PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-K
March 13, 2006
Click here to Contents

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________to _______________

Commission File No. 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

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

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

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

Title of each class	Name of each exchange on which registered
(1) Shares of Beneficial Interest, par value $1.00 per share	New York Stock Exchange
(2) Rights to Purchase Shares of Beneficial Interest	New York Stock Exchange
(3) 11% Non-Convertible Senior Preferred Shares, par value $0.01 per share	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value, as of June 30, 2005, of the shares of beneficial interest, par value $1.00 per share, of the Registrant held by non-affiliates of the Registrant was approximately $1.68 billion. (Aggregate market value is estimated solely for the purposes of this report and shall not be construed as an admission for the purposes of determining affiliate status.)

On March 1, 2006, 36,603,797 shares of beneficial interest, par value $1.00 per share, of the Registrant were outstanding.

Documents Incorporated by Reference

Portions of the Registrant s definitive proxy statement for its 2006 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

Click here to Cover

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

Back to Contents

Forward Looking Statements

This Annual Report on Form 10-K for the year ended December 31, 2005, together with other statements and information publicly disseminated by us, contain certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- general economic, financial and political conditions, including changes in interest rates or the possibility of war or terrorist attacks;
- changes in local market conditions or other competitive factors;
- risks relating to development and redevelopment activities, including construction;
- our ability to maintain and increase property occupancy and rental rates;
- our ability to acquire additional properties and our ability to integrate acquired properties into our existing portfolio;
- our dependence on our tenants business operations and their financial stability;
- possible environmental liabilities;
- existence of complex regulations, including those relating to our status as a REIT, and the adverse consequences if we were to fail to qualify as a REIT;
- increases in operating costs that cannot be passed on to tenants;
- our ability to obtain insurance at a reasonable cost;
- our ability to raise capital through public and private offerings of debt or equity securities and other financing risks, including the availability of adequate funds at a reasonable cost; and
- our short- and long-term liquidity position.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in the section entitled Item 1A. Risk Factors. We do not intend to and disclaim any duty or obligation to update or revise any forward-looking statements to reflect new information, future events or otherwise.

Definitions

Except as the context otherwise requires, references in this Annual Report on Form 10-K to we, our, us, the Company and PREIT refer to Pennsylvania Real Estate Investment Trust and its subsidiaries, including our operating partnership, PREIT Associates, L.P. References in this Annual Report on Form 10-K to PREIT Associates refer to PREIT Associates, L.P. References in this Annual Report on Form 10-K to PRI refer to PREIT-RUBIN, Inc.

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

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

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

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

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

1

Back to Contents

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

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

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

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

REITs: real estate investment trusts.

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

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

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

Back to Contents

PART I

ITEM 1. BUSINESS.

OVERVIEW

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity REITs in the United States, has a primary investment focus on retail shopping malls and power and strip centers located in the Mid-Atlantic region or in the eastern part of the United States. Our operating portfolio currently consists of a total of 52 properties. The retail portion of our portfolio contains 51 properties in 13 states and includes 39 shopping malls and 12 power and strip centers. We also own one office property acquired as part of a mall acquisition that we classify as non-strategic and that is currently classified as held-for-sale. The retail properties have a total of approximately 34.5 million square feet, of which we and partnerships or tenancy in common arrangements (collectively, partnerships) in which we own an interest own approximately 25.9 million square feet. We are a fully integrated, self-managed and self-administered REIT that has elected to be taxed as a REIT for federal income tax purposes. We are required each year to distribute to our shareholders at least 90% of our net taxable income and to meet certain other requirements in order to maintain the favorable tax treatment associated with qualifying as a REIT.

OWNERSHIP STRUCTURE

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates, L.P. We are the sole general partner of PREIT Associates and, as of December 31, 2005, held an 89.8% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes.

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

The following is a diagram of our structure as of December 31, 2005:

Back to Contents

(1) Sole general partner and a limited partner of PREIT Associates.

(2) We own our interests in these 52 properties (51 retail, one office) through various ownership structures. PREIT owns interests in some of these properties directly and has pledged the entire economic benefit of ownership to PREIT Associates. PREIT Associates direct or indirect economic interest in the rest of the properties ranges from 50% for seven partnership properties up to 100%. See Item 2. Properties Retail Properties.

RECENT DEVELOPMENTS

Acquisitions

In February 2005, we purchased the 0.9 million square foot Cumberland Mall in Vineland, New Jersey and a vacant 1.7 acre parcel adjacent to the mall. The total price paid for the mall and the adjacent parcel was $59.5 million, including the assumption of $47.7 million in mortgage debt. We paid the $0.9 million purchase price for the adjacent parcel in cash, and we paid the remaining $11.0 million of the purchase price for the mall using Operating Partnership Units issued by PREIT Associates.

In March 2005, we purchased the 0.5 million square foot Gadsden Mall and a freestanding 40,000 square foot office building in Gadsden, Alabama for approximately $58.8 million. We funded the purchase price from our Credit Facility. We consider the office building to be non-strategic, and have classified it as held-for-sale for financial reporting purposes.

In May 2005, we exercised our option to purchase approximately 73 acres of previously ground leased land that contains Magnolia Mall in Florence, South Carolina for $5.9 million. We used available working capital to fund this purchase.

In November 2005, we and Kravco Simon Investments, L.P. purchased the 0.6 million square foot Springfield Mall in Springfield, Pennsylvania for $103.5 million. Kravco Simon Investments, L.P. is an affiliate of Simon Property Group, Inc. PREIT and Kravco Simon each have a 50% ownership interest in the property. The buyers obtained a $76.5 million mortgage loan on the property. We funded our portion of the balance of the purchase price using our Credit Facility.

Back to Contents

In December 2005, we acquired the 1.2 million square foot Woodland Mall in Grand Rapids, Michigan for $177.4 million. We funded the purchase price with two 90-day corporate notes totaling $94.4 million with a weighted average interest rate of 6.85% and secured by letters of credit, $80.5 million from our Credit Facility, and available working capital. We intend to obtain long term financing on this property before the 90-day notes mature in March 2006.

Redevelopment Activity

During 2005, we announced substantial redevelopment projects at a number of our properties. At several of these properties, we have attracted new anchors or other key tenants that we believe provide a solid foundation for these redevelopment projects. See Item 7. Management s Discussion and Analysis Acquisitions, Dispositions and Development Activities Development and Redevelopment for a table containing the expected initial occupancy dates of these projects. The following is an overview of these projects:

Patrick Henry Mall, Newport News, Virginia. The 65,000 square foot Dillard s Men s store closed in the first quarter 2005 and the second Dillard s store at the mall was expanded by 26,000 square feet to 142,000 square feet and opened in May 2005. The former Dillard s Men s Store location has been expanded to house a new 50,000 square foot Dick s Sporting Goods store that opened in March 2006, a 22,000 square foot Borders Books and Music Store, which opened in November 2005, and approximately 48,000 square feet of new space which is in the latter stages of being built out for tenants. The interior renovation portion of the redevelopment was substantially completed in November 2005. Our investment in the redevelopment is expected to be approximately $26.9 million.

Capital City Mall, Camp Hill, Pennsylvania. We created a new eight-bay food court and two family-themed restaurant locations. The old food court space has been redeveloped into 30,000 square feet of specialty retail space, and the center s new food court opened in November 2005, concurrent with the completion of the mall s interior renovation. The new specialty store wing is expected to open during Spring 2006. Our investment in the project is expected to be approximately $11.6 million.

New River Valley Mall, Christiansburg, Virginia. Dick s Sporting Goods has signed a lease for space in the mall and the construction of a restaurant has commenced. Regal Cinemas, which is currently operating a 31,000 square foot theater in the mall with 11 screens and regular seating, is expected to relocate to a new 53,000 square foot, 14-screen, free-standing, stadium seating facility. Our investment in the redevelopment is expected to be approximately $23.0 million.

