

ROYAL BANK OF CANADA
 Form FWP
 October 03, 2018

Free Writing Prospectus
 (To the Prospectus dated September 7, 2018, the Prospectus Supplement dated September 7, 2018, and the Product Prospectus Supplement dated September 7, 2018)

Filed Pursuant to Rule 433
 Registration No. 333-227001
 October 2, 2018

\$
 Phoenix Autocallable Notes with Memory Coupon due October 23, 2019
 Linked to the ADSs of Alibaba Group Holding Limited
 Senior Global Medium-Term Notes, Series H

Royal Bank of Canada

General

The Notes are designed for investors who wish to receive Contingent Coupons (as defined below) if (i) on any of the Observation Dates (other than the final Observation Date), the closing price of the American Depositary Shares (“ADSs”) of Alibaba Group Holding Limited (the “Reference Stock”) or (ii) with respect to the final Observation Date, the Final Stock Price (as defined below) is at or above the Coupon Barrier (as defined below). Investors should be willing to forgo fixed interest and dividend payments, in exchange for the opportunity to receive a Contingent Coupon for each Observation Date. Due to the memory feature described below, a Contingent Coupon that is not payable on a Coupon Payment Date may be paid on a subsequent Coupon Payment Date or at maturity.

Investors in the Notes should be willing to accept the risk of losing some or all of their principal and the risk that no Contingent Coupon payment may be made with respect to some or all of the Observation Dates. Contingent Coupon payments should not be viewed as periodic interest payments.

The Notes are subject to automatic call if the closing price of the Reference Stock on any Observation Date (other than the final Observation Date) is at or above the Initial Stock Price. If the Notes are not automatically called and the Final Stock Price is below the Trigger Price (as defined below), investors will be fully exposed to the depreciation in the Reference Stock. Investors in the Notes should be willing to accept this risk of loss. All payments on the Notes are subject to our credit risk.

Senior unsecured obligations of Royal Bank of Canada maturing October 23, 2019.^{(a)(b)}

Minimum denominations of \$10,000 and integral multiples of \$1,000 in excess thereof.

The Notes are expected to price on or about October 5, 2018^(b) (the “trade date”) and are expected to be issued on or about October 11, 2018^(b) (the “issue date”).

Key Terms Terms used in this free writing prospectus, but not defined herein, shall have the meanings ascribed to them in the product prospectus supplement.

Issuer: Royal Bank of Canada

Reference Stock: The ADSs of Alibaba Group Holding Limited (Bloomberg symbol: “BABA”)

Observation Dates: January 17, 2019, April 18, 2019, July 18, 2019 and October 18, 2019^{(a)(b)}

Coupon Payment Dates: Three business days following each Observation Date, except that the final Coupon Payment Date will be the maturity date.

Contingent Coupons and Memory Feature: The Contingent Coupon will be paid on each Coupon Payment Date if (i) the closing price of the Reference Stock on the applicable Observation Date (other than the final Observation Date) or (ii) with respect to the final Observation Date, the Final Stock Price is at or above the Coupon Barrier. If the Contingent Coupon is not payable on any Coupon Payment Date, it will be paid on any later Coupon Payment Date (or at maturity) on which the Contingent Coupon is payable, together with the payment otherwise due on that later date. For the avoidance of doubt, once a previously unpaid Contingent Coupon has been paid on a later Coupon Payment Date, it will not be paid again on a subsequent date. \$32.25 per \$1,000 in principal amount of the Notes, if payable.

Contingent

Coupon:

Coupon

Barrier: 75% of the Initial Stock Price

Call Feature:

If the closing price of the Reference Stock on any Observation Date (other than the final Observation Date) is at or above the Initial Stock Price, the Notes will be automatically called for a cash payment equal to the principal amount plus the applicable Contingent Coupon for the applicable Observation Date, together with any previously unpaid Contingent Coupons.

Call

Settlement Dates: The Coupon Payment Date corresponding to the applicable Observation Date.

Trigger Price: 75% of the Initial Stock Price

If the Notes are not called and on the final Observation Date:

- the Final Stock Price is at or above the Trigger Price, then you will receive a cash amount equal to the principal amount plus the Contingent Coupon otherwise due on the maturity date and any previously unpaid Contingent Coupons with respect to the prior Coupon Payment Dates; or
- the Final Stock Price is below the Trigger Price, then you will receive a cash amount equal to the principal amount x (1 + the Underlying Return). In this case, you will have a loss of principal that is proportionate to the decline in the Final Stock Price from the Initial Stock Price and you will lose some or all of your initial investment.

Payment at

Maturity:

Underlying

Return:

Final Stock Price - Initial Stock Price

Initial Stock Price

Initial Stock

Price:

The closing price of one share of the Reference Stock on the trade date.

Final Stock

Price:

The arithmetic average of the closing prices of one share of the Reference Stock on each of the Valuation Dates.

Valuation

Dates:

October 14, 2019, October 15, 2019, October 16, 2019, October 17, 2019 and the final Observation Date^{(a)(b)}

Maturity Date: October 23, 2019^{(a)(b)}

CUSIP/ISIN: 78013XL63/US78013XL637

Estimated

Value:

The initial estimated value of the Notes as of the date of this document is \$985.70 per \$1,000 in principal amount, which is less than the price to public. The pricing supplement relating to the Notes will set forth our estimate of the initial value of the Notes as of the trade date, which will not be more than \$20 less than this amount. The actual value of the Notes at any time will reflect many factors, cannot be predicted with accuracy, and may be less than this amount.

^(a) Subject to postponement if a market disruption event occurs, as described under “General Terms of the Notes—Payment at Maturity” and “—Market Disruption Events” in the product prospectus supplement.

^(b) Expected. In the event we make any change to the expected trade date and issue date, the Observation Dates, the Valuation Dates and the maturity date will be changed so that the stated term of the Notes remains the same.

Investing in the Notes involves a number of risks. See “Risk Factors” beginning on page PS-5 of the product prospectus supplement, “Risk Factors” beginning on page S-1 of the prospectus supplement and beginning on page 1 of the prospectus and “Selected Risk Considerations” beginning on page FWP-5 of this free writing prospectus.

The Notes will not be listed on any U.S. securities exchange or quotation system. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this free writing prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Notes will not constitute deposits insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality. The Notes are not subject to conversion into our common shares under subsection 39.2(2.3) of the Canada Deposit Insurance Corporation Act.

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

Per Note \$1,000	\$10	\$990
Total \$	\$	\$

¹ Certain fiduciary accounts purchasing the Notes will pay a purchase price of \$990 per Note, and the placement agents will forgo any fees with respect to sales made to those accounts. The price to the public for all other purchases of the Notes is 100%.

² JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and their affiliates will act as placement agents for the Notes and will receive a fee from the Issuer that will not exceed \$10 per \$1,000 in principal amount of the Notes, but will forgo any fees for sales to certain fiduciary accounts.

Royal Bank of Canada has filed a registration statement (including a product prospectus supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this free writing prospectus relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Royal Bank of Canada, any agent or any dealer participating in this offering will arrange to send you the product prospectus supplement, the prospectus supplement and the prospectus if you so request by calling toll-free at 1-877-688-2301.

You may revoke your offer to purchase the Notes at any time prior to the pricing as described on the cover of this free writing prospectus. We reserve the right to change the terms of, or reject any offer to purchase the Notes prior to their issuance. In the event of any changes to the terms of the Notes, we will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes, in which case we may reject your offer to purchase.

ADDITIONAL TERMS OF THE NOTES

You should read this free writing prospectus together with the prospectus dated September 7, 2018, as supplemented by the prospectus supplement dated September 7, 2018 and the product prospectus supplement dated September 7, 2018, relating to our Senior Global Medium-Term Notes, Series H, of which these Notes are a part. Capitalized terms used but not defined in this free writing prospectus will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this free writing prospectus will control. You should read this free writing prospectus carefully.

This free writing prospectus, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Risk Factors” in the prospectus supplement dated September 7, 2018 and “Risk Factors” in the product prospectus supplement dated September 7, 2018, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the Securities and Exchange Commission (the “SEC”) website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus dated September 7, 2018:

<https://www.sec.gov/Archives/edgar/data/1000275/000121465918005973/196181424b3.htm>

Prospectus Supplement dated September 7, 2018:

<https://www.sec.gov/Archives/edgar/data/1000275/000121465918005975/f97180424b3.htm>

Product Prospectus Supplement CCBN-1 dated September 7, 2018:

<https://www.sec.gov/Archives/edgar/data/1000275/000114036118038091/form424b5.htm>

Our Central Index Key, or CIK, on the SEC website is 1000275. As used in this free writing prospectus, “Royal Bank”, “we,” “us,” or “our” refers to Royal Bank of Canada.

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

What Is the Return on the Notes Assuming a Range of Performance for the Reference Stock?

The following table illustrates hypothetical payments on the Notes that could be realized on each Coupon Payment Date or at maturity per \$1,000 in principal amount of the Notes for a range of prices of the Reference Stock. The hypothetical payments and examples set forth below assume an Initial Stock Price of \$100.00, and a Coupon Barrier and Trigger Price of \$75.00, and reflect the Contingent Coupon of \$32.25, if payable. The actual Initial Stock Price, Coupon Barrier and Trigger Price will be determined on the trade date.

The hypothetical payments and examples set forth below are for illustrative purposes only and may not be the actual payments applicable to the Notes. The numbers appearing in the following table and examples have been rounded for ease of analysis. The examples below do not take into account any tax consequences from investing in the Notes.

Reference Stock Price	Reference Stock Percentage Change at Observation Date	Observation Dates Prior to the Final Observation Date	Final Observation Date				
		Payment on Coupon or Call Settlement Date (as applicable) ⁽¹⁾⁽²⁾	Return on the Notes	Final Stock Price ⁽³⁾	Underlying Return at Final Observation Date	Payment at Maturity ⁽²⁾	Return on the Notes ⁽⁴⁾
\$180.00	80.00%	\$1,032.25	3.225%	\$180.00	80.00%	\$1,032.25	3.225%
\$170.00	70.00%	\$1,032.25	3.225%	\$170.00	70.00%	\$1,032.25	3.225%
\$160.00	60.00%	\$1,032.25	3.225%	\$160.00	60.00%	\$1,032.25	3.225%
\$150.00	50.00%	\$1,032.25	3.225%	\$150.00	50.00%	\$1,032.25	3.225%
\$140.00	40.00%	\$1,032.25	3.225%	\$140.00	40.00%	\$1,032.25	3.225%
\$130.00	30.00%	\$1,032.25	3.225%	\$130.00	30.00%	\$1,032.25	3.225%
\$120.00	20.00%	\$1,032.25	3.225%	\$120.00	20.00%	\$1,032.25	3.225%
\$110.00	10.00%	\$1,032.25	3.225%	\$110.00	10.00%	\$1,032.25	3.225%
\$105.00	5.00%	\$1,032.25	3.225%	\$105.00	5.00%	\$1,032.25	3.225%
\$100.00	0.00%	\$1,032.25	3.225%	\$100.00	0.00%	\$1,032.25	3.225%
\$95.00	-5.00%	\$32.25	3.225%	\$95.00	-5.00%	\$1,032.25	3.225%
\$90.00	-10.00%	\$32.25	3.225%	\$90.00	-10.00%	\$1,032.25	3.225%
\$85.00	-15.00%	\$32.25	3.225%	\$85.00	-15.00%	\$1,032.25	3.225%
\$80.00	-20.00%	\$32.25	3.225%	\$80.00	-20.00%	\$1,032.25	3.225%
\$75.00	-25.00%	\$32.25	3.225%	\$75.00	-25.00%	\$1,032.25	3.225%
\$70.00	-30.00%	\$0.00	0.00%	\$70.00	-30.00%	\$700.00	-30.00%
\$60.00	-40.00%	\$0.00	0.00%	\$60.00	-40.00%	\$600.00	-40.00%
\$50.00	-50.00%	\$0.00	0.00%	\$50.00	-50.00%	\$500.00	-50.00%
\$40.00	-60.00%	\$0.00	0.00%	\$40.00	-60.00%	\$400.00	-60.00%
\$30.00	-70.00%	\$0.00	0.00%	\$30.00	-70.00%	\$300.00	-70.00%
\$20.00	-80.00%	\$0.00	0.00%	\$20.00	-80.00%	\$200.00	-80.00%
\$10.00	-90.00%	\$0.00	0.00%	\$10.00	-90.00%	\$100.00	-90.00%
\$0.00	-100.00%	\$0.00	0.00%	\$0.00	-100.00%	\$0.00	-100.00%

⁽¹⁾ The Notes will be automatically called if the closing price of one share of the Reference Stock on any Observation Date (other than the final Observation Date) is greater than or equal to the Initial Stock Price.

⁽²⁾ You will receive a Contingent Coupon in connection with an Observation Date (i) if the closing price of one share of the Reference Stock on that Observation Date (other than the final Observation Date) or (ii) with respect to the final Observation Date, the Final Stock Price is greater than or equal to the Coupon Barrier. As set forth above, an unpaid Contingent Coupon may be payable on a subsequent Coupon Payment Date, or at maturity. This column does not reflect any previously unpaid Contingent Coupons that may be payable at on a Coupon Payment Date or at maturity.

⁽³⁾ The Final Stock Price is equal to the arithmetic average of the closing prices of one share of the Reference Stock on each of the Valuation Dates.

⁽⁴⁾ This column reflects only the return received in respect of the payment on the maturity date. In addition to this payment, if the closing price of the Reference Stock is greater than or equal to the Coupon Barrier (but below the

Initial Stock Price) on one or more of the preceding Observation Dates, investors would receive the applicable Contingent Coupons.

FWP-3

Hypothetical Examples of Amounts Payable at Maturity or upon an Automatic Call

The following examples illustrate how the payments will be calculated.

Example 1: The closing price of the Reference Stock increases from the Initial Stock Price of \$100.00 to \$110.00 on the first Observation Date.

Because the closing price of the Reference Stock on the first Observation Date is above the Initial Stock Price, the Notes are automatically called, and the investor receives a single payment on the first Call Settlement Date of \$1,032.25 per \$1,000 in principal amount of the Notes, reflecting the principal amount plus the Contingent Coupon for the first Observation Date, for a return of 3.225% on the Notes. No further amount will be owed to you under the Notes.

Example 2: The closing price of the Reference Stock decreases from the Initial Stock Price of \$100.00 to \$65.00 on the first Observation Date (below the Coupon Barrier), \$60.00 on the second Observation Date (below the Coupon Barrier), and increases to \$120.00 on the third Observation Date.

The closing price of the Reference Stock on the first and second Observation Dates was below the Initial Stock Price, so the notes were not automatically called; in addition, the first two Contingent Coupons were not payable. Since the closing price of the Reference Stock on the third Observation Date is above the Initial Stock Price, the Notes are automatically called, and the investor receives a payment on the third Call Settlement Date of \$1,032.25 per \$1,000 in principal amount of the Notes, reflecting the principal amount (\$1,000) and the Contingent Coupon for the third Observation Date (\$32.25), plus the Contingent Coupons that were not payable on the first two Coupon Payment Dates (\$64.50). An investor's return would be 9.675% on the Notes. No further amount will be owed to you under the Notes.

