

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Form 10-Q

August 01, 2014

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014

or
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number: 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
(Exact name of Registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-6216339 (I.R.S. Employer Identification No.)
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200 South Broad Street Philadelphia, PA (Address of principal executive offices)	19102 (Zip Code)
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Registrant's telephone number, including area code (215) 875-0700

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company) Smaller reporting company	<input type="checkbox"/>

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

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

Common shares of beneficial interest, \$1.00 par value per share, outstanding at July 28, 2014: 68,775,675

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONTENTS

Insert Title Here

	Page
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited):</u>	
<u>Consolidated Balance Sheets—June 30, 2014 and December 31, 2013</u>	1
<u>Consolidated Statements of Operations—Three and Six Months Ended June 30, 2014 and 2013</u>	
<u>Consolidated Statements of Comprehensive Income (Loss)—Three and Six Months Ended June 30, 2014 and 2013</u>	4
<u>Consolidated Statements of Equity—Six Months Ended June 30, 2014</u>	5
<u>Consolidated Statements of Cash Flows—Six Months Ended June 30, 2014 and 2013</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	47
<u>PART II—OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	48
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 3. Not Applicable	—
Item 4. Not Applicable	—
Item 5. Not Applicable	—
Item 6. <u>Exhibits</u>	49
<u>Signatures</u>	50

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

Table of Contents

Item 1. FINANCIAL STATEMENTS

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)	June 30, 2014 (unaudited)	December 31, 2013
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	\$3,437,079	\$3,450,317
Construction in progress	85,416	68,835
Land held for development	8,716	8,716
Total investments in real estate	3,531,211	3,527,868
Accumulated depreciation	(1,063,080)	(1,012,746)
Net investments in real estate	2,468,131	2,515,122
INVESTMENTS IN PARTNERSHIPS, at equity:	19,170	15,963
OTHER ASSETS:		
Cash and cash equivalents	30,741	34,230
Tenant and other receivables (net of allowance for doubtful accounts of \$12,352 and \$13,123 at June 30, 2014 and December 31, 2013, respectively)	37,995	46,439
Intangible assets (net of accumulated amortization of \$14,923 and \$14,506 at June 30, 2014 and December 31, 2013, respectively)	8,434	9,075
Deferred costs and other assets	92,295	97,752
Total assets	\$2,656,766	\$2,718,581
LIABILITIES:		
Mortgage loans payable	\$1,494,801	\$1,502,650
Term loans	130,000	—
Revolving Facility	—	130,000
Tenants' deposits and deferred rent	17,119	17,896
Distributions in excess of partnership investments	64,675	64,491
Fair value of derivative liabilities	3,245	844
Accrued expenses and other liabilities	87,132	76,248
Total liabilities	1,796,972	1,792,129
COMMITMENTS AND CONTINGENCIES (Note 6):		
EQUITY:		
Series A Preferred Shares, \$.01 par value per share; 25,000 preferred shares authorized; 4,600 shares of Series A Preferred Shares issued and outstanding at each 46 of June 30, 2014 and December 31, 2013; liquidation preference of \$115,000		46
Series B Preferred Shares, \$.01 par value per share; 25,000 preferred shares authorized; 3,450 shares of Series B Preferred Shares issued and outstanding at each 35 of June 30, 2014 and December 31, 2013; liquidation preference of \$86,250		35
Shares of beneficial interest, \$1.00 par value per share; 200,000 shares authorized; issued and outstanding 68,749 shares at June 30, 2014 and 68,293 shares at December 31, 2013	68,749	68,293
Capital contributed in excess of par	1,470,525	1,467,460
Accumulated other comprehensive loss	(7,827)	(6,637)
Distributions in excess of net income	(703,758)	(636,939)
Total equity—Pennsylvania Real Estate Investment Trust	827,770	892,258
Noncontrolling interest	32,024	34,194
Total equity	859,794	926,452

Total liabilities and equity	\$2,656,766	\$2,718,581
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See accompanying notes to the unaudited consolidated financial statements.

1

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in thousands of dollars)	2014	2013	2014	2013
REVENUE:				
Real estate revenue:				
Base rent	\$71,646	\$69,207	\$142,988	\$137,709
Expense reimbursements	30,879	30,931	65,230	61,792
Percentage rent	324	584	914	1,566
Lease termination revenue	154	91	254	231
Other real estate revenue	3,142	2,735	5,368	5,428
Total real estate revenue	106,145	103,548	214,754	206,726
Other income	680	1,395	1,458	2,283
Total revenue	106,825	104,943	216,212	209,009
EXPENSES:				
Operating expenses:				
CAM and real estate taxes	(35,228	) (34,642	) (74,631	) (69,541
Utilities	(5,841	) (5,068	) (14,051	) (10,126
Other operating expenses	(3,295	) (3,909	) (7,399	) (7,647
Total operating expenses	(44,364	) (43,619	) (96,081	) (87,314
Depreciation and amortization	(37,135	) (35,088	) (73,370	) (68,705
Other expenses:				
General and administrative expenses	(8,774	) (9,606	) (17,851	) (18,462
Impairment of assets	(16,098	) —	(17,398) —
Provision for employee separation expense	(4,877	) (1,035	) (4,877	) (2,314
Acquisition costs and other expenses	(960	) (198	) (2,606	) (400
Total other expenses	(30,709	) (10,839	) (42,732	) (21,176
Interest expense, net	(21,550	) (27,689	) (41,720	) (55,027
Total expenses	(133,758	) (117,235	) (253,903	) (232,222
Loss before equity in income of partnerships, gain on sale of interest in real estate, discontinued operations and gains on sales of discontinued operations	(26,933	) (12,292	) (37,691	) (23,213
Equity in income of partnerships	2,784	2,283	5,186	4,736
Gain on sale of interest in real estate	99	—	99	—
Loss from continuing operations	(24,050	) (10,009	) (32,406	) (18,477
Discontinued operations:				
Operating results from discontinued operations	—	1,000	—	2,021
Gains on sales of discontinued operations	—	—	—	33,254
Income from discontinued operations	—	1,000	—	35,275
Net (loss) income	(24,050	) (9,009	) (32,406	) 16,798
Less: net loss (income) attributable to noncontrolling interest	725	314	977	(691
Net (loss) income attributable to PREIT	(23,325	) (8,695	) (31,429	) 16,107
Less: preferred share dividends	(3,962	) (3,962	) (7,924	) (7,924
Net (loss) income attributable to PREIT common shareholders	\$(27,287	) \$(12,657	) \$(39,353	) \$8,183

See accompanying notes to the unaudited consolidated financial statements.

2

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands of dollars, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Loss from continuing operations	\$(24,050	) \$(10,009	) \$(32,406	) \$(18,477
Noncontrolling interest	725	348	977	677
Dividends on preferred shares	(3,962	) (3,962	) (7,924	) (7,924
Dividends on unvested restricted shares	(92	) (103	) (205	) (211
Loss from continuing operations used to calculate loss per share—basic and diluted	\$(27,379	) \$(13,726	) \$(39,558	) \$(25,935
Income from discontinued operations	\$—	\$1,000	\$—	\$35,275
Noncontrolling interest	—	(34	) —	(1,368
Income from discontinued operations used to calculate earnings per share—basic and diluted	\$—	\$966	\$—	\$33,907
Basic and diluted (loss) earnings per share:				
Loss from continuing operations	\$(0.40	) \$(0.22	) \$(0.58	) \$(0.43
Income from discontinued operations	—	0.02	—	0.56
	\$(0.40	) \$(0.20	) \$(0.58	) \$0.13
(in thousands of shares)				
Weighted average shares outstanding—basic	68,236	63,540	68,091	59,661
Effect of common share equivalents ⁽¹⁾	—	—	—	—
Weighted average shares outstanding—diluted	68,236	63,540	68,091	59,661

The Company had net losses from continuing operations for all periods presented. Therefore, the effects of common share equivalents of 309 and 727 for the three months ended June 30, 2014 and 2013, respectively, and 326 and 780 for the six months ended June 30, 2014 and 2013, respectively, are excluded from the calculation of diluted loss per share for these periods because they would be antidilutive.

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(in thousands of dollars)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Comprehensive (loss) income:					
Net (loss) income	\$ (24,050	) \$ (9,009	) \$ (32,406	) \$ 16,798
Unrealized (loss) gain on derivatives	(1,919	) 5,917	(3,102	) 8,096
Amortization of losses of settled swaps, net of gains	1,544	3,577	1,837	3,782	
Total comprehensive (loss) income	(24,425	) 485	(33,671	) 28,676
Less: comprehensive loss (income) attributable to noncontrolling interest	773	(23) 1,052	(1,121)
Comprehensive (loss) income attributable to PREIT	\$ (23,652	) \$ 462	\$ (32,619	) \$ 27,555

See accompanying notes to the unaudited consolidated financial statements.

4

Table of ContentsPENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF EQUITY

Six Months Ended

June 30, 2014

(Unaudited)

(in thousands of dollars, except per share amounts)	Total Equity	PREIT Shareholders			Capital Contributed in Excess of Par	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non-controlling interest
		Series A Preferred Shares, \$0.01 par	Series B Preferred Shares, \$0.01 par	Shares of Beneficial Interest, \$1.00 Par				
Balance								
December 31, 2013	\$926,452	\$46	\$35	\$68,293	\$1,467,460	\$ (6,637)	\$ (636,939)	\$34,194
Net loss	(32,406)	—	—	—	—	—	(31,429)	(977)
Other comprehensive loss	(1,265)	—	—	—	—	(1,190)	—	(75)
Shares issued under employee compensation plans, net of shares retired	(1,942)	—	—	456	(2,398)	—	—	—
Amortization of deferred compensation	5,463	—	—	—	5,463	—	—	—
Distributions paid to common shareholders (\$0.40 per share)	(27,466)	—	—	—	—	—	(27,466)	—
Distributions paid to Series A preferred shareholders (\$1.0312 per share)	(4,744)	—	—	—	—	—	(4,744)	—
Distributions paid to Series B preferred shareholders (\$0.9218 per share)	(3,180)	—	—	—	—	—	(3,180)	—
Noncontrolling interests:								
Distributions paid to	(852)	—	—	—	—	—	—	(852)

Operating Partnership unit holders (\$0.40 per unit)									
Other distributions to noncontrolling interests, net	(266	)	—	—	—	—	—	—	(266
Balance June 30, 2014	\$ 859,794	\$ 46	\$ 35	\$ 68,749	\$ 1,470,525	\$ (7,827	)	\$ (703,758)
									\$ 32,024

See accompanying notes to the unaudited consolidated financial statements.

5

Table of ContentsPENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands of dollars)	Six Months Ended	
	June 30, 2014	2013
Cash flows from operating activities:		
Net (loss) income	\$(32,406	) \$16,798
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	68,415	65,430
Amortization	4,949	6,995
Straight-line rent adjustments	(823	) (757
Provision for doubtful accounts	629	1,103
Amortization of deferred compensation	5,463	4,422
Loss on hedge ineffectiveness	1,238	2,693
Gains on sales of real estate	(99	) (33,254
Equity in income of partnerships, net of distributions	(853	) (1,623
Impairment of assets and expensed project costs	17,659	—
Change in assets and liabilities:		
Net change in other assets	14,739	10,330
Net change in other liabilities	4,855	(14,372
Net cash provided by operating activities	83,766	57,765
Cash flows from investing activities:		
Investments in consolidated real estate acquisitions	(20,000	) (60,879
Additions to construction in progress	(17,493	) (13,775
Investments in real estate improvements	(19,502	) (11,224
Cash proceeds from sales of real estate	23,600	126,895
Additions to leasehold improvements	(736	) (145
Investments in partnerships	(3,651	) (166
Capitalized leasing costs	(2,829	) (2,722
Increase in cash escrows	(211	) (470
Cash distributions from partnerships in excess of equity in income	1,482	577
Net cash (used in) provided by investing activities	(39,340	) 38,091
Cash flows from financing activities:		
Net proceeds from issuance of common shares	—	220,300
Borrowings from (repayments of) term loans	130,000	(182,000
Net (repayments of) borrowings from revolving facility	(130,000	) 35,000
Proceeds from mortgage loans	—	76,692
Principal installments on mortgage loans	(7,849	) (8,447
Repayments of mortgage loans	—	(217,524
Payment of deferred financing costs	(1,882	) (3,613
Dividends paid to common shareholders	(27,466	) (22,402
Dividends paid to preferred shareholders	(7,924	) (7,924
Distributions paid to Operating Partnership unit holders	(852	) (813
Value of shares of beneficial interest issued	2,691	828
Value of shares retired under equity incentive plans, net of shares issued	(4,633	) (2,418
Net cash used in financing activities	(47,915	) (112,321
Net change in cash and cash equivalents	(3,489	) (16,465
Cash and cash equivalents, beginning of period	34,230	33,990

Cash and cash equivalents, end of period	\$30,741	\$17,525
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See accompanying notes to the unaudited consolidated financial statements.

6

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

1. BASIS OF PRESENTATION

Nature of Operations

Pennsylvania Real Estate Investment Trust (“PREIT” or the “Company”) prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. Our unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in PREIT’s Annual Report on Form 10-K for the year ended December 31, 2013. In our opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, the consolidated results of our operations, consolidated statements of other comprehensive income (loss), consolidated statements of equity and our consolidated statements of cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

PREIT, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (“REITs”) in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of June 30, 2014, our portfolio consisted of a total of 45 properties in 12 states, including 34 shopping malls, seven other retail properties and four development properties, with two of the development properties classified as “mixed use” (a combination of retail and other uses), one of the properties classified as “other retail” (outlet) and one of the development properties classified as “other.”

We hold our interest in our portfolio of properties through our operating partnership, PREIT Associates, L.P. (“PREIT Associates” or the “Operating Partnership”). We are the sole general partner of the Operating Partnership and, as of June 30, 2014, we held a 97.0% controlling interest in the Operating Partnership, and consolidated it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem such partner’s units of limited partnership interest in the Operating Partnership (“OP Units”) for cash or, at our election, we may acquire such OP Units in exchange for our common shares on a one-for-one basis, in some cases beginning one year following the respective issue dates of the OP Units and in other cases immediately. If all of the outstanding OP Units held by limited partners had been redeemed for cash as of June 30, 2014, the total amount that would have been distributed would have been \$40.1 million, which is calculated using our June 30, 2014 closing price on the New York Stock Exchange of \$18.82 per share multiplied by the number of outstanding OP Units held by limited partners, which was 2,129,202 as of June 30, 2014.

