

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-K
February 29, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission File No. 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

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Pennsylvania
(State or other jurisdiction)

of incorporation or organization)

23-6216339
(IRS Employer

Identification No.)

The Bellevue

200 South Broad Street

Philadelphia, Pennsylvania
(Address of principal executive offices)
19102
(Zip Code)
Registrant's telephone number, including area code: (215) 875-0700

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
(1) Shares of Beneficial Interest, par value \$1.00 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

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

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

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

The aggregate market value, as of June 30, 2007, of the shares of beneficial interest, par value \$1.00 per share, of the Registrant held by non-affiliates of the Registrant was approximately \$1.58 billion. (Aggregate market value is estimated solely for the purposes of this report and shall not be construed as an admission for the purposes of determining affiliate status.)

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On February 22, 2008, 39,303,617 shares of beneficial interest, par value \$1.00 per share, of the Registrant were outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for its 2008 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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PE NNSYLVANIA REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2007

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Forward Looking Statements

This Annual Report on Form 10-K for the year ended December 31, 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 and political conditions, including credit market conditions, changes in interest rates or the possibility of war or terrorist attacks;

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;

risks relating to development and redevelopment activities, including risks associated with construction and receipt of governmental and tenant approvals;

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 simultaneously manage several redevelopment and development projects, including projects involving mixed use;

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

our short- 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 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.

Definitions

Except as the context otherwise requires, references in this Annual Report on Form 10-K 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 Annual Report on Form 10-K to PREIT Associates refer to PREIT Associates, L.P. References in this Annual Report on Form 10-K to PRI refer to PREIT-RUBIN, Inc., which is a taxable REIT subsidiary of the Company.

The following industry terms used in this Annual Report on Form 10-K have the meanings set forth below:

Anchors: large format retail stores or department stores in malls that serve as anchor tenants.

GLA: gross leasable area of a property, including space leasable to anchors and in-line stores and other leasable space, in square feet.

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In-line stores: rows of smaller stores located in lines between the anchors of a mall. In-line stores are frequently a mix of national, regional and local retailers.

Junior anchors: smaller versions of anchors, typically with 20,000 to 40,000 square feet, with a variety of tenant categories, including sporting goods, discount clothing, electronics, home décor, linens, pet supply, furniture and office supply.

Malls: enclosed, climate-controlled shopping venues that typically offer apparel, accessories and hard goods, as well as services, restaurants, entertainment and convenient parking. References to malls include both regional malls and super-regional malls.

Outparcel: land used for a freestanding development, such as a retail store, bank or restaurant, that is not attached to the main building(s) that comprises the mall or power or strip center.

Owned Square Feet: the portion of Total Square Feet that we own.

Power centers: open air centers with 250,000 to 600,000 square feet of space with three to five non-department store, specialty anchors.

Regional malls: malls that have more than 400,000 but less than 800,000 square feet of space.

REITs: real estate investment trusts.

Strip centers: open air centers, including neighborhood and community centers, with more than 30,000 but less than 150,000 square feet of space and a line of stores.

Super-regional malls: malls that have more than 800,000 square feet of space.

Total Square Feet: the total retail space in a property, including anchors, in-line stores and outparcels.

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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 eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 55 properties. Our portfolio contains 51 retail properties in 13 states and includes 38 shopping malls and 13 power and strip centers. The retail properties have a total of approximately 34.2 million square feet. The retail properties we consolidate for financial reporting purposes have a total of approximately 29.7 million square feet, of which we own approximately 23.3 million square feet. Our retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.5 million square feet, of which 2.9 million square feet are owned by such partnerships. The ground-up development portion of our portfolio contains four properties in two states, with two classified as mixed use (a combination of retail and other uses), one classified as retail and one classified as other.

We are a fully integrated, self-managed and self-administered REIT that has elected to be treated as a REIT for federal income tax purposes. We are required each year to distribute to our shareholders at least 90% of our net taxable income and to meet certain other requirements in order to maintain the favorable tax treatment associated with qualifying as a REIT.

OWNERSHIP STRUCTURE

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates, L.P. We are the sole general partner of PREIT Associates and, as of December 31, 2007, held a 94.6% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We own our interests in our properties through various ownership structures, including partnerships or tenancy in common arrangements (collectively, partnerships). PREIT owns interests in some of these properties directly and has pledged the entire economic benefit of ownership to PREIT Associates. PREIT Associates' direct or indirect economic interest in the balance of the properties ranges from 40% to 50% (for eight partnership properties) up to 100%. See Item 2. Properties - Retail Properties.

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

RECENT DEVELOPMENTS**Redevelopment**

In 2007 and 2006, we substantially completed redevelopment projects at malls which, taken together, constitute approximately 38% of the total GLA that we own. We also made significant progress in the continuing redevelopment projects at several of the other malls in our portfolio, including three of our largest projects: Cherry Hill Mall in Cherry Hill, New Jersey, Plymouth Meeting Mall in Plymouth Meeting, Pennsylvania and Voorhees Town Center in Voorhees, New Jersey. We expect to continue to selectively engage in redevelopment projects at our mall properties in the future. These projects might include the introduction of residential, office or other uses to our properties.

The following table sets forth the amount of our intended investment and amount invested as of December 31, 2007 for each on-going redevelopment project:

Redevelopment Project	Estimated Project Cost	Invested as of December 31, 2007
Cherry Hill Mall	\$ 197.7 million	\$ 56.7 million

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Plymouth Meeting Mall	83.9 million	39.8 million
Willow Grove Park	39.1 million	32.2 million
Voorhees Town Center	79.3 million	27.6 million
North Hanover Mall	35.1 million	22.4 million
Lehigh Valley Mall ⁽¹⁾	22.2 million	19.5 million
Moorestown Mall	13.7 million	5.9 million
Jacksonville Mall	8.3 million	3.5 million
		\$ 207.6 million

- ⁽¹⁾ The property is unconsolidated. The amounts shown represent our share. The redevelopment project at this property was substantially completed in the fourth quarter of 2007.

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Redevelopment projects were completed in 2007 and 2006 at the following properties:

Mall	Location
Capital City Mall	Camp Hill, PA
Patrick Henry Mall	Newport News, VA
Cumberland Mall	Vineland, NJ
Lycoming Mall	Pennsdale, PA
Francis Scott Key Mall	Frederick, MD
Valley View Mall	La Crosse, WI
Mall at Prince Georges	Hyattsville, MD
Viewmont Mall	Scranton, PA
Wyoming Valley Mall	Wilkes-Barre, PA
Beaver Valley Mall	Monaca, PA
Magnolia Mall	Florence, SC
New River Valley Mall	Christiansburg, VA
Lehigh Valley Mall ⁽¹⁾	Allentown, PA

⁽¹⁾ The property is unconsolidated. The redevelopment project at this property was substantially completed in the fourth quarter of 2007.

Development

During 2007, we were under construction at the following development projects: Monroe Marketplace in Selingsgrove, Pennsylvania, New River Valley Center in Christiansburg, Virginia, and Sunrise Plaza (formerly Lacey Retail Center), in Forked River, New Jersey. We also have some projects that continue to be in earlier stages of the development process, including New Garden Town Center in New Garden Township, Pennsylvania, Pavilion at Market East in Philadelphia, Pennsylvania and Springhills in Gainesville, Florida. As of December 31, 2007, we had incurred \$152.2 million of costs related to these projects. The costs identified to date to complete these ground-up projects are expected to be \$231.3 million in the aggregate (including costs already incurred), excluding the Springhills and Pavilion at Market East projects, because details of those projects and the related costs have not been determined.

The following table sets forth the amount of our intended investment and amounts invested as of December 31, 2007 in each ground-up development project:

Development Project	Estimated Project Cost	Invested as of December 31, 2007	Actual/Expected Initial Occupancy Date
Operating Properties:			
New River Valley Center	\$ 29.2 million	\$ 26.5 million	2007
Sunrise Plaza (previously identified as Lacey Retail Center)	39.1 million	32.5 million	2007
Development Properties:			
Monroe Marketplace	80.9 million	23.6 million	2008
New Garden Town Center	82.1 million	38.8 million	2009
Springhills	To be determined	29.4 million	To be determined
Pavilion at Market East ⁽¹⁾	To be determined	1.4 million	To be determined
		\$ 152.2 million	

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

We also revised our 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 amendment, we waived and terminated our rights to purchase the property contemplated for the racetrack and casino or to purchase an alternative location, and our right to ground lease the site to Valley View. In consideration of our waiver and termination, Valley View, Centaur or an affiliate of either that receives the alternative gaming license for which it applied will pay us \$57.0 million over nine years, payable in installments from 2010 until 2019. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions, Dispositions, Redevelopment, and Development Activities. 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 over approximately two years.

Acquisitions

In August 2007, we purchased a 116 acre land parcel in Monroe Township, Pennsylvania for \$5.5 million. This property, which we named Monroe Marketplace, is currently under development.

In August 2007, we purchased Plymouth Commons, a 60,000 square foot office building adjacent to the Plymouth Meeting Mall, for \$9.2 million.

Financing and Capital Markets Activity

Exchangeable Senior Notes

In May 2007, we, through PREIT Associates, 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 capped call transactions related to the issuance of the notes, 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 payments are due on June 1 and December 1 of each year, began on December 1, 2007 and will continue until the maturity date of June 1, 2012. PREIT Associates' obligations under the notes are fully and unconditionally guaranteed by us.

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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 above the principal amount of the notes, at our option, for cash, our common shares 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, PREIT Associates may not redeem the notes except to preserve our status as a REIT. 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, and there is a mechanism for holders to receive any excess exchange value.

In connection with the offering of the notes, we and PREIT Associates 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 per share.

Preferred Share Redemption

On July 31, 2007, we redeemed all of our 11% non-convertible senior preferred shares for \$129.9 million, or \$52.50 per preferred share plus accrued and unpaid dividends to the redemption date of \$1.9 million. The preferred shares were issued in November 2003 in connection with our 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, we borrowed \$131.8 million under our Credit Facility.

Mortgage Activity

In May 2007, we 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 our borrowings under the Credit Facility. We repaid the previous mortgage on the Mall at Prince Georges of \$40.2 million in March 2007 using funds borrowed from our Credit Facility and available working capital.

Credit Facility Amendment

In February 2007, we entered into an amendment to our Credit Facility that added PRI as a borrower and modified certain of the financial covenants in the Credit Facility as follows: (a) decreased the minimum ratio of EBITDA to Interest Expense to 1.70:1, from 1.80:1; (b) decreased the minimum ratio of Adjusted EBITDA to Fixed Charges to 1.40:1, from 1.50:1, for periods ending on or before December 31, 2008, after which time the ratio will return to 1.50:1; and (c) decreased the minimum ratio of EBITDA to Indebtedness to 0.0975:1, from 0.115:1, for periods ending on or before December 31, 2008, after which time the ratio will be 0.1025:1.

Dispositions

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

In May 2007, we sold an outparcel and related land improvements at Plaza at Magnolia in Florence, South Carolina for \$11.3 million. We recorded a \$1.5 million gain on the sale.

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

In August 2007, we sold undeveloped land adjacent to Wiregrass Commons Mall in Dothan, Alabama for \$2.1 million. We recorded a \$0.3 million gain on the sale.

In December 2007, we sold undeveloped land in Monroe Township, Pennsylvania for \$0.8 million to Target Corporation. There was no gain or loss recorded on the sale.

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Our primary investment focus is retail shopping malls and power and strip centers. The International Council of Shopping Centers, a retail real estate industry trade group, generally classifies properties based on their size and on the way they are characterized by their owners as follows:

Type of Center	Concept	Square Feet (including Anchors)		Typical Anchor(s)
MALLS				
Regional	General merchandise; fashion (typically enclosed)	400,000	800,000	Full-line department store; Jr. department store; mass merchant; discount department store; fashion apparel
Super Regional	Similar to regional center but has more variety and assortment	800,000+		Full-line department store; Jr. department store; mass merchant; fashion apparel
OPEN AIR CENTERS				
Neighborhood Center	Convenience	30,000	150,000	Supermarket
Community Center	General merchandise; convenience	100,000	350,000	Discount department store; supermarket; drug; home improvement; large specialty/discount apparel
Lifestyle Center	Upscale national chain specialty stores; dining and entertainment in outdoor setting	Typically 150,000 to 500,000		Not usually anchored in the traditional sense but may include book store; other large format specialty retailers; multiplex cinema; small department store
Power Center	Category-dominant anchors; few small tenants	250,000	600,000	Category killer; home improvement; discount department store; warehouse club; off-price
Theme/Festival Center	Leisure; tourist-oriented; retail and service	80,000	250,000	Restaurants; entertainment
Outlet Center	Manufacturers outlet stores	50,000	400,000	Manufacturers outlet stores

Source: International Council of Shopping Centers

Malls are often tailored to the economy and demographics of their trade areas, and mall managers employ corresponding strategies in determining the mix of tenants, the merchandise offered and the related general price point. Usually, there are two or more anchors in regional malls. Super regional malls often have three or more anchor tenants. The anchors serve as one of the main draws to the mall, and are usually situated at the ends of the rows of smaller in-line stores.

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CLASSIFICATION OF MALLS BY SALES PER SQUARE FOOT

Retail real estate industry participants sometimes classify malls based on the average sales per square foot of in-line mall tenants, the population and average household income of the trade area and the geographic market, the growth rates of the population and average household income in the trade area and geographic market, and numerous other factors. Based on these factors, in general, malls that have a high average sales per square foot and are in trade areas with large populations and high household incomes and/or growth rates are considered Class A malls, malls with average sales that are in the middle range of population or household income and/or growth rates are considered Class B malls, and malls with lower average sales and smaller populations and lower household incomes and/or growth rates are considered Class C malls. Although these classifications are defined differently by different market participants, in general, some of our malls are in the Class A range and many might currently be classified as Class B or Class C properties. The classification of a mall can change, and one of the goals of our redevelopments of our malls is to increase the average sales per square foot of the properties and thus potentially its Class, and correspondingly its rental income and cash flows, in order to maximize the value of the property.

PREIT'S BUSINESS

We are primarily engaged in the ownership, management, development, redevelopment, acquisition and leasing of retail shopping malls and power and strip centers. Many of our malls and centers are located in middle markets, as determined by various population and demographic measures, in the eastern half of the United States, primarily in the Mid-Atlantic region.

Our operating real estate portfolio currently consists of 38 shopping malls and 13 power and strip centers in 13 states. The retail properties have a total of approximately 34.2 million square feet, of which we and partnerships in which we own an interest own approximately 26.2 million square feet. See Item 2. Properties.

In general, our malls include national or regional department stores, large format retailers or other anchors and a diverse mix of national, regional and local in-line stores offering apparel (women's, family, teen), shoes, eyewear, cards and gifts, jewelry, books/music/movies and sporting goods, among other things. To optimize the experience for shoppers, most of our malls have restaurants and/or food courts and convenient parking and some of the malls have multi-screen movie theaters and other entertainment options. In addition, many of our malls also have restaurants, banks or other stores located on outparcels around the perimeter of the mall property. Our malls frequently serve as a type of town square: a central place for community, promotional and charitable events.

The largest mall in our retail portfolio, excluding the two individual components of The Gallery at Market East in Philadelphia, Pennsylvania, contains approximately 1.2 million square feet and 115 stores, and the smallest contains approximately 0.4 million square feet and 54 stores. The power centers in our retail portfolio range from 140,000 to 780,000 square feet, while the strip centers range from 230,000 square feet to 275,000 square feet.

We derive the substantial majority of our revenue from rent received under leases with tenants for space at retail properties in our real estate portfolio. In general, our leases require tenants to pay base rent, which is a fixed amount specified in the lease, and which is often subject to scheduled increases during the term of the lease. In addition or in the alternative, certain tenants are required to pay percentage rent, which can be either a percentage of their sales revenue that exceeds certain levels specified in their lease agreements, or a percentage of their total sales revenue. Also, our leases generally provide that the tenant will reimburse us for certain expenses for common area maintenance (CAM), real estate taxes, utilities, insurance and other operating expenses incurred in the operation of the retail properties. The proportion of the expenses for which tenants are responsible is generally related to the tenant's pro rata share of space at the property. In-line stores typically generate a majority of the revenue of a mall, with a relatively small proportion coming from anchor tenants and junior anchors or large format retailers.

BUSINESS STRATEGY

Our primary objective is to maximize the long term value of the Company for our shareholders. To that end, our business goals are to obtain the highest possible rental income, tenant sales and occupancy at our properties in order to maximize our cash flows, funds from operations, funds available for distribution to shareholders, and other operating measures and results, and ultimately to maximize the values of our properties. To achieve these goals, our strategies are to:

Increase the potential value of properties in our portfolio by redeveloping them. If we believe that a property is not achieving its potential, we engage in a focused leasing effort in order to increase the property's performance. If we believe the property has the potential to support a more significant redevelopment project, we consider a formal redevelopment plan. Our

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redevelopment efforts are intended to increase the value of the property, and might include mixed uses. Our redevelopments are designed to increase customer traffic and attract retailers, which can, in turn, lead to increases in sales, occupancy levels and rental rates. Our efforts to maximize a property's potential can also serve to maintain or improve that property's competitive position.

