

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST  
Form 10-K  
March 02, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Fiscal Year Ended December 31, 2008

OR

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

Commission File No. 1-6300

**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**

(Exact name of Registrant as specified in its charter)

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**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**23-6216339**  
(IRS Employer  
Identification No.)

**The Bellevue**

**200 South Broad Street**

**Philadelphia, Pennsylvania**  
(Address of principal executive offices)

**19102**  
(Zip Code)

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Shares of Beneficial Interest, par value \$1.00 per share	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

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The aggregate market value, as of June 30, 2008, of the shares of beneficial interest, par value \$1.00 per share, of the Registrant held by non-affiliates of the Registrant was approximately \$832 million. (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 February 26, 2009, 39,393,617 shares of beneficial interest, par value \$1.00 per share, of the Registrant were outstanding.

### Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**

**ANNUAL REPORT ON FORM 10-K**

**FOR THE YEAR ENDED DECEMBER 31, 2008**

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### **Forward Looking Statements**

This Annual Report on Form 10-K for the year ended December 31, 2008, together with other statements and information publicly disseminated by us, contain certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

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

the current economic downturn and its effect on our existing and potential tenants and their ability to make and meet their obligations to us;

our ability to continue to comply with the requirements of our Credit Facility, and to renew or replace the full amount of our secured and unsecured indebtedness when it matures;

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

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

concentration of our properties in the Mid-Atlantic region;

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

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

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

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

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

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

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

our short- and long-term liquidity position;

possible environmental liabilities;

our ability to obtain insurance at a reasonable cost; and

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

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

### **Definitions**

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

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

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

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GLA: gross leasable area of a property, including space leasable to anchors and in-line stores 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, regional and local retailers.

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

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

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

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

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

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

REITs: real estate investment trusts.

Strip centers: open air centers, including neighborhood and community centers, with more than 30,000 but less than 350,000 square feet of space and a line of stores.

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

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

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**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 strip and power centers located in the eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 56 properties in 13 states, including 38 shopping malls, 14 strip and power centers and four properties under development. The operating retail properties have a total of approximately 34.6 million square feet. The operating retail properties that we consolidate for financial reporting purposes have a total of approximately 30.1 million square feet, of which we own approximately 23.6 million square feet. The operating retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.5 million square feet, of which 2.9 million square feet are owned by such partnerships. The ground-up development portion of our portfolio contains four properties in two states, with two classified as mixed use (a combination of retail and other uses), one classified as retail and one classified as other.

We are a fully integrated, self-managed and self-administered REIT that has elected to be treated as a REIT for federal income tax purposes. In general, 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. ( PREIT Associates ). We are the sole general partner of PREIT Associates and, as of December 31, 2008, held a 94.7% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We own our interests in our properties through various ownership structures, including partnerships or tenancy in common arrangements (collectively, partnerships ). PREIT owns interests in some of these properties directly and has pledged the entire economic benefit of ownership to PREIT Associates. PREIT Associates' direct or indirect economic interest in the balance of the properties ranges from 40% to 50% (for eight partnership properties) up to 100%. See Item 2. Properties Retail Properties.

We provide our management, leasing and real estate development services through our subsidiaries PREIT Services, LLC ( PREIT Services ), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. ( PRI ), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties in which we own interests through partnerships with third parties and properties that are owned by third parties in which we do not 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 continuing qualification as a REIT under federal tax law.

**RECENT DEVELOPMENTS**

**Repayment of REMIC; New Term Loan**

In September 2008, we entered into a senior unsecured Term Loan Agreement with Wells Fargo Bank, National Association, as agent, sole bookrunner and lead arranger. We borrowed \$170.0 million in aggregate under the Term Loan Agreement. Also in September 2008, we borrowed an aggregate of \$286.3 million through four separate loan transactions, each of which is secured by a mortgage on an operating retail property that we own, as described more fully below under Recent Developments Mortgage Activity. We used the proceeds from a borrowing under the Term Loan Agreement, these four mortgage loans and a borrowing under our Credit Facility to repay our \$400.9 million, 15 property real estate mortgage investment conduit ( REMIC ) in full. In connection with this repayment, the 15 malls were released from the liens under the REMIC, and four of these malls were used to secure the new mortgage financings. We assumed the REMIC in connection with our 2003 merger with Crown American Realty Trust.

In connection with the \$170.0 million Term Loan Agreement, we swapped the floating interest rate on \$130.0 million of the balance to a fixed rate of 5.33%, and we swapped the floating interest rate on the remaining \$40.0 million of the balance to a fixed rate of 5.15%.





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## Mortgage Activity

The following table presents the mortgage loans that we or partnerships in which we own interests entered into during the years ended December 31, 2008, 2007 and 2006:

(in millions of dollars):					
Financing Date	Property	Amount Financed or Extended	Stated Rate	Swapped Rate	Maturity
2006 Activity:					
February	Valley Mall	\$ 90.0	5.49 % fixed	n/a	February 2016
March	Woodland Mall <sup>(1)</sup>	156.5	5.58 % fixed	n/a	April 2016
2007 Activity:					
May	The Mall at Prince Georges <sup>(2)</sup>	150.0	5.51% fixed	n/a	June 2017
2008 Activity:					
January	Cherry Hill Mall <sup>(3)(4)</sup>	55.0	5.51% fixed	n/a	October 2012
February	One Cherry Hill Plaza <sup>(2)(5)</sup>	8.0	LIBOR plus 1.30%	n/a	August 2009
May	Creekview Center <sup>(6)</sup>	20.0	LIBOR plus 2.15%	5.56%	June 2010
June	Christiana Center <sup>(2)(7)</sup>	45.0	LIBOR plus 1.85%	5.87%	June 2011
June	Lehigh Valley Mall <sup>(2)(8)</sup>	150.0	LIBOR plus 0.56%	n/a	August 2009
July	Paxton Towne Centre <sup>(2)(7)</sup>	54.0	LIBOR plus 2.00%	5.84%	July 2011
September	Patrick Henry Mall <sup>(9)</sup>	97.0	6.34% fixed	n/a	October 2015
September	Jacksonville Mall <sup>(2)(10)(11)</sup>	56.3	LIBOR plus 2.10%	5.83%	September 2013
September	Logan Valley Mall <sup>(2)(11)(12)</sup>	68.0	LIBOR plus 2.10%	5.79%	September 2013
September	Wyoming Valley Mall <sup>(2)(11)(13)</sup>	65.0	LIBOR plus 2.25%	5.85%	September 2013
October	Whitehall Mall <sup>(14)</sup>	12.4	7.00% fixed	n/a	November 2018
November	Francis Scott Key Mall <sup>(2)</sup>	55.0	LIBOR plus 2.35%	5.25%	December 2013
November	Viewmont Mall <sup>(2)</sup>	48.0	LIBOR plus 2.35%	5.25%	December 2013
November	Springfield Mall <sup>(2)(15)(16)</sup>	72.3	LIBOR plus 1.275%	n/a	December 2009
December	Exton Square Mall <sup>(17)</sup>	70.0	7.50% fixed	n/a	January 2014

(1) Interest only for the first three years then amortization based on a 30 year amortization schedule.

(2) Interest only.

(3) Supplemental financing with a maturity date that coincides with the existing first mortgage.

(4) First 24 payments are interest only followed by principal and interest payments based on a 360-month amortization schedule.

(5) Entered into this mortgage as a result of the acquisition of Bala Cynwyd Associates, L.P. ( BCA ). Mortgage has two one-year extension options.

(6) Mortgage has a term of two years and three one-year extension options.

(7) Mortgage has a term of three years and two one-year extension options.

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- (8) In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall entered into a \$150.0 million mortgage. We own an indirect 50% ownership interest in this entity. The original maturity date of the mortgage was August 2007, with three separate one year extension options. In June 2008, the unconsolidated partnership exercised its second extension option.
- (9) Payments based on 25 year amortization schedule, with balloon payment in October 2015.
- (10) On one occasion prior to March 9, 2010, we may request an increase in the principal amount of the loan of up to \$3.7 million, or a total of \$60.0 million principal in total, subject to satisfaction of a financial condition.
- (11) Mortgage has a term of five years and two one-year extension options.
- (12) The loan bears interest at an annual rate equal to, at our election, LIBOR plus 2.10%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.
- (13) The loan bears interest at an annual rate equal to, at our election, LIBOR plus 2.25%, or a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%, plus a margin of 0.50%.
- (14) The unconsolidated partnership that owns Whitehall Mall entered into the mortgage. Our interest in the unconsolidated partnership is 50%.
- (15) In November 2005, the unconsolidated partnership that owns Springfield Mall entered into a \$76.5 million mortgage. We own an indirect 50% ownership interest in this entity. The original maturity date of the mortgage was December 2007, with three separate one year extension options. In December 2008, the unconsolidated partnership made a principal payment of \$4.2 million and exercised its second extension option.
- (16) The loan bears interest at an annual rate equal to, at our election, LIBOR plus 1.10% or LIBOR plus 1.275% while the former Strawbridge's anchor space is vacant, or at a base rate equal to the prime rate, or if greater, the federal funds rate plus 0.50%.
- (17) Payments based on 30 year amortization schedule, with balloon payment in January 2014.

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### Other Mortgage Activity

In July 2008, we repaid a \$12.7 million mortgage loan on Crossroads Mall in Beckley, West Virginia, using funds from our Credit Facility and available working capital.

In December 2008, we repaid a \$93.0 million mortgage loan on Exton Square Mall in Exton, Pennsylvania using \$70.0 million from a new mortgage on the property, our Credit Facility and available working capital.

In January 2009, we repaid a \$15.7 million mortgage loan on Palmer Park Mall in Easton, Pennsylvania using funds from our Credit Facility.

### Repurchase of Exchangeable Notes

In December 2008, we repurchased \$46.0 million in aggregate principal amount of our Exchangeable Notes in privately-negotiated transactions for an aggregate purchase price of \$15.9 million, which resulted in a gain on extinguishment of debt of \$29.3 million. We terminated an equivalent notional amount of the related capped calls. In connection with the repurchases, we retired approximately \$0.8 million of deferred financing costs. As of December 31, 2008, \$241.5 million in aggregate principal amount of the Exchangeable Notes remained outstanding. In January 2009, we repurchased an additional \$2.1 million in aggregate principal amount of our Exchangeable Notes for \$0.7 million, resulting in a gain on extinguishment of debt of \$1.4 million.

### Credit Facility Extension and Amendment

In May 2008, we amended our Credit Facility. Under the amended terms, in the determination of our Gross Asset Value, the calculation of the amounts to be included in respect of recently completed redevelopment or development projects has been modified. (Capitalized terms used in this paragraph have the meanings given to them in the Credit Facility.) When we complete the redevelopment or development of a property and it is Placed in Service, the amount of Construction in Progress of such property included in Gross Asset Value is gradually reduced over a four quarter period. The amendment also modified other financial and business covenants contained in our Credit Facility. The amendment added a new interest rate pricing level with an Applicable Margin of 2.00% over LIBOR, and a new Facility Fee level of 0.25%, if the ratio of Total Liabilities to Gross Asset Value is greater than 0.65:1 and/or if the ratio of EBITDA to Indebtedness is less than 0.0975:1. In October 2008, we exercised an option to extend the term of the Credit Facility to March 2010.

### Redevelopment

In 2008, we substantially completed our redevelopment work at Moorestown Mall in Moorestown, New Jersey and Jacksonville Mall in Jacksonville, North Carolina. We reached further milestones on the continuing redevelopment projects at several of the malls in our portfolio, including three of our largest projects: Cherry Hill Mall in Cherry Hill, New Jersey, Plymouth Meeting Mall in Plymouth Meeting, Pennsylvania and Voorhees Town Center in Voorhees, New Jersey.

In 2008, our redevelopment plans for Willow Grove Park in Willow Grove, Pennsylvania and North Hanover Mall in Hanover, Pennsylvania changed following the termination of agreements to open Boscov's stores at those two properties. The agreements were terminated following the August 2008 Chapter 11 bankruptcy filing of that anchor tenant. We are currently reviewing the alternatives for an appropriate way to utilize the vacant anchor space.

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The following table sets forth the amount of the currently estimated project cost and the amount invested as of December 31, 2008 for each ongoing redevelopment project:

<b>Redevelopment Project</b>	<b>Estimated Project Cost</b>	<b>Invested as of December 31, 2008</b>
Cherry Hill Mall	\$ 218.0 million	\$ 172.4 million
Plymouth Meeting Mall	96.6 million	81.9 million
Voorhees Town Center	83.0 million	60.2 million
The Gallery at Market East	81.6 million	57.7 million
Wiregrass Commons Mall	12.8 million	10.2 million
		\$ 382.4 million

**Development**

During 2008, we substantially completed the development of New River Valley Center in Christiansburg, Virginia (adjacent to our New River Valley Mall), giving us a retail hub for the area. We were operating but still under construction at Monroe Marketplace in Selinsgrove, Pennsylvania and Sunrise Plaza (previously identified as Lacey Retail Center) in Forked River, New Jersey. We no longer consider any of these properties to be part of our development portfolio.

We also have some projects that continue to be in earlier stages of the development process, including Pitney Road Plaza in Lancaster, Pennsylvania, White Clay Point (previously identified as New Garden Town Center) in Landenberg, Pennsylvania, Pavilion at Market East in Philadelphia, Pennsylvania and Springhills in Gainesville, Florida. As of December 31, 2008, we had incurred \$177.7 million of costs related to six projects (including Monroe Marketplace and Sunrise Plaza, which are operating but still under construction, but not including the effects of impairments totaling \$18.8 million). The additional costs identified to date to complete Pitney Road Plaza are estimated to be \$11.3 million in the aggregate (including costs already incurred). The details of the White Clay Point, Pavilion at Market East and Springhills projects and the related costs have not been determined.

The following table sets forth the amount of the currently estimated project cost and amounts invested as of December 31, 2008 in each ground-up development project:

<b>Development Project</b>	<b>Estimated Project Cost</b>	<b>Invested as of December 31, 2008</b>	<b>Actual/Expected Initial Occupancy Date</b>
<b>Operating Properties:</b>			
Monroe Marketplace	\$ 58.9 million	\$ 56.0 million	2008
Sunrise Plaza (previously identified as Lacey Retail Center) <sup>(1)</sup>	39.9 million	37.0 million	2007
<b>Development Properties:</b>			
Pitney Road Plaza	20.3 million	9.0 million	2009
White Clay Point (previously identified as New Garden Town Center) <sup>(2)</sup>	To be determined	42.8 million	To be determined
Springhills	To be determined	31.4 million	To be determined
Pavilion at Market East <sup>(3)</sup>	To be determined	1.5 million	To be determined
		\$ 177.7 million	

<sup>(1)</sup> Amount invested as of December 31, 2008 does not reflect a \$7.0 million impairment charge that we recorded in 2008. See the notes to our consolidated financial statements for further discussion of this charge.

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- (2) Amount invested as of December 31, 2008 does not reflect an \$11.8 million impairment charge that we recorded in 2008. See the notes to our consolidated financial statements for further discussion of this charge.
- (3) The property is unconsolidated. The amount shown represents our share.

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## Acquisitions

In January 2008, we entered into an agreement under which we acquired a 0.1% general partnership interest and a 49.8% limited partnership interest in Bala Cynwyd Associates, L.P. ( BCA ), and an option to purchase the remaining partnership interests in BCA in two closings that are expected to occur in the first quarter of 2009 and the first or second quarter of 2010. BCA is the owner of One Cherry Hill Plaza, an office building located within the boundaries of our Cherry Hill Mall in Cherry Hill, New Jersey. We acquired this interest in BCA for \$3.9 million in cash paid at the first closing in February 2008.

In July 2008, we acquired a parcel in Lancaster, Pennsylvania for \$8.0 million plus customary closing costs. We intend to develop this parcel into a 227,000 square foot power center that we have named Pitney Road Plaza.

**RETAIL REAL ESTATE INDUSTRY**

Our primary investment focus is retail shopping malls and strip and power 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		Typical Anchor(s)
		(including Anchors)		
<b>MALLS</b>				
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
<b>OPEN AIR CENTERS</b>				
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

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*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 such that there are rows of smaller in-line stores in between them.



