

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Form 10-Q

October 29, 2015

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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 September 30, 2015

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

Pennsylvania

23-6216339

(State or other jurisdiction of
incorporation or organization)

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

200 South Broad Street

19102

Philadelphia, PA

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 Accelerated filer

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

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

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 October 27, 2015: 69,190,692

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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.

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Item 1. FINANCIAL STATEMENTS

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)	September 30, 2015 (unaudited)	December 31, 2014
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	\$3,467,158	\$3,216,231
Construction in progress	131,924	60,452
Land held for development	8,424	8,721
Total investments in real estate	3,607,506	3,285,404
Accumulated depreciation	(1,071,477	) (1,061,051)
Net investments in real estate	2,536,029	2,224,353
INVESTMENTS IN PARTNERSHIPS, at equity:	154,588	140,882
OTHER ASSETS:		
Cash and cash equivalents	22,136	40,433
Tenant and other receivables (net of allowance for doubtful accounts of \$10,857 and \$11,929 at September 30, 2015 and December 31, 2014, respectively)	36,750	40,566
Intangible assets (net of accumulated amortization of \$13,198 and \$11,873 at September 30, 2015 and December 31, 2014, respectively)	23,372	6,452
Deferred costs and other assets	86,717	87,017
Assets held for sale	13,627	—
Total assets	\$2,873,219	\$2,539,703
LIABILITIES:		
Mortgage loans payable	\$1,392,270	\$1,407,947
Term Loans	400,000	130,000
Revolving Facility	60,000	—
Tenants' deposits and deferred rent	15,731	15,541
Distributions in excess of partnership investments	64,238	65,956
Fair value of derivative liabilities	6,029	2,490
Liabilities on assets held for sale	1,895	—
Accrued expenses and other liabilities	89,738	73,032
Total liabilities	2,029,901	1,694,966
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 September 30, 2015 and December 31, 2014; 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 September 30, 2015 and December 31, 2014; liquidation preference of \$86,250		35
Shares of beneficial interest, \$1.00 par value per share; 200,000 shares authorized; issued and outstanding 69,190 shares at September 30, 2015 and 68,801 shares at December 31, 2014	69,190	68,801
Capital contributed in excess of par	1,474,504	1,474,183
Accumulated other comprehensive loss	(8,189	) (6,002)
Distributions in excess of net income	(853,820	) (721,605)
Total equity—Pennsylvania Real Estate Investment Trust	681,766	815,458

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Noncontrolling interest	161,552	29,279
Total equity	843,318	844,737
Total liabilities and equity	\$2,873,219	\$2,539,703

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
REVENUE:				
Real estate revenue:				
Base rent	\$68,378	\$66,908	\$200,069	\$209,896
Expense reimbursements	31,790	31,057	93,840	96,287
Percentage rent	866	542	1,712	1,455
Lease termination revenue	1,431	644	1,898	898
Other real estate revenue	2,355	2,638	6,967	8,005
Total real estate revenue	104,820	101,789	304,486	316,541
Other income	2,216	3,348	4,300	4,807
Total revenue	107,036	105,137	308,786	321,348
EXPENSES:				
Operating expenses:				
Property operating expenses:				
CAM and real estate taxes	(33,004	) (33,092	) (100,073	) (107,723
Utilities	(5,311	) (5,520	) (15,419	) (19,571
Other property operating expenses	(4,428	) (4,315	) (12,416	) (11,713
Total property operating expenses	(42,743	) (42,927	) (127,908	) (139,007
Depreciation and amortization	(36,108	) (34,240	) (105,938	) (107,610
General and administrative expenses	(7,554	) (8,373	) (25,624	) (26,224
Provision for employee separation expenses	(136	) (85	) (136	) (4,961
Acquisition costs and other expenses	(427	) (723	) (5,696	) (3,329
Total operating expenses	(86,968	) (86,348	) (265,302	) (281,131
Interest expense, net	(19,668	) (20,071	) (60,939	) (61,792
Impairment of assets	(51,412	) (2,297	) (86,319	) (19,695
Total expenses	(158,048	) (108,716	) (412,560	) (362,618
Loss before equity in income of partnerships, gain on sale of interest in non operating real estate and gain (loss) on sale of interests in real estate	(51,012	) (3,579	) (103,774	) (41,270
Equity in income of partnerships	2,385	3,206	6,499	8,392
Gain on sale of interest in non operating real estate	—	—	43	—
Gain (loss) on sale of interests in real estate	12,386	(513	) 12,386	(414
Net loss	(36,241	) (886	) (84,846	) (33,292
Less: net loss attributable to noncontrolling interest	3,901	27	8,073	1,004
Net loss attributable to PREIT	(32,340	) (859	) (76,773	) (32,288
Less: preferred share dividends	(3,962	) (3,962	) (11,886	) (11,886
Net loss attributable to PREIT common shareholders	\$(36,302	) \$(4,821	) \$(88,659	) \$(44,174

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands of dollars, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net loss	\$(36,241	) \$(886	) \$(84,846	) \$(33,292
Noncontrolling interest	3,901	27	8,073	1,004
Dividends on preferred shares	(3,962	) (3,962	) (11,886	) (11,886
Dividends on unvested restricted shares	(76	) (87	) (240	) (293
Net loss used to calculate loss per share—basic and diluted	\$(36,378	) \$(4,908	) \$(88,899	) \$(44,467
Basic and diluted loss per share:	\$(0.53	) \$(0.07	) \$(1.29	) \$(0.65
(in thousands of shares)				
Weighted average shares outstanding—basic	68,807	68,331	68,710	68,172
Effect of common share equivalents ⁽¹⁾	—	—	—	—
Weighted average shares outstanding—diluted	68,807	68,331	68,710	68,172

The Company had net losses used to calculate earnings per share for all periods presented. Therefore, the effects of common share equivalents of 352 and 672 for the three months ended September 30, 2015 and 2014, respectively, and 423 and 596 for the nine months ended September 30, 2015 and 2014, 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.

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

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Comprehensive loss:				
Net loss	\$(36,241	) \$(886	) \$(84,846	) \$(33,292
Unrealized (loss) gain on derivatives	(2,817	) 2,127	(3,663	) (975
Amortization of losses on settled swaps, net of gains	202	383	1,212	2,221
Total comprehensive (loss) income	(38,856	) 1,624	(87,297	) (32,046
Less: comprehensive loss attributable to noncontrolling interest	4,184	(85	) 8,337	967
Comprehensive (loss) income attributable to PREIT	\$(34,672	) \$1,539	\$ (78,960	) \$(31,079

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EQUITY

Nine Months Ended

September 30, 2015

(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, 2014	\$844,737	\$46	\$35	\$68,801	\$1,474,183	\$ (6,002)	\$ (721,605)	\$29,279
Net loss	(84,846)	—	—	—	—	—	(76,773)	(8,073)
Other comprehensive loss	(2,451)	—	—	—	—	(2,187)	—	(264)
Shares issued upon redemption of Operating Partnership units	—	—	—	29	577	—	—	(606)
Shares issued under employee compensation plans, net of shares retired	(4,574)	—	—	360	(4,934)	—	—	—
Amortization of deferred compensation	4,678	—	—	—	4,678	—	—	—
Distributions paid to common shareholders (\$0.63 per share)	(43,556)	—	—	—	—	—	(43,556)	—
Distributions paid to Series A preferred shareholders (\$1.5498 per share)	(7,116)	—	—	—	—	—	(7,116)	—
Distributions paid to Series B preferred shareholders	(4,770)	—	—	—	—	—	(4,770)	—

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(\$1.3827 per share)									
Noncontrolling interests:									
Distributions paid to Operating Partnership unit holders	(3,951)	—	—	—	—	—	—	—	(3,951)
(\$0.63 per unit)									
Operating Partnership Units issued in connection with the purchase of Springfield Town Center	145,188	—	—	—	—	—	—	—	145,188
Other distributions to noncontrolling interests, net	(21)	—	—	—	—	—	—	—	(21)
Balance									
September 30, 2015	\$843,318	\$46	\$35	\$69,190	\$1,474,504	\$ (8,189)	\$ (853,820)		\$161,552

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands of dollars)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(84,846	) \$(33,292
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	99,271	100,584
Amortization	8,766	7,083
Straight-line rent adjustments	(1,321	) (1,164
Provision for doubtful accounts	2,945	1,779
Amortization of deferred compensation	4,678	6,971
Loss on hedge ineffectiveness	512	1,354
(Gains) losses on sale of interests in real estate and non operating real estate, net	(12,429	) 414
Equity in income of partnerships in excess of distributions	(3,006	) (1,976
Amortization of historic tax credits	(1,591	) (2,508
Impairment of assets and expensed project costs	86,648	20,125
Change in assets and liabilities:		
Net change in other assets	2,564	4,014
Net change in other liabilities	(11,213	) (4,872
Net cash provided by operating activities	90,978	98,512
Cash flows from investing activities:		
Investments in consolidated real estate acquisitions	(319,986	) (20,000
Additions to construction in progress	(21,697	) (30,745
Investments in real estate improvements	(33,922	) (40,649
Cash proceeds from sales of real estate	37,056	165,632
Additions to leasehold improvements	(381	) (953
Investments in partnerships	(18,906	) (5,158
Capitalized leasing costs	(4,837	) (4,223
Decrease (increase in) cash escrows	1,803	(318
Cash distributions from partnerships in excess of equity in income	4,873	1,537
Net cash (used in) provided by investing activities	(355,997	) 65,123
Cash flows from financing activities:		
Borrowings from term loans	120,000	130,000
Net borrowings from (repayments of) revolving facility	210,000	(130,000
Proceeds from mortgage loans	272,044	—
Principal installments on mortgage loans	(14,945	) (11,812
Repayments of mortgage loans	(272,776	) (76,784
Payment of deferred financing costs	(3,634	) (1,896
Dividends paid to common shareholders	(43,556	) (41,225
Dividends paid to preferred shareholders	(11,886	) (11,886
Distributions paid to Operating Partnership unit holders and non controlling interest	(3,951	) (1,278
Value of shares of beneficial interest issued	1,081	3,062
Value of shares retired under equity incentive plans, net of shares issued	(5,655	) (4,633
Net cash provided by (used in) financing activities	246,722	(146,452
Net change in cash and cash equivalents	(18,297	) 17,183
Cash and cash equivalents, beginning of period	40,433	34,230
Cash and cash equivalents, end of period	\$22,136	\$51,413

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015

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, 2014. 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. Our portfolio currently consists of a total of 40 properties in 12 states, including 30 operating shopping malls, six other retail properties, three development properties and one property under redevelopment (The Gallery at Market East). Two of the development properties are classified as “mixed use” (a combination of retail and other uses) and one of the development properties is classified as “other.” The above property counts do not include Voorhees Town Center in Voorhees, New Jersey, because that property has been classified as “held for sale” as of September 30, 2015 and was sold in October 2015.

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 September 30, 2015, we held an 89.2% 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 September 30, 2015, the total amount that would have been distributed would have been \$165.4 million, which is calculated using our September 30, 2015 closing price on the New York Stock Exchange of \$19.83 per share multiplied by the number of outstanding OP Units held by limited partners, which was 8,343,299 as of September 30, 2015.

We provide management, leasing and real estate development services through two of our subsidiaries: PREIT Services, LLC (“PREIT Services”), which generally develops and manages properties that we consolidate for financial

reporting purposes, and PREIT-RUBIN, Inc. (“PRI”), which generally develops and manages properties 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.