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Actively manage and aggressively lease and market the properties in our portfolio. We intensely manage our properties in an effort to maximize and maintain occupancy and optimize the mix of tenants and thereby attract customers and increase sales by mall tenants. Sales gains can increase tenant satisfaction and make our properties attractive to our tenants and prospective tenants, which can increase the rent we receive from our properties.

Pursue ground-up development of additional retail and mixed use projects that we expect can meet the financial hurdles we apply, given economic, market and other circumstances. We seek to leverage our skill sets in site selection, entitlement and planning, cost estimation and project management to develop new retail and mixed use properties in trade areas that we believe have sufficient demand for those properties to generate cash flows that meet the financial thresholds we establish in the given environment.

Acquire, in an opportunistic and disciplined manner, additional properties or portfolios of properties that meet the investment criteria we apply, given economic, market and other circumstances. We seek to selectively acquire properties that are well-located and that we believe have strong potential for increased cash flows and appreciation in value if we apply our skills in leasing, asset management and redevelopment to the property.

Regularly review our portfolio of properties and, if appropriate, dispose of properties that we do not believe meet the financial or strategic criteria we apply, given economic, market and other circumstances. Disposing of such properties can enable us to redeploy our capital to other uses, such as to repay debt, to reinvest in other real estate assets and development and redevelopment projects and for other corporate purposes.

Redevelopment

We aim to increase the potential value of properties in our portfolio and to maintain or enhance their competitive positions by redeveloping them in order to attract more customers and retailers, leading to increases in sales, occupancy and rental rates. We believe that several properties in our portfolio present opportunities for creating value through redevelopment.

The tactics we use in our efforts to increase the potential value of properties include:

remurchandising the tenant mix to capitalize on the economy and demographics of the property's trade area;

creating a diversified anchor mix including fashion, value-oriented and traditional department stores;

attracting non-traditional junior anchors and mall tenants to draw more customers to the property;

generating synergy by introducing lifestyle components to mall properties; and

redirecting traffic flow and creating additional space for in-line stores by relocating food courts.

We subject each of our properties to a rigorous assessment of its merchandising potential, which has included an analysis of the property's trade area and its existing tenants and merchandise offerings. For some of our properties located in middle markets, these assessments have indicated that there is local consumer demand for the lower price point merchandise that is available from certain large format retailers. The combination of consumer demand for this merchandise, the merchants' need for additional locations and our interest in generating customer traffic at our properties, albeit at rent that is below rent paid by in-line stores, have led us to include these large format retailers in many of our redevelopment plans.

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We are currently involved in the redevelopment of seven of our consolidated properties and one unconsolidated property, and we expect to engage in additional redevelopment projects in the future. As of December 31, 2007, we have invested \$207.6 million in these eight projects. Currently, we intend to invest an additional \$271.7 million to complete these projects. These projects might include the introduction of residential, office or other uses to our properties in an effort to maximize the value of our properties. For information regarding project investment to date and expected costs for each project, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Acquisitions, Dispositions, Redevelopment and Development Activities Development and Redevelopment.

Redevelopments are frequently a significant undertaking, involving many of the same steps and requiring many of the same skills as new development or new construction. These steps and skills might include site planning, architectural design, engineering, interior design, acquiring adjacent land or properties, obtaining zoning and other approvals and permits, addressing requirements for additional parking, obtaining existing anchor approvals and relocating anchors and other mall tenants. The redevelopment of a particular property might involve construction of new interior space,

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renovation of existing interior space, updating interior décor and lighting, installing new floor coverings, changing or replacing facades, adding or relocating entrances, incorporating updated and consistent signage, resurfacing parking lots, improving exterior lighting and renaming the property. We strive to work closely with tenants to enhance their merchandising opportunities at our properties. While we make every effort to keep the length of the redevelopment projects to a minimum, in general, because of the numerous variables, including the process of obtaining necessary approvals and permits, the time needed to complete redevelopment projects is unpredictable.

An important aspect of a redevelopment project is its effect on the rest of the property and on the tenants and customers during the time that a redevelopment is taking place. 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 sales, occupancy and net operating income, might be negatively affected. Tenants might be relocated or leave as space for the redevelopment is aggregated, which affects tenant sales and rental rates. Some space at a property might be taken out of retail use during the redevelopment, and some space might only be made available for short periods of time pending scheduled renovation or because the space cannot be subject to a long term lease until the redevelopment is complete. We manage the use of this space throughout the course of a redevelopment project through our specialty leasing function, which manages the short term leasing of stores and the licensing of income-generating carts and kiosks, with the goal of maximizing the rent we receive during the period of active redevelopment.

Redevelopments of existing malls are often welcomed by the local community and the local government (in contrast to ground-up development projects, which necessarily involve more significant change to the existing landscape, and consequently the potential for opposition). Malls tend to be significant generators of tax revenue and local employment, and communities often support efforts to revitalize and refurbish existing properties where these efforts are intended to make the malls more attractive and to draw more shoppers, tenants and employees. This is particularly true in the middle markets where many of our malls are located. Also, failing to take steps to redevelop a mall that is an engine of the local economy can put financial pressure on a municipality or region. We believe that it is, in part, for these reasons that our significant redevelopment projects at Cherry Hill Mall and Voorhees Town Center, both of which are located in southern New Jersey, have been welcomed by local government officials in their respective jurisdictions.

Asset Management, Leasing, Marketing and Operations

We conduct intense asset management of our properties in an effort to maximize and maintain occupancy and optimize the mix of tenants in order to attract customers and increase sales by mall tenants. We engage in active merchandising programs and coordinated marketing activities designed to promote our properties as magnet centers. Our on-site teams continuously monitor the local market and community, and work with our corporate office asset management, leasing and marketing professionals to evaluate and adjust the tenant mix in pursuit of the optimal match of tenants to the trade area and the ideal configuration and allocation of space. As part of these efforts, if appropriate, we might relocate tenants to better-suited space or terminate the leases of underperforming tenants.

As an integral part of our management, we also expend considerable effort on generating ancillary revenue, such as through marketing partnerships, and on controlling operating costs and expenses in an effort to contain tenant operating costs.

In addition to owning, managing and developing our own properties, as of December 31, 2007, we also provided management, leasing and development services to affiliated and third-party property owners with respect to ten retail properties containing approximately 1.4 million square feet and two office buildings containing approximately 0.4 million square feet.

Development

We pursue ground up development of retail and mixed use properties that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. We generally seek to develop retail projects in areas that we believe evidence the likelihood of supporting additional retail development and that have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We will consider other uses of a property that would have synergies with our retail development based on several factors, including local demographics, market demand for other uses such as residential and office, and applicable land use regulations. We generally have several development projects under way at one time. These projects are typically 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. For a list of our on-going development projects, see [Recent Developments](#) [Development](#).

Although we have previously developed properties that have proven successful, we cannot assure you that any of our current projects will be as successful as any of these previously developed properties, or that they will be successful at all, which could have a negative effect on our operating results. We also cannot assure you that any projects that we begin will ultimately be completed. If we determine not to proceed with a

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project or otherwise become required to accelerate the expensing of development costs, there will be a negative effect on our results of operations. For information regarding aggregate project investment to date and expected costs, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions, Dispositions, Redevelopment and Development Activities Development and Redevelopment.

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Acquisitions

We seek to acquire well-located retail properties, with strong prospects for future cash flow growth and capital appreciation that meet the investment criteria we apply, given economic, market and other circumstances, particularly where we believe our management and leasing capabilities can enhance the value of these properties.

When evaluating acquisitions, we conduct a detailed analysis of the geographic market and the demographic characteristics of the area surrounding the property, the property itself and other factors. If a property substantially meets the investment criteria we apply, given economic, market and other circumstances, we will pursue it further if we believe we are well positioned to compete for it. We believe we have positive working relationships with many industry participants, including prospective sellers, buyers and financing sources, which enable us to become aware of opportunities and to act quickly. We expect to fund property or portfolio acquisitions and expenses associated with acquisitions through long term secured and unsecured indebtedness, including our Credit Facility, and the issuance of additional securities, including under our \$500.0 million universal shelf registration statement. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

We also seek to acquire additional parcels or properties that are included within, or adjacent to, the properties already in our portfolio in order to gain greater control over the merchandising and tenant mix of a property.

Dispositions

We regularly conduct portfolio property reviews and, if appropriate, we dispose of properties that we do not believe meet the financial and strategic criteria we apply, given economic, market and other circumstances. Disposing of these properties can enable us to redeploy our capital to other uses, such as to repay debt, to reinvest in other real estate assets and development and redevelopment projects and for other corporate purposes. For a description of our recent dispositions, see Recent Developments Dispositions.

CAPITAL STRATEGY

In support of the strategies described above, our corporate finance objective is to optimize the cost of the capital we employ to fund our operations. In pursuit of this objective and for other business reasons, we seek the broadest range of funding sources (including commercial banks, institutional lenders, equity investors and joint venture partners) and funding vehicles (including mortgages, commercial loans and debt and equity securities) available to us on the most favorable terms. We pursue this goal by maintaining relationships with various capital sources and utilizing a variety of financing instruments, enhancing our flexibility to execute our business strategy in different economic environments or at different points in the business cycle.

In determining the amount and type of debt capital to employ in our business, we consider general economic conditions, prevailing and forecasted interest rates for various debt instruments, the cost of equity capital, property values, capitalization rates for mall properties, our financing needs for redevelopment, development and acquisition opportunities, the debt ratios of other mall REITs and publicly-traded real estate companies, and the requirement under federal tax laws for REITs to distribute at least 90% of net taxable income, among other factors. Our ability to increase our debt ratio is limited by our Credit Facility, which contains covenants that limit the amount of our secured indebtedness to 60% of Gross Asset Value (as defined in the Credit Facility agreement), and the amount of total liabilities to 65% of Gross Asset Value.

Based on prevailing conditions in the real estate capital markets, we have attempted to concentrate our secured indebtedness on a limited number of our larger, more stable properties, and expect to continue to do so as opportunities arise. We do so in an effort to maximize our borrowing capacity under our Credit Facility and to minimize our borrowing costs. The fixed rate mortgage obtained in 2007 generated excess proceeds that we used to repay amounts outstanding under our Credit Facility, giving us some replenished availability, and for working capital.

Executing this strategy has also enabled us to leave a number of our other properties unencumbered. As we concentrate our secured debt on a limited number of properties, the cash flow from these unencumbered assets will, we believe, enhance our financial position from the point of view of unsecured creditors. We intend to consider all of our available options for accessing the capital markets in pursuit of our objective of optimizing our overall cost of capital.

Another aspect of our approach to debt financing is that we strive to lengthen and stagger the maturities of our debt obligations in order to better manage our capital requirements. Also, in connection with our redevelopment and development projects, we expect to utilize Credit Facility borrowings or other short-term financings during the construction phase, and then we might seek longer-term, fixed rate mortgages when the project is complete and the property has stabilized.

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We expect that our use of debt to fund investments in current redevelopment and development projects will peak in the second half of 2008 or the first half of 2009, ahead of the time that such redevelopment and development assets will generate significant cash flows. Additional debt could lead to debt ratios that approach or exceed the ratios permitted by our Credit Facility. We are pursuing several alternatives that would enable us to avoid exceeding the permitted debt ratios, including refinancing our \$400.0 million, 15 property real estate mortgage investment conduit (REMIC) with General Electric Capital Corporation, which becomes prepayable without penalty in July 2008, and encumbering or disposing of certain properties currently in the REMIC; deferring selected capital expenditures; revising the terms of the Credit Facility debt covenants; issuing equity; or a combination of some or all of these alternatives.

The United States credit markets have recently experienced significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially affected liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing.

We will consider accessing equity capital at such times as we deem appropriate in light of all the circumstances at the time. To facilitate our access to public equity, we filed a shelf registration statement with the Securities and Exchange Commission in 2003.

We might seek to raise capital through selective sales of assets. In addition, 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 the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest-bearing liabilities. We attempt to limit these risks by following established risk management policies, procedures and strategies, including the use of financial instruments. 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 our underlying exposure.

COMPETITION

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.

The main criteria used by retailers in deciding where to locate include local trade area demographics, the property location, the attractiveness of the store location and the overall property, the rental rate, the total number of stores in the area and their geographic spread, the type and mix of other retailers at the property, and the management and operational skill of the landlord. Applying these criteria to our properties, we believe that several of our properties are located in submarkets or local trade areas with demographics that are favorable for retailers, that our significant redevelopment program is intended to make the properties being redeveloped more attractive and that the middle markets where several of our properties are located are not overly saturated with retailers.

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 capital improvements undertaken individually or collectively involve costs and expenses that could adversely affect our results of operations.

In addition, 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 competing for suitable investment properties or desirable development sites has increased and might continue to increase, resulting in increased demand for these assets and therefore increased prices paid for them.

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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.

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ENVIRONMENTAL

Under various federal, state and local laws, ordinances, regulations and case law, an owner, former owner or operator of real estate might be liable for the costs of removal or remediation of hazardous or toxic substances present at, on, under, in or released from its property, regardless of whether the owner, operator or other responsible party knew of or was at fault for the release or presence of hazardous or toxic substances. The responsible party also might be liable to the government or to third parties for substantial property damage, investigation costs or clean up costs. Even if more than one person might have been responsible for the contamination, each person covered by the environmental laws might be held responsible for all of the clean-up costs incurred. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. Contamination might adversely affect the owner's ability to sell or lease real estate or borrow with real estate as collateral. In connection with our ownership, operation, management, development and redevelopment of properties, or any other properties we acquire in the future, we might be liable under these laws and might incur costs in responding to these liabilities.

We are aware of certain environmental matters at some of our properties. We have, in the past, investigated and, where appropriate, performed remediation of such environmental matters, but we might be required in the future to perform testing relating to these matters and further remediation might be required, or we might incur liability as a result of such environmental matters. Environmental matters at our properties include the following:

Asbestos. Asbestos-containing materials are present in a number of our properties, primarily in the form of floor tiles, mastics, roofing materials and adhesives. Fire-proofing material containing asbestos is present at some of our properties in limited concentrations or in limited areas. Under applicable laws and practices, asbestos-containing materials in good, non-friable condition are allowed to be present, although removal might be required in certain circumstances. In particular, in the course of any redevelopment, renovation, construction or build out of tenant space, asbestos-containing materials are generally removed.

Underground and Above Ground Storage Tanks. Underground and above ground storage tanks are or were present at some of our properties. These tanks were used to store waste oils or other petroleum products primarily related to the operation of automobile service center establishments at those properties. In some cases, the underground storage tanks have been abandoned in place, filled in with inert materials or removed and replaced with above ground tanks. Some of these tanks might have leaked into the soil, leading to ground water and soil contamination. Where leakage has occurred, we might incur investigation, remediation and monitoring costs if responsible current or former tenants, or other responsible parties, are unavailable to pay such costs.

Ground water and soil contamination. Groundwater contamination has been found at some properties in which we currently or formerly had an interest. At some properties, dry cleaning operations, which might have used solvents, contributed to groundwater and soil contamination.

Two malls also contain wastewater treatment facilities that treat wastewater at the malls before discharge into local streams. Operation of these facilities is subject to federal and state regulation.

Each of our retail properties has been subjected to a Phase I or similar environmental audit (which involves a visual property inspection and a review of records, but not soil sampling or ground water analysis) by environmental consultants. These audits have not revealed, and we are not aware of, any environmental liability that we believe would have a material adverse effect on our results of operations. It is possible, however, that there are material environmental liabilities of which we are unaware. Also, we cannot assure you that future laws will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of our tenants, by the existing condition of the land, by operations in the vicinity of the properties (such as the presence of underground storage tanks) or by the activities of unrelated third parties.

We have environmental liability insurance coverage for the types of environmental liabilities described above, which currently covers liability for pollution and on-site remediation of up to \$5.0 million per occurrence and \$5.0 million in the aggregate. We cannot assure you that this coverage will be adequate to cover future environmental liabilities. If this environmental coverage were inadequate, we would be obligated to fund those liabilities. We might be unable to continue to obtain insurance for environmental matters, at a reasonable cost or at all, in the future.

In addition to the costs of remediation, we might incur additional costs to comply with federal, state and local laws relating to environmental protection and human health and safety generally. There are also various federal, state and local fire, health, life-safety and similar regulations that might be applicable to our operations and that might subject us to liability in the form of fines or damages for noncompliance.

