PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-K
March 01, 2013
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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, 2012

OR

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

For the transition period from _________ to _________

Commission File No. 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

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

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

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

Title of each class	Name of each exchange on which registered
Shares of Beneficial Interest, par value $1.00 per share	**New York Stock Exchange**
Series A Preferred Shares, par value $0.01 per share	**New York Stock Exchange**
Series B Preferred Shares, par value $0.01 per share	**New York Stock Exchange**

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

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

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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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. x

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 x	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 x

The aggregate market value, as of June 30, 2012, of the shares of beneficial interest, par value $1.00 per share, of the Registrant held by non-affiliates of the Registrant was approximately $788 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 22, 2013, 56,235,414 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 2013 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, 2012

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2012, 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, achievements or results and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be materially and adversely affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- our substantial debt and stated value of preferred shares and our high leverage ratio;
- constraining leverage, interest and tangible net worth covenants under our 2010 Credit Facility;
- potential losses on impairment of certain long-lived assets, such as real estate, or of intangible assets, such as goodwill;
- potential losses on impairment of assets that we might be required to record in connection with any dispositions of assets;
- recent changes to our corporate management team and any resulting modifications to our business strategies;
- our ability to refinance our existing indebtedness when it matures, on favorable terms or at all;
- our ability to raise capital, including through the issuance of equity or equity-related securities if market conditions are favorable, through joint ventures or other partnerships, through sales of properties or interests in properties, or through other actions;
- our short and long-term liquidity position;
- current economic conditions and their effect on employment and consumer confidence and spending, and the corresponding effects on tenant business performance, prospects, solvency and leasing decisions and on our cash flows, and the value and potential impairment of our properties;
- general economic, financial and political conditions, including credit and capital market conditions, changes in interest rates or unemployment;
- changes in the retail industry, including consolidation and store closings, particularly among anchor tenants;
- the effects of online shopping and other uses of technology on our retail tenants;

our ability to maintain and increase property occupancy, sales and rental rates, in light of the relatively high number of leases that have expired or are expiring in the next two years;

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

risks relating to development and redevelopment activities;

concentration of our properties in the Mid-Atlantic region;

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

- potential dilution from any capital raising transactions;
- 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.

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.

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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 located in the eastern half of the United States, primarily in the Mid-Atlantic region.

We currently own interests in 46 retail properties, of which 42 are operating properties, three are development properties and one is classified as held for sale. The 42 operating properties, which are classified in continuing operations, include 36 enclosed malls and six strip and power centers, have a total of 30.7 million square feet and operate in 12 states. We and partnerships in which we own an interest owned 23.9 million square feet at these properties (excluding space owned by anchors).

There are 35 operating retail properties in our portfolio that we consolidate for financial reporting purposes. These consolidated properties have a total of 26.1 million square feet, of which we own 20.8 million square feet. The seven operating retail properties that are owned by unconsolidated partnerships with third parties have a total of 4.6 million square feet, of which 3.1 million square feet are owned by such partnerships.

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

We currently have one power center property that is classified as held for sale. We have entered into an agreement to sell this asset in 2013.

At December 31, 2012, we had four properties that were classified as held for sale, two of which were malls and two of which were power centers. In January and February 2013, we sold the two malls and one of the power centers.

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.

PREIT S BUSINESS

We are primarily engaged in the ownership, management, leasing, acquisition, redevelopment and development of enclosed malls. 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, children s, men s), shoes, eyewear, cards and gifts, jewelry, sporting goods, home furnishings, drug stores, electronics and books/music/movies, among other things.

To enhance the experience for shoppers, most of our malls have restaurants and/or food courts, 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 have outparcels containing restaurants, banks or other stores. In their geographic trade areas, our malls frequently serve as a central place for community, promotional and charitable events.