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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 March 2015, the Financial Accounting Standards Board ("FASB") issued "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" and "Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which intend to simplify the presentation of debt issuance costs. The new guidance is effective for annual periods beginning after December 15, 2015 for public companies. We have evaluated this new guidance and have determined that this standard will not have a significant impact on our consolidated financial statements. We will adopt this new guidance in 2016.

In May 2014, the FASB 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 that the entity expects to receive in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2017 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 might have on our consolidated financial statements, nor have we decided upon the method of adoption.

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2. REAL ESTATE ACTIVITIES

Investments in real estate as of September 30, 2015 and December 31, 2014 were comprised of the following:

(in thousands of dollars)	As of September 30, 2015	As of December 31, 2014
Buildings, improvements and construction in progress	\$3,055,060	\$2,843,326
Land, including land held for development	552,446	442,078
Total investments in real estate	3,607,506	3,285,404
Accumulated depreciation	(1,071,477	) (1,061,051
Net investments in real estate	\$2,536,029	\$2,224,353

Capitalization of Costs

The following table summarizes our capitalized salaries, commissions, benefits, real estate taxes and interest for the three and nine months ended September 30, 2015 and 2014:

(in thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Development/Redevelopment Activities:				
Salaries and benefits	\$309	\$201	\$683	\$1,026
Real estate taxes	323	4	599	4
Interest	758	201	1,562	494
Leasing Activities:				
Salaries, commissions and benefits	1,610	1,394	4,837	4,223

Dispositions

In October 2015, we sold Voorhees Town Center in Voorhees, New Jersey for \$13.4 million, representing a capitalization rate of 10.3%. No gain or loss was recorded in connection with this sale. However, prior to the sale, as discussed in "Impairment of Assets" below, a \$39.1 million impairment loss was recorded in the three and nine months ended September 30, 2015.

In August 2015, we sold Uniontown Mall in Uniontown, Pennsylvania for \$23.0 million, representing a capitalization rate of 17.5%. No gain or loss was recorded in connection with this sale. However, prior to the sale, as discussed in "Impairment of Assets" below, \$7.5 million of impairment losses were recorded in the nine months ended September 30, 2015.

Acquisition

On March 31, 2015, we acquired Springfield Town Center in Springfield, Virginia for aggregate consideration of \$486.6 million, consisting of the following components: (i) the assumption and immediate payoff of \$263.8 million of indebtedness owed to affiliates of Vornado Realty L.P.; (ii) 6,250,000 OP Units valued at \$145.2 million, (iii) liabilities relating to tenant improvements and allowances of \$14.8 million, (iv) the estimated present value of the "Earnout" (as described below) of \$7.7 million, and (v) the remainder in cash. The seller is potentially entitled to receive consideration (the "Earnout") under the terms of the Contribution Agreement which will be calculated as of March 31, 2018. Our allocation of the purchase price is as follows:

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(in thousands of dollars)

Land	\$ 119,912	
Building	299,012	
Common area improvements	16,776	
Site improvements and tenant improvements	35,565	
Intangible assets (liabilities):		
In-place lease value	18,123	
Above market lease value	260	
Below market lease value	(393)
Above market ground lease value (as lessor)	(5,882)
Deferred and other assets	3,231	
Total	\$486,604	

Impairment of Assets

Lycoming Mall

In September 2015, we recorded a loss on impairment of assets on Lycoming Mall in Pennsdale, Pennsylvania of \$12.3 million in connection with negotiations with a prospective buyer of the property. In connection with these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was 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, which has since been terminated, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Lycoming Mall were less than the carrying value of the property, and recorded a loss on impairment of assets.

Voorhees Town Center

In September 2015, we recorded a loss on impairment of assets on Voorhees Town Center in Voorhees, New Jersey of \$39.1 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was 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 buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Voorhees Town Center were less than the carrying value of the property, and recorded a loss on impairment of assets. We sold this property in October 2015.

Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall

In June 2015, we recorded aggregate losses on impairment of assets on Gadsden Mall in Gadsden, Alabama, New River Valley Mall in Christiansburg, Virginia and Wiregrass Commons Mall in Dothan, Alabama of \$27.3 million after signing a purchase and sale agreement with a prospective buyer of the properties. The negotiations with this prospective buyer of the properties are ongoing, and could result in additional changes to our underlying assumptions. As a result of these negotiations, we determined that the holding period for the properties was less than had been previously estimated, which we concluded was a triggering event, 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 the properties, we determined that the estimated aggregate undiscounted cash flows, net of estimated capital expenditures, for Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall were less than the aggregate carrying value of the properties, and recorded a loss on impairment of assets.

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Uniontown Mall

In 2015, we recorded aggregate losses on impairment of assets on Uniontown Mall in Uniontown, Pennsylvania of \$7.5 million. In connection with negotiations with the buyer of the property, we had determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the original purchase and sale agreement with the prospective buyer of the property and subsequent further negotiations, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Uniontown Mall were less than the carrying value of the property, and recorded both an initial loss on impairment of assets and a subsequent additional loss on impairment of assets. We sold the property in August 2015.

3. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in our unconsolidated partnerships as of September 30, 2015 and December 31, 2014:

(in thousands of dollars)	As of September 30, 2015	As of December 31, 2014
ASSETS:		
Investments in real estate, at cost:		
Operating properties	\$753,001	\$654,024
Construction in progress	5,678	41,919
Total investments in real estate	758,679	695,943
Accumulated depreciation	(194,114)	(190,100)
Net investments in real estate	564,565	505,843
Cash and cash equivalents	37,041	15,229
Deferred costs and other assets, net	41,061	37,274
Total assets	642,667	558,346
LIABILITIES AND PARTNERS' INVESTMENT:		
Mortgage loans payable	438,061	383,190
Other liabilities	32,470	34,314
Total liabilities	470,531	417,504
Net investment	172,136	140,842
Partners' share	89,764	74,663
PREIT's share	82,372	66,179
Excess investment ⁽¹⁾	7,978	8,747
Net investments and advances	\$90,350	\$74,926
Investment in partnerships, at equity	\$154,588	\$140,882
Distributions in excess of partnership investments	(64,238)	(65,956)
Net investments and advances	\$90,350	\$74,926

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

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.

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The following table summarizes our share of equity in income of partnerships for the three and nine months ended September 30, 2015 and 2014:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Real estate revenue	\$25,432	\$25,684	\$76,285	\$67,191
Operating expenses:				
Property operating expenses	(8,768	) (8,659	) (28,819	) (21,508
Interest expense	(5,211	) (5,483	) (15,653	) (16,410
Depreciation and amortization	(6,508	) (4,972	) (18,806	) (12,035
Total expenses	(20,487	) (19,114	) (63,278	) (49,953
Net income	4,945	6,570	13,007	17,238
Less: Partners' share	(2,647	) (3,283	) (6,667	) (8,614
PREIT's share	2,298	3,287	6,340	8,624
Amortization of excess investment	87	(81	) 159	(232
Equity in income of partnerships	\$2,385	\$3,206	\$6,499	\$8,392

Financing Activity

In September 2015, the unconsolidated partnership that owns Springfield Mall in Springfield, Pennsylvania entered into a \$65.0 million mortgage loan secured by the property with a fixed interest rate of 4.45% and a term of 10 years with no options to extend. The proceeds were used to repay the existing \$61.7 million mortgage loan plus accrued interest. We received \$1.0 million of proceeds as a distribution in connection with the financing.

Disposition

In July 2015, we sold our entire 50% interests in the Springfield Park shopping center in Springfield, Pennsylvania for \$20.2 million, representing a capitalization rate of 7.0%, and recognized a gain of \$12.0 million. In connection with our interest in the property, we had an ongoing obligation to sublet approximately 10,100 square feet of space of a tenant at the property, which we transferred as part of the transaction. In connection with the sale, a mortgage loan of approximately \$9.0 million, of which our share was 50%, was assumed by the buyer of our interests. We are providing limited property management services to the shopping center for a limited term for nominal consideration. We divested \$0.1 million of goodwill in connection with this transaction. We used the net proceeds from the transaction for general corporate purposes. See note 8 regarding the related party aspect of this transaction.

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 was considered to be a significant unconsolidated subsidiary as of December 31, 2014, and which is included in the amounts above. Summarized balance sheet information as of September 30, 2015 and December 31, 2014 and summarized statement of operations information for the three and nine months ended September 30, 2015 and 2014 for this entity, which is accounted for using the equity method, is as follows:

(in thousands of dollars)	As of	
	September 30, 2015	December 31, 2014
Summarized balance sheet information		
Total assets	\$52,668	\$51,703
Mortgage loan payable	129,698	131,394

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(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Summarized statement of operations information				
Revenue	\$8,903	\$9,037	\$26,807	\$27,133
Property operating expenses	(2,200)	) (2,297)	) (7,219)	) (7,516)
Interest expense	(1,923)	) (1,956)	) (5,794)	) (5,891)
Net income	3,964	3,984	11,284	11,066
PREIT's share of equity in income of partnership	1,982	1,992	5,642	5,533

4. FINANCING ACTIVITY

Credit Agreements

We have entered into four credit agreements (collectively, the "Credit Agreements"), as further discussed and defined below: (1) the 2013 Revolving Facility, (2) the 2014 7-Year Term Loan, (3) the 2014 5-Year Term Loan, and (4) the 2015 5-Year Term Loan.

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. 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). In June 2015, we further amended the 2013 Revolving Facility to lower the interest rates in the applicable pricing grid, modify one covenant and to extend the Termination Date to June 26, 2018. 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 September 30, 2015, \$60.0 million was outstanding under our 2013 Revolving Facility, \$7.9 million was pledged as collateral for letters of credit and the unused portion that was available to us was \$332.1 million.

Interest expense related to the 2013 Revolving Facility was \$0.7 million and \$0.4 million for the three months ended September 30, 2015 and 2014, respectively, and \$2.4 million and \$1.2 million for the nine months ended September 30, 2015 and 2014, respectively. Deferred financing fee amortization associated with the 2013 Revolving Facility was \$0.2 million and \$0.4 million for the three months ended September 30, 2015 and 2014, respectively, and \$1.2 million (including \$0.2 million of accelerated amortization resulting from the 2015 amendment) and \$1.1 million for the nine months ended September 30, 2015 and 2014, respectively.

Pursuant to the June 2015 amendment, the initial maturity of the 2013 Revolving Facility is now June 26, 2018, and the Borrower has two options for 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.

Subject to the terms of the Credit Agreements, 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.

After the June 2015 amendment, amounts borrowed under the 2013 Revolving Facility bear interest at a rate between 1.20% and 1.55% per annum, depending on PREIT's leverage at the end of each quarter, in excess of LIBOR, as set forth in the table below. The rate that is in effect as of September 30, 2015 is 1.30% 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.

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Level	Ratio of Total Liabilities to Gross Asset Value	Applicable Margin
1	Less than 0.450 to 1.00	1.20 %
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.25 %
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.30 %
4	Equal to or greater than 0.550 to 1.00	1.55 %

The 2013 Revolving Facility is subject to a facility fee which is currently 0.25%, depending on leverage, and is recorded in interest expense in the consolidated statements of operations. In the event that we seek and obtain an investment grade credit rating, alternative interest rates and facility fees would apply.

The 2013 Revolving Facility contains certain affirmative and negative covenants and other provisions which are identical to those contained in the other Credit Agreements and which are described in detail below in the section entitled “—Identical covenants and common provisions contained in the Credit Agreements.”

