%		March 11, 2013
65.0	(2.5)	(3.2)	3.60%		September 9, 2013
68.0	(2.7)	(3.5)	3.69%		September 9, 2013
56.3	(2.2)	(2.9)	3.73%		September 9, 2013
55.0	(1.9)	(2.4)	2.90%		November 29, 2013
48.0	(1.7)	(2.1)	2.90%		November 29, 2013
Interest Rate Cap					
15.3	N/A	(0.0)	2.50%		April 2, 2012
Forward Starting Interest Rate Swaps					

Table of Contents

(in millions of dollars) Notional Value	Fair Value at June 30, 2012 [1]	Fair Value at December 31, 2011 [1]	Interest Rate	Effective Date	Maturity Date
28.1	(0.6)	N/A	1.38%	January 2, 2013	January 2, 2017
25.0	(0.3)	N/A	1.10%	March 12, 2013	July 31, 2016
	$ (16.8)	$ (21.1)			

(1) As of June 30, 2012 and December 31, 2011, derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. As of June 30, 2012 and December 31, 2011, we do not have any significant recurring fair value measurements related to derivative instruments using significant unobservable inputs (Level 3).

The table below presents the effect of our derivative financial instruments on our consolidated statements of operations for the three and six months ended June 30, 2012 and 2011:

(in millions of dollars)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011	Consolidated Statements of Operations location
Derivatives in cash flow hedging relationships					
Interest rate products					
Loss recognized in Other Comprehensive Loss on derivatives	$ (1.5)	$ (6.6)	$ (3.6)	$ (7.0)	N/A
Loss reclassified from Accumulated Other Comprehensive Loss into Income (effective portion)	$ 4.5	$ 4.9	$ 8.4	$ 9.0	Interest expense
Gain (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)					Interest expense

Credit-Risk-Related Contingent Features

We have agreements with some of our derivative counterparties that contain a provision pursuant to which, if our entity that originated such derivative instruments defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of June 30, 2012, we were not in default on any of our derivative obligations.

We have an agreement with a derivative counterparty that incorporates the loan covenant provisions of our loan agreement with a lender affiliated with the derivative counterparty. Failure to comply with the loan covenant provisions would result in us being in default on any derivative instrument obligations covered by the agreement.

As of June 30, 2012, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was $16.8 million. If we had breached any of the default provisions in these agreements as of June 30, 2012, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of $18.6 million. We had not breached any of these provisions as of June 30, 2012.

9. SERIES A PREFERRED SHARE OFFERING

In April 2012, we issued 4,600,000 8.25% Series A Cumulative Redeemable Perpetual Preferred Shares (the Preferred Shares) in a public offering at $25.00 per share. We received net proceeds from the offering of $110.7 million after deducting payment of the underwriting discount of $3.6 million ($0.7875 per Preferred Share) and estimated offering expenses of $0.7 million. We used a portion of the net proceeds from this offering to repay all $30.0 million of then-outstanding borrowings under the Revolving Facility. Immediately after the repayment, there were no amounts outstanding under the Revolving Facility.

We may not redeem the Preferred Shares before April 20, 2017, except under circumstances intended to preserve our status as a real estate investment trust, or REIT, for federal and/or state income tax purposes, and except upon the occurrence of a Change of Control, as defined in the Trust Agreement addendum designating the Preferred Shares. On and after April 20, 2017, we may, at our option, redeem any or all of the Preferred Shares for cash at $25.00 per share plus, subject to exceptions, any accrued and unpaid dividends to but excluding the date fixed for redemption. In addition, upon the occurrence of a Change of Control, we may, at our option, redeem any or all of the Preferred Shares for cash within 120 days after the first date on which such Change of Control occurred at $25.00 per share plus, subject to certain exceptions, any accrued and unpaid dividends to but excluding the date fixed for redemption. The Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless we redeem or otherwise repurchase them or they become convertible and are converted.