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

## **PREIT S BUSINESS**

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

Our operating retail real estate portfolio currently consists of 38 shopping malls and 14 strip and power centers in 13 states. The retail properties have a total of approximately 34.6 million square feet, of which we and partnerships in which we own an interest own approximately 26.5 million square feet. See Item 2. Properties.

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

The largest mall in our retail portfolio contains approximately 1.2 million square feet and 108 stores, and the smallest contains approximately 0.4 million square feet and 52 stores. The power centers in our retail portfolio range from 165,000 to 780,000 square feet, while the strip centers range from 230,000 square feet to 275,000 square feet.

We derive the substantial majority of our revenue from rent received under leases with tenants for space at retail properties in our real estate portfolio. In general, our leases require tenants to pay base rent, which is a fixed amount specified in the lease, and which is often subject to scheduled increases during the term of the lease for longer term leases. 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, many of our leases 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 subject, in some cases, to certain limitations. The proportion of the expenses for which tenants are responsible is generally related to the tenant s pro rata share of space at the property. In-line stores typically generate a majority of the revenue of a mall, with a relatively small proportion coming from anchor tenants and junior anchors or large format retailers.

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### **BUSINESS STRATEGY**

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

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

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

Regularly review our portfolio of properties and, if appropriate, dispose of properties or outparcels 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.

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

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

To maintain our status as a REIT, we are required, under federal tax laws, to distribute to shareholders 90% of our net taxable income, which generally leaves insufficient funds to finance major initiatives internally. Because of these requirements, we fund most of our significant capital requirements, such as the capital for redevelopments, development and acquisitions, through 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 our creditworthiness, the availability of credit to us or the market for our equity capital at the time or times we need capital, and on conditions in the capital markets. The United States credit markets have recently experienced significant dislocations and liquidity disruptions. These circumstances have materially affected liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the limited availability or unavailability of certain types of debt financing. Continued uncertainty in the credit markets might negatively impact our ability to access additional debt financing at reasonable terms, which might negatively affect our ability to fund our redevelopment and development projects and other business initiatives. See Item 1A. Risk Factors.

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### Redevelopment

We aim to increase the potential value of properties in our portfolio and to maintain or enhance their competitive positions by redeveloping them in order to attract more customers and retailers, leading to increases in sales, occupancy and rental rates. We believe that several properties in our portfolio present opportunities for creating value through redevelopment, but in light of current economic conditions, current circumstances in the debt and equity capital markets and the relative lack of availability of capital on acceptable terms, we expect that in the near term, we might not aggressively pursue these opportunities, if at all.

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

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

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

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

incorporating sit down restaurants and other entertainment options to extend shoppers' time spent on 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 are currently involved in the redevelopment of five of our consolidated properties. As of December 31, 2008, we have invested \$382.4 million in these five projects. Currently, we intend to invest at least an additional \$109.6 million to complete these projects. These projects might include the introduction of residential, office or other uses to our properties in an effort to maximize the value of our properties. For information regarding project investment to date and expected costs for each project, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Development and Redevelopment.

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

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

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

### **Asset Management, Leasing, Marketing and Operations**

We conduct intense asset management of our properties in an effort to maximize and maintain occupancy and optimize the mix of tenants in order to attract customers and increase sales by mall tenants. For example, we coordinate closely with tenants on new store locations in an effort to position our property for their latest store prototype, which is designed to drive traffic and stimulate customer spending. We engage in active merchandising programs and coordinated marketing activities designed to promote our properties as magnet centers (tenants generally reimburse us for expenses associated with a portion of marketing activities). If appropriate, we renovate our malls by upgrading the interior and exterior in order to increase the appeal of the property to customers and to raise traffic and sales. Our on-site teams continuously monitor the local market and community, and work with our corporate office asset management, leasing and marketing professionals to evaluate and adjust the tenant mix in pursuit of the optimal match of tenants to the trade area and the ideal configuration and allocation of space. As part of these efforts, if appropriate, we might relocate tenants to better-suited space or terminate the leases of underperforming tenants.

Some space at properties that are not involved in redevelopment projects might be available for a period of time, pending a lease with a permanent tenant. We strive to manage the use of this space 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 when a space is not subject to a longer term lease.

Currently, our asset management, leasing and marketing activities face significant challenges because the downturn in the overall economy and the disruptions in the financial markets have reduced consumer confidence and negatively affected consumer spending on retail goods. As a result, the sales and profit performance of retailers in general has decreased, sales at our properties in particular have decreased, and we have experienced delays or cancellations of the openings of new retail stores and of lease renewals. Consequently, we are adjusting our approaches to take into account the difficult current environment.

As an integral part of our property management, we also attempt to generate ancillary revenue, such as through marketing partnerships, and we work on controlling operating costs and expenses, in an effort to contain tenant operating costs. One way we have sought to manage such costs has been to contract with third-party specialists to provide, for example, housekeeping and security services, in order to maintain our high operating standards while defining and limiting our costs during the term of a contract.

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In addition to owning, managing and developing our own properties, as of December 31, 2008, we also provided management, leasing and development services to affiliated and third-party property owners with respect to eight retail properties containing approximately 1.4 million square feet and one office building containing approximately 0.3 million square feet.

### Dispositions

We regularly conduct portfolio property reviews and, if appropriate, we dispose of properties or outparcels that we do not believe meet the financial and strategic criteria we apply, given economic, market and other circumstances. Disposing of these properties can enable us to redeploy our capital to other uses, such as to repay debt, to reinvest in other real estate assets and development and redevelopment projects and for other corporate purposes. Given the current economic, capital market and retail industry conditions, it might be difficult for us to dispose of properties or outparcels on favorable terms, or at all, as prospective buyers might experience increased costs of debt financing or other difficulties in obtaining debt financing.

### Development

We pursue ground-up development of retail and mixed use properties that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. We also pursue complementary development on property adjacent to our existing operating properties with the goal of establishing and strengthening a concentration of retailers as the retail hub in a trade area. For example, we have developed power center projects across from our mall properties to make the resulting collection of merchants a stronger, more compelling draw. Because of tax law requirements that apply to REITs, we fund most of our capital for development with secured and unsecured indebtedness and, when appropriate, with equity. The United States credit markets have recently experienced significant dislocations and liquidity disruptions, which has materially affected liquidity in the debt markets, and in certain cases has resulted in the limited availability or unavailability of certain types of debt financing. Given the current economic, capital market and retail industry conditions, we expect to limit our new development activities, pending a resumption of more typical functioning of the debt and equity capital markets.

During less challenging economic conditions, we generally seek to develop retail projects in areas that we believe evidence the likelihood of supporting additional retail development and that have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We will consider other uses of a property that would have synergies with our retail development based on several factors, including local demographics, market demand for other uses such as residential and office, and applicable land use regulations. We generally have several development projects under way at one time. These projects are typically in various stages of the development process. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing. We monitor our developments closely, including costs and tenant interest. For a list of our on-going development projects, see [Recent Developments](#) [Development](#).

Although we have previously developed properties that have proven successful, we cannot assure you that any of our current projects will be as successful as any of these previously developed properties, or that they will be successful at all, which could have a negative effect on our operating results. We also cannot assure you that any projects that we begin will ultimately be completed. If we determine not to proceed with a project or otherwise become required to accelerate the expensing of development costs, there will be a negative effect on our results of operations. For information regarding aggregate project investment to date and expected costs, see [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Development and Redevelopment](#).

### Acquisitions

We seek to acquire well-located retail properties, with strong prospects for future cash flow growth and capital appreciation that meet the investment criteria we apply, given economic, market and other circumstances, particularly where we believe our management and leasing capabilities can enhance the value of these properties. We also seek to acquire additional parcels or properties that are included within, or adjacent to, the properties already in our portfolio in order to gain greater control over the merchandising and tenant mix of a property. However, given the current economic, capital market and retail industry conditions, we expect our acquisition activities to be limited by the availability of debt or equity capital to fund such efforts.

When evaluating acquisitions, we conduct a detailed analysis of the geographic market and the demographic characteristics of the area surrounding the property, the property itself and other factors. If a property substantially meets the investment criteria we apply, given economic, market and other circumstances, we will pursue it further if we believe we are well positioned to compete for it. We believe we have positive working relationships with many industry participants, including prospective sellers, buyers and financing sources, which enable us to become aware of acquisition opportunities. Subject to the difficult conditions in debt and equity capital markets, we expect to fund property or portfolio acquisitions and expenses associated with acquisitions through secured and unsecured indebtedness, and the issuance of additional securities,

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including under our \$1.0 billion universal shelf registration statement. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Resources.

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### **CAPITAL STRATEGY**

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

While our long term corporate finance objective has not changed, we have been making efforts to adjust the actions we take in pursuit of that goal, given current conditions in the economy, the capital markets and the retail industry. The current freeze in the market for debt capital and commercial mortgages, including the commercial mortgage backed securities market, and the downturn in the general economy and its effect on retail sales, as well as our leverage resulting from our redevelopment program and other development activity, have combined to necessitate that we vary our approach to obtaining, using and recycling capital, and have led to some of the tactics described below. We intend to consider all of our available options for accessing the capital markets in pursuit of our corporate finance objective.

In general, in determining the amount and type of debt capital to employ in our business, we consider several factors, including: general economic conditions, the capital market environment, prevailing and forecasted interest rates for various debt instruments, the cost of equity capital, property values, capitalization rates for mall properties, our financing needs for redevelopment, development and acquisition opportunities, the debt ratios of other mall REITs and publicly-traded real estate companies, and the requirement under federal tax laws for REITs to distribute at least 90% of net taxable income, among other factors. An 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 future capital requirements.

Also, in connection with our redevelopment and development projects, we expect to utilize Credit Facility borrowings or other short-term financings during the construction phase, and then we might seek longer-term, fixed rate mortgages when the project is complete and the property has stabilized. Our ability to increase our debt ratio is limited by our Credit Facility, which contains covenants that limit the amount of our secured indebtedness to 60% of Gross Asset Value (as defined in the Credit Facility agreement and calculated, in part, based on net operating income), and the amount of total liabilities to 65% of Gross Asset Value, provided that such ratio may exceed 65% for one period of two consecutive fiscal quarters, but may not exceed 70%.

Subject to prevailing conditions in the real estate capital markets, we have attempted to place secured indebtedness on certain of our properties, and expect to continue to do so as opportunities arise. We have done so in an effort to maximize our borrowing capacity under our Credit Facility and to lower our borrowing costs. In 2008, we obtained a total of 13 new mortgage loans (12 on consolidated properties and one on an unconsolidated partnership property), which generated aggregate proceeds of \$647.5 million, including our 50% share of one partnership mortgage loan. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Mortgage Finance Activity.

In September 2008, we entered into a senior unsecured Term Loan Agreement with Wells Fargo Bank, National Association, as agent, sole bookrunner and lead arranger. We borrowed \$170.0 million in aggregate under the

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Term Loan Agreement. Also in September 2008, we borrowed an aggregate of \$286.3 million through four of the new mortgage loans referred to above. We used the proceeds from a borrowing under the Term Loan Agreement, these four mortgage loans and a borrowing under our Credit Facility to repay our \$400.9 million, 15 property REMIC in full. In connection with this repayment, the 15 malls were released from the liens under the REMIC. Four of these malls were used to secure the new mortgage financings. We had assumed the REMIC in connection with our 2003 merger with Crown American Realty Trust.

We expect that our significant expenditures related to the redevelopment and development projects listed in this report will continue over the next several quarters. We expect that our construction in progress balance will peak in the first half of 2009. Construction in progress represents the aggregate expenditures on projects less amounts placed in service. Generally, assets are placed in service upon substantial completion or when tenants begin occupancy and rent payments commence. Additional debt could lead to debt ratios that approach or exceed the ratios permitted by our Credit Facility. See Item 1A. Risk Factors Risks Related to Our Indebtedness and Our Financing.

Given current economic, capital market and retail industry conditions, and in light of our need for additional capital to complete construction of our redevelopment and development projects and of the leverage covenant in our Credit Facility, we anticipate employing one or more of the following measures, among others, in order to fund our capital needs or to reduce our debt and decrease our leverage ratio: (i) deferring development and redevelopment projects or other selected capital expenditures, (ii) making selective sales of assets, including outparcels, that we do not believe meet the financial or strategic criteria we apply, given economic, market and other circumstances, (iii) obtaining secured or unsecured indebtedness, (iv) forming joint ventures with institutional partners, private equity investors or other REITs, (v) repaying or repurchasing our outstanding debt and (vi) issuing equity, when warranted.

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

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest-bearing liabilities. We attempt to limit these risks by following established risk management policies, procedures and strategies, including the use of various types 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, strip centers, power centers, lifestyle centers, factory outlet centers, theme/festival centers and community centers, as well as other commercial real estate developers and real estate owners, particularly those with properties near our properties on the basis of several factors, including location and rent charged. We compete with these companies to attract customers to our properties, as well as to attract anchor and in-line store tenants. We also compete to acquire land for new site development. Our malls and our strip and power centers face competition from similar retail centers, including more recently developed or renovated centers that are near our retail properties. We also face competition from a variety of different retail formats, including internet retailers, discount or value retailers, home shopping networks, mail order operators, catalogs and telemarketers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent that we receive. Our tenants face competition from companies at the same and other properties and from other retail formats as well.



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

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 might also affect the occupancy and net operating income of such properties. Any such capital improvements undertaken individually or collectively involve costs and expenses that could adversely affect our results of operations.

In addition, we compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites, including institutional pension funds, other REITs and other owner-operators of retail properties. Given current economic, capital market, and retail industry conditions, however, there has been substantially less competition with respect to acquisition activity in recent quarters. When we seek to make acquisitions, these competitors might drive up the price we must pay for properties, parcels, other assets or other companies or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property and/or generate lower cash flow from an acquired property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

## **ENVIRONMENTAL**

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

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

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

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

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

Two of our 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 \$10.0 million per occurrence and \$10.0 million in the aggregate. We cannot assure you that this coverage will be adequate to cover future environmental liabilities. If this environmental coverage were inadequate, we would be obligated to fund those liabilities. We might be unable to continue to obtain insurance for environmental matters, at a reasonable cost or at all, in the future.

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

## **EMPLOYEES**

We had 865 employees at our properties and in our corporate office as of December 31, 2008. None of our employees are represented by a labor union.

## **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, as amended. 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.

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### **CORPORATE HEADQUARTERS**

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

### **SEASONALITY**

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of a portion of rent based on a percentage of a tenant's sales revenue over certain levels. Income from such rent is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season, and there is a higher concentration of tenants vacating their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first quarter, excluding the effect of ongoing redevelopment projects. Our concentration in the retail sector increases our exposure to seasonality and 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](http://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, if any. 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 that code, and we will maintain such information on our website for at least twelve months.

### **ITEM 1A. RISK FACTORS.**

#### **RISKS RELATED TO OUR INDEBTEDNESS AND OUR FINANCING**

##### **The covenants in our Credit Facility might adversely affect us.**

Our \$500.0 million Credit Facility requires us 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. In May 2008, we amended our Credit Facility. Under this amendment, among other things, the benchmarks contained in certain of the covenants were relaxed, and we may now exceed the leverage covenant or not meet the covenant regarding the ratio of EBITDA to Indebtedness for one period of two consecutive quarters. We expect that our use of debt to fund investments in current redevelopment and development projects will continue to increase, albeit at a much slower rate, and ahead of the time that such redevelopment and development projects will generate significant cash flows. Absent further action on our part, such additional debt, in combination with our already substantial indebtedness, could lead to debt ratios that approach or exceed the limits contained in the Credit Facility covenants, or exceed them for longer than is permitted under the 2008 amendment. As described elsewhere herein, the current downturn and conditions in the credit and capital markets and the retail industry might affect our operating results. The leverage covenant generally takes our net operating income and applies a capitalization rate to calculate Gross Asset Value, and consequently, deterioration in our operating performance also affects the calculation of our leverage. In addition, a material decline in future operating results could also affect our ability to comply with other financial ratio covenants contained in our Credit Facility, which are calculated on a trailing four quarter basis. These covenants could restrict our ability to pursue development and redevelopment projects or property acquisitions, limit our ability to respond to changes and competition, and reduce our flexibility in conducting our operations by limiting our ability to borrow money, sell or place liens on assets, repurchase securities, make capital expenditures or engage in acquisitions.