Valley View Mall, LaCrosse, Wisconsin. We signed a lease with Barnes & Noble for a 31,000 square foot in-line location, which is expected to open in the third quarter of 2006. Our redevelopment costs are expected to be approximately $3.6 million.

Francis Scott Key Mall, Frederick, Maryland. We signed a lease with Barnes & Noble for a 27,400 square foot location. The store is expected to open in the third quarter of 2006. Our redevelopment costs are expected to be approximately $3.5 million.

Lycoming Mall, Pennsdale, Pennsylvania. Our redevelopment plan calls for the addition of a 50,000 square foot Dick s Sporting Goods store as well as a 30,000 square foot Borders Books and Music store. Both stores will occupy previously underutilized in-line space and serve as junior anchors with entrances onto the main mall concourse. In addition, Best Buy intends to open a 20,000 square foot store and Old Navy plans to open a 16,900 square foot store on outparcel locations. A cosmetic renovation of the mall is also planned. Our redevelopment costs are expected to be approximately $11.8 million.

Back to Contents

Plymouth Meeting Mall, Plymouth Meeting, Pennsylvania. We plan to create an approximately 200,000 square foot lifestyle addition that will house a 70,000 square foot Whole Foods market and up to six new themed restaurants totaling 35,000 square feet. Our investment in the redevelopment is expected to be $53.4 million.

South Mall, Allentown, Pennsylvania. We plan to add a 30,000 square foot Ross Dress For Less store at the Stein Mart end of the mall, and to relocate and expand the existing Gold s Gym. In addition, a 1,600 square foot Starbucks drive-through concept store is expected to open on an outparcel. Our investment in this project is expected to be approximately $6.9 million.

Cherry Hill Mall, Cherry Hill, New Jersey. Our plan includes an upgrade of the tenancy, the addition of a row of restaurants and new GLA. Our investment in Phase I of the redevelopment is expected to be approximately $40 million.

In September 2005, we announced revised redevelopment plans for the Echelon Mall in Voorhees, New Jersey. Current redevelopment plans include reducing the mall size to allow development of a mixed-use town center at the eastern half of the property and renaming the property Voorhees Town Center. The new plans require various approvals before development can commence.

Development Activity

In March 2004, we acquired 25 acres of land across the street from our Magnolia Mall in Florence, South Carolina for $3.8 million. We anticipate building a 240,000 square foot power center with Home Depot as the anchor and four outparcel locations. In January 2006, we sold 11 acres of the site to Home Depot U.S.A., Inc. for $2.1 million, and Home Depot has begun construction of its store. Our expected investment in the development is approximately $11.5 million.

We entered into an agreement in October 2004 with Valley View Downs, LP (Valley View) and Centaur Pennsylvania, LLC (&#147Centaur&#148) to manage the development of a proposed harness racetrack and casino on an approximately 208 acre site located 35 miles northwest of Pittsburgh, Pennsylvania. Valley View acquired the site in 2005, but the agreement contemplates that we will acquire the site and lease it to Valley View for the construction and operation of a harness racetrack and a casino and related facilities. We will not have any ownership interest in Valley View or Centaur. Our acquisition of the site and the construction of the racetrack require the issuance to Valley View of the sole remaining unissued harness racetrack license in Pennsylvania. The construction of the casino requires the issuance of a gaming license to Valley View. Valley View had been one of two applicants for the racing license. In November 2005, the Harness Racing Commission issued an order denying award of the racing license to both of the applicants. In December 2005, Valley View filed a motion for reconsideration with the Commission. In addition, Valley View filed an appeal of the ruling in the Pennsylvania Commonwealth Court. Valley View is awaiting action by the Harness Racing Commission and the Commonwealth Court regarding these appeals. However, we are unable to predict whether Valley View will be issued the racing license or the gaming license.

In transactions that closed between May and August 2005, we acquired 45 acres in Lacey Township, New Jersey for approximately $11.6 million in cash, including closing costs. In December 2005, we announced that we began construction of a new retail center anchored by Home Depot. We have been authorized by Lacey Township to construct a retail center of up to 0.3 million square feet, including a 0.1 million square foot Home Depot. We are currently awaiting an additional state permit before continuing with construction. We had previously executed an agreement to sell 10 acres of the site to Home Depot U.S.A., Inc. for $9.0 million for Home Depot to construct its store.

In transactions that closed between June 2005 and January 2006, we acquired a total of approximately 188 acres in New Garden Township, Pennsylvania for approximately $30.1 million in cash, including closing costs, $11.6 million of which is payable to the seller by January 2007. We are still in the process of obtaining various entitlements for our concept for this property, which includes retail and mixed use components.

In August 2005, we acquired approximately 15 acres in Christiansburg, Virginia adjacent to New River Valley Mall for $4.1 million in cash, including closing costs. We plan to develop a power center on this property.

Back to Contents

In February 2006, we acquired approximately 540 acres in Gainesville, Florida for approximately $21.5 million, including closing costs. The acquired parcels are collectively known as Springhills. We continue to be involved in the process of obtaining the requisite entitlements for Springhills, with a goal of developing a mixed use project, including up to 1.5 million square feet of retail/commercial space, together with single and multifamily housing, office/institutional facilities, and hotel and industrial space.

Financing and Capital Markets Activity

In January 2005, we amended our $500 million unsecured revolving credit agreement (the Credit Facility). Pursuant to the amendment, the term of the Credit Facility was extended by one year to November 20, 2007, and we had an option to extend the term for an additional 14 months, to January 2009, provided that there was no event of default at that time. The amendment also lowered the interest rate to between 1.05% and 1.55% per annum over LIBOR from 1.50% to 2.50% per annum over LIBOR, in both cases depending on our leverage. In addition, the amendment reduced the capitalization rate used to calculate Gross Asset Value (as defined in the Credit Facility) to 8.25% from a rate of between 9.00% and 11.00%.

In February 2005, we fully repaid our obligations under a $58.8 million second mortgage on Cherry Hill Mall in Cherry Hill, New Jersey. To repay this second mortgage, which had carried an interest rate of 5.0%, we borrowed $55.0 million under our Credit Facility.

In May 2005, we entered into forward starting interest rate swap agreements to hedge the expected interest payments associated with a portion of our anticipated future issuances of long term debt. The aggregate notional amount of these swap agreements is $370.0 million. We locked in a blended 10-year swap rate on a notional amount of $120 million starting in 2007 of 4.6858%, and a blended 10-year swap rate on a notional amount of $250.0 million starting in 2008 of 4.8047%.

In July 2005, we entered into a new $66.0 million mortgage loan secured by Magnolia Mall in Florence, South Carolina. We used the net proceeds of this loan to repay the outstanding balance of $19.3 million under the previous mortgage loan on the property. We used the remaining net proceeds to repay a portion of the outstanding balance under our Credit Facility. The new loan bears interest at a rate of 5.33%, which is 287 basis points less than the rate on the previous loan. The new loan has a 10 year term. There was a prepayment penalty of approximately $0.8 million associated with the repayment of the previous loan prior to its scheduled maturity in January 2007.

In September 2005, we placed a $200.0 million first mortgage loan on Cherry Hill Mall in Cherry Hill, New Jersey. We used a portion of the proceeds of the loan to repay the previous first mortgage on the property, which had a balance of approximately $70.2 million. We used the remaining net proceeds to repay a portion of the outstanding balance under our Credit Facility. The new mortgage loan has an interest rate of 5.42% per annum, which is 517 basis points lower than the interest rate on the previous loan, and will mature in October 2012. We have a right to convert the loan to an unsecured corporate obligation during the first six years of the loan term, subject to certain prescribed conditions, including the achievement of a specified credit rating.

In October 2005, we announced that our Board of Trustees authorized a program to repurchase up to $100.0 million of our common shares. The program will be in effect until the end of 2007, subject to our authority to terminate the program earlier. We may fund repurchases under the program from multiple sources, including up to $50.0 million from our Credit Facility. We are not required to repurchase any shares under the program and cannot predict the dollar amount of shares that may be repurchased or the timing of such transactions, which will depend on the prevailing price of our common shares and market conditions, among other factors. Through December 31, 2005, we repurchased 218,700 shares at an average price of $38.18, or an aggregate purchase price of $8.4 million.