As of June 30, 2012, there was $0.4 million in accumulated but unpaid dividends relating to the preferred shares. This amount was deducted from net loss to determine net loss attributable to common shareholders. This amount was not deducted from distributions in excess of net income as of June 30, 2012 because the dividend on the preferred shares was not yet declared at that time.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.
The following analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included elsewhere in this report.

OVERVIEW

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (REITs) in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 49 properties in 13 states, including 38 enclosed malls, eight strip and power centers and three development properties. The operating retail properties have a total of approximately 33.1 million square feet. The operating retail properties that we consolidate for financial reporting purposes have a total of approximately 28.5 million square feet, of which we own approximately 22.8 million square feet. The operating retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.6 million square feet, of which 3.1 million square feet are owned by such partnerships. The development portion of our portfolio contains three properties in two states, with two classified as mixed use (a combination of retail and other uses) and one classified as other.

Our primary business is owning and operating retail shopping malls, which we primarily do through our operating partnership, PREIT Associates, L.P. (PREIT Associates). We provide management, leasing and real estate development services through PREIT Services, LLC (PREIT Services), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties we own interests in through partnerships with third parties and properties that are owned by third parties in which we do not have an interest. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer additional services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law.

Our revenue consists primarily of fixed rental income, additional rent in the form of expense reimbursements, and percentage rent (rent that is based on a percentage of our tenants sales or a percentage of sales in excess of thresholds that are specified in the leases) derived from our income producing properties. We also receive income from our real estate partnership investments and from the management and leasing services PRI provides.

Net loss for the three months ended June 30, 2012 was $12.4 million, a decrease of $6.6 million compared to a net loss of $19.0 million for the three months ended June 30, 2011. This decrease was primarily due to lower depreciation and amortization expenses and lower interest expenses. Net loss for the six months ended June 30, 2012 was $22.8 million, a decrease of $11.1 million compared to a net loss of $33.9 million for the six months ended June 30, 2011. This decrease was primarily due to lower depreciation and amortization expenses and lower interest expenses.

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate our consolidated operations on a geographic basis. We do not have any significant revenue or asset concentrations, and thus the individual properties have been aggregated into one reportable segment based upon their similarities with regard to the nature of our properties and the nature of our tenants and operational processes, as well as long-term financial performance. In addition, no single tenant accounts for 10% or more of our consolidated revenue, and none of our properties are located outside the United States.

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates. We are the sole general partner of PREIT Associates and, as of June 30, 2012, held a 96.0% interest in the Class A and Class B limited partnership units of PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 46 retail properties and one of the three development properties in our portfolio through unconsolidated partnerships with third parties in which we own a 40% to 50% interest. We hold a noncontrolling interest in each unconsolidated partnership, and account for such partnerships using the equity method of accounting. We do not control any of these equity method investees for the following reasons:

Except for two properties that we co-manage with our partner, all of the other entities are managed on a day-to-day basis by one of our other partners as the managing general partner in each of the respective partnerships. In the case of the co-managed properties, all decisions in the ordinary course of business are made jointly.

The managing general partner is responsible for establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.

All major decisions of each partnership, such as the sale, refinancing, expansion or rehabilitation of the property, require the approval of all partners.

Voting rights and the sharing of profits and losses are generally in proportion to the ownership percentages of each partner. We record the earnings from the unconsolidated partnerships using the equity method of accounting under the statements of operations caption entitled Equity in income of partnerships, rather than consolidating the results of the unconsolidated partnerships with our results. Changes in our investments in these entities are recorded in the balance sheet caption entitled Investment in partnerships, at equity. In the case of deficit investment balances, such amounts are recorded in Distributions in excess of partnership investments.