Example 3: The closing price of the Reference Stock decreases from the Initial Stock Price of \$100.00 to \$60.00 on the first Observation Date (below the Coupon Barrier), \$65.00 on the second Observation Date (below the Coupon Barrier), \$60.00 on the third Observation Date (below the Coupon Barrier) and the Final Stock Price of \$95.00 (above the Coupon Barrier and Trigger Price).

The closing price of the Reference Stock on the first, second and third Observation Dates were below the Initial Stock Price, so the notes were not automatically called; in addition, the first three Contingent Coupons were not payable. Since the Final Stock Price is above the Trigger Price, at maturity, the investor receives a payment of \$1,129.00 per \$1,000 in principal amount of the Notes, reflecting the principal amount (\$1,000) plus the Contingent Coupon for the final Observation Date (\$32.25), plus the three previously unpaid Contingent Coupon payments (\$96.75). The investor's return would be 12.90% on the Notes. No further amount will be owed to you under the Notes.

Example 4: The closing price of the Reference Stock decreases from the Initial Stock Price of \$100.00 to \$73.00 on the first Observation Date (below the Coupon Barrier), \$70.00 on the second Observation Date (below the Coupon Barrier), \$65.00 on the third Observation Date (below the Coupon Barrier) and the Final Stock Price is \$60.00 (below the Coupon Barrier and Trigger Price).

In this example, no Contingent Coupons were payable prior to maturity. At maturity, since the Final Stock Price is below the Coupon Barrier and Trigger Price, the investor receives a payment of \$600.00 per \$1,000 in principal amount of the Notes, reflecting the full downside performance of the Reference Stock. The investor would incur a loss of 40% on the Notes. No further amount will be owed to you under the Notes.

Selected Purchase Considerations

Capped Appreciation Potential — The return potential of the Notes is limited to the Contingent Coupons and you will not participate in any appreciation in the price of the Reference Stock, which may be significant.

Potential Early Redemption as a Result of Automatic Call Feature — While the original term of the Notes is just over one year, the Notes will be called before maturity if the closing price of the Reference Stock is at or above the Initial Stock Price on the applicable Observation Date (other than the final Observation Date). In such a case, you will receive the principal amount plus the applicable Contingent Coupon corresponding to that Observation Date, plus any previously unpaid Contingent Coupons with respect to prior Observation Dates.

Contingent Protection Against Loss — If the Notes are not automatically called and the Final Stock Price is at or above the Trigger Price, you will be entitled to receive the full principal amount of your Notes at maturity (plus the applicable Contingent Coupon and any previously unpaid Contingent Coupons with respect to prior Observation Dates). If the Notes are not automatically called and the Final Stock Price is less than the Trigger Price, you will lose 1% of the principal amount of your Notes for every 1% that the Final Stock Price is less than the Initial Stock Price. Under these circumstances, you will lose at least 25.00% of your principal amount at maturity and may lose up to your entire principal amount.

Selected Risk Considerations

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to investing directly in the Reference Stock. These risks are explained in more detail in the section “Risk Factors” beginning on page PS-5 of the product prospectus supplement. In addition to the risks described in the prospectus supplement and the product prospectus supplement, you should consider the following:

Principal at Risk — Investors in the Notes could lose all or a substantial portion of their principal amount if there is a decline in the Reference Stock below the Trigger Price and the Notes are not automatically called. You will lose 1% of the principal amount of your Notes for each 1% that the Final Stock Price is less than the Initial Stock Price if the Final Stock Price is less than the Trigger Price.

Contingent Repayment of Principal Applies Only at Maturity — You should be willing to hold your Notes to maturity. If you sell your Notes prior to maturity in the secondary market, if any, you may have to sell your Notes at a loss relative to your initial investment even if the price of the Reference Stock is above the Trigger Price.

You May Not Receive Any Contingent Coupons — Investors in the Notes will not necessarily receive Contingent Coupons on the Notes. If (i) the closing price of the Reference Stock on an Observation Date (other than the final Observation Date) or (ii) with respect to the final Observation Date, the Final Stock Price, is less than the Coupon Barrier, investors will not receive the Contingent Coupon applicable to that Observation Date. If the closing price of the Reference Stock is less than the Coupon Barrier on each of the Observation Dates (other than the final Observation Date) and the Final Stock Price is less than the Coupon Barrier, investors will not receive any Contingent Coupons during the term of the Notes, and will not receive a positive return on the Notes. Contingent Coupon payments should not be viewed as periodic interest payments. Generally, this non-payment of the Contingent Coupon coincides with a period of greater risk of principal loss on the Notes. Notwithstanding the memory feature described above, there can be no assurance that any unpaid Contingent Coupon will become payable during the term of the notes.

Your Return May Be Lower than the Return on a Conventional Debt Security of Comparable Maturity — The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought one of our conventional senior interest bearing debt securities.

Reinvestment Risk — If your Notes are automatically called, the term of the Notes may be as short as approximately three months. There is no guarantee that you would be able to reinvest the proceeds from an investment in the Notes at a comparable return for a similar level of risk if the Notes are automatically called prior to the Maturity Date. In addition, for the avoidance of doubt, the underwriting commission set forth above will not be rebated if the Notes are called prior to maturity.

Credit of Issuer — The Notes are our senior unsecured debt securities. As a result, all payments on the Notes are dependent upon our ability to repay our obligations at that time. This will be the case even if the Reference Stock increases after the trade date. No assurance can be given as to what our financial condition will be on any payment date.

FWP-5

There May Not Be an Active Trading Market for the Notes—Sales in the Secondary Market May Result in Significant Losses — There may be little or no secondary market for the Notes. The Notes will not be listed on any securities exchange. RBCCM and our other affiliates may make a market for the Notes; however, they are not required to do so. RBCCM or any other affiliate of ours may stop any market-making activities at any time. Even if a secondary market for the Notes develops, it may not provide significant liquidity or trade at prices advantageous to you. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and asked prices for your Notes in any secondary market could be substantial.

Owning the Notes Is Not the Same as Owning the Reference Stock — The return on your Notes may not reflect the return you would realize if you actually owned the Reference Stock. For instance, as a holder of the Notes, you will not have voting rights, rights to receive cash dividends or other distributions, or any other rights that holders of the Reference Stock would have. Further, you will not participate in any appreciation of the Reference Stock, which could be significant.

There Is No Affiliation Between Us and the Issuer of the Reference Stock, and We Are Not Responsible for any Disclosure by that Company — We are not affiliated with the issuer of the Reference Stock. However, we and our affiliates may currently, or from time to time in the future engage in business with the issuer of the Reference Stock. Nevertheless, neither we nor our affiliates assume any responsibilities for the accuracy or the completeness of any information about the Reference Stock that the issuer of the Reference Stock prepares. You, as an investor in the Notes, should make your own investigation into the Reference Stock and the issuer of the Reference Stock. The issuer of the Reference Stock is not involved in this offering and has no obligation of any sort with respect to your Notes. The issuer of the Reference Stock has no obligation to take your interests into consideration for any reason, including when taking any corporate actions that might affect the value of your Notes.

Single Stock Risk — The price of the Reference Stock can rise or fall sharply due to factors specific to the Reference Stock and its issuer, such as stock price volatility, earnings, financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as general stock market volatility and levels, interest rates and economic and political conditions. We urge you to review financial and other information filed periodically with the SEC by the issuer of the Reference Stock.

The ADSs of Alibaba Group Holding Limited Have Limited Historical Information — Alibaba Group Holding Limited commenced trading on April 19, 2014. Because the Reference Stock has limited trading history, your investment in the Notes may involve greater risk than investing in securities linked to one or more equity securities with a more established record of performance.

Many Economic and Market Factors Will Impact the Value of the Notes — In addition to the price of the Reference Stock on any day, the value of the Notes will be affected by a number of economic and market factors that may either offset or magnify each other, including:

- the expected volatility of the Reference Stock;
- the time to maturity of the Notes;
 - the dividend rate on the Reference Stock;
- interest and yield rates in the market generally;
- a variety of economic, financial, political, regulatory or judicial events; and
- our creditworthiness, including actual or anticipated downgrades in our credit ratings.

The Estimated Initial Value of the Notes Will Be Less than the Price to the Public — The estimated initial value that will be set forth in the final pricing supplement for the Notes does not represent a minimum price at which we, RBCCM or any of our affiliates would be willing to purchase the Notes in any secondary market (if any exists) at any time. If you attempt to sell the Notes prior to maturity, their market value may be lower than the price you paid for them and the estimated initial value. This is due to, among other things, changes in the price of the Reference Stock, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to the public of the underwriting discount and the costs relating to our hedging of the Notes. These factors, together with various credit, market and economic factors over the term of the Notes, are expected to reduce the price at which you may be able to sell the Notes in any secondary market and will affect the value of the Notes in complex and unpredictable ways.

Assuming no change in market conditions or any other relevant

FWP-6

factors, the price, if any, at which you may be able to sell your Notes prior to maturity may be less than your original purchase price. The Notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Notes to maturity.

The Estimated Initial Value of the Notes That We Will Provide in the Final Pricing Supplement Will Be an Estimate Only, Calculated as of the Pricing Date — The value of the Notes at any time after the pricing date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Notes in any secondary market, if any, should be expected to differ materially from the estimated initial value of your Notes.

Market Disruption Events and Adjustments — Whether the Notes will be called prior to maturity, the payment upon an automatic call or at maturity, the Observation Dates, the Valuation Dates and the Reference Stock are subject to adjustment as described in the product prospectus supplement and this free writing prospectus. For a description of what constitutes a market disruption event as well as the consequences of that market disruption event and the unavailability of the price of the Reference Stock on an Observation Date or Valuation Date, see “Market Disruption Events on a Valuation Date” below, and “General Terms of the Notes—Payment at Maturity” and “—Market Disruption Events” in the product prospectus supplement.

Antidilution Adjustments — For certain corporate events affecting the Reference Stock, the calculation agent may make adjustments to the terms of the Notes. However, the calculation agent will not make such adjustments in response to all events that could affect the Reference Stock. If an event occurs that does not require the calculation agent to make such adjustments, the value of the Notes may be materially and adversely affected. In addition, all determinations and calculations concerning any such adjustments will be made in the sole discretion of the calculation agent, which will be binding on you absent manifest error. You should be aware that the calculation agent may make any such adjustment, determination or calculation in a manner that differs from that discussed in this document or the product prospectus supplement as necessary to achieve an equitable result.

The Business Activities of Royal Bank and Our Affiliates May Create Conflicts of Interest — We and our affiliates expect to engage in trading activities related to the Reference Stock that are not for the account of holders of the Notes or on their behalf. These trading activities may present a conflict between the holders’ interests in the Notes and the interests we and our affiliates will have in their proprietary accounts, in facilitating transactions, including options and other derivatives transactions, for their customers and in accounts under their management. These trading activities, if they influence the price of the Reference Stock, could be adverse to the interests of the holders of the Notes. We and one or more of our affiliates may, at present or in the future, engage in business with the issuer of the Reference Stock, including making loans to or providing advisory services. These services could include investment banking and merger and acquisition advisory services. These activities may present a conflict between our or one or more of our affiliates’ obligations, and your interests as a holder of the Notes. Moreover, we and our affiliates may have published, and in the future expect to publish, research reports with respect to the Reference Stock. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities may affect the price of the Reference Stock and, therefore, the market value of the Notes.

Additionally, we or our affiliates may serve as issuer, agent or underwriter for additional issuances of securities with returns linked or related to changes in the price of the Reference Stock. By introducing competing products into the marketplace in this manner, we could adversely affect the value of the Notes.

We may hedge our obligations under the Notes through certain affiliates, who would expect to make a profit on such hedge. We or our affiliates may adjust these hedges by, among other things, purchasing or selling those assets at any time, including around the time of the valuation dates, which could have an impact on the return of the Notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our or our affiliates’ control, such hedging may result in a profit that is more or less than expected, or it may result in a loss.

Information Regarding the Issuer of the Reference Stock

The Reference Stock is registered under the Securities Exchange Act of 1934 (the “Exchange Act”). Companies with securities registered under that Act are required to file periodically certain financial and other information specified by the Securities and Exchange Commission (the “SEC”). Information provided to or filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC or through the SEC’s website at www.sec.gov. In addition, information regarding the Reference Stock may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents.

The following information regarding the issuer of the Reference Stock is derived from publicly available information. We have not independently verified the accuracy or completeness of reports filed by the issuer of the Reference Stock with the SEC, information published by it on its website or in any other format, information about it obtained from any other source or the information provided below.

According to publicly available information, Alibaba Group Holding Limited operates as a holding company. The company provides internet infrastructure, e-commerce, online financial, and internet content services through its subsidiaries. It is organized in the Cayman Islands, and operates principally in China.

Information filed by the company with the SEC under the Exchange Act can be located by reference to its SEC CIK number: 1577552. The company’s ADSs are listed on the New York Stock Exchange under the ticker symbol “BABA.” Below is a table setting forth the intra-day high, intra-day low and period-end closing prices of the Reference Stock. The information provided in the table is for the period from September 19, 2014 through September 28, 2018.

Period-Start Date	Period-End Date	High Intra-Day Price of the Reference Stock (\$)	Low Intra-Day Price of the Reference Stock (\$)	Period-End Closing Price of the Reference Stock (\$)
9/19/2014	9/30/2014	99.70	86.62	88.85
10/1/2014	12/31/2014	120.00	82.82	103.94
1/1/2015	3/31/2015	105.33	80.03	83.24
4/1/2015	6/30/2015	95.06	77.77	82.27
7/1/2015	9/30/2015	85.38	57.30	58.97
10/1/2015	12/31/2015	86.42	58.20	81.27
1/1/2016	3/31/2016	79.84	59.25	79.03
4/1/2016	6/30/2016	82.00	73.30	79.53
7/1/2016	9/30/2016	109.87	77.70	105.79
10/1/2016	12/31/2016	109.00	86.02	87.81
1/1/2017	3/31/2017	110.44	88.09	107.83
4/1/2017	6/30/2017	148.29	106.78	140.90
7/1/2017	9/30/2017	180.85	139.50	172.71
10/1/2017	12/31/2017	191.74	164.25	172.43
1/1/2018	3/31/2018	206.20	168.88	183.54
4/1/2018	6/30/2018	211.69	166.13	185.53
7/1/2018	9/28/2018	198.35	152.85	164.76

The graph below illustrates the performance of the Reference Stock from September 19, 2014 to September 28, 2018. The closing price of the Reference Stock on September 28, 2018 was \$164.76. The red line represents a hypothetical Coupon Barrier and Trigger Price of \$123.57, which is equal to 75.00% of the closing price on September 28, 2018. The actual Coupon Barrier and Trigger Price will be based on the closing price of the Reference Stock on the trade date.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

We obtained the information regarding the historical performance of the Reference Stock in the chart above from Bloomberg Financial Markets.