In November 2005, the lenders under our Credit Facility approved our request for an extension of the time period during which we may, under prescribed conditions, seek to increase the maximum amount available under the Credit Facility to $650.0 million. Our right to seek the increase now extends until the termination date of the Credit Facility.

Back to Contents

In December 2005, we obtained a $160.0 million first mortgage loan secured by Willow Grove Park in Willow Grove, Pennsylvania. We used a portion of the proceeds of the loan to repay the previous first mortgage on the property, which had a balance of approximately $107.5 million. We used the remaining proceeds to repay a portion of the outstanding balance under our Credit Facility and for general corporate purposes. The loan has an interest rate of 5.65% per annum, which is 274 basis points lower than the interest rate on the previous loan, and will mature in December 2015. We have a right to convert the loan to an unsecured corporate obligation during the first nine years of the loan term, subject to certain prescribed conditions, including the achievement of a specified credit rating.

In December 2005, we entered into a Unit Purchase Agreement with Crown American Properties, L.P., (&#147CAP&#148), an entity controlled by Mark Pasquerilla, a trustee of the Company. Under the agreement, we purchased 339,300 units of limited partnership interest in PREIT Associates from CAP at $36.375 per unit, a 3% discount from the closing price of our common shares on December 19, 2005 of $37.50. The aggregate amount we paid for the units was $12.3 million. The terms of the agreement were negotiated between us and CAP. These terms were determined without reference to the provisions of the partnership agreement of PREIT Associates, which generally permit holders of units to redeem their units for cash based on the ten day average closing price of our common shares, or, at our election, for a like number of our common shares.

In March 2006, we entered into a second amendment to the terms of our Credit Facility. Pursuant to this amendment, the term of the Credit Facility has been extended to January 20, 2009, and we have an option to extend the term for an additional 14 months, provided that there is no event of default at that time. The previous termination date was November 20, 2007. The amendment also lowered the interest rate to between 0.95% and 1.40% per annum over LIBOR from 1.05% to 1.55% per annum over LIBOR, in both cases depending on our leverage. The amendment reduced the capitalization rate used to calculate Gross Asset Value (as defined in the Credit Facility) to 7.50% from 8.25%. The amendment also modified certain of the financial covenants of the Company in the credit facility agreement. The revised covenants reduce the minimum interest coverage and total debt ratios and allow for an increase in investments in partnerships.

Disposition Activity

In January 2005, we sold a 0.2 acre parcel associated with Wiregrass Commons Mall in Dothan, Alabama for $0.1 million.

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

In July 2005, we sold our 40% interest in Laurel Mall in Hazleton, Pennsylvania to Laurel Mall, LLC. The total sales price of the mall was $33.5 million, including assumed debt of approximately $22.6 million. From our sale of this interest, we received $3.9 million.

In July 2005, a partnership in which we have a 50% interest sold the property on which the Christiana Power Center Phase II project would have been built to the Delaware Department of Transportation for $17.0 million. See Item 3. Legal Proceedings. Our share of the proceeds was $9.5 million, representing a reimbursement for the approximately $5.0 million of costs and expenses incurred previously in connection with the project and a gain on the sale of non-operating real estate of $4.5 million.

In August 2005, we sold our four industrial properties for $4.3 million.

In December 2005, we sold Festival at Exton in Exton, Pennsylvania for $20.2 million.

In January 2006, we entered into an agreement for the sale of Schuylkill Mall in Frackville, Pennsylvania for $18.2 million. In July 2005, a prior agreement for the sale of this mall was terminated.

Back to Contents

RETAIL REAL ESTATE INDUSTRY

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

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

Source: International Council of Shopping Centers

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

PREIT S BUSINESS

We are primarily engaged in the ownership, management, development, redevelopment, acquisition and leasing of retail shopping malls and power and strip centers. Many of our malls and centers are located in middle markets in the Mid-Atlantic region or in the eastern part of the United States.

Our real estate portfolio currently consists of 51 retail properties in 13 states and includes 39 shopping malls and 12 power and strip centers. We also own one office property acquired as part of a mall acquisition that we classify as non-strategic and that is currently classified as held-for-sale. The retail properties have a total of approximately 34.5 million square feet, of which we and partnerships in which we own an interest own approximately 25.9 million square feet. See Item 2. Properties.

Back to Contents

The largest mall in our retail portfolio is approximately 1.3 million square feet, and the smallest is approximately 0.4 million square feet, excluding the two individual components of The Gallery at Market East in Philadelphia, Pennsylvania. The power centers in our retail portfolio range from 300,000 to 800,000 square feet, while the strip centers range from 100,000 square feet to 275,000 square feet.

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

BUSINESS STRATEGY

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

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

Increase the potential value of underperforming properties in our portfolio by redeveloping them. If we believe that a property is not achieving its full potential, we engage in a focused leasing effort in order to increase the property s performance. If we believe the property has the potential to support a more significant redevelopment project, we consider a formal redevelopment plan. Our redevelopment efforts are designed to increase the value of the property, and might include retail and other uses (mixed use). Our redevelopments are designed to increase customer traffic and attract retailers, which can, in turn, lead to increases in sales, occupancy levels and rental rates. Our efforts to maximize a property s potential can also serve to maintain or improve that property s competitive position.

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

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

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

Back to Contents

Asset Management, Leasing, Marketing and Operations

We conduct intense asset management of our properties in an effort to maximize and maintain occupancy and optimize the mix of tenants in order to attract customers and increase sales by mall tenants. We engage in active merchandising programs and coordinated marketing activities designed to promote our properties as magnet centers. Our on-site teams continuously monitor the local market and community, and work with our home office asset management, leasing and marketing professionals to evaluate and adjust the tenant mix in pursuit of the optimal match of tenants to the trade area and the ideal configuration and allocation of space. As part of these efforts, if appropriate, we might relocate tenants to better-suited space or terminate the leases of underperforming tenants. With respect to mall operations, in 2005, we continued the implementation of our CORE (Create an Outstanding Retail Experience) program throughout our portfolio. CORE is the PREIT program that establishes and articulates our uniform, measurable standards of operation for all of our retail properties emphasizing cleanliness, customer service, maintenance and curb appeal. The CORE standards are designed to ensure that tenants and customers can be confident of the quality and reliability of our facilities and services at any property in our portfolio.

As an integral part of our management, we also expend considerable effort on generating ancillary revenues and on controlling operating costs and expenses. In 2005, we continued to pursue revenue from marketing partnerships, and we initiated a new gift card program and began sales of lottery tickets in Pennsylvania. We also entered into a five year agreement with Service Management Systems (SMS) to outsource housekeeping and maintenance services at our properties. SMS, based in Nashville, Tennessee, specializes in providing housekeeping programs to high traffic, public facilities, including malls and other retail properties. As of December 31, 2005, SMS had commenced servicing all of our malls, except one recently-acquired property and Schuylkill Mall.

In addition to owning, managing and developing our own properties, as of December 31, 2005, we also provided management, leasing and development services to affiliated and third-party property owners with respect to nine retail properties containing approximately 1.7 million square feet and two office buildings containing approximately 0.4 million square feet.

Redevelopment

We aim to increase the potential value of underperforming properties in our portfolio by redeveloping them in order to attract more customers and retailers, leading to increases in occupancy and rental rates. We believe that several properties in our portfolio present opportunities for creating value through focused leasing or redevelopment. See Recent Developments Redevelopment Activity.

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

- remerchandising the tenant mix to capitalize on the economy and demographics of the property s trade area;
- creating a diversified anchor mix including fashion, value-oriented and traditional department stores;
- attracting non-traditional mall retailers to draw more customers to the property;
- generating synergy by introducing lifestyle components to mall properties; and
- redirecting traffic flow and creating additional space for in-line stores by relocating food courts.