EMPLOYEES

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We had an aggregate of approximately 805 employees at our properties and in our corporate office as of December 31, 2007. None of our employees are represented by a labor union.

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INSURANCE

We have comprehensive liability, fire, flood, terrorism, extended coverage and rental loss insurance that we believe is adequate and consistent with the level of coverage that is standard in our industry. We cannot assure you, however, that our insurance coverage will be adequate to protect against a loss of our invested capital or anticipated profits, or that we will be able to obtain adequate coverage at a reasonable cost in the future.

STATUS AS A REIT

We conduct our operations in a manner intended to maintain our qualification as a REIT under the Internal Revenue Code of 1986. Generally, as a REIT, we will not be subject to federal or state income taxes on our net taxable income that we currently distribute to our shareholders. Our qualification and taxation as a REIT depend on our ability to meet various qualification tests (including dividend distribution, asset ownership and income tests) and certain share ownership requirements prescribed in the Internal Revenue Code.

CORPORATE HEADQUARTERS

Our principal executive offices are located at The Bellevue, 200 South Broad Street, Philadelphia, Pennsylvania 19102.

SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of a portion of rent based on a percentage of a tenant's sales revenue over certain levels. Income from such rent 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 there is a higher concentration of tenants vacating their space early in the year. As a result, our occupancy and cash flow 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 has resulted and is expected to continue to result in a greater percentage of our cash flows being received in the fourth quarter.

AVAILABLE INFORMATION

We maintain a website with the address www.preit.com. We are not including or incorporating by reference the information contained on our website into this report. We make available on our website, free of charge and as soon as practicable after filing with the SEC, copies of our most recently filed Annual Report on Form 10-K, all Quarterly Reports on Form 10-Q and all Current Reports on Form 8-K filed during each year, including all amendments to these reports. In addition, copies of our corporate governance guidelines, codes of business conduct and ethics (which include the code of ethics applicable to our chief executive officer, principal financial officer and principal accounting officer) and the governing charters for the audit, nominating and governance, and compensation committees of our Board of Trustees are available free of charge on our website, as well as in print to any shareholder upon request. We intend to comply with the requirements of Item 5.05 of Form 8-K regarding amendments to and waivers under the code of business conduct and ethics applicable to our chief executive officer, principal financial officer and principal accounting officer by providing such information on our website within four days after effecting any amendment to or granting any waiver under the code, and we will maintain such information on our website for at least twelve months.

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ITEM 1A. RISK FACTORS.

RISKS RELATED TO OUR BUSINESS AND OUR PROPERTIES

Our investments in redeveloping older properties and developing new properties could be subject to higher costs, delays or other risks and might not yield the returns we anticipate, which would harm our operating results and financial condition.

As a key component of our growth strategy, we plan to continue to redevelop existing properties and develop new properties, and we might develop or redevelop other projects as opportunities arise. Some of our retail properties were constructed or last renovated more than 10 years ago. Older, unrenovated properties might generate lower rent and might require significant expense for maintenance or renovations to maintain competitiveness, which could harm our results of operations. As of December 31, 2007, we were engaged in the redevelopment of seven consolidated mall properties and the development of four development properties and two operating properties with ongoing development activities. To the extent we continue current redevelopment or development projects or enter into new redevelopment or development projects, they will be subject to a number of risks that could negatively affect our return on investment, financial condition, results of operations and our ability to make distributions to shareholders, including, among others:

inability to reach projected occupancy, rental rates, profitability, and investment return;

higher than estimated construction costs or financing costs, cost overruns and timing delays due to lack of availability of materials and labor, weather conditions, environmental requirements and other factors outside our control, which might make a project unprofitable;

inability to obtain, or delays in obtaining, required zoning, occupancy and other governmental approvals;

inability to obtain, or to obtain on favorable terms, anchor tenant, mortgage lender, in-line tenant, joint venture partner or other property partner approvals, if applicable, for redevelopments (particularly, in the case of anchor tenants, in light of management changes following mergers and other reorganizations and of limited management resources);

inability to obtain permanent financing upon completion of development or redevelopment activities or to refinance construction loans, which are generally recourse to us; and

expenditure of money and time on projects that might be significantly delayed or might never be completed.

We might elect not to proceed with certain development projects. In general, the expensing of development costs for abandoned development projects will be accelerated to the then-current period. The accelerated recognition of these expenses could have a material adverse effect on our results of operations for the period in which the expenses are recognized.

In the event of an unsuccessful development project, our loss could exceed our investment in the project.

We might be unable to manage effectively our simultaneous redevelopment projects and our new development projects, including any proposed mixed use projects, which could affect our financial condition and results of operations.

We are currently engaged in the simultaneous redevelopment, to varying degrees, of several of our mall properties, as well as a number of new development projects. The complex nature of these redevelopment and development projects calls for substantial management time, attention and skill. We might not have sufficient management resources to effectively manage our current redevelopment and development projects simultaneously, which might delay or inhibit the successful completion of these projects. Also, some of our redevelopment and development projects currently or in the future might involve mixed uses of the properties, including residential, office, and other uses. We might not have all of the necessary or desirable skill sets to manage such projects. The lack of sufficient management resources, or of the necessary skill sets to execute our plans, could prevent us from realizing our expectations with respect to these projects and could adversely affect our results of

operations and financial condition.

There is a concentration of our retail properties in the Eastern United States, particularly in the Mid-Atlantic region, and adverse market conditions in that region might affect the ability of our tenants to make lease payments and the interest of prospective tenants to enter into leases, which might reduce the amount of income generated by our properties.

Our retail properties currently are concentrated in the Eastern United States, particularly in the Mid-Atlantic region, including several properties in the Philadelphia, Pennsylvania area. To the extent adverse conditions affecting retail properties, such as economic conditions, population trends and changing demographics, availability and costs of financing, construction costs, income, sales and property tax laws, and weather conditions, are particularly adverse in Pennsylvania or in the

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Mid-Atlantic region, our results of operations will be affected to a greater degree than companies that do not have a concentration in this region. If the sales of stores operating at our properties were to decline significantly due to adverse conditions, the risk that our tenants, including anchors, will be unable to fulfill the terms of their leases to pay rent or will enter into bankruptcy might increase. Furthermore, such adverse conditions might affect the likelihood or timing of lease commitments by new tenants or lease renewals by existing tenants as such parties delay their leasing decisions in order to obtain the most current information about trends in their businesses or industries. If, as a result of prolonged adverse regional conditions, occupancy at our properties decreases or our properties do not generate sufficient income to meet our operating and other expenses, including debt service, our financial position, results of operations, cash flow and ability to make capital expenditures and distributions to shareholders would be adversely affected.

Changes in the retail industry, particularly among retailers that serve as anchor tenants, could adversely affect our results of operations.

The income we generate from our retail properties depends in part on the ability of our anchor tenants to attract customers to our properties. The ability of anchor tenants to attract customers to a property has a significant effect on the ability of the property to attract in-line tenants and, consequently, on the revenue generated by the property. In recent years, the retail industry and retailers that serve as anchor tenants have experienced or are currently experiencing operational changes, consolidation and other ownership changes. In 2005, Federated Department Stores, Inc., operator of stores including Bloomingdale's and Macy's, acquired The May Department Stores Company, operator of stores including Marshall Field's, Filene's, Hecht's and Strawbridge's. Sears, Roebuck & Co. and K-mart Holding Corporation also merged in 2005. In 2006, Belk acquired Parisian. These combinations are expected to offer these companies even greater economies of scale, increasing their leverage with suppliers, including landlords, and enabling them to be more efficient. These transactions and any similar transactions in the future might result in the restructuring of these companies, which could include closures or sales of anchor stores operated by them. Federated closed some of its stores at properties where it now operates two or more stores. In particular, Federated closed the Strawbridge's stores it owns at the following malls in our portfolio: Cherry Hill, Lehigh Valley, Springfield, Willow Grove Park and The Gallery at Market East. The closure of an anchor store or a large number of anchor stores might have a negative effect on a property. In addition, for anchors that lease their space, the loss of any rental payments from an anchor, a lease termination by an anchor for any reason, a failure by that anchor to occupy the premises, or any other cessation of operations by an anchor could result in lease terminations or reductions in rent by other tenants of the same property whose leases permit cancellation or rent reduction if an anchor's lease is terminated or it otherwise ceases occupancy or operations. In that event, we might be unable to re-lease the vacated space in a timely manner, or at all. In addition, the leases of some anchors might permit the anchor to transfer its lease, including any attendant approval rights, to another retailer. The transfer to a new anchor could cause customer traffic in the property to decrease or to be composed of different types of customers, which could reduce the income generated by that property. A transfer of a lease to a new anchor also could allow other tenants to make reduced rental payments or to terminate their leases at the property, which could adversely affect our results of operations.

Rising operating expenses, certain lease provisions and decreased occupancy could reduce our cash flow and funds available for future distributions.

Our properties are, and any properties we acquire in the future will be, subject to operating risks common to real estate in general, any or all of which might negatively affect us. The properties are subject to the risk of increases in common area maintenance (CAM) and other operating expenses, which typically include real estate taxes, energy and other utility costs, repairs, maintenance and capital improvements to common areas, security, housekeeping, property and liability insurance and administrative costs. If operating expenses increase, the availability of other comparable retail space in our specific geographic markets might limit our ability to pass these increases through to tenants, or might lead tenants to seek retail space elsewhere, which could adversely affect our results of operations and limit our ability to make distributions to shareholders.

Our leases typically provide that the tenant is liable for a portion of CAM and other operating expenses. If these expenses increase, then the tenant's portion of such expenses also increases. A small but increasing number of our leases do not provide separately for expense reimbursement, or are leases providing for fixed CAM or capped CAM. In these cases, a tenant will pay a single specified rent amount, or a set expense reimbursement amount, regardless of the actual amount of operating expenses. The tenant's payment remains the same even if operating expenses increase, causing us to be responsible for the excess amount. To the extent that existing leases, new leases or renewals of leases do not require a pro rata contribution from tenants, we are liable for the cost of such expenses in excess of the portion paid by tenants, if any. This could adversely affect our results of operations and our ability to make distributions to shareholders.

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Further, if a property is not fully occupied, including in connection with the redevelopment of the property, we would be required to pay the portion of the expenses allocable of the vacant space that is otherwise typically paid by our tenants. If occupancy at our mall properties decreases, including in connection with our redevelopment projects, then we might bear an increased portion of the total operating expenses, which would harm our operating results and our ability to make distributions to shareholders.

The retail real estate industry is highly competitive, and this competition could harm our ability to operate profitably.

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, on the basis of several factors, including location and rent charged. 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 amount 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.

We face increasing competition for the acquisition of properties, development sites and other assets, which might impede our ability to make future acquisitions or might increase the cost of these acquisitions.

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, a better ability to finance an acquisition, and enhanced operating efficiencies. Also, the number of entities competing for suitable investment properties or desirable development sites has 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 might not be successful in identifying suitable acquisitions that meet the criteria we apply, given economic, market or other circumstances, which might impede our growth.

Acquisitions of retail properties have been an important component of our growth strategy. Expanding by acquisitions requires us to identify suitable acquisition candidates or investment opportunities that meet the criteria we apply, given economic, market or other circumstances, and that are compatible with our growth strategy. We must also typically obtain financing, and it must be on terms that are acceptable to us. We analyze potential acquisitions on a property-by-property and market-by-market basis. We might not be successful in identifying suitable properties or other assets in our existing geographic markets or in markets new to us that meet the acquisition criteria we apply, given economic, market or other circumstances, in financing such properties or other assets or in consummating acquisitions or investments on satisfactory terms. An inability to identify or consummate acquisitions could reduce the number of acquisitions we complete and impede our growth, which could adversely affect our results of operations.

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We might be unable to integrate effectively any additional properties we might acquire, which might result in disruptions to our business and additional expense.

We continue to pursue, in an opportunistic and disciplined manner, acquisitions of additional properties or portfolios of properties that meet the investment criteria we apply, given economic, market and other circumstances. We might not be able to adapt our management and operational systems to effectively manage any such acquired properties or portfolios.

Specific risks for our ongoing operations posed by acquisitions we have completed or that we might complete in the future include:

we might not achieve the expected operating efficiencies, value-creation potential, economies of scale or other benefits of such transactions;

we might not have adequate personnel, personnel with necessary skill sets and financial and other resources to successfully handle our increased operations;

we might not be successful in leasing space in acquired properties;

the combined portfolio might not perform at the level we anticipate;

the additional property or portfolio might require excessive time and financial resources to make necessary improvements or renovations and might divert the attention of management away from our other operations;

we might experience difficulties and incur unforeseen expenses in connection with assimilating and retaining employees working at acquired properties, and in assimilating any acquired properties;

we might experience problems and incur unforeseen expenses in connection with upgrading and expanding our systems and processes; and

we might incur unexpected liabilities in connection with the properties and businesses we have acquired.

If we fail to successfully integrate any properties, portfolios, assets or companies we acquire, or fail to effectively handle our increased operations or realize the intended benefits of any such transactions, our financial condition and results of operations, and our ability to make distributions to shareholders at historical levels, if at all, might be adversely affected.

Any tenant bankruptcies or leasing delays or terminations we encounter could adversely affect our financial condition and results of operations.

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. See Item 2. Properties - Major 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.

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If a tenant files for bankruptcy, the tenant might have the right to reject and terminate its leases, and we cannot be sure that it will affirm its leases and continue to make rental payments in a timely manner. A bankruptcy filing by or relating to one of our tenants would bar all efforts by us to collect pre-bankruptcy debts from that tenant, or from their property, unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of its bankruptcy. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. If a bankrupt tenant vacates a space, it might not do so in a timely manner, and we might be unable to re-lease the vacated space. In addition, this could result in lease terminations or reductions in rent by other tenants of the same property whose leases have co-tenancy provisions. Any unsecured claim we hold might be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of any unsecured claims we hold, which would adversely affect our financial condition and results of operations. These tenant bankruptcies and liquidations have adversely affected and might, in the future, adversely affect our financial condition and results of operations.

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Our business could be harmed if Ronald Rubin, our chairman and chief executive officer, or other members of our senior management team terminate their employment with us.

Our future success depends, to a meaningful extent, upon the continued services of Ronald Rubin, our chairman and chief executive officer, and the services of our corporate management team (including the four-person Office of the Chairman that, in addition to Ronald Rubin, consists of George F. Rubin, Edward A. Glickman and Joseph F. Coradino). These executives have substantial experience in managing, developing and acquiring retail real estate. Although we have entered into employment agreements with Ronald Rubin and certain other members of our corporate management team, they could elect to terminate those agreements at any time. In addition, although we have purchased a key man life insurance policy in the amount of \$5 million to cover Ronald Rubin, we cannot assure you that this would compensate us for the loss of his services. The loss of services of one or more members of our corporate management team could harm our business and our prospects.

We have invested and expect to invest in the future in partnerships with third parties to acquire or develop properties, and we might not control the management, redevelopment or disposition of these properties, or we might be exposed to other risks.

We have invested and expect to invest in the future as a partner in the acquisition of existing properties or the development of new properties, in contrast to acquiring properties or developing projects on our own. Entering into partnerships with third parties involves risks not present where we act alone, in that we might not have exclusive control over the acquisition, development, redevelopment, financing, leasing, management, budget-setting and other aspects of the property or project. These limitations might adversely affect our ability to develop, redevelop or sell these properties at the most advantageous time for us. Also, there might be restrictive provisions and rights that apply to sales or transfers of interests in our partnership properties, which might require us to make decisions about buying or selling interests at a disadvantageous time.

Some of our retail properties are owned by partnerships in which we are a general partner. Under the terms of the partnership agreements, major decisions, such as a sale, lease, refinancing, redevelopment, expansion or rehabilitation of a property, or a change of property manager, require the consent of all partners. Accordingly, because decisions must be unanimous, necessary actions might be delayed significantly and it might be difficult or even impossible to remove a partner that is serving as the property manager. We might not be able to favorably resolve any issues which arise with respect to such decisions, or we might have to provide financial or other inducements to our partners to obtain a resolution. In cases where we are not the controlling partner or where we are only one of the general partners, there are many decisions that do not relate to fundamental matters that do not require our approval and that we do not control. Also, in cases in which we serve as managing general partner of the partnerships that own our properties, we might have certain fiduciary responsibilities to the other partners in those partnerships.

Business disagreements with partners might arise. We might incur substantial expenses in resolving these disputes. To preserve our investment, we might be required to make commitments to or on behalf of a partnership during a dispute that might not be credited or repaid in full. Moreover, we cannot assure you that our resolution of a dispute with a partner will be on terms that are favorable to us.