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.

Term Loans

2015 5-Year Term Loan

In June 2015, the Borrower entered into a five year term loan agreement (the “2015 5-Year Term Loan”) with Wells Fargo Bank, National Association, PNC Bank, National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured five year term loan facility. The maturity date of the 2015 5-Year Term Loan is June 26, 2020. At closing, the Borrower borrowed the entire \$150.0 million under the 2015 5-Year Term Loan and used the proceeds to repay \$150.0 million of the then outstanding balance under the Borrower’s 2013 Revolving Facility.

Amounts borrowed under the 2015 5-Year Term Loan bear interest at the rate specified below per annum, depending on PREIT’s leverage, in excess of LIBOR, unless and until the Borrower receives an investment grade credit rating and provides notice to the Administrative Agent (the “Rating Date”), after which alternative rates would apply. In determining PREIT’s leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is 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	2015 5-Year Term Loan Applicable Margin
1	Less than 0.450 to 1.00	1.35%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.45%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.60%
4	Equal to or greater than 0.550 to 1.00	1.90%

The rate that is in effect as of September 30, 2015 is 1.60% per annum in excess of LIBOR.

The 2015 5-Year Term Loan also contains an additional covenant that prior to the Rating Date, if any, 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.

The Borrower may prepay the 2015 5-Year Term Loan at any time without premium or penalty, subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings.

The 2015 5-Year Term Loan contains certain affirmative and negative covenants and other provisions which are identical to those contained in the other Credit Agreements, and which are described in detail below in the section entitled "—Identical covenants and common provisions contained in the Credit Agreements."

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2014 Term Loans

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

(1) a five year term loan agreement (the “2014 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 five-year term loan facility; and

(2) a seven year term loan agreement (the “2014 7-Year Term Loan” and, together with the 2014 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 seven year term loan facility.

In June 2015, the Borrower entered into an amendment to each of the 2014 Term Loans under which PREIT is required to maintain, on a consolidated basis, minimum Unencumbered Debt Yield of 11.0%, versus 12.0% previously, consistent with the amendment to the covenant in the 2013 Revolving Facility, and the provision of the 2015 5-Year Term Loan. The cross-default provisions in the 2014 Term Loans were also amended to add the new 2015 5-Year Term Loan.

Amounts borrowed under the 2014 Term Loans bear interest at the rate specified in the chart below per annum, depending on PREIT’s leverage at the end of each quarter, 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	2014 7-Year Term Loan Applicable Margin	2014 5-Year Term Loan Applicable Margin
1	Less than 0.450 to 1.00	1.80%	1.35%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.95%	1.45%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	2.15%	1.60%
4	Equal to or greater than 0.550 to 1.00	2.35%	1.90%

The rates that are in effect as of September 30, 2015 are 2.15% and 1.60% for the 7-Year Term Loan and 5-Year Term Loan, respectively, 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.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 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.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 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 contain certain affirmative and negative covenants and other provisions which are identical to those contained in the other Credit Agreements, and which are described in detail below in the section entitled “—Identical covenants and common provisions contained in the Credit Agreements.”

The Borrower may prepay the 2014 Term Loans at any time without premium or penalty, subject to reimbursement obligations for the lenders’ breakage costs for LIBOR borrowings. The payment of the 2014 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% from closing to one year after closing, to 2% from one year after closing to two years after closing, to 1% from two years after closing to three years after closing, and without penalty thereafter.

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The table set forth below presents the amounts outstanding, interest rate (inclusive of the LIBOR spread and excluding the impact of interest rate swap agreements on LIBOR-based debt) in effect and the maturity dates of the 2014 Term Loans and the 2015 Term Loan (collectively, the “Term Loans”) as of September 30, 2015:

(in millions of dollars)	2014 7-Year Term Loan	2014 5-Year Term Loan	2015 5-Year Term Loan
Total facility	\$100.0	\$150.0	\$150.0
Amount outstanding	\$100.0	\$150.0	\$150.0
Interest rate	2.13	% 1.63	% 1.64
Maturity date	January 2021	January 2019	June 2020

Interest expense related to the Term Loans was \$2.7 million and \$1.2 million for the three months ended September 30, 2015 and 2014, respectively, and \$5.9 million and \$3.4 million for the nine months ended September 30, 2015 and 2014, respectively. Deferred financing fee amortization associated with the Term Loans was \$0.1 million and \$0.1 million for the three months ended September 30, 2015 and 2014, respectively, and \$0.3 million and \$0.2 million for the nine months ended September 30, 2015 and 2014, respectively.

Identical covenants and common provisions contained in the Credit Agreements

The Credit Agreements 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 1.50:1 (4) minimum Unencumbered Debt Yield of 11.0%; (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 Credit Agreements are subject to customary events of default and are cross-defaulted with one another. As of September 30, 2015, the Borrower was in compliance with all such financial covenants.

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 (2), or (4) with respect to the Term Loans, are guarantors under the 2013 Revolving Facility, as amended, will serve as guarantors for funds borrowed under the Credit Agreements. In the event that we seek and

obtain an investment grade credit rating, if any, PREIT 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.

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 Credit Agreements immediately due and payable, and the Commitments of the lenders to make further loans under the 2013 Revolving Facility and the 2014 Term Loans 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.

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Mortgage Loans

The carrying values and estimated fair values of mortgage loans based on interest rates and market conditions at September 30, 2015 and December 31, 2014 were as follows:

(in millions of dollars)	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans	\$1,392.3	\$1,398.2	\$1,407.9	\$1,415.5

The mortgage loans contain various customary default provisions. As of September 30, 2015, we were not in default on any of the mortgage loans.

Mortgage Loan Activity

In September 2015, we entered into a \$170.0 million mortgage loan secured by Willow Grove Park in Willow Grove, Pennsylvania. The mortgage loan has a fixed interest rate of 3.88% per annum and a 10 year term. Payments are of principal and interest based on a 30 year amortization schedule with a balloon payment due in October 2025. In connection with the financing, we repaid the existing \$133.6 million mortgage loan plus accrued interest. The balance of the proceeds were used for general corporate purposes.

In June 2015, we entered into a \$96.2 million mortgage loan secured by Patrick Henry Mall in Newport News, Virginia. The mortgage loan has a fixed interest rate of 4.35% per annum and a 10 year term. Payments are of principal and interest based on a 30 year amortization schedule with a balloon payment due in July 2025. In connection with the financing, we repaid the existing \$83.8 million mortgage loan plus accrued interest and incurred an \$0.8 million prepayment penalty. The balance of the proceeds were used for general corporate purposes.

In April 2015, we repaid a \$55.3 million mortgage loan plus accrued interest secured by Magnolia Mall in Florence, South Carolina using \$40.0 million from our 2013 Revolving Facility and the balance from available working capital.

In March 2015, we borrowed an additional \$5.8 million under the mortgage loan secured by Francis Scott Key Mall in Frederick, Maryland.

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 \$56.2 million (net of capitalized interest of \$1.6 million) and \$55.8 million (net of capitalized interest of \$0.5 million) for the nine months ended September 30, 2015 and 2014, respectively.

In our statement of cash flows, we show cash flows on our revolving facility on a net basis. Aggregate borrowings on our 2013 Revolving Facility were \$290.0 million and \$140.0 million for the nine months ended September 30, 2015 and 2014, respectively. Aggregate paydowns were \$230.0 million and \$270.0 million for the nine months ended September 30, 2015 and 2014, respectively. The \$150.0 million paydown in the nine months ended September, 2015 was directly paid from the 2015 5-Year Term Loan initial borrowing, and is considered to be a non-cash transaction.

In connection with our acquisition of Springfield Town Center in March 2015, we issued 6,250,000 OP Units with a value of \$145.2 million as partial consideration for the purchase.

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6. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

As of September 30, 2015, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$19.3 million in the form of tenant allowances and contracts with general service providers and other professional service providers.

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.

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 income or 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 \$4.3 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.

Interest Rate Swaps

As of September 30, 2015, we had entered into 16 interest rate swap agreements with a weighted average interest rate of 1.55% on a notional amount of \$421.9 million maturing on various dates through January 2019. In October 2015, we entered into five additional interest rate swap agreements with a weighted average interest rate of 1.23% on a notional amount of \$100.0 million maturing in June 2020.

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 September 30, 2015, 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 September 30, 2015 includes a net loss of \$2.2 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.

In the nine months ended September 30, 2015, we recorded net loss on hedge ineffectiveness of \$0.5 million. Following our July 2014 repayment of the \$25.8 million mortgage loan secured by 801 Market Street, Philadelphia, Pennsylvania, we anticipated that we would not have sufficient 1-month LIBOR based interest payments to meet the entire swap notional amount related to two of our swaps, and we estimated that this condition would exist until approximately March 2015, when we planned to incur variable rate debt as part of the consideration for the acquisition of Springfield Town Center. These swaps, with an aggregate notional amount of \$40.0 million, did not qualify for ongoing hedge accounting after July 2014 as a result of the unrealized forecasted transactions. We recognized mark-to-market interest expense on these two swaps of \$0.5 million for the period from January 1, 2015 to March 31, 2015, the date the Springfield Town Center acquisition closed and variable rate debt was issued. These swaps are scheduled to expire by their terms in January 2019.

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The following table summarizes the terms and estimated fair values of our interest rate swap derivative instruments at September 30, 2015 and December 31, 2014. 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 September 30, 2015 ⁽¹⁾	Fair Value at December 31, 2014 ⁽¹⁾	Interest Rate	Maturity Date
Interest Rate Swaps				
\$25.0	\$(0.1	) \$(0.2	) 1.10	% July 31, 2016
28.1	(0.3	) (0.4	) 1.38	% January 2, 2017
33.2	(0.2	) 0.1	3.72	% December 1, 2017
7.6	—	—	1.00	% January 1, 2018
55.0	(0.5	) —	1.12	% January 1, 2018
48.0	(0.4	) —	1.12	% January 1, 2018
30.0	(0.8	) (0.4	) 1.78	% January 2, 2019
20.0	(0.6	) (0.3	) 1.78	% January 2, 2019
20.0	(0.6	) (0.3	) 1.78	% January 2, 2019
20.0	(0.6	) (0.3	) 1.79	% January 2, 2019
20.0	(0.6	) (0.3	) 1.79	% January 2, 2019
20.0	(0.6	) (0.3	) 1.79	% January 2, 2019
25.0	(0.2	) N/A	1.16	% January 2, 2019
25.0	(0.2	) N/A	1.16	% January 2, 2019
25.0	(0.2	) N/A	1.16	% January 2, 2019
20.0	(0.1	) N/A	1.16	% January 2, 2019
	\$(6.0	) \$(2.4)	

As of September 30, 2015 and December 31, 2014, derivative valuations in their entirety were classified in Level 2 ⁽¹⁾ of the fair value hierarchy and 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 nine months ended September 30, 2015 and 2014:

(in millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,		Consolidated Statements of Operations Location
	2015	2014	2015	2014	
Derivatives in cash flow hedging relationships:					
Interest rate products					
(Loss) gain recognized in Other Comprehensive Income (Loss) on derivatives	\$ (3.9	) \$ 1.4	\$ (5.5	) \$ (0.7	) N/A
Loss reclassified from Accumulated Other Comprehensive Income (Loss) into income (effective portion)	\$ 1.3	\$ 1.0	\$ 3.5	\$ 3.3	Interest expense
Loss recognized in income on derivatives (ineffective portion and	\$ —	\$ (0.1) \$ (0.5) \$ (1.4) Interest expense

amount excluded from effectiveness
testing)

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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 September 30, 2015, we were not in default on any of our derivative obligations.