We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of the Reference Stock should not be taken as an indication of future performance, and no assurance can be given as to the market prices of the Reference Stock on any Observation Date or Valuation Date. We cannot give you assurance that the performance of the Reference Stock will not result in the loss of all or part of your principal amount.

FWP-9

Market Disruption Events on a Valuation Date

If a market disruption event occurs or is continuing on any scheduled Valuation Date other than the final Valuation Date, the price of the Reference Stock for that Valuation Date will equal the closing price of the Reference Stock on the next scheduled Valuation Date. For example, if a market disruption event occurs or is continuing on the first and second scheduled Valuation Dates, but not on the third scheduled Valuation Date, then the closing price of the Reference Stock on the third scheduled Valuation Date will also be deemed to be the closing price of the Reference Stock on the first and second scheduled Valuation Dates. If no further scheduled valuation dates occur after a valuation date on which a market disruption event occurs or is continuing or if a market disruption event occurs or is continuing on the final Valuation Date, then the closing price of the Reference Stock for that Valuation Date will be determined (or, if not determinable, estimated by the calculation agent in a manner which is considered to be commercially reasonable under the circumstances) by the calculation agent on that final Valuation Date, regardless of the occurrence or continuation of a market disruption event on that day. In such an event, the calculation agent will make a good faith estimate in its sole discretion of the closing price of the Reference Stock that would have prevailed in the absence of the market disruption event.

FWP-10

Supplemental Plan of Distribution

JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and its affiliates will act as placement agents for the Notes and will receive a fee from the Issuer that will not exceed \$10 per \$1,000 in principal amount of the Notes, but will forgo any fees for sales to certain fiduciary accounts.

We expect that delivery of the Notes will be made against payment for the Notes on or about October 11, 2018, which is the third business day following the trade date (this settlement cycle being referred to as “T+3”). Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on any date prior to two business days before delivery will be required, by virtue of the fact that the Notes will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement. In addition, RBCCM or another of its affiliates or agents may use this document in market-making transactions after the initial sale of the Notes, but is under no obligation to do so and may discontinue any market-making activities at any time without notice.

The value of the Notes shown on your account statement will be based on RBCCM’s estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately 6 months after the issue date of the Notes, the price shown on your account statement may initially be higher than RBCCM’s estimated value of the Notes. This is because the estimated value of the Notes will reflect the reduction of the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period is expected to be a higher amount, reflecting the amortization of RBCCM’s underwriting discount and our estimated profit from hedging the Notes. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect its estimated value.

The Notes are our debt securities, the return on which is linked to the performance of the Reference Stock. As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. This relatively lower implied borrowing rate, which is reflected in the economic terms of the Notes, along with the fees and expenses associated with structured notes, typically reduces the estimated initial value of the Notes at the time the terms of the Notes are set.

In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Reference Stock, and the tenor of the Notes. The economic terms of the Notes depend in part on the terms of these hedging arrangements.

The lower implied borrowing rate, the underwriting commission and the hedging-related costs relating to the Notes reduce the economic terms of the Notes to you and result in the estimated initial value for the Notes (estimated at the time the terms of the Notes are set) being less than their public offering price. See “Selected Risk Considerations—The Estimated Initial Value of the Notes Will Be Less than the Price to the Public” above.

U.S. Federal Tax Consequences

The following disclosure supplements, and to the extent inconsistent, supersedes, the discussion in the product prospectus supplement dated September 7, 2018 under “Supplemental Discussion of U.S. Federal Income Tax Consequences.”

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat a Note with terms described herein as a callable pre-paid cash-settled contingent income-bearing derivative contract linked to the Reference Stock for U.S. federal income tax purposes, and the terms of the Notes require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the Notes for all tax purposes in accordance with such characterization. However, the U.S. federal income tax consequences of your investment in the Notes are uncertain and the Internal Revenue Service (“IRS”) could assert that the Notes should be taxed in a manner that is different from that described in the preceding sentence.

Under Section 871(m) of the Code, a “dividend equivalent” payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments (“ELIs”) that are “specified ELIs” may be treated as dividend equivalents if such specified ELIs reference an interest in an “underlying security,” which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2021. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Reference Stock or the Notes, and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Reference Stock or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

FWP-12

an" SIZE="2">(118) (2,386)

Gain on sale of discontinued operations

1,414 6,699 1,414

Minority interest

(1) (141) (691) 98

Income (loss) from discontinued operations

\$18 \$1,242 \$5,890 \$(874)

P&S Office Building

During the first quarter of 2007, the Company reclassified P&S Office Building in Gadsden, Alabama for accounting purposes from held for sale to continuing operations. The property no longer meets the conditions for an exception to the one-year classification requirement in SFAS No. 144. The Company intends to continue to actively market P&S Office Building for sale, but at this time, it cannot determine if or when a

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

sale will be consummated. For balance sheet purposes, as of March 31, 2007, the assets and liabilities of P&S Office Building were reclassified from assets held for sale and liabilities related to assets held for sale into the appropriate balance sheet captions. Because P&S Office Building was considered held for sale as of December 31, 2006, no reclassifications related to P&S Office Building were made as of that date. For income statement purposes, the results of operations for the P&S Office Building are presented in continuing operations for all periods presented. In the first quarter of 2007, the Company recorded depreciation and amortization expense of \$0.2 million to reflect the depreciation and amortization during all of the period that P&S Office Building was classified as held for sale.

Capitalization of Costs

Costs incurred for interest, real estate taxes and insurance that are directly related to development and redevelopment projects are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Costs incurred for such items after the property is substantially complete and ready for its intended use are charged to expense as incurred. The Company capitalizes a portion of development department employees' compensation and benefits related to time spent involved in development and redevelopment projects.

The Company capitalizes payments made to obtain options to acquire real property. All other related costs that are incurred before acquisition of a property are capitalized if the acquisition of the property or if the acquisition of an option to acquire the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to expense when it is no longer probable that the property will be acquired.

The Company capitalizes salaries, commissions and benefits related to time spent by leasing and legal department personnel involved in originating leases with third-party tenants.

The following table summarizes the Company's capitalized salaries and benefits, real estate taxes and interest for the three and nine months ended September 30, 2007 and 2006:

(in thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Development and redevelopment:				
Salaries and benefits	\$ 603	\$ 723	\$ 1,591	\$ 1,707
Real estate taxes	\$ 520	\$ 1,089	\$ 1,818	\$ 1,328
Interest	\$ 4,455	\$ 2,799	\$ 11,883	\$ 6,154
Leasing:				
Salaries and benefits	\$ 1,011	\$ 1,115	\$ 3,502	\$ 3,458

Table of Contents**4. INVESTMENTS IN PARTNERSHIPS:**

The following table presents summarized financial information of the equity investments in the Company's unconsolidated partnerships as of September 30, 2007 and December 31, 2006:

(in thousands of dollars)	September 30, 2007	December 31, 2006
ASSETS:		
Investments in real estate, at cost:		
Operating properties	\$ 345,807	\$ 344,909
Construction in progress	34,786	8,312
Total investments in real estate	380,593	353,221
Accumulated depreciation	(84,486)	(75,860)
Net investments in real estate	296,107	277,361
Cash and cash equivalents	634	5,865
Deferred costs and other assets, net	29,807	26,535
Total assets	326,548	309,761
LIABILITIES AND PARTNERS EQUITY/DEFICIT:		
Mortgage notes payable	379,325	382,082
Other liabilities	24,995	18,418
Total liabilities	404,320	400,500
Net deficit	(77,772)	(90,739)
Partners' share	38,399	44,961
Company's share	(39,373)	(45,778)
Excess investment ⁽¹⁾	14,588	14,211
Advances	6,466	6,749
Net deficit and advances	\$ (18,319)	\$ (24,818)
Investment in partnerships, at equity	\$ 36,896	\$ 38,621
Distributions in excess of partnership investments	(55,215)	(63,439)
Net investments and advances	\$ (18,319)	\$ (24,818)

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

The following table summarizes the Company's share of equity in income of partnerships for the three and nine months ended September 30, 2007 and 2006:

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

(in thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Real estate revenue	\$ 16,977	\$ 16,528	\$ 50,542	\$ 48,974
Expenses:				
Property operating expenses	(5,097)	(4,582)	(15,225)	(14,143)
Interest expense	(6,053)	(6,489)	(18,406)	(16,149)
Depreciation and amortization	(3,303)	(3,234)	(9,881)	(10,137)
Total expenses	(14,453)	(14,305)	(43,512)	(40,429)
Net income	2,524	2,223	7,030	8,545
Partners' share	(1,262)	(1,111)	(3,515)	(4,272)
Company's share	1,262	1,112	3,515	4,273
Amortization of excess investment	(114)	(68)	(243)	(198)
Equity in income of partnerships	\$ 1,148	\$ 1,044	\$ 3,272	\$ 4,075

In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall in Whitehall, Pennsylvania entered into a \$150.0 million mortgage loan that is secured by Lehigh Valley Mall. The Company owns an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only are required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 56 basis points. There are three one-year extension options, provided that there is no event of default and that the borrower buys an interest rate cap for the term of any applicable extension. In August 2007, the partnership that owns the mall exercised the first one-year extension option.

In November 2005, the Company and its partner acquired Springfield Mall in Springfield, Pennsylvania, with 0.6 million square feet, for \$103.5 million. To partially finance the acquisition costs, the Company and its partner, an affiliate of Kravco Simon Investments, L.P. and Simon Property Group, Inc. obtained a \$76.5 million mortgage loan. The interest rate on the loan is 1.10% over LIBOR, or 1.275% over LIBOR for any period during which the Strawbridge's retail department store has ceased to be open for business and before another anchor retail department store opens for business in that space. The mortgage loan had a term of two years, and the borrowers have three one-year extension options. In September 2007, the partnership that owns the mall exercised the first one-year extension option.

Table of Contents**5. FINANCING ACTIVITY:****Credit Facility**

The Company's \$500.0 million Credit Facility can be increased to \$650.0 million under prescribed conditions, and bears interest at a rate between 0.95% and 1.40% per annum over LIBOR based on the Company's leverage. In determining the Company's leverage, the capitalization rate used to calculate Gross Asset Value is 7.50%. The Credit Facility has a term that expires in January 2009, with an additional 14 month extension option, provided that there is no event of default at that time. The Credit Facility contains affirmative and negative covenants customarily found in facilities of this type. See Note 4 to the audited financial statements of the Company for the year ended December 31, 2006 contained in the Current Report on Form 8-K filed July 16, 2007. As of September 30, 2007, the Company was in compliance with all of these debt covenants.

As of September 30, 2007, \$245.0 million was outstanding under the Credit Facility. The Company pledged \$16.7 million under the Credit Facility as collateral for letters of credit, and the unused portion of the Credit Facility that was available to the Company was \$238.3 million at September 30, 2007. The weighted average effective interest rate based on amounts borrowed was 7.30% and 6.90% for the three and nine month periods ended September 30, 2007, respectively. The weighted average interest rate on outstanding Credit Facility borrowings at September 30, 2007 was 6.70%.

Exchangeable Senior Notes

In May 2007, the Company, through its Operating Partnership, completed the sale of \$287.5 million aggregate principal amount exchangeable senior notes due 2012. The net proceeds from the offering of \$281.0 million were used for the repayment of indebtedness under the Company's Credit Facility, the cost of the related capped call transactions, and for other general corporate purposes.

The notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2007, until the maturity date of June 1, 2012. The Operating Partnership's obligations under the notes are fully and unconditionally guaranteed by the Company.

The notes bear interest at 4.00% per annum and contain an exchange settlement feature. Pursuant to this feature, upon surrender of the notes for exchange, the notes will be exchangeable for cash equal to the principal amount of the notes and, with respect to any excess exchange value, at our option, for cash, common shares of the Company or a combination of cash and common shares at an initial exchange rate of 18.303 shares per \$1,000 principal amount of notes, or \$54.64 per share.

The notes will be exchangeable only under certain circumstances. Prior to maturity, the Operating Partnership may not redeem the notes except to preserve the Company's status as a real estate investment trust. If the Company undergoes certain change of control transactions at any time prior to maturity, holders of the notes may require the Operating Partnership to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date.

In connection with the offering of the notes, the Company and the Operating Partnership entered into capped call transactions with affiliates of the initial purchasers of the notes. These agreements effectively increase the exchange price of the notes to \$63.74. The cost of these agreements of \$12.6 million was recorded in the shareholders' equity section of the Company's balance sheet.

Mortgage Activity

In May 2007, the Company entered into a \$150.0 million interest only first mortgage loan that is secured by the Mall at Prince Georges in Hyattsville, Maryland. The mortgage loan has an interest rate of 5.513% with a maturity date of June 1, 2017. Proceeds of the mortgage loan were used to reduce the Company's borrowings under the Credit Facility. The Company repaid the previous mortgage on The Mall at Prince Georges of \$40.2 million in March 2007 using funds borrowed from its Credit Facility and available working capital.

Table of Contents**6. COMPREHENSIVE INCOME:**

The following table sets forth the computation of comprehensive income for the three and nine months ended September 30, 2007 and 2006:

(in thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 1,499	\$ 4,544	\$ 14,458	\$ 9,048
Unrealized gain (loss) on derivatives	(12,635)	(19,788)	2,287	3,741
Other comprehensive income	9	9	27	27
Total comprehensive income (loss)	\$ (11,127)	\$ (15,235)	\$ 16,772	\$ 12,816

7. CASH FLOW INFORMATION:

Cash paid for interest was \$78.4 million (net of capitalized interest of \$11.9 million) and \$81.9 million (net of capitalized interest of \$6.2 million) for the nine months ended September 30, 2007 and 2006, respectively.

On June 6, 2007, the Company issued 1,580,211 common shares of beneficial interest in exchange for a like number of OP Units in a transaction with an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

8. RELATED PARTY TRANSACTIONS:

PRI provides management, leasing and development services for eight properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or their immediate families and affiliated entities have direct or indirect ownership interests. Total revenues earned by PRI for such services were \$0.2 million and \$0.6 million for the three and nine month periods ended September 30, 2007, and \$0.2 million and \$0.8 million for the three and nine month periods ended September 30, 2006, respectively.

The Company leases its principal executive offices from Bellevue Associates (the Landlord). Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. The Company's base rent is \$1.4 million per year during the first five years of the office lease and \$1.5 million during the second five years. Total rent expense under this lease was \$0.3 million and \$1.0 million, respectively, for each of the three and nine month periods ended September 30, 2007 and 2006.