Other risks of investments in partnerships with third parties include:

partners might become bankrupt or fail to fund their share of required capital contributions, which might inhibit our ability to make important decisions in a timely fashion or necessitate our funding their share to preserve our investment;

partners might have business interests or goals that are inconsistent with our business interests or goals;

partners might be in a position to take action contrary to our policies or objectives;

we might incur liability for the actions of our partners; and

third-party managers might not be sensitive to publicly-traded company or REIT tax compliance matters.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose invested capital and anticipated profits.

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There are some types of losses, including those of a catastrophic nature, such as losses due to wars, earthquakes, floods, hurricanes, pollution, environmental matters and lease and contract claims, that are generally uninsurable or not economically insurable, or might be subject to insurance coverage limitations, such as large deductibles or co-payments. If one of these events occurred to, or caused the destruction of, one or more of our properties, we could lose both our invested capital and anticipated profits from that property. We also might remain obligated for any mortgage or other financial obligation related to the property. In addition, if we are unable to obtain insurance in the future at acceptable levels and at a reasonable cost, the possibility of losses in excess of our insurance coverage might increase and we might not be able to comply with covenants under our debt agreements, which could adversely affect our financial condition. If any of our properties were to experience a significant, uninsured loss, it could seriously disrupt our operations, delay our receipt of revenue and result in large expenses to repair or rebuild the property. These types of events could adversely affect our cash flow and ability to make distributions to shareholders.

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We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations.

Under various federal, state and local laws, ordinances, regulations and case law, an owner, former owner or operator of real estate might be liable for the costs of removal or remediation of hazardous or toxic substances present at, on, under, in or released from its property, regardless of whether the owner, operator or other responsible party knew of or was at fault for the release or presence of hazardous or toxic substances. The responsible party also might be liable to the government or to third parties for substantial property damage, investigation costs or clean up costs. Even if more than one person might have been responsible for the contamination, each person covered by the environmental laws might be held responsible for all of the clean-up costs incurred. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. In connection with our ownership, operation, management, development and redevelopment of properties, or any other properties we acquire in the future, we might be liable under these laws and might incur costs in responding to these liabilities, which could have an adverse effect on our results of operations. See Item 1. Business Environmental. Contamination might also adversely affect our ability to sell or lease real estate or borrow with real estate as collateral.

Inflation may adversely affect our financial condition and results of operations.

Economic indicators have recently provided evidence that inflation might be increasing. Inflationary price increases could have an adverse effect on consumer spending, which could impact our tenants' sales and, in turn, our tenants' business operations. This could affect the amount of rent these tenants pay, including if their leases provide for percentage rent or percentage of sales rent, and their ability to pay rent. Also, inflation could cause increases in property operating expenses, which could increase occupancy costs for tenants and, to the extent that we are unable to recover property operating expenses from tenants, could increase property operating expenses for us. In addition, if the rate of inflation exceeds the scheduled rent increases included in our leases, then our net operating income and our profitability would decrease. Inflation could also result in increases in market interest rates, which would increase the borrowing costs associated with our variable rate debt.

RISKS RELATED TO OUR INDEBTEDNESS AND OUR FINANCING

We have substantial debt, which might increase, and we require significant cash flows to satisfy these obligations. If we are unable to satisfy those obligations, we might be forced to dispose of one or more properties and there could be other negative consequences.

We use a substantial amount of debt to finance our business, and we might incur additional debt under our Credit Facility or otherwise in order to develop or redevelop properties, to finance acquisitions, or for other general corporate purposes. As of December 31, 2007, we had an aggregate consolidated indebtedness outstanding excluding debt premium of approximately \$2,260.6 million, approximately \$1,643.1 million of which was secured by our properties and approximately \$617.5 million of which was unsecured indebtedness that is recourse to us, PREIT Associates and certain of our consolidated subsidiaries. Of these amounts, approximately \$515.0 million matures on or before December 31, 2008 and our Credit Facility has a term that expires in January 2009 (on which we have an option to extend the term for an additional 14 months, provided there is no event of default at that time). This indebtedness does not include our proportionate share of indebtedness of our partnership properties, which was approximately \$188.1 million at December 31, 2007. If our leverage increases, our debt service costs and our risk of defaulting on our indebtedness might increase. If we do not have sufficient cash flow from operations, we might not be able to make all required payments of principal and interest on our debt or to pay distributions on our securities at historical rates, which could have a material adverse effect on our financial condition and results of operations.

Much of our outstanding indebtedness represents obligations of PREIT Associates, and entities that we own or control that hold title to our properties. We have mortgaged many of our properties to secure payment of this indebtedness. If we were unable to make the required payments on this indebtedness, a lender could foreclose upon the mortgaged property and receive an assignment of rent and leases or pursue other remedies.

Much of our indebtedness does not require significant principal payments prior to maturity, and we might obtain similar financing terms in future transactions. If our debt cannot be paid, refinanced or extended at maturity on acceptable terms, or at all, we might be forced to dispose of one or more of our properties on unfavorable terms, which might result in losses to us and which might adversely affect our cash flow and our ability to make distributions to shareholders.

Our substantial obligations arising from our indebtedness could have negative consequences to our shareholders, including:

requiring us to use a significant portion of our cash flow from operations to make interest and principal payments on our debt rather than for other purposes such as working capital, capital expenditures or dividends on our common shares;

harming our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development and redevelopment activities or other general corporate purposes;

limiting our flexibility to plan for or react to changes in business and economic conditions;

making us more vulnerable to a downturn in our business or the economy generally; and

limiting our ability to enter into hedging transactions with counterparties.

As of December 31, 2007, we had \$330.0 million of variable rate debt. Increases in interest rates will increase our interest expense on the variable rate debt we have outstanding from time to time. Also, rising interest rates might reduce our ability to refinance maturing fixed rate debt on favorable terms, or at all. Increased interest expense would adversely affect our cash flow and our ability to make distributions to shareholders.

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We might not be able to obtain capital required to finance our business initiatives.

The REIT provisions of the Internal Revenue Code generally require the distribution to shareholders of 90% of a REIT's net taxable income, excluding net capital gains, which generally leaves insufficient funds to finance major initiatives internally. Due to these requirements, we fund most of our long-term capital requirements, such as the capital for acquisitions of properties or other assets, scheduled debt maturities and redevelopments, renovations, expansions and other non-recurring capital improvements, through long-term secured and unsecured indebtedness and, when appropriate, the issuance of additional equity securities. Our ability to finance our growth using these sources depends, in part, on the availability of credit or of equity capital to us at the time or times we need it, and on conditions in the capital markets. Over the course of the business cycle, there might be times when lenders and equity investors might show less interest in lending to us or investing in our securities. Although we believe, based on current market conditions, that we will be able to finance our business initiatives for the foreseeable future, financing might not be available on acceptable terms, or at all. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for information about our available sources of funds.

Our Credit Facility has a term that expires in January 2009, and we have an option to extend the term for an additional 14 months, provided there is no event of default at that time. Our REMIC, which had a balance of \$407.9 million as of December 31, 2007, becomes prepayable without penalty in July 2008. If not prepaid, the interest rate from and after September 10, 2008 will be equal to the greater of (i) 10.43% per annum, or (ii) the Treasury Rate, as defined therein, plus 3.0% per annum. The current interest rate is 7.43%. We would continue to have the ability to prepay the REMIC without penalty prior to its maturity in 2025. We expect that our use of debt to fund investments in current redevelopment and development projects will peak in the second half of 2008 or the first half of 2009, ahead of the time that such redevelopment and development assets will generate significant cash flows. Additional debt could lead to debt ratios that approach or exceed the ratios permitted by our Credit Facility. If we are unable to borrow under our Credit Facility or to arrange for alternative financing, or if we are unable to refinance the REMIC, or if we choose not to continue the REMIC pursuant to its term, we might be unable to acquire or develop properties, redevelop our existing properties or finance other corporate activities, and our financial condition and results of operations would be adversely affected.

Some of our properties are owned or ground-leased by subsidiaries that we created solely to own or ground-lease those properties. The mortgaged properties and related assets are restricted solely for the payment of the related loans and are not available to pay our other debts, which could impair our ability to borrow, which in turn could harm our business.

The profitability of each partnership we enter into with third parties that has short-term financing or debt requiring a balloon payment is dependent on the availability of long-term financing on satisfactory terms. If satisfactory long-term financing is not available, we might have to rely on other sources of short-term financing or equity contributions. Although these partnerships are not wholly-owned by us, we might be required to pay the full amount of any obligation of the partnership that we have guaranteed in whole or in part, or we might elect to pay all of the obligations of such a partnership to protect our equity interest in its properties and assets. This could cause us to utilize a substantial portion of our liquidity sources or funds from operations and could have a material adverse effect on our operating results and reduce amounts available for distribution to shareholders.

The covenants in our Credit Facility might restrict our operations or acquisition activities, which might harm our ability to pursue new business initiatives and have a negative effect on our financial condition and results of operations.

Our Credit Facility currently requires PREIT Associates to satisfy certain affirmative and negative covenants and to meet numerous financial tests, including tests relating to our leverage, interest coverage and tangible net worth. These covenants could restrict our ability to pursue acquisitions, development and redevelopment, limit our ability to respond to changes and competition, and reduce our flexibility in conducting our operations by limiting our ability to borrow money, sell or place liens on assets, repurchase securities, make capital expenditures or engage in acquisitions. In connection with the February 2007 amendment to the Credit Facility, the benchmarks contained in certain of the covenants were relaxed until December 31, 2008, at which time they revert to their pre-amendment levels. As described above, we expect that our use of debt to fund investments in current redevelopment and development projects will peak in the second half of 2008 or the first half of 2009. Absent further action on our part, such additional debt could lead to debt ratios that approach or exceed the limits contained in the Credit Facility covenants (as currently in effect or as in effect upon reversion to pre-amendment levels). If we cannot continue to satisfy these covenants and meet these tests, there is a risk that we could default under the Credit Facility. If we default under the Credit Facility, the lenders could require us to repay the debt immediately, or we could be unable to exercise our option to extend the term of the Credit Facility, which would have a material adverse effect on our financial condition and results of operations.

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Recent disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.

The United States credit markets have recently experienced significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially affected liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets might negatively impact our ability to access additional debt financing at reasonable terms, which might negatively affect our ability to fund our redevelopment and development projects and other business initiatives. A prolonged downturn in the credit markets might cause us to seek alternative sources of financing, which could potentially be less attractive and might require us to adjust our business plan accordingly. In addition, these factors might make it more difficult for us to sell properties or might adversely affect the price we receive for properties that we do sell, as prospective buyers might experience increased costs of debt financing or difficulties in obtaining debt financing. Events in the credit markets have also had an adverse effect on other financial markets in the United States, which might make it more difficult or costly for us to raise capital through the issuance of equity.

Payments by our direct and indirect subsidiaries of dividends and distributions to us might be adversely affected by prior payments to the creditors of these subsidiaries.

We own substantially all of our assets through our interest in PREIT Associates. PREIT Associates holds substantially all of its properties and assets through subsidiaries, including subsidiary partnerships and limited liability companies, and derives substantially all of its cash flow from cash distributions to it by its subsidiaries. We, in turn, derive substantially all of our cash flow from cash distributions to us by PREIT Associates. Our direct and indirect subsidiaries must make payments on their obligations to their creditors, when due and payable, before they may make distributions to us. Thus, PREIT Associates' ability to make distributions to its partners, including us, depends on its subsidiaries' ability first to satisfy their obligations to their creditors. Similarly, our ability to pay dividends to holders of our shares depends on PREIT Associates' ability first to satisfy its obligations to its creditors before making distributions to us. If the subsidiaries were unable to make payments to their creditors when due and payable, or if the subsidiaries had insufficient funds to both make payments to creditors and distribute funds to PREIT Associates, we might not have sufficient cash to satisfy our obligations and/or make distributions to our shareholders.

In addition, we will have the right to participate in any distribution of the assets of any of our direct or indirect subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary only after the claims of the creditors, including trade creditors, of the subsidiary are satisfied. Our shareholders, in turn, will have the right to participate in any distribution of our assets upon our liquidation, reorganization or insolvency only after the claims of our creditors, including trade creditors, are satisfied.

Our hedging arrangements might not be successful in limiting our risk exposure, and we might be required to incur expenses in connection with these arrangements or their termination that could harm our results of operations or financial condition.

We use interest rate hedging arrangements to manage our exposure to interest rate volatility, but these arrangements might expose us to additional risks. Developing an effective interest rate risk strategy is complex, and no strategy can completely insulate us from risks associated with interest rate fluctuations. We cannot assure you that our hedging activities will have a positive impact on our results of operations or financial condition. We might be subject to additional costs, such as transaction fees or breakage costs, if we terminate them. In addition, although our interest rate risk management policy establishes minimum credit ratings for counterparties, this does not eliminate the risk that a counterparty might fail to honor its obligations.

RISKS RELATED TO THE REAL ESTATE INDUSTRY

We are subject to risks that affect the retail real estate environment generally.

Our business focuses on retail real estate, predominantly malls and power and strip centers. As such, we are subject to certain risks that can affect the ability of our retail properties to generate sufficient revenue to meet our operating and other expenses, including debt service, to make capital expenditures and to make distributions to our shareholders. A number of factors can affect the income generated by a retail property, or the value of a property, including a downturn in the national, regional or local economy or consumer confidence or spending, which could result from plant closings, local industry slowdowns, adverse weather conditions, natural disasters, terrorist activities and other factors, which tend to reduce consumer spending on retail goods; a weakening of local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants; trends in the retail industry; seasonality; changes in perceptions by retailers or shoppers of the safety, convenience and attractiveness of a retail property; changes in operating costs, such as real estate taxes, utility rates and insurance premiums; perceived changes, in the convenience and quality of competing retail properties and other retailing options such as internet retailers; changes in laws and regulations applicable to real property, including tax and zoning laws; and

changes in interest rate levels and the cost and availability of financing. Changes in one or more of these factors can lead to a decrease in the revenue generated by our properties and can have a material adverse effect on our financial condition and results of operations.

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Illiquidity of real estate investments could significantly affect our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Substantially all of our assets consist of investments in real properties. Because real estate investments are relatively illiquid, our ability to quickly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand for space, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

Before a property can be sold, we might be required to make expenditures to correct defects or to make improvements. We cannot assure you that we will have funds available to correct those defects or to make those improvements, and if we cannot do so, we might not be able to sell the property, or might be required to sell the property on unfavorable terms. In acquiring a property, we might agree to provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as limitations on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could significantly harm our financial condition and results of operations.

Possible terrorist activity or other acts of violence or war could adversely affect our financial condition and results of operations.

Future terrorist attacks in the United States, and other acts of terrorism or war, might result in declining economic activity, which could harm the demand for goods and services offered by our tenants and the value of our properties, and might adversely affect the value of an investment in our securities. A decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities also could directly affect the value of our properties through damage, destruction or loss, and the availability of insurance for such acts, or of insurance generally, might be lower, or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. To the extent that our tenants are affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts might erode business and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of our new or redeveloped properties, and limit our access to capital or increase our cost of raising capital.

RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE

Our organizational documents contain provisions that might discourage a takeover of us and depress our share price.

Our organizational documents contain provisions that might have an anti-takeover effect and inhibit a change in our management and the opportunity to realize a premium over the then-prevailing market price of our securities. These provisions include:

- (1) *There are ownership limits and restrictions on transferability in our trust agreement.* In order to protect our status as a REIT, no more than 50% of the value of our outstanding shares (after taking into account options to acquire shares) may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code), and the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To assist us in satisfying these tests, subject to some exceptions, our trust agreement prohibits any shareholder from owning more than 9.9% of our outstanding shares of beneficial interest (exclusive of preferred shares) or more than 9.9% of any class or series of preferred shares. The trust agreement also prohibits transfers of shares that would cause a shareholder to exceed the 9.9% limit or cause our shares to be beneficially owned by fewer than 100 persons. Our Board of Trustees may exempt a person from the 9.9% ownership limit if it receives a ruling from the Internal Revenue Service or an opinion of counsel or tax accountants that exceeding the 9.9% ownership limit as to that person would not jeopardize our tax status as a REIT. Absent an exemption, this restriction might:

discourage, delay or prevent a tender offer or other transaction or a change in control or management that might involve a premium price for our shares or otherwise be in the best interests of our shareholders; or

compel a shareholder who had acquired more than 9.9% of our shares to transfer the additional shares to a trust and, as a result, to forfeit the benefits of owning the additional shares.