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

As of September 30, 2015, 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 \$6.0 million. If we had breached any of the default provisions in these agreements as of September 30, 2015, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$6.5 million. We had not breached any of these provisions as of September 30, 2015.

8. RELATED PARTY TRANSACTION

As disclosed in note 3, we sold our entire 50% interests in Springfield Park shopping center in Springfield, Pennsylvania in July 2015. The buyer, Rubin Retail Acquisitions, L.P., is an entity controlled by Ronald Rubin, Executive Chairman and a Trustee of PREIT, and his brother, George Rubin, a former Vice Chairman and a former Trustee of PREIT. In accordance with PREIT's Related Party Transactions Policy, a Special Committee consisting exclusively of independent members of PREIT's Board of Trustees considered and approved the terms of the transaction. The disinterested members of PREIT's Board of Trustees also approved the transaction.

9. HISTORIC TAX CREDITS

Phase I

In the third quarter of 2009, we closed a transaction with a counterparty (the "Phase I Counterparty") related to the historic rehabilitation of an office building located at 801 Market Street in Philadelphia, Pennsylvania (the "Phase I Project"). Capital contributions received from the Phase I Counterparty are, in substance, consideration that we received in exchange for a put option, whereby we might be obligated or entitled to repurchase the Phase I Counterparty's ownership interest in the Phase I Project, and our obligation to deliver tax credits to the Phase I Counterparty. During 2015, the counterparty elected to exercise its put option, and in October 2015, we paid \$1.8 million to the Phase I Counterparty to repurchase its ownership interest in the Phase I Project.

Phase II

In the second quarter of 2012, we closed a transaction with a counterparty (the "Phase II Counterparty") related to the historic rehabilitation of an office building located at 801 Market Street in Philadelphia, Pennsylvania (the "Phase II Project"). The Phase II Project has two stages of development, Phase II(i) and Phase II(ii). The Phase II Counterparty contributed equity of \$5.5 million to Phase II(i) through December 31, 2013 and \$5.8 million to Phase II(ii) through September 30, 2014. In exchange for its contributions into the Phase II Project, the Phase II Counterparty received substantially all of the historic rehabilitation tax credits associated with the Phase II Project as a distribution. The Phase II Counterparty's contributions, other than the amounts allocated to a put option (whereby we might be obligated or entitled to repurchase the Phase II Counterparty's ownership interest in the Phase II Project), are classified as "Accrued expenses and other liabilities" and recognized as "Other income" in the consolidated financial statements as our obligation to deliver tax credits is relieved.

The tax credits are subject to a five year credit recapture period, as defined in the Internal Revenue Code of 1986, as amended, beginning one year after the completion of the Phase II Project, of which Phase II(i) was completed in the

second quarter of 2012, and Phase II(ii) was completed in the second quarter of 2013. Our obligation to the Phase II Counterparty with respect to the tax credits is ratably relieved annually in the third quarter of each year, upon the expiration of each portion of the recapture period and the satisfaction of other revenue recognition criteria. We recognized the contribution received from the Phase II Counterparty as “Other income” in the consolidated statements of operations of \$0.9 million related to the third recapture period of Phase II(i) and \$1.2 million related to the second recapture period of Phase II(i) in each of the three and nine months, respectively, ended September 30, 2015 and 2014. We recognized the contribution received of \$0.9 million related to the second recapture period of Phase II(ii) and \$1.0 million related to the first recapture period of Phase II(ii) in each of the three

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and nine months, respectively, ended September 30, 2015 and 2014. We also recorded \$0.3 million of priority returns earned by the Phase II Counterparty in each of the three and nine months ended September 30, 2015 and 2014. In the aggregate, we recorded net income of \$1.8 million and \$1.9 million to “Other income” in the consolidated statements of operations in connection with Phase II in each of the three and nine months ended September 30, 2015 and 2014, respectively.

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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 40 retail properties, of which 36 are operating properties, three are development properties, and one is under redevelopment (The Gallery at Market East). The 36 operating properties include 30 shopping malls and six other retail properties, have a total of 27.1 million square feet and are located in 11 states. We and partnerships in which we own an interest own 20.6 million square feet at these properties (excluding space owned by anchors). The above property and square footage counts do not include Voorhees Town Center in Voorhees, New Jersey, because that property has been classified as "held for sale" as of September 30, 2015 and was sold in October 2015.

There are 30 operating retail properties in our portfolio that we consolidate for financial reporting purposes. These consolidated operating properties have a total of 23.0 million square feet, of which we own 17.8 million square feet. The six operating retail properties that are owned by unconsolidated partnerships with third parties have a total of 4.1 million square feet, of which 2.8 million square feet are owned by such partnerships.

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

Our primary business is owning and operating retail shopping malls, which we primarily do through our operating partnership, PREIT Associates, L.P. ("PREIT Associates"). We provide management, leasing and real estate development services through PREIT Services, LLC ("PREIT Services"), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. ("PRI"), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties 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 September 30, 2015 was \$36.2 million, an increase of \$35.4 million compared to net loss of \$0.9 million for the three months ended September 30, 2014. This increase was primarily due to the \$51.4 million of impairment losses recorded in the three months ended September 30, 2015, partially offset by gains on sales of interests in real estate of \$12.4 million in the three months ended September 30, 2015.

Net loss for the nine months ended September 30, 2015 was \$84.8 million, an increase of \$51.6 million compared to net loss of \$33.3 million for the nine months ended September 30, 2014. This increase was primarily due to the \$86.3 million of impairment losses recorded in the nine months ended September 30, 2015 compared to \$19.7 million of impairment losses recorded in the nine months ended September 30, 2014, partially offset by gains on sales of interest in real estate of \$12.4 million in the nine months ended September 30, 2015. Our operating results were also affected by the dispositions of three consolidated malls and interests in three partnership properties since September 30, 2014,

and the Springfield Town Center acquisition (closed March 31, 2015). These effects were partially offset by increased Same Store NOI (as defined below) in the nine months ended September 30, 2015.

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.

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Current Economic Conditions and Our Near Term Capital Needs

The conditions in the economy have caused relatively slow job growth 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, and in some cases, has led to bankruptcy filings by them. We continue to adjust our plans and actions to take into account the current environment as it evolves. 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 Credit Agreements. These steps might include (i) obtaining capital from joint ventures or other partnerships or arrangements involving our contribution of assets with institutional investors, private equity investors or other REITs, or 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, and (ii) obtaining equity capital, including through the issuance of common or preferred equity securities if market conditions are favorable, or through other actions.

Acquisitions and Dispositions

Springfield Town Center

On March 31, 2015, we acquired Springfield Town Center in Springfield, Virginia for aggregate consideration of \$486.6 million, consisting of the following components: (i) the assumption and immediate payoff of \$263.8 million of indebtedness owed to affiliates of Vornado Realty L.P.; (ii) 6,250,000 OP Units valued at \$145.2 million, (iii) liabilities relating to tenant improvements and allowances of \$14.8 million, (iv) the estimated present value of the “Earnout” (as described below) of \$7.7 million, and (v) the remainder in cash. The seller is potentially entitled to receive consideration (the “Earnout”) under the terms of the Contribution Agreement which will be calculated as of March 31, 2018. The acquisition of Springfield Town Center affects the comparability of our occupancy, real estate revenue, property operating expenses and depreciation and amortization to prior periods. In addition, the debt incurred to finance a portion of the purchase price will cause us to incur interest expense. The impact of the acquisition on our net income, net operating income and Funds From Operations will depend on rental rates, occupancy and the overall performance of the property.

Voorhees Town Center

In October 2015, we sold Voorhees Town Center in Voorhees, New Jersey for \$13.4 million, representing a capitalization rate of 10.3%. No gain or loss was recorded in connection with this sale; however, a \$39.1 million impairment loss was recorded in the three and nine months ended September 30, 2015. See “Results of Operations—Impairment of Assets” for more information on this impairment.

Uniontown Mall

In August 2015, we sold Uniontown Mall in Uniontown, Pennsylvania for \$23.0 million, representing a capitalization rate of 17.5%. No gain or loss was recorded in connection with this sale; however, \$7.5 million of impairment losses were recorded in the nine months ended September 30, 2015 (prior to the sale). See “Results of Operations—Impairment of Assets” for more information on this impairment.

Springfield Park

In July 2015, we sold our entire 50% interests in the Springfield Park shopping center for \$20.2 million, representing a capitalization rate of 7.0%, and we recognized a gain of approximately \$12.0 million in the three and nine months ended September 30, 2015. In connection with the sale, a mortgage loan of approximately \$9.0 million, of which our

share was 50%, was assumed by the buyer of our interests. We are providing limited property management services to the shopping center for a limited term for nominal consideration. We divested \$0.1 million of goodwill in connection with this transaction. We used the net proceeds from the transaction for general corporate purposes. See note 8 to our consolidated financial statements regarding the related party aspect of this transaction.

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Capital Improvements, Redevelopment 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 \$131.9 million as of September 30, 2015.

In 2014, we entered into a 50/50 joint venture with The Macerich Company (“Macerich”) to redevelop The Gallery at Market East in Philadelphia, Pennsylvania (“The Gallery”). As we redevelop The Gallery, operating results in the short term, as measured by sales, occupancy, real estate revenue, property operating expenses, net operating income and depreciation, will likely be negatively affected until the newly constructed space is completed, leased and occupied.

We are also engaged in several types of development projects. However, we do not expect to make any significant investment in these projects in the short term.

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 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 2015 or 2014 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, 2014.

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.

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See “Results of Operations” for a description of the losses on impairment of assets relating to Lycoming Mall, Voorhees Town Center, Uniontown Mall, Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall that were recorded during the nine months ended September 30, 2015.

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.

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RESULTS OF OPERATIONS

Occupancy

The table below sets forth certain occupancy statistics for our properties as of September 30, 2015 and 2014:

	Occupancy ⁽¹⁾ as of September 30,						
	Consolidated Properties		Unconsolidated Properties		Combined ⁽²⁾		
	2015	2014	2015	2014	2015	2014	
Retail portfolio weighted average:							
Total excluding anchors	90.9	% 92.0	% 94.1	% 95.7	% 91.5	% 92.6	%
Total including anchors	93.8	% 95.4	% 95.2	% 96.6	% 94.0	% 95.5	%
Malls weighted average:							
Total excluding anchors	90.9	% 91.9	% 94.0	% 94.8	% 91.1	% 92.1	%
Total including anchors	93.8	% 95.4	% 95.9	% 96.5	% 94.0	% 95.4	%
Other retail properties	89.0	% 99.5	% 94.6	% 96.8	% 94.4	% 96.9	%

Occupancy for both periods presented includes all tenants irrespective of the term of their agreements. Retail ⁽¹⁾ portfolio and mall occupancy for all periods presented excludes properties sold in 2015 and 2014 and The Gallery because the property is under redevelopment.

⁽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.