The Company uses an airplane in which Ronald Rubin owns a fractional interest. The Company paid \$23,000 and \$35,000 in the three and nine months ended September 30, 2007, respectively, and \$6,000 and \$24,000 in the three and nine months ended September 30, 2006, respectively, for flight time used by employees on Company-related business.

On June 6, 2007, the Company issued 1,580,211 common shares of beneficial interest in exchange for a like number of OP Units. The shares were issued to an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

9. COMMITMENTS AND CONTINGENCIES:**Development and Redevelopment Activities**

In connection with its current ground-up development and its redevelopment projects, the Company has made contractual commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of September 30, 2007, the remainder to be paid against such contractual and other commitments was \$131.4 million, which is expected to be financed through the Credit Facility, other unsecured indebtedness or through short-term construction loans.

Tax Protection Agreements

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

The Company has entered into tax protection agreements in connection with certain completed property acquisitions. Under these agreements, the Company has agreed not to dispose of certain protected properties in a taxable transaction until certain dates. In some cases, members of the Company's senior management and/or board of trustees are the beneficiaries of these agreements.

Table of Contents

Other

In the normal course of business, the Company has become and may, in the future, become involved in legal actions relating to the ownership and operations of its properties and the properties it manages for third parties. In management's opinion, the resolution of any such pending legal actions is not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

10. DERIVATIVES:

In the normal course of business, the Company is exposed to financial market risks, including interest rate risk on its interest-bearing liabilities. The Company endeavors to limit these risks by following established risk management policies, procedures and strategies, including the use of financial instruments. The Company does not use financial instruments for trading or speculative purposes.

Financial instruments are recorded on the balance sheet as assets or liabilities based on each instrument's fair value. Changes in the fair value of financial instruments are recognized currently in earnings, unless the financial instrument meets the criteria for hedge accounting contained in Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted (SFAS No. 133). If the financial instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the financial instrument are deferred in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A contract that is designated as a hedge of an anticipated transaction that is no longer likely to occur is immediately recognized in earnings.

The anticipated transaction to be hedged must expose the Company to interest rate risk, and the hedging instrument must reduce the exposure and meet the requirements for hedge accounting under SFAS No. 133. The Company must formally designate the financial instrument as a hedge and document and assess the effectiveness of the hedge at inception and on a quarterly basis. Interest rate hedges that are designated as cash flow hedges hedge the future cash outflows on debt.

As of September 30, 2007 and December 31, 2006, the Company had 13 and 16 forward-starting interest rate swap agreements, respectively, as detailed below.

The Company's swaps will be settled in cash for the present value of the difference between the locked swap rate and the then-prevailing rate on or before the cash settlement dates corresponding to the dates of issuance of new long-term debt obligations. If the prevailing market interest rate exceeds the rate in the swap agreement, then the counterparty will make a payment to the Company. If it is lower, the Company will pay the counterparty. The settlement amounts will be amortized over the life of the debt as a yield adjustment.

The Company entered into these swap agreements in order to hedge the expected interest payments associated with a portion of the Company's anticipated future issuances of long-term debt. The Company assessed the effectiveness of these swaps as hedges at inception and on September 30, 2007 and considers these swaps to be highly effective cash flow hedges under SFAS No. 133.

In March 2007, the Company settled three swaps. The settled swaps had a value of \$4.3 million as of December 31, 2006 and at the cash settlement date, the Company received \$4.1 million in cash and recorded an unrealized loss of \$0.2 million to Other Accumulated Comprehensive Income. The swaps were settled in anticipation of the Company's issuance of long-term debt. Amortization of the settlement amount commenced upon the issuance of such debt and is being recorded as a decrease in interest expense over the term of the new long-term debt.

To determine the fair values of derivative instruments prior to settlement, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments, including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and there can be no assurance that the value in an actual transaction will be equivalent to the fair value set forth in the Company's financial statements.

The counterparties to these swap agreements are all major financial institutions and participants in the Credit Facility. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due.

Table of Contents

The following table summarizes the terms and fair values of the Company's derivative financial instruments at September 30, 2007 and December 31, 2006. All of the instruments presented below are cash flow swaps. The notional amounts at September 30, 2007 provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks. All of the instruments that are outstanding as of September 30, 2007 have an effective date of September 10, 2008 and a cash settlement date of December 10, 2008.

Notional Value	Fair Value at September 30, 2007	Fair Value at December 31, 2006	Interest Rate
\$ 50 million ⁽¹⁾	N/A	\$ 1.8 million	4.6830%
50 million ⁽¹⁾	N/A	1.8 million	4.6820%
20 million ⁽¹⁾	N/A	0.7 million	4.7025%
50 million	\$ 1.7 million	1.3 million	4.8120%
50 million	1.8 million	1.5 million	4.7850%
20 million	0.7 million	0.5 million	4.8135%
45 million	1.5 million	1.2 million	4.8135%
10 million	0.3 million	0.3 million	4.8400%
50 million	1.8 million	1.4 million	4.7900%
25 million	0.8 million	0.7 million	4.8220%
50 million	(0.2) million	(0.5) million	5.3380%
25 million	(0.2) million	(0.3) million	5.3500%
25 million	(0.2) million	(0.3) million	5.3550%
20 million	(0.2) million	(0.3) million	5.3750%
15 million	(0.1) million	(0.2) million	5.3810%
15 million	(0.1) million	(0.2) million	5.3810%
Total	\$ 7.6 million	\$ 9.4 million	

(1) These swaps were settled in March 2007 resulting in a payment to the Company of \$4.1 million.

As of September 30, 2007 and December 31, 2006, the net estimated unrealized gain attributed to the cash flow hedges was \$7.6 million and \$9.4 million, respectively, and has been included in deferred costs and other assets and accumulated other comprehensive income in the accompanying consolidated balance sheets. The decrease in the aggregate value from December 31, 2006 to September 30, 2007 is due to the three swaps settled in March 2007, partially offset by the change in value resulting in part from an increase in market interest rates during the first nine months of 2007.

11. PREFERRED SHARE REDEMPTION:

On July 31, 2007, the Company redeemed all of its 2,475,000, 11% non-convertible senior preferred shares for \$131.8 million, or \$52.50 per preferred share plus accrued and unpaid dividends to the redemption date. The preferred shares were issued in November 2003 in connection with the Company's merger (the Merger) with Crown American Realty Trust (Crown), and were initially recorded at \$57.90 per preferred share, the fair value based on the market value of the corresponding Crown preferred shares as of May 13, 2003, the date on which the financial terms of the Merger were substantially complete. In order to finance the redemption, the Company borrowed \$131.8 million under its Credit Facility. As a result of the redemption, the \$13.3 million excess of the carrying amount of the preferred shares, net of expenses, over the redemption price is included in Income Available to Common Shareholders.

12. COMMON SHARE REPURCHASE PROGRAM:

In October 2005, the Company's Board of Trustees (the Board) authorized a program to repurchase up to \$100.0 million of the Company's common shares through solicited or unsolicited transactions in the open market or privately negotiated or other transactions. The Company may fund repurchases under the program from multiple sources, including up to \$50.0 million from its Credit Facility. The Company is not required

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

to repurchase any shares under the program. The dollar amount of shares that may be repurchased or the timing of such transactions is dependent on the prevailing price of the Company's common shares and market conditions, among other factors.

Repurchased shares are treated as authorized but unissued shares. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, the Company accounts for the purchase price of the shares repurchased as a reduction to shareholder's equity and is allocated between retained earnings, shares of beneficial interest and capital contributed in excess of par as required.

Table of Contents

From January 1 through September 30, 2007, the Company repurchased 152,500 shares at an average price of \$35.67, or an aggregate purchase price of \$5.4 million. The cumulative amount of shares repurchased from inception of the program to September 30, 2007 was 371,200 shares at an average price of \$37.15, or an aggregate purchase price of \$13.8 million.

As of September 30, 2007, the remaining authorized amount for share repurchases under this program was \$86.2 million.

Table of Contents

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 REITs in the United States, has a primary investment focus on retail shopping malls and power and strip centers located in the Mid-Atlantic region or in the eastern half of the United States. Our operating portfolio currently consists of a total of 55 properties. The retail portion of our portfolio contains 49 properties in 13 states and includes 38 shopping malls and 11 power and strip centers. The ground-up development portion of our portfolio contains six properties in four states, with three classified as power centers, two classified as mixed use (a combination of retail and other uses) and one classified as other. The retail properties have a total of 33.7 million square feet, of which we and partnerships or tenancy in common arrangements (collectively, partnerships) in which we own an interest own 25.6 million square feet. The retail properties that we consolidate for financial reporting purposes have 29.3 million square feet, of which we own 22.8 million square feet. Properties that are owned by unconsolidated partnerships with third parties (see below) have 4.4 million square feet, of which 2.8 million square feet are owned by such partnerships.

Our primary business is owning and operating shopping malls and power and strip centers. 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. No individual property constitutes more than 10% of our consolidated revenue or assets, 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, L.P. (PREIT Associates). We are the sole general partner of PREIT Associates and, as of September 30, 2007, held a 93.5% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 49 operating retail properties in our portfolio through unconsolidated partnerships with third parties in which we own a 50% interest. We hold a non-controlling 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 income statement caption entitled Equity in income of partnerships rather than consolidating the results of the unconsolidated partnerships with our results. 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.

For further information regarding our unconsolidated partnerships, see Note 4 to our consolidated financial statements.

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

We provide our management, leasing and development services through PREIT Services, LLC, 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 own interests in through partnerships with third parties and properties that are owned by third parties in which we do not have an interest. One of our long-term objectives is to obtain managerial control of as many of our assets as possible. Due to the nature of our existing partnership arrangements, we cannot anticipate when this objective will be achieved, if at all.

Table of Contents

Our revenues consist primarily of fixed rental income, additional rent in the form of expense reimbursements, and percentage rents (rents that are 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 retail properties. We also receive income from our real estate partnership investments and from the management and leasing services PRI provides.

Our net income available to common shareholders was \$19.9 million for the nine months ended September 30, 2007, an increase of \$21.1 million from a loss allocable to common shareholders of \$1.2 million for the nine months ended September 30, 2006. The increase in net income available to common shareholders for the nine months ended September 30, 2007 was largely due to the impact of the preferred share redemption, including a decrease in dividends on preferred shares. Also, the results for the nine months ended September 30, 2007 include gains of \$9.8 million resulting from sales of discontinued operations, an operating retail parcel and several non-operating real estate parcels. The 2006 results were impacted by separation expenses associated with the retirement of a Vice Chairman of the Company in the first quarter of 2006 that did not recur in 2007, and the impact in March 2006 of \$2.8 million of depreciation and amortization from one property that was reclassified from discontinued operations to continuing operations.

ACQUISITIONS, DISPOSITIONS AND DEVELOPMENT ACTIVITIES

We record our acquisitions based on estimates of fair value as determined by our management, using information available and based on assumptions of future performance. These allocations are subject to revisions, in accordance with GAAP, during the twelve-month periods following the closings of the respective acquisitions.

We are actively involved in pursuing and evaluating acquisition opportunities. Our evaluation includes an analysis of whether the properties meet the investment criteria we apply, given economic, market and other circumstances.

Acquisition

In August 2007, we purchased a 116 acre land parcel in Monroe Township, Pennsylvania for \$5.5 million. We intend to develop this land and other land owned by us in the area into a power center to be known as Monroe Marketplace.

Dispositions

In August 2007, we sold 47 acres of undeveloped land adjacent to Wiregrass Commons for \$2.1 million. We recorded a \$0.3 million gain on this sale.

In May 2007, we sold a 4.6 acre parcel and related land improvements at Plaza at Magnolia for \$11.3 million. We recorded a \$1.5 million gain on the sale.

In May 2007, we sold a 1.6 acre outparcel and related land improvements containing an operating restaurant at New River Valley Mall for \$1.6 million. We recorded a \$0.6 million gain on the sale.

In March 2007, we sold Schuylkill Mall in Frackville, Pennsylvania for \$17.6 million. We recorded a gain of \$6.7 million from this sale. In connection with the sale, we repaid the mortgage note associated with Schuylkill Mall, with a balance of \$16.5 million at closing.

Valley View Downs

On October 1, 2007, the Company entered into an amendment to its October 2004 agreement with Valley View Downs, LP (Valley View) and Centaur Pennsylvania, LLC (Centaur) with respect to the development of a proposed harness racetrack and casino in western Pennsylvania.

Under the original October 2004 agreement, (i) the Company made certain payments and agreed to make additional payments to Valley View, (ii) Valley View agreed to purchase certain parcels located in Beaver County, Pennsylvania and enter into options to acquire certain other parcels, (iii) the Company agreed to acquire this aggregated property and lease it to Valley View pursuant to a ground lease, (iv) Valley View and PRI agreed to enter into a development agreement pursuant to which PRI would provide customary management services for all aspects of the development and construction phases of the racing and gaming facilities on the property, and (v) the parties agreed to enter into other definitive documents to implement the provisions of the agreement.

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

Under the Amendment, the Company has waived and terminated its rights to purchase the property contemplated for the racetrack and casino or to purchase an alternative location, and its right to ground lease such site to Valley View. The Company will be repaid the \$983,000 it paid to Valley View in connection with the original agreement, with interest from the date of the Amendment, in 24

Table of Contents

equal consecutive monthly installments beginning on the earlier of (i) a date sixty days after the start of casino operations (Alternative Gaming), if any, at the property, or (ii) October 1, 2014. Valley View has obtained a harness racing license from the Pennsylvania Horse Racing Commission. However, there can be no assurance that Valley View will be successful in obtaining an Alternative Gaming license from the Pennsylvania Gaming Control Board. The Company will not own the property or the improvements on the property, nor will the Company have any ownership interest in the assets of Valley View, including Valley View's harness racing license or any Alternative Gaming licenses awarded to Valley View.

In consideration of the Company's waiver and termination, Valley View or Centaur or the affiliate of either that receives the Alternative Gaming license will pay the Company \$57.0 million over nine years, payable \$250,000 per month from March 1, 2010 to February 1, 2019, including a final payment of \$30.0 million payable on March 1, 2019.

In addition, Valley View has entered into a development agreement with PRI. Under this development agreement, PRI will provide customary management services for all aspects of the development and construction phases of the racetrack and casino. The fee for such services will be \$3.0 million, payable as follows: \$125,000 per month will accrue beginning October 1, 2007 through September 1, 2009 and will be paid \$75,000 per month beginning April 1, 2009 to and including August 1, 2009; thereafter, Valley View will pay \$500,000 per month beginning on September 1, 2009 to and including January 1, 2010, and a final payment of \$125,000 on February 1, 2010.