We subject each of our properties to a rigorous assessment of its merchandising potential, which has included an analysis of the property s trade area and its existing tenants and merchandise offerings. We are currently involved in the redevelopment of 10 of our consolidated properties, and we expect to increase the number of such projects in the future. As of December 31, 2005, we have invested $51.7 million in these 10 projects. Currently, we intend to invest an additional $130.6 million to complete these projects, excluding the cost to complete Echelon Mall, which has not yet been finalized. These projects might include the introduction of residential, office or other uses to our properties in an effort to maximize the value of our properties. For

Back to Contents

information regarding project investment to date and expected costs, see Item 7. Management s Discussion and Analysis Acquisitions, Dispositions and Development Activities Development and Redevelopment.

Redevelopments are frequently a significant undertaking, involving many of the same steps and requiring many of the same skills as new development or new construction. These steps and skills might include architectural design, engineering planning, acquisition of adjacent land or properties, obtaining zoning and other approvals and permits, interior design, addressing requirements for additional parking lots or decks, obtaining existing anchor approvals and relocating anchors and other mall tenants. The redevelopment of a particular property might involve construction of new interior space, renovation of existing interior space, updating interior décor and lighting, installing new floor coverings, changing or replacing facades, adding or relocating entrances, incorporating updated and consistent signage, resurfacing parking lots, improving exterior lighting, and renaming the property. While we make every effort to keep the length of the redevelopment projects to a minimum, in general, because of the numerous variables, including the process of obtaining necessary approvals and permits, the time needed to complete redevelopment projects is unpredictable.

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

Acquisitions

If they meet the investment criteria we apply, given economic, market and other circumstances, we continue to seek to acquire well-located retail properties with strong prospects for future cash flow growth and capital appreciation, particularly where we believe our management and leasing capabilities can enhance the value of these properties. For a description of our 2005 acquisitions, see Recent Developments Acquisitions.

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

Development

We pursue ground up development of retail and other properties that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. We generally seek to develop retail projects in areas that we believe evidence the likelihood of supporting additional retail development and have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We generally have several development projects under way at one time. These projects are typically in various stages of the development process. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing. We monitor our developments closely, including costs and tenant interest. For a description of our 2005 development activity, see Recent Developments Development Activity.

Although we have previously developed properties that have proved successful, we cannot assure you that any of our current projects will be as successful as any of these previously developed properties, or that they will be successful at all, which could

Back to Contents

have a negative effect on our operating results. We also cannot assure you that any projects that we begin will ultimately be completed. If we determine not to proceed with a project or otherwise become required to accelerate the expensing of development costs, there will be a negative effect on our results of operations. For information regarding aggregate project investment to date and expected costs, see Item 7. Management s Discussion and Analysis Development and Redevelopment.

Dispositions

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

CAPITAL STRATEGY

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

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

Based on prevailing conditions in the real estate capital markets, we have attempted to concentrate our secured indebtedness on a limited number of our larger, more stable properties, and expect to continue to do so as opportunities arise. We do so in an effort to maximize our borrowing capacity under our Credit Facility and to minimize our borrowing costs. The fixed rate mortgages obtained in 2005 have generated excess proceeds that we used to repay amounts outstanding under our Credit Facility, giving us replenished availability.

Executing this strategy has also enabled us to leave a number of our other properties unencumbered. As we concentrate our secured debt on a limited number of properties, the cash flow from these unencumbered assets will, we believe, enhance our financial position from the point of view of unsecured creditors. One of our long term goals is to continue to improve our balance sheet so that it becomes investment grade quality, which would give us one more financing option, consistent with our strategy of maximizing our financing options and terms. We intend to consider all of our available options for accessing the capital markets in pursuit of our objective of optimizing our overall cost of capital.

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

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

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,

Back to Contents

including the use of financial instruments. To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors or a combination thereof depending on our underlying exposure.

COMPETITION

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

A significant amount of capital has and might continue to provide funding for the development of properties that might compete with our properties. The development of competing retail properties and the related increase in competition for tenants might require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make. Such redevelopments involve costs and expenses that could adversely affect our results of operations. An increase in the number of competing properties might also affect the occupancy and net operating income of our properties.

ENVIRONMENTAL

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

We are aware of certain environmental matters at some of our properties. We have, in the past, investigated and, where appropriate, performed remediation of such environmental matters, but we might be required in the future to perform testing relating to these matters and further remediation might be required, or we might incur liability as a result of such environmental matters. As of December 31, 2005, we have reserved $0.2 million for future remediation of these matters, but we may incur costs associated with such remediation that exceed such amount. Environmental matters at our properties include the following:

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

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

Back to Contents

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

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

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

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

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

EMPLOYEES

We had an aggregate of approximately 1,373 employees at our properties and in our corporate office as of December 31, 2005. None of our employees are represented by a labor union. In connection with our new agreement for housekeeping and maintenance services at our properties with SMS entered into in July 2005, approximately 225 individuals formerly associated with PREIT joined SMS and were thus no longer employees of the Company.

INSURANCE

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

STATUS AS A REIT

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

CORPORATE HEADQUARTERS

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

SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of a portion of rents based on a percentage of sales revenue that exceeds certain levels. Income from such rents is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season and many tenants vacate their space early in the year. As a result, our occupancy and cash flow are generally higher in the fourth quarter and lower in the first

Back to Contents

quarter, excluding the effect of ongoing redevelopment projects. Our concentration in the retail sector increases our exposure to seasonality and has resulted and is expected to continue to result in a greater percentage of our cash flows being received in the fourth quarter.

AVAILABLE INFORMATION

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

Back to Contents

ITEM 1A. RISK FACTORS.

RISKS RELATED TO OUR BUSINESS AND OUR PROPERTIES

Our retail properties are concentrated in the Mid-Atlantic region of the United States, and adverse market conditions in that region might affect the ability of our tenants to make lease payments and to renew leases, which might reduce the amount of income generated by our properties.

Our retail properties currently are concentrated in the Mid-Atlantic region of the United States, including several properties in the Philadelphia, Pennsylvania area. To the extent adverse conditions affecting retail properties, such as economic conditions, population trends and changing demographics, income, sales and property tax laws, availability and costs of financing, construction costs and weather conditions, are particularly adverse in Pennsylvania or in the Mid-Atlantic region, our results of operations will be affected to a greater degree. If the sales of stores operating at our properties were to decline significantly due to adverse conditions, the risk that our tenants, including anchors, will be unable to fulfill the terms of their leases or will enter into bankruptcy might increase. Furthermore, such adverse conditions might affect the timing of lease commitments by new tenants or lease renewals by existing tenants as such parties delay their leasing decisions in order to obtain the most current information possible about trends in their businesses or industries. If, as a result of prolonged adverse regional conditions, occupancy at our properties decreases or our properties do not generate sufficient income to meet our operating and other expenses, including debt service, our financial position, results of operations, cash flow and ability to make capital expenditures and distributions to shareholders would be adversely affected.

Our investments in developing new properties and redeveloping older properties in need of renovation might not yield the returns we anticipate, which would harm our operating results and reduce the amount of funds available for distributions to shareholders.

As a component of our growth strategy, we plan to continue to develop new properties and redevelop existing properties, and we might develop or redevelop other projects as opportunities arise. Some of our retail properties were constructed or last renovated more than 10 years ago. Older properties might generate lower rents and might require significant expense for maintenance or renovations to maintain competitiveness, which could harm our results of operations. As of December 31, 2005, we were engaged in, or had developed plans for, the redevelopment of 10 of our 39 mall properties. To the extent we continue current development or redevelopment projects or enter into new development or redevelopment projects, they will be subject to a number of risks, including, among others:

- expenditure of money and time on projects that might be significantly delayed or might never be completed;
- inability to reach projected occupancy and rental rates and profitability;
- inability to obtain mortgage lender, anchor tenant or other property partner approvals, if applicable, for redevelopments;
- higher than estimated construction costs, cost overruns and timing delays due to lack of availability of materials and labor, weather conditions and other factors outside our control;
- inability to obtain permanent financing upon completion of development or redevelopment activities or to refinance construction loans, which are generally recourse to us; and
- inability to obtain, or delays in obtaining, required zoning, occupancy and other governmental approvals.