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Leasing Activity

The table below sets forth summary leasing activity information with respect to our consolidated and unconsolidated properties for the nine months ended September 30, 2015:

	Number	GLA	Average Gross Rent psf		Increase in Gross Rent psf		Annualized Tenant Improvements psf ⁽²⁾
			Previous	New ⁽¹⁾	Dollar	Percentage	
New Leases - non anchor tenants less than 10,000 square feet: ⁽³⁾							
1st Quarter	23	43,481	N/A	\$70.36	\$70.36	N/A	\$5.73
2nd Quarter	44	94,220	N/A	\$56.36	\$56.36	N/A	\$10.57
3rd Quarter	40	73,446	N/A	\$47.88	\$47.88	N/A	\$5.87
Total/Average	107	211,147	N/A	\$56.29	\$56.29	N/A	\$7.94
New Leases - non anchor tenants 10,000 square feet or greater: ⁽³⁾							
1st Quarter	1	13,000	N/A	\$22.49	\$22.49	N/A	\$12.64
2nd Quarter	2	23,785	N/A	\$15.41	\$15.41	N/A	\$1.44
3rd Quarter	5	99,332	N/A	\$13.82	\$13.82	N/A	\$14.06
Total/Average	8	136,117	N/A	\$14.93	\$14.93	N/A	\$11.72
Renewal - non anchor tenants less than 10,000 square feet: ⁽⁴⁾							
1st Quarter	60	137,227	\$45.25	\$45.95	\$0.70	1.5	% \$0.18
2nd Quarter	78	255,466	\$37.64	\$39.39	\$1.75	4.6	% \$—
3rd Quarter	77	181,961	\$40.96	\$43.97	\$3.01	7.3	% \$0.01
Total/Average	215	574,654	\$40.51	\$42.41	\$1.90	4.7	% \$0.05
Renewal - non anchor tenants 10,000 square feet or greater: ⁽⁴⁾							
1st Quarter	1	12,608	\$13.00	\$13.50	\$0.50	3.8	% \$—
2nd Quarter	9	253,119	\$23.39	\$24.38	\$0.99	4.2	% \$—
3rd Quarter	2	26,230	\$57.73	\$68.36	\$10.63	18.4	% \$—
Total/Average	12	291,957	\$26.03	\$27.86	\$1.83	7.1	% \$—
New Leases - Anchor Tenants:							
1st Quarter	—	—	N/A	\$—	\$—	N/A	\$—
2nd Quarter	1	48,208	N/A	\$5.23	\$5.23	N/A	\$—
3rd Quarter	—	—	N/A	\$—	\$—	N/A	\$—
Total/Average	1	48,208	N/A	\$5.23	\$5.23	N/A	\$—
Renewal Leases - Anchor Tenants: ⁽⁴⁾							
1st Quarter	—	—	\$—	\$—	\$—	N/A	\$—
2nd Quarter	8	963,256	\$4.59	\$4.59	\$—	—	% \$—
3rd Quarter	2	286,293	\$3.38	\$3.38	\$—	—	% \$—
Total/Average	10	1,249,549	\$4.31	\$4.31	\$—	—	% \$—

(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 leases for reconfigured spaces and lease extensions.

As of September 30, 2015, for non anchor leases, the average gross rent per square foot as of the expiration date was \$37.34 for the renewing leases in “Holdover” status and \$38.72 for leases expiring in 2015.

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Overview

Net loss for the three months ended September 30, 2015 was \$36.2 million, an increase of \$35.4 million compared to net loss of \$0.9 million for the three months ended September 30, 2014. This increase was primarily due to the \$51.4 million of impairment losses recorded in the three months ended September 30, 2015, partially offset by gains on sales of interests in real estate of \$12.4 million in the three months ended September 30, 2015.

Net loss for the nine months ended September 30, 2015 was \$84.8 million, an increase of \$51.6 million compared to net loss of \$33.3 million for the nine months ended September 30, 2014. This increase was primarily due to the \$86.3 million of impairment losses recorded in the nine months ended September 30, 2015 compared to \$19.7 million of impairment losses recorded in the nine months ended September 30, 2014, partially offset by gains on sales of interest in real estate of \$12.4 million in the nine months ended September 30, 2015. Our operating results were also affected by the dispositions of three consolidated malls and interests in three partnership properties since September 30, 2014, and the Springfield Town Center acquisition (closed March 31, 2015). These effects were partially offset by increased Same Store NOI (as defined below) in the nine months ended September 30, 2015.

The following table sets forth our results of operations for the three and nine months ended September 30, 2015 and 2014.

(in thousands of dollars)	Three Months Ended		% Change 2014 to 2015	Nine Months Ended		% Change 2014 to 2015
	September 30, 2015	2014		September 30, 2015	2014	
Real estate revenue	\$104,820	\$101,789	3	% 304,486	316,541	(4)%
Other income	2,216	3,348	(34)	% 4,300	4,807	(11)%
Property operating expenses	(42,743)	(42,927)	—	% (127,908)	(139,007)	(8)%
Depreciation and amortization	(36,108)	(34,240)	5	% (105,938)	(107,610)	(2)%
General and administrative expenses	(7,554)	(8,373)	(10)	% (25,624)	(26,224)	(2)%
Provision for employee separation expense	(136)	(85)	60	% (136)	(4,961)	(97)%
Acquisition costs and other expenses	(427)	(723)	(41)	% (5,696)	(3,329)	71%
Interest expense, net	(19,668)	(20,071)	(2)	% (60,939)	(61,792)	(1)%
Impairment of assets	(51,412)	(2,297)	2,138	% (86,319)	(19,695)	338%
Equity in income of partnerships	2,385	3,206	(26)	% 6,499	8,392	(23)%
Gain (loss) on sale of interest in real estate	12,386	(513)	(2,514)	% 12,386	(414)	(3,092)%
Gain on sales of interest in non operating real estate	—	—	N/A	43	—	N/A
Net loss	\$(36,241)	\$(886)	3,990	% (84,846)	(33,292)	155%

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 \$3.0 million, or 3%, in the three months ended September 30, 2015 compared to the three months ended September 30, 2014, primarily due to:

an increase of \$6.8 million in real estate revenue related to the acquisition of Springfield Town Center in 2015,

an increase of \$1.5 million in same store base rent due to increases of \$2.7 million from new store openings and lease renewals with higher base rental amounts, with notable increases at Cherry Hill Mall, Viewmont Mall, Francis Scott Key Mall and Moorestown Mall, partially offset by troubled tenant closings affecting 67 stores across our portfolio, including Deb Shops, Wet Seal, Body Central, Cache and Radio Shack, with an aggregate impact of \$1.2 million; and

an increase of \$1.1 million in same store lease termination revenue, including \$0.8 million received from one tenant; partially offset by

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a decrease of a \$6.5 million in real estate revenue from properties sold in 2014 and 2015, and the July 2014 sale of a 50% partnership interest in The Gallery.

Real estate revenue decreased by \$12.1 million, or 4%, in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to:

a decrease of \$29.1 million in real estate revenue related to properties sold in 2014 and 2015, the July 2014 sale of a 50% partnership interest in The Gallery; partially offset by

an increase of \$12.9 million in real estate revenue from the acquisition of Springfield Town Center in March 2015;

an increase of \$2.4 million in same store base rent due to increases of \$5.3 million from new store openings and lease renewals with higher base rental amounts, with notable increases at Cherry Hill Mall, Viewmont Mall, Francis Scott Key Mall and Moorestown Mall, partially offset by troubled tenant closings affecting 67 stores across our portfolio, including Deb Shops, Wet Seal, Body Central, Cache and Radio Shack, with an aggregate decrease of \$3.3 million;

an increase of \$1.2 million in same store lease termination revenue, including \$0.8 million received from one tenant; and

an increase of \$1.0 million in same store real estate tax reimbursements, net of a corresponding increase in real estate tax expense.

Property Operating Expenses

Property operating expenses decreased by \$0.2 million, or 0%, in the three months ended September 30, 2015 compared to the three months ended September 30, 2014, primarily due to:

a decrease of \$3.4 million in property operating expenses related to properties sold in 2014 and 2015, and the July 2014 sale of a 50% partnership interest in The Gallery; and

a decrease of \$0.4 million in same store non-common area utility expense due to lower electric rates, particularly at our properties located in Pennsylvania and Maryland; partially offset by

an increase of \$3.1 million from the acquisition of Springfield Town Center in March 2015; and

an increase of \$0.6 million in same store real estate tax expense, due mostly to an increase at two of our New Jersey properties, resulting from a combination of increases in the real estate tax assessment value and the real estate tax rate.

Property operating expenses decreased by \$11.1 million, or 8%, in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to:

a decrease of \$16.1 million in property operating expenses related to properties sold in 2014 and 2015 and the July 2014 sale of a 50% partnership interest in The Gallery;

•

a decrease of \$2.7 million in same store non-common area utility expense. In three months ended March 31, 2014, there was a significant increase in electric rates at many of our properties. The extreme cold weather last winter, and the resulting natural gas supply constraints, led to an historic spike in wholesale electricity rates that particularly affected our properties located in Pennsylvania, New Jersey and Maryland, which was not repeated in 2015; and

a decrease of \$1.4 million in same store common area maintenance expense, including decreases of \$0.7 million in common area utilities and \$0.5 million in snow removal 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 2014, which was not repeated in 2015; partially offset by

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an increase of \$6.1 million in property operating expenses from the acquisition of Springfield Town Center in March 2015;

an increase of \$1.4 million in same store bad debt expense. During 2014, we reduced our bad debt expense when we decreased our estimated reserve related to straight line rent receivables, due to improved historical results in recent periods; and

an increase of \$1.2 million in same store real estate tax expense resulting from a combination of increases in the real estate tax assessment value and the real estate tax rate.

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

NOI excludes other income, general and administrative expense, provision for employee separation expenses, interest expense, depreciation and amortization, gain on sale of interest in non operating real estate, gain on sale of interest in real estate, impairment losses, acquisition costs and other expenses.

The following tables present NOI for the three and nine months ended September 30, 2015 and 2014. 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.”

Three months ended September 30:

(in thousands of dollars)	Same Store			Non Same Store			Total		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Real estate revenue	\$106,097	\$103,209	2.8 %	\$10,759	\$11,343	(5.1) %	\$116,856	\$114,552	2.0 %
Property operating expenses	(41,562)	(41,141)	1.0 %	(5,111)	(6,085)	(16.0) %	(46,673)	(47,226)	(1.2) %
Net Operating Income	\$64,535	\$62,068	4.0 %	\$5,648	\$5,258	7.4 %	\$70,183	\$67,326	4.2 %

Total NOI increased by \$2.9 million, or 4.2%, in the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to an increase of \$2.5 million in NOI from Same Store properties. This increase in NOI from Same Store properties was primarily due to increases in rent and lease terminations of \$1.4 million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively. Non Same Store NOI also increased by \$0.4 million. See “—Real Estate Revenue” and “—Property Operating Expenses” above for further information about the factors affecting NOI from our consolidated properties.

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Nine months ended September 30:

(in thousands of dollars)	Same Store			Non Same Store			Total		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Real estate revenue	\$311,612	\$307,076	1.5 %	\$30,166	\$42,824	(29.6)%	\$341,778	\$349,900	(2.3)%
Property operating expenses	(125,415)	(126,931)	(1.2)%	(16,095)	(22,772)	(29.3)%	(141,510)	(149,703)	(5.5)%
Net Operating Income	\$186,197	\$180,145	3.4 %	\$14,071	\$20,052	(29.8)%	\$200,268	\$200,197	— %

Total NOI increased by \$0.1 million, or 0.0%, in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase of \$6.1 million in NOI from Same Store properties, partially offset by a \$6.0 million decrease in NOI from Non Same Store properties. The decrease in NOI from Non Same Store properties was primarily due to properties sold in 2014 and 2015, and the July 2014 sale of a 50% partnership interest in The Gallery. Non Same Store NOI was further affected by de-tenanting of The Gallery in advance of the pending redevelopment of the property, and losses incurred from tenant bankruptcies, partially offset by the inclusion of Springfield Town Center, which was acquired effective March 31, 2015. See “—Real Estate Revenue” and “—Property Operating Expenses” above for further information about the factors affecting NOI from our consolidated properties. Same Store NOI includes lease termination revenue of \$1.8 million and \$0.5 million for the nine months ended September 30, 2015 and 2014, respectively.