The largest mall in our retail portfolio is 1.3 million square feet and contains 159 stores, and the smallest is 0.4 million square feet and contains 47 stores. The remaining power centers in our retail portfolio range from 300,000 to 780,000 square feet, while the remaining strip centers range from 220,000 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 minimum 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 2012, 57% of the new leases that we signed contained scheduled rent increases, and these increases, which are typically scheduled to occur on one or two occasions during the term, ranged from 0.3% to 106.7%. 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, the majority of our leases provide that the tenant will reimburse us for certain expenses relating to the property for common area maintenance (CAM), real estate taxes, utilities, insurance and other operating expenses incurred in the operation of the property subject, in some cases, to certain limitations. The proportion of the expenses for which tenants are responsible is traditionally related to the tenant s pro rata share of space at the property. In recent years, our properties are experiencing a trend towards more gross leases (leases that provide that tenants pay a higher minimum rent amount in lieu of contributing toward common area maintenance costs, utilities and real estate taxes) as well as more leases that provide for the rent amount to be determined on the basis of a percentage of sales in lieu of minimum rent. In-line stores typically generate a majority of the revenue of a mall, with a relatively small proportion coming from anchor tenants, junior anchors or large format retailers.

Retail real estate industry participants sometimes classify malls based on the average sales per square foot of non anchor 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 per square foot 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 be classified as Class B or Class C properties. The classification of a mall can change, and one of the goals of our recent redevelopment program was, and of our current non-core property disposition and strategic plans is, to increase the average sales per square foot of certain of our properties and correspondingly increase their rental income and cash flows, and thus potentially their class, in order to maximize the value of the property.

RECENT DEVELOPMENTS

Overview

As of December 31, 2012, following the issuance of Series A and Series B Preferred Shares during 2012 (but before the 2013 sales of Paxton Towne Centre, Phillipsburg Mall and Orlando Fashion Square and application of a portion of the sales proceeds to mortgage loan repayments or to the payment of the applicable release price under the 2010 Credit Facility), our ratio of Total Liabilities to Gross Asset Value was 62.44%. As of December 31, 2011, that ratio had been 66.87%.

For the year ended December 31, 2012, several of our key operating metrics improved. Sales per square foot at our mall properties rose to $378 (excluding properties classified as held for sale), an increase of 2.2% over 2011, including consolidated and unconsolidated properties. Sales per square foot increased over each of the previous three years and have increased sequentially for 11 of the past 12 quarters. Six properties generated sales of $400 per square foot or more, including consolidated and unconsolidated properties, and there were increases at 23 of our 36 malls, which helped our leasing activity. (Sales per square foot including the properties classified as held for sale were $372.)

Total occupancy for our retail portfolio (excluding properties classified as held for sale) increased 130 basis points to 94.3%, mall occupancy increased 120 basis points to 94.3% and non anchor occupancy increased 140 basis points to 91.7%, including consolidated and unconsolidated properties (and including all tenants irrespective of the term of their agreement). Including the properties classified as held for sale, retail portfolio occupancy was 91.9% and mall occupancy was 90.8%

Same Store net operating income (Same Store NOI), a non GAAP measure, increased by 1.8% over 2011. Excluding lease termination revenue, Same Store NOI increased by 1.5%. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our net loss was reduced by $51.3 million to $42.6 million for 2012 from $93.9 million for 2011. The change in our 2012 results of operations from the prior year was primarily affected by impairment charges of $52.3 million in 2011 related to North Hanover Mall and Phillipsburg Mall and an impairment charge of $3.8 million related to Phillipsburg Mall in 2012; $9.4 million in employee separation expense in 2012; a decrease in interest expense resulting from lower debt balances; and an increase in net operating income. See our consolidated financial statements and the notes thereto.

Portfolio: Currently, when listing our malls in order by individual property 2012 sales per square foot, there is a group of six at the top of that list that collectively had an average sales per square foot of $530, average non anchor occupancy of 96.3% and that contributed approximately 30.9% of our NOI. This premier group includes Cherry Hill Mall and Willow Grove Park in suburban Philadelphia, Pennsylvania.

The next 18 properties on the list are a collection of solidly performing properties that had an average sales per square foot of $356, average non anchor occupancy of 91.5% and contributed approximately 44.6% of our NOI in 2012. This core growth group includes such properties as Capital City Mall near Harrisburg, Pennsylvania and Valley Mall in Hagerstown, Maryland.

The next 10 properties on the list, which exhibit moderate performance, had 2012 average sales per square foot of $265, non anchor occupancy of 89.0% and contributed 13.4% of our NOI, and, we believe, present opportunities for improvement. This opportunistic group includes Lycoming Mall near Williamsport, Pennsylvania and New River Valley Mall in Christiansburg, Virginia.