P&S Office Building

During the first quarter of 2007, we reclassified P&S Office Building in Gadsden, Alabama for accounting purposes from held for sale to continuing operations. We reached this decision because the property no longer met the conditions for an exception to the one-year classification requirement in SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets. We intend to continue to actively market P&S Office Building for sale, but at this time, we cannot determine if or when a sale will be consummated. For balance sheet purposes, as of March 31, 2007, the assets and liabilities of P&S Office Building were reclassified from assets held for sale and liabilities related to assets held for sale into the appropriate balance sheet captions. Because P&S Office Building was considered held for sale as of December 31, 2006, no reclassifications related to P&S Office Building were made as of that date. For income statement purposes, the results of operations for P&S Office Building are presented in continuing operations for all periods presented. In the first quarter of 2007, we recorded depreciation and amortization expense of \$0.2 million to reflect the depreciation and amortization during all of the period that P&S Office Building was held for sale.

Development and Redevelopment

We are engaged in the ground-up development of six retail and other mixed-use projects that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. As of September 30, 2007, we had incurred \$143.5 million of costs related to these projects. The costs identified to date to complete these ground-up projects are expected to be \$98.2 million in the aggregate, excluding the Springhills (Gainesville, Florida) and Pavilion at Market East (Philadelphia, Pennsylvania) projects because details of those projects and the related costs have not been determined. In each case, we will evaluate the financing opportunities available to us at the time a project requires funding. In cases where the project is undertaken with a partner, our flexibility in funding the project might be governed by the partnership agreement or the covenants contained in our Credit Facility, which limit our involvement in such projects.

We generally seek to develop these projects in areas that we believe evidence the likelihood of supporting additional retail development and have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We usually have several development projects under way at one time in various stages of the development process. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing. We monitor our developments closely, including costs and tenant interest.

The following table sets forth the amount of our intended investment in each ground-up development project:

Development Project	Estimated	Invested as of
	Project Cost	September 30, 2007
New Garden Town Center	\$ 82.1 million	\$ 37.6 million
Sunrise Plaza (Lacey Retail Center)	39.1 million	30.6 million
New River Valley Center	29.2 million	24.6 million

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

Monroe Marketplace	61.6 million	21.0 million
Springhills	To be determined	28.4 million
Pavilion at Market East ⁽¹⁾	To be determined	1.3 million
		\$ 143.5 million

⁽¹⁾ The property is unconsolidated. The amount shown represents our share.

Table of Contents

We are engaged in the redevelopment of 10 of our consolidated properties and one of our unconsolidated properties, and expect to increase the number of such projects in the future. These projects may include the introduction of residential, office or other uses to our properties.

The following table sets forth the amount of our intended investment for each redevelopment project:

Project	Estimated Project Cost	Invested as of September 30, 2007
Cherry Hill Mall	\$ 197.7 million	\$ 42.4 million
Plymouth Meeting Mall	83.9 million	32.8 million
Willow Grove Park	39.1 million	25.8 million
New River Valley Mall	26.0 million	25.1 million
Voorhees Town Center	60.7 million	24.9 million
Magnolia Mall	18.5 million	15.4 million
Lehigh Valley Mall ⁽¹⁾	22.2 million	15.2 million
North Hanover Mall	35.1 million	13.8 million
Beaver Valley Mall	9.2 million	8.1 million
Moorestown Mall	13.7 million	3.6 million
Jacksonville Mall	4.0 million	2.3 million
	\$ 510.1 million	\$ 209.4 million

⁽¹⁾ The property is unconsolidated. The amounts shown represent our share.

In connection with our current ground-up development and our redevelopment projects, we have made contractual and other commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional services providers. As of September 30, 2007, the remainder to be paid against such contractual and other commitments was \$131.4 million, which, during the construction phase, is expected to be financed through our Credit Facility, other unsecured debt or through short-term construction loans. The development and redevelopment projects on which these commitments have been made have total remaining estimated costs of \$403.4 million. In connection with our completed redevelopment and development projects, we expect to seek longer-term, fixed-rate mortgages when projects are completed and the properties are stabilized.

OFF BALANCE SHEET ARRANGEMENTS

We have no material off balance sheet items other than the partnerships described in Note 4 to the consolidated financial statements and in the Overview section above. We have, however, entered into tax protection agreements in connection with certain property acquisitions. Under these agreements, we have agreed not to dispose of certain protected properties in a taxable transaction until certain dates. In some cases, members of our senior management and/or board of trustees are the beneficiaries of these agreements.

RELATED PARTY TRANSACTIONS

PRI provides management, leasing and development services for eight properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or their immediate families and affiliated entities have direct or indirect ownership interests. Total revenues earned by PRI for such services were \$0.2 million and \$0.6 million for the three and nine month periods ended September 30, 2007, and \$0.2 million and \$0.8 million for the three and nine month periods ended September 30, 2006.

We lease our principal executive offices from Bellevue Associates (the Landlord). Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. Our base rent is \$1.4 million per year during the first five years of the office lease and \$1.5 million per year during the second five years. Total rent expense under this lease was \$0.3 million and \$1.0 million, respectively, for each of the three and nine month periods ended September 30, 2007 and 2006.

Table of Contents

We use an airplane in which Ronald Rubin owns a fractional interest. We paid \$23,000 and \$35,000 in the three and nine months ended September 30, 2007, respectively, and \$6,000 and \$24,000 in the three and nine months ended September 30, 2006, respectively, for flight time used by employees on Company-related business.

On June 6, 2007, we issued 1,580,211 common shares of beneficial interest in exchange for a like number of units of Class B limited partnership interest. The shares were issued to an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

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 may change in subsequent periods. In preparing the 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 revenues 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. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses.

Our management makes complex or subjective assumptions and judgments with respect to applying its critical accounting policies. In making these judgments and assumptions, management considers, among other factors:

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.

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2007 and 2006, 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. See our Current Report on Form 8-K filed on July 16, 2007 for a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2007 and 2006

Overview

Our results of operations for the three and nine months ended September 30, 2007 and 2006 were significantly affected by ongoing redevelopment initiatives that were in various stages at 10 of our consolidated mall properties and one of our unconsolidated properties. While we might undertake a redevelopment to maximize the long term performance of the property, in the short term, the operations and performance of the property, as measured by occupancy and net operating income, will be negatively affected. Tenants may be relocated or leave as space for the redevelopment is aggregated, which affects tenant sales and rental rates. Some space at a property may be taken out of retail use during the redevelopment, and some space may only be made available for short periods of time pending scheduled renovation. The increase in net income available to common shareholders for the three and nine months ended September 30, 2007 was due to the impact of the preferred share redemption, including a decrease in dividends on preferred shares. Also, the results in 2007 include gains of \$9.8 million resulting from sales of discontinued operations, an operating retail parcel and several non-operating real estate parcels. The 2006 results were impacted by separation expenses associated with the retirement of a Vice Chairman of the Company in the first quarter of 2006 that did not recur in 2007, and the impact in March 2006 of \$2.8 million of depreciation and amortization from one property that was reclassified from discontinued operations to continuing operations.

Table of Contents

The table below sets forth occupancy statistics for our consolidated properties as of September 30, 2007 and 2006:

	Occupancy As of September 30,	
	2007	2006
Retail portfolio weighted average:		
Total including anchors	90.8% ⁽¹⁾	90.3% ⁽¹⁾
Excluding anchors	88.4%	87.9%
Enclosed malls weighted average:		
Total including anchors	90.0% ⁽¹⁾	89.2% ⁽¹⁾
Excluding anchors	87.3%	86.4%
Power/strip centers weighted average:		
	96.2%	97.6%

(1) Includes acquired vacant anchor stores until the space is decommissioned pending redevelopment.

The following information summarizes our results of operations for the three and nine months ended September 30, 2007 and 2006. The amounts reflected as income from continuing operations reflect income from properties wholly-owned by us or owned by partnerships that we consolidate for financial reporting purposes, with the exception of income from the properties that are classified as discontinued operations. Our unconsolidated partnerships are presented under the equity method of accounting in the line item entitled Equity in income of partnerships.

(in thousands of dollars)	Three Months Ended September 30,		% Change 2006 to 2007
	2007	2006	
Real estate revenue	\$ 110,880	\$ 110,986	%
Property operating expenses	(44,474)	(45,053)	(1) %
Management company revenue	854	545	57 %
Interest and other income	535	566	(5) %
General and administrative and other	(9,997)	(9,709)	3 %
Interest expense	(24,866)	(24,041)	3 %
Depreciation and amortization	(32,743)	(30,807)	6 %
Equity in income of partnerships	1,148	1,044	10 %
Gains on sales of non-operating real estate	247	166	49 %
Minority interest	(103)	(395)	(74) %
Income from continuing operations	1,481	3,302	(55) %
Income from discontinued operations	18	1,242	(99) %
Net income	\$ 1,499	\$ 4,544	(67) %

(in thousands of dollars)	Nine Months Ended September 30,		% Change 2006 to 2007
	2007	2006	
Real estate revenue	\$ 332,296	\$ 330,936	%
Property operating expenses	(131,434)	(129,608)	1 %
Management company revenue	1,827	1,832	%
Interest and other income	2,323	1,452	60 %
General and administrative and other	(31,834)	(30,200)	5 %
Executive separation		(3,985)	%
Interest expense	(72,338)	(72,319)	%
Depreciation and amortization	(96,970)	(91,421)	6 %
Equity in income of partnerships	3,272	4,075	(20) %

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

Gains on sales of interests in real estate	579		%
Gains on sales of non-operating real estate	1,731	381	354 %
Minority interest	(884)	(1,221)	(28) %
Income from continuing operations	8,568	9,922	(14) %
Income (loss) from discontinued operations	5,890	(874)	774 %
Net income	\$ 14,458	\$ 9,048	60 %

Table of Contents

Real Estate Revenue

Real estate revenue decreased by \$0.1 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Real estate revenue decreased primarily due to decreases of \$0.6 million in expense reimbursements, \$0.5 million in other revenue and \$0.1 million in percentage rents, partially offset by increases of \$0.9 million in base rent, which is comprised of minimum rent, straight line rent and rent from tenants that pay a percentage of sales in lieu of minimum rent, and \$0.2 million in lease termination revenue.

Expense reimbursements decreased by \$0.6 million in the three months ended September 30, 2007, primarily due to lower reimbursable expenses and lower recovery rates at properties currently under redevelopment. Many of our properties, including those currently in redevelopment and others, are experiencing a trend toward more gross leases, which provide that tenants pay a higher base rent in lieu of contributing toward common area maintenance costs and real estate taxes, leases that pay a percentage of sales in lieu of minimum rent and rental concessions made to tenants impacted by the redevelopment activities. We expect the lower recovery rates at our redevelopment properties to improve as construction is completed, tenants take occupancy and our leasing leverage improves. Other revenue decreased by \$0.5 million, primarily due to a \$0.3 million decrease in marketing revenue. The decrease in marketing revenue was offset by a corresponding \$0.3 million decrease in marketing expense, as discussed below under Property Operating Expenses. Marketing revenue is generally recognized in tandem with marketing expense. Other revenue decreased an additional \$0.2 million due to a bankruptcy court distribution received from one tenant in the three months ended September 30, 2006. Base rent increased primarily due to a \$1.4 million increase in rental rates and increased occupancy at recently completed redevelopment projects. These increases were partially offset by decreases in base rent at Voorhees Town Center and Moorestown Mall, two of our current redevelopment properties, which had decreases of \$0.3 million and \$0.2 million, respectively, for the three month period, as in-line occupancy decreased and more tenants were converted from fixed rent to percentage of sales in order to maintain occupancy during the redevelopment period. Lease termination revenue increased by \$0.2 million, primarily due to \$0.4 million received from one tenant in the three months ended September 30, 2007.

Real estate revenue increased by \$1.4 million, or 1%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. Real estate revenue increased primarily due to increases of \$2.4 million in base rent and \$1.5 million in expense reimbursements, partially offset by a \$1.2 million decrease in lease termination revenue, a \$1.1 million decrease in other revenue and a \$0.2 million decrease in percentage rent.

Base rent increased primarily due to a \$4.0 million increase in rental rates and increased occupancy at recently completed redevelopment projects. These increases were partially offset by decreases in base rent at Voorhees Town Center, Moorestown Mall and Plymouth Meeting Mall, three of our current redevelopment properties, which had decreases of \$0.8 million, \$0.7 million and \$0.4 million, respectively, for the nine month period, as in-line occupancy decreased and more tenants were converted from fixed rent to percentage of sales in order to maintain occupancy during the redevelopment period at each property. Expense reimbursements increased by \$1.5 million in the nine months ended September 30, 2007 due to higher reimbursable expenses, as discussed below under Property Operating Expenses, partially offset by decreased recoveries at some of our properties that are under redevelopment. Lease termination revenue decreased by \$1.2 million, primarily due to \$1.2 million received from two tenants in the nine months ended September 30, 2006. Other revenue decreased by \$1.1 million, primarily due to a \$0.8 million decrease in marketing revenue. The decrease in marketing revenue was offset by a corresponding \$0.8 million decrease in marketing expense, as discussed below under Property Operating Expenses. Other revenues decreased an additional \$0.2 million due to a bankruptcy court distribution received from one tenant in the nine months ended September 30, 2006.

Property Operating Expenses

Property operating expenses decreased by \$0.6 million, or 1%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Property operating expenses decreased primarily due to a \$0.5 million decrease in common area maintenance expense and a \$0.8 million decrease in other operating expenses. These decreases were partially offset by a \$0.7 million increase in real estate tax expense.

Common area maintenance expenses decreased by \$0.5 million in the three months ended September 30, 2007 primarily due to decreases of \$0.2 million in landscaping expense and \$0.2 million in parking lot maintenance expense. Other operating expenses

Table of Contents

decreased by \$0.8 million, including a \$0.3 million decrease in marketing expenses, offsetting the \$0.3 million decrease in marketing revenues, as discussed above under Real Estate Revenues. The marketing expense decrease resulted from marketing expenditures at some properties being deferred compared to last year, with higher expenditures anticipated over the remaining three months of 2007. In addition to the decrease in marketing expenses, other operating expenses were impacted by a \$0.2 million decrease in bad debt expense, a \$0.1 million decrease in professional fees and a \$0.1 million decrease in grand re-opening advertising expenses.

Property operating expenses increased by \$1.8 million, or 1%, in the first nine months of 2007 compared to the first nine months of 2006. Property operating expenses increased primarily due to a \$1.6 million increase in common area maintenance expense, a \$1.1 million increase in real estate tax expense and a \$1.1 million increase in utility expense. These increases were partially offset by a \$2.0 million decrease in other operating expenses.

Common area maintenance expenses increased by \$1.6 million in the nine months ended September 30, 2007 primarily due to an increase of \$1.2 million in snow removal expense. Snowfall amounts increased during the first three months of 2007 compared to the first three months of 2006, at our properties located in Pennsylvania and New Jersey in particular. Real estate tax expense increased by \$1.1 million, including a \$0.4 million increase resulting from property value reassessments at two of our recently completed redevelopment properties. Utility expense increased by \$1.1 million in the nine months ended September 30, 2007 due to an increase in energy consumption at some of our properties as a result of colder temperatures compared to the nine months ended September 30, 2006. Other operating expenses decreased by \$2.0 million, including a \$0.8 million decrease in marketing expenses, offsetting the \$0.8 million decrease in marketing revenues, as discussed above under Real Estate Revenues. The marketing expense decrease resulted from marketing expenditures at some properties being deferred compared to last year, with higher expenditures anticipated over the remaining three months of 2007. In addition to the marketing expense decrease, other operating expenses decreased due to a \$0.4 million decrease in recoverable tenant service expense (offset by a \$0.4 million decrease in recoverable tenant service income), a \$0.4 million decrease in bad debt expense and a \$0.3 million decrease in professional fees.