Depreciation and Amortization

Depreciation and amortization expense increased by \$1.9 million, or 5%, in the three months ended September 30, 2015 compared to the three months ended September 30, 2014, primarily due to:

- an increase of \$3.4 million related to the March 2015 acquisition of Springfield Town Center; and

- an increase of \$0.7 million primarily due to a higher asset base resulting from capital improvements related to new tenants at our same store properties; partially offset by

- a decrease of \$2.2 million related to properties sold in 2014 and 2015, and the July 2014 sale of a 50% partnership interest in The Gallery.

Depreciation and amortization expense decreased by \$1.7 million, or 2%, in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to:

- a decrease of \$10.9 million related to properties sold in 2014 and 2015, and the July 2014 sale of a 50% partnership interest in The Gallery; partially offset by

- an increase of \$6.6 million related to the the March 2015 acquisition of Springfield Town Center; and

-

an increase of \$2.6 million primarily due to a higher asset base resulting from capital improvements related to new tenants at our same store properties.

Impairment of Assets

Lycoming Mall

In September 2015, we recorded a loss on impairment of assets on Lycoming Mall in Pennsdale, Pennsylvania of \$12.3 million in connection with negotiations with a prospective buyer of the property. In connection with these negotiations, we had determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon a purchase and sale agreement with the prospective buyer of the property, which has since been terminated, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Lycoming Mall were less than the carrying value of the

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property, and recorded a loss on impairment of assets.

Voorhees Town Center

In September 2015, we recorded a loss on impairment of assets on Voorhees Town Center in Voorhees, New Jersey of \$39.1 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was 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 buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Voorhees Town Center were less than the carrying value of the property, and recorded a loss on impairment of assets. We sold this property in October 2015.

Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall

In June 2015, we recorded aggregate losses on impairment of assets on Gadsden Mall in Gadsden, Alabama, New River Valley Mall in Christiansburg, Virginia and Wiregrass Commons Mall in Dothan, Alabama of \$27.3 million after signing a purchase and sale agreement with a prospective buyer of the properties. The negotiations with this prospective buyer of the properties are ongoing and could result in additional changes to our underlying assumptions. As a result of these negotiations, we determined that the holding period for the properties was less than had been previously estimated, which we concluded was a triggering event, 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 the properties, we determined that the estimated aggregate undiscounted cash flows, net of estimated capital expenditures, for Gadsden Mall, New River Valley Mall and Wiregrass Mall were less than the aggregate carrying value of the properties, and recorded a loss on impairment of assets.

Uniontown Mall

In 2015, we recorded aggregate losses on impairment of assets on Uniontown Mall in Uniontown, Pennsylvania of \$7.5 million. In connection with negotiations with the buyer of the property, we had determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the original purchase and sale agreement with the prospective buyer of the property and subsequent further negotiations, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Uniontown Mall were less than the carrying value of the property, and recorded an initial loss on impairment of assets and a subsequent additional loss on impairment of assets. We sold the property in August 2015.

Acquisition Costs and Other Expenses

Acquisition costs and other expenses decreased by \$0.3 million during the three months ended September 30, 2015 compared to the three months ended September 30, 2014, primarily due to acquisition costs incurred in the three months ended September 30, 2014 related to our acquisition of Springfield Town Center in March 2015.

Acquisition costs and other expenses increased by \$2.4 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to acquisition costs related to our acquisition of Springfield Town Center in March 2015 and a higher amount of other professional fees incurred in 2015.

Interest Expense

Interest expense decreased by \$0.4 million, or 2%, in the three months ended September 30, 2015 compared to the three months ended September 30, 2014. Our weighted average effective borrowing rate was 4.40% for the three months ended September 30, 2015 compared to 5.21% for the three months ended September 30, 2014. Our weighted average debt balance was \$1,857.5 million for the three months ended September 30, 2015 compared to \$1,544.5 million for the three months ended September 30, 2014. This increase is largely due to amounts borrowed to fund the cash portion of the purchase consideration for Springfield Town Center.

Interest expense decreased by \$0.9 million, or 1%, in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. Our weighted average effective borrowing rate was 4.69% for the nine months ended September 30, 2015 compared to 5.13% for the nine months ended September 30, 2014. Our weighted average debt balance was \$1,762.9 million for the nine months ended September 30, 2015 compared to \$1,614.2 million for the nine months ended September 30, 2014. We also recorded a loss on hedge ineffectiveness of \$0.5 million, a \$0.8 million prepayment penalty and

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\$0.2 million of accelerated amortization of financing costs in the nine months ended September 30, 2015. There was also \$1.4 million of net losses on hedge ineffectiveness recorded in the nine months ended September 30, 2014 resulting from the early repayment of two mortgage loans during that period.

Equity in Income of Partnerships

Equity in income of partnerships decreased by \$0.8 million, or 26%, for the three months ended September 30, 2015 compared to the three months ended September 30, 2014, and by \$1.9 million, or 23%, for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. These decreases were primarily due to the sale of our interests in Springfield Park in July 2015 and to our equity in the net loss from The Gallery, which became a 50% equity method investment as a result of the transaction with The Macerich Company in July 2014, due to the de-tenanting of the mall in anticipation of the construction phase of the redevelopment.

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, 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 nine months ended September 30, 2015 and 2014, respectively, to show the effect of mortgage prepayment penalty, accelerated amortization of financing costs, acquisition costs, loss on hedge ineffectiveness and provision for employee separation expense, 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 and loss on hedge ineffectiveness.

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The following table presents FFO attributable to common shareholders and OP Unit holders and FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit, and FFO attributable to common shareholders and OP Unit holders, as adjusted, and FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit, as adjusted, for the three months ended September 30, 2015 and 2014:

(in thousands, except per share amounts)	Three Months Ended September 30, 2015	% Change 2014 to 2015	Three Months Ended September 30, 2014
Funds from operations attributable to common shareholders and OP Unit holders	\$37,695	9.8%	\$34,343
Accelerated amortization of financing costs	41		—
Acquisition costs	2		429
Provision for employee separation expense	136		85
Loss on hedge ineffectiveness	—		117
Funds from operations attributable to common shareholders and OP Unit holders, as adjusted	\$37,874	8.3%	\$34,974
Funds from operations attributable to common shareholders and OP Unit holders per diluted share and OP Unit	\$0.49	2.1%	\$0.48
Funds from operations attributable to common shareholders and OP Unit holders per diluted share and OP Unit, as adjusted	\$0.49	0.0%	\$0.49
Weighted average number of shares outstanding	68,807		68,331
Weighted average effect of full conversion of OP Units	8,345		2,129
Effect of common share equivalents	352		672
Total weighted average shares outstanding, including OP Units	77,504		71,132

FFO attributable to common shareholders and OP Unit holders was \$37.7 million for the three months ended September 30, 2015, an increase of \$3.4 million, or 9.8%, compared to \$34.3 million for the three months ended September 30, 2014. This increase is primarily due to the \$2.5 million increase in Same Store NOI and a decrease of \$0.6 million of interest expense resulting from lower weighted average interest rates.

FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit increased by \$0.01 to \$0.49 per share for the three months ended September 30, 2015, compared to \$0.48 for the three months ended September 30, 2014.

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The following table presents FFO attributable to common shareholders and OP Unit holders and FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit, and FFO attributable to common shareholders and OP Unit holders, as adjusted, and FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit, as adjusted, for the nine months ended September 30, 2015 and 2014:

(in thousands, except per share amounts)	Nine Months Ended September 30, 2015	% Change 2014 to 2015	Nine Months Ended September 30, 2014
Funds from operations attributable to common shareholders and OP Unit holders	\$91,368	4.5%	\$87,436
Mortgage prepayment penalty and accelerated amortization of financing costs	1,071		—
Acquisition costs	3,470		2,514
Provision for employee separation expense	136		4,961
Loss on hedge ineffectiveness	512		1,354
Funds from operations attributable to common shareholders and OP Unit holders, as adjusted	\$96,557	0.3%	\$96,265
Funds from operations attributable to common shareholders and OP Unit holders per diluted share and OP Unit	\$ 1.21	(1.6)%	\$ 1.23
Funds from operations attributable to common shareholders and OP Unit holders per diluted share and OP Unit, as adjusted	\$ 1.28	(5.9)%	\$ 1.36
Weighted average number of shares outstanding	68,710		68,172
Weighted average effect of full conversion of OP Units	6,320		2,129
Effect of common share equivalents	423		596
Total weighted average shares outstanding, including OP Units	75,453		70,897

FFO attributable to common shareholders and OP Unit holders was \$91.4 million for the nine months ended September 30, 2015, an increase of \$3.9 million, or 4.5%, compared to \$87.4 million for the nine months ended September 30, 2014. This increase is primarily due to a \$6.1 million increase in Same Store NOI and a \$4.8 million decrease in employee separation expenses in 2014 as compared to 2015, partially offset by a decrease of \$6.0 million in Non Same Store NOI from properties sold since September 30, 2014 and an increase in acquisition costs related to the Springfield Town Center acquisition in 2015.

FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit decreased by \$0.02 per share to \$1.21 per share for the nine months ended September 30, 2015, compared to \$1.23 for the nine months ended September 30, 2014. This decrease was primarily due to the weighted average effect of the 6,250,000 OP Units issued in connection with our acquisition of Springfield Town Center in March 2015.

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

The preceding discussion compares 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 attributable to common shareholders and OP Unit holders and FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit as supplemental non-GAAP measures to compare our performance for different periods to that of our industry peers. The amounts presented in the “Share of Unconsolidated Partnerships” column are derived using the ‘proportionate consolidation method’ (a non-GAAP measure), which includes our share of the results of our unconsolidated partnerships based on our ownership percentage in each such uncontrolled partnership. We believe that this presentation is helpful to management and investors because it provides comparable information about the operating results of our unconsolidated partnerships and is thus indicative of the return on property investment and of operating performance over time. Results based on our share of the results of unconsolidated partnerships do not represent cash generated from operating activities of our unconsolidated partnerships and should not be considered to be an alternative to cash flow from unconsolidated properties’ operating activities as a measure of our liquidity, because we do not have a direct legal claim to the revenues or expenses of the unconsolidated partnerships beyond our rights as an equity owner or tenant in common owner.

The amounts presented in the ‘Share of Unconsolidated Partnerships’ column are derived using the “proportionate-consolidation method” (a non-GAAP measure), which includes our share of the results of our unconsolidated partnerships based on our ownership percentage in each such unconsolidated partnership.

Under the partnership agreements relating to our current unconsolidated partnerships with third parties, we own a 25% to 50% economic interest in such partnerships. As such, in general, we have an indirect economic interest in our proportionate share of the revenue and expenses of the unconsolidated partnership, and, if there were to be some type of distribution of the assets and liabilities of the partnership, our proportionate share of those items. There are generally no provisions in such partnership agreements relating to special non-proportionate allocations of income or loss, and there are no preferred or priority returns of capital or other similar provisions. Thus, we believe that the proportionate-consolidation method represents a valuable means of showing the share of the operating results of our unconsolidated partnership properties that would be allocated to us based on our economic interest under the partnership agreement.