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- (2) *Our trust agreement permits our Board of Trustees to issue preferred shares with terms that might discourage a third party from acquiring our Company.* Our trust agreement permits our Board of Trustees to create and issue multiple classes and series of preferred shares, and classes and series of preferred shares having preferences to the existing shares on any matter, without a vote of shareholders, including preferences in rights in liquidation or to dividends and option rights, and other securities having conversion or option rights. Also, the board might authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of our shares. Our trust agreement further provides that the terms of such rights or other securities might provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or other securities could have the effect of discouraging, delaying or preventing a change in control over us, even if a change in control were in our shareholders' interest or would give the shareholders the opportunity to realize a premium over the then-prevailing market price of our securities.
- (3) *Our staggered Board of Trustees might affect the ability of a shareholder to take control of our Company.* Our Board of Trustees has three classes of trustees. The term of office of one class expires each year. Trustees for each class are elected for three year terms upon the expiration of the term of the respective class. The staggered terms for trustees might affect the ability of a shareholder to take control of us, even if a change in control were in the best interests of our shareholders.
- (4) *Advance Notice Requirements for Shareholder Proposals.* Our advance notice procedures with regard to shareholder proposals relating to the nomination of candidates for election as trustees require advance written notice of any such proposals, containing prescribed information, to be given to our Secretary at our principal executive offices not less 35 days prior to the meeting.

Limited partners of PREIT Associates may vote on certain fundamental changes we propose, which could inhibit a change in control that might otherwise result in a premium to our shareholders.

Our assets generally are held through our interests in PREIT Associates. We currently hold a majority of the outstanding units of limited partnership interest in PREIT Associates. However, PREIT Associates might, from time to time, issue additional units to third parties in exchange for contributions of property to PREIT Associates. These issuances will dilute our percentage ownership of PREIT Associates. Units generally do not carry a right to vote on any matter voted on by our shareholders, although units of limited partnership interests might, under certain circumstances, be redeemed for our shares. However, before the date on which at least half of the units issued on September 30, 1997 in connection with our acquisition of The Rubin Organization have been redeemed, the holders of units issued on September 30, 1997 are entitled to vote such units together with our shareholders, as a single class, on any proposal to merge, consolidate or sell substantially all of our assets. Ronald Rubin, George Rubin, Edward Glickman and Joseph Coradino are among the holders of these units. Our partnership interest in PREIT Associates is not included for purposes of determining when half of the partnership interests issued on September 30, 1997 have been redeemed, nor are they counted as votes. These existing rights could inhibit a change in control that might otherwise result in a premium to our shareholders. In addition, we cannot assure you that we will not agree to extend comparable rights to other limited partners in PREIT Associates.

We have entered into tax protection agreements for the benefit of certain former property owners, including some limited partners of PREIT Associates, that might affect our ability to sell or refinance some of our properties that we might otherwise want to sell, which could harm our financial condition.

As the general partner of PREIT Associates, we have agreed to indemnify certain former property owners, including some who have become limited partners of PREIT Associates, against tax liabilities that they might incur if we sell in a taxable transaction or significantly reduce the debt secured by a property acquired from them within a certain number of years after we acquired it. In some cases, these agreements might make it uneconomical for us to sell or refinance these properties, even in circumstances in which it otherwise would be advantageous to do so, which could harm our ability to address liquidity needs in the future or otherwise harm our financial condition.

Some of our officers and trustees have interests in properties that we manage and therefore might have conflicts of interest that could adversely affect our business.

We provide management, leasing and development services for partnerships and other ventures in which some of our officers and trustees, including Ronald Rubin, a trustee and our chairman and chief executive officer, and George F. Rubin, a trustee and vice chairman, have indirect ownership interests. In addition, we lease substantial office space from an entity in which some of our officers, including the Rubins, have an interest. Our officers who have interests in the

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other parties to these transactions have a conflict of interest in deciding to enter into these agreements and in negotiating their terms, which could result in our obtaining terms that are less favorable than we might otherwise obtain, which could adversely affect our business.

RISKS RELATING TO OUR SECURITIES

Many factors, including changes in interest rates and the negative perceptions of the retail sector generally, can have an adverse effect on the market value of our securities.

As is the case with other publicly traded companies, a number of factors might adversely affect the price of our securities, many of which are beyond our control. These factors include:

Increases in market interest rates, relative to the dividend yield on our shares or the interest rate on our exchangeable notes. If market interest rates go up, prospective purchasers of our securities might require a higher yield. Higher market interest rates would not, however, result in more funds for us to distribute to shareholders and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the market price of our shares to go down.

A decline in the anticipated benefits of an investment in our securities as compared to an investment in securities of companies in other industries (including benefits associated with tax treatment of dividends and distributions).

Perception by market professionals of REITs generally and REITs in the retail sector in particular. Our portfolio of properties consists almost entirely of retail properties and we expect to continue to focus primarily on acquiring retail centers in the future.

Perception by market participants of our potential for payment of cash distributions and for growth.

Levels of institutional investor and research analyst interest in our securities.

Relatively low trading volumes in securities of REITs.

Our results of operations and financial condition.

Investor confidence in the stock market generally.

The market value of our common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings, funds from operations and cash distributions. Consequently, our common shares might trade at prices that are higher or lower than our net asset value per common share. If our future earnings, funds from operations or cash distributions are less than expected, it is likely that the market price of our common and preferred shares will decrease.

Individual taxpayers might perceive REIT securities as less desirable relative to the securities of other corporations because of the lower tax rate on certain dividends from such corporations, which might have an adverse effect on the market value of our securities.

Historically, the dividends of corporations other than REITs have been taxed at ordinary income rates, which range as high as 35%. Recently, the maximum tax rate on certain corporate dividends received by individuals has been reduced to 15%, through at least December 31, 2010. However, dividends from REITs do not generally qualify for the lower tax rate on corporate dividends because REITs generally do not pay corporate-level tax on income that they distribute currently to shareholders. This differing treatment of dividends received from REITs and from corporations that are not REITs might cause individual investors to view an investment in the shares of a non-REIT corporation as more

attractive than shares in REITs, which may negatively affect the value of our shares.

Proposed accounting rule changes for certain convertible debt instruments could increase significantly the non-cash interest expense associated with our outstanding exchangeable notes and adversely affect our results of operations.

In August 2007, the Financial Accounting Standards Board (FASB) released for public comment a proposed FASB Staff Position (FSP) that would affect the accounting treatment for convertible debt instruments, such as our outstanding exchangeable notes, that may be settled wholly or partly in cash. The proposed FSP requires that instruments within its scope be separated into their liability and equity components at initial recognition by recording the liability component at the fair value of a similar liability that does not have an associated equity component, and attributing the remaining proceeds from issuance to the equity component. The excess of the principal amount of the liability component over its initial fair value would then be required to be amortized to interest expense using the interest method. If the FSP

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is issued as proposed, we expect an increase in our non-cash interest expense associated with our \$287.5 million aggregate principal amount outstanding of exchangeable notes that were issued in May 2007, including non-cash interest expense for prior periods as a result of its proposed retrospective application.

TAX RISKS

If we were to fail to qualify as a REIT, our shareholders would be adversely affected.

We believe that we have qualified as a REIT since our inception and intend to continue to qualify as a REIT. To qualify as a REIT, however, we must comply with certain highly technical and complex requirements under the Internal Revenue Code, which is more complicated in the case of a REIT such as ours that holds its assets primarily in partnership form. We cannot be certain we have complied with these requirements because there are very limited judicial and administrative interpretations of these provisions, and even a technical or inadvertent mistake could jeopardize our REIT status. In addition, facts and circumstances that might be beyond our control might affect our ability to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the federal income tax consequences of qualification.

If we were to fail to qualify as a REIT, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under statutory provisions, we would remain disqualified from treatment as a REIT for the four taxable years following the year during which we first failed to qualify. The additional tax incurred at regular corporate rates would significantly reduce the cash flow available for distribution to shareholders and for debt service. In addition, we would no longer be required to make any distributions to shareholders. If there were a determination that we do not qualify as a REIT, there would be a material adverse effect on our results of operations and there could be a material reduction in the value of our common and preferred shares.

We might be unable to comply with the strict income distribution requirements applicable to REITs, or compliance with such requirements could adversely affect our financial condition or cause us to forego otherwise attractive opportunities.

To obtain the favorable tax treatment associated with qualifying as a REIT, we are required each year to distribute to our shareholders at least 90% of our net taxable income. In addition, we are subject to a tax on any undistributed portion of our income at regular corporate rates and might also be subject to a 4% excise tax on this undistributed income. We could be required to seek to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT, even if conditions are not favorable for borrowing, which could adversely affect our financial condition and results of operations. In addition, compliance with these REIT requirements might cause us to forego opportunities we would otherwise pursue.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES. RETAIL PROPERTIES

As of December 31, 2007, we owned interests in 51 retail properties containing an aggregate of approximately 34.2 million square feet (including space owned by anchors). As of December 31, 2007, we and partnerships in which we own an interest owned approximately 26.2 million square feet of space at the 51 retail properties. PREIT Services currently manages 45 of these properties, 44 of which we consolidate for financial reporting purposes, and one that is owned by a partnership in which we hold a 50% interest. PRI co-manages one property, which is owned by a partnership that is not wholly owned by us. The remaining five properties are also owned by partnerships that are not wholly owned by us and are managed by our partners, or by an entity we or our partners designated.

Total occupancy in our malls, including only space we and partnerships in which we own an interest own, was 90.4% as of December 31, 2007. In-line occupancy in our malls was 88.1% as of that date. Occupancy in our power and strip centers was 96.3% as of that date.

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In general, we own the land underlying our properties in fee or, in the case of our properties held by partnerships with others, ownership by the partnership entity is in fee. At certain properties, however, the underlying land is owned by third parties and leased to us or the partnership in which we hold an interest pursuant to long-term ground leases. In a ground lease, the building owner pays rent for the use of the land and is responsible for all costs and expenses related to the building and improvements.

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The following tables present information regarding our retail properties as of December 31, 2007. We refer to the total retail space of these properties, including anchors and in-line stores, as Total Square Feet, and the portion that we own as Owned Square Feet.

Consolidated Retail Properties

Property/Location ⁽¹⁾	Ownership Interest	Total Square Feet ⁽²⁾	Owned Square Feet ⁽³⁾	Year Built / Last Renovated	% of Owned Square Feet Leased ⁽⁴⁾	Anchors / Major Tenants ⁽⁵⁾
MALLS						
Beaver Valley Mall	100%	1,162,048	957,278	1970/1991	93.6%	Boscov's
Monaca, PA						JC Penney
						Macy's
						Sears
Capital City Mall	100%	610,059	490,059	1974/2005	99.7%	JC Penney
Camp Hill, PA						Macy's
						Sears
Chambersburg Mall	100%	454,356	454,356	1982	88.9%	Bon-Ton
Chambersburg, PA						JC Penney
						Sears
						Value City
Cherry Hill Mall	100%	1,064,619	585,734	1961/1990	91.6%	JC Penney
Cherry Hill, NJ						Macy's
Crossroads Mall ⁽⁶⁾	100%	451,776	451,776	1981	92.5%	Belk
Beckley, WV						JC Penney
						Sears
Cumberland Mall	100%	942,178	668,948	1973/2003	97.8%	BJ's
Vineland, NJ						Boscov's
						Home Depot
						JC Penney
						Value City
Dartmouth Mall	100%	671,080	531,080	1971/2000	95.8%	JC Penney
Dartmouth, MA						Macy's
						Sears

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Exton Square Mall ⁽⁶⁾	100%	1,087,728	810,260	1973/2000	93.3%	Boscov's
Exton, PA						JC Penney
						K-Mart
						Macy's
						Sears
Francis Scott Key Mall	100%	711,857	572,524	1978/1991	95.8%	JC Penney
Frederick, MD						Macy's
						Sears
						Value City
Gadsden Mall	100%	477,177	477,177	1974/1990	91.7%	Belk
Gadsden, AL						Sears
The Gallery at Market East ^{(6) (7)}	100%	1,080,949	1,080,949	1977/1990	43.2%	Burlington Coat Factory
Philadelphia, PA						
Jacksonville Mall	100%	475,806	475,806	1981/1998	94.6%	Belk
Jacksonville, NC						JC Penney
						Sears

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Logan Valley Mall	100%	778,880	778,880	1960/1997	97.7%	JC Penney
Altoona, PA						Macy's Sears
Lycoming Mall	100%	822,367	702,367	1978/1990	95.6%	Bon-Ton
Pennsdale, PA						JC Penney Macy's ⁽⁸⁾ Sears Value City
Magnolia Mall	100%	621,060	621,060	1979/1992	97.5%	Belk
Florence, SC						JC Penney Sears
Moorestown Mall	100%	1,040,758	719,558	1963/2000	89.6%	Boscov's
Moorestown, NJ						Lord & Taylor Macy's Sears
New River Valley Mall	100%	438,498	438,498	1988	96.7%	Belk
Christiansburg, VA						JC Penney Sears
Nittany Mall	100%	532,116	437,116	1968/1990	93.9%	Bon-Ton
State College, PA						JC Penney Macy's ⁽⁸⁾ Sears
North Hanover Mall	100%	361,207	361,207	1967/1999	92.1%	Black Rose Antiques
Hanover, PA						JC Penney Sears
Orlando Fashion Square ⁽⁶⁾	100%	1,081,516	925,940	1973/2003	91.8%	Dillard's
Orlando, FL						JC Penney Macy's Sears
Palmer Park Mall	100%	457,694	457,694	1972/1998	97.3%	Bon-Ton
Easton, PA						Boscov's

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Patrick Henry Mall	100%	714,607	574,607	1988/2005	98.8%	Dick's Sporting Goods
Newport News, VA						Dillard's
						JC Penney
Phillipsburg Mall	100%	578,547	578,547	1989/2003	91.7%	Macy's Bon-Ton
Phillipsburg, NJ						JC Penney
						Kohl's
						Sears
Plymouth Meeting Mall ⁽⁶⁾	100%	813,471	598,836	1966/1999	80.8%	AMC Theater
Plymouth Meeting, PA						Boscov's
The Mall at Prince Georges	100%	913,817	913,817	1959/2004	97.6%	Macy's JC Penney
Hyattsville, MD						Macy's
						Target
South Mall	100%	405,205	405,205	1975/1992	90.8%	Bon-Ton
Allentown, PA						Stein Mart
						Steve & Barry's

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Uniontown Mall ⁽⁶⁾	100%	698,164	698,164	1972/1990	94.2%	Bon-Ton
Uniontown, PA						JC Penney
						Roomful Express Furn.
						Sears
						Teletch Customer Care
						Value City
Valley Mall	100%	897,464	654,064	1974/1999	97.8%	Bon-Ton
Hagerstown, MD						JC Penney
						Macy's
						Sears
Valley View Mall	100%	598,144	343,548	1980/2001	93.8%	Herberger's
La Crosse, WI						JC Penney
						Macy's
						Sears
Viewmont Mall	100%	749,927	629,927	1968/1996	98.5%	JC Penney
Scranton, PA						Macy's
						Sears
Voorhees Town Center ⁽⁶⁾	100%	630,221	233,438	1970/2007	62.2%	Boscov's
Voorhees, NJ						Macy's
Washington Crown Center	100%	675,971	535,876	1969/1999	92.0%	Bon-Ton
Washington, PA						Gander Mountain
						Macy's
						Sears
Willow Grove Park ⁽⁷⁾	100%	1,202,529	789,408	1982/2001	70.6%	Bloomingdale's
Willow Grove, PA						Macy's
						Sears
Wiregrass Commons ⁽⁶⁾	100%	632,961	229,798	1986/1999	83.4%	Dillard's
Dothan, AL						JC Penney
						McRae's
						Parisian
Woodland Mall	100%	1,209,307	484,121	1968/1998	89.4%	JC Penney

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Grand Rapids, MI						Kohl's
						Macy's
						Sears
Wyoming Valley Mall	100%	913,816	913,816	1974/1995	91.9%	Bon-Ton
Wilkes-Barre, PA						JC Penney
						Macy's
						Sears
<u>POWER CENTERS</u>						
Christiana Center	100%	302,409	302,409	1998	100%	Costco
Newark, DE						Dick's Sporting Goods
Creekview	100%	425,002	136,086	2001	100%	Lowe's
Warrington, PA						Genuardi's
						Target
New River Valley Center	100%	156,073	156,073	2007	80.7%	Bed, Bath and Beyond
Christiansburg, VA						Best Buy
						Staples

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Northeast Tower Center Philadelphia, PA	100%	477,235	301,924	1997/1998	92.1%	Home Depot Raymour & Flanigan Wal-Mart
Paxton Towne Centre Harrisburg, PA	100%	702,521	429,463	2001	97.9%	Costco Kohl's Target Weis Markets
Sunrise Plaza Forked River, NJ	100%	139,974	139,974	2007	90.9%	Home Depot
STRIP CENTERS						
Crest Plaza Allentown, PA	100%	257,401	114,271	1959/2003	96.6%	Target Weis Market
The Commons at Magnolia Florence, SC	100%	229,494	103,294	1991/2002	98.8%	Goody's Target
Total		29,647,989	23,264,933		90.6%	

- (1) The location stated is the major city or town nearest to the property and is not necessarily the local jurisdiction in which the property is located.
- (2) Total square feet includes space owned by us and space owned by tenants.
- (3) Owned square feet includes only space owned by us and excludes space owned by tenants.
- (4) Percentage of owned square feet leased is calculated based only on space owned by us and excludes space owned by tenants.
- (5) Includes anchors that own their space and do not pay rent.
- (6) The underlying land at this property is subject to a ground lease.
- (7) The owned square feet for The Gallery at Market East and Willow Grove Park includes former Strawbridge's department store buildings that are currently vacant, pending redevelopment. These vacant department stores represent 51.5% and 27.7% of owned square feet for Gallery at Market East and Willow Grove Park, respectively.
- (8) Tenant currently holds a long-term ground lease with an option to purchase the related store and parking area at a nominal purchase price. These locations are deemed owned by their anchor occupants as they only pay a nominal rent.