We provide management, leasing and real estate development services through two companies: PREIT Services, LLC (“PREIT Services”), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (“PRI”), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties owned by partnerships in which we own an interest

and properties that are owned by third parties in which we do not have an interest. PREIT Services and PRI are consolidated. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer an expanded menu of services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law.

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate our consolidated operations on a geographic basis. Due to the nature of our operating properties, which involve retail shopping, we have concluded that our individual properties have similar economic characteristics and meet all other aggregation criteria. Accordingly, we have aggregated our individual properties into one reportable segment. In addition, no single tenant accounts for 10% or more of consolidated revenue, and none of our properties are located outside the United States.

Table of Contents

Fair Value

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

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

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

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

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

New Accounting Developments

In May 2014, the Financial Accounting Standards Board issued "Revenue from Contracts with Customers." The objective of this new standard is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of this new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt this standard. We are currently evaluating the new guidance and have not determined the impact this standard may have on our financial statements nor have we decided upon the method of adoption.

In April 2014, we adopted new accounting requirements pertaining to the reporting of discontinued operations. These new accounting requirements are required to be effective for the first quarter of 2015 but may be adopted as early as the first quarter of 2014 only for disposals or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. Under these new accounting requirements, only disposals representing a strategic shift in operations will be presented as discontinued operations. Previously, under U.S. GAAP, companies that sold a single investment property were generally required to report the sale as a discontinued operation, which required the companies to reclassify earnings from continuing operations for all periods presented. These new accounting requirements require expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations.

In June 2014, we sold South Mall in Allentown, Pennsylvania. We applied these new accounting requirements by reporting the results of operations of South Mall in the continuing operations section of our unaudited consolidated statements of operations.

Correction of Prior Period Presentation

Certain prior period amounts have been reclassified to conform with the current year presentation.

Our previously reported results of operations for the three and six months ended June 30, 2013 have been corrected to eliminate certain immaterial intercompany revenues and expenses. These immaterial corrections had no effect on net income (loss), basic or diluted earnings (loss) per share amounts, comprehensive income (loss), shareholders' equity or cash flows. The immaterial

Table of Contents

corrections reduced both other real estate revenue and other operating expenses by approximately \$0.1 million and \$0.3 million for the three and six months ended June 30, 2013, respectively.

2. REAL ESTATE ACTIVITIES

Investments in real estate as of June 30, 2014 and December 31, 2013 were comprised of the following:

(in thousands of dollars)	As of June 30, 2014	As of December 31, 2013
Buildings, improvements and construction in progress	\$3,056,170	\$3,049,758
Land, including land held for development	475,041	478,110
Total investments in real estate	3,531,211	3,527,868
Accumulated depreciation	(1,063,080	) (1,012,746
Net investments in real estate	\$2,468,131	\$2,515,122

Capitalization of Costs

The following table summarizes our capitalized salaries, commissions and benefits and interest for the three and six months ended June 30, 2014 and 2013:

(in thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Development/Redevelopment Activities:				
Salaries and benefits	\$431	\$136	\$825	\$313
Interest	191	213	294	289
Leasing Activities:				
Salaries, commissions and benefits	1,409	1,185	2,829	2,722

Dispositions

In July 2014, we entered into a 50/50 joint venture with The Macerich Company to redevelop the Gallery at Market East in Philadelphia, Pennsylvania. In connection therewith, we contributed and sold real estate assets to the venture and Macerich acquired its interest in the venture and real estate from us for \$106.8 million in cash. It is expected that both parties will make additional investments in the project. We used \$25.8 million of such proceeds to repay a mortgage loan secured by 801 Market Street, a property that is part of the Gallery complex, \$50.0 million to repay the outstanding balance on our 2013 Revolving Facility, and the remaining proceeds for general corporate purposes.

In June 2014, we sold South Mall in Allentown, Pennsylvania for \$23.6 million, representing a capitalization rate of 10.1%. We recorded a gain of \$0.1 million from the sale of this property.

Impairment of Assets

Nittany Mall

In June 2014, we recorded a loss on impairment of assets at Nittany Mall in State College, Pennsylvania of \$13.9 million. During the second quarter of 2014, we entered into negotiations with a prospective buyer of the property, which are ongoing and could result in changes to our underlying assumptions. As a result of these negotiations, we

determined that the holding period for the property was less than had been previously estimated, which we concluded to be a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the purchase and sale agreement with the prospective buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Nittany Mall were less than the carrying value of the property, and recorded the impairment loss.

Table of Contents

North Hanover Mall

In June 2014, we recorded a loss on impairment of assets at North Hanover Mall in Hanover, Pennsylvania of \$2.2 million. During the second quarter of 2014, we entered into negotiations with a prospective buyer of the property, which are ongoing and could result in changes to our underlying assumptions. As a result of these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded to be a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the purchase and sale agreement with the prospective buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for North Hanover were less than the carrying value of the property, and recorded the impairment loss. We previously recognized impairment losses on North Hanover of \$6.3 million in 2013 and \$24.1 million in 2011.

South Mall

In March 2014, we recorded a loss on impairment of assets at South Mall in Allentown, Pennsylvania of \$1.3 million. We sold the property in June 2014.

Discontinued Operations

We have presented as discontinued operations the operating results of Phillipsburg Mall, Orlando Fashion Square, Chambersburg Mall, Paxton Towne Centre, Christiana Center and Commons at Magnolia, which are properties that were sold in 2013. The following table summarizes revenue and expense information for the three and six months ended June 30, 2013 for these discontinued operations (there were no operating results for these properties from, and there were no properties classified in, discontinued operations in the three or six months ended June 30, 2014):

(in thousands of dollars)	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Real estate revenue	\$2,745	\$6,888
Expenses:		
Operating expenses	(795	) (2,881
Depreciation and amortization	(363	) (727
Interest expense	(587	) (1,259
Total expenses	(1,745	) (4,867
Operating results from discontinued operations	1,000	2,021
Gains on sales of discontinued operations	—	33,254
Income from discontinued operations	\$1,000	\$35,275

Table of Contents

3. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in our unconsolidated partnerships as of June 30, 2014 and December 31, 2013:

(in thousands of dollars)	As of June 30, 2014	As of December 31, 2013
ASSETS:		
Investments in real estate, at cost:		
Operating properties	\$419,458	\$416,964
Construction in progress	20,037	2,298
Total investments in real estate	439,495	419,262
Accumulated depreciation	(175,850)	(169,369)
Net investments in real estate	263,645	249,893
Cash and cash equivalents	11,831	15,327
Deferred costs and other assets, net	18,011	19,474
Total assets	293,487	284,694
LIABILITIES AND PARTNERS' DEFICIT:		
Mortgage loans payable	395,266	398,717
Other liabilities	9,841	9,667
Total liabilities	405,107	408,384
Net deficit	(111,620)	(123,690)
Partners' share	(57,071)	(66,325)
PREIT's share	(54,549)	(57,365)
Excess investment ⁽¹⁾	9,044	8,837
Net investments and advances	\$(45,505)	\$(48,528)
Investment in partnerships, at equity	\$19,170	\$15,963
Distributions in excess of partnership investments	(64,675)	(64,491)
Net investments and advances	\$(45,505)	\$(48,528)

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

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

Table of Contents

The following table summarizes our share of equity in income of partnerships for the three and six months ended June 30, 2014 and 2013:

(in thousands of dollars)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Real estate revenue	\$20,331	\$19,528	\$41,507	\$39,722
Expenses:				
Operating expenses	(5,749)	(5,725)	(12,849)	(11,694)
Interest expense	(5,452)	(5,545)	(10,927)	(11,094)
Depreciation and amortization	(3,413)	(3,534)	(7,062)	(7,106)
Total expenses	(14,614)	(14,804)	(30,838)	(29,894)
Net income	5,717	4,724	10,669	9,828
Less: Partners' share	(2,858)	(2,339)	(5,331)	(4,885)
PREIT's share	2,859	2,385	5,338	4,943
Amortization of excess investment	(75)	(102)	(152)	(207)
Equity in income of partnerships	\$2,784	\$2,283	\$5,186	\$4,736

Acquisitions

In June 2014, we contributed \$3.2 million, representing a 25% interest, to the partnership that will be developing Gloucester Premium Outlets in Gloucester Township, New Jersey. The partnership used our and our partners' contribution to purchase the land on which the property will be developed.

Financing Activity

In June 2014, the partnership that will be developing Gloucester Premium Outlets entered into a \$90.0 million construction loan. The initial term of the loan is four years with an extension option for one year. The loan is interest only and the interest rate is LIBOR plus 1.50% during the initial term and decreases to LIBOR plus 1.40% if and when the project is completed and a 1.10x debt service coverage ratio is achieved.

Lehigh Valley Mall

We have a 50% partnership interest in Lehigh Valley Associates LP, the owner of the substantial majority of Lehigh Valley Mall, which is a significant unconsolidated subsidiary, and which is included in the amounts above. Summarized balance sheet information as of June 30, 2014 and December 31, 2013 and summarized statement of operations information for the three and six months ended June 30, 2014 and 2013 for this entity, which is accounted for using the equity method, is as follows:

(in thousands of dollars)	As of	
	June 30, 2014	December 31, 2013
Summarized balance sheet information		
Total assets	\$51,379	\$55,592
Mortgage loan payable	132,484	133,542

Table of Contents

(in thousands of dollars)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Summarized statement of operations information				
Revenue	\$8,961	\$8,509	\$18,096	\$17,326
Property operating expenses	(2,455)	(2,385)	(5,211)	(4,607)
Interest expense	(1,964)	(1,994)	(3,935)	(3,996)
Net income	3,774	3,326	7,090	7,082
PREIT's share of equity in income of partnership	1,887	1,663	3,545	3,541

4. FINANCING ACTIVITY

2013 Revolving Facility, as amended

In April 2013, PREIT, PREIT Associates, and PRI (collectively, the "Borrower" or "we") entered into a credit agreement (as amended, the "2013 Revolving Facility") with Wells Fargo Bank, National Association, and the other financial institutions signatory thereto, for a \$400.0 million senior unsecured revolving credit facility. The 2013 Revolving Facility replaced the previously existing 2010 Credit Facility. In December 2013, we amended the 2013 Revolving Facility to make certain terms of the 2013 Revolving Facility consistent with the terms of the 2014 Term Loans (discussed below). The 2013 Revolving Facility and the 2014 Term Loans are collectively referred to as the "Credit Agreements." All capitalized terms used in this note 4 and not otherwise defined herein have the meanings ascribed to such terms in the 2013 Revolving Facility.

As of June 30, 2014, there were no amounts outstanding under our 2013 Revolving Facility, and \$7.1 million was pledged as collateral for letters of credit. The unused portion of the 2013 Revolving Facility that was available to us was \$392.9 million.

Interest expense related to the 2013 Revolving Facility was \$0.3 million and \$0.8 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.8 million for each of the six months ended June 30, 2014 and 2013, respectively. Deferred financing fee amortization associated with the 2013 Revolving Facility was \$0.4 million for each of the three months ended June 30, 2014 and 2013, and \$0.7 million and \$0.4 million for the six months ended June 30, 2014 and 2013, respectively.

The initial maturity of the 2013 Revolving Facility is April 17, 2016, and the Borrower has options for two one-year extensions of the initial maturity date, subject to certain conditions and to the payment of extension fees of 0.15% and 0.20% of the Facility Amount for the first and second options, respectively.

The Borrower has the option to increase the maximum amount available under the 2013 Revolving Facility, through an accordion option, from \$400.0 million to as much as \$600.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in Revolving Commitments from the current lenders or Revolving Commitments from new lenders. No option to increase the maximum amount available under the 2013 Revolving Facility has been exercised by the Borrower.

Amounts borrowed under the 2013 Revolving Facility bear interest at a rate between 1.50% and 2.05% per annum, depending on PREIT's leverage, in excess of LIBOR, with no floor, as set forth in the table below. The rate in effect at June 30, 2014 was 1.70% per annum in excess of LIBOR. In determining PREIT's leverage (the ratio of Total

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Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is (a) 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months, and (b) 7.50% for any other Property.

Level	Ratio of Total Liabilities to Gross Asset Value	Applicable Margin
1	Less than 0.450 to 1.00	1.50 %
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.70 %
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.85 %
4	Equal to or greater than 0.550 to 1.00	2.05 %

Table of Contents

In the event that we seek and obtain an investment grade credit rating, alternative interest rates would apply. The unused portion of the 2013 Revolving Facility is subject to a fee of 0.30% per annum. In the event that we seek and obtain an investment grade credit rating, alternative facility fees would apply.

PREIT and the subsidiaries of PREIT that either (1) account for more than 2.5% of adjusted Gross Asset Value (other than an Excluded Subsidiary), (2) own or lease an Unencumbered Property, or (3) own, directly or indirectly, a subsidiary described in clause (2) serve as guarantors for funds borrowed under the 2013 Credit Facility. In the event that we seek and obtain an investment grade credit rating, we may request that a subsidiary guarantor be released, unless such guarantor becomes obligated in respect of the debt of the Borrower or another subsidiary or owns Unencumbered Property or incurs recourse debt.

The 2013 Revolving Facility and the 2014 Term Loans (discussed below) are cross-defaulted with one another.

The 2013 Revolving Facility and the 2014 Term Loans contain certain affirmative and negative covenants which are identical and which are described in detail below in the section entitled "Identical covenants contained in the 2013 Revolving Facility and 2014 Term Loans." As of June 30, 2014, the Borrower was in compliance with all such financial covenants.

The Borrower may prepay the 2013 Revolving Facility at any time without premium or penalty, subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings. The Borrower must repay the entire principal amount outstanding under the 2013 Revolving Facility at the end of its term, as the term may be extended.