We hold a noncontrolling interest in each of our unconsolidated partnerships, 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 do not have a direct legal claim to the assets, liabilities, revenues or expenses of the unconsolidated partnerships beyond our rights as an equity owner, in the event of any liquidation of such entity, and our rights as a tenant in common owner of certain unconsolidated properties.

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 legal title to properties owned by three of our unconsolidated partnerships through tenancy in common arrangements. For each of these this properties, such legal title is held by us and another person or persons, and each has an undivided interest in title to the property. With respect to each of the three properties, under the applicable agreements between us and the other persons with

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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 like our other unconsolidated partnerships using the equity method of accounting. The balance sheet items arising from the properties appear under the caption "Investments in partnerships, at equity."

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

The following information is provided to reconcile NOI and FFO attributable to common shareholders and OP Unit holders, which are non-GAAP measures, to net loss, a GAAP measure.

(in thousands of dollars)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Consolidated	Share of Unconsolidated Partnerships	Total (a non-GAAP measure)	Consolidated	Share of Unconsolidated Partnerships	Total (a non- GAAP measure)
Real estate revenue	\$ 104,820	\$ 12,036	\$ 116,856	\$ 101,789	\$ 12,763	\$ 114,552
Property operating expenses	(42,743)	(3,930)	(46,673)	(42,927)	(4,299)	(47,226)
Net operating income (NOI)	62,077	8,106	70,183	58,862	8,464	67,326
General and administrative expenses	(7,554)	—	(7,554)	(8,373)	—	(8,373)
Provision for employee separation expense	(136)	—	(136)	(85)	—	(85)
Other income	2,216	—	2,216	3,348	—	3,348
Acquisition costs and other expenses	(427)	(21)	(448)	(723)	(20)	(743)
Interest expense, net	(19,668)	(2,558)	(22,226)	(20,071)	(2,734)	(22,805)
Depreciation of non real estate assets	(378)	—	(378)	(363)	—	(363)
Gain on sale of interest in non operating real estate	—	—	—	—	—	—
Preferred share dividends	(3,962)	—	(3,962)	(3,962)	—	(3,962)
Funds from operations attributable to common shareholders and OP Unit holders (FFO)	32,168	5,527	37,695	28,633	5,710	34,343
Depreciation of real estate assets	(35,730)	(3,142)	(38,872)	(33,877)	(2,504)	(36,381)
Equity in income of partnerships	2,385	(2,385)	—	3,206	(3,206)	—
Impairment of assets	(51,412)	—	(51,412)	(2,297)	—	(2,297)
Gain (loss) on sale of interests in real estate	12,386	—	12,386	(513)	—	(513)
Preferred share dividends	3,962	—	3,962	3,962	—	3,962
Net loss	\$(36,241)	\$ —	\$(36,241)	\$(886)	\$ —	\$(886)

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(in thousands of dollars)	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Consolidated	Share of Unconsolidated Partnerships	Total (a non-GAAP measure)	Consolidated	Share of Unconsolidated Partnerships	Total (a non-GAAP measure)
Real estate revenue	\$304,486	\$ 37,292	\$341,778	\$316,541	\$ 33,359	\$349,900
Property operating expenses	(127,908)	(13,602)	(141,510)	(139,007)	(10,696)	(149,703)
Net operating income (NOI)	176,578	23,690	200,268	177,534	22,663	200,197
General and administrative expenses	(25,624)	—	(25,624)	(26,224)	—	(26,224)
Provision for employee separation expense	(136)	—	(136)	(4,961)	—	(4,961)
Other income	4,300	—	4,300	4,807	—	4,807
Acquisition costs and other expenses	(5,696)	(62)	(5,758)	(3,329)	(20)	(3,349)
Interest expense, net	(60,939)	(7,764)	(68,703)	(61,792)	(8,182)	(69,974)
Depreciation of non real estate assets	(1,136)	—	(1,136)	(1,174)	—	(1,174)
Gain on sale of interest in non operating real estate	43	—	43	—	—	—
Preferred share dividends	(11,886)	—	(11,886)	(11,886)	—	(11,886)
Funds from operations attributable to common shareholders and OP Unit holders (FFO)	75,504	15,864	91,368	72,975	14,461	87,436
Depreciation of real estate assets	(104,802)	(9,365)	(114,167)	(106,436)	(6,069)	(112,505)
Equity in income of partnerships	6,499	(6,499)	—	8,392	(8,392)	—
Impairment of assets	(86,319)	—	(86,319)	(19,695)	—	(19,695)
Gain (loss) on sale of real estate	12,386	—	12,386	(414)	—	(414)
Preferred share dividends	11,886	—	11,886	11,886	—	11,886
Net loss	\$(84,846)	\$ —	\$(84,846)	\$(33,292)	\$ —	\$(33,292)

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, 2014 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 and our 2014 Term Loans and 2015 Term Loan (collectively, the "Credit Agreements"). 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 nine months ended September 30, 2015 were \$59.4 million, based on distributions of \$1.5498 per Series A Preferred Share, \$1.3827 per Series B

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Preferred Share and \$0.63 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 December 2014, our universal shelf registration statement was filed with the SEC and became effective. 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.

Credit Agreements

We have entered into four credit agreements (collectively, the "Credit Agreements") as further discussed and defined below: (1) the 2013 Revolving Facility, (2) the 2014 7-Year Term Loan, (3) the 2014 5-Year Term Loan, and (4) the 2015 5-Year Term Loan.

See note 4 in the notes to our unaudited consolidated financial statements for a description of the identical covenants and common provisions contained in the Credit Agreements.

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. 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). In June 2015, we also amended the 2013 Revolving Facility to lower the interest rates in the applicable pricing grid, to modify one covenant and to extend the Termination Date. All capitalized terms used and not otherwise defined herein have the meanings ascribed to such terms in the 2013 Revolving Facility.

As of September 30, 2015, \$60.0 million was outstanding under our 2013 Revolving Facility, \$7.9 million was pledged as collateral for letters of credit and the unused portion that was available to us was \$332.1 million.

Pursuant to the June 2015 amendment, the initial maturity of the 2013 Revolving Facility is now June 26, 2018, and the Borrower has two options for 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.

Subject to the terms of the Credit Agreements, 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.

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After the June 2015 amendment, amounts borrowed under the 2013 Revolving Facility bear interest at a rate between 1.20% and 1.55% per annum, depending on PREIT's leverage at the end of each quarter, in excess of LIBOR, as set forth in the table below. The rate that is in effect as of September 30, 2015 is 1.30% 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	1.20	%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.25	%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.30	%
4	Equal to or greater than 0.550 to 1.00	1.55	%

The 2013 Revolving Facility is subject to a facility fee which is currently 0.25%, depending on leverage, and is recorded in interest expense in the consolidated statements of operations. In the event that we seek and obtain an investment grade credit rating, alternative interest rates and facility fees would apply.

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.

Term Loans

2015 5-Year Term Loan

In June 2015, the Borrower entered into a five year term loan agreement (the "2015 5-Year Term Loan") with Wells Fargo Bank, National Association, PNC Bank, National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured five year term loan facility. The maturity date of the 2015 5-Year Term Loan is June 26, 2020. At closing, the Borrower borrowed the entire \$150.0 million under the 2015 5-Year Term Loan and used the proceeds to repay \$150.0 million of the then outstanding balance under the Borrower's 2013 Revolving Facility.

Amounts borrowed under the 2015 5-Year Term Loan bear interest at the rate specified below per annum, depending on PREIT's leverage, in excess of LIBOR, unless and until the Borrower receives an investment grade credit rating and provides notice to the Administrative Agent (the "Rating Date"), after which alternative rates would apply. In determining PREIT's leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is 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	1.35	%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.45	%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.60	%
4	Equal to or greater than 0.550 to 1.00	1.90	%

The rate that is in effect as of September 30, 2015 is 1.60% per annum in excess of LIBOR.

The 2015 5-Year Term Loan also contains an additional covenant that prior to the Rating Date, if any, 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.

The Borrower may prepay the 2015 5-Year Term Loan at any time without premium or penalty, subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings.

2014 Term Loans

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

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(1) a five year Term Loan Agreement (the “2014 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 five year term loan facility; and

(2) a seven year Term Loan Agreement (the “2014 7-Year Term Loan” and, together with the 2014 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 seven-year term loan facility.

In June 2015, the Borrower entered into an amendment to each of the 2014 Term Loans. Under the amendment to each of the 2014 Term Loans, PREIT is required to maintain, on a consolidated basis, minimum Unencumbered Debt Yield of 11.0%, versus 12.0% previously, consistent with the amendment to the covenant in the 2013 Revolving Facility, and the provision of the 2015 5-Year Term Loan. The cross-default provisions in the 2014 Term Loans were also amended to add the new 2015 5-Year Term Loan.

Amounts borrowed under the 2014 Term Loans bear interest at the rate per annum specified in the chart below, depending on PREIT’s leverage at the end of each quarter, 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	2014 7-Year Term Loan Applicable Margin	2014 5-Year Term Loan Applicable Margin
1	Less than 0.450 to 1.00	1.80%	1.35%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.95%	1.45%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	2.15%	1.60%
4	Equal to or greater than 0.550 to 1.00	2.35%	1.90%

The rates that are in effect as of September 30, 2015 are 2.15% and 1.60% for the 7-Year Term Loan and 5-Year Term Loan, respectively, 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.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 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.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 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 Borrower may prepay the 2014 Term Loans at any time without premium or penalty, subject to reimbursement obligations for the lenders’ breakage costs for LIBOR borrowings. The payment of the 2014 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% from closing to one year after closing, to 2% from one year after

closing to two years after closing, to 1% from two years after closing to three years after closing, and without penalty thereafter.

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The table set forth below presents the amounts outstanding, interest rate (inclusive of the LIBOR spread and excluding the impact of interest rate swap agreements on LIBOR-based debt) in effect and the maturity dates of the 2014 Term Loans and the 2015 Term Loan as of September 30, 2015:

(in millions of dollars)	2014 7-Year Term Loan	2014 5-Year Term Loan	2015 5-Year Term Loan	
Total facility	\$ 100.0	\$ 150.0	\$ 150.0	
Amount outstanding	\$ 100.0	\$ 150.0	\$ 150.0	
Interest rate	2.13	% 1.63	% 1.64	%
Maturity date	January 2021	January 2019	June 2020	

Interest Rate Derivative Agreements

As of September 30, 2015, we had entered into 16 interest rate swap agreements with a weighted average interest rate of 1.55% on a notional amount of \$421.9 million maturing on various dates through January 2019. In October 2015, we entered into five additional interest rate swap agreements with a weighted average interest rate of 1.23% on a notional amount of \$100.0 million maturing in June 2020.

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 September 30, 2015, 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 September 30, 2015 includes a net loss of \$2.2 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.