We hold our interest in three of our unconsolidated partnerships through tenancy in common arrangements. For each of these properties, title is held by us and another person or persons, and each has an undivided interest in the property. With respect to each of the three properties, under the applicable agreements between us and the other persons with ownership interests, we and such other persons have joint control because decisions regarding matters such as the sale, refinancing, expansion or rehabilitation of the property require the approval of both us and the other person (or at least one of the other persons) owning an interest in the property. Hence, we account for each of the properties using the equity method of accounting. The balance sheet items arising from these properties appear under the caption Investments in partnerships, at equity. The statements of operations items arising from these properties appear in Equity in income of partnerships.

For further information regarding our unconsolidated partnerships, see note 3 to our unaudited consolidated financial statements.

Current Economic Conditions and Our Leverage

The conditions in the economy and the disruptions in the financial markets have caused fluctuations and variations in business and consumer confidence, resulted in continued levels of relatively high unemployment and, in turn, have negatively affected consumer spending on retail goods. We continue to adjust our plans and actions to take into account the current environment.

The conditions in the economy and their effect on retail sales, as well as our significant leverage resulting from use of debt to fund our redevelopment program and other development activity, have combined to necessitate that we consider various approaches to obtaining, using and recycling capital. In light of these conditions, we are focusing on appropriately managing our liquidity. We intend to consider all of our available options for accessing the capital markets, given our position and constraints. We believe that we have access to sufficient capital to fund our remaining redevelopment project and our other foreseeable capital improvement projects.

We continue to contemplate ways to reduce our leverage through a variety of means available to us, subject to and in accordance with the terms of our Amended, Restated and Consolidated Senior Secured Credit Agreement (as amended, the 2010 Credit Facility). These steps might include obtaining additional equity capital, including through the issuance of common or preferred equity securities if market conditions are favorable, through our contribution of assets to joint ventures or other partnerships or arrangements with institutional investors, private equity investors or other REITs, through sales of properties or interests in properties with values in excess of their mortgage loans or allocable debt and application of the excess proceeds to debt reduction, through refinancing of properties in amounts that exceed prior mortgage balances or through other actions.

Capital Improvements and Development Projects

We might make capital improvements at our operating properties. Such improvements vary in cost and complexity, and can include building out new or existing space for individual tenants, upgrading common areas or exterior areas such as parking lots, or redeveloping the entire property, among other projects. Project costs are accumulated in Construction in progress on our consolidated balance sheet until the asset is placed into service, and amounted to $93.3 million as of June 30, 2012.

Table of Contents

We are also engaged in several types of development projects. However, we do not expect to make any significant investment in these projects in the short term. As of June 30, 2012, we had incurred $57.3 million of costs (net of impairment charges recorded in prior years) related to our activity at development properties.

As of June 30, 2012, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of $12.5 million in the form of tenant allowances, lease termination fees, and contracts with general service providers and other professional service providers.

Dispositions

We did not dispose of any properties during the six months ended June 30, 2012.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies are those that require the application of management s most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that might change in subsequent periods. In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Management has also considered events and changes in property, market and economic conditions, estimated future cash flows from property operations and the risk of loss on specific accounts or amounts in determining its estimates and judgments. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may affect comparability of our results of operations to those of companies in similar businesses. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2012 and 2011, except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected.

For additional information regarding our Critical Accounting Policies, see Critical Accounting Policies in Part II, Item 7 of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2011.

OFF BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet items other than the partnerships described in note 3 to the unaudited consolidated financial statements and in the Overview section above.

RESULTS OF OPERATIONS

Occupancy

The table below sets forth certain occupancy statistics for our properties as of June 30, 2012 and 2011:

	Occupancy (1) as of June 30,					
	Consolidated Properties		Unconsolidated Properties		Combined (2)	
	2012	2011	2012	2011	2012	2011
Retail portfolio weighted average:						
Total excluding anchors	86.7%	86.1%	93.1%	92.1%	87.7%	87.1%
Total including anchors	91.5%	90.2%	95.1%	94.1%	91.9%	90.6%
Malls weighted average:						
Total excluding anchors	86.4%	85.8%	92.5%	94.1%	86.8%	86.3%
Total including anchors	91.3%	89.9%	94.9%	95.3%	91.5%	90.2%
Strip and power centers weighted average	97.2%	97.0%	95.2%	93.4%	95.8%	94.5%

(1) Occupancy for both periods presented includes all tenants irrespective of the terms of their agreements.