An inability to comply with the covenants would require us to seek waivers or amendments. There is no assurance that we could obtain such waivers or amendments, and even if obtained, we would likely incur additional costs. Our inability to obtain any such a waiver or amendment could result in a breach and a possible event of default under our Credit Facility, which could allow the lenders to discontinue lending or issuing letters of credit, terminate any commitments they have to provide us with additional funds and/or declare amounts outstanding to be immediately due and payable. There is no assurance that we would have sufficient funds to repay such obligations or that we could obtain alternative funding on terms acceptable to us. If we are unable to refinance our debt on acceptable terms, including at the maturity of our Credit Facility, we might

be forced to dispose of properties on unfavorable terms, potentially resulting in losses that reduce cash flow from operating activities. If a default were to occur, we might have to refinance the debt through additional secured debt financing, private or public offerings of debt securities, or additional equity financings. Any of such consequences could negatively affect our financial position, results of operations, cash flow and ability to make capital expenditures and distributions to shareholders.

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**We might not be able to replace or extend our Credit Facility when it matures in March 2010. Recent disruptions in the credit markets could adversely affect our ability to access funds under our Credit Facility or any replacement credit facility.**

Our Credit Facility has a term that expires in March 2010. We also have a \$170.0 million unsecured Term Loan that expires in 2010, with an extension option to 2011. In 2009, we plan to seek to put in place a new revolving credit facility in advance of the expiration of the current facility. At this time, it is difficult to forecast the future state of the bank loan market. If, because of our substantial indebtedness, the level of our cash flows, lenders' perceptions of our creditworthiness, or for other reasons, we are unable to renew, replace or extend our Credit Facility on terms attractive to us, or to arrange for alternative financing, we might be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring development and redevelopment projects or other capital expenditures, dispositions of one or more assets on unfavorable terms and further reducing or eliminating future cash dividend payments or other discretionary uses of cash, or other, more severe actions.

Also, disruptions in the credit markets and uncertainty in the U.S. economy could adversely affect one or more banks that currently participate in our Credit Facility, could cause them to elect not to participate in any new credit facility we might seek, or could cause other banks that are not currently participants in the Credit Facility to be unwilling or unable to participate in any such new facility. Our access to funds under the current Credit Facility or any future facility is dependent on the ability of the banks that are currently, or other banks that might in the future be, parties to the current or any replacement facility to meet their funding commitments. These banks might have incurred losses or might now have reduced capital reserves. As a result, these banks might be or become capital constrained and might tighten their lending standards, or become insolvent. If they experience shortages of capital and liquidity, banks that are parties to the Credit Facility (or any banks that become parties in the future) could fail or refuse to honor their legal commitments and obligations under the Credit Facility, including by not extending credit up to the maximum amount permitted by the Credit Facility and/or by not honoring their loan commitments at all. Current or prospective future bank participants could also elect not to participate in any renewal or replacement of the Credit Facility or the Term Loan. If we were unable to draw funds under our Credit Facility because of a lender default or failure, or if we were unable to enter into a new credit facility with current or prospective other lenders, and we were unable to obtain alternative cost-effective financing from other sources of unsecured or secured debt capital, our financial condition, results of operations, cash flow and our ability to make distributions to shareholders would be materially adversely affected.

**We might not be able to obtain the capital required to finance our business initiatives or to refinance existing obligations. Recent disruptions in the credit markets could affect our ability to obtain debt financing on terms acceptable to us, or at all, and have other adverse effects on us.**

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 certain capital requirements, such as the capital for redevelopments, renovations, expansions and other non-recurring capital improvements, scheduled debt maturities, and acquisitions of properties or other assets, through secured and unsecured indebtedness and, when appropriate, the issuance of additional equity securities. As of December 31, 2008, we had approximately \$58.5 million of indebtedness and \$247.4 million of indebtedness of our unconsolidated partnerships (\$222.3 of which is subject available extension options) that matures on or before December 31, 2009. Also, we estimate that we will need \$164.2 million of additional capital to complete our current development and redevelopment projects, excluding White Clay Point, Springhills and Pavilion at Market East, because the total cost of these projects has not yet been determined. See

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for information about our available sources of funds. Our continued ability to finance our growth using these sources depends, in part, on our creditworthiness, our ability to refinance our existing debt as it comes due, the availability of credit to us or the market for our equity securities at the time or times we need capital, and on conditions in the capital markets.

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

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Much of our indebtedness does not require significant principal payments prior to maturity, and we might enter into agreements on similar terms in future transactions. If our mortgage and other debts cannot be repaid in full, refinanced or extended at maturity on acceptable terms, or at all, a lender could foreclose upon the mortgaged property and receive an assignment of rent and leases or pursue other remedies, or we might be forced to dispose of one or more of our properties on unfavorable terms, which could have a material adverse effect on our financial condition and results of operations and which might adversely affect our cash flow and our ability to make distributions to shareholders.

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### **We have substantial debt, and might incur additional debt. If we are unable to satisfy our debt 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 in the form of mortgages, unsecured borrowings, Credit Facility borrowings or other vehicles in order to develop or redevelop properties, to finance acquisitions, or for other general corporate purposes. As of December 31, 2008, we had an aggregate consolidated indebtedness outstanding (excluding debt premium) of \$2,567.8 million, \$1,756.3 million of which was secured by our properties and approximately \$811.5 million of which was unsecured indebtedness. During 2008, we obtained an aggregate of approximately \$811.3 million in new indebtedness, and we repaid \$528.1 million of existing mortgage debt during the year. These indebtedness amounts do not include our proportionate share of indebtedness of our partnership properties, which was approximately \$184.1 million at December 31, 2008.

Much of our outstanding indebtedness represents obligations of PREIT Associates, and of 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 repay this indebtedness in accordance with its terms, we might be forced to dispose of one or more properties on unfavorable terms to satisfy the debt, or a lender could foreclose upon the mortgaged property and receive an assignment of rent and leases or pursue other remedies, which could have a material adverse effect on our financial condition and results of operations and which might adversely affect our cash flow and our ability to make distributions to shareholders.

Our substantial obligations arising from our indebtedness could have other negative consequences to our shareholders, including 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, and limiting our ability to enter into hedging transactions with counterparties.

### **We require significant cash flows to satisfy our debt obligations. If we are unable to satisfy these obligations, we might default or be constrained from using our cash flow for other purposes.**

Our substantial indebtedness involves significant obligations for the payment of interest and principal. Also, as of December 31, 2008, we had \$408.0 million of variable rate debt, not including any variable rate debt held by our unconsolidated partnerships. Increases in interest rates will increase our cash interest payments on the variable rate debt we have outstanding from time to time. 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, which could result in a default or have a material adverse effect on our financial condition and results of operations, and which might adversely affect our cash flow and our ability to make distributions to shareholders. These significant debt payment obligations might also require us to use a significant portion of our cash flow from operations to make interest and principal payments on our debt rather than for other purposes such as working capital, capital expenditures or distributions on our common equity. Such significant payment obligations might also limit our flexibility to plan for or react to changes in business and economic conditions, and make us more vulnerable to the current or any future downturn in our business or the economy generally.

### **The current downturn in the overall economy and the recent disruptions in the financial markets might adversely affect our cash flows from operations.**

The current downturn in the overall economy and the recent disruptions in the financial markets have reduced consumer confidence in the economy and negatively affected consumer spending on retail goods, and have consequently decreased the revenue generated by our properties. The poor operating performance of retailers has resulted in delays or cancellations of the openings of new retail stores at our properties and of lease renewals and has impaired the ability of our current tenants to meet their obligations to us, which could adversely affect our ability to meet our debt service requirements, comply with the covenants under our Credit Facility, make capital expenditures, generate cash flow and make distributions to shareholders. These conditions could have a material adverse effect on our financial condition and results of operations. There can be no assurance that current and future government responses to the disruptions in the economy and in the financial markets will restore consumer confidence and consumer spending on retail goods in a timely manner, or at all.

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

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

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

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, 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.

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 have a material adverse effect on our operating results and reduce amounts available for distribution to shareholders.



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### **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.**

From time to time, we use interest rate hedging arrangements to manage our exposure to interest rate volatility, but these arrangements might expose us to additional risks, such as requiring that we fund our contractual payment obligations under such arrangements in relatively large amounts or on short notice. 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 these arrangements. 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, particularly given current market conditions.

## **RISKS RELATED TO OUR BUSINESS AND OUR PROPERTIES**

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

We receive a substantial portion of our operating income as rent under long-term leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. These tenants might defer or fail to make rental payments when due, delay lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant's lease, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy of those tenants might be more significant to us than the bankruptcy of other tenants. See Item 2. Properties - Major Tenants. Given current conditions in the capital markets, retailers that have sought protection from creditors under bankruptcy law have had difficulty in some instances in obtaining debtor-in-possession financing, which has decreased the likelihood that such retailers will emerge from bankruptcy protection and has limited their alternatives. In addition, under many of our leases, our tenants pay rent based, in whole or in part, on a percentage of their sales. Accordingly, declines in these tenants' sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of our leases, we might modify lease terms in ways that are less favorable to us.

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 during that time, or at all. In addition, this could result in lease terminations or reductions in rent by other tenants of the same property whose leases have co-tenancy provisions. Any unsecured claim we hold might be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of any unsecured claims we hold, which would adversely affect our financial condition and results of operations. Tenant bankruptcies and liquidations have adversely affected and given current economic conditions, are likely, in the future to adversely affect our financial condition and results of operations. In 2008, our expenses associated with tenant bankruptcies were \$3.1 million, with 13 tenants in our portfolio filing for bankruptcy protection during the year, including Circuit City Stores, Steve & Barry's, K.B. Toys, Friedman's Jewelers, Whitehall Jewelers and B. Moss.

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

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

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

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

As a key component of our long term growth strategy, we plan to continue to redevelop existing properties and develop new properties, and we might develop or redevelop other projects as opportunities arise, subject to the current difficult economic, capital market and retail industry conditions, which have led to tight credit, low liquidity, increased defaults and bankruptcies, lower consumer confidence and lower business and consumer spending. We are adjusting our growth strategy in light of these conditions, and anticipate longer times until stabilization and potentially lower investment returns. Some of our retail properties were constructed or last renovated more than 10 years ago. Older, unrenovated properties tend to generate lower rent and might require significant expense for maintenance or renovations to maintain competitiveness, which could harm our results of operations. As of December 31, 2008, we were engaged in the redevelopment of five consolidated mall properties and the development of four development properties and the management of two operating properties with ongoing development activities. To the extent we continue current redevelopment or development projects or enter into new redevelopment or development projects, they will be subject to a number of risks that could negatively affect our return on investment, financial condition, results of operations and our ability to make distributions to shareholders, including, among others:

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

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

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

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

inability, in light of the current economic downturn, to obtain permanent financing upon completion of development or redevelopment activities or to refinance construction loans, which are generally recourse to us; and

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

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

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

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

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

### **The valuation and accounting treatment of certain long-lived or intangible assets, such as goodwill, could result in future asset impairments, which would be recorded as operating losses.**

Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property to be held and used is considered impaired only if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. The current downturn in the economy and the recent disruptions in the financial markets have negatively affected consumer spending on retail goods and have consequently decreased the estimated cash flows generated by our properties, and might cause further decreases in the future. Financial Accounting Standards Board ( FASB ) Statement No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ) requires that goodwill and certain intangible assets be tested annually for impairment or earlier upon the occurrence of certain events or substantive changes in circumstances. If we find that the carrying value of real estate investments are related intangibles or goodwill or certain intangible assets exceed estimated fair value, we will reduce the carrying value of the real estate investment or goodwill or intangible asset to the estimated fair value, and we will recognize an impairment. Any such impairment is required to be recorded as a noncash operating loss.

Our 2008 impairment analysis resulted in noncash impairment charges on goodwill and certain development projects of \$27.6 million, and, as a result, the carrying values of our impaired assets were reset to their estimated fair values as of December 31, 2008. Any further decline in the estimated fair values of these assets could result in additional impairment charges. It is possible that such impairments, if required, could be material. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Asset Impairments.

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

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

than companies that do not have a concentration in this region. If the sales of stores operating at our properties were to decline significantly due to adverse conditions, the risk that our tenants, including anchors, will be unable to fulfill the terms of their leases to pay rent or will enter into bankruptcy might increase. Furthermore, such adverse conditions might affect the likelihood or timing of lease commitments by new tenants or lease renewals by existing tenants as such parties delay their leasing decisions in order to obtain the most current information about trends in their businesses or industries. If, as a result of prolonged adverse regional conditions, occupancy at our properties decreases or our properties do not generate sufficient revenue 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.

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

The income we generate from our retail properties depends in part on the ability of our anchor tenants to attract customers to our properties. The ability of anchor tenants to attract customers to a property has a significant effect on the ability of the property to attract in-line tenants and, consequently, on the revenue generated by the property. In recent years, the retail industry and retailers that serve as anchor tenants have experienced or are currently experiencing operational changes, consolidation and other ownership changes. Recent combinations of retailers that serve as anchor tenants are expected to offer these companies even greater economies of scale, increasing their leverage with suppliers, including landlords, and enabling them to be more efficient. These transactions and any similar transactions in the future might result in the restructuring of these companies, which could include closures or sales of anchor stores operated by them. The closure of an anchor store or a large number of anchor stores might have a negative effect on a property and our results of operations. 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 of the anchor or in-line store in a timely manner, or at all. In addition, the leases of some anchors might permit the anchor to transfer its lease, including any attendant approval rights, to another retailer. The transfer to a new anchor could cause customer traffic in the property to decrease or to be composed of different types of customers, which could reduce the income generated by that property. A transfer of a lease to a new anchor also could allow other tenants to make reduced rental payments or to terminate their leases at the property, which could adversely affect our results of operations. In August 2008, anchor tenant Boscov's, Inc. filed for bankruptcy protection. In connection with the bankruptcy process, Boscov's assumed its eight leases at properties where it was already operating, and terminated two of its agreements to open new stores at two other properties. We are currently reviewing the alternatives for an appropriate way to utilize the vacant anchor space at those two properties.

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

Some of our retail properties are owned by partnerships in which we are a general partner. Under the terms of those 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 conflicts which arise with respect to such decisions, or we might have to provide financial or other inducements to our partners to obtain a resolution. In cases where we are not the controlling partner or where we are only one of the general partners, there are many decisions that do not relate to fundamental matters that do not require our approval and that we do not control. Also, in cases in which we serve as managing general partner of the partnerships that own our properties, we might have certain fiduciary responsibilities to the other partners in those partnerships.

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

Other risks of investments in partnerships with third parties include:

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



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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.

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

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

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

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites, including institutional pension funds, other REITs and other owner-operators of retail properties. Given the current economic, capital market and retail industry conditions, however, there has been substantially less acquisition activity in recent quarters. When we seek to make acquisitions, these competitors might drive up the price we must pay for properties, parcels, other assets or other companies, or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition, and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay higher price for a property, or generate lower cash flow from an acquired property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

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

Acquisitions of retail properties have been an important component of our growth strategy. However, given the current economic, capital market and retail industry conditions, we expect our acquisition activities to be limited by the availability of debt or equity capital to fund such efforts. Expanding by acquisitions requires us to identify

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suitable acquisition candidates or investment opportunities that meet the criteria we apply, given economic, market or other circumstances, and that are compatible with our growth strategy. We must also typically obtain financing, and it must be on terms that are acceptable to us. See

Item 1A. Risk Factors Risks Related to Our Indebtedness and Our Financing. We analyze potential acquisitions on a property-by-property and market-by-market basis. We might not be successful in identifying suitable properties or other assets in our existing geographic markets or in markets new to us that meet the acquisition criteria we apply, given economic, market or other circumstances, in financing such properties or other assets or in consummating acquisitions or investments on satisfactory terms. An inability to identify or consummate acquisitions could reduce the number of acquisitions we complete and impede our growth, which could adversely affect our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

### **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.**



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Our future success depends, to a meaningful extent, upon the continued services of Ronald Rubin, our chairman and chief executive officer, and the services of our corporate management team (including the four-person Office of the Chairman that, in addition to Ronald Rubin, consists of George F. Rubin, Edward A. Glickman and Joseph F. Coradino). These executives have substantial experience in managing, developing and acquiring retail real estate. Although we have entered into employment agreements with Ronald Rubin and certain other members of

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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 \$5.0 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.