Governmental requirements and local zoning and land use laws restrict our development, redevelopment, expansion and renovation activities. The requirement that our projects comply with these provisions could delay or prevent our continuation or completion of a project. Such delays or prohibitions would have an adverse effect on our financial condition and results of operations.

Unanticipated delays or expenses associated with our development or redevelopment projects could result in losses and adversely affect the investment returns from these projects and adversely affect our financial condition and results of operations.

We might be unable to manage effectively our rapid growth, our simultaneous redevelopment projects or our new development projects, including any proposed mixed use projects, which might result in disruptions to our business and additional expense.

We have experienced rapid growth and we continue to pursue, in an opportunistic and disciplined manner, acquisitions of additional properties or portfolios of properties that meet the investment criteria we apply, given economic, market and other circumstances. We might not be able to adapt our management and operational systems to our larger size and our increased number of retail properties. In November 2003, we completed the acquisition of 26 retail properties (five of which were subsequently sold) through our merger with Crown American Realty Trust (Crown) and the acquisition of six shopping malls from The Rouse Company. The Crown merger has required the integration of two large and complex real estate businesses that formerly operated independently. Following the merger and the acquisition of the six malls, the gross leasable area (GLA) of our owned, managed or leased retail properties is significantly greater than it was before those transactions. In 2004, we acquired two additional properties and the remaining minority portion of one property already in our portfolio. In 2005, we acquired three more retail properties and a 50% ownership interest in one additional property.

Back to Contents

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

- we might not achieve the expected operating efficiencies, value-creation potential, economies of scale or other benefits of such transactions;
- we might not have adequate personnel and financial and other resources to successfully handle our substantially increased operations;
- we might not be successful in leasing space in acquired properties;
- the combined portfolio might not perform at the level we anticipate;
- we might experience difficulties and incur unforeseen expenses in connection with assimilating and retaining employees working at acquired properties, and in assimilating any acquired properties;
- we might experience problems and incur unforeseen expenses in connection with upgrading and expanding our systems and processes; and
- we might incur unexpected liabilities in connection with the properties and businesses we have acquired.

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

In addition, we might not have sufficient management resources to successfully manage our 10 current redevelopment projects simultaneously. Also, some of our development and redevelopment projects currently or in the future might contemplate mixed uses of the properties, including residential, office, and other uses. We might not have all of the necessary or desirable skill sets to manage such projects. The lack of sufficient management resources, or of the necessary skill sets to execute our plans, could prevent us from realizing our expectations with respect to these projects and could adversely affect our results of operations and financial condition.

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

Competition in the retail real estate industry is intense. We compete with other public and private retail real estate companies, including companies that own or manage malls, power centers, lifestyle centers, strip centers, factory outlet centers, or theme/festival centers and community centers, as well as other commercial real estate developers and real estate owners. We compete with these companies to attract customers to our properties, as well as to attract anchor and in-line store tenants. Our malls and our power and strip centers face competition from similar retail centers, including more recently developed or renovated centers, that are near our retail properties. We also face competition from a variety of different retail formats, including discount or value retailers, home shopping networks, mail order operators, catalogs, telemarketers and internet retailers. This competition could have a material adverse effect on our ability to lease space and on the level of rent that we receive. Also, a significant amount of capital has and might continue to provide funding for the development of properties that might compete with our properties. The development of competing retail properties and the related increased competition for tenants might require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and affects the occupancy and net operating income of such properties. Any such redevelopments, undertaken individually or collectively, involve costs and expenses that could adversely affect our results of operations.

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

The income we generate from our retail properties depends in part on the ability of our anchor tenants to attract customers to our properties. The ability of anchor tenants to attract customers to a property has a significant effect on the ability of the property to attract in-line tenants and, consequently, on the revenues generated by the property. In recent years, the retail industry and retailers that serve as anchor tenants have experienced or are currently experiencing operational changes, consolidation and other ownership changes. In 2005, Federated Department Stores, Inc., operator of stores including Bloomingdale s and Macy s, acquired The May Department Stores Company, operator of stores including Marshall Field s, Filene s, Hecht s and Strawbridge s. Sears, Roebuck & Co. and K-mart Holding Corporation also merged in 2005. These combinations are expected to offer these companies even greater economies of scale, increasing their leverage with suppliers and enabling them to be more efficient. The mergers are intended to help department stores better compete with mass discounters and specialty stores. Such transactions and any similar transactions in the future might result in the restructuring of these companies, however, which could include closures or sales of anchor stores operated by them. For example, Federated has announced that it intends to close some of its stores at properties where it now operates two or more stores. In particular, Federated intends to close the Strawbridge s stores it owns at the following malls in the PREIT portfolio: Cherry Hill, Lehigh Valley, Springfield and Willow Grove Park. Federated has also announced plans to close the

Strawbridge s store at The Gallery at Market East I. The closure of an anchor store might have a negative effect on a property. In addition, for anchors that lease their space, the loss of any rental payments from an anchor, a lease termination by an anchor for any reason, a failure by that anchor to occupy the premises, or any other cessation of operations by an anchor could result in lease terminations or reductions in rent by other tenants of the same property whose leases permit cancellation or rent reduction if an anchor s lease is terminated or it otherwise ceases occupancy or operations. In that event, we might be unable to re-lease the vacated space in a timely manner, or at all. In addition, the leases of some anchors might permit the anchor to transfer its lease to another retailer. The transfer to a new anchor could cause customer traffic in the property to decrease or to be composed of different types of customers, which could reduce

Back to Contents

the income generated by that property. A transfer of a lease to a new anchor also could allow other tenants to make reduced rental payments or to terminate their leases at the property, which could adversely affect our results of operations.

Rising operating expenses could reduce our cash flow and funds available for future distributions.

Our properties are, and any properties we acquire in the future will be, subject to operating risks common to real estate in general, any or all of which might negatively affect us. The properties will be subject to increases in real estate and other tax rates, energy and other utility costs, operating expenses, insurance costs, repair and maintenance costs and administrative expenses. Although some of our properties are leased on terms that require tenants to pay a portion of the expenses associated with the property, we might not be able to pass along the increased costs, and renewals of leases or new leases might not be negotiated on that basis, in which event we will have to pay those costs. If we are unable to lease properties on a basis requiring the tenants to pay all or some of the expenses associated with the property, or if tenants fail to pay required tax, utility and other impositions, we could be required to pay those costs, which could adversely affect our results of operations. Similarly, if a property is not fully occupied, we would be required to pay a portion of the expenses that are typically paid by our tenants. We cannot assure you that increases in these expenses will not lead our tenants, or prospective tenants, to seek retail space elsewhere. If operating expenses increase, the availability of other comparable retail space in our specific geographic markets might limit our ability to pass these increases through to our tenants, which could adversely affect our results of operations and limit our ability to make distributions to shareholders.

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

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

We might not be successful in identifying suitable acquisitions that meet the criteria we apply, given economic, market or other circumstances, which might impede our growth.

Integral to our business strategy have been our strategic acquisitions of retail properties. Our ability to expand by means of acquisitions requires us to identify suitable acquisition candidates or investment opportunities that meet the criteria we apply, given economic, market or other circumstances, and are compatible with our growth strategy. We analyze potential acquisitions on a property-by-property and market-by-market basis. We might not be successful in identifying suitable properties or other assets in our existing geographic markets or in markets new to us that meet the acquisition criteria we apply, given economic, market or other circumstances, or in consummating acquisitions or investments on satisfactory terms. An inability to identify or consummate acquisitions could reduce the number of acquisitions we complete and impede our growth, which could adversely affect our results of operations.