The remaining two mall properties (North Hanover Mall in Hanover, Pennsylvania and Chambersburg Mall in Chambersburg, Pennsylvania) constitute non-core properties. As discussed below, we sold two mall properties and one power center that were non-core properties in January and February 2013, and we have begun efforts to dispose of these other non-core properties.

Our portfolio also includes six strip and power centers. These strip and power centers had occupancy of 94.0%, and contributed approximately 4.3% of our NOI.

The balance of our 2012 NOI was generated by the two malls and two power centers classified as held for sale.

Recent Property Dispositions

In January 2013, we sold our interests in Paxton Towne Centre in Harrisburg, Pennsylvania, for $76.8 million in cash. We used a portion of the proceeds to repay a $50.0 million mortgage loan secured by the property, and the remaining cash proceeds for debt reduction and general corporate purposes. We remain subject to some contingent obligations of up to $3.3 million. We expect to recognize a gain on sale from this transaction of approximately $32.7 million, net of our contingent obligations, in the quarter ending March 31, 2013.

In January 2013, we sold Phillipsburg Mall in Phillipsburg, New Jersey, for $11.5 million in cash. In connection with this sale, we used the proceeds, together with approximately $4.5 million of our cash, to pay the release price of this property, which secured a portion of the 2010 Credit Facility. We recorded an asset impairment charge on this property of $3.8 million in the fourth quarter of 2012 when our anticipated holding period for the property changed due to its impending sale. No gain or loss was recorded from this transaction.

In February 2013, we sold Orlando Fashion Square in Orlando, Florida, for $35.0 million in cash. In connection with this sale, we used the proceeds and a nominal amount of cash to pay the release price of this property, which secured a portion of the 2010 Credit Facility. We expect to recognize a gain on sale from this transaction of approximately $0.6 million in the quarter ending March 31, 2013.

Financing Activity

Preferred Share Offerings. In April 2012, we issued 4,600,000 8.25% Series A Cumulative Redeemable Perpetual Preferred Shares (the Series A Preferred Shares) in a public offering at $25.00 per share, generating net proceeds of $110.9 million.

In October 2012, we issued 3,450,000 7.375% Series B Cumulative Redeemable Perpetual Preferred Shares (the Series B Preferred Shares) in a public offering at $25.00 per share, generating net proceeds of $83.3 million.

Exchangeable Notes. In June 2012, we repaid the $136.9 million in outstanding principal of our Exchangeable Notes upon their maturity and paid accrued interest of $2.7 million, using $74.6 million in cash and $65.0 million from our Revolving Facility.

Mortgage Loan Activity. The following table presents the mortgage loans that we have entered into since January 1, 2012 relating to our consolidated properties:

Financing Date	Property	Amount Financed (in millions of dollars)	Stated Interest Rate	Maturity
2013 Activity:				
February	Lycoming Mall	$ 35.5	LIBOR plus 2.75%	March 2018
February	Francis Scott Key Mall	62.6	LIBOR plus 2.60%	March 2018
February	Viewmont Mall	48.0	LIBOR plus 2.60%	March 2018
2012 Activity:				
January	New River Valley Mall	28.1	LIBOR plus 3.00%	January 2019
February	Capital City Mall	65.8	5.30% fixed	March 2022
July	Christiana Center	50.0	4.64% fixed	August 2022
August	Cumberland Mall	52.0	4.40% fixed	August 2022
August	Cherry Hill Mall	300.0	3.90% fixed	September 2022

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The following table presents the mortgage loans secured by our unconsolidated properties entered into since January 1, 2012:

Financing Date	Property	Amount Financed (in millions of dollars)	Stated Interest Rate	Maturity
July 2012	Pavilion East[1]	$ 9.4	LIBOR plus 2.75%	August 2017

(1) The unconsolidated entity that owns Pavilion East entered into the mortgage loan. Our interest in the unconsolidated entity is 40%. The mortgage loan has a term of five years.