(2) Combined occupancy is calculated by using occupied gross leasable area (GLA) for consolidated and unconsolidated properties and dividing by total GLA for consolidated and unconsolidated properties.

Table of Contents

Leasing Activity

The table below sets forth summary leasing activity information with respect to our consolidated and unconsolidated properties for the six months ended June 30, 2012:

			Average Base Rent psf		Increase (Decrease) in Base Rent psf		Annualized Tenant Improvements psf [1]
	Number	GLA	Previous	New	Dollar	Percentage [1]	
New Leases Previously Leased Space:							
1st Quarter [2]	32	119,188	$ 20.58	$ 21.54	$ 0.96	4.7%	$ 3.02
2nd Quarter [3]	33	103,243	31.36	29.49	(1.87)	(6.0%)	2.92
Total/Average	65	222,431	$ 25.58	$ 25.23	$ (0.35)	(1.4%)	$ 2.97
New Leases Previously Vacant Space: [4]							
1st Quarter	35	124,425	N/A	$ 28.60	$ 28.60	N/A	$ 3.82
2nd Quarter	35	168,069	N/A	17.98	17.98	N/A	3.79
Total/Average	70	292,494	N/A	$ 22.50	$ 22.50	N/A	$ 3.80
Renewal: [5]							
1st Quarter [2]	139	481,428	$ 22.28	$ 22.92	$ 0.64	2.9%	$
2nd Quarter [3]	172	538,905	26.48	27.71	1.23	4.6%	0.01
Total/Average	311	1,020,333	$ 24.50	$ 25.45	$ 0.95	3.9%	$ 0.01
Anchor New:							
1st Quarter	3	285,136	N/A	$ 13.87	$ 13.87	N/A	$ 3.40
2nd Quarter			N/A			N/A	
Total/Average	3	285,136	N/A	$ 13.87	$ 13.87	N/A	$ 3.40
Anchor Renewal:							
1st Quarter	1	100,115	$ 3.13	$ 3.13	$		$
2nd Quarter	1	212,000	0.35	0.35			
Total/Average	2	312,115	$ 1.24	$ 1.24	$		$

(1) These leasing costs are presented as annualized costs per square foot and are spread uniformly over the initial lease term.

(2) Leasing spreads on a gross rent basis (base rent plus common area maintenance, real estate taxes and other charges) were 1.3% for New Leases Previously Leased Space and 0.0% for Renewals.

(3) Leasing spreads on a gross basis were 8.1% for New Leases Previously Leased Space and 1.5% for Renewals.

(4) This category includes newly constructed and recommissioned space.

(5) This category includes expansions, relocations and lease extensions.

As of June 30, 2012, for non-anchor leases, the average base rent per square foot as of the expiration date was $28.79 for the renewing leases in Holdover status and $25.52 for leases expiring in 2012.

19

Table of Contents

The following information sets forth our results of operations for the three and six months ended June 30, 2012 and 2011.

Financial Overview

Net loss for the three months ended June 30, 2012 was $12.4 million, a decrease of $6.6 million compared to a net loss of $19.0 million for the three months ended June 30, 2011. Net loss for the six months ended June 30, 2012 was $22.8 million, a decrease of $11.1 million compared to a net loss of $33.9 million for the six months ended June 30, 2011. Our June 30, 2012 results of operations were primarily affected by decreased depreciation and amortization expense and decreased interest expense.