Upon the expiration of any applicable cure period following an event of default, the lenders may declare all of the obligations in connection with the 2013 Revolving Facility immediately due and payable, and the Commitments of the lenders to make further loans under the 2013 Revolving Facility will terminate. Upon the occurrence of a voluntary or involuntary bankruptcy proceeding of PREIT, PREIT Associates, PRI, any Material Subsidiary, any subsidiary that owns or leases an Unencumbered Property or certain other subsidiaries, all outstanding amounts will automatically become immediately due and payable and the Commitments of the lenders to make further loans will automatically terminate.

2014 Term Loans

On January 8, 2014, the Borrower entered into two unsecured term loans in the initial aggregate amount of \$250.0 million, comprised of:

(1) a 5 Year Term Loan Agreement (the "5 Year Term Loan") with Wells Fargo Bank, National Association, U.S. Bank National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured 5 year term loan facility; and

(2) a 7 Year Term Loan Agreement (the "7 Year Term Loan" and, together with the 5 Year Term Loan, the "2014 Term Loans") with Wells Fargo Bank, National Association, Capital One, National Association and the other financial institutions signatory thereto, for a \$100.0 million senior unsecured 7 year term loan facility.

Amounts borrowed under the 2014 Term Loans bear interest at the rate specified below per annum, depending on PREIT's leverage, in excess of LIBOR, with no floor. In determining PREIT's leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is (a) 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months, and (b) 7.50% for any other Property.

Level	Ratio of Total Liabilities to Gross Asset Value	5 Year Term Loan Applicable Margin	7 Year Term Loan Applicable Margin
1	Less than 0.450 to 1.00	1.35%	1.80%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.45%	1.95%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.60%	2.15%
4	Equal to or greater than 0.550 to 1.00	1.90%	2.35%

The initial rate in effect under the 5 Year Term Loan was 1.45% per annum in excess of LIBOR. The initial rate in effect under the 7 Year Term Loan was 1.95% per annum in excess of LIBOR.

Table of Contents

If PREIT seeks and obtains an investment grade credit rating and so notifies the lenders under the respective 2014 Term Loans, alternative interest rates would apply.

The table set forth below presents the amount outstanding, interest rate (inclusive of the LIBOR spread) in effect and the maturity dates of the 2014 Term Loans as of June 30, 2014:

(in millions of dollars)	5 Year Term Loan	7 Year Term Loan	
Total facility	\$ 150.0	\$ 100.0	
Amount outstanding	\$ 100.0	\$ 30.0	
Interest rate	1.60	% 2.10	%
Maturity date	January 2019	January 2021	

Interest expense related to the 2014 Term Loans was \$1.2 million and \$2.2 million for the three and six months ended June 30, 2014, respectively. Deferred financing fee amortization associated with the 2014 Term Loans was \$0.1 million for each of the three and six months ended June 30, 2014.

Under the 2014 Term Loans, there is a deferred draw feature that enables PREIT to borrow the amounts specified in each of the term loans over a period of up to one year. From the effective date until either one year later or until the maximum amount under the respective loan is borrowed (or until the lenders' commitments are otherwise terminated), the unused portion of the 2014 Term Loans is subject to a fee of 0.20%, in the case of the 5 year Term Loan, and 0.35%, in the case of the 7 Year Term Loan, per annum. There is an additional commitment termination fee under the 7 Year Term Loan if the maximum amount is not borrowed within one year.

PREIT and the subsidiaries of PREIT that either (1) account for more than 2.5% of adjusted Gross Asset Value (other than an Excluded Subsidiary), (2) own or lease an Unencumbered Property, (3) own, directly or indirectly, a subsidiary described in clause (2), or (4) are guarantors under the 2013 Revolving Facility serve as guarantors for funds borrowed under the 2014 Term Loans. In the event that we seek and obtain an investment grade credit rating, we may request that a subsidiary guarantor be released, unless such guarantor becomes obligated in respect of the debt of the Borrower or another subsidiary, or owns Unencumbered Property and incurs recourse debt.

The Borrower has the option to increase the maximum amount available under the 5 Year Term Loan, through an accordion option (subject to certain conditions), from \$150.0 million to as much as \$300.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders.

The Borrower has the option to increase the maximum amount available under the 7 Year Term Loan, through an accordion option (subject to certain conditions), from \$100.0 million to as much as \$200.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders.

The 2014 Term Loans and the 2013 Revolving Facility contain certain affirmative and negative covenants which are identical and are described in detail below in the section "Identical covenants contained in the 2013 Revolving Facility and 2014 Term Loans."

The Borrower may prepay the 5 Year Term Loan at any time without premium or penalty, subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings. The payment of the 7 Year Term Loan prior to its maturity is subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings and a declining prepayment penalty ranging from 3% within one year after closing, to 2% within two years, to 1% within three years and without penalty thereafter.

Upon the expiration of any applicable cure period following an event of default, the lenders may declare all of the obligations in connection with the 2014 Term Loans immediately due and payable, and before the one year anniversary of the effective date, the commitments of the lenders to make further loans, if any, under the 2014 Term Loans would terminate. Upon the occurrence of a voluntary or involuntary bankruptcy proceeding of PREIT, PREIT Associates, PRI, any material subsidiary, any subsidiary that owns or leases an Unencumbered Property or certain other subsidiaries, all outstanding amounts would automatically become immediately due and payable and, before the one year anniversary of the effective date, the commitments of the lenders to make further loans will automatically terminate.

Table of Contents

PREIT may use the proceeds of the 2014 Term Loans for the repayment of debt, for the payment of development or redevelopment costs, and for working capital and general corporate purposes.

Letter of Credit for Springfield Town Center Acquisition

In connection with the agreement to acquire Springfield Town Center (see note 6), in March 2014, we obtained a \$46.5 million letter of credit from Wells Fargo Bank, National Association (the "Letter of Credit"). Amounts secured under the Letter of Credit for Springfield Town Center are subject to a fee per annum, depending on PREIT's leverage. The initial fee in effect is 1.15% per annum. The Letter of Credit initially expires in July 2015 and may be extended up to one year. The Letter of Credit is subject to covenants that are identical to those contained in the 2013 Revolving Facility and the 2014 Term Loans. We expect that the Letter of Credit will be terminated at the closing of the Springfield Town Center acquisition.

Identical covenants contained in the 2013 Revolving Facility, 2014 Term Loans and Letter of Credit

The 2013 Revolving Facility, 2014 Term Loans, and the Letter of Credit contain certain affirmative and negative covenants which are identical, including, without limitation, requirements that PREIT maintain, on a consolidated basis: (1) minimum Tangible Net Worth of not less than 75% of the Company's tangible net worth on December 31, 2012, plus 75% of the Net Proceeds of all Equity Issuances effected at any time after December 31, 2012; (2) maximum ratio of Total Liabilities to Gross Asset Value of 0.60:1, provided that it will not be a Default if the ratio exceeds 0.60:1 but does not exceed 0.625:1, for more than two consecutive quarters on more than two occasions during the term; (3) minimum ratio of Adjusted EBITDA to Fixed Charges of 1.45:1 on or before June 30, 2014, or 1.50:1 thereafter; (4) minimum Unencumbered Debt Yield of 12.0%; (5) minimum Unencumbered NOI to Unsecured Interest Expense of 1.75:1; (6) maximum ratio of Secured Indebtedness to Gross Asset Value of 0.60:1; (7) maximum Investments in unimproved real estate and predevelopment costs not in excess of 5.0% of Gross Asset Value; (8) maximum Investments in Persons other than Subsidiaries, Consolidated Affiliates and Unconsolidated Affiliates not in excess of 5.0% of Gross Asset Value; (9) maximum Mortgages in favor of the Borrower or any other Subsidiary not in excess of 5.0% of Gross Asset Value; (10) the aggregate value of the Investments and the other items subject to the preceding clauses (7) through (9) not in excess of 10.0% of Gross Asset Value; (11) maximum Investments in Consolidation Exempt Entities not in excess of 25.0% of Gross Asset Value; (12) maximum Projects Under Development not in excess of 15.0% of Gross Asset Value; (13) the aggregate value of the Investments and the other items subject to the preceding clauses (7) through (9) and (11) and (12) not in excess of 35.0% of Gross Asset Value; (14) Distributions may not exceed (A) with respect to our preferred shares, the amounts required by the terms of the preferred shares, and (B) with respect to our common shares, the greater of (i) 95.0% of Funds From Operations and (ii) 110% of REIT taxable income for a fiscal year; and (15) PREIT may not permit the amount of the Gross Asset Value attributable to assets directly owned by PREIT, PREIT Associates, PRI and the guarantors to be less than 95% of Gross Asset Value excluding assets owned by Excluded Subsidiaries or Unconsolidated Affiliates.

These covenants and restrictions limit PREIT's ability to incur additional indebtedness, grant liens on assets and enter into negative pledge agreements, merge, consolidate or sell all or substantially all of its assets and enter into certain transactions with affiliates. The 2013 Revolving Facility, the 2014 Term Loans and the Letter of Credit are subject to customary events of default and are cross-defaulted with one another.

As of June 30, 2014, the Borrower was in compliance with all such financial covenants.

2010 Credit Facility

Prior to the 2013 Revolving Facility, we had a secured credit facility consisting of a revolving line of credit with a capacity of \$250.0 million (the “2010 Revolving Facility”) and term loans with an aggregate balance of \$97.5 million (collectively, the “2010 Term Loan” and, together with the 2010 Revolving Facility, the “2010 Credit Facility”).

Interest expense related to the 2010 Revolving Facility was \$0.1 million and \$0.4 million for the three and six months ended June 30, 2013, respectively.

The weighted average effective interest rate based on amounts borrowed under the 2010 Term Loan for the six months ended June 30, 2013 was 3.95%. Interest expense, excluding non-cash amortization and accelerated amortization of deferred financing fees related to the 2010 Term Loan, was \$0.1 million and \$2.4 million for the three and six months ended June 30, 2013, respectively.

Table of Contents

Deferred financing fee amortization associated with the 2010 Credit Facility was \$0.1 million and \$0.8 million for the three and six months ended June 30, 2013, respectively. Accelerated deferred financing fee amortization was \$0.1 million and \$0.9 million for the three and six months ended June 30, 2013, respectively, in connection with permanent paydowns of the 2010 Term Loan of \$84.5 million in January and February 2013, and \$0.1 million in connection with the \$97.5 million final permanent paydown of the 2010 Term Loan in April 2013.

Mortgage Loans

The carrying values and estimated fair values of mortgage loans based on interest rates and market conditions at June 30, 2014 and December 31, 2013 were as follows:

(in millions of dollars)	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans	\$1,494.8	\$1,486.4	\$1,502.7	\$1,467.9

The mortgage loans contain various customary default provisions. As of June 30, 2014, we were not in default on any of the mortgage loans.

Mortgage Loan Activity

In July 2014, we repaid a \$25.8 million mortgage loan plus accrued interest secured by 801 Market Street, a property that is part of the Gallery at Market East in Philadelphia, Pennsylvania, using proceeds from the transaction relating to the Gallery at Market East with The Macerich Company.

In July 2014, we repaid a \$51.0 million mortgage loan plus accrued interest secured by Logan Valley Mall in Altoona, Pennsylvania using \$50.0 million from our 2013 Revolving Facility and \$1.0 million from available working capital. The \$50.0 million borrowed from the 2013 Revolving Facility was subsequently repaid in July 2014 using proceeds from the transaction relating to the Gallery at Market East with The Macerich Company.

Interest Rate Risk

We follow established risk management policies designed to limit our interest rate risk on our interest bearing liabilities, as further discussed in note 7 to our unaudited consolidated financial statements.

5. CASH FLOW INFORMATION

Cash paid for interest was \$36.6 million (net of capitalized interest of \$0.3 million) and \$51.1 million (net of capitalized interest of \$0.3 million) for the six months ended June 30, 2014 and 2013, respectively.

In our statement of cash flows, we show cash flows on our revolving facilities on a net basis. Gross borrowings on our revolving facilities were \$90.0 million and \$342.5 million for the six months ended June 30, 2014 and 2013, respectively. Gross paydowns were \$220.0 million and \$307.5 million for the six months ended June 30, 2014 and 2013, respectively.

6. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

As of June 30, 2014, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$21.7 million in the form of tenant allowances and contracts with general service providers and other professional service providers.

Table of Contents

Springfield Town Center

On March 2, 2014, we entered into a Contribution Agreement (the "Contribution Agreement") relating to the acquisition of Springfield Town Center in Springfield, Virginia (the "Property") for total consideration of \$465.0 million. The total consideration is expected to be funded using \$125.0 million of common and preferred Operating Partnership units, with the remaining balance to be paid in cash. We expect to provide the remaining cash balance by borrowing from the amounts available under our existing credit agreements. In addition, the seller of the Property may be entitled to certain additional consideration based on the value of the Property three years after the closing date. The closing is subject to the substantial completion of the redevelopment of the Property in accordance with plans and specifications for such redevelopment, as well as certain other customary closing conditions.

Pursuant to the Contribution Agreement, closing will occur after all of the conditions to closing have been satisfied or waived, on the date that is the earlier of (i) fifteen days after the later of the date on which Regal Cinemas, Dick's Sporting Goods and at least seventy-five percent (75%) of the aggregate square footage of the in-line space of the Property are occupied, certificates of occupancy have been issued with respect to all of the common areas of the Property and the "grand opening" of the Property has occurred, and (ii) March 31, 2015 (which date may be extended in certain circumstances).

In connection with this Contribution Agreement, we have secured a \$46.5 million letter of credit and have incurred \$1.9 million of acquisition related expenses as of June 30, 2014. These expenses are included in "Acquisition costs and other expenses" on the consolidated statements of operations for the three and six months ended June 30, 2014.

Employee Separation

In May 2014, George F. Rubin separated from his position as Vice Chairman of PREIT. Under the terms of Mr. Rubin's separation agreement from the Company, which became effective in June 2014, we recorded employee separation expense of \$4.1 million in the second quarter of 2014. Mr. Rubin will receive a payment of approximately \$2.6 million, which amount is in addition to the payment of the amounts accrued under Mr. Rubin's supplemental retirement plan. All of Mr. Rubin's outstanding unvested restricted shares became vested in connection with his separation and he remains eligible to receive shares under the Company's Restricted Share Unit Programs based on the achievement of the performance metrics established by those programs as if his employment had not terminated. Mr. Rubin's term as a member of the Company's board of trustees expired at the Company's Annual Meeting held on May 30, 2014.