### **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, environmental matters and lease and contract claims, that are generally uninsurable or not economically insurable, or might be subject to insurance coverage limitations, such as large deductibles or co-payments. If one of these events occurred to, or caused the destruction of, one or more of our properties, we could lose both our invested capital and anticipated profits from that property. We also might remain obligated for any mortgage or other financial obligation related to the property. In addition, if we are unable to obtain insurance in the future at acceptable levels and at a reasonable cost, the possibility of losses in excess of our insurance coverage might increase and we might not be able to comply with covenants under our debt agreements, which could adversely affect our financial condition. If any of our properties were to experience a significant, uninsured loss, it could seriously disrupt our operations, delay our receipt of revenue and result in large expense to repair or rebuild the property. These types of events could adversely affect our cash flow, results of operations 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 or toxic substances. The responsible party also might be liable to the government or to third parties for substantial property damage, investigation costs and clean up costs. Even if more than one person might have been responsible for the contamination, each person covered by the environmental laws might be held responsible for all of the clean-up costs incurred. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. In connection with our ownership, operation, management, development and redevelopment of properties, or any other properties we acquire in the future, we might be liable under these laws and might incur costs in responding to these liabilities, which could have an adverse effect on our results of operations. See Item 1. Business Environmental. Contamination might also adversely affect our ability to sell or lease real estate or borrow with real estate as collateral.

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

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

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**RISKS RELATED TO THE REAL ESTATE INDUSTRY**

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

Our business focuses on retail real estate, predominantly malls and strip and power centers. As such, we are subject to certain risks that can affect the ability of our retail properties to generate sufficient revenue to meet our operating and other expenses, including debt service, to make capital expenditures and to make distributions to our shareholders. Currently, we face significant challenges because the downturn in the overall economy and the disruptions in the financial markets have reduced consumer confidence and negatively affected consumer spending on retail goods. In general, a number of factors can affect the income generated by a retail property, or the value of a property, including a downturn in the national, regional or local economy or consumer confidence or spending, which could result from plant closings, local industry slowdowns, higher energy or fuel costs, adverse weather conditions, natural disasters, terrorist activities and other factors, which tend to reduce consumer spending on retail goods; a weakening of local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants; trends in the retail industry; seasonality; changes in perceptions by retailers or shoppers of the safety, convenience and attractiveness of a retail property; changes in operating costs, such as real estate taxes, utility rates and insurance premiums; perceived changes in the convenience and quality of competing retail properties and other retailing options such as internet retailers; changes in laws and regulations applicable to real property, including tax and zoning laws; and changes in interest rate levels and the cost and availability of financing. Changes in one or more of these factors can lead to a decrease in the revenue generated by our properties and can have a material adverse effect on our financial condition and results of operations.

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

Substantially all of our assets consist of investments in real properties. Because real estate investments are relatively illiquid, our ability to quickly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited, particularly given current economic, capital market and retail industry conditions. 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. In addition, current economic and capital market conditions might make it more difficult for us to sell properties or might adversely affect the price we receive for properties that we do sell, as prospective buyers might experience increased costs of debt financing or other difficulties in obtaining debt financing.

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

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

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

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and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of our new or redeveloped properties, and limit our access to capital or increase our cost of raising capital.

### **RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE**

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

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

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

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

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

- (2) *Our trust agreement permits our Board of Trustees to issue preferred shares with terms that might discourage a third party from acquiring our Company.* Our trust agreement permits our Board of Trustees to create and issue multiple classes and series of preferred shares, and classes and series of preferred shares having preferences to the existing shares on any matter, without a vote of shareholders, including preferences in rights in liquidation or to dividends and option rights, and other securities having conversion or option rights. Also, the Board might authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of our shares. Our trust agreement further provides that the terms of such rights or other securities might provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or other securities could have the effect of discouraging, delaying or preventing a change in control over us, even if a change in control were in our shareholders' interest or would give the shareholders the opportunity to realize a premium over the then-prevailing market price of our securities.
- (3) *Advance Notice Requirements for Shareholder Nominations of Trustees.* Our advance notice procedures with regard to shareholder proposals relating to the nomination of candidates for election as trustees require advance written notice of any such proposals, containing prescribed information, to be given to our Secretary at our principal executive offices not less than 90 days nor more than 120 days prior to the anniversary date of the prior year's meeting (or within 10 business days of the day notice is given of the annual meeting date, if the annual meeting date is not within 30 days of the anniversary date of the immediately preceding annual meeting).

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

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

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

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

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

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

## **RISKS RELATING TO OUR SECURITIES**

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

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

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

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

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

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

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

Relatively low trading volumes in securities of REITs.

Our results of operations and financial condition.

Investor confidence in the stock market generally.

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

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

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

**A recent accounting rule change for certain convertible debt instruments increases significantly the non-cash interest expense associated with our outstanding Exchangeable Notes and adversely affects our results of operations.**

In May 2008, the Financial Accounting Standards Board ( FASB ) issued a new FASB Staff Position ( FSP ) that affects the accounting treatment for convertible debt instruments, such as our outstanding Exchangeable Notes, that may be settled wholly or partly in cash. The FSP requires that instruments within its scope be separated into their liability and equity components at initial recognition by recording the liability component at the fair value of a similar liability that does not have an associated equity component, and attributing the remaining proceeds from issuance to the equity component. The excess of the principal amount of the liability component over its initial fair value is then be required to be amortized to interest expense using the interest method. The FSP became effective January 1, 2009. We expect an increase in our non-cash interest expense associated with our Exchangeable Notes that were issued in May 2007, including non-cash interest expense for prior periods as a result of its retrospective application. The Exchangeable Notes had \$241.0 million aggregate principal amount outstanding as of December 31, 2008.

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### **TAX RISKS**

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

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

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

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

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

### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

### **ITEM 2. PROPERTIES.**

#### **RETAIL PROPERTIES**

As of December 31, 2008, we owned interests in 52 operating retail properties containing an aggregate of approximately 34.6 million square feet (including space owned by anchors). As of December 31, 2008, we and partnerships in which we own an interest owned approximately 26.5 million square feet of space at the 52 operating retail properties. PREIT Services currently manages 46 of these properties, 45 of which we consolidate for financial reporting purposes, and one that is owned by a partnership in which we hold a 50% interest. PRI co-manages one property, which is owned by a partnership that is not wholly owned by us. The remaining five properties are also owned by partnerships that are not wholly owned by us and are managed by our partners, or by an entity we or our partners designated.

Total occupancy in our consolidated malls, including only space we own, was 89.6% as of December 31, 2008. In-line occupancy in our consolidated malls was 86.5% as of that date, and occupancy in our consolidated strip and power centers was 99.4% as of that date.

Total occupancy in our unconsolidated malls, including only space owned by the partnerships in which we own an interest, was 91.8% as of December 31, 2008. In-line occupancy in our unconsolidated malls was 89.6% as of that date, and occupancy in our unconsolidated strip and power centers was 95.6% as of that date.

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Total occupancy in all of our malls, including only space we and partnerships in which we own an interest own, was 89.7% as of December 31, 2008. In-line occupancy in all of our malls was 86.7% as of that date, and occupancy in all of our strip and power centers was 97.6% as of that date.



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

The following tables present information regarding our retail properties as of December 31, 2008. We refer to the total retail space of these properties, including anchors and in-line stores, as Total Square Feet, and the portion that we own as Owned Square Feet.

**Consolidated Retail Properties**

Property/Location <sup>(1)</sup>	Ownership Interest	Total Square Feet <sup>(2)</sup>	Owned Square Feet <sup>(3)</sup>	Year Built / Last Renovated	% of Owned Square Feet Leased <sup>(4)</sup>	Anchors /Major Tenants <sup>(5)</sup>
<b><u>MALLS</u></b>						
Beaver Valley Mall	100%	1,160,689	955,919	1970/1991	93.4%	Boscov's
Monaca, PA						JCPenney
						Macy's
						Sears
Capital City Mall	100%	608,911	488,911	1974/2005	98.3%	JCPenney
Camp Hill, PA						Macy's
						Sears
Chambersburg Mall	100%	454,350	454,350	1982	83.7%	Bon-Ton
Chambersburg, PA						Burlington Coat Factory
						JCPenney
						Sears
Cherry Hill Mall	100%	1,036,832	557,947	1961/1990	90.0%	Container Store
Cherry Hill, NJ						Crate and Barrel
						JCPenney
						Macy's
Crossroads Mall <sup>(6)</sup>	100%	451,776	451,776	1981	88.7%	Belk
Beckley, WV						JCPenney
						Sears
Cumberland Mall	100%	942,203	668,973	1973/2003	82.0%	Best Buy
Vineland, NJ						Boscov's
						BJ's

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						Home Depot
Dartmouth Mall	100%	671,081	531,081	1971/2000	97.4%	JCPenney JCPenney
Dartmouth, MA						Macy's
Exton Square Mall <sup>(6)</sup>	100%	1,086,892	809,424	1973/2000	92.6%	Sears Boscov's
Exton, PA						JCPenney K-Mart Macy's
Francis Scott Key Mall	100%	706,195	566,862	1978/1991	93.2%	Sears Barnes & Noble
Frederick, MD						JCPenney Macy's Sears
Gadsden Mall	100%	504,194	504,194	1974/1990	91.3%	Value City Furniture Belk
Gadsden, AL						JCPenney
The Gallery at Market East <sup>(6)(7)</sup>	100%	852,633	852,633	1977/1990	52.6%	Sears Burlington Coat Factory
Philadelphia, PA						

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Property/Location <sup>(1)</sup>	Ownership Interest	Total Square Feet <sup>(2)</sup>	Ow ned Square Feet <sup>(3)</sup>	Year Built / Last Renovated	% of Owned Square Feet Leased <sup>(4)</sup>	Anchors /Major Tenants <sup>(5)</sup>
Jacksonville Mall	100%	489,575	489,575	1981/2008	98.2%	Belk
Jacksonville, NC						JCPenney
						Sears
Logan Valley Mall	100%	778,385	778,385	1960/1997	96.7%	JCPenney
Altoona, PA						Macy s
						Sears
Lycoming Mall	100%	835,238	715,238	1978/2007	97.2%	Best Buy
Pennsdale, PA						Bon-Ton
						Borders
						Burlington Coat Factory
						Dick s Sporting Goods
						JCPenney
						Macy s <sup>(8)</sup>
						Sears
Magnolia Mall	100%	621,133	621,133	1979/2007	97.1%	Belk
Florence, SC						Best Buy
						Dick s Sporting Goods
						JCPenney
						Sears
Moorestown Mall	100%	1,061,996	740,796	1963/2008	89.4%	Boscov s
Moorestown, NJ						Lord & Taylor
						Macy s
						Sears
New River Valley Mall	100%	440,265	440,265	1988/2007	97.1%	Belk
Christiansburg, VA						Dick s Sporting Goods
						JCPenney
						Regal Cinemas

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Nittany Mall	100%	532,160	437,160	1968/1990	94.3%	Sears Bon-Ton
State College, PA						JCPenney Macy's <sup>(8)</sup>
North Hanover Mall	100%	365,216	365,216	1967/1999	92.6%	Sears Dick's Sporting Goods
Hanover, PA						JCPenney
Orlando Fashion Square <sup>(6)</sup>	100%	1,081,430	925,854	1973/2003	91.0%	Sears Dillard's
Orlando, FL						JCPenney Macy's
Palmer Park Mall	100%	457,694	457,694	1972	96.7%	Sears Bon-Ton
Easton, PA						Boscov's
Patrick Henry Mall	100%	714,830	574,830	1988/2005	97.2%	Borders
Newport News, VA						Dick's Sporting Goods Dillard's JCPenney
Phillipsburg Mall	100%	578,925	578,925	1989/2003	91.4%	Macy's Bon-Ton
Phillipsburg, NJ						JCPenney Kohl's Sears

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Plymouth Meeting Mall <sup>(6)</sup>	100%	862,652	648,017	1966/1999	82.4%	AMC Theater
Plymouth Meeting, PA						Boscov's
						Macy's
The Mall at Prince Georges	100%	913,968	913,968	1959/2004	96.7%	JCPenney
Hyattsville, MD						Macy's
						Marshalls
						Ross Dress for Less
						Target
South Mall	100%	405,233	405,233	1975/1992	91.3%	Bon-Ton
Allentown, PA						Stein Mart
Uniontown Mall <sup>(6)</sup>	100%	698,164	698,164	1972/1990	94.2%	Bon-Ton
Uniontown, PA						Burlington Coat Factory
						JCPenney
						Roomful Express Furn.
						Sears
						Teletch Customer Care
Valley Mall	100%	905,698	662,298	1974/1999	98.2%	Bon-Ton
Hagerstown, MD						JCPenney
						Macy's
						Sears
Valley View Mall	100%	598,171	343,575	1980/2001	93.2%	Barnes & Noble
La Crosse, WI						Herberger's
						JCPenney
						Macy's
						Sears
Viewmont Mall	100%	747,194	627,194	1968/2006	97.9%	JCPenney
Scranton, PA						Macy's
						Sears
Voorhees Town Center <sup>(6)</sup>	100%	665,867	269,084	1970/2007	67.4%	Boscov's
Voorhees, NJ						Macy's
Washington Crown Center	100%	676,136	536,041	1969/1999	85.5%	Bon-Ton

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Washington, PA							Gander Mountain
							Macy's
							Sears
Willow Grove Park <sup>(7)</sup>	100%	1,202,272	789,151	1982/2001	70.1%		Bloomingdale's
Willow Grove, PA							The Cheesecake Factory
							Macy's
							Sears
Wiregrass Commons	100%	638,554	306,402	1986/2008	57.9%		Belk
Dothan, AL							Dillard's
							JCPenney
Woodland Mall	100%	1,189,363	464,177	1968/1998	90.3%		Apple
Grand Rapids, MI							JCPenney
							Kohl's
							Macy's
							Sears
Wyoming Valley Mall	100%	915,739	915,739	1971/2006	91.4%		Bon-Ton
Wilkes-Barre, PA							JCPenney
							Macy's
							Sears

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**POWER CENTERS**

Christiana Center	100%	302,409	302,409	1998	98.8%	Costco
Newark, DE Creekview	100%	425,002	136,086	2001	100.0%	Dick's Sporting Goods Genuardi's
Warrington, PA						Lowes Target
Monroe Marketplace	100%	374,972	248,130	2008	100.0%	Bed, Bath & Beyond
Selinsgrove, PA						Best Buy Dick's Sporting Goods Giant Food Store Kohl's Target
New River Valley Center	100%	165,248	165,248	2007	100.0%	Bed, Bath & Beyond
Christiansburg, VA						Best Buy Staples
Northeast Tower Center	100%	476,149	300,838	1997	100.0%	Home Depot
Philadelphia, PA						Raymour & Flanigan Wal-Mart
Paxton Towne Centre	100%	717,518	444,460	2001	100.0%	Costco
Harrisburg, PA						Kohl's Target Weis Markets
Sunrise Plaza	100%	235,974	235,974	2007	98.1%	Home Depot
Forked River, NJ						Kohl's
<b><u>STRIP CENTERS</u></b>						
Crest Plaza	100%	257,048	113,918	1959/2003	100.0%	Target
Allentown, PA The Commons at Magnolia	100%	232,794	106,594	1991/2002	95.6%	Weis Market Bed, Bath & Beyond
Florence, SC						Goody's Target
Total	100%	30,038,728	23,599,841		90.5%	

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- (1) The location stated is the major city or town nearest to the property and is not necessarily the local jurisdiction in which the property is located.
- (2) Total square feet includes space owned by us and space owned by tenants or other lessors.
- (3) Owned square feet includes only space owned by us and excludes space owned by tenants or other lessors.
- (4) Percentage of owned square feet leased is calculated based only on space owned by us and excludes space owned by tenants or other lessors .
- (5) Includes anchors/major tenants that own their space or lease from lessors other than us and do not pay rent to us.
- (6) The underlying land at this property is subject to a ground lease.
- (7) The owned square feet for The Gallery at Market East and Willow Grove Park includes former Strawbridge s department store buildings that are currently vacant. These vacant department stores represent 38.5% and 27.7% of owned square feet for The Gallery at Market East and Willow Grove Park, respectively.
- (8) Tenant currently holds a long-term ground lease with an option to purchase the related store and parking area at a nominal purchase price. These locations are deemed owned by their anchor occupants as they only pay a nominal rent.