Credit Facility. The 2010 Credit Facility contained an Optional Amendment provision which, if our ratio of Total Liabilities to Gross Asset Value had been less than 65% for two consecutive fiscal quarters, granted us the option to elect to amend certain financial covenants in order to reduce the applicable marginal interest rates. After we were able to reduce our ratio of Total Liabilities to Gross Asset Value to less than 65% for two consecutive quarters, in December 2012, we delivered our notice to effect the Optional Amendment. As a result, the terms of the 2010 Credit Facility have been revised to decrease the range of interest rates, decrease the maximum permitted ratio of Total Liabilities to Gross Asset Value, and increase several of the benchmarks for compliance, among other things. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Amended, Restated and Consolidated Senior Secured Credit Facility.

Chief Executive Officer Succession; Provision for Employee Separation Expense

In June 2012, Joseph F. Coradino, formerly President of PREIT Services, LLC and PREIT-RUBIN, Inc., became our Chief Executive Officer, succeeding Ronald Rubin, who retired from that position but remains our Executive Chairman. In August 2012, Edward A. Glickman, the Company s President and Chief Operating Officer, left his position as an officer of the Company, and subsequently resigned from our Board of Trustees in October 2012.

In connection with the appointment of Mr. Coradino as Chief Executive Officer, conditions in the employment agreement of Mr. Glickman were triggered that caused us to record a provision for employee separation expense of $4.1 million for 2012. Under Mr. Rubin s amended employment agreement, we expect to record a provision for employee separation expense of $4.5 million (we recorded $2.6 million through December 2012 and are recording an additional $1.9 million through June 2013).

In 2012, we also terminated certain employees. In connection with the departure of those employees, we recorded $2.7 million of employee separation expense.

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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, net operating income, funds from operations, funds available for distribution to shareholders and other operating measures and results, and ultimately to maximize the values of our properties.

Short to Intermediate Term Business Strategy

To achieve this primary goal, we have developed a business strategy for the short to intermediate term and for the longer term. Our business strategy for the near term incorporates our capital strategy over that time frame, in light of our current level of leverage, as well as other components, and considers the properties that currently comprise our portfolio. This near term strategy to increase the values of our properties, and ultimately of the Company, includes:

- Improving our balance sheet by reducing debt and leverage, and maintaining a solid liquidity position;
- Improving the operating results of our properties;
- Raising the overall level of quality of the assets in our portfolio; and
- Taking steps to position the Company for future growth opportunities.

Improving Our Balance Sheet by Reducing Debt and Leverage; Maintaining Liquidity

We plan to continue our efforts to strengthen our balance sheet and to reduce leverage and debt. The ratio of Total Liabilities to Gross Asset Value under our 2010 Credit Facility peaked in 2010 at approximately 71%. Our efforts to reduce this ratio began in 2010 with a public offering of common equity and a sale of some power center assets that generated excess proceeds that we used to repay debt, and have continued in 2012 with two public offerings of preferred equity, and to date in 2013 with asset sales that generated excess proceeds, as discussed above under Recent Developments.

In the short to intermediate term, we continue to contemplate ways to reduce our leverage through a variety of means available to us, and subject to the terms of the 2010 Credit Facility. These means might include selling properties or interests in properties with values in excess of their mortgage loans or allocable debt and applying any excess proceeds to debt reduction; issuing common or preferred equity or equity-related securities if market conditions are favorable; entering into joint ventures or other partnerships or arrangements involving our contribution of assets; or through other actions. We are also striving to reduce our ratio of Total Liabilities to Gross Asset Value by increasing our Gross Asset Value through improving our operating performance. See Improving the Operating Results of Our Properties.

In addition, we might pursue opportunities to make favorable changes to the terms of our credit facility and to our individual mortgage loans. When we refinance such loans, we might seek a new term, better rates and excess proceeds. We might also seek to repay certain mortgage loans in full in order to unencumber the associated properties, which could enable us to have a pool of unencumbered assets that could provide greater flexibility or be used to support additional financing. 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.

As of December 31, 2012, our balance sheet reflected $34.0 million in cash and cash equivalents. In addition, the Revolving Facility under the 2010 Credit Facility had the maximum availability of $250.0 million. We believe that our net cash provided by operations, together with the available credit under the Revolving Facility, provide sufficient liquidity to meet our liquidity requirements and to take advantage of opportunities in the short to intermediate term.

Improving the Operating Results of Our Properties

We aim to improve the overall performance of our portfolio of properties in the near term with a multi-pronged approach.