In the second quarter of 2014, we terminated the employment of certain employees. In connection with the departure of those employees, we recorded an additional \$0.8 million of employee separation expense.

7. DERIVATIVES

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

Table of Contents

Cash Flow Hedges of Interest Rate Risk

Our outstanding derivatives have been designated under applicable accounting authority as cash flow hedges. The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in "Accumulated other comprehensive income (loss)" and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. To the extent these instruments are ineffective as cash flow hedges, changes in the fair value of these instruments are recorded in "Interest expense, net."

We recognize all derivatives at fair value as either assets or liabilities in the accompanying consolidated balance sheets. The carrying amount of the derivative assets is reflected in "Deferred costs and other assets," the amount of the associated liabilities is reflected in "Accrued expenses and other liabilities" and the amount of the net unrealized loss is reflected in "Accumulated other comprehensive income (loss)" in the accompanying balance sheets.

Amounts reported in "Accumulated other comprehensive income (loss)" that are related to derivatives will be reclassified to "Interest expense, net" as interest payments are made on our corresponding debt. During the next 12 months, we estimate that \$4.4 million will be reclassified as an increase to interest expense in connection with derivatives. The amortization of these amounts could be accelerated in the event that we repay amounts outstanding on the debt instruments and do not replace them with new borrowings.

In June 2014, we gave notice to the mortgage lender that we intended to repay the mortgage loan secured by Logan Valley Mall, and in connection therewith, we recorded hedge ineffectiveness of \$1.2 million in the three and six months ended June 30, 2014. The notice of our intention to repay the mortgage loan made it probable that the hedged transaction identified in our original hedge documentation would not occur, and we reclassified \$1.2 million from accumulated other comprehensive loss to interest expense. We repaid the mortgage loan in July 2014.

Interest Rate Swaps

As of June 30, 2014, we had entered into 12 interest rate swap agreements with a weighted average interest rate of 1.67% on a notional amount of \$328.1 million maturing on various dates through January 2019.

We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long term debt. We have assessed the effectiveness of these interest rate swap agreements as hedges at inception and on a quarterly basis. As of June 30, 2014, we considered these interest rate swap agreements to be highly effective as cash flow hedges. The interest rate swap agreements are net settled monthly.

Accumulated other comprehensive loss as of June 30, 2014 includes a net loss of \$2.8 million relating to forward starting swaps that we cash settled in prior years that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

Table of Contents

The following table summarizes the terms and estimated fair values of our interest rate swap derivative instruments at June 30, 2014 and December 31, 2013. The notional values provide an indication of the extent of our involvement in these instruments, but do not represent exposure to credit, interest rate or market risks.

(in millions of dollars) Notional Value	Fair Value at June 30, (1)	2014	Fair Value at December 31, 2013 (1)	Interest Rate	Maturity Date
Interest Rate Swaps					
\$25.0	\$ (0.3	)	\$ (0.3	) 1.10	% July 31, 2016
28.1	(0.5	)	(0.5	) 1.38	% January 2, 2017
34.4	—		0.2	3.72	% December 1, 2017
7.6	—		0.1	1.00	% January 1, 2018
55.0	(0.1	)	0.2	1.12	% January 1, 2018
48.0	(0.1	)	0.2	1.12	% January 1, 2018
30.0	(0.5	)	N/A	1.78	% January 2, 2019
20.0	(0.3	)	N/A	1.78	% January 2, 2019
20.0	(0.3	)	N/A	1.78	% January 2, 2019
20.0	(0.4	)	N/A	1.79	% January 2, 2019
20.0	(0.4	)	N/A	1.79	% January 2, 2019
20.0	(0.3	)	N/A	1.79	% January 2, 2019
	\$ (3.2	)	\$ (0.1)	

As of June 30, 2014 and December 31, 2013, derivative valuations in their entirety were classified in Level 2 of the (1) fair value hierarchy. As of June 30, 2014 and December 31, 2013, we did not have any significant recurring fair value measurements related to derivative instruments using significant unobservable inputs (Level 3).

The table below presents the effect of derivative financial instruments on our consolidated statements of operations and on our share of our partnerships' statements of operations for the three and six months ended June 30, 2014 and 2013:

(in millions of dollars)	Three Months Ended June 30,		Six Months Ended June 30,		Consolidated Statements of Operations Location
	2014	2013	2014	2013	
Derivatives in cash flow hedging relationships:					
Interest rate products					
(Loss) gain recognized in Other Comprehensive Income (Loss) on derivatives	\$ (0.3	) \$ 9.7	\$ (2.2	) \$ 7.6	N/A
Loss reclassified from Accumulated Other Comprehensive Income (Loss) into income (effective portion)	\$ 1.2	\$ 3.0	\$ 2.2	\$ 7.0	Interest expense
Loss recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	\$ (1.2	) \$ (3.2	) \$ (1.2	) \$ (2.7	) Interest expense

Credit-Risk-Related Contingent Features

We have agreements with some of our derivative counterparties that contain a provision pursuant to which, if our entity that originated such derivative instruments defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of June 30, 2014, we were not in default on any of our derivative obligations.

Table of Contents

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

As of June 30, 2014, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was \$3.2 million. If we had breached any of the default provisions in these agreements as of June 30, 2014, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$3.6 million. We had not breached any of these provisions as of June 30, 2014.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included elsewhere in this report.

OVERVIEW

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts ("REITs") in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region.

We currently own interests in 45 retail properties, of which 41 are operating properties and four are development properties. The 41 operating properties include 34 enclosed malls and seven other retail properties, have a total of 30.1 million square feet and operate in 11 states. We and partnerships in which we own an interest own 23.3 million square feet at these properties (excluding space owned by anchors).

There are 34 operating retail properties in our portfolio that we consolidate for financial reporting purposes. These consolidated properties have a total of 25.5 million square feet, of which we own 20.2 million square feet. The seven operating retail properties that are owned by unconsolidated partnerships with third parties have a total of 4.6 million square feet, of which 3.1 million square feet are owned by such partnerships.

The development portion of our portfolio contains four properties in three states, with two classified as "mixed use" (a combination of retail and other uses), one classified as "retail" (outlet) and one classified as "other."

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

Net loss for the three months ended June 30, 2014 was \$24.1 million, an increase of \$15.0 million compared to a net loss of \$9.0 million for the three months ended June 30, 2013. This increase was primarily due to \$16.1 million of impairment of assets recorded in connection with North Hanover and Nittany Malls and an increase of \$3.8 million of employee separation expense, partially offset by \$6.1 million of lower interest expense recorded in the three months ended June 30, 2014 as compared to the same period in 2013.

Net loss for the six months ended June 30, 2014 was \$32.4 million, a decrease of \$49.2 million compared to net income of \$16.8 million for the six months ended June 30, 2013. This decrease was primarily due to \$33.3 million of gains on sales of discontinued operations recorded in the six months ended June 30, 2013, \$17.4 million of impairment of assets in connection with North Hanover Mall, Nittany Mall and South Mall recorded in the six months ended June 30, 2014, an increase of \$4.7 million in depreciation and amortization expense, a decrease of \$4.0 million of net operating income ("NOI") from properties sold since January 1, 2013 and an increase of \$2.6 million of employee separation expense in the six months ended June 30, 2014 as compared to the same period in 2013. These decreases were partially offset by \$13.3 million of lower interest expense recorded in the six months ended June 30, 2014 as

compared to the same period in 2013.

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. Due to the nature of our operating properties, which involve retail shopping, we have concluded that our individual properties have similar economic characteristics and meet all other aggregation criteria. Accordingly, we have aggregated our individual properties into one reportable segment. In addition, no single tenant accounts for 10% or more of consolidated revenue, and none of our properties are located outside the United States.

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates. We are the sole general partner of PREIT Associates and, as of June 30, 2014, held a 97.0% controlling interest in PREIT Associates, and consolidated it for reporting purposes. We hold our investments in seven of the 41 retail properties and two of the four development properties in our portfolio through unconsolidated partnerships with third parties in which we own a 25% to 50%

Table of Contents

interest. We hold a noncontrolling interest in each unconsolidated partnership, and account for such partnerships using the equity method of accounting. We do not control any of these equity method investees for the following reasons:

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

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

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

Voting rights and the sharing of profits and losses are generally in proportion to the ownership percentages of each partner.

We record the earnings from the unconsolidated partnerships using the equity method of accounting under the statements of operations caption entitled "Equity in income of partnerships," rather than consolidating the results of the unconsolidated partnerships with our results. Changes in our investments in these entities are recorded in the balance sheet caption entitled "Investment in partnerships, at equity." In the case of deficit investment balances, such amounts are recorded in "Distributions in excess of partnership investments."

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

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

Recent Developments

In July 2014, we entered into a 50/50 joint venture with The Macerich Company to redevelop the Gallery at Market East in Philadelphia, Pennsylvania. In connection therewith, we contributed and sold real estate assets to the venture and Macerich acquired its interest in the venture and real estate from us for \$106.8 million in cash. It is expected that both parties will make additional investments in the project. We used \$25.8 million of such proceeds to repay a mortgage loan secured by 801 Market Street, a property that is part of the Gallery complex, \$50.0 million to repay the outstanding balance on our 2013 Revolving Facility, and the remaining proceeds for general corporate purposes.

Current Economic Conditions and Our Near Term Capital Needs

The conditions in the economy have caused unemployment to remain relatively high and have caused fluctuations and variations in retail sales, business and consumer confidence and consumer spending on retail goods. As a result, the sales and profit performance of certain retailers has fluctuated. We continue to adjust our plans and actions to take into account the current environment. In particular, we continue to contemplate ways to maintain or reduce our leverage through a variety of means available to us, subject to and in accordance with the terms of our 2013 Revolving Facility,

2014 Term Loans and the Letter of Credit. These steps might include obtaining additional equity capital, including through the issuance of common or preferred equity securities if market conditions are favorable, through joint ventures or other partnerships or arrangements involving our contribution of assets with institutional investors, private equity investors or other REITs, through sales of properties or interests in properties with values in excess of their mortgage loans and application of the excess proceeds to debt reduction, or through other actions.

Table of Contents

Capital Improvements and Development Projects

At our operating properties, we might engage in various types of capital improvement projects. Such projects vary in cost and complexity, and can include building out new or existing space for individual tenants, upgrading common areas or exterior areas such as parking lots, or redeveloping the entire property, among other projects. Project costs are accumulated in "Construction in progress" on our consolidated balance sheet until the asset is placed into service, and amounted to \$85.4 million as of June 30, 2014.

At our wholly-owned development properties, we are also engaged in several types of projects. However, we do not expect to make any significant investment in these projects in the short term. As of June 30, 2014, we had incurred \$54.0 million of costs (net of impairment charges recorded in prior years) related to our activity at our wholly-owned development properties.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies are those that require the application of management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that might change in subsequent periods. In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our historical experience, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Management has also considered events and changes in property, market and economic conditions, estimated future cash flows from property operations and the risk of loss on specific accounts or amounts in determining its estimates and judgments. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may affect comparability of our results of operations to those of companies in similar businesses. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2014 or 2013 except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected.

For additional information regarding our Critical Accounting Policies, see "Critical Accounting Policies" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

Asset Impairment

Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property to be held and used is considered impaired only if management's estimate of the aggregate future cash flows, less estimated capital expenditures, 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 management, 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 affect our net income. To the extent estimated undiscounted cash flows are less than the carrying value of the property, the loss will be measured as the excess of the carrying amount of the property over the estimated fair value of the property.

Assessment of our ability to recover certain lease related costs must be made when we have a reason to believe that the tenant might 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.

Table of Contents

See “Results of Operations” for a description of impairment losses recorded during the quarter.

New Accounting Developments

In May 2014, the Financial Accounting Standards Board issued “Revenue from Contracts with Customers.” The objective of this new standard is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of this new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt this standard. We are currently evaluating the new guidance and have not determined the impact this standard may have on our financial statements nor have we decided upon the method of adoption.

In April 2014, we adopted new accounting requirements pertaining to the reporting of discontinued operations. These new accounting requirements are required to be effective for the first quarter of 2015 but may be adopted as early as the first quarter of 2014 only for disposals or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. Under these new accounting requirements, only disposals representing a strategic shift in operations will be presented as discontinued operations. Previously, under U.S. GAAP, companies that sold a single investment property were generally required to report the sale as a discontinued operation, which required the companies to reclassify earnings from continuing operations for all periods presented. These new accounting requirements require expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations.

In June 2014, we sold South Mall in Allentown, Pennsylvania. We applied these new accounting requirements by reporting the results of operations of South Mall in the continuing operations section of our unaudited consolidated statements of operations.

OFF BALANCE SHEET ARRANGEMENTS

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

RESULTS OF OPERATIONS

Occupancy

The table below sets forth certain occupancy statistics for our properties (excluding the properties included in discontinued operations or sold) as of June 30, 2014 and 2013:

	Occupancy ⁽¹⁾ as of June 30,							
	Consolidated Properties		Unconsolidated Properties		Combined ⁽²⁾			
	2014	2013	2014	2013	2014	2013		
Retail portfolio weighted average:								
Total excluding anchors	89.1	% 89.3	% 94.3	% 94.1	% 90.0	% 90.2	%	
Total including anchors	92.9	% 93.1	% 96.0	% 95.8	% 93.3	% 93.4	%	
Malls weighted average:								
Total excluding anchors	89.0	% 89.3	% 96.0	% 95.9	% 89.5	% 89.8	%	
Total including anchors	92.9	% 93.1	% 97.2	% 97.2	% 93.1	% 93.3	%	

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Other retail properties	99.5	%	N/A	95.2	%	94.9	%	95.3	%	94.9	%
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- (1) Occupancy for both periods presented includes all tenants irrespective of the term of their agreements.
- (2) Combined occupancy is calculated by using occupied gross leasable area (“GLA”) for consolidated and unconsolidated properties and dividing by total GLA for consolidated and unconsolidated properties.