**Table of Contents****Unconsolidated Operating Properties**

<b>Property/Location <sup>(1)</sup></b>	<b>Ownership Interest</b>	<b>Total Square Feet<sup>(2)</sup></b>	<b>Owned Square Feet <sup>(3)</sup></b>	<b>Year Built / Last Renovated</b>	<b>% of Owned Square Feet Leased <sup>(4)</sup></b>	<b>anchors /Major Tenants <sup>(5)</sup></b>
<b><u>MALLS</u></b>						
Lehigh Valley Mall	50%	1,156,921	784,935	1960/1997	93.2%	Barnes & Noble
Allentown, PA						Boscov's JCPenney Macy's
Springfield Mall	50%	588,957	221,781	1974/1997	86.7%	Macy's
Springfield, PA						
<b><u>POWER CENTERS</u></b>						
Metroplex Shopping Center	50%	778,190	477,461	2001	100.0%	Giant Food Store
Plymouth Meeting, PA						Lowe's Target
The Court at Oxford Valley	50%	704,526	456,903	1996	98.3%	Best Buy
Langhorne, PA						BJ's Dick's Sporting Goods Home Depot
Red Rose Commons	50%	463,042	263,452	1998	99.9%	Home Depot
Lancaster, PA						Weis Markets
Whitehall Mall	50%	557,078	557,078	1964/1998	88.5%	Bed, Bath & Beyond
Allentown, PA						Kohl's Sears
<b><u>STRIP CENTERS</u></b>						
Springfield Park	50%	272,640	126,971	1997/1998	90.9%	Bed, Bath & Beyond
Springfield, PA						LA Fitness Target
<b>Total</b>		<b>4,521,354</b>	<b>2,888,581</b>		<b>94.3%</b>	

(1)

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

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

**Table of Contents****LARGE FORMAT RETAILERS AND ANCHORS**

Historically, large format retailers and anchors have been an important element of attracting customers to a mall, and they have generally been department stores whose merchandise appeals to a broad range of customers, although in recent years we have attracted some non-traditional large format retailers. These large format retailers and anchors either own their stores, the land under them and adjacent parking areas, or enter into long-term leases at rent that is generally lower than the rent charged to in-line tenants. Well-known, 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, 2008:

Tenant Name	# of Stores <sup>(1)</sup>	GLA <sup>(2)</sup>	% of GLA
Bed, Bath & Beyond	9	276,398	0.8%
Belk, Inc.	8	522,721	1.5%
Best Buy Co., Inc.			
Best Buy	7	230,401	
Best Buy Mobile	3	4,714	
Total Best Buy Co., Inc.	10	235,115	0.7%
BJ's Wholesale Club, Inc.	2	234,761	0.7%
The Bon-Ton Stores, Inc.			
Bon-Ton	13	1,008,613	
Herberger's	1	41,344	
Total The Bon-Ton Stores, Inc.	14	1,049,957	3.0%
Boscov's Department Stores	9	1,453,574	4.2%
Burlington Coat Factory	6	368,162	1.1%
Carmike Cinemas, Inc.	4	123,972	0.4%
Costco Wholesale Corporation	2	289,447	0.8%
Dick's Sporting Goods, Inc.	10	485,893	1.4%
Dillard's, Inc.	3	471,494	1.4%
Gander Mountain	1	83,835	0.2%
Giant Food Stores	2	146,685	0.4%
Hollywood Theaters, Inc.	1	54,073	0.2%
The Home Depot, Inc.	5	666,829	1.9%
J.C. Penney Company, Inc.	30	3,194,515	9.2%
Kohl's Corporation	6	486,571	1.4%
Lord & Taylor	1	121,200	0.4%
Lowe's Cos., Inc.	2	326,483	0.9%
Macy's, Inc.			
Bloomingdale's	1	237,537	
Macy's	25	4,047,291	
Total Macy's, Inc.	26	4,284,828	12.4%
Premier Cinema Corporation	1	51,412	0.1%
Regal Cinemas	3	151,566	0.4%
Sears Holding Corporation			
K-Mart	1	96,268	
Sears	29	3,581,967	
Total Sears Holding Corporation	30	3,678,235	10.6%
Target Corporation	9	1,239,790	3.6%
Teletech Customer Care Management	1	64,964	0.2%
Wal-Mart Stores, Inc.	1	128,557	0.4%

Weis Markets, Inc.	3	183,520	0.5%
	<b>199</b>	<b>20,374,557</b>	<b>59.0%</b>

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- (1) To qualify as a large format retailer or an anchor for inclusion in this table, a tenant must occupy at least 50,000 square feet or be part of a chain that has store formats in our portfolio of at least 50,000 square feet. This table lists all stores from such chains, regardless of the size of the individual stores.
- (2) Includes anchors that own their own space or lease from lessors other than us and do not pay rent to us.

**MAJOR TENANTS**

The following table presents information regarding the top 20 tenants at our retail properties, including those properties that are wholly-owned and those that are owned by partnerships, by annualized base rent as of December 31, 2008:

Primary Tenant <sup>(1)</sup>	Fixed Rent (Number of Stores)	Percentage Rent or Common Area Costs In Lieu of Fixed Rent (Number of Stores)	Total Stores	GLA of Stores Leased	Annualized Base Rent <sup>(2)</sup>
Gap, Inc.	46	7	53	659,885	\$ 12,637
Foot Locker, Inc.	73	4	77	390,244	8,630
J.C. Penney Company, Inc.	24	6	30	3,194,515	7,596
Limited Brands, Inc.	57	15	72	322,099	7,410
American Eagle Outfitters, Inc.	42	1	43	225,699	6,362
Zale Corporation	78	1	79	61,547	5,585
Dick's Sporting Goods, Inc.	9	1	10	485,893	5,475
Sears Holding Corporation	24	6	30	3,678,235	5,445
Sterling Jewelers, Inc.	44	0	44	67,216	5,068
Luxottica Group S.p.A.	53	1	54	126,246	4,163
Best Buy Co., Inc.	10	0	10	235,115	4,044
Regis Corporation	100	0	100	124,129	3,809
Abercrombie & Fitch Co.	19	0	19	130,211	3,775
Golden Gate Private Equity <sup>(3)</sup>	15	2	17	152,457	3,687
Hallmark Cards, Inc.	40	5	45	179,801	3,622
Transworld Entertainment Corp.	31	3	34	156,563	3,483
Borders Group, Inc.	25	4	29	213,654	3,464
Genesco Inc.	59	0	59	73,907	3,195
Aeropostale, Inc.	34	1	35	120,456	3,084
Pacific Sunwear of California	30	4	34	124,698	3,027
<b>Total</b>	<b>813</b>	<b>61</b>	<b>874</b>	<b>10,722,570</b>	<b>\$ 103,561</b>

(1) Tenant includes all brands and concepts of the tenant.

(2) Includes our proportionate share of tenant rent (in thousands of dollars) from partnership properties based on our ownership percentage in the respective partnerships.

(3) Includes 17 Express stores.

**Table of Contents****RETAIL LEASE EXPIRATION SCHEDULE NON-ANCHORS**

The following table presents scheduled lease expirations of non-anchor tenants of December 31, 2008 (includes leases with tenants that have filed for bankruptcy protection, depending on the current status of the lease):

For the Year Ending December 31,	Number of Leases Expiring	Approximate GLA of Expiring Leases <sup>(1)</sup>	Annualized Base Rent of Expiring Leases <sup>(2)</sup>	Average Expiring Base Rent Per Square Foot	Percentage of Total Leased GLA Represented by Expiring Leases
2008 and Prior <sup>(3)</sup>	248	680,903	\$ 15,389	\$ 22.60	5.4%
2009	425	1,027,698	24,089	23.44	8.1%
2010	486	1,745,050	37,258	21.35	13.8%
2011	498	1,737,060	39,657	22.83	13.8%
2012	304	1,165,326	27,642	23.72	9.2%
2013	259	885,369	19,985	22.57	7.0%
2014	164	627,022	14,162	22.59	5.0%
2015	173	744,939	17,713	23.78	5.9%
2016	234	1,031,763	26,159	25.35	8.2%
2017	194	852,082	21,582	25.33	6.8%
2018	190	953,907	23,709	24.85	7.6%
Thereafter	91	1,159,766	19,920	17.18	9.2%
<b>Total/Average</b>	<b>3,266</b>	<b>12,610,885</b>	<b>\$ 287,264</b>	<b>\$ 22.78</b>	<b>100.0%</b>

(1) Includes 177, 929 square feet for tenants that had filed for bankruptcy protection as of December 31, 2008 and have not yet assumed or rejected the original leases.

(2) Includes our proportionate share of tenant rent (in thousands of dollars) from partnership properties that are not consolidated by us based on our ownership percentage in the respective partnerships. Annualized base rent is calculated based only on fixed monthly rent as of December 31, 2008.

(3) Includes all tenant leases that had expired and were on a month-to-month basis as of December 31, 2008.

**RETAIL LEASE EXPIRATION SCHEDULE ANCHORS**

The following table presents scheduled lease expirations of anchor tenants as of December 31, 2008 (includes leases with tenants that have filed for bankruptcy protection, depending on the current status of the lease):

Lease Expiration Year	Number of Leases Expiring	Approximate GLA of Expiring Leases <sup>(1)</sup>	Annualized Base Rent of Expiring Leases <sup>(2)</sup>	Average Expiring Minimum Rent psf	Percentage of Total Leased GLA Represented by Expiring Leases
2009	5	417,763	\$ 1,174	\$ 2.81	3.6%
2010	18	1,682,171	4,867	2.89	14.4%
2011	22	1,843,899	5,096	2.76	15.8%
2012	8	859,686	1,821	2.12	7.4%
2013	14	1,087,218	4,697	4.32	9.3%
2014	13	1,319,450	3,891	2.95	11.3%
2015	2	220,398	769	3.49	1.9%
2016	3	455,432	863	1.89	3.9%
2017	5	435,254	2,074	4.77	3.7%
2018	6	777,965	3,933	5.06	6.7%
Thereafter	25	2,556,394	10,114	3.96	22.0%

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<b>Total/Average</b>	<b>121</b>	<b>11,655,630</b>	<b>\$ 39,299</b>	<b>\$ 3.37</b>	<b>100.0%</b>
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- (1) Includes 54,096 square feet for a tenant that had filed for bankruptcy protection as of December 31, 2008 and has not assumed or rejected the lease.
- (2) Includes our proportionate share of tenant rent (in thousands of dollars) from partnership properties that are not consolidated by us based on our ownership percentage in the respective partnerships. Annualized base rent is calculated based only on fixed monthly rent as of December 31, 2008.

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**DEVELOPMENT PROPERTIES**

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

**OFFICE SPACE**

We lease our principal executive offices from Bellevue Associates, an entity in which certain of our officers/trustees have an interest. Our rented space under the office lease has a total of approximately 68,100 square feet. The term of the office lease is 10 years, and it commenced on November 1, 2004. We have the option to renew the lease for up to two additional five year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, we have the right on one occasion at any time during the seventh lease year to terminate the office lease upon the satisfaction of certain conditions. Effective June 1, 2004, our base rent is \$1.4 million per year during the first five years of the office lease and \$1.5 million per year during the second five years.

**ITEM 3. LEGAL PROCEEDINGS.**

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

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2008.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**Common Shares**

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



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

	High	Low	Dividend Paid
Quarter ended March 31, 2008	\$ 29.70	\$ 22.00	\$ 0.57
Quarter ended June 30, 2008	\$ 27.88	\$ 23.00	0.57
Quarter ended September 30, 2008	\$ 24.29	\$ 16.57	0.57
Quarter ended December 31, 2008	\$ 19.86	\$ 2.21	0.57
			\$ 2.28

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

As of December 31, 2008, there were approximately 3,500 holders of record of our common shares and approximately 19,000 beneficial holders of our common shares.

We currently anticipate that cash distributions will continue to be paid in March, June, September and December. In February 2009, our Board of Trustees declared a cash dividend of \$0.29 per share payable in March 2009. Our future payment of distributions will be at the discretion of our Board of Trustees and will depend on numerous factors, including our cash flow, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors that our Board of Trustees deems relevant.

**Units**

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

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

**Unregistered Offerings**

On or about October 23, 2008, December 18, 2008 and December 31, 2008, we issued 10,000, 17,405 and 10,000 common shares, respectively, in return for an equal amount of Class A Units. The shares were issued under exemptions provided by Section 4 (2) of the Securities Act of 1933 as transactions not involving a public offering.

**Issuer Purchases of Equity Securities**

The following table shows the total number of shares that we acquired in the fourth quarter of 2008 and the average price paid per share.



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<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as part of Publicly Announced Plans or Programs (1)</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
October 1 - October 31, 2008		\$		\$ 100,000,000
November 1 - November 30, 2008				\$ 100,000,000
December 1 - December 31, 2008				\$ 100,000,000
<b>Total</b>		\$		

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

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

The following table sets forth Selected Financial Data for the Company as of and for the years ended December 31, 2008, 2007, 2006, 2005, and 2004. The information set forth below should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform with the current year presentation.

(unaudited) (in thousands of dollars, except per share amounts)	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
<b>Operating Results:</b>					
Total revenue	\$ 474,080	\$ 466,572	\$ 459,308	\$ 428,875	\$ 401,135
Gains on sales of real estate - continuing operations	\$	\$ 2,310	\$ 5,495	\$ 10,111	\$ 1,484
(Loss) income from continuing operations	\$ (10,380)	\$ 17,283	\$ 28,729	\$ 49,191	\$ 46,345
Gains (adjustment to gains) on discontinued operations	\$	\$ 6,699	\$ 1,414	\$ 6,158	\$ (550)
Net (loss) income	\$ (10,380)	\$ 23,161	\$ 28,021	\$ 57,629	\$ 53,788
Dividends on preferred shares	\$	\$ (7,941)	\$ (13,613)	\$ (13,613)	\$ (13,613)
Net (loss allocable) income available to common shareholders	\$ (10,380)	\$ 28,567	\$ 14,408	\$ 44,016	\$ 40,175
(Loss) income from continuing operations per share - basic	\$ (0.30)	\$ 0.57	\$ 0.39	\$ 0.96	\$ 0.90
(Loss) income from continuing operations per share - diluted	\$ (0.30)	\$ 0.57	\$ 0.39	\$ 0.94	\$ 0.90
Net (loss) income per share - basic	\$ (0.30)	\$ 0.73	\$ 0.37	\$ 1.19	\$ 1.11
Net (loss) income per share - diluted	\$ (0.30)	\$ 0.73	\$ 0.37	\$ 1.17	\$ 1.10
<b>Balance sheet data:</b>					
Investments in real estate, at cost	\$ 3,708,048	\$ 3,367,294	\$ 3,132,370	\$ 2,867,436	\$ 2,533,576
Intangible assets, net	\$ 68,296	\$ 104,136	\$ 139,117	\$ 173,594	\$ 171,850
Total assets	\$ 3,444,277	\$ 3,264,074	\$ 3,145,609	\$ 3,018,547	\$ 2,731,403
Total debt, including debt premium	\$ 2,571,796	\$ 2,274,442	\$ 1,932,719	\$ 1,809,032	\$ 1,472,214
Minority interest	\$ 52,326	\$ 55,256	\$ 114,363	\$ 118,320	\$ 131,969
Shareholders' equity	\$ 634,516	\$ 757,619	\$ 929,300	\$ 976,876	\$ 1,004,466
<b>Other data:</b>					
Cash flows from operating activities	\$ 124,963	\$ 149,486	\$ 164,405	\$ 130,182	\$ 132,430
Cash used in investing activities	\$ (353,239)	\$ (242,377)	\$ (187,744)	\$ (326,442)	\$ (104,118)
Cash flows from (used in) financing activities	\$ 210,137	\$ 105,008	\$ 16,299	\$ 178,956	\$ (311,137)
Cash distributions per share - common	\$ 2.28	\$ 2.28	\$ 2.28	\$ 2.25	\$ 2.16

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

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

**OVERVIEW**

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity REITs in the United States, has a primary investment focus on retail shopping malls and strip and power centers located in the eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 56 properties in 13 states, including 38 shopping malls, 14 strip and power centers and four properties under development. The operating retail properties have a total of approximately 34.6 million square feet. The operating retail properties that we consolidate for financial reporting purposes have a total of approximately 30.1 million square feet, of which we own approximately 23.6 million square feet. The operating retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.5 million square feet, of which 2.9 million square feet are owned by such partnerships. The ground-up development portion of our portfolio contains four properties in two states, with two classified as mixed use (a combination of retail and other uses), one classified as retail and one classified as other.