For the year ended December 31, 2012, we generated sales per square foot of $378 from our properties (excluding properties classified as held for sale), which represented the third consecutive year of growth in this metric. Such increases help attract new tenants and help us retain current tenants that seek to take advantage of the property s increased productivity. We have worked to capitalize on these increases in sales per square foot by seeking positive rent renewal spreads, including from renewals and new leases following expirations of leases entered into during the economic downturn of recent years. More than half of the near-term lease expirations in our portfolio are in the premier and core growth groups of properties discussed above under Recent Developments Overview. Hence, we believe that there is a meaningful opportunity to increase rent and replace underperforming tenants at these properties, and potentially to increase their net operating income and net asset values.

As discussed below in Raising the Level of Quality of the Assets in Our Portfolio, we have sold two non-core malls and are seeking to dispose of certain other non-core malls with lower sales productivity. We believe that the disposition of these less productive malls will help improve our negotiating position with retailers with multiple stores in our portfolio (including at these properties), and potentially enable us to obtain higher rental rates from them.

In addition to seeking to capitalize on our higher sales productivity in our lease negotiations to obtain increased rental rates, we are also working to continue to increase non anchor and total occupancy in our properties. Following our completed redevelopments of several properties, we gave high priority to our efforts to lease the available space at those assets, and have secured a number of new and renewal tenants to help increase or maintain occupancy at the redeveloped properties and throughout the portfolio. Over the past few years, non anchor occupancy at our malls increased by 190 basis points and total occupancy increased by 220 basis points (excluding properties classified as held for sale). We are continuing to recruit, and expand our relationships with, certain high profile retailers, and to initiate and expand our relationships with other quality and first-to-market retailers or concepts. We coordinate closely with tenants on new store locations in an effort to position our properties for our tenants latest concept or store prototype to drive traffic and stimulate customer spending. We have added experienced new members to our team of veteran leasing representatives. We believe that increasing our occupancy will be helpful to our leasing efforts and will help increase rental rates.

Some space at properties might be available for a shorter 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.

We are also reinvigorating our efforts to generate ancillary revenue from the properties in our portfolio. We have added a senior position with responsibility for sponsorship marketing and promotional income, and we believe that increased efforts in this area can enable us to increase meaningfully the proportion of net operating income derived from ancillary revenue.

Our strategy for improving operating results also includes efforts to control or reduce the costs of operating our properties. With respect to operating expenses, we have taken steps to control a significant proportion of them through contracts with third party vendors for housekeeping and maintenance, security, landscaping and trash. These contracts provide reasonable control, certainty and predictability. We also seek to contain certain expenses through our active programs for managing utility expense and real estate taxes. We have taken advantage of opportunities to buy electricity economically in many markets where our properties are located, thereby reducing operating costs, and we expect to continue with this approach. We also review the annual tax assessments of our properties and, when appropriate, pursue appeals.

With respect to CAM charges, we have begun to offer tenants an option of fixed CAM, in contrast to the traditional pro rata CAM. Fixed CAM, while shifting some risk to us as landlord, can offer tenants increased predictability of their costs, decrease the number of items to be negotiated in a lease and thus speed lease execution, and reduce the need for detailed CAM billings, reconciliations and collections. It will take several years for all tenants of our properties to be subject to leases with a fixed CAM provision, but we believe there is an opportunity for costs to be reduced.

Raising the Overall Level of Quality of the Assets in Our Portfolio

Another element of our strategy is to elevate the overall level of quality of our portfolio. We intend to accomplish this by enhancing the value of some of the properties (most of which are in our core growth group), as well as by disposing of lower productivity non-core properties.

We believe that certain of our properties, including ones which are in trade areas around major cities or are leading properties in secondary markets, can benefit from strategic remerchandising strategies. Based on the demographics of the trade area or the relevant competition, we believe that this subset of properties provides opportunities for significant value creation at the property level. We believe that we can successfully implement particular strategies at these assets, such as making fashion the focus of the retailers at the property, relocating and right-sizing certain stores, and adding restaurants. We also continuously work to optimize the match between the demographics of the trade area, such as the household income level, and the nature and mix of tenants at the property. We strive to work closely with tenants to enhance their merchandising opportunities at our properties. These approaches can attract more national and other tenants to the property and can lead to higher occupancy and net operating income.