	Three months ended June 30,		% Change 2011 to	Six months ended June 30,		% Change 2011 to
(in thousands of dollars)	**2012**	**2011**	**2012**	**2012**	**2011**	**2012**
Real estate revenue	$ 108,237	$ 107,391	1%	$ 217,093	$ 216,953	0%
Interest and other income	884	809	9%	1,645	1,727	(5%)
Operating expenses	(47,204)	(47,467)	(1%)	(93,601)	(96,560)	(3%)
Depreciation and amortization	(33,400)	(36,614)	(9%)	(67,118)	(71,124)	(6%)
General and administrative expenses	(10,240)	(10,433)	(2%)	(20,124)	(20,015)	1%
Provision for executive separation expenses	(796)		N/A	(796)		N/A
Project costs and other expenses	(39)	(353)	(89%)	(397)	(497)	(20%)
Interest expense, net	(31,795)	(34,941)	(9%)	(63,464)	(68,554)	(7%)
Equity in income of partnerships	1,952	1,147	70%	3,945	2,690	47%
Gains on sales of real estate		1,450	(100%)		1,450	(100%)
Net loss	$ (12,401)	$ (19,011)	(35%)	$ (22,817)	$ (33,930)	(33%)

The amounts in the preceding table reflect our consolidated properties and our unconsolidated properties, which are presented under the equity method of accounting in the line item Equity in income of partnerships.

Real Estate Revenue

Real estate revenue increased by $0.8 million, or 1%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, primarily due to:

- an increase of $1.5 million in base rent, including a $0.6 million increase in straight line rent resulting from write-offs associated with the Borders Group, Inc. liquidation during the three months ended June 30, 2011 that did not recur in 2012. Base rent also increased due to new store openings at Cherry Hill Mall and Crossroads Mall;

- a decrease of $0.4 million in expense reimbursements, primarily due to a $0.4 million decrease in utilities expense; and

- partially offset by a decrease of $0.2 million in percentage rent, primarily due to lease renewals with higher base rent and corresponding higher sales breakpoints for calculating percentage rent.

20

Table of Contents

Real estate revenue increased by $0.1 million, or 0%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, primarily due to:

- an increase of $1.8 million in base rent, primarily due to increases at Cherry Hill Mall and at Crossroads Mall due to new store openings and a straight line rent increase of $0.5 million resulting from write-offs associated with the Borders Group, Inc. liquidation during the six months ended June 30, 2011 that did not recur in 2012;
- an increase of $0.7 million in lease terminations, primarily due to termination payments received from three tenants totaling $1.1 million during the six months ended June 30, 2012;
- a decrease of $2.2 million in expense reimbursements, primarily due to a $1.3 million decrease in common area maintenance, real estate tax and utilities expenses. Our properties continue to experience a trend towards more gross leases (leases that provide that tenants pay a higher minimum rent in lieu of contributing toward common area maintenance costs and real estate taxes), as well as more leases that provide for the rent amount to be determined on the basis of a percentage of sales in lieu of minimum rent or any contribution toward common area maintenance or real estate tax expenses; and
- a decrease of $0.3 million in percentage rent, primarily due to lease renewals with higher base rent and corresponding higher sales breakpoints for calculating percentage rent.

Operating Expenses

Operating expenses decreased by $0.3 million, or 1%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, primarily due to:

- a decrease of $0.4 million in non-common area utility expense due to lower electric rates as a result of deregulation and alternate supplier contracts executed over the past 12 months;
- a decrease of $0.3 million in bad debt expense due to favorable collections resulting in lower accounts receivable balances, as well as fewer tenant bankruptcies compared to the three months ended June 30, 2011; and
- partially offset by an increase of $0.6 million in common area maintenance expenses, including a $0.3 million increase in housekeeping and security services as a result of stipulated annual contractual increases.