Our primary business is owning and operating shopping malls and strip and power centers. We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate our consolidated operations on a geographic basis. No individual property constitutes more than 10% of our consolidated revenue or assets, and thus the individual properties have been aggregated into one reportable segment based upon their similarities with regard to the nature of our properties and the nature of our tenants and operational processes, as well as long-term financial performance. In addition, no single tenant accounts for 10% or more of our consolidated revenue, and none of our properties are located outside the United States.

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates, L.P. (PREIT Associates). We are the sole general partner of PREIT Associates and, as of December 31, 2008, held a 94.7% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 52 retail properties and one of the four ground-up development properties in our portfolio through unconsolidated partnerships with third parties in which we own a 40% to 50% interest. We hold a non-controlling interest in each unconsolidated partnership, and account for such partnerships using the equity method of accounting. We do not control any of these equity method investees for the following reasons:

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

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

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

Voting rights and the sharing of profits and losses are generally in proportion to the ownership percentages of each partner. We record the earnings from the unconsolidated partnerships using the equity method of accounting under the income statement caption entitled Equity in income of partnerships, rather than consolidating the results of the unconsolidated partnerships with our results. Changes in our investments in these entities are recorded in the balance sheet caption entitled Investment in partnerships, at equity. In the case of deficit investment balances, such amounts are recorded in Investments in partnerships, deficit balances.

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

We provide our management, leasing and real estate development services through PREIT Services, LLC, ( PREIT Services ) which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. ( PRI ), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties we own interests in through partnerships with third parties and properties that are owned by third parties in which we do not have an interest. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer an expanded menu of services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law. One of our long-term objectives is to obtain managerial control of as many of our assets as possible. Due to the nature of our existing partnership arrangements, we cannot anticipate when this objective will be achieved, if at all.

Our revenue consists primarily of fixed rental income, additional rent in the form of expense reimbursements, and percentage rent (rent that is based on a percentage of our tenants' sales or a percentage of sales in excess of thresholds that are specified in the leases) derived from our income producing retail properties. We also receive income from our real estate partnership investments and from the management and leasing services PRI provides.

Our net income available to common shareholders decreased by \$38.9 million to a net loss allocable to common shareholders of \$10.4 million for the year ended December 31, 2008 from net income available to common shareholders of \$28.6 million for the year ended December 31, 2007. The decrease was affected by challenging conditions in the economy, the impairment of assets, the impact of the preferred share redemption in 2007 noted below, the effects of ongoing redevelopment initiatives, increased depreciation and amortization as a result of development and redevelopment assets having been placed in service, increased interest expense as a result of a higher aggregate debt balance and increased property operating expenses compared to the year ended December 31, 2007. These decreases were offset by a gain on the extinguishment of debt in connection with a repurchase of a portion of our Exchangeable Notes outstanding.

Our net income available to common shareholders increased by \$14.2 million to \$28.6 million for the year ended December 31, 2007 from \$14.4 million for the year ended December 31, 2006. The increase in our net income resulted primarily from the \$13.3 million recorded in connection with our July 2007 redemption of our preferred shares, and a decrease in dividends paid on preferred shares as a result of the redemption. The preferred shares were issued in connection with our 2003 merger with Crown American Realty Trust and first became redeemable in July 2007. There were also higher gains on sales in 2007 than in 2006. Our net income was also affected by the changes to real estate revenue, property operating expenses, interest expense and depreciation and amortization expense resulting from the effect of new properties that we developed and began operating in 2007, and other properties that were in various stages of redevelopment in 2007 and 2006.

### **Current Economic Downturn, Our Capital Needs and Challenging Capital Markets Conditions**

The downturn in the overall economy and the recent disruptions in the financial markets have reduced consumer confidence and negatively affected consumer spending on retail goods, and have decreased the revenue generated by our properties. In addition, credit markets have recently experienced significant dislocations and liquidity disruptions. These circumstances have materially affected liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the limited availability or unavailability of certain types of debt financing.

Our capital strategy involves seeking the broadest range of funding sources (including commercial banks, institutional lenders, equity investors and joint venture partners) and funding vehicles (including mortgages, commercial loans and debt and equity securities) available to us on the most favorable terms. We pursue this goal by maintaining relationships with various capital sources and utilizing a variety of financing instruments. See Item 1. Business Capital Strategy. Subject to prevailing conditions in the real estate capital markets, we have attempted to place secured indebtedness on certain of our properties, and expect to continue to do so as opportunities arise. Executing this strategy has enabled us to leave a number of our other properties unencumbered. As we placed secured debt on certain of our properties, we have retained the cash flow from our other unencumbered assets.

We expect that our significant expenditures related to the redevelopment and development projects listed in this report will continue over the next several quarters. We expect that our construction in progress balance will peak in the first half of 2009. Construction in progress represents the aggregate expenditures on projects less

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amounts placed in service. Generally, assets are placed in service upon substantial completion or when tenants begin occupancy and rent payments commence. Additional debt could lead to debt ratios that approach or exceed the ratios permitted by our Credit Facility.

Given current economic, capital market and retail industry conditions, and in light of our need for additional capital to complete construction of our redevelopment projects and of the leverage covenant in our Credit Facility, we anticipate employing one or more of the following measures, among others, in order to fund our capital needs or to reduce our debt and decrease our leverage ratio: (i) deferring development and redevelopment projects or other selected capital expenditures, (ii) making selective sales of assets, including outparcels, that we do not believe meet the financial or strategic criteria we apply, given economic, market and other circumstances, (iii) obtaining secured or unsecured indebtedness, (iv) forming joint ventures with institutional partners, private equity investors or other REITs, (v) repaying or repurchasing our outstanding debt and (vi) issuing equity, when warranted.

Continued uncertainty in the credit markets might negatively affect our ability to access additional debt financing on terms acceptable to us, or at all, which might negatively affect our ability to fund our redevelopment and development projects and other business initiatives. A prolonged downturn in the credit markets might cause us to seek alternative sources of financing, which could be less attractive and might require us to adjust our business plan accordingly. In addition, these factors might make it more difficult for us to sell properties or outparcels or might adversely affect the price we receive for properties that we do sell, as prospective buyers might experience increased costs of debt financing or difficulties in obtaining debt financing. Events in the credit markets have also had an adverse effect on other financial markets in the United States, which might make it more difficult or costly for us to raise capital through the issuance of equity. See Item 1A. Risk Factors Risks Related to Our Indebtedness and Our Financing.

### 2008 Acquisitions

In February 2008, we acquired a 49.9% ownership interest in Bala Cynwyd Associates, L.P. See Related Party Transactions for further information about this transaction.

In July 2008, we acquired a parcel in Lancaster, Pennsylvania for \$8.0 million plus customary closing costs. We intend to develop this parcel into a 227,000 square foot power center that we have named Pitney Road Plaza.

### 2007 Acquisitions

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

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

### 2006 Acquisitions

In February 2006, we acquired 540 acres of land in Gainesville, Florida for \$21.5 million, including closing costs. The acquired parcels are collectively known as Springhills.

In separate transactions from June 2006 to October 2006, we acquired the former Strawbridge's department store buildings at Cherry Hill Mall, Willow Grove Park and The Gallery at Market East from Federated Department Stores, Inc. (now named Macy's, Inc.) following its merger with The May Department Stores Company for an aggregate purchase price of \$58.0 million.

In connection with our merger (the Merger) with Crown American Realty Trust (Crown) in 2003, Crown's former operating partnership retained an 11% interest in the capital and 1% interest in the profits of two partnerships that owned or ground leased 12 shopping malls. This retained interest was subject to a put-call arrangement between Crown's former operating partnership and us. Pursuant to this arrangement, we had the right to require Crown's former operating partnership to contribute the retained interest to us following the 36th month after the closing of the Merger (i.e., after November 20, 2006) in exchange for 341,297 additional units in PREIT

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Associates ( OP Units ). We acquired these interests in December 2006. The value of the units issued was \$13.4 million. As of the closing date of the transaction, Mark E. Pasquerilla, who was elected a trustee of the Company following the Merger, and his affiliates had an interest in Crown s former operating partnership.

### 2007 Dispositions

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

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

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

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

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

### 2006 Dispositions

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

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

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

### Valley View Downs

In September 2008, we entered into an Amendment Agreement with Valley View Downs, LP ( Valley View ) and Centaur Pennsylvania, LLC ( Centaur ) with respect to the development of a proposed harness racetrack and casino in western Pennsylvania (the Project ) to be owned and operated by Valley View.

The Amendment Agreement amends the terms of the Binding Memorandum of Understanding dated October 7, 2004, as amended by Amendment No. 1 to the Binding Memorandum of Understanding dated October 1, 2007, among us, Valley View and Centaur (the MOU ).

Pursuant to the Amendment Agreement, we will permit Centaur and Valley View to suspend any payments to us otherwise required by the MOU and the related development agreement until September 30, 2010. If there is a sale or other disposition by Valley View and Centaur of all or substantially all of their economic interest in the Project on or prior to September 30, 2010, we and Valley View have agreed (i) that we will accept a cash payment of \$13.0 million to us in satisfaction of the obligations of Valley View to us under the MOU and development agreement, and (ii) upon such payment, the MOU and the development agreement will be terminated. If a disposition and payment do not occur on or prior to September 30, 2010, the obligations of Centaur and Valley View to make the payments to us required by the MOU and development agreement will be reinstated. In the fourth quarter of 2008, we recorded a \$3.0 million impairment charge against the amounts we have spent in connection with the MOU and the fees that we earned under the development agreement. The decision was made following a downgrade in Centaur s credit rating by major rating agencies, which caused us to conclude that there is significant uncertainty that we will recover the carrying amounts of the accounts receivable and the original investment associated with this project.



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Valley View has obtained a harness racing license for the proposed racetrack and has applied for a license to operate a casino, but has advised us of the prospect of the sale or other disposition of its economic interest in the Project.

**Development and Redevelopment**

In 2008, we substantially completed our redevelopment work at Moorestown Mall in Moorestown, New Jersey and Jacksonville Mall in Jacksonville, North Carolina. We reached further milestones on the continuing redevelopment projects at several of the malls in our portfolio, including three of our largest projects: Cherry Hill Mall in Cherry Hill, New Jersey, Plymouth Meeting Mall in Plymouth Meeting, Pennsylvania and Voorhees Town Center in Voorhees, New Jersey.

In 2008, our redevelopment plans for Willow Grove Park in Willow Grove, Pennsylvania and North Hanover Mall in Hanover, Pennsylvania changed following the termination of agreements to open Boscov's stores at those two properties. The agreements were terminated following the August 2008 Chapter 11 bankruptcy filing of that anchor tenant. We are currently reviewing the alternatives for an appropriate way to utilize the vacant anchor space.

The following table sets forth the amount of the currently estimated project cost and the amount invested as of December 31, 2008 for each ongoing redevelopment project:

<b>Redevelopment Project</b>	<b>Estimated Project Cost</b>	<b>Invested as of December 31, 2008</b>
Cherry Hill Mall	\$ 218.0 million	\$ 172.4 million
Plymouth Meeting Mall	96.6 million	81.9 million
Voorhees Town Center	83.0 million	60.2 million
The Gallery at Market East	81.6 million	57.7 million
Wiregrass Commons Mall	12.8 million	10.2 million
		\$ 382.4 million

We are engaged in the ground-up development of four retail and other mixed use projects that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. We also own and manage two properties that are now operating while some remaining development takes place. As of December 31, 2008, we had incurred \$177.7 million of costs related to six projects (including Monroe Marketplace and Sunrise Plaza, which are operating but still under construction, and not including the effects of impairments totaling \$18.8 million). The additional costs identified to date to complete Pitney Road Plaza are estimated to be \$11.3 million in the aggregate (including costs already incurred). The details of the White Clay Point, Springhills and Pavilion at Market East projects and related costs have not been determined. In each case, we will evaluate the financing opportunities available to us at the time a project requires funding. In cases where the project is undertaken with a partner, our flexibility in funding the project might be governed by the partnership agreement or the covenants contained in our Credit Facility, which limit our involvement in such projects.

We generally seek to develop these projects in areas that we believe evidence the likelihood of supporting additional retail development and have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We will consider other uses of a property that would have synergies with our retail development and redevelopment based on several factors, including local demographics, market demand for other uses such as residential and office, and applicable land use regulations. We generally have several development projects under way at one time. These projects are typically in various stages of the development process. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing. We monitor our developments closely, including costs and tenant interest.

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The following table sets forth the amount of our intended investment and the amounts invested as of December 31, 2008 in each on-going ground-up development project:

Development Project	Estimated Project Cost	Invested as of December 31, 2008	Actual/Expected Initial Occupancy Date
<b>Operating Properties:</b>			
Monroe Marketplace	\$ 58.9 million	\$ 56.0 million	2008
Sunrise Plaza (previously identified as Lacey Retail Center) <sup>(1)</sup>	39.9 million	37.0 million	2007
<b>Development Properties:</b>			
Pitney Road Plaza	20.3 million	9.0 million	2009
White Clay Point (previously identified as New Garden Town Center) <sup>(2)</sup>	To be determined	42.8 million	To be determined
Springhills	To be determined	31.4 million	To be determined
Pavilion at Market East <sup>(3)</sup>	To be determined	1.5 million	To be determined
		<b>\$ 177.7 million</b>	

<sup>(1)</sup> Amount invested as of December 31, 2008 does not reflect a \$7.0 million impairment charge that we recorded in 2008. See the notes to our consolidated financial statements for further discussion of this charge.

<sup>(2)</sup> Amount invested as of December 31, 2008 does not reflect a \$11.8 million impairment charge that we recorded in 2008. See the notes to our consolidated financial statements for further discussion of this charge.

<sup>(3)</sup> The property is unconsolidated. The amount shown represents our share.

In connection with our current ground-up development and our redevelopment projects, we have made contractual and other commitments on these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of December 31, 2008, the unaccrued remainder to be paid against these contractual and other commitments was \$86.7 million, which is expected to be financed through our Credit Facility or through various other capital sources. The projects on which these commitments have been made have total expected remaining costs of \$151.7 million.

**OFF BALANCE SHEET ARRANGEMENTS**

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

**RELATED PARTY TRANSACTIONS**General

PRI provides management, leasing and development services for ten properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have indirect ownership interests. Total revenue earned by PRI for such services was \$1.0 million, \$0.9 million and \$0.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, \$0.3 million was due from the property-owning partnerships to PRI. Of this amount, approximately \$0.2 million was collected subsequent to December 31, 2008.

We lease our principal executive offices from Bellevue Associates (the Landlord), an entity in which certain of our officers/trustees have an interest. Total rent expense under this lease was \$1.6 million, \$1.6 million and \$1.5 million for the years ended December 31, 2008, 2007, and 2006, respectively. Ronald Ruben and George F. Ruben, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. We have the option to renew the lease for up to two additional five-year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. In addition, we have the right on one occasion at any time during the seventh lease year to terminate the office lease upon the satisfaction of certain conditions. Effective June 1, 2004, our base rent is \$1.4 million per year during the first five years of the office lease and \$1.5 million per year during the second five years.