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

We receive a substantial portion of our operating income as rent under long-term leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. These tenants might defer or fail to make rental payments when due, delay lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant s lease, and could result in material losses

Back to Contents

to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy of those tenants might be more significant to us than the bankruptcy of other tenants. See Item 2. Properties Major Tenants. In addition, under many of our leases, our tenants pay rent based on a percentage of their sales. Accordingly, declines in these tenants sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of our leases, we might modify lease terms in ways that are less favorable to us.

In 2004, a number of tenants that leased space from us filed for bankruptcy protection, including KB Toys, Inc. and Gadzooks Inc. In 2006, Musicland, which operates the Sam Goody and Suncoast Motion Picture chains, filed for bankruptcy protection, as has G&G Retail, operator of Rave and Rave Girl. Also, Casual Corner is being liquidated. If a tenant files for bankruptcy, the tenant might have the right to reject and terminate its leases, and we cannot be sure that it will affirm its leases and continue to make rental payments in a timely manner. A bankruptcy filing by or relating to one of our tenants would bar all efforts by us to collect pre-bankruptcy debts from that tenant, or from their property, unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of its bankruptcy. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. If a bankrupt tenant vacates a space, it might not do so in a timely manner, and we might be unable to re-lease the vacated space. Any unsecured claim we hold might be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of any unsecured claims we hold, which would adversely affect our financial condition and results of operations. These tenant bankruptcies and liquidations have adversely affected our financial condition and results of operations.

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

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

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

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

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

Back to Contents

of the partnerships that own our properties, we might have certain fiduciary responsibilities to the other partners in those partnerships.

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

Other risks of investments in partnerships with third parties include:

partners might become bankrupt or fail to fund their share of required capital contributions, which might necessitate our funding their share to preserve our investment;

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

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

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

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

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

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

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

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

Back to Contents

RISKS RELATED TO OUR INDEBTEDNESS AND OUR FINANCING

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

We use a substantial amount of debt to finance our business, and we might incur additional debt under our Credit Facility or otherwise in order to finance acquisitions, to develop or redevelop properties or for other general corporate purposes. As of December 31, 2005, we had an aggregate consolidated indebtedness outstanding excluding debt premium of approximately $1,769 million, approximately $1,332 million of which was secured by our properties. Also at December 31, 2005, we had $437 million of unsecured indebtedness that is recourse to us, PREIT Associates and certain of our consolidated subsidiaries. This indebtedness does not include our proportionate share of indebtedness of our partnership properties. If our leverage increases, our debt service costs and our risk of defaulting on our indebtedness might increase. We are also obligated to pay a quarterly dividend of $1.375 per share to the holders of the 2,475,000 11% preferred shares that we issued in connection with our November 2003 merger with Crown American Realty Trust. If we do not have sufficient cash flow from operations, we might not be able to make all required payments of principal and interest on our debt or to pay distributions on our securities at historical rates, which could have a material adverse effect on our financial condition and results of operations.

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

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

Our substantial obligations arising from our indebtedness and the dividends payable on our preferred shares could have negative consequences to our shareholders, including:

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

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

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

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

- limiting our ability to enter into hedging transactions with counterparties.

As of December 31, 2005, we had $380.8 million of variable rate debt. Increases in interest rates will increase our interest expense on the variable rate debt we have outstanding from time to time. Also, rising interest rates might reduce our ability to refinance maturing fixed rate debt on favorable terms, or at all. Increased interest expense would adversely affect our cash flow and our ability to make distributions to shareholders.

Back to Contents

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

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

Our Credit Facility has a term that expires in January 2009, and we have an option to extend the term for an additional 14 months, provided there is no event of default at that time. If we are unable to borrow under our Credit Facility or to arrange for alternative financing, we might be unable to acquire or develop properties, redevelop our existing properties or finance other corporate activities, and our financial condition and results of operations would be adversely affected.

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

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

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

Our Credit Facility currently requires our operating partnership, PREIT Associates, L.P., to satisfy certain affirmative and negative covenants and to meet numerous financial tests, including tests relating to our leverage, interest coverage and tangible net worth. These covenants could restrict our ability to pursue acquisitions, limit our ability to respond to changes and competition, and could reduce our flexibility in conducting our operations by limiting our ability to borrow money, sell or place liens on assets, repurchase securities, make capital expenditures or engage in acquisitions or mergers. If we cannot continue to satisfy these covenants and meet these tests, there is a risk that we could default under the Credit Facility. If we default under the Credit Facility, the lenders could require us to repay the debt immediately, which would have a material adverse effect on our financial condition and results of operations.

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

We own substantially all of our assets through our interest in our operating partnership, PREIT Associates. PREIT Associates holds substantially all of its properties and assets through subsidiaries, including subsidiary partnerships and limited liability companies. PREIT Associates thus derives substantially all of its cash flow from cash distributions to it by its subsidiaries, and we, in turn, derive substantially all of our cash flow from cash distributions to us by PREIT Associates. The direct and indirect subsidiaries must make payments on the subsidiaries obligations to their creditors, when due and payable, before a subsidiary may make distributions to us. Thus, PREIT Associates ability to make distributions to its partners, including us, depends on its subsidiaries ability first to satisfy their obligations to their creditors. Similarly, our ability to pay dividends to holders of our common and preferred shares depends on PREIT Associates ability first to satisfy its obligations to its creditors and then to make distributions to us. If the subsidiaries were unable to make payments to their creditors when due and payable, or if the

Back to Contents

subsidiaries had insufficient funds to both make payments to creditors and distribute funds to PREIT Associates, we might not have sufficient cash to satisfy our obligations or make distributions to our shareholders.

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

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

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

RISKS RELATED TO THE REAL ESTATE INDUSTRY

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

Our business and our properties are subject to certain risks that can affect the ability of our retail properties to generate sufficient revenues to meet our operating and other expenses, including debt service, to make capital expenditures and to make distributions to our shareholders. Changes in a number of factors can decrease the income generated by a retail property, including a downturn in the national, regional or local economy or consumer confidence or spending, which could result from plant closings, local industry slowdowns, adverse weather conditions, natural disasters and other factors; a weakening of local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants; changes in perceptions by retailers or shoppers of the safety, convenience and attractiveness of a retail property; and perceived changes in the convenience and quality of competing retail properties and other retailing options such as internet retailers. Income from retail properties and retail property values are also affected by interest rate levels and the availability and cost of financing, and by applicable laws and regulations, including tax and zoning laws, among other factors. Changes in one or more of these factors can lead to a decrease in the revenues generated by our properties and can have a material adverse effect on our financial condition and results of operations.

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

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

Back to Contents

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

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

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, might result in declining economic activity, which could harm the demand for goods and services offered by our tenants and the value of our properties and might adversely affect the value of an investment in our securities. A decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities also could directly affect the value of our properties through damage, destruction or loss, and the availability of insurance for such acts, or of insurance generally, might be lower, or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. To the extent that our tenants are affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts might erode business and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of our new or redeveloped properties, and limit our access to capital or increase our cost of raising capital.

RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE

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

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

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

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

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

(2) *Our trust agreement permits our Board of Trustees to issue preferred shares with terms that might discourage a third party from acquiring our Company.* Our trust agreement permits our Board of Trustees to create and issue multiple classes and series of preferred shares, and classes and series of preferred shares having preferences to the existing shares on any matter, without a vote of shareholders, including preferences in rights in liquidation or to dividends and option rights, and other securities having conversion or option rights. Also, the board might authorize the creation and issuance

Back to Contents

by our subsidiaries and affiliates of securities having conversion and option rights in respect of our shares. Our trust agreement further provides that the terms of such rights or other securities might provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or other securities could have the effect of, discouraging, delaying or preventing a change in control over us, even if a change in control were in our shareholders interest or would give the shareholders the opportunity to realize a premium over the then-prevailing market price of our securities.