Operating expenses decreased by $3.0 million, or 3%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, primarily due to:

- a decrease of $1.4 million in bad debt expense due to favorable collections resulting in lower accounts receivable balances, as well as fewer tenant bankruptcies compared to the six months ended June 30, 2011;
- a decrease of $0.9 million in non-common area utility expense due in part to a mild winter with above average temperatures across the Mid-Atlantic states where many of our properties are located, and in part to lower electric rates as a result of deregulation and alternate supplier contracts executed over the past 12 months; and

a decrease of $0.8 million in common area maintenance expenses, including decreases of $1.7 million in snow removal expense and $0.4 million in common area utilities expense resulting from a mild and dry winter across the Mid-Atlantic states where many of our properties are located, partially offset by increases of $0.7 million in repairs and maintenance expense, and $0.5 million in housekeeping and security services as a result of stipulated annual contractual increases.

Table of Contents

Net Operating Income (NOI   )

NOI (a non-GAAP measure) is derived from real estate revenue (determined in accordance with generally accepted accounting principles, or GAAP, including lease termination revenue) minus operating expenses (determined in accordance with GAAP), plus our share of revenue and operating expenses of our partnership investments, and includes real estate revenue and operating expenses from properties included in discontinued operations, if any. It does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity. It is not indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that NOI is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. We believe that net income is the most directly comparable GAAP measurement to NOI.

NOI excludes interest and other income, general and administrative expenses, interest expense, depreciation and amortization, gains on sales of interests in real estate, gains on sales of non-operating real estate, gains on sales of discontinued operations, gain on extinguishment of debt, impairment losses, project costs and other expenses.

The following table presents NOI for the three and six months ended June 30, 2012 and 2011. The results are presented using the proportionate-consolidation method (a non-GAAP measure), which presents our share of the results of our partnership investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Operating results for retail properties that we owned for the full periods presented (Same Store   ) exclude properties acquired or disposed of during the periods presented. A reconciliation of NOI to net loss determined in accordance with GAAP appears under the heading   Reconciliation of GAAP Net Loss to Non-GAAP Measures.

	Same Store Three months ended June 30,			Non Same Store Three months ended June 30,			Total Three months ended June 30,		
(in thousands of dollars)	**2012**	**2011**	**% Change**	**2012**	**2011**	**% Change**	**2012**	**2011**	**% Change**
Real estate revenue	$ 117,021	$ 116,166	1%	$ 480	$ 470	2%	$ 117,501	$ 116,636	1%
Operating expenses	(49,377)	(49,884)	(1%)	(482)	(465)	4%	(49,859)	(50,349)	(1%)
Net Operating Income	$ 67,644	$ 66,282	2%	$ (2)	$ 5	(140%)	$ 67,642	$ 66,287	2%

	Same Store Six months ended June 30,			Non Same Store Six months ended June 30,			Total Six months ended June 30,		
(in thousands of dollars)	**2012**	**2011**	**% Change**	**2012**	**2011**	**% Change**	**2012**	**2011**	**% Change**
Real estate revenue	$ 235,000	$ 234,543	0%	$ 967	$ 954	1%	$ 235,967	$ 235,497	0%
Operating expenses	(98,260)	(101,498)	(3%)	(942)	(951)	(1%)	(99,202)	(102,449)	(3%)
Net Operating Income	$ 136,740	$ 133,045	3%	$ 25	$ 3	733%	$ 136,765	$ 133,048	3%

Total NOI increased by $1.4 million, or 2%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, driven by a $1.4 million increase in Same Store NOI. See   Real Estate Revenue   and   Operating Expenses   above for further information about our consolidated properties.

Total NOI increased by $3.7 million, or 3%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, driven by a $3.7 million increase in Same Store NOI. See   Real Estate Revenue   and   Operating Expenses   above for further information about our consolidated properties.

Table of Contents

NOI includes lease termination revenue of $0.8 million and $0.7 million for the three months ended June 30, 2012 and 2011, respectively, and $1.4 million and $0.7 million for the six months ended June 30, 2012 and 2011, respectively.