Table of Contents

Leasing Activity

The table below sets forth summary leasing activity information with respect to our consolidated and unconsolidated properties for the six months ended June 30, 2014:

	Number	GLA	Average Gross Rent psf		Increase in Gross Rent psf		Annualized Tenant Improvements psf ⁽²⁾
			Previous	New ⁽¹⁾	Dollar	Percentage	
New Leases: ⁽³⁾							
1st Quarter	39	81,690	N/A	\$48.07	\$48.07	N/A	\$5.20
2nd Quarter	52	152,596	N/A	41.71	41.71	N/A	7.25
Total/Average	91	234,286	N/A	\$43.93	\$43.93	N/A	\$6.54
Renewal - non-anchor tenants 10,000 square feet and under: ⁽⁴⁾							
1st Quarter	48	145,510	\$36.02	\$38.68	\$2.66	7.4	% \$—
2nd Quarter	105	286,783	33.75	35.27	1.52	4.5	% —
Total/Average	153	432,293	\$34.51	\$36.42	\$1.90	5.5	% \$—
Renewal - non-anchor tenants greater than 10,000 square feet: ⁽⁴⁾							
1st Quarter	6	107,781	\$16.22	\$17.04	\$0.82	5.1	% \$—
2nd Quarter	4	124,249	17.51	18.90	1.39	7.9	% —
Total/Average	10	232,030	\$16.91	\$18.04	\$1.13	6.7	% \$—
Anchor New:							
1st Quarter	1	52,055	N/A	\$7.50	\$7.50	N/A	\$4.00
2nd Quarter	1	98,391	N/A	15.34	15.34	N/A	8.33
Total/Average	2	150,446	N/A	\$12.63	\$12.63	N/A	\$6.83
Anchor Renewal:							
1st Quarter	1	101,476	\$2.79	\$2.80	\$0.01	0.4	% \$—
2nd Quarter	1	77,688	2.85	2.92	0.07	2.5	% —
Total/Average	2	179,164	\$2.82	\$2.85	\$0.04	1.3	% \$—

(1) New rent is the initial amount payable upon rent commencement. In certain cases, a lower rent may be payable until certain conditions in the lease are satisfied.

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

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

(4) This category includes expansions and lease extensions.

As of June 30, 2014, for non-anchor leases, the average gross rent per square foot as of the expiration date was \$34.91 for the renewing leases in "Holdover" status and \$38.06 for leases expiring in 2014.

Table of Contents

Overview

Net loss for the three months ended June 30, 2014 was \$24.1 million, an increase of \$15.0 million compared to a net loss of \$9.0 million for the three months ended June 30, 2013. This increase was primarily due to \$16.1 million of impairment of assets recorded in connection with North Hanover and Nittany Malls and an increase of \$3.8 million of employee separation expense, partially offset by \$6.1 million of lower interest expense recorded in the three months ended June 30, 2014 as compared to the same period in 2013.

Net loss for the six months ended June 30, 2014 was \$32.4 million, a decrease of \$49.2 million compared to net income of \$16.8 million for the six months ended June 30, 2013. This decrease was primarily due to \$33.3 million of gains on sales of discontinued operations recorded in the six months ended June 30, 2013, \$17.4 million of impairment of assets in connection with North Hanover Mall, Nittany Mall and South Mall recorded in the six months ended June 30, 2014, an increase of \$4.7 million in depreciation and amortization expense, a decrease of \$4.0 million of NOI from properties sold since January 1, 2013 and an increase of \$2.6 million of employee separation expense in the six months ended June 30, 2014 as compared to the same period in 2013. These decreases were partially offset by \$13.3 million of lower interest expense recorded in the six months ended June 30, 2014 as compared to the same period in 2013.

The following table sets forth our results of operations for the three and six months ended June 30, 2014 and 2013.

(in thousands of dollars)	Three Months Ended		% Change 2013 to 2014	Six Months Ended		% Change 2013 to 2014	
	June 30, 2014	2013		June 30, 2014	2013		
Real estate revenue	\$106,145	\$103,548	3	% 214,754	206,726	4	%
Other income	680	1,395	(51)	)% 1,458	2,283	(36))%
Operating expenses	(44,364	) (43,619	) 2	% (96,081	) (87,314	) 10	%
Depreciation and amortization	(37,135	) (35,088	) 6	% (73,370	) (68,705	) 7	%
General and administrative expenses	(8,774	) (9,606	) (9	)% (17,851	) (18,462	) (3)%
Impairment of assets	(16,098	) —	N/A	(17,398	) —	N/A	
Provision for employee separation expense	(4,877	) (1,035	) 371	% (4,877	) (2,314	) 111	%
Acquisition costs and other expenses	(960	) (198	) 385	% (2,606	) (400	) 552	%
Interest expense, net	(21,550	) (27,689	) (22	)% (41,720	) (55,027	) (24)%
Equity in income of partnerships	2,784	2,283	22	% 5,186	4,736	10	%
Gain on sale of real estate	99	—	N/A	99	—	N/A	
Net loss from continuing operations	(24,050	) (10,009	) 140	% (32,406	) (18,477	) 75	%
Operating results from discontinued operations	—	1,000	(100	)% —	2,021	(100)%
Gains on sales of discontinued operations	—	—	N/A	—	33,254	(100)%
Net (loss) income	\$(24,050	) \$(9,009	) 167	% (32,406	) 16,798	(293)%

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

partnerships.”

Real Estate Revenue

Real estate revenue increased by \$2.6 million, or 3%, in the three months ended June 30, 2014 compared to the three months ended June 30, 2013, primarily due to:

an increase of \$2.4 million in base rent, including \$0.5 million related to properties acquired since March 2013. Base rent also increased due to new store openings and lease renewals with higher base rent, with notable increases at Moorestown Mall and Cherry Hill Mall; and
an increase of \$0.4 million in other real estate revenue; partially offset by

27

Table of Contents

a decrease of \$0.3 million in percentage rent, due to a combination of lower tenant sales and lease renewals with higher base rents and corresponding higher sales breakpoints for calculating percentage rent.

Real estate revenue increased by \$8.0 million, or 4%, in the six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily due to:

an increase of \$5.3 million in base rent, including \$2.2 million related to properties acquired since December 2012. Base rent also increased due to new store openings and lease renewals with higher base rent, with notable increases at Moorestown Mall and Cherry Hill Mall; and
an increase of \$3.4 million in expense reimbursements, following increases in snow removal expense, real estate taxes and utility expenses (see “—Operating Expenses”); partially offset by
a decrease of \$0.7 million in percentage rent, due to a combination of lower tenant sales and lease renewals with higher base rents and corresponding higher sales breakpoints for calculating percentage rent. Tenant sales during the three months ending March 31, 2014 were negatively affected by severe winter weather that particularly affected our properties located in the Mid-Atlantic states.

Operating Expenses

Operating expenses increased by \$0.7 million, or 2%, in the three months ended June 30, 2014 compared to the three months ended June 30, 2013, primarily due to:

- an increase of \$0.8 million in non-common area utility expense primarily as a result of an increase in electric rates that particularly affected our properties located in Pennsylvania, New Jersey and Maryland; and
an increase of \$0.7 million in real estate tax expense, including a \$0.5 million increase at three of our properties located in New Jersey due to a combination of increases in the real estate tax assessment values and real estate tax rates, partially offset by;
a decrease of \$0.6 million in bad debt expense primarily as a result of a decrease in our estimated reserve related to straight line rent receivables, due to improved historical results in recent periods.

Operating expenses increased by \$8.8 million, or 10%, in the six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily due to:

an increase of \$3.9 million in non-common area utility expense as a result of a significant increase in electric rates at many of our properties. The extreme cold weather this winter, and resulting natural gas supply constraints, led to a historic spike in wholesale electricity rates that particularly affected our properties located in Pennsylvania, New Jersey and Maryland;
an increase of \$3.3 million in common area maintenance expenses, including increases of \$1.9 million in snow removal expense and \$1.1 million in common area utility expense. Snow removal expense at our properties located in the Mid-Atlantic States, particularly Pennsylvania and New Jersey, was affected by a severe winter with numerous snowfalls during the three months ended March 31, 2014. In addition, common area utility expense increased as a result of higher electric expense rates as described in more detail above; and
an increase of \$1.8 million in real estate tax expense, including a \$1.0 million increase at three of our properties located in New Jersey due to a combination of increases in real estate tax assessment values and real estate tax rates.

Net Operating Income (“NOI”)

NOI (a non-GAAP measure) is derived from real estate revenue (determined in accordance with generally accepted accounting principles, or GAAP, including lease termination revenue) minus operating expenses (determined in

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

Table of Contents

NOI excludes interest and other income, general and administrative expense, provision for employee separation expense, interest expense, depreciation and amortization, gains on sales of interests in real estate, gains on sales of non-operating real estate, gains on sales of discontinued operations, impairment losses, acquisition costs and other expense.

The following table presents NOI for the three and six months ended June 30, 2014 and 2013. The results are presented using the “proportionate-consolidation method” (a non-GAAP measure), which includes our share of the results of our partnership investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Operating results for retail properties that we owned for the full periods presented (“Same Store”) exclude properties acquired or disposed of or reclassified as held for sale during the periods presented. A reconciliation of NOI to net income (loss) determined in accordance with GAAP appears under the heading “Reconciliation of GAAP Net Income (Loss) to Non-GAAP Measures.”

(in thousands of dollars)	Same Store Three Months Ended June 30,			Non Same Store Three Months Ended June 30,			Total Three Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Real estate revenue	\$112,706	\$109,845	3 %	\$3,526	\$6,133	(43) %	\$116,232	\$115,978	— %
Operating expenses	(45,533)	(44,681)	2 %	(1,692)	(2,560)	(34) %	(47,225)	(47,241)	— %
Net Operating Income	\$67,173	\$65,164	3 %	\$1,834	\$3,573	(49) %	\$69,007	\$68,737	— %

Total NOI increased by \$0.3 million, or 0%, in the three months ended June 30, 2014 compared to the three months ended June 30, 2013 primarily due to a \$2.0 million increase in NOI from Same Store properties, partially offset by a decrease of \$1.7 million in NOI from Non Same Store properties. The decrease in NOI from Non Same Store properties was primarily due to NOI from properties sold. See “—Real Estate Revenue” and “—Operating Expenses” above for further information about the factors affecting NOI from our consolidated properties. Same Store NOI includes lease termination revenue of \$0.2 million and \$0.1 million for the three months ended June 30, 2014 and 2013, respectively.

(in thousands of dollars)	Same Store Six Months Ended June 30,			Non Same Store Six Months Ended June 30,			Total Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Real estate revenue	\$228,091	\$220,955	3 %	\$7,259	\$12,363	(41) %	\$235,350	\$233,318	1 %
Operating expenses	(99,030)	(90,120)	10 %	(3,447)	(5,873)	(41) %	(102,477)	(95,993)	7 %
Net Operating Income	\$129,061	\$130,835	(1) %	\$3,812	\$6,490	(41) %	\$132,873	\$137,325	(3) %

Total NOI decreased by \$4.5 million, or 3%, in the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to a \$1.8 million decrease in NOI from Same Store properties and a decrease of \$2.7 million in NOI from Non Same Store properties. The Same Store decrease resulted from an increase in operating

expenses, most notably common area maintenance expenses and utility expenses, resulting from the severe and prolonged winter weather. The Non Same Store decrease was primarily due to a \$4.0 million decrease in NOI from properties sold, partially offset by a \$1.7 million increase in NOI from properties acquired since January 2013. See “—Real Estate Revenue” and “—Operating Expenses” above for further information about the factors affecting NOI from our consolidated properties. Same Store NOI includes lease termination revenue of \$0.3 million and \$0.2 million for the six months ended June 30, 2014 and 2013, respectively.

Table of Contents

Depreciation and Amortization

Depreciation and amortization expense increased by \$2.0 million, or 6%, in the three months ended June 30, 2014 compared to the three months ended June 30, 2013, primarily due to:

- an increase of \$1.8 million primarily as a result of a higher asset base resulting from capital improvements related to new tenants at our properties; and
- an increase of \$0.5 million associated with properties acquired since March 2013; partially offset by
- a decrease of \$0.2 million associated with the sale of South Mall in June 2014.

Depreciation and amortization expense increased by \$4.7 million, or 7%, in the six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily due to:

- an increase of \$3.0 million as a result of a higher asset base resulting from capital improvements related to new tenants at our properties; and
- an increase of \$1.9 million associated with properties acquired since December 2012; partially offset by
- a decrease of \$0.2 million associated with the sale of South Mall in June 2014.

Provision for Employee Separation Expense

We recorded a provision for employee separation expense of \$4.1 million during the three and six months ended June 30, 2014 related to the departure of George Rubin, our former vice chairman. We also recorded \$0.8 million related to the separation of other employees during the three and six months ended June 30, 2014.

We recorded a provision for employee separation expense of \$1.0 million and \$2.3 million during the three and six months ended June 30, 2013, respectively, primarily related to an amended employment agreement for Ronald Rubin, our executive chairman.

Impairment of Assets

In June 2014, we recorded losses on impairment of assets at Nittany Mall in State College, Pennsylvania of \$13.9 million and at North Hanover Mall in Hanover, Pennsylvania of \$2.2 million. During the second quarter of 2014, we entered into negotiations with a prospective buyer of the properties which are ongoing and could result in changes to our underlying assumptions. As a result of these negotiations, we determined that the holding period for each of the properties was less than had been previously estimated, which we concluded to be a triggering event for each property, leading us to conduct an analysis of possible asset impairment at these properties. Based upon the purchase and sale agreement with the prospective buyer of these two properties, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Nittany and North Hanover Malls were less than the carrying value of the properties, and recorded the impairment losses.

In March 2014, we recorded a loss on impairment of assets at South Mall in Allentown, Pennsylvania of \$1.3 million. We sold the property in June 2014.

Acquisition Costs and Other Expenses

Acquisition costs and other expenses increased by \$0.8 million during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 primarily due to \$0.6 million of acquisition costs incurred during the three months ended June 30, 2014 related to our entering into an agreement to acquire Springfield Town Center.

Acquisition costs and other expenses increased by \$2.2 million during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to \$1.9 million of acquisition costs incurred during the six months ended June 30, 2014 related to our entering into an agreement to acquire Springfield Town Center.