General and Administrative Expenses and Other

General and administrative expenses increased \$0.3 million, or 3%, for the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The increase was due to a \$0.6 million increase in compensation expense due to salary increases, incentive compensation, and increased headcount, offset by a \$0.3 million decrease in other miscellaneous expenses.

General and administrative expenses increased \$1.5 million, or 5%, for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The increase was due to a \$1.8 million increase in compensation expense, offset by a \$0.3 million decrease in professional fees.

Executive Separation

Executive separation expense in the nine months ended September 30, 2006 represents a \$4.0 million expense related to separation costs associated with the retirement of Jonathan Weller, a former Vice Chairman of the Company.

Depreciation and Amortization

Depreciation and amortization expense increased by \$1.9 million, or 6%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. This increase was primarily due to a higher asset base resulting from capital improvements, particularly at properties where we have recently completed redevelopments.

Depreciation and amortization expense increased by \$5.5 million, or 6%, in the first nine months of 2007 compared to the first nine months of 2006. This increase was primarily due to a higher asset base resulting from capital improvements, particularly at properties where we have recently completed redevelopments.

Interest Expense

Interest expense increased \$0.8 million, or 3%, for the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The increase resulted from a \$1.2 million increase due to increased borrowings under the Credit Facility and the issuance of senior exchangeable notes (a weighted average balance of \$443.9 million in the third quarter of 2007 as compared to \$259.3 million in the third quarter of 2006) partially offset by a \$0.4 million decrease in interest paid on mortgage loans outstanding during the three months ended September 30, 2007 and 2006 due to principal amortization.

Table of Contents

Interest expense was unchanged for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. A \$0.9 million increase in interest expense due to increased average borrowings under the Credit Facility and the issuance of senior exchangeable notes (a weighted average balance of \$395.1 million for the nine months ended September 30, 2007 as compared to \$274.6 million for the nine months ended September 30, 2006) was offset by a \$0.9 million decrease in interest paid on mortgage loans outstanding during the nine months ended September 30, 2007 and 2006 due to principal amortization.

Gains on Sales of Real Estate

Gains on sales of interests in real estate were \$0.6 million for the nine months ended September 30, 2007, due to the sale of an outparcel and related land improvements containing an operating restaurant at New River Valley Mall in May 2007. There were no gains on sales of interests in real estate for the three months ended September 30, 2007 or for the three and nine months ended September 30, 2006.

Gains on sales of non-operating real estate was \$0.2 million for each of the three month periods ended September 30, 2007 and 2006, and \$1.7 million and \$0.4 million, respectively, for the nine months ended September 30, 2007 and 2006. The results of operations for the three and nine months ended September 30, 2007 include a gain of \$1.5 million on the sale of a parcel and related land improvements at Plaza at Magnolia in May 2007 and a gain of \$0.3 million on the sale of land adjacent to Wiregrass Commons in August 2007.

Gains on Sales of Discontinued Operations

Gains on sales of discontinued operations were \$6.7 million for the nine months ended September 30, 2007, due to the sale of Schuylkill Mall in March 2007. There were no gains on sales of discontinued operations for the nine months ended September 30, 2006.

Discontinued Operations

The Company has presented as discontinued operations the operating results of Schuylkill Mall, which was sold in March 2007, and South Blanding Village, which was sold in September 2006.

Property operating results and related minority interest for the properties in discontinued operations for the periods presented were as follows:

(in thousands of dollars)	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Operating results from discontinued operations	\$ 19	\$ (31)	\$ (118)	\$ (2,386)
Gain on sale of discontinued operations		1,414	6,699	1,414
Minority interest	(1)	(141)	(691)	98
Income (loss) from discontinued operations	\$ 18	\$ 1,242	\$ 5,890	\$ (874)

NET OPERATING INCOME

Net operating income (a non-GAAP measure) is derived from real estate revenues (determined in accordance with GAAP) minus property operating expenses (determined in accordance with GAAP). 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 the Company's 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 net operating income. We believe that net operating income 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. Net operating income excludes management company revenues, interest and other income, general and administrative expenses, interest expense, depreciation and amortization and gains on sales of interests in real estate.

The following tables present net operating income results for the three and nine months ended September 30, 2007 and 2006. The results are presented using the proportionate-consolidation method (a non-GAAP measure), which presents our share of the results of our partnership

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Property operating results for retail properties that we owned for the full periods presented (Same Store) include the results of properties that have undergone or were undergoing redevelopment during the applicable periods, and excludes properties acquired or disposed of during the periods presented:

Table of Contents

	Three months ended			Three months ended			% Change	
	September 30, 2007			September 30, 2006			2007 vs. 2006	
	Same	Non-Same	Total	Same	Non-Same	Total	Same	Total
(in thousands of dollars)	Store	Store	Total	Store	Store	Total	Store	Total
Real estate revenue	\$ 119,319	\$ 44	\$ 119,363	\$ 119,204	\$ 1,574	\$ 120,778	%	(1) %
Property operating expenses	(47,064)	16	(47,048)	(47,340)	(914)	(48,254)	(1) %	(3) %
Net operating income	\$ 72,255	\$ 60	\$ 72,315	\$ 71,864	\$ 660	\$ 72,524	1 %	%

	Nine months ended			Nine months ended			% Change	
	September 30, 2007			September 30, 2006			2007 vs. 2006	
	Same	Non-Same	Total	Same	Non-Same	Total	Same	Total
(in thousands of dollars)	Store	Store	Total	Store	Store	Total	Store	Total
Real estate revenue	\$ 357,418	\$ 1,206	\$ 358,624	\$ 355,285	\$ 4,923	\$ 360,208	1%	%
Property operating expenses	(139,073)	(849)	(139,922)	(136,667)	(2,710)	(139,377)	2%	%
Net operating income	\$ 218,345	\$ 357	\$ 218,702	\$ 218,618	\$ 2,213	\$ 220,831	%	(1)%

Primarily because of the items discussed above under Real Estate Revenue and Property Operating Expenses, total net operating income decreased by \$0.2 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Same Store net operating income increased by \$0.4 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Non-Same Store net operating income decreased by \$0.6 million.

Primarily because of the items discussed above under Real Estate Revenue and Property Operating Expenses, total net operating income decreased by \$2.1 million in the first nine months of 2007 compared to the first nine months of 2006. Same Store net operating income decreased by \$0.3 million in the first nine months of 2007 compared to the first nine months of 2006. Non-Same Store net operating income decreased by \$1.9 million.

The following information is provided to reconcile net income to net operating income:

	Three month period ended		Nine month period ended	
	September 30,		September 30,	
	2007	2006	2007	2006
(in thousands of dollars)				
Net income	\$ 1,499	\$ 4,544	\$ 14,458	\$ 9,048
Adjustments:				
Depreciation and amortization:				
Wholly-owned and consolidated partnerships	32,743	30,807	96,970	91,421
Unconsolidated partnerships	1,714	1,679	5,127	5,255
Discontinued operations		352	215	3,562
Interest expense:				
Wholly-owned and consolidated partnerships	24,866	24,041	72,338	72,319
Unconsolidated partnerships	3,028	3,247	9,208	8,083
Discontinued operations		300	136	914
Minority interest	104	536	1,575	1,123
Gain on sale of discontinued operations		(1,414)	(6,699)	(1,414)
Gains on sales of interests in real estate			(579)	
Gains on sales of non-operating real estate	(247)	(166)	(1,731)	(381)
Other expenses	9,997	9,709	31,834	30,200

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

Executive separation				3,985
Management company revenue	(854)	(545)	(1,827)	(1,832)
Interest and other income	(535)	(566)	(2,323)	(1,452)
Net operating income	\$ 72,315	\$ 72,524	\$ 218,702	\$ 220,831

Table of Contents

FUNDS FROM OPERATIONS

The National Association of Real Estate Investment Trusts (NAREIT) defines Funds From Operations, which is a non-GAAP measure, as income before gains and losses on sales of operating properties and extraordinary items (computed in accordance with GAAP); plus real estate depreciation; plus or minus adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. We compute Funds From Operations by taking the amount determined pursuant to the NAREIT definition and subtracting dividends on preferred shares (FFO). FFO includes the effect of the Company's redemption of all of its 11% non-convertible senior preferred shares in July 2007.

Funds From Operations is a commonly used measure of operating performance and profitability in the real estate industry. We use FFO and FFO per diluted share and OP unit (FFO per share) as supplemental non-GAAP measures to compare our Company's performance to that of our industry peers. Similarly, we use FFO and FFO per share as performance measures for determining bonus amounts earned under certain of our performance-based executive compensation programs. We compute FFO in accordance with standards established by NAREIT, less dividends on preferred shares, which may not be comparable to Funds From Operations 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.

FFO does not include gains or 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 net operating income. 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 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 various non-recurring items that are considered extraordinary under GAAP, gains on sales of operating real estate and depreciation and amortization of real estate.

FFO was \$47.7 million for the three months ended September 30, 2007, an increase of \$15.2 million, or 47%, compared to \$32.5 million for the three months ended September 30, 2006. FFO per share increased \$0.36 to \$1.16 for the three months ended September 30, 2007, compared to FFO per share of \$0.80 for the three months ended September 30, 2006. FFO for the third quarter of 2007 includes the \$13.3 million impact of the Company's July 2007 redemption of its preferred shares.

FFO was \$114.8 million for the first nine months of 2007, an increase of \$17.7 million, or 18%, compared to \$97.1 million for the first nine months of 2006. FFO per share increased \$0.42 to \$2.79 for the first nine months of 2007, compared to FFO per share of \$2.37 for the first nine months of 2006. FFO for the first nine months of 2007 includes, in addition to the effect of the Company's redemption of its preferred shares, a \$1.5 million gain from a parcel sale at The Plaza at Magnolia in Florence, South Carolina, and \$0.8 million of condemnation proceeds at Capital City Mall in Harrisburg, Pennsylvania. FFO for the first nine months of 2006 was affected by \$4.0 million executive separation expenses associated with the retirement of Jonathan B. Weller, formerly a Vice Chairman of the Company.

The shares used to calculate FFO per share include common shares and OP Units not held by us. FFO per share also includes the effect of common share equivalents.

Table of Contents

The following information is provided to reconcile net income to FFO, and to show the items included in our FFO for the periods indicated:

(in thousands, except per share amounts)	Three months ended September 30, 2007	Per diluted share and OP Unit	Three months ended September 30, 2006	Per diluted share and OP Unit
Net income	\$ 1,499	\$ 0.04	\$ 4,544	\$ 0.11
Minority interest	104		536	0.01
Dividends on preferred shares	(1,134)	(0.03)	(3,403)	(0.08)
Redemption of preferred shares	13,347	0.33		
Gains on sale of discontinued operations			(1,414)	(0.03)
Depreciation and amortization:				
Wholly-owned and consolidated partnerships ⁽¹⁾	32,178	0.78	30,241	0.74
Unconsolidated partnerships	1,714	0.04	1,679	0.04
Discontinued operations			352	0.01
Funds from operations ⁽²⁾	\$ 47,708	\$ 1.16	\$ 32,535	\$ 0.80
Weighted average number of shares outstanding	38,181		36,282	
Weighted average effect of full conversion of OP Units	2,694		4,081	
Effect of common share equivalents ⁽³⁾	295		560	
Total weighted average shares outstanding, including OP Units	41,170		40,923	

(1) Excludes depreciation of non-real estate assets and amortization of deferred financing costs.

(2) Includes the non-cash effect of straight-line rents of \$0.6 million and \$0.8 million for the three months ended September 30, 2007 and 2006, respectively.

(3) For the three months ended September 30, 2006, there are net losses allocable to common shareholders from continuing operations, so there is no impact of common share equivalents on the calculation of diluted income (loss) per share for this period. However, common share equivalents are included in the calculation of FFO per share.

(in thousands, except per share amounts)	Nine months ended September 30, 2007	Per diluted share and OP Unit	Nine months ended September 30, 2006	Per diluted share and OP Unit
Net income	\$ 14,458	\$ 0.35	\$ 9,048	\$ 0.22
Minority interest	1,575	0.04	1,123	0.03
Dividends on preferred shares	(7,941)	(0.19)	(10,209)	(0.25)
Redemption of preferred shares	13,347	0.32		
Gains on sales of interests in real estate	(579)	(0.01)		
Gain on sale of discontinued operations	(6,699)	(0.16)	(1,414)	(0.04)
Depreciation and amortization:				
Wholly-owned and consolidated partnerships ⁽¹⁾	95,275	2.31	89,747	2.19
Unconsolidated partnerships	5,127	0.12	5,255	0.13
Discontinued operations	215	0.01	3,562	0.09
Funds from operations ⁽²⁾	\$ 114,778	\$ 2.79	\$ 97,112	\$ 2.37
Weighted average number of shares outstanding	37,219		36,189	
Weighted average effect of full conversion of OP Units	3,610		4,125	
Effect of common share equivalents ⁽³⁾	363		590	
Total weighted average shares outstanding, including OP Units	41,192		40,904	

-
- (1) Excludes depreciation of non-real estate assets and amortization of deferred financing costs.
 - (2) Includes the non-cash effect of straight-line rents of \$1.5 million and \$2.2 million for the nine months ended September 30, 2007 and 2006, respectively.
 - (3) For the nine months ended September 30, 2006, there are net losses allocable to common shareholders from continuing operations, so there is no impact of common share equivalents on the calculation of diluted income (loss) per share for these periods. However, common share equivalents are included in the calculation of FFO per share.

PREFERRED SHARE REDEMPTION

On July 31, 2007, the Company redeemed all of its 2,475,000 11% non-convertible senior preferred shares for \$131.8 million, or \$52.50 per preferred share plus accrued and unpaid dividends to the redemption date. The preferred shares were issued in November 2003 in connection with the Company's merger (the Merger) with Crown American Realty Trust (Crown), and were initially recorded at \$57.90 per preferred share, the fair value based on the market value of the corresponding Crown preferred shares as of May 13, 2003, the date on which the financial terms of the Merger were substantially complete. In order to finance the redemption, the Company borrowed \$131.8 million under its Credit Facility. The \$13.3 million excess of the carrying amount of the preferred shares, net of expenses, over the redemption price is included in Income Available to Common Shareholders.