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We use an airplane in which Ronald Rubin owns a fractional interest. We paid \$174,000, \$35,000 and \$38,000 in the years ended December 31, 2008, 2007 and 2006, respectively, for flight time used by employees exclusively for Company-related business.

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As of December 31, 2008, nine of our officers had employment agreements with terms of one year that renew automatically for additional one-year terms. Their previous employment agreements provided for aggregate base compensation for the year ended December 31, 2008 of \$3.4 million, subject to increases as approved by our compensation committee in future years, as well as additional incentive compensation.

We have agreed to provide tax protection related to its acquisition of Cumberland Mall Associates and New Castle Associates to the prior owners of Cumberland Mall Associates and New Castle Associates, respectively, for a period of eight years following the respective closings. Ronald Rubin and George F. Rubin are beneficiaries of these tax protection agreements.

Bala Cynwyd Associates, L.P.

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

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

Ronald Rubin, George Rubin, Joseph Coradino and two other individuals (collectively, the Individuals ) own 100% of a limited partnership that owned 50% of the partnership interests in BCA immediately prior to closing. Immediately prior to closing, BCA redeemed the other 50% of the partnership interest, which was held by a third party. At the initial closing in February 2008 under the Contribution Agreement and in exchange for a 0.1% general partner interest and 49.8% limited partner interest in BCA, we made a \$3.9 million capital contribution to BCA. A second closing is expected to take place in March 2009 pursuant to a put/call arrangement, at which time we will acquire an additional 49.9% of the limited partner interest in BCA for \$0.2 million in cash and OP Units valued in the first quarter of 2008 at approximately \$3.6 million. A third closing is expected to occur pursuant to a put/call arrangement approximately one year after the second closing, at which time we will acquire the remaining interest in BCA for a nominal amount.

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

As part of the BCA transaction, we and PREIT Associates have agreed to indemnify the Individuals from and against certain tax liabilities resulting from a sale of the office building that was involved in the BCA transaction during the eight years following the initial closing.

Subsequent to the first closing, PRI entered into a management agreement with BCA for the management of the Office Building.

## Crown

In connection with the Merger, Crown s former operating partnership retained an 11% interest in the capital and a 1% interest in the profits of two partnerships that owned or ground leased 12 shopping malls. The retained interests were subject to a put-call arrangement between Crown s former operating partnership and us. Pursuant to this arrangement, we had the right to require Crown s former operating partnership to contribute the retained interest to us following the 36th month after the closing of the Merger (i.e., after November 20, 2006), in exchange for 341,297 OP Units. We acquired these interests in December 2006. The value of the OP Units at closing was \$13.4 million. As of the closing date of the transaction, Mark E. Pasquerilla, who was elected a trustee of the Company following the Merger, and his affiliates had an interest in Crown s former operating partnership.

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

In connection with the Merger, we entered into a tax protection agreement with Mark E. Pasquerilla (one of our trustees) and entities affiliated with Mr. Pasquerilla (the Pasquerilla Group). Under this tax protection agreement, we agreed not to dispose of certain protected properties acquired in the Merger in a taxable transaction until November 20, 2011 or, if earlier, until the Pasquerilla Group collectively owns less than 25% of the aggregate of the shares and OP Units that they acquired in the Merger. If we were to sell any of the protected properties during the first five years of the protection period, we would owe the Pasquerilla Group an amount equal to the sum of the hypothetical tax owed by the Pasquerilla Group, plus an amount intended to make the Pasquerilla Group whole for taxes that may be due upon receipt of such payments. From the end of the first five years through the end of the tax protection period, the payments are intended to compensate the affected parties for interest expense incurred on amounts borrowed to pay the taxes incurred on the sale. We paid \$2,000 and \$8,000, to the Pasquerilla Group in 2008 and 2007 pursuant to this agreement, respectively.

### **Executive Separation**

In 2006, we announced the retirement of Jonathan B. Weller, a Vice Chairman of the Company. In connection with Mr. Weller's retirement, we entered into a Separation of Employment Agreement and General Release (the Separation Agreement) with Mr. Weller. Pursuant to the Separation Agreement, Mr. Weller also retired from our Board of Trustees and the Amended and Restated Employment Agreement by and between us and Mr. Weller dated as of January 1, 2004 was terminated. We recorded an expense of \$4.0 million in connection with Mr. Weller's separation from the Company. The expense included executive separation cash payments made to Mr. Weller along with the acceleration of the deferred compensation expense associated with the unvested restricted shares and the estimated fair value of Mr. Weller's share of the 2005-2008 Outperformance Program (OPP) (see notes 9 and 11 to our consolidated financial statements). Mr. Weller exercised his outstanding options in August 2006.

## **CRITICAL ACCOUNTING POLICIES**

Critical Accounting Policies are those that require the application of management's most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that might change in subsequent periods. In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2008, 2007 and 2006, except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. This summary should be read in conjunction with the more complete discussion of our accounting policies included in note 1 to our consolidated financial statements.

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

events and changes in property, market and economic conditions;

estimated future cash flows from property operations; and

the risk of loss on specific accounts or amounts.



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### **Revenue Recognition**

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

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

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

Payments made to tenants as inducements to enter into a lease are treated as deferred costs that are amortized as a reduction of rental revenue over the term of the related lease.

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

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

### **Fair Value**

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; the standard does not require any new fair value measurements of reported balances.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

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

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

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

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

### Asset Impairment

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

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

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

An other than temporary impairment of an investment in an unconsolidated joint venture is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value, including the results of discontinued cash flow and other valuation techniques. To the extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is charged to income.

### Real Estate

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

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

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

We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties based on



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various factors, including industry standards, historical experience and the condition of the asset at the time of acquisition. These assessments have a direct impact on our net income. If we were to determine that a longer expected useful life was appropriate for a particular asset, it would be depreciated over more years, and, other things being equal, result in less annual depreciation expense and higher annual net income.

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

### Intangible Assets

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

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

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

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

We allocate purchase price to customer relationship intangibles based on our assessment of the value of such relationships.

### Goodwill

Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ( SFAS No.142 ), requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. We conduct an annual review of our goodwill balances for impairment to determine whether an adjustment to the carrying value of goodwill is required. We determined the fair value of our properties and the goodwill that is associated with the properties by applying a capitalization rate to our best estimate of projected income at those properties. We also consider factors such as property sales performance, market position and current and future operating results.

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### **Assets Held for Sale and Discontinued Operations**

The determination to classify an asset as held for sale requires significant estimates by us about the property and the expected market for the property, which are based on factors including recent sales of comparable properties, recent expressions of interest in the property, financial metrics of the property and the condition of the property. We must also determine if it will be possible under those market conditions to sell the property for an acceptable price within one year. When assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs of such assets. We generally consider operating properties to be held for sale when they meet the criteria in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, ( SFAS No. 144 ), which includes factors such as whether the sale transaction has been approved by the appropriate level of management and there are no known material contingencies relating to the sale such that the sale is probable within one year. If, in management's opinion, the net sales price of the asset that has been identified as held for sale is less than the net book value of the asset, the asset is written down to fair value less the cost to sell. Assets and liabilities related to assets classified as held for sale are presented separately in the consolidated balance sheet.

Assuming no significant continuing involvement, a sold operating real estate property is considered a discontinued operation. In addition, operating properties classified as held for sale are considered discontinued operations. Operating properties classified as discontinued operations are reclassified as such in the accompanying consolidated statement of income for each period presented. Interest expense that is specifically identifiable to the property is used in the computation of interest expense attributable to discontinued operations. See note 2 to our consolidated financial statements for a description of the properties included in discontinued operations. Land parcels and other portions of operating properties, non-operating real estate and investments in partnerships are excluded from discontinued operations treatment.

### **Capitalization of Costs**

Costs incurred in relation to development and redevelopment projects for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Costs incurred for such items after the property is substantially complete and ready for its intended use are charged to expense as incurred. Capitalized costs, as well as tenant inducement amounts and internal and external commissions, are recorded in construction in progress. We capitalize a portion of development department employees' compensation and benefits related to time spent involved in development and redevelopment projects.

We capitalize payments made to obtain options to acquire real property. All other related costs that are incurred before acquisition that are expected to have ongoing value to the project are capitalized if the acquisition of the property or of an option to acquire the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to expense when it is probable that the property will not be acquired.

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

**Table of Contents****Tenant Receivables**

We make estimates of the collectibility of our tenant receivables related to tenant rent including base rent, straight-line rent, expense reimbursements and other revenue or income. We specifically analyze accounts receivable, including straight-line rent receivable, historical bad debts, customer creditworthiness and current economic and industry trends when evaluating the adequacy of the allowance for doubtful accounts. The receivables analysis places particular emphasis on past-due accounts and considers the nature and age of the receivables, the payment history and financial condition of the payor, the basis for any disputes or negotiations with the payor, and other information that could affect collectibility. In addition, with respect to tenants in bankruptcy, we make estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the time required to reach an ultimate resolution of these claims can exceed one year. These estimates have a direct effect on our net income because higher bad debt expense results in less net income, other things being equal. For straight line rent, the collectibility analysis considers the probability of collection of the unbilled deferred rent receivable given our experience regarding such amounts.

**RESULTS OF OPERATIONS****Comparison of Years Ended December 31, 2008, 2007 and 2006*****Overview***

Our net income available to common shareholders decreased by \$38.9 million to a net loss allocable to common shareholders of \$10.4 million for the year ended December 31, 2008 from net income available to common shareholders of \$28.6 million for the year ended December 31, 2007. The decrease was affected by challenging conditions in the economy, the impairment of assets, the impact of the preferred share redemption in 2007 noted below, the effects of ongoing redevelopment initiatives, increased depreciation and amortization as a result of development and redevelopment assets having been placed in service, increased interest expense as a result of a higher aggregate debt balance and increased property operating expenses compared to the year ended December 31, 2007. These decreases were offset by a gain on the extinguishment of debt in connection with a repurchase of a portion of our Exchangeable Notes outstanding.

Our net income available to common shareholders increased by \$14.2 million to \$28.6 million for the year ended December 31, 2007 from \$14.4 million for the year ended December 31, 2006. The increase in our net income resulted primarily from \$13.3 million recorded in connection with our July 2007 redemption of our preferred shares, and a decrease in dividends paid on preferred shares as a result of the redemption. The preferred shares were issued in connection with our 2003 merger with Crown American Realty Trust and first became redeemable in July 2007. There were also higher gains on sales in 2007 than in 2006. Our net income was also affected by the changes to real estate revenue, property operating expenses, interest expense and depreciation and amortization expense resulting from the effect of new properties that we developed and began operating in 2007, and other properties that were in various stages of redevelopment in 2007 and 2006.

The table below sets forth certain occupancy statistics for properties that we consolidate as of December 31, 2008, 2007, and 2006:

	<b>Consolidated Properties</b>		
	<b>Occupancy as of December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Retail portfolio weighted average:			
Total including anchors	90.5%	90.6%	87.4%
Excluding anchors	87.6%	88.2%	86.8%
Enclosed malls weighted average:			
Total including anchors	89.6%	90.1%	86.8%
Excluding anchors	86.5%	87.7%	86.1%
Strip and power center weighted average:	99.4%	96.6%	97.6%

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The following table sets forth certain occupancy statistics for properties owned by partnerships in which we own a 50% interest as of December 31, 2008, 2007 and 2006:

	Partnership Properties Occupancy as of December 31,		
	2008	2007	2006
Retail portfolio weighted average:			
Total including anchors	94.3%	95.7%	96.3%
Excluding anchors	91.9%	93.9%	94.7%
Enclosed malls weighted average:			
Total including anchors	91.8%	95.2%	96.2%
Excluding anchors	89.6%	93.8%	95.0%
Strip and power center weighted average:	95.6%	95.9%	96.4%

The following information sets forth our results of operations for the years ended December 31, 2008, 2007 and 2006:

(in thousands of dollars)	Year Ended December 31, 2008	% Change 2007 to 2008	Year Ended December 31, 2007	% Change 2006 to 2007	Year Ended December 31, 2006
Results of operations:					
Real estate revenue	\$ 469,581	2.2%	\$ 459,596	1.0%	\$ 454,878
Property operating expenses	(187,952)	4.2%	(180,419)	2.7%	(175,707)
Management company revenue	3,730	(15.6)%	4,419	82.5%	2,422
Interest and other income	769	(69.9)%	2,557	27.3%	2,008
General and administrative expenses	(40,324)	(2.6)%	(41,415)	8.4%	(38,193)
Executive separation		-%		-%	(3,985)
Abandoned project costs, income taxes and other	(1,534)	(21.1)%	(1,944)	165.2%	(733)
Impairment of assets	(27,592)	100%			
Interest expense, net	(112,064)	13.4%	(98,860)	2.6%	(96,382)
Depreciation and amortization	(151,612)	14.7%	(132,184)	7.2%	(123,302)
Equity in income of partnerships	7,053	52.1%	4,637	(17.1)%	5,595
Gain on extinguishment of debt	29,278	100%			
Gains on sales of interests in real estate			579		
Gains on sales of non-operating real estate			1,731	(68.5)%	5,495
Minority interest	287	120.3%	(1,414)	(58.0)%	(3,367)
(Loss) income from continuing operations	(10,380)	(160.0)%	17,283	(39.8)%	28,729
Income (loss) from discontinued operations		-%	5,878	930.2%	(708)
Net (loss) income	\$ (10,380)	(144.8)%	\$ 23,161	(17.3)%	\$ 28,021

The amounts reflected as income from continuing operations in the table above reflect our consolidated properties, with the exception of properties that are classified as discontinued operations. Our unconsolidated partnerships are presented under the equity method of accounting in the line item Equity in income of partnerships.

**Real Estate Revenue**

Real estate revenue increased by \$10.0 million, or 2%, in 2008 as compared to 2007, including an increase of \$4.1 million from properties that were under development during 2007 that are now placed in service and an increase



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of \$1.5 million from One Cherry Hill Plaza (acquired in February 2008). Real estate revenue from properties that were owned by us prior to January 1, 2007 increased by \$4.4 million, primarily due to increases of \$2.7 million in expense reimbursements, \$2.5 million in lease termination revenue and \$2.1 million in base rent, which is comprised of minimum rent, straight line rent and rent from tenants that pay a percentage of sales in lieu of minimum rent, partially offset by decreases of \$1.9 million in percentage rent and \$1.0 million in other revenue.

Base rent increased primarily due to an increase in rental rates and increased occupancy at current redevelopment projects, including a \$1.0 million increase at Voorhees Town Center, a \$0.9 million increase at Plymouth Meeting Mall and a \$0.7 million increase at Cherry Hill Mall. Additionally, base rent increased by \$0.9 million at redevelopment projects completed during 2008 and 2007 due to an increase in rental rates and increased occupancy. These increases were partially offset by a \$1.4 million decrease in base rent at our remaining properties due to decreases of \$1.0 million in specialty leasing revenue, \$0.9 million in straight line rent and \$0.5 million in above/below market rent amortization, partially offset by increases of \$0.6 million in minimum rent and \$0.4 million in percentage of sales rent in lieu of minimum rent. Expense reimbursements increased by \$2.7 million in 2008 as compared to 2007 due to higher reimbursable expenses, as discussed below under Property Operating Expenses. At many of our malls, we continued to see a lower proportion of expenses that were recovered during 2008. Our properties are experiencing a trend towards more gross leases (leases that provide that tenants pay a higher base rent amount in lieu of contributing toward common area maintenance costs and real estate taxes), as well as more leases that provide for rent to be paid on the basis of a percentage of sales in lieu of minimum rent, and no contribution toward common area maintenance costs and real estate taxes. Also, new and renewal leases with tenants affected by redevelopments reflect rental concessions, including with respect to expense reimbursements. We expect the expense recovery amounts at the redevelopment properties to improve over the longer term as construction is completed, tenants take occupancy and our leasing leverage improves. Lease termination revenue increased by \$2.5 million, primarily due to amounts received from two tenants during 2008.