In the nine months ended September 30, 2015, we recorded net loss on hedge ineffectiveness of \$0.5 million. Following our July 2014 repayment of the \$25.8 million mortgage loan secured by 801 Market Street, Philadelphia, Pennsylvania, we anticipated that we would not have sufficient 1-month LIBOR based interest payments to meet the entire swap notional amount related to two of our swaps, and we estimated that this condition would exist until approximately March 2015, when we planned to incur variable rate debt as part of the consideration for the acquisition of Springfield Town Center. These swaps, with an aggregate notional amount of \$40.0 million, did not qualify for ongoing hedge accounting after July 2014 as a result of the unrealized forecasted transactions. We recognized mark-to-market interest expense on these two swaps of \$0.5 million for the period from January 2015 to March 31, 2015, the date the Springfield Town Center acquisition closed and variable rate debt was issued in addition to such expense related to these swaps in 2014. These swaps are scheduled to expire by their terms in January 2019.

As of September 30, 2015, 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 \$6.0 million. If we had breached any of the default provisions in these agreements as of September 30, 2015, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$6.5 million. We had not breached any of these provisions as of September 30, 2015.

Mortgage Loan Activity

In September 2015, we entered into a \$170.0 million mortgage loan secured by Willow Grove Park in Willow Grove, Pennsylvania. The mortgage loan has a fixed interest rate of 3.88% per annum and a 10 year term. Payments are of

principal and interest based on a 30 year amortization schedule with a balloon payment due in October 2025. In connection with the financing, we repaid the existing \$133.6 million mortgage loan plus accrued interest. The balance of the proceeds were used for general corporate purposes.

In September 2015, the unconsolidated partnership that owns Springfield Mall in Springfield, Pennsylvania entered into a \$65.0 million mortgage loan with a fixed interest rate of 4.45% and a term of 10 years with no options to extend. The proceeds were used to repay the existing \$61.7 million mortgage loan plus accrued interest. In connection with the financing, we received \$1.0 million of proceeds as a distribution.

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In June 2015, we entered into a \$96.2 million mortgage loan secured by Patrick Henry Mall in Newport News, Virginia. The mortgage loan has a fixed interest rate of 4.35% and a 10 year term. Payments are of principal and interest based on a 30 year amortization schedule with a balloon payment due in July 2025. In connection with the financing, we repaid the existing \$83.8 million mortgage loan plus accrued interest and incurred a \$0.8 million prepayment penalty. The balance of the proceeds were used for general corporate purposes.

In April 2015, we repaid a \$55.3 million mortgage loan plus accrued interest secured by Magnolia Mall in Florence, South Carolina using \$40.0 million from our 2013 Revolving Facility and the balance from available working capital.

In March 2015, we borrowed an additional \$5.8 million under the mortgage loan secured by Francis Scott Key Mall in Frederick, Maryland.

Mortgage Loans

As of September 30, 2015, our mortgage loans, which are secured by 15 of our consolidated properties, are due in installments over various terms extending to October 2025. Eleven of these mortgage loans bear interest at fixed interest rates that range from 3.88% to 5.95% and had a weighted average interest rate of 4.66% at September 30, 2015. Four of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 2.90% at September 30, 2015. The weighted average interest rate of all consolidated mortgage loans was 4.43% at September 30, 2015. 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 September 30, 2015:

(in thousands of dollars)	Total	Remainder of 2015	2016-2017	2018-2019	Thereafter
Principal payments	\$144,819	\$5,189	\$34,694	\$34,811	\$70,125
Balloon payments	1,247,451	—	369,480	175,426	702,545
Total	\$1,392,270	\$5,189	\$404,174	\$210,237	\$772,670

Contractual Obligations

The following table presents our aggregate contractual obligations as of September 30, 2015 for the periods presented:

(in thousands of dollars)	Total	Remainder of 2015	2016-2017	2018-2019	Thereafter
Mortgage loans	\$1,392,270	\$5,189	\$404,174	\$210,237	\$772,670
Term Loans	400,000	—	—	150,000	250,000
2013 Revolving Facility	60,000	—	—	60,000	—
Interest on indebtedness ⁽¹⁾	345,520	18,177	119,323	86,970	121,050
Operating leases	7,473	542	3,927	3,000	4
Ground leases	1,005	163	741	77	24
Development and redevelopment commitments ⁽²⁾	19,322	14,572	1,750	3,000	—
Total	\$2,225,590	\$38,643	\$529,915	\$513,284	\$1,143,748

⁽¹⁾Includes payments expected to be made in connection with interest rate swaps and forward starting interest rate swap agreements.

⁽²⁾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, 2015, but cannot provide any assurance that changed circumstances at these projects will not delay the settlement of these obligations.

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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 \$91.0 million for the nine months ended September 30, 2015 compared to \$98.5 million for the nine months ended September 30, 2014.

Cash flows used in investing activities were \$356.0 million for the nine months ended September 30, 2015 compared to cash flows provided by investing activities of \$65.1 million for the nine months ended September 30, 2014. Cash flows used in investing activities for the nine months ended September 30, 2015 included \$320.0 million used in acquiring Springfield Town Center in Springfield, Virginia, investment in construction in progress of \$21.7 million and real estate improvements of \$33.9 million, primarily related to ongoing improvements at our properties. Investing activities for the first nine months of 2014 included \$20.0 million used in acquiring street retail properties in Philadelphia, Pennsylvania, investment in construction in progress of \$30.7 million and real estate improvements of \$40.6 million, primarily related to ongoing improvements at our properties.

Cash flows provided by financing activities were \$246.7 million for the nine months ended September 30, 2015 compared to cash flows used in financing activities of \$146.5 million for the nine months ended September 30, 2014. Cash flows provided by financing activities for the first nine months of 2015 included \$210.0 million of 2013 Revolving Facility borrowings, \$120.0 million of Term Loan borrowings, a \$170.0 million mortgage loan secured by Willow Grove Park, a \$96.2 million mortgage loan secured by Patrick Henry Mall and \$5.8 million of additional borrowing from the mortgage loan secured by Francis Scott Key Mall, offset by cash flows used by financing activities of \$133.6 million used to repay the prior mortgage loan secured by Willow Grove Park, \$83.8 million to repay the prior mortgage loan secured by Patrick Henry Mall, \$55.3 million used to repay the mortgage loan secured by Magnolia Mall, dividends and distributions of \$59.4 million and principal installments on mortgage loans of \$14.9 million. Financing activities also included a non-cash transaction consisting of a \$150.0 million borrowing on our 2015 5-Year Term Loan, which was used to pay down amounts then outstanding on our 2013 Revolving Facility. Cash flows used in financing activities for the nine months ended September 30, 2014 included \$130.0 million of net repayments of the 2013 Revolving Facility, dividends and distributions of \$54.4 million, and principal installment payments of \$11.8 million, offset by \$130.0 million in net borrowings from the 2014 Term Loans.

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 or of any obligation to satisfy requirements for further remediation. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to \$25.0 million per occurrence and up to \$25.0 million in the aggregate. See our Annual Report on Form 10-K for the year ended December 31, 2014, 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 market 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 in-line stores and other tenants. We also compete to acquire land for new site development or to acquire parcels or properties to add to our existing properties. Our malls and our other retail properties 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 channels or formats as well, 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.

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The existence or development of competing retail properties and the related increased competition for tenants might, subject to the terms and conditions of our Credit Agreements, lead us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might affect 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 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, better cash flow 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 or site, or generate lower cash flow from an acquired property or site 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, as was the case for a few of our tenants in 2015. There are also a number of tenants that are based outside the U.S., and these tenants are affected by economic conditions in the country where their headquarters are located and internationally. Any of 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 closing 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 our leases, or otherwise seek changes to the terms, including changes to the amount of rent, we might modify lease terms in ways that are less favorable to us.

SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of all or 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.

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FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, 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, unencumbered debt yield, interest and tangible net worth covenants under our Credit Agreements;
- 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 in the retail industry, including consolidation and store closings, particularly among anchor tenants;
- our ability to sell properties that we seek to dispose of or our ability to obtain estimated sale prices;
- the effects of online shopping and other uses of technology on our retail tenants;
- risks relating to development and redevelopment activities;
- current economic conditions and the state of employment growth 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;
- 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;
- general economic, financial and political conditions, including credit and capital market conditions, changes in interest rates or unemployment;
- 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;
- changes to our corporate management team and any resulting modifications to our business strategies;
- 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, 2014 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of September 30, 2015, our consolidated debt portfolio consisted primarily of \$1,392.3 million of fixed and variable rate mortgage loans, \$60.0 million borrowed under our 2013 Revolving Facility which bore interest at a rate of 1.50%, \$150.0 million borrowed under our 2014 5-Year Term Loan which bore interest at a rate of 1.80%, \$150.0 million borrowed under our 2015 5-Year Term Loan which bore interest at a rate of 1.80% and \$100.0 million borrowed under our 2014 7-Year Term Loan which bore interest at a rate of 2.35%.

Our mortgage loans, which are secured by 15 of our consolidated properties, are due in installments over various terms extending to October 2025. Eleven of these mortgage loans bear interest at fixed interest rates that range from 3.88% to 5.95% and had a weighted average interest rate of 4.66% at September 30, 2015. Four of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 2.90% at September 30, 2015. The weighted average interest rate of all consolidated mortgage loans was 4.43% at September 30, 2015. 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⁾	
2015	\$4,953	4.57	% \$236	2.95	%
2016	235,969	5.31	% 960	2.95	%
2017	166,244	5.29	% 1,001	2.95	%
2018	16,952	4.25	% 207,543	⁽²⁾ 2.65	%
2019 and thereafter	790,362	4.21	% 428,050	⁽³⁾ 2.06	%

⁽¹⁾ Based on the weighted average interest rates in effect as of September 30, 2015.

⁽²⁾ Includes 2013 Revolving Facility borrowings of \$60.0 million with an interest rate of 1.50% as of September 30, 2015.

⁽³⁾ Includes Term Loan borrowings of \$400.0 million with a weighted average interest rate of 1.94% as of September 30, 2015.

As of September 30, 2015, we had \$637.8 million of variable rate debt. Also, as of September 30, 2015, we had entered into 16 interest rate swap agreements with an aggregate weighted average interest rate of 1.55% on a notional amount of \$421.9 million maturing on various dates through January 2019. In October 2015, we entered into five additional interest rate swap agreements with a weighted average interest rate of 1.23% on a notional amount of \$100.0 million maturing in June 2020. 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 September 30, 2015 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 \$2.2 million at September 30, 2015. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of \$2.2 million at September 30, 2015. Based on the variable rate debt included in our debt portfolio at September 30, 2015, a 100 basis point increase in interest rates would have resulted in an additional \$64.9 million in interest expense annually. A 100 basis point decrease would have reduced interest incurred by \$67.5 million annually.

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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 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 September 30, 2015, 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 September 30, 2015, 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.

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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, 2014.

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 September 30, 2015 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
July 1—July 31, 2015	—	\$—	—	\$—
August —August 31, 2015	—	—	—	—
September 1—September 30, 2015	—	—	—	—
Total	—	\$—	—	\$—

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ITEM 6. EXHIBITS.

- 2.1 Purchase and Sale Agreement dated as of June 29, 2015 by and between PREIT Associates, L.P. and PR Springfield Associates, L.P. and Rubin Retail Acquisition, L.P. (incorporated herein by reference to Exhibit 2.1 to the Quarterly Report on Form 10-Q filed by the registrant on August 3, 2015)
- 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 September 30, 2015 is formatted in XBRL interactive data files: (i) Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014; (ii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014; (iv) Consolidated Statements of Equity for the nine months ended September 30, 2015; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Unaudited Consolidated Financial Statements.

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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: October 29, 2015

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)

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Exhibit Index

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* filed herewith

** furnished herewith