Table of Contents

COMMON SHARE REPURCHASE PROGRAM

In October 2005, our Board of Trustees (the Board) authorized a program to repurchase up to \$100.0 million of our common shares through solicited or unsolicited transactions in the open market or privately negotiated or other transactions. We may fund repurchases under the program from multiple sources, including up to \$50.0 million from our Credit Facility. We are not required to repurchase any shares under the program. The dollar amount of shares that may be repurchased or the timing of such transactions is dependent on the prevailing price of our common shares and market conditions, among other factors.

Repurchased shares are treated as authorized but unissued shares. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, we account for the purchase price of the shares repurchased as a reduction to shareholders' equity.

From January 1, 2007 through September 30, 2007 we repurchased 152,500 shares at an average price of \$35.67, or an aggregate purchase price of \$5.4 million. The cumulative amount of shares repurchased from inception of the program to September 30, 2007 was 371,200 shares at an average price of \$37.15, or an aggregate purchase price of \$13.8 million.

As of September 30, 2007, the remaining authorized amount for share repurchases under this program was \$86.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

Our \$500.0 million Credit Facility can be increased to \$650.0 million under prescribed conditions, and the Credit Facility bears interest at a rate between 0.95% and 1.40% per annum over LIBOR based on our leverage. In determining our leverage, the capitalization rate used to calculate Gross Asset Value is 7.50%. The availability of funds under the Credit Facility is subject to our compliance with financial and other covenants and agreements. The Credit Facility has a term that expires in January 2009, with an additional 14 month extension option, provided that there is no event of default at that time.

As of September 30, 2007, \$245.0 million was outstanding under the Credit Facility. We pledged \$16.7 million under the Credit Facility as collateral for letters of credit, and the unused portion of the Credit Facility that was available to us was \$238.3 million at September 30, 2007. The weighted average effective interest rate based on amounts borrowed was 7.30% and 6.90% for the three and nine month period ended September 30, 2007. The weighted average interest rate on outstanding Credit Facility borrowings at September 30, 2007 was 6.70%.

We must repay the entire principal amount outstanding under the Credit Facility at the end of its term. We may prepay any revolving loan at any time without premium or penalty. Accrued and unpaid interest on the outstanding principal amount under the Credit Facility is payable monthly, and any unpaid amount is payable at the end of the term. The Credit Facility has a facility fee of 0.15% to 0.20% per annum of the total commitments, depending on leverage and without regard to usage. The Credit Facility contains some lender yield protection provisions related to LIBOR loans. The Company and certain of its subsidiaries are guarantors of the obligations arising under the Credit Facility.

The Credit Facility contains affirmative and negative covenants customarily found in facilities of this type. As of September 30, 2007, we were in compliance with all of these covenants.

Upon the expiration of any applicable cure period following an event of default, the lenders may declare all obligations of the Company in connection with the Credit Facility immediately due and payable, and the commitments of the lenders to make loans under the Credit Facility will terminate. Upon the occurrence of a voluntary or involuntary bankruptcy proceeding of the Company, PREIT Associates, PRI or any material subsidiary, all outstanding amounts will automatically become immediately due and payable and the commitments of the lenders to make loans will automatically terminate.

Exchangeable Senior Notes

In May 2007, we completed the sale of \$287.5 million aggregate principal amount of exchangeable senior notes due 2012. The net proceeds from the offering of \$281.0 million were used for the repayment of indebtedness under our Credit Facility, the cost of the related capped call transactions, and for other general corporate purposes.

The notes are general unsecured senior obligations of PREIT Associates and rank equally in right of payment with all other senior unsecured indebtedness of PREIT Associates. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2007, until the maturity

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

date of June 1, 2012. PREIT Associates obligations under the notes are fully and unconditionally guaranteed by the Company.

Table of Contents

The notes bear interest at 4.00% per annum and contain an exchange settlement feature. Pursuant to this feature, upon surrender of the notes for exchange, the notes will be exchangeable for cash equal to the principal amount of the notes and, with respect to any excess exchange value, at our option, for cash, common shares of the Company or a combination of cash and common shares at an initial exchange rate of 18.303 shares per \$1,000 principal amount of notes, or \$54.64 per share. In connection with the offering of the notes, the Company and PREIT Associates entered into capped call transactions with affiliates of the initial purchasers. These agreements effectively increase the exchange price of the notes to \$63.74. The cost of these agreements of \$12.6 million was recorded in the shareholders equity section of the Company's balance sheet.

The notes will be exchangeable only under certain circumstances. Prior to maturity, PREIT Associates may not redeem the notes except to preserve our status as a real estate investment trust. If we undergo certain change of control transactions at any time prior to maturity, holders of the notes may require PREIT Associates to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date.

Financing Activity

The following table sets forth a summary of significant mortgage, corporate note, exchangeable note, and Credit Facility activity for the nine months ended September 30, 2007:

(in thousands of dollars)	Mortgage Notes Payable	Exchangeable Notes	Credit Facility	Corporate Notes Payable	Total
Balance at January 1, 2007	\$ 1,572,908	\$	\$ 332,000	\$ 1,148	\$ 1,906,056
Exchangeable Notes issuance		287,500	(281,000)		6,500
The Mall at Prince Georges mortgage financing	150,000		(143,000)		7,000
Preferred Shares Redemption			131,800		131,800
Schuylkill Mall mortgage repayment	(16,461)				(16,461)
The Mall at Prince Georges mortgage repayment	(40,202)				(40,202)
Principal amortization	(16,967)				(16,967)
Capital expenditures and other uses			205,200		205,200
Balance at September 30, 2007	\$ 1,649,278	\$ 287,500	\$ 245,000	\$ 1,148	\$ 2,182,926

In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall in Whitehall, Pennsylvania entered into a \$150.0 million mortgage loan that is secured by Lehigh Valley Mall. We own an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only are required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 56 basis points. There are three one-year extension options, provided that there is no event of default and that the borrower buys an interest rate cap for the term of any applicable extension. In August 2007, the partnership that owns the mall exercised the first one-year extension option.

In November 2005, we and our partner acquired Springfield Mall in Springfield, Pennsylvania, with 0.6 million square feet, for \$103.5 million. To partially finance the acquisition costs, we and our partner, an affiliate of Kravco Simon Investments, L.P. and Simon Property Group, Inc. obtained a \$76.5 million mortgage loan. The interest rate on the loan is 1.10% over LIBOR, or 1.275% over LIBOR for any period during which the Strawbridge's retail department store has ceased to be open for business and before another anchor retail department store opens for business in that space. The mortgage loan had a term of two years, and the borrowers have three one-year extension options. In September 2007, the partnership that owns the mall exercised the first one-year extension option.

Derivatives

As of September 30, 2007 and December 31, 2006, we had a total of 13 and 16 forward-starting interest rate swap agreements, respectively, as detailed in Note 10 to our consolidated financial statements. The swap agreements that are currently outstanding have an aggregate notional amount of \$400.0 million, and settle in 2008.

Table of Contents

We entered into our swap agreements in order to hedge the expected interest payments associated with a portion of our anticipated future issuances of long-term debt. We assessed the effectiveness of our swaps as hedges at inception and on September 30, 2007, and consider these swaps to be highly effective cash flow hedges under SFAS No. 133 (See Note 10 to our consolidated financial statements).

Capital Resources

We expect to meet our short-term liquidity requirements, including recurring capital expenditures, tenant improvements and leasing commissions, but excluding development and redevelopment projects, generally through our available working capital and net cash provided by operations. We believe that our net cash provided by operations will be sufficient to allow us to make any distributions necessary to enable us to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The aggregate distributions made to common shareholders and OP Unitholders in the nine months ended September 30, 2007 were \$70.5 million. The following are some of the factors that could affect our cash flows and require the funding of future distributions, capital expenditures, tenant improvements or leasing commissions with sources other than operating cash flows:

adverse changes in general, local or retail industry economic, financial, credit market or competitive conditions, leading to a reduction in real estate revenues or cash flows or an increase in expenses;

inability to achieve targets for, or decreases in, property occupancy and rental rates, or higher costs or delays in completion of our development and redevelopment projects, resulting in lower real estate revenues and operating income;

deterioration in our tenants' business operations and financial stability, including tenant bankruptcies and leasing delays or terminations, causing declines in rents and cash flows;

increases in interest rates resulting in higher borrowing costs; and

increases in operating costs that cannot be passed on to tenants, resulting in reduced operating income and cash flows.

For the remainder of 2007, we expect to spend an additional \$73.5 million on previously disclosed development and redevelopment projects. For the balance of the year, we anticipate funding these capital requirements with additional borrowings under our Credit Facility, which as of September 30, 2007 had \$238.3 million of available borrowing capacity, or from other sources as described below.

We expect to meet certain of our current obligations to fund existing development and redevelopment projects and certain long-term capital requirements, including future development and redevelopment projects, property and portfolio acquisitions, expenses associated with acquisitions, scheduled debt maturities, renovations, expansions and other non-recurring capital improvements, through various capital sources, including secured or unsecured indebtedness.

Consistent with our stated capital strategy, we might seek to place long-term fixed-rate debt on our stabilized properties when conditions are favorable for such financings. We also expect to raise capital through selective sales of assets and the issuance of additional equity securities, when warranted. Furthermore, we might seek to satisfy our long-term capital requirements through the formation of joint ventures with institutional partners, private equity investors or other REITs.

In general, as credit markets tighten, we might encounter resistance from lenders when we seek financing or refinancing for properties or proposed acquisitions. In addition, the following are some of the potential impediments to accessing additional funds under the Credit Facility:

constraining leverage, interest coverage and tangible net worth covenants;

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

increased interest rates affecting coverage ratios; and

reduction in our consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) affecting coverage ratios.

In December 2003, we announced that the SEC had declared effective a \$500.0 million universal shelf registration statement. We may use the shelf registration to offer and sell common shares of beneficial interest, preferred shares and various types of debt securities, among other types of securities, to the public. However, we may be unable to issue securities under the shelf registration statement, or otherwise, on terms that are favorable to us, if at all.

This Liquidity and Capital Resources section contains certain forward-looking statements that relate to expectations and projections that are not historical facts. These forward-looking statements reflect our current views about our future liquidity and capital resources, and are subject to risks and uncertainties that might cause our actual liquidity and capital resources to differ

Table of Contents

materially from the forward-looking statements. Additional factors that might affect our liquidity and capital resources include those discussed in the section of our Annual Report on Form 10-K and in the section of this Quarterly Report on Form 10-Q entitled Item 1A. Risk Factors. We do not intend to update or revise any forward-looking statements about our liquidity and capital resources to reflect new information, future events or otherwise.

Mortgage Notes

Mortgage notes payable, which are secured by 30 of our consolidated properties, are due in installments over various terms extending to the year 2017, with fixed interest at rates ranging from 4.95% to 7.61% and a weighted average interest rate of 6.05% at September 30, 2007. Mortgage notes payable for properties owned by unconsolidated partnerships are accounted for in Investments in partnerships, at equity on the consolidated balance sheets and are not included in the table below. The following table outlines the timing of principal payments related to our mortgage notes associated with our consolidated properties as of September 30, 2007.

(in thousands of dollars)	Payments by Period				
	Total	Up to 1 Year	2-3 Years	4-5 Years	More than 5 Years
Principal payments	\$ 118,780	\$ 6,259	\$ 36,688	\$ 32,085	\$ 43,748
Balloon payments	1,530,498		555,574		974,924
Total	\$ 1,649,278	\$ 6,259	\$ 592,262	\$ 32,085	\$ 1,018,672

In March 2007, we repaid a \$40.2 million mortgage loan on the Mall at Prince Georges using funds borrowed from our Credit Facility and available working capital. Also in March 2007, we repaid the \$16.5 million mortgage loan at Schuylkill Mall using proceeds from the sale of Schuylkill Mall.

Contractual Obligations

The following table presents our aggregate contractual obligations as of September 30, 2007, for the periods presented:

(in thousands of dollars)	More than				
	Total	Up to 1 Year	2-3 Years	4-5 Years	5 Years
Mortgages ⁽¹⁾	\$ 1,649,278	\$ 6,259	\$ 592,262	\$ 32,085	\$ 1,018,672
Interest on mortgages	466,132	24,566	155,867	109,537	176,162
Credit Facility ⁽²⁾	245,000		245,000		
Exchangeable senior notes	287,500				287,500
Corporate notes	1,148	1,148			
Capital leases ⁽³⁾	385	46	339		
Operating leases	12,922	699	4,996	3,621	3,606
Ground leases	26,159	257	2,060	2,060	21,782
Development and redevelopment commitments ⁽⁴⁾	131,418	111,418	20,000		
Other long-term liabilities ⁽⁵⁾	2,707		2,707		
Total	\$ 2,822,649	\$ 144,393	\$ 1,023,231	\$ 147,303	\$ 1,507,722

(1) Includes amounts reflected in the Mortgage Notes table above. Excludes the indebtedness of our unconsolidated partnerships.

(2) The Credit Facility has a term that expires in January 2009, with an option for us to extend the term for an additional 14 months, provided that there is no event of default at that time.

(3) Includes interest.

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

- (4) The timing of the payment of these amounts is uncertain. We estimate that a significant portion of these amounts will be paid in the upcoming year, but situations could arise at these development and redevelopment projects that could delay the settlement of these obligations.
- (5) Represents long-term incentive compensation.

Intended Investments Related to Development and Redevelopment

We intend to invest approximately \$398.9 million over the next three years in connection with our development and redevelopment projects announced to date, excluding the Springhills (Gainesville, Florida) and Pavilion at Market East (Philadelphia, Pennsylvania) projects. See Development and Redevelopment. We also intend to invest significant additional amounts in additional development and redevelopment projects over that period. See Capital Resources above.

Table of Contents

CASH FLOWS

Net cash provided by operating activities totaled \$101.1 million in the first nine months of 2007, compared to \$115.8 million for the first nine months of 2006. Net income after adjustments for non-cash revenues and expenses was \$2.6 million higher in the first nine months of 2007 compared to the first nine months of 2006, as executive separation paid in 2006 offset the decrease in real estate net operating income in 2007 compared to 2006.

Cash flows used in investing activities were \$143.9 million in the first nine months of 2007, compared to \$110.9 million in the first nine months of 2006. Investing activities in the first nine months of 2007 reflect investment in construction in progress of \$144.7 million and real estate improvements of \$13.6 million, both of which primarily relate to our development and redevelopment activities. Investing activities in 2007 also include \$31.5 million in proceeds from the sale of Schuylkill Mall and land parcels at Magnolia Mall, New River Valley Mall and Wiregrass Commons. Investing activities in the first nine months of 2006 reflect the acquisition of land parcels in Gainesville, Florida (\$21.5 million) and two former Strawbridge's department stores at Cherry Hill Mall and Willow Grove Park (\$33.5 million).