Percentage rent decreased by \$1.9 million due in part to a decrease in tenant sales from \$349 per square foot in 2007 to \$333 in 2008. Percentage rent also decreased in connection with a trend among certain tenants toward leases with slightly higher minimum rent and higher thresholds at which percentage rent begins. Other revenue decreased by \$1.0 million in 2008 compared to 2007, including a \$0.4 million decrease in marketing revenue, a \$0.3 million decrease in gift card revenue and a \$0.3 million decrease in ancillary revenue. These revenue decreases were offset by corresponding decreases of \$0.5 million in marketing expense, \$0.3 million in gift card expense and \$0.3 million in ancillary expense, as discussed below under Property Operating Expenses.

We believe that the current downward trend in the overall economy and the recent disruptions in the financial markets have reduced consumer confidence in the economy and negatively affected consumer spending on retail goods, and have consequently decreased the demand for retail space and the revenue generated by our properties. The poor operating performance of retailers has resulted in delays or cancellations of the openings of new retail stores and renewals of existing leases at our properties and has impaired the ability of our current tenants to meet their obligations to us, which has and is anticipated to continue to adversely affect our ability to generate real estate revenue during the duration of the current downturn and disruptions.

Real estate revenue increased by \$4.7 million, or 1%, in 2007 as compared to 2006. Real estate revenue from properties that were owned by us prior to January 1, 2006 increased by \$4.2 million, primarily due to increases of \$4.5 million in expense reimbursements and \$3.4 million in base rent, partially offset by decreases of \$1.6 million in other revenue, \$1.2 million in lease termination revenue and \$0.9 million in percentage rent. Of the increase in real estate revenue, \$0.5 million is attributable to properties under development during 2006 that were placed in service in 2007.

Base rent increased primarily due to a \$4.8 million increase in rental rates and increased occupancy at recently completed redevelopment projects. These increases were partially offset by decreases in base rent at Voorhees Town Center, Moorestown Mall and Plymouth Meeting Mall, three of the redevelopment properties that were active at that time, which had decreases of \$1.2 million, \$0.7 million and \$0.6 million, respectively, as aggregate in-line occupied square feet at these three properties decreased by 9% as of December 31, 2007 as compared to December 31, 2006. Base rent increased by \$1.1 million at our remaining properties due to increases of \$0.7 million in specialty leasing revenue, \$0.6 million in percentage of sales rent in lieu of minimum rent and \$0.3 million in above/below market rent amortization, partially offset by a \$0.5 million decrease in straight line rent. Expense reimbursements increased by \$4.5 million in 2007 as compared to 2006 due in large part to higher reimbursable expenses, as discussed below under Property Operating Expenses.

Percentage rent was lower during 2007 as compared to 2006 primarily due to \$0.5 million less in percentage rent from two tenants. Other revenue decreased by \$1.6 million in 2007 compared to 2006, including a \$0.6 million decrease in marketing revenue, a \$0.3 million decrease in gift card revenue and a \$0.3 million decrease in corporate sponsorship revenue. The decrease in marketing revenue was offset by a corresponding \$0.6 million decrease in marketing expense, as discussed below under Property Operating Expenses. Other revenue decreased an additional \$0.2 million due to a bankruptcy court distribution received from one tenant during 2006 that did not recur in 2007. Lease termination revenue decreased in 2007 to \$1.6 million, primarily due to \$1.2 million received from two tenants during 2006.



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### ***Property Operating Expenses***

Property operating expenses increased by \$7.5 million, or 4%, in 2008 as compared to 2007. Property operating expenses from properties that were owned by us prior to January 1, 2007 increased by \$5.9 million, primarily due to a \$2.5 million increase in common area maintenance expense, a \$2.0 million increase in real estate tax expense and a \$1.5 million increase in other operating expenses. Property operating expenses also included \$0.6 million from properties that were under development during 2007 that are now placed in service and \$1.0 million from One Cherry Hill Plaza (acquired in February 2008).

Common area maintenance expenses increased by \$2.5 million, or 3%, in 2008 as compared to 2007, primarily due to increases of \$2.3 million in repairs and maintenance expense, \$0.6 million in loss prevention expense, \$0.4 million in common area utility expense and \$0.4 million in on-site management expense, partially offset by a \$1.2 million decrease in snow removal expense. Repairs and maintenance expense and loss prevention expense increased primarily due to stipulated annual contractual cost increases. Snowfall amounts at our properties decreased in 2008 as compared to 2007, particularly at our properties located in Pennsylvania and New Jersey. Real estate tax expense increased by \$2.0 million, primarily due to higher tax rates in the jurisdictions where properties are located. Other property operating expenses increased by \$1.5 million, including a \$2.1 million increase in bad debt expense, a \$0.3 million increase in repairs and maintenance (non-recoverable) expense and a \$0.2 million increase in vacant store utility expense. These increases were partially offset by decreases of \$0.5 million in marketing expense, \$0.3 million in gift card expense and \$0.3 million in ancillary expense, offsetting the \$1.0 million decrease in the associated revenue, as discussed above under Real Estate Revenue. The increase in bad debt expense was affected by a \$1.3 million increase associated with tenant bankruptcy filings. In 2008, 13 tenants in our portfolio, operating an aggregate of 85 stores, filed for bankruptcy protection, compared with 11 tenants (15 stores) in 2007.

Property operating expenses increased by \$4.7 million, or 3%, in 2007 as compared to 2006. Property operating expenses from properties that were owned by us prior to January 1, 2006 increased by \$4.6 million, primarily due to a \$4.2 million increase in common area maintenance expense, a \$1.5 million increase in real estate tax expense and a \$1.5 million increase in utility expense. These increases were partially offset by a \$2.6 million decrease in other operating expenses. Of the increase in property operating expenses, \$0.1 million is attributable to properties that were under development during 2006 and are now placed in service.

Common area maintenance expenses increased by \$4.2 million, or 5%, in 2007 as compared to 2006, primarily due to increases of \$1.7 million in snow removal expense, \$1.1 million in loss prevention expense and \$0.7 million in insurance expense. Snowfall amounts at our properties increased in 2007 as compared to 2006, particularly at our properties located in Pennsylvania and New Jersey. Loss prevention expense increased due to stipulated annual contractual cost increases and an increase in security levels at some of our properties. Real estate tax expense increased by \$1.5 million, including a \$0.6 million increase resulting from property value reassessments at three of our recently completed redevelopment properties. Utility expense increased by \$1.5 million due to an increase in energy consumption at some of our properties as a result of colder temperatures. Other property operating expenses decreased by \$2.6 million, including a \$0.6 million decrease in marketing expenses, offsetting the \$0.6 million decrease in marketing revenue, as discussed above under Real Estate Revenue. Other property operating expenses were also affected by a \$0.6 million decrease in bad debt expense, a \$0.5 million decrease in recoverable tenant service expense (which offset a \$0.5 million decrease in recoverable tenant service revenue) and a \$0.2 million decrease in gift card expense.

### ***Management Company Revenue***

Management company revenue decreased by \$0.7 million, or 16%, in 2008 as compared to 2007. This decrease was primarily due to a \$1.5 million one time payment received in 2007 in connection with a participation agreement with Swansea Mall in Swansea, Massachusetts, which we had managed for a third party, that did not recur.

Management company revenue increased by \$2.0 million, or 82%, in 2007 as compared to 2006. This increase was primarily due to the \$1.5 million Swansea Mall payment described above.



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### ***General and Administrative Expenses, Abandoned Project Costs, Income Taxes and Other Expenses***

General and administrative expenses, abandoned project costs, income taxes and other expenses decreased by \$1.5 million, or 3%, in 2008 as compared to 2007. The decrease was due to a \$1.3 million decrease in net compensation expense related to decreased incentive compensation and a \$0.2 million decrease in abandoned project costs.

General and administrative expenses, abandoned project costs, income taxes and other expenses increased by \$4.4 million, or 11%, in 2007 as compared to 2006. This increase was due to a \$3.4 million increase in compensation expense related to increased salaries and incentive compensation charges and a \$1.2 million increase in abandoned project costs. These increases were offset by a \$0.2 million decrease in other miscellaneous expenses.

### ***Executive Separation***

Executive separation expense in 2006 represented a \$4.0 million expense related to separation costs associated with the retirement of one of the Company's Vice Chairmen.

### ***Interest Expense, Net***

Interest expense increased \$13.2 million, or 13%, in 2008 as compared to 2007. The increase was attributable to a \$12.6 million increase related to new mortgage financings in 2008, a \$2.7 million increase related to the Term Loan financing completed in September 2008 and a \$2.4 million increase in Credit Facility and Exchangeable Notes interest (due to larger amounts outstanding in 2008 as compared to 2007). These increases were partially offset by a decrease in mortgage interest of \$4.2 million related to the repayment of the REMIC and the mortgage on Crossroads Mall in 2008 and a \$0.3 million decrease in interest paid on mortgage loans outstanding during 2008 due to principal amortization, as well as the effects of lower average interest rates.

Interest expense increased by \$2.5 million, or 3%, in 2007 compared to 2006. Contributing to this increase was a \$2.5 million increase related to the refinancing of The Mall at Prince Georges and a \$1.3 million increase in interest expense due to increased average borrowings under the Credit Facility and the issuance of Exchangeable Notes (a weighted average balance of \$437.5 million in 2007 as compared to \$282.6 million in 2006). These amounts were partially offset by a \$1.3 million decrease in interest paid on mortgage loans outstanding during 2007 and 2006 due to principal amortization.

### ***Depreciation and Amortization***

Depreciation and amortization expense increased by \$19.4 million, or 15%, in 2008 as compared to 2007. Depreciation and amortization expense from properties that we owned prior to January 1, 2007 increased by \$16.3 million, primarily due to a higher asset base resulting from capital improvements at our properties, particularly at current and recently completed redevelopment properties. Depreciation and amortization expense increased \$1.9 million from properties under development during 2007 that are now placed in service and \$1.2 million from One Cherry Hill Plaza.

Depreciation and amortization expense increased by \$8.9 million, or 7%, in 2007 as compared to 2006. This increase was primarily due to a higher asset base resulting from capital improvements at our properties, particularly at properties where we completed redevelopments.

### ***Gain on Extinguishment of Debt***

During the fourth quarter of 2008, we repurchased \$46.0 million in aggregate principal amount of our Exchangeable Notes in privately-negotiated transactions for an aggregate purchase price of approximately \$15.9 million, which resulted in a gain on extinguishment of debt of \$29.3 million. In connection with the repurchases, we retired approximately \$0.8 million of deferred financing costs.

**Table of Contents*****Impairment of Assets***

During the year ended December 31, 2008, we recorded asset impairments totaling \$27.6 million, consisting of \$11.8 million related to the White Clay Point ground up development project, \$7.0 million related to the Sunrise Plaza power center project, \$4.6 million related to goodwill, \$3.0 million related to our investment in and receivables from Valley View Downs, \$0.9 million related to a proposed commercial project in West Chester, Pennsylvania, and \$0.2 million related to an undeveloped parcel adjacent to Viewmont Mall classified as land held for development. See note 2 to the notes to consolidated financial statements.

***Gains on Sales of Interests in Real Estate***

There were no gains on sales of interests in real estate in 2008 or 2006.

Gains on sales of interests in real estate were \$0.6 million for 2007 due to the sale of an outparcel and related land improvements containing an operating restaurant at New River Valley Mall in May 2007.

***Gains on Sales of Non-Operating Real Estate***

There were no gains on sales of non-operating real estate in 2008.

Gains on sales of non-operating real estate were \$1.7 million for 2007 due to a \$1.5 million gain on the sale of a parcel and related land improvements at Plaza at Magnolia in May 2007 and a \$0.2 million gain on the sale of land adjacent to Wiregrass Commons in August 2007.

The results of operations for 2006 include a \$4.7 million gain on the sale of an undeveloped land parcel in connection with the redevelopment of Voorhees Town Center and a \$0.4 million gain resulting from the sales of three land parcels at the Plaza at Magnolia.

***Discontinued Operations***

We have presented as discontinued operations the operating results of Schuylkill Mall, South Blanding Village (a strip center in Jacksonville, Florida) and Festival at Exton (a strip center in Exton, Pennsylvania).

Property operating results, gains on sales of discontinued operations and related minority interest for the properties in discontinued operations for the periods presented were as follows (there were no discontinued operations in 2008):

<b>(in thousands of dollars)</b>	<b>For the Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Property operating results of:		
Schuylkill Mall	\$ (97)	\$ (2,654)
South Blanding Village	(5)	240
Festival at Exton	(28)	(57)
Other properties		270
Operating results from discontinued operations	(130)	(2,201)
Gains on sales of discontinued operations	6,699	1,414
Minority interest	(691)	79
Income (loss) from discontinued operations	\$ 5,878	\$ (708)

***Gains on Sales of Discontinued Operations***

Gains on sales of discontinued operations were \$6.7 million for 2007 due to the sale of Schuylkill Mall. Gains on sales of discontinued operations were \$1.4 million for 2006 due to the sale of South Blanding Village.



**Table of Contents****NET OPERATING INCOME**

Net operating income (a non-GAAP measure) is derived from real estate revenue (determined in accordance with GAAP) minus property operating expenses (determined in accordance with GAAP). It does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity; nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that net income is the most directly comparable GAAP measurement to net operating income. We believe that net operating income is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time.

Net operating income excludes management company revenue, interest income, general and administrative expenses, interest expense, depreciation and amortization, gains on sales of interests in real estate, gains or sales of non-operating real estate, gains on sales of discontinued operations, gain on extinguishment of debt, impairment losses and other expenses.

The following table presents net operating income results for the years ended December 31, 2008 and 2007. The results are presented using the proportionate-consolidation method (a non-GAAP measure), which presents our share of the results of our partnership investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Property operating results for retail properties that we owned for the full periods presented ( Same Store ) exclude properties acquired or disposed of during the periods presented:

(in thousands of dollars)	For the Year Ended December 31, 2008			For the Year Ended December 31, 2007		
	Real Estate Revenue	Property Operating Expenses	Net Operating Income	Real Estate Revenue	Property Operating Expenses	Net Operating Income
Same Store	\$ 499,729	\$ (197,165)	\$ 302,564	\$ 493,915	\$ (191,308)	\$ 302,607
Non Same Store	7,222	(2,469)	4,753	1,813	(1,014)	799
<b>Total</b>	<b>\$ 506,951</b>	<b>\$ (199,634)</b>	<b>\$ 307,317</b>	<b>\$ 495,728</b>	<b>\$ (192,322)</b>	<b>\$ 303,406</b>

	% Change 2008 vs. 2007	
	Same Store	Total
Real estate revenue	1.2%	2.3%
Property operating expenses	3.1%	3.8%
Net operating income	0.0%	1.3%

Primarily because of the items discussed above under Real Estate Revenue and Property Operating Expenses, total net operating income increased by \$3.9 million in 2008 compared to 2007, and Same Store net operating income remained at \$302.6 million in 2008 as compared to 2007.

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

(in thousands of dollars)	For the Year Ended December 31,	
	2008	2007
Net (loss) income	\$ (10,380)	\$ 23,161
Adjustments:		
Depreciation and amortization		
Wholly owned and consolidated partnerships	151,612	132,184
Unconsolidated partnerships	8,361	7,130
Discontinued operations		215
Interest expense		
Wholly owned and consolidated partnerships	112,064	98,860
Unconsolidated partnerships	10,274	12,241
Discontinued operations		136
Minority interest	(287)	2,105
Gains on sales of interests in real estate		(579)
Gains on sales of non-operating real estate		(1,731)
Gains on sales of discontinued operations		(6,699)
Gain on extinguishment of debt	(29,278)	
Impairment of assets	27,592	
Other expenses	41,858	43,359
Management company revenue	(3,730)	(4,419)
Interest and other income	(769)	(2,557)
Property net operating income	\$ 307,317	\$ 303,406

**FUNDS FROM OPERATIONS**

The National Association of Real Estate Investment Trusts ( NAREIT ) defines Funds From Operations, which is a non-GAAP measure, as income before gains and losses on sales of operating properties and extraordinary items (computed in accordance with GAAP); plus real estate depreciation; plus or minus adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. We compute Funds From Operations by taking the amount determined pursuant to the NAREIT definition and subtracting dividends on preferred shares ( FFO ) (for periods during which we had preferred shares outstanding). F