Table of Contents

Interest Expense

Interest expense decreased by \$6.1 million, or 22%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This decrease was primarily due to lower weighted average interest rates and a decrease in our weighted average debt balance, which together contributed \$4.2 million to the decrease. Our weighted average effective borrowing rate was 4.99% for the three months ended June 30, 2014 compared to 5.63% for the three months ended June 30, 2013. Our weighted average debt balance was \$1,643.0 million for the three months ended June 30, 2014 compared to \$1,756.8 million for the three months ended June 30, 2013. We also recorded hedge ineffectiveness of \$1.2 million in the three months ended June 30, 2014 due to accelerated amortization resulting from the July 2014 repayment of the mortgage loan secured by Logan Valley Mall, compared to a \$3.2 million loss on hedge ineffectiveness recorded in the three months ended June 30, 2013.

Interest expense decreased by \$13.3 million, or 24%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This decrease was primarily due to lower weighted average interest rates and a decrease in our weighted average debt balance, partially due to our 2013 common equity offering. Our weighted average effective borrowing rate was 4.96% for the six months ended June 30, 2014 compared to 5.84% for the six months ended June 30, 2013. Our weighted average debt balance was \$1,643.7 million for the six months ended June 30, 2014 compared to \$1,802.7 million for the six months ended June 30, 2013. There was also a \$2.7 million net loss on hedge ineffectiveness recorded in the six months ended June 30, 2013.

Discontinued Operations

We have presented as discontinued operations the operating results of Orlando Fashion Square, Paxton Towne Centre, Phillipsburg Mall, Chambersburg Mall, Christiana Center and Commons at Magnolia, which are properties that were sold in 2013.

Operating results and gains on sales of discontinued operations for the properties in discontinued operations for the periods presented were as follows. There were no operating results for these properties from, and there were no properties classified in, discontinued operations for the three and six months ended June 30, 2014.

(in thousands of dollars)	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Operating results of:		
Orlando Fashion Square	\$—	\$150
Paxton Towne Centre	—	(121)
Phillipsburg Mall	—	(51)
Chambersburg Mall	150	366
Christiana Center	669	1,321
Commons at Magnolia	181	356
Operating results from discontinued operations	1,000	2,021
Gains on sales of discontinued operations	—	33,254
Income from discontinued operations	\$1,000	\$35,275

Gains on Sales of Discontinued Operations

There were no gains on sales of discontinued operations in the three and six months ended June 30, 2014.

Gains on sales of discontinued operations were \$33.3 million in the six months ended June 30, 2013 due to a \$32.7 million gain on sale of Paxton Towne Centre in January 2013 and a \$0.6 million gain on the sale of Orlando Fashion

Square in February 2013.

31

Table of Contents

Funds From Operations

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

FFO is a commonly used measure of operating performance and profitability among REITs. We use FFO and FFO per diluted share and unit of limited partnership interest in our operating partnership (“OP Unit”) in measuring our performance against our peers and as one of the performance measures for determining incentive compensation amounts earned under certain of our performance-based executive compensation programs.

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

We also present Funds From Operations, as adjusted, and Funds From Operations per diluted share and OP Unit, as adjusted, which are non-GAAP measures, for the three and six months ended June 30, 2014 and 2013 to show the effect of acquisition costs, provision for employee separation expense, accelerated amortization of deferred financing costs and gain and loss on hedge ineffectiveness, which had a significant effect on our results of operations, but are not, in our opinion, indicative of our operating performance.

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

Table of Contents

The following table presents FFO and FFO per diluted share and OP Unit and FFO, as adjusted, and FFO per diluted share and OP Unit, as adjusted, for the three months ended June 30, 2014 and 2013:

(in thousands of dollars, except per share amounts)	Three Months Ended June 30, 2014	% Change 2013 to 2014	Three Months Ended June 30, 2013
Funds from operations	\$26,477	10%	\$23,967
Acquisition costs	554		—
Provision for employee separation expense	4,877		1,035
Loss on hedge ineffectiveness	1,238		3,146
Accelerated amortization of deferred financing costs	—		112
Funds from operations, as adjusted	\$33,146	17%	\$28,260
Funds from operations per diluted share and OP Unit	\$0.37	3%	\$0.36
Funds from operations per diluted share and OP Unit, as adjusted	\$0.47	12%	\$0.42
Weighted average number of shares outstanding	68,236		63,540
Weighted average effect of full conversion of OP Units	2,129		2,228
Effect of common share equivalents	309		727
Total weighted average shares outstanding, including OP Units	70,674		66,495

FFO was \$26.5 million for the three months ended June 30, 2014, an increase of \$2.5 million, or 10%, compared to \$24.0 million for the three months ended June 30, 2013. This increase was primarily due to:

- a \$4.8 million decrease in interest expense (including our proportionate share of interest expense of our partnership properties) due to lower overall debt balances and lower average interest rates;
- a decrease of \$1.9 million from hedge ineffectiveness; and
- a \$2.0 million increase in NOI from Same Store properties; partially offset by
 - an increase of \$3.8 million in provision for employee separation expense;
 - a \$2.0 million decrease in NOI from properties sold; and
 - an increase of \$0.6 million in acquisition costs related to the pending acquisition of Springfield Town Center.

FFO per diluted share increased by \$0.01 per share to \$0.37 per share for the three months ended June 30, 2014, compared to \$0.36 per share for the three months ended June 30, 2013.

Table of Contents

The following table presents FFO and FFO per diluted share and OP Unit and FFO, as adjusted, and FFO per diluted share and OP Unit, as adjusted, for the six months ended June 30, 2014 and 2013:

(in thousands of dollars, except per share amounts)	Six Months Ended June 30, 2014	% Change 2013 to 2014	Six Months Ended June 30, 2013
Funds from operations	\$53,092	10%	\$48,143
Acquisition costs	1,941		—
Provision for employee separation expense	4,877		2,314
Loss on hedge ineffectiveness	1,238		2,682
Accelerated amortization of deferred financing costs	—		1,026
Funds from operations, as adjusted	\$61,148	13%	\$54,165
Funds from operations per diluted share and OP Unit	\$0.75	(3)%	\$0.77
Funds from operations per diluted share and OP Unit, as adjusted	\$0.87	1%	\$0.86
Weighted average number of shares outstanding	68,091		59,661
Weighted average effect of full conversion of OP Units	2,129		2,256
Effect of common share equivalents	326		780
Total weighted average shares outstanding, including OP Units	70,546		62,697

FFO was \$53.1 million for the six months ended June 30, 2014, an increase of \$4.9 million, or 10.3%, compared to \$48.1 million for the six months ended June 30, 2013. This increase was primarily due to:

- a \$12.1 million decrease in interest expense (including our proportionate share of interest expense of our partnership properties) due to lower overall debt balances and lower average interest rates; and
- and a decrease of \$1.4 million from hedge ineffectiveness recorded; partially offset by
 - a \$4.0 million decrease in NOI from from properties sold;
 - a \$2.6 million increase in provision for employee separation expense;
 - a \$1.8 million decrease in NOI from Same Store properties; and
 - an increase of \$1.9 million in acquisition costs related to the pending acquisition of Springfield Town Center.

FFO per diluted share decreased by \$0.02 per share to \$0.75 per share for the six months ended June 30, 2014, compared to \$0.77 per share for the six months ended June 30, 2013 due to the weighted average effect of 11,500,000 common shares issued in May 2013, partially offset by the \$4.9 million million increase in FFO.

Reconciliation of GAAP Net Income (Loss) to Non-GAAP Measures

The preceding discussions compare our unaudited Consolidated Statements of Operations results for different periods based on GAAP. Also, the non-GAAP measures of NOI and FFO have been discussed. We believe that NOI is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as gains on sales of operating real estate and depreciation and amortization of real estate, among others. FFO is a commonly used measure of operating performance and profitability among REITs, and we use FFO and FFO per diluted share and OP Unit as supplemental non-GAAP measures to compare our performance for different periods to that of our industry peers.

Table of Contents

The following information is provided to reconcile NOI and FFO, which are non-GAAP measures, to net income (loss), a GAAP measure:

(in thousands of dollars)	Three Months Ended June 30, 2014		
	Continuing Operations		
	Consolidated	Share of Unconsolidated Partnerships	Total
Real estate revenue	\$106,145	\$10,087	\$116,232
Operating expenses	(44,364)	) (2,861	) (47,225
Net operating income (NOI)	61,781	7,226	69,007
General and administrative expenses	(8,774)	) —	(8,774
Provision for employee separation expense	(4,877)	) —	(4,877
Other income	680	—	680
Acquisition costs and other expenses	(960)	) —	(960
Interest expense, net	(21,550)	) (2,718	) (24,268
Depreciation of non real estate assets	(369)	) —	(369
Preferred share dividends	(3,962)	) —	(3,962
Funds from operations (FFO)	21,969	4,508	26,477
Depreciation of real estate assets	(36,766)	) (1,724	) (38,490
Equity in income of partnerships	2,784	(2,784) —
Gain on sale of real estate assets	99	—	99
Impairment of assets	(16,098)	) —	(16,098
Preferred share dividends	3,962	—	3,962
Net loss	\$(24,050)	) \$—	\$(24,050

(in thousands of dollars)	Three Months Ended June 30, 2013			
	Continuing Operations			
	Consolidated	Share of Unconsolidated Partnerships	Discontinued Operations	Total
Real estate revenue	\$103,548	\$9,685	\$2,745	\$115,978
Operating expenses	(43,619)	) (2,827	) (795	) (47,241
Net operating income (NOI)	59,929	6,858	1,950	68,737
General and administrative expenses	(9,606)	) —	—	(9,606
Provision for employee separation expense	(1,035)	) —	—	(1,035
Other income	1,395	—	—	1,395
Acquisition costs and other expenses	(198)	) —	—	(198
Interest expense, net	(27,689)	) (2,765	) (587	) (31,041
Depreciation of non real estate assets	(323)	) —	—	(323
Preferred share dividends	(3,962)	) —	—	(3,962
Funds from operations (FFO)	18,511	4,093	1,363	23,967
Depreciation of real estate assets	(34,765)	) (1,810	) (363	) (36,938
Equity in income of partnerships	2,283	(2,283) —	—
Operating results from discontinued operations	1,000	—	(1,000) —
Preferred share dividends	3,962	—	—	3,962
Net loss	\$(9,009)	) \$—	\$—	\$(9,009

Table of Contents

Six Months Ended June 30, 2014

Continuing Operations

(in thousands of dollars)	Consolidated	Share of Unconsolidated Partnerships	Total	
Real estate revenue	\$214,754	\$20,596	\$235,350	
Operating expenses	(96,081	) (6,396	) (102,477)
Net operating income (NOI)	118,673	14,200	132,873	
General and administrative expenses	(17,851	) —	(17,851)
Provision for employee separation expense	(4,877	) —	(4,877)
Other income	1,458	—	1,458	
Acquisition costs and other expenses	(2,606	) —	(2,606)
Interest expense, net	(41,720	) (5,448	) (47,168)
Depreciation of non real estate assets	(813	) —	(813)
Preferred share dividends	(7,924	) —	(7,924)
Funds from operations (FFO)	44,340	8,752	53,092	
Depreciation of real estate assets	(72,557	) (3,566	) (76,123)
Equity in income of partnerships	5,186	(5,186) —	
Gain on sale of real estate assets	99	—	99	
Impairment of assets	(17,398	) —	(17,398)
Preferred share dividends	7,924	—	7,924	
Net loss	\$(32,406	) \$—	\$(32,406)

Six Months Ended June 30, 2013

Continuing Operations

(in thousands of dollars)	Consolidated	Share of Unconsolidated Partnerships	Discontinued Operations	Total	
Real estate revenue	\$206,726	\$19,704	\$6,888	\$233,318	
Operating expenses	(87,314	) (5,798	) (2,881	) (95,993)
Net operating income (NOI)	119,412	13,906	4,007	137,325	
General and administrative expenses	(18,462	) —	—	(18,462)
Provision for employee separation expense	(2,314	) —	—	(2,314)
Other income	2,283	—	—	2,283	
Acquisition costs and other expenses	(400	) —	—	(400)
Interest expense, net	(55,027	) (5,531	) (1,259	) (61,817)
Depreciation of non real estate assets	(548	) —	—	(548)
Preferred share dividends	(7,924	) —	—	(7,924)
Funds from operations (FFO)	37,020	8,375	2,748	48,143	
Depreciation of real estate assets	(68,157	) (3,639	) (727	) (72,523)
Equity in income of partnerships	4,736	(4,736) —	—	
Operating results from discontinued operations	2,021	—	(2,021) —	
Gain on sale of discontinued operations	33,254	—	—	33,254	
Preferred share dividends	7,924	—	—	7,924	
Net income	\$16,798	\$—	\$—	\$16,798	

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

This “Liquidity and Capital Resources” section contains certain “forward-looking statements” that relate to expectations and projections that are not historical facts. These forward-looking statements reflect our current views about our future liquidity and capital resources, and are subject to risks and uncertainties that might cause our actual liquidity and capital resources to differ materially from the forward-looking statements. Additional factors that might affect our liquidity and capital resources include those discussed herein and in the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission. We do not intend to update or revise any forward-looking statements about our liquidity and capital resources to reflect new information, future events or otherwise.

Capital Resources

We expect to meet our short-term liquidity requirements, including distributions to common and preferred shareholders, recurring capital expenditures, tenant improvements and leasing commissions, but excluding acquisitions and development and redevelopment projects, generally through our available working capital and net cash provided by operations, subject to the terms and conditions of our 2013 Revolving Facility, our 2014 Term Loans (collectively, the “Credit Agreements”) and the Letter of Credit in connection with the Springfield Town Center acquisition. We believe that our net cash provided by operations will be sufficient to allow us to make any distributions necessary to enable us to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The aggregate distributions made to preferred shareholders, common shareholders and OP Unit holders for the first six months of 2014 were \$36.2 million, based on distributions of \$1.3012 per Series A Preferred Share, \$0.9218 per Series B Preferred Share and \$0.40 per common share and OP Unit. The following are some of the factors that could affect our cash flows and require the funding of future cash distributions, recurring capital expenditures, tenant improvements or leasing commissions with sources other than operating cash flows:

- adverse changes or prolonged downturns in general, local or retail industry economic, financial, credit or capital market or competitive conditions, leading to a reduction in real estate revenue or cash flows or an increase in expenses;
- deterioration in our tenants’ business operations and financial stability, including anchor or non anchor tenant bankruptcies, leasing delays or terminations, or lower sales, causing deferrals or declines in rent, percentage rent and cash flows;
- inability to achieve targets for, or decreases in, property occupancy and rental rates, resulting in lower or delayed real estate revenue and operating income;
- increases in operating costs, including increases that cannot be passed on to tenants, resulting in reduced operating income and cash flows; and
- increases in interest rates resulting in higher borrowing costs.