Depreciation and Amortization

Depreciation and amortization expense decreased by $3.2 million, or 9%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, primarily due to:

- a decrease of $1.9 million resulting from tenant improvement and deferred leasing commission write-offs recorded during the three months ended June 30, 2011, including $1.0 million associated with the Borders Group, Inc. liquidation, that did not recur in 2012; and

- a decrease of $1.1 million because certain lease intangibles at four properties purchased during 2004 and 2005 became fully amortized after June 30, 2011.

Depreciation and amortization expense decreased by $4.0 million, or 6%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, primarily due to:

- a decrease of $1.7 million resulting from tenant improvement and deferred leasing commission write-offs associated with the Borders Group, Inc. liquidation recorded during the six months ended June 30, 2011 that did not recur in 2012; and

- a decrease of $2.0 million because certain lease intangibles at four properties purchased during 2004 and 2005 became fully amortized after June 30, 2011.

Provision for Executive Separation Expense

In connection with the appointment of Joseph F. Coradino as Chief Executive Officer in June 2012, conditions in President and Chief Operating Officer Edward Glickman s employment agreement were triggered that caused us to record a provision for executive separation expense of $0.5 million in June 2012. Upon Mr. Rubin s cessation of service as Chief Executive Officer of the Company, and the beginning of Mr. Coradino s service in that position on June 7, 2012, Edward Glickman became contractually entitled to voluntarily terminate his employment for good reason during the period from December 4, 2012 to June 2, 2013. Mr. Glickman would be entitled to a cash payment, all time based equity awards made to him would vest, and all outstanding performance-based equity awards would remain outstanding and would vest or be forfeited based on the terms of such awards as if Mr. Glickman s employment had not terminated. Mr. Glickman also would be entitled to receive other benefits as set forth in his employment agreement. Through December 2012, we expect to record a total provision of $4.0 million related to Mr. Glickman s employment agreement.

Also, in April 2012, Ronald Rubin executed a new employment agreement which required us to record a provision for executive separation expense of $0.3 million in June 2012. We expect to record a total provision for executive separation of $4.5 million ($2.6 million through December 2012 and an additional $1.9 million through June 2013) related to Mr. Rubin s employment agreement.

Interest Expense

Interest expense decreased by $3.1 million, or 9%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. This decrease was primarily due to lower applicable stated interest rates and lower weighted average debt balance. Our weighted average effective borrowing rate was 6.08% for the three months ended June 30, 2012 compared to 6.41% for the three months ended June 30, 2011. Our weighted average debt balance was $2,129.2 million for the three months ended June 30, 2012 compared to $2,202.2 for the three months ended June 30, 2011.

Interest expense decreased by $5.1 million, or 7%, in the six months ended June 30, 2012 compared to the six months ended June 30,2011. This decrease was primarily due to lower applicable stated interest rates and lower weighted average debt balance. Our weighted average borrowing rate was 6.02% for the six months ended June 30, 2012 compared to 6.26% for the six months ended June 30, 2011. Our weighted average debt balance was $2,214.3 million for the six months ended June 30, 2012 compared to $2,142.9 for the six months ended June 30, 2011.

Equity in Income of Partnerships

Equity in income of partnerships increased by $0.8 million, or 70%, for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The increase was primarily due to a decrease in depreciation and amortization expense of the partnerships of $0.5 million and a decrease in other expenses of $0.3 million.

Equity in income of partnerships increased by $1.3 million, or 47%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The increase was primarily due to a decrease in depreciation and amortization expense of the partnerships of $0.6 million, an increase in revenue of $0.4 million and a decrease in other expenses of $0.3 million.

Funds From Operations

The National Association of Real Estate Investment Trusts (NAREIT) defines Funds From Operations (FFO), which is a non-GAAP measure commonly used by REITs, as net income excluding gains and losses on sales of operating properties (computed in accordance with GAAP), plus real estate depreciation and amortization; and after adjustments for unconsolidated partnerships and joint ventures to reflect funds from operations on the same basis. We compute FFO in accordance with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do. In 2011, NAREIT reiterated its established guidance that excluding impairment write downs of depreciable real estate is consistent with the NAREIT definition.