(3) *Our staggered Board of Trustees might affect the ability of a shareholder to take control of our Company*. Our Board of Trustees has three classes of trustees. The term of office of one class expires each year. Trustees for each class are elected for three year terms upon the expiration of the term of the respective class. The staggered terms for trustees might affect the ability of a shareholder to take control of us, even if a change in control were in the best interests of our shareholders.

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

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

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

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

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

We provide management, leasing and development services for partnerships and other ventures in which some of our officers and trustees, including Ronald Rubin, a trustee and our chairman and chief executive officer, and George F. Rubin, a trustee and a vice chairman, have indirect ownership interests. In addition, we lease substantial office space from an entity in which some of our officers, including the Rubins, have an interest. Our officers who have interests in the other parties to these transactions have a conflict of interest in deciding to enter into these agreements and in negotiating their terms, which could result in our obtaining terms that are less favorable than we might otherwise obtain, which could adversely affect our business.

Back to Contents

RISKS RELATING TO OUR SECURITIES

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

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

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

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

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

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

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

Relatively low trading volumes in securities of REITs.

Our results of operations and financial condition.

Investor confidence in the stock market generally.

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

TAX RISKS

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

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

If we were to fail to qualify as a REIT, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under statutory provisions, we would remain disqualified from treatment as a REIT for the four taxable years following the year during which we first failed to qualify. The additional tax incurred at regular corporate rates would significantly reduce the cash flow available for distribution to shareholders and for debt service. In addition, we would no longer be required to make any distributions to

Back to Contents

shareholders. If there were a determination that we do not qualify as a REIT, there would be a material adverse effect on our results of operations and there could be a material reduction in the value of our common and preferred shares.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

RETAIL PROPERTIES

As of December 31, 2005, we owned interests in 51 retail properties containing an aggregate of approximately 34.5 million square feet (including space owned by anchors). As of December 31, 2005, we and partnerships in which we own an interest owned approximately 25.9 million square feet of space at the 51 retail properties. PREIT Services currently manages 45 of these properties, 44 of which we consolidate for financial reporting purposes, and one that is owned by a partnership in which we hold a 50% interest. PRI co-manages one property, which is owned by a partnership that is not wholly-owned by us. The remaining five properties are also owned by partnerships that are not wholly-owned by us and are managed by our partners, or by an entity we or our partners designate.

Total occupancy in our malls including only space we own was 91.3% as of December 31, 2005. In-line occupancy in our malls was 87.0% as of that date. Occupancy in our power centers was 97.8% as of that date, and occupancy in our strip centers was 96.1% as of that date.

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

Back to Contents

The following table presents information regarding our retail properties as of December 31, 2005. We refer to the total retail space of these properties, including anchors and in-line stores, as Total Square Feet, and the portion that we own as Owned Square Feet.

Property/Location (1)	Ownership Interest	Total Square Feet (2)	Owned Square Feet (3)	Year Built/ Date of Last Renovation	% of Owned Square Feet Leased (4) (5)	Anchors (6) (11)
Alabama						
Gadsden Mall Gadsden, AL	100%	477,549	477,549	1974/1990	95.0%	Belk Hudson McRae s Sears
Wiregrass Commons Mall(12) Dothan, AL	100%	632,876	229,713	1986/1999	83.8%	Dillard s J.C. Penney McRae s Parisian
Delaware						
Christiana Power Center Newark, Delaware	100%	302,409	302,409	1998	100.0%	Costco Dick s Sporting Goods
Florida						
Orlando Fashion Square(12) Orlando, FL	100%	1,083,894	928,318	1973/2003	91.1%	Burdines-Macy s Dillard s J.C. Penney Sears
South Blanding Village Jacksonville, FL	100%	106,757	106,757	1986	97.9%	Food Lion Staples
Maryland						
Francis Scott Key Mall Frederick, MD	89%(7)	706,309	566,976	1978/1991	94.1%	Hecht s J.C. Penney Sears Value City
The Mall at Prince Georges Hyattsville, MD	100%	835,560	835,560	1959 / 2004	97.2%	J.C. Penney Hecht s Target
Valley Mall Hagerstown, MD	100%	902,710	659,310	1974/1999	98.8%	Bon-Ton Hecht s J.C. Penney Sears

Back to Contents

Property/Location [(1)]	Ownership Interest	Total Square Feet [(2)]	Owned Square Feet [(3)]	Year Built/ Date of Last Renovation	% of Owned Square Feet Leased [(4)(5)]	Anchors [(6) (11)]
Massachusetts						
Dartmouth Mall North Dartmouth, MA	100%	670,960	530,960	1971/2000	96.4%	Filene s J.C. Penney Sears
Michigan						
Woodland Mall Grand Rapids, MI	100%	1,194,083	397,897	2005	88.1%	J.C. Penney Kohl s Marshall Field s Sears
New Jersey						
Cherry Hill Mall Cherry Hill, NJ	100%	1,263,162	522,392	1961/1990	95.6%	J.C. Penney Macy s Strawbridge s[(8)]
Cumberland Mall Vineland, NJ	100%	921,671	648,441	1973/2003	97.7%	Boscov s Home Depot J.C. Penney Value City
Echelon Mall[(12)] Voorhees, NJ	100%	1,127,308	730,525	1970/1998	32.2%	Boscov s Strawbridge s
Moorestown Mall Moorestown, NJ	100%	1,045,079	723,879	1963/2000	94.2%	Boscov s Lord & Taylor Sears Strawbridge s
Phillipsburg Mall Phillipsburg, NJ	89%[(7)]	572,155	572,155	1989/2003	91.8%	Bon-Ton J.C. Penney Kohl s Sears
North Carolina						
Jacksonville Mall Jacksonville, NC	100%	473,886	473,886	1981/1998	97.3%	Belk J.C. Penney Sears
Pennsylvania						
Beaver Valley Mall Monaca, PA	100%	1,150,897	946,127	1970/1991	91.6%	Boscov s J.C. Penney Kaufmann s Sears

Back to Contents

Property/Location [1]	Ownership Interest	Total Square Feet [2]	Owned Square Feet [3]	Year Built/ Date of Last Renovation	% of Owned Square Feet Leased [4] [5]	Anchors [6] [11]
Capital City Mall Harrisburg, PA	100%	576,446	456,446	1974/2005	96.4%	Hecht s J.C. Penney Sears
Chambersburg Mall Chambersburg, PA	89%[7]	453,942	453,942	1982	93.2%	Bon-Ton J.C. Penney Sears Value City
Creekview Shopping Center Warrington, PA	100%	425,002	136,086	2001	100.0%	Genuardi s Lowe s Target
Crest Plaza Allentown, PA	100%	257,401	114,271	1959 / 2003	100.0%	Target Weis Market
Exton Square Mall[12] Exton, PA	100%	1,087,757	810,289	1973/2000	93.1%	Boscov s J.C. Penney Kmart Sears Strawbridge s
Lehigh Valley Mall Allentown, PA	50%	1,036,689	664,703	1977 / 1996	97.2%	J.C. Penney Macy s Strawbridge s[8]
Logan Valley Mall Altoona, PA	100%	781,628	781,628	1960/1997	97.8%	J.C. Penney Kaufmann s Sears
Lycoming Mall Williamsport, PA	89%[7]	783,012	663,012	1978/1990	88.7%	Bon-Ton J.C. Penney Kaufmann s[9] Sears Value City
Metroplex Shopping Center Plymouth Meeting, PA	50%	778,190	477,461	2001	100.0%	Giant Lowe s Target
Nittany Mall State College, PA	89%[7]	532,245	437,245	1968/1990	93.2%	Bon-Ton J.C. Penney Kaufmann s[9] Sears