We expect to meet certain of our longer-term requirements, such as obligations to fund redevelopment and development projects and certain capital requirements (including scheduled debt maturities), future property and portfolio acquisitions, renovations, expansions and other non-recurring capital improvements, through a variety of capital sources, subject to the terms and conditions of our Credit Agreements.

In January 2012, the SEC declared effective our \$1.0 billion universal shelf registration statement. We may use the availability under our shelf registration statement to offer and sell common shares of beneficial interest, preferred shares and various types of debt securities, among other types of securities, to the public. In April 2012, we issued \$115.0 million of Series A Preferred Shares (net proceeds of \$110.9 million), in October 2012, we issued \$86.3 million of Series B Preferred Shares (net proceeds of \$83.3 million), and in May 2013, we issued \$230.0 million of common shares (net proceeds of \$220.3 million) in underwritten public offerings under this registration statement.

Thus, we have \$568.7 million remaining available under this shelf registration statement. However, in the future, we may be unable to issue securities under the shelf registration statement, or otherwise, on terms that are favorable to us, or at all.

Table of Contents

2013 Revolving Facility, as amended

In April 2013, we entered into a Credit Agreement (as amended, the "2013 Revolving Facility") with Wells Fargo Bank, National Association, and the other financial institutions signatory thereto, for a \$400.0 million senior unsecured revolving credit facility. The 2013 Revolving Facility replaced the previously existing 2010 Credit Facility. In December 2013, we amended the 2013 Revolving Facility to make certain terms of the 2013 Revolving Facility consistent with the terms of the 2014 Term Loans (discussed below). The 2013 Revolving Facility and the 2014 Term Loans are collectively referred to as the "Credit Agreements." All capitalized terms used in the discussion below that are and not otherwise defined have the meanings ascribed to such terms in the 2013 Revolving Facility.

As of June 30, 2014, there were no amounts outstanding under our 2013 Revolving Facility, and \$7.1 million was pledged as collateral for letters of credit. The unused portion of the 2013 Revolving Facility that was available to us was \$392.9 million.

Interest expense related to the 2013 Revolving Facility was \$0.3 million and \$0.8 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.8 million for each of the six months ended June 30, 2014 and 2013. Deferred financing fee amortization associated with the 2013 Revolving Facility was \$0.4 million for each of the three months ended June 30, 2014 and 2013, and \$0.7 million and \$0.4 million for the six months ended June 30, 2014 and 2013, respectively.

The initial maturity of the 2013 Revolving Facility is April 17, 2016, and we have options for two one-year extensions of the initial maturity date, subject to certain conditions and to the payment of extension fees of 0.15% and 0.20% of the Facility Amount for the first and second options, respectively.

We have the option to increase the maximum amount available under the 2013 Revolving Facility, through an accordion option, from \$400.0 million to as much as \$600.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in Revolving Commitments from the current lenders or Revolving Commitments from new lenders. No option to increase the maximum amount available under the 2013 Revolving Facility has been exercised by us.

Amounts borrowed under the 2013 Revolving Facility bear interest at a rate between 1.50% and 2.05% per annum, depending on PREIT's leverage, in excess of LIBOR, with no floor, as set forth in the table below. The rate in effect at June 30, 2014 was 1.70% per annum in excess of LIBOR. In determining PREIT's leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is (a) 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months, and (b) 7.50% for any other Property.

Level	Ratio of Total Liabilities to Gross Asset Value	Applicable Margin	
1	Less than 0.450 to 1.00	1.50	%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.70	%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.85	%
4	Equal to or greater than 0.550 to 1.00	2.05	%

PREIT and the subsidiaries of PREIT that either (1) account for more than 2.5% of adjusted Gross Asset Value (other than an Excluded Subsidiary), (2) own or lease an Unencumbered Property, or (3) own, directly or indirectly, a subsidiary described in clause (2) will serve as guarantors for funds borrowed under the 2013 Credit Facility. In the event that we seek and obtain an investment grade credit rating, we may request that a subsidiary guarantor be released, unless such guarantor becomes obligated in respect of the debt of the Borrower or another subsidiary or owns Unencumbered Property or incurs recourse debt.

In the event that we seek and obtain an investment grade credit rating, alternative interest rates would apply. The unused portion of the 2013 Revolving Facility is subject to a fee of 0.30% per annum. In the event that we seek and obtain an investment grade credit rating, alternative facility fees would apply.

The 2013 Revolving Facility and 2014 Term Loans (discussed below) are cross-defaulted with one another.

See note 4 in the notes to our unaudited consolidated financial statements for a description of the identical covenants contained in the 2013 Revolving Facility and 2014 Term Loans.

Table of Contents

2014 Term Loans

On January 8, 2014, we entered into two unsecured term loans in the initial aggregate amount of \$250.0 million, comprised of:

(1) a 5 Year Term Loan Agreement (the “5 Year Term Loan”) with Wells Fargo Bank, National Association, U.S. Bank National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured 5 year term loan facility; and

(2) a 7 Year Term Loan Agreement (the “7 Year Term Loan” and, together with the 5 Year Term Loan, the “2014 Term Loans”) with Wells Fargo Bank, National Association, Capital One, National Association and the other financial institutions signatory thereto, for a \$100.0 million senior unsecured 7 year term loan facility.

Amounts borrowed under the 2014 Term Loans bear interest at the rate specified below per annum, depending on PREIT’s leverage, in excess of LIBOR, with no floor. In determining PREIT’s leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is (a) 6.50% for each Property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months, and (b) 7.50% for any other Property.

Level	Ratio of Total Liabilities to Gross Asset Value	5 Year Term Loan Applicable Margin	7 Year Term Loan Applicable Margin
1	Less than 0.450 to 1.00	1.35%	1.80%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.45%	1.95%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.60%	2.15%
4	Equal to or greater than 0.550 to 1.00	1.90%	2.35%

The initial rate in effect under the 5 Year Term Loan was 1.45% per annum in excess of LIBOR. The initial rate in effect under the 7 Year Term Loan was 1.95% per annum in excess of LIBOR.

If PREIT seeks and obtains an investment grade credit rating and so notifies the lenders under the respective 2014 Term Loans, alternative interest rates would apply.

The table set forth below presents the amount outstanding, interest rate (inclusive of the LIBOR spread) in effect and the maturity dates of the 2014 Term Loans as of June 30, 2014:

(in millions of dollars)	5 Year Term Loan	7 Year Term Loan
Total facility	\$150.0	\$100.0
Initial borrowing	\$100.0	\$30.0
Initial interest rate	1.60	% 2.10
Maturity date	January 2019	January 2021

Interest expense related to the 2014 Term Loans was \$1.2 million and \$2.2 million for the three and six months ended June 30, 2014, respectively. Deferred financing fee amortization associated with the 2014 Term Loans was \$0.1 million for each of the three and six months ended June 30, 2014.

Under the 2014 Term Loans, there is a deferred draw feature that enables PREIT to borrow the amounts specified in each of the term loans over a period of up to one year. From the effective date until either one year later or until the

maximum amount under the respective loan is borrowed (or until the lenders' commitments are otherwise terminated), the unused portion of the 2014 Term Loans is subject to a fee of 0.20%, in the case of the 5 year Term Loan, and 0.35%, in the case of the 7 Year Term Loan, per annum. There is an additional commitment termination fee under the 7 Year Term Loan if the maximum amount is not borrowed within one year.

PREIT and the subsidiaries of PREIT that either (1) account for more than 2.5% of adjusted Gross Asset Value (other than an Excluded Subsidiary), (2) own or lease an Unencumbered Property, (3) own, directly or indirectly, a subsidiary described in clause (2), or (4) are guarantors under the 2013 Revolving Facility serve as guarantors for funds borrowed under the 2014 Term

Table of Contents

Loans. In the event that we seek and obtain an investment grade credit rating, we may request that a subsidiary guarantor be released, unless such guarantor becomes obligated in respect of the debt of the Borrower or another subsidiary, or owns Unencumbered Property and incurs recourse debt.

We have the option to increase the maximum amount available under the 5 Year Term Loan, through an accordion option (subject to certain conditions), from \$150.0 million to as much as \$300.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders.

We have the option to increase the maximum amount available under the 7 Year Term Loan, through an accordion option (subject to certain conditions), from \$100.0 million to as much as \$200.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders.

We may use the proceeds of the 2014 Term Loans for the repayment of debt, for the payment of development or redevelopment costs and for working capital and general corporate purposes.

See note 4 in the notes to our unaudited consolidated financial statements for a description of the identical covenants contained in the 2013 Revolving Facility and 2014 Term Loans.

Springfield Town Center

On March 2, 2014, we entered into a Contribution Agreement (the "Contribution Agreement") relating to the acquisition of Springfield Town Center in Springfield, Virginia for total consideration of \$465.0 million. The total consideration is expected to be funded using \$125.0 million of common and preferred Operating Partnership units, with the remaining balance to be paid in cash. We expect to fund the remaining cash balance by borrowing from the amounts available under our Credit Agreements. In addition, the seller of the property may be entitled to certain additional consideration based on the value of the property three years after the closing date. We expect closing to occur in the fourth quarter of 2014 or the first quarter of 2015, subject to the substantial completion of the redevelopment of the property as well as certain other customary closing conditions.

Letter of Credit for Springfield Town Center Acquisition

In connection with the agreement to acquire Springfield Town Center, in March 2014, we obtained a \$46.5 million letter of credit (the "Letter of Credit") from Wells Fargo Bank, National Association. Amounts secured under the Letter of Credit for Springfield Town Center are subject to a fee per annum, depending on PREIT's leverage. The initial fee in effect is 1.15% per annum. The Letter of Credit initially expires in July 2015 and may be extended up to one year. The Letter of Credit is subject to covenants that are identical to those contained in the 2013 Revolving Facility and the 2014 Term Loans. At the closing of the Springfield Town Center acquisition, it is expected that the Letter of Credit will be terminated.

The Gallery Joint Venture

In July 2014, we entered into a 50/50 joint venture with The Macerich Company ("Macerich") to redevelop the Gallery at Market East in Philadelphia, Pennsylvania. Macerich acquired its interest in the venture and related real estate from us for \$106.8 million in cash. We used \$25.8 million of such proceeds to repay a mortgage loan secured by 801 Market Street, a property that is part of the Gallery complex, \$50.0 million to repay the outstanding balance on our 2013 Revolving Facility, and the remaining proceeds for general corporate purposes.

Interest Rate Derivative Agreements

As of June 30, 2014, we had entered into 12 interest rate swap agreements with a weighted average interest rate of 1.67% on a notional amount of \$328.1 million maturing on various dates through January 2019.

We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long term debt. We have assessed the effectiveness of these interest rate swap agreements as hedges at inception and on a quarterly basis. As of June 30, 2014, we considered these interest rate swap agreements to be highly effective as cash flow hedges. The interest rate swap agreements are net settled monthly.

As of June 30, 2014, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was \$3.2 million. If we had breached any of the default

Table of Contents

provisions in these agreements as of June 30, 2014, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$3.6 million. We had not breached any of the provisions as of June 30, 2014.

Mortgage Loan Activity

In July 2014, we repaid a \$25.8 million mortgage loan plus accrued interest secured by 801 Market Street, a property that is part of the Gallery at Market East in Philadelphia, Pennsylvania, using proceeds from the transaction relating to the Gallery at Market East with The Macerich Company.

In July 2014, we repaid a \$51.0 million mortgage loan plus accrued interest secured by Logan Valley Mall in Altoona, Pennsylvania using \$50.0 million from our 2013 Revolving Facility and \$1.0 million from available working capital. The \$50.0 million borrowed from the 2013 Revolving Facility was subsequently repaid in July 2014 using proceeds from the transaction relating to the Gallery at Market East with The Macerich Company.

Mortgage Loans

Our mortgage loans, which are secured by 18 of our consolidated properties, are due in installments over various terms extending to December 2023. Twelve of these mortgage loans bear interest at fixed interest rates that range from 3.90% to 6.34% and had a weighted average interest rate of 5.05% at June 30, 2014. Six of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 2.67% at June 30, 2014. The weighted average interest rate of all consolidated mortgage loans was 4.65% at June 30, 2014. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments” on the consolidated balance sheets and are not included in the table below.

The following table outlines the timing of principal payments related to our consolidated mortgage loans as of June 30, 2014:

(in thousands of dollars)	Total	Remainder of 2014	2015-2016	2017-2018	Thereafter
Principal payments	\$117,080	\$9,608	\$35,519	\$24,476	\$47,477
Balloon payments ⁽¹⁾	1,377,721	51,000	514,544	291,532	520,645
Total	\$1,494,801	\$60,608	\$550,063	\$316,008	\$568,122

In July 2014, we repaid a \$51.0 million mortgage loan plus accrued interest on Logan Valley Mall in Altoona,

⁽¹⁾ Pennsylvania using \$50.0 million from our 2013 Revolving Facility and \$1.0 million from available working capital.

Table of Contents

Contractual Obligations

The following table presents our aggregate contractual obligations as of June 30, 2014 for the periods presented:

(in thousands of dollars)	Total	Remainder of 2014	2015-2016	2017-2018	Thereafter
Mortgage loans ⁽¹⁾	\$ 1,494,801	\$ 60,608	\$ 550,063	\$ 316,008	\$ 568,122
Term Loans	130,000	—	—	—	130,000
Letter of Credit	46,500	—	46,500	—	—
Interest on indebtedness ⁽²⁾	313,458	37,747	116,685	70,029	88,997
Operating leases	8,758	1,046	3,639	2,921	1,152
Ground leases	41,545	279	1,110	1,070	39,086
Springfield Town Center Contribution Agreement ⁽³⁾	465,000	465,000	—	—	—
Development and redevelopment commitments ⁽⁴⁾	21,738	21,738	—	—	—
Total	\$ 2,521,800	\$ 586,418	\$ 717,997	\$ 390,028	\$ 827,357

In July 2014, we repaid a \$51.0 million mortgage loan plus accrued interest on Logan Valley Mall in Altoona, Pennsylvania using \$50.0 million from our 2013 Revolving Facility and \$1.0 million from available working capital.