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Property/Location ⁽¹⁾	Ownership Interest	Total Square Feet⁽²⁾	Owned Square Feet ⁽³⁾	Year Built / Last Renovated	% of Owned Square Feet Leased ⁽⁴⁾	anchors / Major Tenants ⁽⁵⁾
<u>MALLS</u>						
Lehigh Valley Mall	50%	1,145,613	773,627	1977/1996	97.5%	Boscov's
Allentown, PA						JC Penney
Springfield Mall	50%	588,829	221,653	1974/1997	86.9%	Macy's Macy's
Springfield, PA						Target
<u>POWER CENTERS</u>						
Metroplex Shopping Center	50%	778,190	477,461	2001	100%	Giant Food Store
Plymouth Meeting, PA						Lowe's
The Court at Oxford Valley	50%	704,526	456,903	1996	98.3%	Target Best Buy
Langhorne, PA						BJ's
						Dick's Sporting Goods
						Home Depot
Red Rose Commons	50%	463,042	263,452	1998	99.2%	Linens n Things Home Depot
Lancaster, PA						Weis Markets
Whitehall Mall	50%	557,057	557,057	1964/1998	90.1%	Bed, Bath & Beyond
Allentown, PA						Kohl's
						Sears
<u>STRIP CENTERS</u>						
Springfield Park	50%	272,640	126,971	1997/1998	90.9%	Bed, Bath & Beyond
Springfield, PA						LA Fitness
						Target
Total		4,509,897	2,877,124		95.7%	

(1)

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The location stated is the major city or town nearest to the property and is not necessarily the local jurisdiction in which the property is located.

- (2) Total square feet includes space owned by the unconsolidated partnership and space owned by the tenants.
- (3) Owned square feet includes only space owned by unconsolidated partnership and excludes space owned by tenants.
- (4) Percentage of owned square feet leased is calculated based only on space owned by unconsolidated partnership and excludes space owned by tenants.
- (5) Includes anchors that own their space and do not pay rent.

LARGE FORMAT RETAILERS AND ANCHORS

Historically, large format retailers and anchors have been an important element of attracting customers to a mall, and they have generally been department stores whose merchandise appeals to a broad range of customers, although in recent years we have attracted some non-traditional large format retailers. These large format retailers and anchors either own their stores, the land under them and adjacent parking areas, or enter into long-term leases at rent that is generally lower than the rent charged to in-line tenants. Well-known, financially sound large format retailers and anchors continue to play an important role in generating customer traffic and making malls desirable locations for in-line store tenants, even though the market share of traditional department store anchors has been declining. The following table indicates the parent company of each of our large format retailers and anchors and sets forth the number of stores and square feet owned or leased by each at our retail properties as of December 31, 2007:

Anchor Name ⁽¹⁾	# of Stores	Space Occupied ⁽²⁾	% of Total Square Feet
Bed Bath & Beyond	8	254,846	0.7%
Belk, Inc.	9	593,732	1.7%
Best Buy Co., Inc.	4	167,397	0.5%
BJ's Wholesale Club, Inc.	2	234,761	0.7%
Boscov's Department Store	9	1,453,574	4.3%
Burlington Coat Factory	1	127,271	0.4%
Carmike Cinemas, Inc.	3	63,848	0.2%
Costco Wholesale Corporation	2	289,447	0.8%
Dick's Sporting Goods, Inc.	9	435,893	1.3%
Dillard's, Inc.	3	471,494	1.4%
Gander Mountain	1	83,835	0.2%
Giant Food Stores	1	67,185	0.2%

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Hollywood Theaters, Inc.	1	54,073	0.2%
J.C. Penney Company, Inc.	29	3,105,987	9.1%
Kohl's Corporation	4	322,194	0.9%
Linens 'n Things, Inc.	1	54,096	0.2%
Lord & Taylor	1	121,200	0.4%
Lowe's Cos., Inc.	2	326,483	1.0%
Macy's, Inc.			
Bloomingdales	1	237,537	
Macy's	25	4,047,291	
Total Macy's, Inc.	26	4,284,828	12.5%
Premier Cinema Corporation	2	92,748	0.3%
Regal Cinemas	1	53,059	0.2%
Sears Holding Corporation			
K-mart	1	96,268	
Sears	29	3,581,967	
Total Sears Holding Corporation	30	3,678,235	10.8%
Target Corporation	8	1,112,948	3.3%
Teletech Customer Care Management	1	64,964	0.2%
The Bon-Ton Stores, Inc.			
Bon-Tons	13	1,008,613	
Herberger's	1	41,344	
Total The Bon-Ton Stores, Inc.	14	1,049,957	3.1%
The Home Depot, Inc.	5	666,829	2.0%
Value City	5	392,518	1.1%
Wal-Mart Stores, Inc.	1	119,388	0.3%
Weis Markets, Inc.	3	183,520	0.5%
Total	186	19,926,310	58.3%

(1) To qualify as a large format retailer or an anchor for inclusion in this table, a tenant must occupy at least 50,000 square feet or be part of a chain that has store formats in our portfolio of at least 50,000 square feet. This table lists all stores from such chains, regardless of the size of the individual stores.

(2) Includes anchors that own their own space and do not pay rent.

MAJOR TENANTS

The following table presents information regarding the top 20 tenants in our retail properties by annualized base rent as of December 31, 2007:

Primary Tenant ⁽¹⁾	Fixed Rent (Number of Stores)	Percentage Rent or Common Area Costs In Lieu of Fixed Rent		GLA of Stores Leased	Annualized Base Rent ⁽²⁾
		(Number of Stores)	Total Stores		
Gap, Inc.	52	4	56	697,576	\$ 12,749,543
Foot Locker, Inc.	78	5	83	422,626	8,347,330
J.C. Penney Company, Inc.	23	6	29	3,105,987	6,999,315
Limited Brands, Inc.	58	14	72	317,418	6,712,622
Zale Corporation	84	1	85	67,169	5,641,482

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Sears Holding Corporation	24	6	30	3,678,235	5,301,733
American Eagle Outfitters, Inc.	35	1	36	197,953	5,195,282
Sterling Jewelers, Inc.	45	0	45	67,332	4,682,754
Dick's Sporting Goods, Inc.	9	0	9	435,893	4,628,230
Luxottica Group S.p.A.	54	1	55	129,848	3,971,549
Transworld Entertainment Corp.	39	4	43	182,260	3,932,914
The Finish Line, Inc.	36	1	37	173,897	3,713,803
Regis Corporation	101	0	101	123,848	3,632,142
Borders Group, Inc.	27	3	30	218,887	3,523,147
Golden Gate Private Equity ⁽³⁾	14	4	18	159,057	3,274,117
Abercrombie & Fitch Co.	18	0	18	124,062	3,260,293
Pacific Sunwear of California	36	2	38	135,367	3,208,101
Hallmark Cards, Inc.	38	4	42	170,164	3,192,606
Genesco, Inc.	60	0	60	74,793	3,093,554
RadioShack	47	0	47	96,673	2,828,495
Total	878	56	934	10,579,045	\$ 97,889,012

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- (1) Tenant includes all brands and concepts of the tenant.
(2) Includes our proportionate share of tenant rents from partnership properties based on our ownership percentage in the respective partnerships.
(3) Includes 18 Express stores.

RETAIL LEASE EXPIRATION SCHEDULE NON-ANCHORS

The following table presents scheduled lease expirations of non-anchor tenants for the next 10 years as of December 31, 2007:

For the Year Ending December 31,	Number of Leases Expiring	Annualized Base Rent of Expiring Leases ⁽¹⁾	Approximate GLA of Expiring Leases	Average Base Rent Per Square Foot of Expiring Leases	Percentage of Total Leased GLA Represented By Expiring Leases ⁽²⁾
2007 and prior ⁽³⁾	197	\$ 10,888,776	465,017	\$ 23.42	3.7%
2008	420	25,770,668	1,041,713	24.74	8.3%
2009	482	31,569,542	1,328,048	23.77	10.6%
2010	466	34,994,896	1,571,541	22.27	12.6%
2011	387	33,071,864	1,545,200	21.40	12.4%
2012	293	27,597,012	1,115,003	24.75	8.9%
2013	195	15,300,009	713,549	21.44	5.7%
2014	154	13,604,367	571,324	23.81	4.6%
2015	179	17,932,607	788,742	22.74	6.3%
2016	246	27,080,868	1,087,164	24.91	8.7%
2017	185	19,535,464	832,846	23.46	6.7%
	3,204	\$ 257,346,073	11,060,147	\$ 23.27	88.5%

- (1) Includes our proportionate share of tenant rent from partnership properties that are not consolidated by us based on our ownership percentage in the respective partnerships. Annualized base rent is calculated based only on fixed monthly rent as of December 31, 2007.
(2) Percentage of total leased GLA is calculated by dividing the approximate GLA of expiring leases by the total leased GLA, which is 12,495,222 square feet.
(3) Includes all tenant leases that had expired and were on a month-to-month basis as of December 31, 2007.

RETAIL LEASE EXPIRATION SCHEDULE ANCHORS

The following table presents scheduled lease expirations of anchor tenants for the next 10 years as of December 31, 2007:

For the Year Ending December 31,	Number of Leases Expiring	Annualized Base Rent of Expiring Leases ⁽¹⁾	Approximate GLA of Expiring Leases	Average Base Rent Per Square Foot of Expiring Leases	Percentage of Total Leased GLA Represented By Expiring Leases ⁽²⁾
2007 and prior ⁽³⁾	2	\$ 403,517	153,630	\$ 2.63	1.3%
2008	5	933,154	325,685	2.87	2.9%
2009	9	2,221,569	915,799	2.43	8.0%
2010	20	5,410,001	1,886,419	2.87	16.6%

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2011	23	5,423,326	1,893,066	2.86	16.6%
2012	9	2,128,529	889,626	2.39	7.8%
2013	12	4,309,265	1,010,702	4.26	8.9%
2014	6	2,081,285	662,582	3.14	5.8%
2015	1	468,666	85,212	5.50	0.7%
2016	3	863,386	455,432	1.90	4.0%
2017	5	2,007,773	435,254	4.61	3.8%
	95	\$ 26,250,471	8,713,407	\$ 3.01	76.5%

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- (1) Includes our proportionate share of tenant rent from partnership properties that are not consolidated by us based on our ownership percentage in the respective partnerships. Annualized base rent is calculated based only on fixed monthly rent as of December 31, 2007.
- (2) Percentage of total leased GLA is calculated by dividing the approximate GLA of expiring leases by the total leased GLA, which is 11,383,165 square feet.
- (3) Includes all tenant leases that had expired and were on a month-to-month basis as of December 31, 2007.

DEVELOPMENT PROPERTIES

The ground up development portion of our portfolio contains four properties in two states. Two of the development projects are classified as mixed use (a combination of retail and other uses), one project is classified as retail and one project is classified as other. For additional information regarding our development properties, see Item 1. Business Recent Developments Development.

OFFICE PROPERTIES

As of December 31, 2007, we owned two office properties. In August 2007, we acquired Plymouth Commons, a 60,000 square foot office building located within the boundaries of our Plymouth Meeting Mall in Plymouth Meeting, Pennsylvania. In 2005, we acquired Gadsden Mall in Gadsden, Alabama, and the acquisition included the nearby P&S Office Building, a 40,000 square foot office building that we consider to be non-strategic. These properties, in the aggregate, contributed less than 1% of our net rental income for the fiscal year ended December 31, 2007.

In January 2008, we acquired controlling interests in a partnership that owns One Cherry Hill Plaza, an office building located within the boundaries of our Cherry Hill Mall in Cherry Hill, New Jersey.

OFFICE SPACE

We lease our principal executive offices from Bellevue Associates, an entity in which certain of our officers/trustees have an interest. Our rented space under the office lease has a total of approximately 68,100 square feet. The term of the office lease is 10 years, and it commenced on November 1, 2004. We have the option to renew the lease for up to two additional five year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, we have the right on one occasion at any time during the seventh lease year to terminate the office lease upon the satisfaction of certain conditions. Effective June 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.

ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business we have been and may become involved in legal actions relating to the ownership and operation of our properties and the properties we manage for third parties. In management's opinion, the resolutions of any such pending legal actions are not expected to have a material adverse effect on our consolidated financial position or results of operations.

In June 2007, we 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 our application to develop a mixed use development project on Company-owned land in Alachua County, Florida. We acquired the approximately 540 acre site in February 2006 for \$21.5 million. We had \$29.4 million invested in this project as of December 31, 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 our development applications were a pretext and, in fact, resulted from our refusal to accede to the County's demand for payment and construction by us 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 our development application.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the quarter ended December 31, 2007.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Common Shares**

Our common shares of beneficial interest are listed on the New York Stock Exchange under the symbol PEI.

The following table presents the high and low sales prices for our common shares of beneficial interest, as reported by the New York Stock Exchange, and cash distributions paid per share for the periods indicated:

	High	Low	Dividend Paid
Quarter ended March 31, 2007	\$ 45.66	\$ 38.52	\$ 0.57
Quarter ended June 30, 2007	\$ 50.39	\$ 42.64	0.57
Quarter ended September 30, 2007	\$ 45.38	\$ 34.37	0.57
Quarter ended December 31, 2007	\$ 41.69	\$ 28.48	0.57
			\$ 2.28

	High	Low	Dividend Paid
Quarter ended March 31, 2006	\$ 44.44	\$ 36.95	\$ 0.57
Quarter ended June 30, 2006	\$ 43.91	\$ 36.75	0.57
Quarter ended September 30, 2006	\$ 43.41	\$ 37.30	0.57
Quarter ended December 31, 2006	\$ 44.53	\$ 37.48	0.57
			\$ 2.28

As of December 31, 2007, there were approximately 3,100 holders of record of our common shares and approximately 21,706 beneficial holders of our common shares.

We currently anticipate that cash distributions will continue to be paid in March, June, September and December. However, our future payment of distributions will be at the discretion of our Board of Trustees and will depend on numerous factors, including our cash flow, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors that our Board of Trustees deems relevant.

Units

Class A and Class B Units of PREIT Associates are redeemable by PREIT Associates at the election of the limited partner holding the Units at the time and for the consideration set forth in PREIT Associates' partnership agreement. In general, and subject to exceptions and limitations, beginning one year following the respective issue dates, qualifying parties may give one or more notices of redemption with respect to all or any part of the Class A Units then held by that party. Class B Units are redeemable at the option of the holder at any time after issuance.

If a notice of redemption is given, we have the right to elect to acquire the Units tendered for redemption for our own account, either in exchange for the issuance of a like number of our common shares, subject to adjustments for stock splits, recapitalizations and like events, or a cash payment equal to the average of the closing prices of our shares on the ten consecutive trading days immediately before our receipt, in our capacity as general partner of PREIT Associates, of the notice of redemption. If we decline to exercise this right, then PREIT Associates will pay a cash amount equal to the number of Units tendered multiplied by such average closing price.

Unregistered Offerings

On or about December 12, 2007, we issued an aggregate of 152,332 common shares in return for an equal amount of Class B Units. 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 fourth quarter of 2007 and the average price paid per share.

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ^{(1) (2)}
October 1 - October 31, 2007		\$		\$ 86,160,000
November 1 - November 30, 2007				\$ 86,160,000
December 1 - December 31, 2007				
Total		\$		

⁽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. This program expired in December 2007 by its terms.

⁽²⁾ On December 21, 2007, we announced that our Board of Trustees authorized a new program to repurchase up to \$100.0 million of our common shares in the open market or in privately negotiated or other transactions from January 1, 2008 until December 31, 2009.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA.**

The following table sets forth Selected Financial Data for the Company as of and for the years ended December 31, 2007, 2006, 2005, 2004, and 2003. The information set forth below should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform with the current year presentation.