Cash flows provided by financing activities were \$50.6 million in the first nine months of 2007, compared to \$9.4 million used in the first nine months of 2006. Cash provided by financing activities for the first nine months of 2007 were primarily affected by \$281.0 million raised through the sale of exchangeable senior notes and \$150.0 million of proceeds from the mortgage loan on The Mall at Prince Georges. Portions of these cash flows were applied toward \$87.0 million of net Credit Facility repayment, mortgage note repayments of \$56.7 million, dividends and distributions of \$79.2 million, purchase of capped call agreements of \$12.3 million in connection with the exchangeable senior notes, and principal installments on mortgage notes payable of \$17.0 million. The Company also used \$130.0 million to redeem its 2,475,000 11% non-convertible senior preferred shares excluding paid and accrued dividends. Financing activities in the first nine months of 2006 included new mortgage loans on Woodland Mall and Valley Mall.

Cash flows generated from discontinued operations have been included within the three reporting categories above.

COMMITMENTS

At September 30, 2007, we had \$131.4 million of contractual obligations to complete current development and redevelopment projects. Total remaining estimated costs for the particular projects with such commitments are \$403.4 million. We expect to finance these amounts through borrowings under our Credit Facility or through various other capital sources. See Liquidity and Capital Resources Capital Resources.

CONTINGENT LIABILITIES

We are aware of certain environmental matters at some of our properties, including ground water contamination and the presence of asbestos containing materials. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential liability relating to these environmental matters. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to \$5.0 million per occurrence and up to \$5.0 million in the aggregate.

COMPETITION AND TENANT CREDIT RISK

Competition in the retail real estate industry is intense. We compete with other public and private retail real estate companies, including companies that own or manage malls, power centers, lifestyle centers, strip centers, factory outlet centers, theme/festival centers and community centers, as well as other commercial real estate developers and real estate owners, particularly those with properties near our properties. We compete with these companies to attract customers to our properties, as well as to attract anchor and in-line store tenants. We also compete to acquire land for new site development. Our malls and our power and strip centers face competition from similar retail centers, including more recently developed or renovated centers, that are near our retail properties. We also face competition from a variety of different retail formats, including internet retailers, discount or value retailers, home shopping networks, mail order operators, catalogs, and telemarketers. This competition could have a material adverse effect on our ability to lease space and on the level of rent that we receive. Our tenants face competition from companies at the same and other properties and from other retail formats as well.

Also, a significant amount of capital has and might continue to provide funding for the acquisition and development of properties that might compete with our properties. The development of competing retail properties and the related increased competition for tenants might require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and affects the occupancy and net operating income of such properties. Any such redevelopments, undertaken individually or collectively, involve costs and expenses that could adversely affect our results of operations.

Table of Contents

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites, including institutional pension funds, other REITs and other owner-operators of retail properties. These competitors might drive up the price we must pay for properties, parcels, other assets or other companies we seek to acquire or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, and enhanced operating efficiencies. Also, the number of entities, as well as the available capital resources competing for suitable investment properties or desirable development sites, have increased and might continue to increase, resulting in increased demand for these assets and therefore increased prices paid for them. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay higher prices for properties, or generate lower cash flow from an acquired property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We receive a substantial portion of our operating income as rent under long-term leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. These tenants might defer or fail to make rental payments when due, delay lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant's lease, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy of those tenants might be more significant to us than the bankruptcy of other tenants. In addition, under many of our leases, our tenants pay rent based on a percentage of their sales. Accordingly, declines in these tenants' sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of our leases, we might modify lease terms in ways that are less favorable to us.

SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of a portion of rents based on a percentage of a tenant's sales over certain levels. Income from such rents is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season and many tenants vacate their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first quarter, excluding the effect of ongoing redevelopment projects. Our concentration in the retail sector increases our exposure to seasonality and is expected to continue to result in a greater percentage of our cash flows being received in the fourth quarter.

INFLATION

Inflation can have many effects on financial performance. Retail property leases often provide for the payment of rents based on a percentage of sales, which may increase with inflation. Leases may also provide for tenants to bear all or a portion of operating expenses, which may reduce the impact of such increases on us. However, during times when inflation is greater than increases in rent as provided for in a lease, rent increases may not keep up with inflation.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the three months ended September 30, 2007, together with other statements and information publicly disseminated by us, contain certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

general economic, financial, credit market and political conditions, including changes in interest rates or the possibility of war or terrorist attacks;

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

changes in local market conditions, such as the supply of or demand for retail space, or other competitive factors;

changes in the retail industry, including consolidation and store closings;

concentration of our properties in the Mid-Atlantic region;

Table of Contents

risks relating to development and redevelopment activities, including construction and receipt of government and tenant approvals;

our ability to effectively manage several redevelopment and development projects simultaneously, including projects involving mixed uses;

our ability to maintain and increase property occupancy and rental rates;

our dependence on our tenants' business operations and their financial stability;

increases in operating costs that cannot be passed on to tenants;

our ability to raise capital through public and private offerings of debt or equity securities and other financing risks, including the availability of adequate funds at a reasonable cost;

our ability to acquire additional properties and our ability to integrate acquired properties into our existing portfolio;

our short-term and long-term liquidity position;

possible environmental liabilities;

our ability to obtain insurance at a reasonable cost; and

existence of complex regulations, including those relating to our status as a REIT, and the adverse consequences if we were to fail to qualify as a REIT.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 and this Quarterly Report on Form 10-Q in the section entitled "Item 1A. Risk Factors." We do not intend to update or revise any forward-looking statements to reflect new information, future events or otherwise.

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" refer to PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to "PRI" refer to PREIT-RUBIN, Inc.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of September 30, 2007, our consolidated debt portfolio consisted of \$245.0 million borrowed under our Credit Facility, which bears interest at LIBOR plus the applicable margin, \$1,649.3 million in fixed-rate mortgage notes, including \$16.9 million of mortgage debt premium, and \$287.5 million of 4.00% exchangeable senior notes due 2012.

Edgar Filing: ROYAL BANK OF CANADA - Form FWP

Mortgage notes payable, which are secured by 30 of our consolidated properties, are due in installments over various terms extending to the year 2017, with fixed interest at rates ranging from 4.95% to 7.61% and a weighted average interest rate of 6.05% at September 30, 2007. Mortgage notes payable for properties owned by unconsolidated partnerships are accounted for in Investments in partnerships, at equity on the consolidated balance sheet.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts of the expected annual maturities and the weighted average interest rates for the principal payments in the specified periods:

(in thousands of dollars)	Fixed-Rate Debt		Variable-Rate Debt	
	Principal Payments	Weighted Average Interest Rate ⁽¹⁾	Principal Payments	Weighted Average Interest Rate
Year Ended December 31,				
2007	\$ 6,259	6.58%		
2008	\$ 527,755	7.27%		
2009	\$ 64,507	6.01%	\$ 245,000 ⁽²⁾	6.70% ⁽³⁾
2010	\$ 15,587	5.65%		
2011	\$ 16,498	5.65%		
2012 and thereafter	\$ 1,306,172	5.47%		

- (1) Based on the weighted average stated interest rate of the respective mortgages and the exchangeable senior notes as of September 30, 2007.
- (2) Our Credit Facility has a term that expires in January 2009, with an additional 14 month extension option, provided that there is no event of default at that time.
- (3) Based on the weighted average interest rate in effect as of September 30, 2007.

Table of Contents

Changes in market interest rates have different impacts on the fixed and variable portions of our debt portfolio. A change in market interest rates on the fixed portion of the debt portfolio impacts the fair value, but it has no impact on interest incurred or cash flows. A change in market interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the fair value. The sensitivity analysis related to the fixed debt portfolio, which includes the effects of the forward-starting interest rate swap agreements described below, assumes an immediate 100 basis point change in interest rates from their actual September 30, 2007 levels, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the net financial instrument position of \$46.3 million at September 30, 2007. A 100 basis point decrease in market interest rates would result in an increase in the net financial instrument position of \$47.7 million at September 30, 2007. Based on the variable-rate debt included in our debt portfolio as of September 30, 2007, a 100 basis point increase in interest rates would result in an additional \$2.5 million in interest annually. A 100 basis point decrease would reduce interest incurred by \$2.5 million annually. The variable rate debt included in our debt portfolio is incurred under our Credit Facility, which bears interest at LIBOR plus the applicable margin.

To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors or a combination thereof, depending on the underlying exposure. Interest rate differentials that arise under swap contracts are recognized in interest expense over the life of the contracts. If interest rates rise, the resulting cost of funds is expected to be lower than that which would have been available if debt with matching characteristics was issued directly. Conversely, if interest rates fall, the resulting costs would be expected to be higher. We may also employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying transaction occurs, expires or is otherwise terminated. See also Note 10 to our unaudited consolidated financial statements.

As of September 30, 2007 and December 31, 2006, we had a total of 13 and 16 forward-starting interest rate swap agreements, respectively, as detailed in Note 10 to our consolidated financial statements. The swap agreements that are currently outstanding have an aggregate notional amount of \$400.0 million, and settle in 2008.

A forward-starting interest rate swap is an agreement that effectively hedges future base rates on debt for an established period of time. We entered into these swap agreements in order to hedge the expected interest payments associated with a portion of our anticipated future issuances of long-term debt. We assessed the effectiveness of these swaps as hedges at inception and on September 30, 2007, and consider these swaps to be highly effective cash flow hedges under SFAS No. 133. See Note 10 to our unaudited consolidated financial statements.

Because the information presented above includes only those exposures that exist as of September 30, 2007, it does not consider those changes, exposures or positions which could arise after that date. The information presented herein has limited predictive value. As a result, the ultimate realized gain or loss or expense with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at the time and interest rates.

Item 4. Controls and Procedures.

We are committed to providing accurate and timely disclosure in satisfaction of our SEC reporting obligations. We have a Disclosure Committee to formalize our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2007, and have concluded as follows:

Our disclosure controls and procedures are designed to ensure that the information that we are required to disclose in our reports under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported accurately and on a timely basis.

Information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

In the normal course of business, the Company has become and might in the future become involved in legal actions relating to the ownership and operation of its properties and the properties it manages for third parties. In management's opinion, the resolution of any such pending legal actions are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

In June 2007, the Company filed a complaint in the Circuit Court of the State of Florida alleging that the Alachua County Board of Supervisors (the County) violated provisions of Florida law in its denial of the Company's application to develop a mixed-use development project known as Springhills on Company-owned land in Alachua County, Florida. The Company acquired the approximately 540 acre site in February 2006 for \$21.5 million. The Company had \$28.4 million invested in this project as of September 30, 2007.

The complaint alleges that the County violated provisions of Florida's sunshine law in its consideration of the project, and that the County's stated reasons for the denial of the Company's development applications were a pretext and, in fact, resulted from the Company's refusal to accede to the County's demand for payment and construction by the Company of public transportation facilities, the need for which are not reasonably attributable to the proposed Company development, and for which there is no rational nexus or rough proportionality. Further, the complaint alleges that the North Central Regional Florida Planning Council conducted the transportation study relied upon by the County in its determination in a manner inconsistent with an agreed upon pre-application methodology.

The complaint requests that the County be enjoined from relying on any of the bases used as a pretext, and that the County and the regional planning commission be enjoined from relying on the transportation study. The requested relief would invalidate the denial of the Company's development application.

The ultimate disposition of this proceeding cannot be predicted and the Company is not in a position to indicate when or if the Springhills project will be constructed.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risks that could materially affect our business, financial condition or results of operations, which are discussed under the caption Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Unregistered Offerings

On September 4, 2007, we issued 17,000 common shares in return for an equal number of Class A Units tendered for redemption by a limited partner of PREIT Associates. The shares were issued under exemptions provided by Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering.

After the end of the quarter, on or about October 22, 2007, we issued an aggregate of 286,721 common shares in return for an equal amount of Class A and Class B units tendered for redemption by three limited partners of PREIT Associates. The shares were issued under exemptions provided by Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering.

Issuer Purchases of Equity Securities

The following table shows the total number of shares that we acquired in the three months ended September 30, 2007 and the average price paid per share. The purchases reflected in the table were pursuant to our share repurchase program as well as employees' use of shares to pay the exercise price of options and to pay the withholding taxes payable upon the exercise of options or the vesting of restricted shares. The table also shows the aggregate dollar amount of shares that may be repurchased under the Company's existing share repurchase program.

Period		(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1	July 31, 2007	438	\$ 41.01		\$ 91,600,000
August 1	August 31, 2007	152,500	35.67	152,500	86,160,000
September 1	September 30, 2007	145,044	37.55		
Total		297,982	\$ 39.53	152,500	\$ 86,160,000

-
- (1) On October 31, 2005, we announced that our Board of Trustees authorized a program to repurchase up to \$100.0 million of our common shares in the open market or in privately negotiated or other transactions until the end of 2007.

Table of Contents

Item 6. Exhibits.

- 3.1 Amended and Restated Trust Agreement of Pennsylvania Real Estate Investment Trust filed as Exhibit 3.1 to the Current Report on Form 8-K dated July 26, 2007 is incorporated herein by reference.
- 3.2 Amended and Restated Bylaws of Pennsylvania Real Estate Investment Trust filed as Exhibit 3.2 to the Current Report on Form 8-K dated July 26, 2007 is incorporated herein by reference.
- 10.1 Pennsylvania Real Estate Investment Trust 2007-2009 Restricted Share Unit Program (established under the Pennsylvania Real Estate Investment Trust 2003 Equity Incentive Plan), filed as Exhibit 10.2 to the Current Report on Form 8-K/A dated February 21, 2007 is incorporated herein by reference.
- 10.2 Form of Restricted Share Units and Dividend Equivalent Rights Award Agreement, filed as Exhibit 10.3 to the Current Report on Form 8-K/A dated February 21, 2007 is incorporated herein by reference.
- 10.3 Amendment No. 1 to the Pennsylvania Real Estate Investment Trust 2006 - 2008 Restricted Share Unit Program filed as Exhibit 10.1 to the Current Report on Form 8-K dated July 25, 2007 is incorporated herein by reference.
- 10.4 Amendment No. 1 to the Pennsylvania Real Estate Investment Trust 2007 - 2009 Restricted Share Unit Program filed as Exhibit 10.2 to the Current Report on Form 8-K dated July 25, 2007 is incorporated herein by reference.
- 10.5 Form of Amendment to Restricted Share Units and Dividend Equivalent Rights Award Agreement under Pennsylvania Real Estate Investment Trust s 2006 - 2008 and 2007 - 2009 Restricted Share Unit Programs filed as Exhibit 10.3 to the Current Report on Form 8-K dated July 25, 2007 is incorporated herein by reference.
- 31.1* Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

Table of Contents

SIGNATURE OF REGISTRANT

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.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: November 7, 2007

By: /s/ Ronald Rubin
Ronald Rubin
Chief Executive Officer

By: /s/ Robert F. McCadden
Robert F. McCadden
Executive Vice President and Chief Financial Officer

By: /s/ Jonathen Bell
Jonathen Bell
Senior Vice President - Chief Accounting Officer (Principal
Accounting Officer)