⁽²⁾ Includes payments expected to be made in connection with interest rate swaps and forward starting interest rate swap agreements.

⁽³⁾ We expect to use Operating Partnership units with a value of \$125.0 million towards the \$465.0 million purchase price of Springfield Town Center. The Springfield Town Center closing is expected to occur between October 2014 and March 2015.

⁽⁴⁾ The timing of the payments of these amounts is uncertain. We expect that the majority of such payments will be made prior to December 31, 2014, but cannot provide any assurance that changed circumstances at these projects will not delay the settlement of these obligations.

Preferred Share Dividends

Annual dividends on our 4,600,000 8.25% Series A Preferred Shares (\$25.00 liquidation preference) and our 3,450,000 7.375% Series B Preferred Shares (\$25.00 liquidation preference) are expected to be \$9.5 million and \$6.4 million, respectively.

CASH FLOWS

Net cash provided by operating activities totaled \$83.8 million for the six months ended June 30, 2014 compared to \$57.8 million for the six months ended June 30, 2013. This increase in cash from operating activities is primarily due to the reduction of cash paid for interest in the first six months of 2014 and other working capital changes.

Cash flows used in investing activities were \$39.3 million for the six months ended June 30, 2014 compared to cash flows provided by investing activities of \$38.1 million for the six months ended June 30, 2013. Cash flows used in investing activities for the six months ended June 30, 2014 included \$20.0 million used in acquiring two street retail properties in Philadelphia, Pennsylvania, investment in construction in progress of \$17.5 million and real estate improvements of \$19.5 million, primarily related to ongoing improvements at our properties, partially offset by

proceeds of \$23.6 million from the sale of South Mall in June 2014. Investing activities for the first six months of 2013 reflected \$126.9 million in proceeds from the sales of real estate, including Paxton Towne Centre, Phillipsburg Mall and Orlando Fashion Square. Cash flows provided by investing activities during the six months ended June 30, 2013 were partially offset by \$60.9 million used in the acquisition of 907 Market Street in Philadelphia, investment in construction in progress of \$13.8 million and real estate improvements of \$11.2 million, primarily related to ongoing improvements at our properties.

Cash flows used in financing activities were \$47.9 million for the six months ended June 30, 2014 compared to cash flows used in financing activities of \$112.3 million for the six months ended June 30, 2013. Cash flows used in financing activities for the first six months of 2014 included \$130.0 million in net repayments of the 2013 Revolving Facility, dividends and distributions of \$36.2 million, and principal installments on mortgage loans of \$7.8 million, partially offset by \$130.0 million in borrowings from the 2014 Term Loans. Cash flows used in financing activities for the six months ended June 30, 2013 included a \$182.0

Table of Contents

million repayment of the 2010 Term Loan and \$217.5 million in repayments of mortgage loans. Cash flows from financing activities during the six months ended June 30, 2013 included \$220.3 million in net proceeds from the issuance of common shares, \$35.0 million in net borrowings from the 2010 Revolving Facility, \$76.7 million in net proceeds from new mortgage loans, as well as dividends and distributions of \$31.1 million, and principal installments on mortgage loans of \$8.4 million.

ENVIRONMENTAL

We are aware of certain environmental matters at some of our properties. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential liability relating to these environmental matters. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to \$10.0 million per occurrence and up to \$20.0 million in the aggregate. See our Annual Report on Form 10-K for the year ended December 31, 2013, in the section entitled “Item 1A. Risk Factors —We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations.”

COMPETITION AND TENANT CREDIT RISK

Competition in the retail real estate industry is intense. We compete with other public and private retail real estate companies, including companies that own or manage malls, power centers, strip centers, lifestyle 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 non anchor store and other tenants. We also compete to acquire land for new site development, or to add to our existing properties. 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. Our tenants face competition from companies at the same and other properties and from other retail formats, including internet retailers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent and expense reimbursements that we receive.

The existence or development of competing retail properties and the related increased competition for tenants might, subject to the terms and conditions of the the Credit Agreements, require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might also affect the total sales, sales per square foot, occupancy and net operating income of such properties. Any such capital improvements, undertaken individually or collectively, would involve costs and expenses that could adversely affect our results of operations.

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites or sites adjacent to our properties, including institutional pension funds, other REITs and other owner-operators of retail properties. When we seek to make acquisitions, competitors might drive up the price we must pay for properties, parcels, other assets or other companies 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. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property and/or generate lower cash flow from an acquired

property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We receive a substantial portion of our operating income as rent under 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. Such tenants might enter into or renew leases with relatively shorter terms. Such tenants might also defer or fail to make rental payments when due, delay or defer lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant's lease or preclude the collection of rent in connection with the space for a period of time, 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 or store closings of those tenants might be more significant to us than the bankruptcy or store closings of other tenants. In addition, under many of our leases, our tenants pay rent based, in whole or in part, 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 their leases, or otherwise seek changes to the

Table of Contents

terms, including changes to the amount of rent, we might modify lease terms in ways that are less favorable to us. Given current conditions in the economy, certain industries and the capital markets, in some instances retailers that have sought protection from creditors under bankruptcy law have had difficulty in obtaining debtor-in-possession financing, which has decreased the likelihood that such retailers will emerge from bankruptcy protection and has limited their alternatives.

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, or 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 a higher number of tenants vacate their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first and second quarters. 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.

INFLATION

Inflation can have many effects on financial performance. Retail property leases often provide for the payment of rent based on a percentage of sales, which might increase with inflation. Leases may also provide for tenants to bear all or a portion of operating expenses, which might reduce the impact of such increases on us. However, rent increases might not keep up with inflation, or if we recover a smaller proportion of property operating expenses, we might bear more costs if such expenses increase because of inflation.

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, together with other statements and information publicly disseminated by us, contain certain "forward-looking statements" within the meaning of the federal securities laws. 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, achievements or results 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 materially and adversely affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- our substantial debt and stated value of preferred shares and our high leverage ratio;
- constraining leverage, interest and tangible net worth covenants under our 2013 Revolving Facility, our 2014 Term Loans and the Letter of Credit;
- potential losses on impairment of certain long-lived assets, such as real estate, or of intangible assets, such as goodwill, including such losses that we might be required to record in connection with any dispositions of assets;
- changes to our corporate management team and any resulting modifications to our business strategies;
- our ability to refinance our existing indebtedness when it matures, on favorable terms or at all;
- our ability to raise capital, including through the issuance of equity or equity-related securities if market conditions are favorable, through joint ventures or other partnerships, through sales of properties or interests in properties, or through other actions;
- our ability to identify and execute on suitable acquisition opportunities and to integrate acquired properties into our portfolio;
- our partnerships and joint ventures with third parties to acquire or develop properties;

our short and long-term liquidity position;
current economic conditions and their effect on employment and consumer confidence and spending, and the
corresponding effects on tenant business performance, prospects, solvency and leasing decisions and on our cash
flows, and the value and potential impairment of our properties;
changes in the retail industry, including consolidation and store closings, particularly among anchor tenants;
the effects of online shopping and other uses of technology on our retail tenants;

Table of Contents

general economic, financial and political conditions, including credit and capital market conditions, changes in interest rates or unemployment;

- risks relating to development and redevelopment activities;
- our ability to sell properties that we seek to dispose of or our ability to obtain estimated sale prices;
- our ability to maintain and increase property occupancy, sales and rental rates, in light of the relatively high number of leases that have expired or are expiring in the next two years;
- acts of violence at malls, including our properties, or at other similar spaces, and the potential effect on traffic and sales;
- increases in operating costs that cannot be passed on to tenants;
- concentration of our properties in the Mid-Atlantic region;
- changes in local market conditions, such as the supply of or demand for retail space, or other competitive factors; and
- potential dilution from any capital raising transactions or other equity issuances.

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 herein and in our Annual Report on Form 10-K for the year ended December 31, 2013 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.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of June 30, 2014, our consolidated debt portfolio consisted primarily of \$1,494.8 million of fixed and variable rate mortgage loans, \$100.0 million borrowed under our 5 Year Term Loan which bore interest at a rate of 1.60%, and \$30.0 million borrowed under our 7 Year Term Loan which bore interest at a rate of 2.10%.

Our mortgage loans, which are secured by 18 of our consolidated properties, are due in installments over various terms extending to December 2023. Twelve of these mortgage loans bear interest at fixed interest rates that range from 3.90% to 6.34% and had a weighted average interest rate of 5.05% at June 30, 2014. Six of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 2.67% at June 30, 2014. The weighted average interest rate of all consolidated mortgage loans was 4.65% at June 30, 2014. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments” on the consolidated balance sheets and are not included in the table below.

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

(in thousands of dollars) For the Year Ending December 31,	Fixed Rate Debt		Variable Rate Debt		
	Principal Payments	Weighted Average Interest Rate ⁽¹⁾	Principal Payments	Weighted Average Interest Rate ⁽¹⁾	
2014	\$8,808	5.22	% \$51,800	⁽²⁾ 2.26	%
2015	291,342	5.75	% 1,655	2.62	%
2016	231,340	5.38	% 25,726	2.29	%
2017	161,400	5.36	% 1,001	2.90	%
2018 and thereafter	551,980	4.37	% 299,749	⁽³⁾ 2.16	%

⁽¹⁾ Based on the weighted average interest rates in effect as of June 30, 2014.

In July 2014, we repaid a \$51.0 million mortgage loan plus accrued interest on Logan Valley Mall in Altoona,

⁽²⁾ Pennsylvania using \$50.0 million from our 2013 Revolving Facility and \$1.0 million from available working capital.

⁽³⁾ Includes 2014 Term Loan borrowings of \$130.0 million with a weighted average interest rate of 1.72% as of June 30, 2014.

As of June 30, 2014, we had \$379.9 million of variable rate debt. Also, as of June 30, 2014, we had entered into 12 interest rate swap agreements with an aggregate weighted average interest rate of 1.67% on a notional amount of \$328.1 million maturing on various dates through January 2019. We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long-term debt.

Changes in market interest rates have different effects on the fixed and variable rate portions of our debt portfolio. A change in market interest rates applicable to the fixed portion of the debt portfolio affects the fair value, but it has no effect on interest incurred or cash flows. A change in market interest rates applicable to the variable portion of the debt portfolio affects the interest incurred and cash flows, but does not affect the fair value. The following sensitivity analysis related to our debt portfolio, which includes the effects of our interest rate swap agreements, assumes an immediate 100 basis point change in interest rates from their actual June 30, 2014 levels, with all other variables held constant.

A 100 basis point increase in market interest rates would have resulted in a decrease in our net financial instrument position of \$58.6 million at June 30, 2014. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of \$60.8 million at June 30, 2014. Based on the variable rate debt included in our debt portfolio at June 30, 2014, a 100 basis point increase in interest rates would have resulted in an additional \$0.5 million in interest annually. A 100 basis point decrease would have reduced interest incurred by \$0.5 million annually.

To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors, or a combination thereof, depending on the underlying exposure. Interest rate differentials that arise under swap contracts are recognized in interest expense over the life of the contracts. If interest rates rise, the resulting cost of funds is expected to be lower than that which would have been available if debt with matching characteristics was issued directly. Conversely, if interest rates fall, the resulting costs would be expected to be, and in some cases have been, higher. We

Table of Contents

may also employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying transaction occurs, expires or is otherwise terminated. See note 7 of the notes to our unaudited consolidated financial statements.

Because the information presented above includes only those exposures that existed as of June 30, 2014, it does not consider changes, exposures or positions which have arisen or could arise after that date. The information presented herein has limited predictive value. As a result, the ultimate realized gain or loss or expense with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at the time and interest rates.

ITEM 4. CONTROLS AND PROCEDURES.

We are committed to providing accurate and timely disclosure in satisfaction of our SEC reporting obligations. In 2002, we established a Disclosure Committee to formalize our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014, and have concluded as follows:

Our disclosure controls and procedures are designed to ensure that the information that we are required to disclose in our reports under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Our disclosure controls and procedures are effective to ensure that information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

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

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the risks that could materially affect our business, financial condition or results of operations, which are discussed under the caption "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Issuer Purchases of Equity Securities

The following table shows the total number of shares that we acquired in the three months ended June 30, 2014 and the average price paid per share.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1—April 30, 2014	—	\$—	—	\$—
May 1—May 31, 2014	9,643	18.11	—	—
June 1—June 30, 2014	16,194	17.91	—	—
Total	25,837	\$17.98	—	\$—

Table of Contents

ITEM 6. EXHIBITS.

- 2.1 Contribution Agreement, dated as of March 2, 2014, by and among Franconia Two, L.P., PR Springfield Town Center LLC, PREIT Associates, L.P. and Vornado Realty L.P., filed herewith and as Exhibit 2.1 to our Current Report on Form 8-K filed on March 3, 2014.
- 10.1 Separation of Employment Agreement and General Release between Pennsylvania Real Estate Investment Trust, PREIT Services, L.P. and George Rubin dated as of June 13, 2014.
- 31.1 Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014 is formatted in XBRL interactive data files: (i) Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013; (ii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2014 and 2013; (iii) Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013; (iv) Consolidated Statements of Equity for the six months ended June 30, 2014; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (vi) Notes to Unaudited Consolidated Financial Statements.
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Table of Contents

SIGNATURE OF REGISTRANT

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

Date: August 1, 2014

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

By: /s/ Joseph F. Coradino
Joseph F. Coradino
Chief Executive Officer

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

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

Table of Contents

Exhibit Index

- 2.1* Contribution Agreement, dated as of March 2, 2014, by and among Franconia Two, L.P., PR Springfield Town Center LLC, PREIT Associates, L.P. and Vornado Realty L.P., filed herewith and as Exhibit 2.1 to our Current Report on Form 8-K filed on March 3, 2014.
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- 31.1* Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101* Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014 is formatted in XBRL interactive data files: (i) Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013; (ii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2014 and 2013; (iii) Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013; (iv) Consolidated Statements of Equity for the six months ended June 30, 2014; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (vi) Notes to Unaudited Consolidated Financial Statements.

* filed herewith

** furnished herewith