(in thousands of dollars, except per share amounts)	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
Operating Results:					
Total revenue	\$ 466,572	\$ 459,308	\$ 428,875	\$ 401,135	\$ 175,879
Gains on sales of real estate - continuing operations	\$ 2,310	\$ 5,495	\$ 10,111	\$ 1,484	\$ 16,199
Income from continuing operations	\$ 17,283	\$ 28,729	\$ 49,191	\$ 46,345	\$ 27,068
Gains (adjustment to gains) on discontinued operations	\$ 6,699	\$ 1,414	\$ 6,158	\$ (550)	\$ 178,121
Net income	\$ 23,161	\$ 28,021	\$ 57,629	\$ 53,788	\$ 196,040
Dividends on preferred shares	\$ (7,941)	\$ (13,613)	\$ (13,613)	\$ (13,613)	\$ (15,333)
Net income available to common shareholders	\$ 28,567	\$ 14,408	\$ 44,016	\$ 40,175	\$ 194,507
Income from continuing operations per share - basic	\$ 0.57	\$ 0.39	\$ 0.96	\$ 0.90	\$ 1.25
Income from continuing operations per share - diluted	\$ 0.57	\$ 0.39	\$ 0.94	\$ 0.90	\$ 1.23
Net income per share - basic	\$ 0.73	\$ 0.37	\$ 1.19	\$ 1.11	\$ 9.54
Net income per share - diluted	\$ 0.73	\$ 0.37	\$ 1.17	\$ 1.10	\$ 9.36
Balance sheet data:					
Investments in real estate, at cost	\$ 3,367,294	\$ 3,132,370	\$ 2,867,436	\$ 2,533,576	\$ 2,292,205
Intangible assets, net	\$ 104,136	\$ 139,117	\$ 173,594	\$ 171,850	\$ 181,544
Total assets	\$ 3,264,074	\$ 3,145,609	\$ 3,018,547	\$ 2,731,403	\$ 2,701,537
Total debt, including debt premium	\$ 2,274,442	\$ 1,932,719	\$ 1,809,032	\$ 1,472,214	\$ 1,391,181
Minority interest	\$ 55,256	\$ 114,363	\$ 118,320	\$ 131,969	\$ 112,652
Shareholders' equity	\$ 757,619	\$ 929,300	\$ 976,876	\$ 1,004,466	\$ 1,023,634
Other data:					
Cash flows from operating activities	\$ 149,486	\$ 164,405	\$ 130,182	\$ 132,430	\$ 63,503
Cash used in investing activities	\$ (242,377)	\$ (187,744)	\$ (326,442)	\$ (104,118)	\$ (310,392)
Cash flows from (used in) financing activities	\$ 105,008	\$ 16,299	\$ 178,956	\$ (311,137)	\$ 276,313
Cash distributions per share - common	\$ 2.28	\$ 2.28	\$ 2.25	\$ 2.16	\$ 2.07

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ITEM 7. 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 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 eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 55 properties. Our portfolio contains 51 retail properties in 13 states and includes 38 shopping malls and 13 power and strip centers. The retail properties have a total of approximately 34.2 million square feet. The retail properties we consolidate for financial reporting purposes have a total of approximately 29.7 million square feet, of which we own approximately 23.3 million square feet. The retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.5 million square feet, of which 2.9 million square feet are owned by such partnerships. The ground-up development portion of our portfolio contains four properties in two states, with two classified as mixed use (a combination of retail and other uses), one classified as retail and one classified as other.

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 December 31, 2007, held a 94.6% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 51 retail properties and one of the four ground-up development properties in our portfolio through unconsolidated partnerships with third parties in which we own a 40%-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. Changes in our investments in these entities are recorded in the balance sheet caption entitled Investment in partnerships, at equity. In the case of deficit investment balances, such amounts are recorded in Investments in partnerships, deficit balances.

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

We provide our management, leasing and development services through PREIT Services, LLC, which generally manages and develops properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally manages and develops

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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.

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Our revenue consists primarily of fixed rental income, additional rent in the form of expense reimbursements, and percentage rent (rent that is based on a percentage of our tenants' sales or a percentage of sales in excess of thresholds that are specified in the leases) derived from our income producing 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 increased by \$14.2 million, or 98%, to \$28.6 million for the year ended December 31, 2007 from \$14.4 million for the year ended December 31, 2006. The increase in our net income resulted primarily from the \$13.3 million recorded in connection with our July 2007 redemption of our preferred shares, and a decrease in dividends paid on preferred shares as a result of the redemption. The preferred shares were issued in connection with our 2003 merger with Crown American Realty Trust and first became redeemable in July 2007. There were also higher gains on sales in 2007 than in 2006. Our net income was also affected by the changes to real estate revenue, property operating expenses, interest expense and depreciation and amortization expense resulting from the impact of new properties that we developed and are now operating, and other properties that were in various stages of redevelopment in 2007 and 2006.

Our net income available to common shareholders decreased by \$29.6 million, or 67%, to \$14.4 million for the year ended December 31, 2006 from \$44.0 million for the year ended December 31, 2005. Our net income was affected by the changes to real estate revenue, property operating expenses, interest expense and depreciation and amortization expense resulting from the impact on operating results of properties that are in various stages of redevelopment and from properties acquired or disposed of in 2005 and 2006. There were also lower gains on sales in 2006 than in 2005.

Recent Financial Market Disruptions

The United States credit markets have recently experienced significant dislocations and liquidity disruptions, which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially affected liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing.

Our capital strategy involves seeking the broadest range of funding sources (including commercial banks, institutional lenders, equity investors and joint venture partners) and funding vehicles (including mortgages, commercial loans and debt and equity securities) available to us on the most favorable terms. We pursue this goal by maintaining relationships with various capital sources and utilizing a variety of financing instruments. See Item 1. Business Capital Strategy. As part of this 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.

We expect that our use of debt to fund investments in current redevelopment and development projects will peak in the second half of 2008 or the first half of 2009, ahead of the time that such redevelopment and development assets will generate significant cash flows. Additional debt could lead to debt ratios that approach or exceed the debt ratios permitted by our Credit Facility. We are pursuing several alternatives that would enable us to avoid exceeding the permitted debt ratios, including refinancing our \$400.0 million, 15 property real estate mortgage investment conduit (REMIC) with General Electric Capital Company, which becomes prepayable without penalty in July 2008, and encumbering or disposing of certain properties currently in the REMIC; deferring selected capital expenditures; revising the terms of the Credit Facility debt covenants; issuing equity; or a combination of some or all of these alternatives.

Continued uncertainty in the credit markets might negatively impact our ability to access additional debt financing on reasonable terms, which might negatively affect our ability to fund our redevelopment and development projects and other business initiatives. Events in the credit markets have also had an adverse effect on other financial markets in the United States, which might make it more difficult or costly for us to raise capital through the issuance of common or preferred shares. See Risk Factors Risks Related to Our Indebtedness and Our Financing.

ACQUISITIONS, DISPOSITIONS, REDEVELOPMENT, AND DEVELOPMENT ACTIVITIES

We record our acquisitions based on estimates of fair value, as determined by management, based on information available and on assumptions about 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 a number of additional acquisition opportunities. Our evaluation includes an analysis of whether the properties meet the investment criteria we apply, given economic, market and other circumstances.

2008 Acquisitions

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In January 2008, we acquired a 49.9% ownership interest in Bala Cynwyd Associates L.P. See [Related Party Transactions](#) for further information about this transaction.

2007 Acquisitions

In August 2007, we purchased a 116 acre land parcel in Monroe Township, Pennsylvania for \$5.5 million. We had previously acquired an aggregate of approximately 10 acres on adjacent parcels. This property, which we named Monroe Marketplace, is currently under development.

In August 2007, we purchased Plymouth Commons, a 60,000 square foot office building adjacent to Plymouth Meeting Mall, for \$9.2 million.

2006 Acquisitions

In February 2006, we acquired 540 acres of land in Gainesville, Florida for \$21.5 million, including closing costs. The acquired parcels are collectively known as [Springhills](#). See [Item 3. Legal Proceedings](#).

In separate transactions from June 2006 to October 2006, we acquired the former Strawbridge's department store buildings at Cherry Hill Mall, Willow Grove Park and The Gallery at Market East from Federated Department Stores, Inc. following its merger with The May Department Stores Company.

In connection with our merger with Crown American Realty Trust in 2003 (the [Merger](#)), Crown's former operating partnership retained an 11% interest in the capital and 1% interest in the profits of two partnerships that own or ground lease 12 shopping malls. This retained interest was subject to a put-call arrangement between Crown's former operating partnership and us. Pursuant to this arrangement, we had the right to require Crown's former operating partnership to contribute the retained interest to us following the 36th month after the closing of the Merger (the closing took place in November 2003) in exchange for 341,297 additional units in PREIT Associates ([OP Units](#)). We exercised this right in December 2006. The value of the units issued was \$13.4 million. As of the closing date of the transaction, Mark E. Pasquerilla, who was elected a trustee of the Company following the Merger, and his affiliates had an interest in Crown's former operating partnership.

2005 Acquisitions

In February 2005, we purchased the 0.9 million square foot Cumberland Mall in Vineland, New Jersey and a vacant 1.7 acre parcel adjacent to the mall. The total price paid for the mall and the parcel was \$59.5 million, including the assumption of \$47.7 million in mortgage debt. We paid the \$0.9 million purchase price of the adjacent parcel in cash. We paid the remaining portion of the purchase price for the mall using 272,859 [OP Units](#), which were valued at approximately \$11.0 million. Of the purchase price amount, \$8.7 million was allocated to the value of in-place leases, \$0.2 million was allocated to above-market leases and \$0.3 million was allocated to below-market leases. We also recorded a debt premium of \$2.7 million in order to record Cumberland Mall's mortgage at fair value.

In March 2005, we acquired Gadsden Mall in Gadsden, Alabama, with 0.5 million square feet, for \$58.8 million. We funded the purchase price from our Credit Facility. Of the purchase price amount, \$7.8 million was allocated to the value of in-place leases, \$0.1 million was allocated to above-market leases and \$0.3 million was allocated to below-market leases. The acquisition included the nearby P&S Office Building, a 40,000 square foot office building that we consider to be non-strategic, and which we have classified as held for sale for financial reporting purposes.

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. We funded the remainder of our share of the purchase price with \$5.0 million in borrowings from our Credit Facility.

In December 2005, we acquired Woodland Mall in Grand Rapids, Michigan, with 1.2 million square feet, for \$177.4 million. We funded the purchase price with two 90-day corporate notes totaling \$94.4 million having a weighted average interest rate of 6.85% and secured by letters of credit, \$80.5 million from our Credit Facility, and the remainder from our available working capital. Of the purchase price amount, \$6.1 million was allocated to the value of in-place leases, \$6.4 million was allocated to above-market leases and \$6.5 million was allocated to below-market leases. We obtained long term financing on this property in March 2006 and used these funds to pay off the entire balance of the corporate notes.

2007 Dispositions

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

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

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In May 2007, we sold an outparcel and related land improvements at Plaza at Magnolia in Florence, South Carolina for \$11.3 million. We recorded a \$1.5 million gain on the sale.

In August 2007, we sold undeveloped land adjacent to Wiregrass Commons Mall in Dothan, Alabama for \$2.1 million. We recorded a \$0.3 million gain on the sale.

In December 2007, we sold undeveloped land in Monroe Township, Pennsylvania for \$0.8 million to Target Corporation. There was no gain or loss recorded on the sale.

2006 Dispositions

In transactions that closed between June 2006 and December 2006, we sold a total of four parcels at Plaza at Magnolia in Florence, South Carolina for an aggregate sale price of \$7.9 million and an aggregate gain of \$0.5 million.

In September 2006, we sold South Blanding Village, a strip center in Jacksonville, Florida, for \$7.5 million. We recorded a gain of \$1.4 million on the sale.

In December 2006, we sold a six acre parcel at Voorhees Town Center in Voorhees, New Jersey to a residential real estate developer for \$5.4 million. The parcel was subdivided from the retail property. We recorded a gain of \$4.7 million on the sale.

2005 Dispositions

In January 2005, we sold a 0.2 acre parcel associated with Wiregrass Commons Mall in Dothan, Alabama for \$0.1 million. We recognized a gain of \$0.1 million on the sale.

In May 2005, pursuant to an option granted to the tenant in a 1994 ground lease agreement, we sold a 13.5 acre parcel at Northeast Tower Center in Philadelphia, Pennsylvania containing a Home Depot store to Home Depot U.S.A., Inc. for \$12.5 million. We recognized a gain of \$0.6 million on the sale.

In July 2005, we sold our 40% interest in Laurel Mall in Hazleton, Pennsylvania to Laurel Mall, LLC. The total sale price of the mall was \$33.5 million, including assumed debt of \$22.6 million. Our net cash proceeds were \$3.9 million. We recorded a gain of \$5.0 million on the sale.

In July 2005, a partnership in which we had a 50% interest sold the property on which the Christiana Power Center Phase II project would have been built to the Delaware Department of Transportation for \$17.0 million. Our share of the proceeds was \$9.5 million, representing a reimbursement for the \$5.0 million of costs and expenses incurred previously in connection with the project and a gain on the sale of non-operating real estate of \$4.5 million.

In August 2005, we sold our four industrial properties (the Industrial Properties) for approximately \$4.3 million. We recorded a gain of \$3.7 million on the sale.

In December 2005, we sold Festival at Exton in Exton, Pennsylvania for \$20.2 million. We recorded a gain of \$2.5 million on the sale.

Valley View Downs

On October 1, 2007, we entered into an amendment to our 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) we 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) we 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.

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Under the amendment, we waived and terminated our rights to purchase the property contemplated for the racetrack and casino or to purchase an alternative location, and our right to ground lease such site to Valley View. We will be repaid the \$983,000 we paid to Valley View in connection with the original agreement, with interest from the date of the amendment, in 24 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. We will not own the property or the improvements on the property, nor will we 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 our waiver and termination, Valley View or Centaur or the affiliate of either that receives the Alternative Gaming license will pay us \$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.

Development and Redevelopment

We are engaged in the redevelopment of seven 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 and the amount invested as of December 31, 2007 for each on-going redevelopment project:

Redevelopment Project	Estimated Project Cost	Invested as of December 31, 2007
Cherry Hill Mall	\$ 197.7 million	\$ 56.7 million
Plymouth Meeting Mall	83.9 million	39.8 million
Willow Grove Park	39.1 million	32.2 million
Voorhees Town Center	79.3 million	27.6 million
North Hanover Mall	35.1 million	22.4 million
Lehigh Valley Mall ⁽¹⁾	22.2 million	19.5 million
Moorestown Mall	13.7 million	5.9 million
Jacksonville Mall	8.3 million	3.5 million
		\$ 207.6 million

⁽¹⁾ This property is unconsolidated. The amounts shown represent our share. The redevelopment project at this property was substantially completed in the fourth quarter of 2007.

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We are engaged in the ground-up development of four retail and other mixed use projects that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. We also own and manage two properties that are now operating while some remaining development takes place. As of December 31, 2007, we had incurred \$152.2 million of costs related to these projects. The costs identified to date to complete these ground-up projects are expected to be \$231.3 million in the aggregate (including costs already incurred), 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 will consider other uses of a property that would have synergies with our retail development and redevelopment based on several factors, including local demographics, market demand for other uses such as residential and office, and applicable land use regulations. We generally have several development projects under way at one time. These projects are typically 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 and the amounts invested as of December 31, 2007 in each on-going ground-up development project:

Development Project	Estimated Project Cost	Invested as of December 31, 2007	Actual/Expected Initial Occupancy Date
Operating Properties:			
New River Valley Center	\$ 29.2 million	\$ 26.5 million	2007
Sunrise Plaza (previously identified as Lacey Retail Center)	39.1 million	32.5 million	2007
Development Properties:			
Monroe Marketplace	80.9 million	23.6 million	2008
New Garden Town Center	82.1 million	38.8 million	2009
Springhills	To be determined	29.4 million	To be determined
Pavilion at Market East ⁽¹⁾	To be determined	1.4 million	To be determined
		\$ 152.2 million	

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

In connection with our current ground-up development and our redevelopment projects, we have made contractual and other commitments on these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of December 31, 2007, the remainder to be paid against these contractual and other commitments was \$121.6 million, which is expected to be financed through our Credit Facility or through various other capital sources. The development and redevelopment projects on which these commitments have been made have total expected remaining costs of \$361.3 million.

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

General

PRI provides management, leasing and development services for ten properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have indirect ownership interests. Total revenue earned by PRI for such services was \$0.9 million for each of the years ended December 31, 2007, 2006 and 2005, respectively. As of December 31, 2007, \$0.2 million was due from the property-owning partnerships to PRI. Of this amount, approximately \$46,000 was collected subsequent to December 31, 2007.