Back to Contents

Property/Location (1)	Ownership Interest	Total Square Feet (2)	Owned Square Feet (3)	Year Built/ Date of Last Renovation	% of Owned Square Feet Leased (4) (5)	Anchors (6) (11)
Northeast Tower Center Philadelphia, PA	100%	477,220	301,909	1997 / 1998	96.6%	Home Depot PetSmart Raymour & Flanigan Wal-Mart
North Hanover Mall Hanover, PA	89%(7)	453,080	453,080	1967/1999	93.4%	Black Rose Antiques Bon-Ton J.C. Penney Sears
Palmer Park Mall Easton, PA	100%	453,793	453,793	1972/1998	99.7%	Bon-Ton Boscov s
Paxton Towne Centre Harrisburg, PA	100%	717,541	444,483	2001	90.0%	Costco Kohl s Target Weis Markets
Plymouth Meeting Mall(12) Plymouth Meeting, PA	100%	813,249	598,614	1966/1999	89.9%	AMC Theater Boscov s Strawbridge s
Red Rose Commons Lancaster, PA	50%	463,042	263,452	1998	99.2%	Home Depot Weis Market
Schuylkill Mall Frackville, PA	100%	726,662	665,746	1980/1991	75.0%	Black Diamond Antiques Bon-Ton K-mart Sears
South Mall Allentown, PA	89%(7)	403,600	403,600	1975/1992	92.2%	Bon-Ton Stein Mart Steve & Barry s
Springfield Mall Springfield, PA	50%	588,690	221,514	1994/1997	95.9%	Macy s Strawbridge (8)
Springfield Park I & II Springfield, PA	50%	272,640	126,971	1997 / 1998	87.8%	Bed, Bath & Beyond LA Fitness Target
The Court at Oxford Valley Langhorne, PA	50%	704,486	456,863	1996	100.0%	Best Buy BJ s Wholesale Club Dick s Sporting Goods Home Depot Linens n Things

Back to Contents

Property/Location [1]	Ownership Interest	Total Square Feet [2]	Owned Square Feet [3]	Year Built/ Date of Last Renovation	% of Owned Square Feet Leased [4] [5]	Anchors [6] [11]
The Gallery at Market East I[12] Philadelphia, PA	100%	193,487	193,487	1977/1990	89.2%	K-mart Strawbridge [8]
The Gallery at Market East II[12] Philadelphia, PA	100%	333,573	333,573	1984	86.8%	Burlington Coat Factory
Uniontown Mall[12] Uniontown, PA	89%[7]	698,551	698,551	1972/1990	94.5%	Bon-Ton J.C. Penney Sears Teletech Customer Care Value City
Viewmont Mall Scranton, PA	89%[7]	743,237	623,237	1968/1996	99.3%	J.C. Penney Kaufmann s Sears
Washington Crown Center Washington, PA	89%[7]	673,669	533,574	1969/1999	91.8%	Bon-Ton Gander Mountain Kaufmann s Sears
Whitehall Mall Allentown, PA	50%	554,018	554,018	1964 / 1998	98.6%	Bed, Bath & Beyond Kohl s Sears
Willow Grove Park Willow Grove, PA	100%	1,203,490	561,629	1982 / 2001	96.1%	Bloomingdale s Macy s Sears Strawbridge [8]
Wyoming Valley Mall Wilkes-Barre, PA	100%	913,881	913,881	1974/1995	96.6%	Bon-Ton J.C. Penney Kaufmann s Sears
South Carolina						
The Commons at Magnolia Florence, SC	100%	230,689	104,489	1991/2002	100.0%	Goody s Target
Magnolia Mall Florence, SC	100%	571,752	571,752	1979 / 1992	95.4%	Belk Best Buy J.C. Penney Sears

Back to Contents

Property/Location (1)	Ownership Interest	Total Square Feet (2)	Owned Square Feet (3)	Year Built/ Date of Last Renovation	% of Owned Square Feet Leased (4) (5)	Anchors (6) (11)
Virginia						
New River Valley Mall Christiansburg, VA	89%[7]	428,083	428,083	1988	78.5%	Belk J.C. Penney Sears
Patrick Henry Mall Newport News, VA	89%[7]	667,262	527,262	1988/2005	90.4%	Dillard s Hecht s J.C. Penney
West Virginia						
Crossroads Mall[12] Beckley, WV	100%	451,228	451,228	1981	96.8%	Belk J.C. Penney Sears
Wisconsin						
Valley View Mall La Crosse, WI	100%	586,353	331,757	1980/2001	92.3%	Marshall Field s Herberger s J.C. Penney Sears
Total as of December 31, 2005[10]		34,502,853	25,864,483			

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

(2) Total square feet includes space owned by the Company and space owned by tenants.

(3) Owned square feet includes only space owned by the Company and excludes space owned by tenants.

(4) Percentage of owned square feet leased is calculated based only on space owned by the Company and excludes space owned by tenants.

(5) Includes both tenants in occupancy and tenants that had signed leases but had not yet taken occupancy as of December 31, 2005.

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

(7) PREIT has an 89% ownership interest and a 99% economic interest in these properties.

(8) Federated Department Stores, Inc. (Federated), owner of these anchors, has announced plans to close these owned stores and is currently negotiating to sell the properties.

(9) Tenant currently holds a long-term ground lease with an option to purchase the related store and parking area at a nominal purchase price. These locations are deemed owned by their anchor occupants as they only pay a nominal rent.

(10) Total includes all malls and power and strip centers. Omits the P&S Office Building.

(11)

Federated has announced plans to cease using the Filene s, Hecht s, Kaufmann s, Marshall Field s and Strawbridge s nameplates and to rename the stores Macy s.

(12) The underlying land at this property is subject to a ground lease.

LARGE FORMAT RETAILERS AND ANCHORS

Historically, large format retailers and anchors have been an important element of attracting customers to a mall, and they have generally been department stores whose merchandise appeals to a broad range of customers, although in recent years we have attracted some non-traditional large format retailers. These large format retailers and anchors either own their stores, the land under them and adjacent parking areas, or enter into long-term leases at rates that are generally lower than the rents charged to in-line tenants. Well-known, financially sound large format retailers and anchors continue to play an important role in generating customer traffic and making malls desirable locations for in-line store tenants, even though the market share of traditional department store anchors has been declining. The following table indicates the parent company of each of our large format retailers and anchors and sets forth the number of stores and square feet owned or leased by each at our retail properties as of December 31, 2005:

Back to Contents

Anchor Name [1]	# of Stores	Space Occupied [2]	% of Total Square Feet
Bed Bath & Beyond	7	224,853	0.7%
Belk			
Belk	6	409,732	
McRae s	3	183,102	
Total Belk	9	592,834	1.7%
Best Buy	4	137,397	0.4%
BJ s Wholesale	2	234,761	0.7%
Bon-Ton	16	1,138,898	3.3%
Boscov s	7	1,285,451	3.7%
Burlington Coat Factory	1	127,271	0.4%
Carmike Cinemas	4	123,972	0.4%
Costco	2	289,447	0.8%
Dick s Sporting Goods	3	154,708	0.4%
Dillard s	3	471,494	1.4%
Federated			
Bloomingdale s	1	237,537	
Filene s	1	93,123	
Hecht s	5	714,988	
Kaufmann s	8	976,246	
Lord & Taylor	1	121,200	
Macy s	5	1,139,456	
Marshall Field s	2	257,316	
Strawbridge s[3]	9	2,278,780	
Total Federated	32	5,818,646	16.9%
Gander Mountain	1	83,835	0.2%
Giant Food Stores	1	67,185	0.2%
Hollywood Theaters	1	54,073	0.2%
Home Depot	3	397,323	1.2%
J.C. Penney	28	3,119,786	9.0%
Kohl s	4	322,194	0.9%
Linens N Things	1	54,096	0.2%
Lowe s	2	326,483	0.9%
Premier Cinemas	2	92,748	0.3%
Saks			
Herberger s	1	41,344	
Parisian	1	61,692	
Total Saks	2	103,036	0.3%
Sears Holdings			
Sears	40	3,693,717	
K-mart	3	302,481	
Total Sears Holdings	43	3,996,198	11.6%
Target	8	1,076,679	