We use FFO and FFO per diluted share and unit of limited partnership interest in our operating partnership (OP Unit) in measuring our performance against our peers and as one of the performance measures for determining incentive compensation amounts earned under certain of our performance-based executive compensation programs. FFO is a commonly used measure of operating performance and profitability among REITs, and we use FFO and FFO per diluted share and OP Unit as supplemental non-GAAP measures to compare our performance for different periods to that of our industry peers.

FFO does not include gains and losses on sales of operating real estate assets which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial performance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as NOI. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that net income is the most directly comparable GAAP measurement to FFO.

We also present Funds From Operations, as adjusted, and Funds From Operations per diluted share and OP Unit, as adjusted, which are non-GAAP measures, for the three and six months ended June 30, 2012 and 2011 to show the effect of the provision for executive separation expense, which had a significant effect on our results of operations, but is not, in our opinion, indicative of our operating performance.

We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as gains on sales of operating real estate and depreciation and amortization of real estate, among others. We believe that Funds From Operations, as adjusted, is helpful to management and investors as a measure of operating performance because it adjusts FFO to exclude items that management does not believe are indicative of its operating performance, such as provision for executive separation expense.

The following table presents FFO and FFO per diluted share and OP Unit and FFO, as adjusted, and FFO per diluted share and OP Unit, as adjusted, for the three months ended June 30, 2012 and 2011:

(in thousands of dollars, except per share amounts)	Three Months Ended June 30, 2012	% Change 2011 to 2012	Three Months Ended June 30, 2011
Funds from operations [1]	$ 20,838	8%	$ 19,224
Provision for executive separation expenses	796		
Funds from operations, as adjusted	$ 21,634	13%	$ 19,224
Funds from operations per diluted share and OP Unit	$ 0.36	9%	$ 0.33
Provision for executive separation expenses	0.01		
Funds from operations per diluted share and OP Unit, as adjusted	$ 0.37	12%	$ 0.33
Weighted average number of shares outstanding	55,143		54,680
Weighted average effect of full conversion of OP Units	2,309		2,329
Effect of common share equivalents	1,007		851
Total weighted average shares outstanding, including OP Units	58,459		57,860

(1) In accordance with updated NAREIT guidance regarding the definition of FFO, impairment losses of depreciable real estate are excluded from FFO. Prior period FFO and FFO per diluted share and OP Unit amounts have been revised to reflect this updated NAREIT guidance.

FFO was $20.8 million for the three months ended June 30, 2012, an increase of $1.6 million, or 8%, compared to $19.2 million for the three months ended June 30, 2011. This increase primarily was due to:

- a decrease in interest expense of $3.2 million;
- an increase of $1.4 million in NOI (presented using the proportionate-consolidation method; See Net Operating Income); and offset by
- preferred dividends of $1.8 million related to the preferred shares issued in April 2012;
- provision for executive separation expense of $0.8 million recorded in the three months ended June 30, 2012; and
- gains on sales of real estate of $0.7 million in the three months ended June 30, 2011 that did not recur in 2012.

FFO per diluted share increased $0.03 per share to $0.36 per share for the three months ended June 30, 2012, compared to $0.33 per share for the three months ended June 30, 2011.

Table of Contents

The following table presents FFO and FFO per diluted share and OP Unit, and FFO, as adjusted, and FFO per diluted share and OP Unit, as adjusted, for the six months ended June 30, 2012 and 2011:

(in thousands of dollars, except per share amounts)	Six Months Ended June 30, 2012	% Change 2011 to 2012	Six Months Ended June 30, 2011
Funds from operations [1]	$ 45,800	13%	$ 40,533
Provision for executive separation expenses	796		
Funds from operations, as adjusted	$ 46,596	15%	$ 40,533
Funds from operations per diluted share and OP Unit	$ 0.79	13%	$ 0.70
Provision for executive separation expenses	0.01		