We lease our principal executive offices from Bellevue Associates (the Landlord), an entity in which certain of our officers/trustees have an interest. Total rent expense under this lease was \$1.4 million, \$1.5 million and \$1.5 million for the years ended December 31, 2007, 2006, and 2005, respectively. 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. We have the option to renew the lease for up to two additional five-year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, we have the right on one occasion at any time during the seventh lease year to terminate the office lease upon the satisfaction of certain conditions. Effective June 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.

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We use an airplane in which Ronald Rubin owns a fractional interest. We paid \$35,000, \$38,000 and \$217,000 in the years ended December 31, 2007, 2006 and 2005, respectively, for flight time used by employees on Company-related business.

As of December 31, 2007, eight of our officers had employment agreements with terms of up to three years that renew automatically for additional one-year or two-year terms. The agreements provided for aggregate base compensation for the year ended December 31, 2007 of \$3.0 million, subject to increases as approved by our compensation committee in future years, as well as additional incentive compensation.

In January 2008, we entered into a Contribution Agreement with Bala Cynwyd Associates, L.P. (BCA), City Line Associates, Ronald Rubin, George Rubin, Joseph Coradino, and two other individuals to acquire all of the partnership interests in BCA. We have agreed to pay approximately \$15.3 million for the BCA partnership interests over three years.

BCA entered into a tax deferred exchange agreement with the current owner of One Cherry Hill Plaza, an office building located within the boundaries of our Cherry Hill Mall (the Office Building), to acquire title to the Office Building in exchange for an office building located in Bala Cynwyd, Pennsylvania owned by BCA.

Ronald Rubin, George Rubin, Joseph Coradino and two other individuals (collectively, the Individuals) own 100% of a limited partnership that owned 50% of the partnership interests in BCA immediately prior to closing. Immediately prior to closing, BCA redeemed the other 50% of the partnership interest, which was held by a third party. At the initial closing under the Contribution Agreement and in exchange for a 0.1% general partner interest and 49.8% limited partner interest in BCA, we made a \$3.9 million capital contribution to BCA. A second closing is expected to occur pursuant to a put/call arrangement approximately one year after the initial closing, at which time we will acquire an additional 49.9% of the limited partner interest in BCA for approximately \$207,000 in cash and OP Units valued at approximately \$3.7 million. A third closing is expected to occur pursuant to a put/call arrangement approximately one year after the second closing, at which time the remaining interest in BCA will be acquired by us in exchange for OP Units valued at approximately \$13,800.

In accordance with our Related Party Transactions Policy, a Special Committee consisting exclusively of independent members of our Board of Trustees considered and approved the terms of the transaction, subject to final approval by our Board of Trustees. The disinterested members of our Board of Trustees approved the transaction. The transaction was completed in the first quarter of 2008.

We and PREIT Associates have agreed to indemnify the Individuals from and against certain tax liabilities resulting from a sale of the Office Building during the eight years following the initial closing.

PRI entered into a management agreement with BCA for the management of the Office Building.

In connection with the Merger, Crown American Properties, L.P. (CAP), a limited partnership of which Crown was the sole general partner before the Merger, retained an 11% interest in the capital and a 1% interest in the profits of two partnerships that own or ground lease 12 shopping malls. The retained interests were subject to a put-call arrangement between CAP and PREIT Associates. Pursuant to this arrangement, PREIT Associates had the right to require CAP to contribute the retained interest to PREIT Associates following the 36th month after the closing of the Merger (i.e., after November 20, 2006), and CAP had the right to contribute the retained interests to PREIT Associates following the 40th month after the closing of the Merger, in each case in exchange for 341,297 OP Units.

On December 27, 2006, PREIT Associates and CAP entered into a Purchase and Sale Agreement (the Exchange Agreement). Under the Exchange Agreement, PREIT Associates purchased the 11% interest in the capital and 1% interest in the profits of each of the two partnerships that own or ground lease the 12 shopping malls, effective as of 11:59 p.m. on December 31, 2006, in exchange for 341,297 OP Units. The OP Units are redeemable at the election of the holder at any time after issuance either for cash in an amount per OP Unit equal to the average closing price of a common share of the Company on the 10 trading days immediately before the date notice of redemption is received by the Company or, at the election of the Company, in exchange for the issuance of a like number of common shares of the Company. Based on the closing price of a common share of beneficial interest of the Company on December 29, 2006, the value of the OP Units issued was approximately \$13.4 million. As of the date of the Exchange Agreement, Mark E. Pasquerilla, who was elected a trustee of the Company following the Merger, had an interest in CAP.

The Exchange Agreement is based upon and consistent with the financial and other terms of the put-call arrangement, which was entered into by PREIT Associates and CAP in connection with the Merger and prior to Mark Pasquerilla serving as a trustee of the Company. The Board of Trustees of the Company, excluding Mr. Pasquerilla, reviewed, considered and approved the Exchange Agreement.

On December 22, 2005, we entered into a Unit Purchase Agreement with CAP. Under the agreement, we purchased 339,300 OP Units from CAP at \$36.375 per unit, a 3% discount from the closing price of our common shares on December 19, 2005 of \$37.50. The aggregate amount

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we paid for the OP Units was \$12.3 million. The terms of the agreement were negotiated between us and CAP. These terms were determined without reference to the provisions of the partnership agreement of PREIT Associates. The transaction was approved by our Board of Trustees. The Board authorized this transaction separate and apart from our share repurchase program that was in effect from 2005 to 2007.

In connection with the Merger, we entered into a tax protection agreement with Mark E. Pasquerilla (one of our trustees) and entities affiliated with Mr. Pasquerilla (the Pasquerilla Group). If we were to sell any of the protected properties during the first five years of the protection period, we would owe the Pasquerilla Group an amount equal to the sum of the hypothetical tax owed by the Pasquerilla Group, plus an amount intended to make the Pasquerilla Group whole for taxes that may be due upon receipt of such payments. From the end of the first five years through the end of the tax protection period, the payments are intended to compensate the affected parties for interest expense incurred on amounts borrowed to pay the taxes incurred on the sale. In 2007, we paid \$8,000 to the Pasquerilla Group pursuant to this agreement.

Executive Separation

In 2006, we announced the retirement of Jonathan B. Weller, a Vice Chairman of the Company. In connection with Mr. Weller's retirement, we entered into a Separation of Employment Agreement and General Release (the Separation Agreement) with Mr. Weller. Pursuant to the Separation Agreement, Mr. Weller also retired from our Board of Trustees and the Amended and Restated Employment Agreement by and between us and Mr. Weller dated as of January 1, 2004 was terminated. We recorded an expense of \$4.0 million in connection with Mr. Weller's separation from the Company. The expense included executive separation cash payments made to Mr. Weller along with the acceleration of the deferred compensation expense associated with the unvested restricted shares and the estimated fair value of Mr. Weller's share of the 2005-2008 Outperformance Program (OPP) (see Note 11 to our consolidated financial statements). Mr. Weller exercised his outstanding options in August 2006.

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 revenue and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration

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to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2007, 2006 and 2005, except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. This summary should be read in conjunction with the more complete discussion of our accounting policies included in Note 1 to our consolidated financial statements.

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.

Revenue Recognition

We derive over 95% of our revenue from tenant rent and other tenant related activities. Tenant rent includes base rent, percentage rent, expense reimbursements (such as common area maintenance, real estate taxes and utilities), amortization of above- and below-market intangibles and straight-line rent. We record base rent on a straight-line basis, which means that the monthly base rent income according to the terms of our leases with tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. When tenants vacate prior to the end of their lease, we accelerate amortization of any related unamortized straight-line rent balances, and unamortized above-market and below-market intangible balances are amortized as a decrease or increase to real estate revenue, respectively.

Percentage rent represents rental income that the tenant pays based on a percentage of its sales. Tenants that pay percentage rent usually pay in one of two ways: either a percentage of their total sales or a percentage of sales over a certain threshold. In the latter case, we do not record percentage rent until the sales threshold has been reached. Revenue for rent received from tenants prior to their due dates is deferred until the period to which the rent applies.

In addition to base rent, certain lease agreements contain provisions that require tenants to reimburse a fixed or pro rata share of real estate taxes and certain common area maintenance costs. Tenants generally make expense reimbursement payments monthly based on a budgeted amount determined at the beginning of the year. During the year, our income increases or decreases based on actual expense levels and changes in other factors that influence the reimbursement amounts, such as occupancy levels. Subsequent to the end of the year, we prepare a reconciliation of the actual amounts due from tenants. The difference between the actual amount due and the amounts paid by the tenant throughout the year is billed or credited to the tenant, depending on whether the tenant paid too little or too much during the year.

Lease termination fee income is recognized in the period when a termination agreement is signed and we are no longer obligated to provide space to the tenant. In the event that a tenant is in bankruptcy when the termination agreement is signed, termination fee income is deferred and recognized when it is received.

Our other main source of revenue comes from the provision of management services to third parties, including property management, brokerage, leasing and development. Management fees generally are a percentage of managed property revenue or cash receipts. Leasing fees are earned upon the consummation of new leases. Development fees are earned over the time period of the development activity and are recognized on the percentage of completion method. These activities collectively are included in Management company revenue in the consolidated statements of income.

Real Estate

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Land, buildings, fixtures and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to operations as incurred. Renovations or replacements, which improve or extend the life of an asset, are capitalized and depreciated over their estimated useful lives.

For financial reporting purposes, properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	30-50 years
Land improvements	15 years
Furniture/fixtures	3-10 years
Tenant improvements	Lease term

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We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties based on various factors, including industry standards, historical experience and the condition of the asset at the time of acquisition. These assessments have a direct impact on our net income. If we were to determine that a longer expected useful life was appropriate for a particular asset, it would be depreciated over more years, and, other things being equal, result in less annual depreciation expense and higher annual net income.

Our assessment of recoverability of certain other lease related costs must be made when we have a reason to believe that the tenant may not be able to perform under the terms of the lease as originally expected. This requires us to make estimates as to the recoverability of such costs.

Gains from sales of real estate properties and interests in partnerships generally are recognized using the full accrual method in accordance with the provisions of Statement of Financial Accounting Standards No. 66, Accounting for Real Estate Sales, provided that various criteria are met relating to the terms of sale and any subsequent involvement by us with the properties sold.

Intangible Assets

We account for our property acquisitions under the provisions of Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141). Pursuant to SFAS No. 141, the purchase price of a property is allocated to the property's assets based on our estimates of their fair value. The determination of the fair value of intangible assets requires significant estimates by management and considers many factors, including our expectations about the underlying property and the general market conditions in which the property operates. The judgment and subjectivity inherent in such assumptions can have a significant impact on the magnitude of the intangible assets that we record.

SFAS No. 141 provides guidance on allocating a portion of the purchase price of a property to intangible assets. Our methodology for this allocation includes estimating an as-if vacant fair value of the physical property, which is allocated to land, building and improvements. The difference between the purchase price and the as-if vacant fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of in-place leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value.

The value of in-place leases is estimated based on the value associated with the costs avoided in originating leases comparable to the acquired in-place leases, as well as the value associated with lost rental revenue during the assumed lease-up period. The value of in-place leases is amortized as real estate amortization over the remaining lease term.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimates of fair market lease rates for the comparable in-place leases, based on factors including historical experience, recently executed transactions and specific property issues, measured over a period equal to the remaining non-cancelable term of the lease. The value of above-market lease values is amortized as a reduction of rental income over the remaining terms of the respective leases. The value of below-market lease values is amortized as an increase to rental income over the remaining terms of the respective leases, including any below-market optional renewal period.

We allocate purchase price to customer relationship intangibles based on our assessment of the value of such relationships and if the customer relationships associated with the acquired property provide incremental value over the Company's existing relationships.

Assets Held for Sale and Discontinued Operations

The determination to classify an asset as held for sale requires significant estimates by us about the property and the expected market for the property, which are based on factors including recent sales of comparable properties, recent expressions of interest in the property, financial metrics of the property and the condition of the property. We must also determine if it will be possible under those market conditions to sell the property for an acceptable price within one year. When assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs of such assets. We generally consider operating properties to be held for sale when the sale transaction has been approved by the appropriate level of management and there are no known material contingencies relating to the sale such that the sale is probable within one year. If, in management's opinion, the net sales price of the assets that have been identified as held for sale is less than the net book value of the assets, the asset is written down to fair value less the cost to sell. Assets and liabilities related to assets classified as held for sale are presented separately in the consolidated balance sheet.

Assuming no significant continuing involvement, a sold operating real estate property is considered a discontinued operation. In addition, properties classified as held for sale are considered discontinued operations. Properties classified as discontinued operations are reclassified as such in the accompanying consolidated statement of income for each period presented. Interest expense that is specifically identifiable to the property is used in the computation of interest expense attributable to discontinued operations. See Note 2 to our consolidated financial

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statements for a description of the properties included in discontinued operations. Land parcels and other portions of operating properties, non-operating real estate and investments in partnerships are excluded from discontinued operations treatment.

Capitalization of Costs

Costs incurred in relation to development and redevelopment projects for interest, property taxes and insurance 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. We capitalize a portion of development department employees' compensation and benefits related to time spent involved in development and redevelopment projects.

We capitalize payments made to obtain options to acquire real property. All other related costs that are incurred before acquisition are capitalized if the acquisition of the property or 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 probable that the property will not be acquired.

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

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Asset Impairment

Real estate investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property's value is considered impaired only if our estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. This estimate takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. In addition, these estimates may consider a probability weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long lived asset are under consideration or when a range of possible values is estimated.

The determination of undiscounted cash flows requires significant estimates by us, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in the anticipated action to be taken with respect to the property could impact the determination of whether an impairment exists and whether the effects could materially impact our net income. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

Tenant Receivables

We make estimates of the collectibility of our tenant receivables related to tenant rent including base rent, straight-line rent, expense reimbursements and other revenue or income. We specifically analyze accounts receivable, including straight-line rent receivable, historical bad debts, customer creditworthiness, current economic and industry trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, we make estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the time required to reach an ultimate resolution of these claims can exceed one year. These estimates have a direct impact on our net income because a higher bad debt reserve results in less net income, other things being equal. We maintain a 15% reserve on our straight-line rent balances.

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2007, 2006 and 2005

Overview

Our results for the years ended December 31, 2007, 2006 and 2005 were significantly affected by ongoing redevelopment initiatives that were in various stages at several of our consolidated mall properties and one of our unconsolidated properties, and, to a lesser extent, new properties which we developed and are now operating. 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. The increase in net income available to common shareholders for the year ended December 31, 2007 was largely due to the effect of our redemption of all of our outstanding preferred shares, including a decrease in dividends on preferred shares following the redemption. The results of operations for the years ended December 31, 2007, 2006 and 2005 also reflect changes due to the acquisition and disposition of real estate properties during the respective periods (including sales classified as discontinued operations). We recorded aggregate gains resulting from dispositions of \$9.0 million, \$6.9 million and \$16.3 million in the years ended December 31, 2007, 2006 and 2005, respectively. In 2007, we disposed of Schuylkill Mall, an operating retail property, and several non-operating real estate parcels. In 2006, we disposed of one retail property. In 2005, we disposed of four industrial properties, one strip center and our partnership interest in one additional retail property. The 2006 results were affected 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 expense from one property that was reclassified from discontinued operations to continuing operations.

The table below sets forth certain occupancy statistics (including properties owned by partnerships in which we own a 50% interest) as of December 31, 2007, 2006, and 2005:

	Occupancy		
	As of December 31,		
	2007	2006	2005
Retail portfolio weighted average:			

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Total including anchors	91.2%	88.4%	92.6%
Excluding anchors	89.1%	87.9%	88.9%
Enclosed malls weighted average:			
Total including anchors	90.4%	87.2%	91.9%
Excluding anchors	88.1%	86.6%	87.6%
Power/strip centers weighted average	96.3%	96.9%	97.6%

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The following information sets forth our results of operations for the years ended December 31, 2007, 2006 and 2005:

(in thousands of dollars)	Year Ended December 31, 2007	% Change 2006 to 2007	Year Ended December 31, 2006	% Change 2005 to 2006	Year Ended December 31, 2005
Results of operations:					
Real estate revenue	\$ 459,596	1.0%	\$ 454,878	6.9%	\$ 425,630
Property operating expenses	(180,419)	2.7%	(175,707)	7.8%	(163,008)
Management company revenue	4,419	82.5%	2,422	10.2%	2,197
Interest and other income	2,557	27.3%	2,008	91.6%	1,048
General and administrative expenses	(42,946)	11.5%	(38,528)	8.2%	(35,615)
Executive separation		(100.0)%	(3,985)		
Income taxes	(413)	3.8%	(398)	(33.3)%	(597)
Interest expense	(98,860)	2.6%	(96,382)	17.7%	(81,907)
Depreciation and amortization	(132,184)	7.2%	(123,302)	12.3%	(109,796)
Equity in income of partnerships	4,637	(17.1)%	5,595	(25.1)%	7,474
Gains on sales of interests in real estate	579			(100.0)	