Another avenue for raising the level of quality of the portfolio is to dispose of certain non-core assets, some of which have sales productivity or occupancy below the average for our portfolio. In January and February 2013, we sold Phillipsburg Mall and Orlando Fashion Square, respectively. We are also seeking to sell a small number of other malls. We anticipate that the proposed disposition of these lower-performing properties, together with the property sales that have already closed, will result in improved operating metrics of the remaining collection of assets, which are measures of the quality of the portfolio. As discussed above under Improving the Operating Results of Our Properties, we believe that this will also aid our bargaining position in lease negotiations and potentially help increase rental rates.

Taking Steps to Position the Company for Future Growth Opportunities

Lastly, we are taking steps to position the Company to generate future growth. We have implemented processes designed to ensure strong internal discipline in the use, harvesting and recycling of our capital, and these processes will be applied in connection with proposals to acquire properties, to redevelop properties or to reposition properties with a mix of uses.

We seek to selectively acquire, in an opportunistic and disciplined manner, properties that are well-located, that are in trade areas with growing or stable demographics, that have operating metrics that are better than or equal to our existing portfolio averages, and that we believe have strong potential for increased cash flows and appreciation in value if we call upon our relationships with retailers and apply our skills in asset management. Depending on the nature of the acquisition opportunity, we might involve a partner.

We might also seek 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, which we expect to lead to increases in sales, occupancy and rental rates. Redevelopments are generally more involved than strategic property plans or remerchandising programs that include the elements described above under Improving the Operating Results of Our Properties, and might require some use of capital.

In addition, we look for ways to maximize the value of our assets by adding a mix of uses, such as office or multi-family residential housing, initiated either by ourselves or with a partner, that are designed to attract a greater number of people to the property. Multiple constituencies, from local governments to city planners to citizen groups, have indicated a preference for in-place development, development near transportation hubs, the addition of uses to existing properties, and sustainable development, as opposed to locating, acquiring and developing new green field sites. Also, if appropriate, we will seek to attract certain nontraditional tenants to these properties, including tenants using the space for purposes such as education, health care, entertainment, government and child care, which can bring larger numbers of people to the property, as well as regional, local or nontraditional retailers. Such uses will, we believe, bring more people to our properties and enable us to generate additional revenue and grow the value of the property.

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Long-Term Business Strategy

Acquisitions

We seek to selectively acquire, in an opportunistic and disciplined manner, properties or portfolios of 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 in some cases, redevelopment to the property. 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.

Redevelopment

We strive to increase the potential value of certain of the properties in our portfolio by redeveloping them. If we believe that a property is not achieving its potential, we engage in a strategic property plan and a focused leasing effort in order to increase the property s performance, as we are doing now in some cases. If we believe the property has the potential to support a more significant redevelopment project, we consider a formal redevelopment plan. Our redevelopment efforts are designed to increase 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.

Our efforts to increase the potential value of properties include: remerchandising by adjusting 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 different components to mall properties; and redirecting traffic flow and creating additional space for in-line stores by relocating food courts.

Development

We pursue development of retail and mixed use projects that we expect can meet the financial and strategic criteria 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. We seek properties in trade areas that we believe have sufficient demand for such properties, once developed, to generate cash flows that meet the financial thresholds we establish in the given environment. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing

Dispositions

We regularly conduct portfolio property reviews and, if appropriate, we seek to 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 or recycle 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.

CAPITAL STRATEGY

In support of the business 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 mortgage loans, commercial loans and debt and equity securities) available to us on the most favorable terms. We pursue this goal by maintaining relationships with various capital sources and utilizing a variety of financing instruments, enhancing our flexibility to execute our business strategy in different economic environments or at different points in the business cycle.

In February 2013, we refinanced the mortgages on Viewmont Mall, Lycoming Mall and Francis Scott Key Mall in the aggregate amount of $146.1 million at a weighted-average interest rate of 3.91% over terms of five years. These new mortgage loans generated excess proceeds of approximately $9.7 million and reduced the average interest rates by 172 basis points, after giving effect to interest rate swaps and forwards entered into in connection with these mortgage loans.

Through the end of 2013, two mortgage loans secured by consolidated properties with an aggregate principal balance of $111.7 million as of December 31, 2012 are scheduled to mature. The mortgage loans on three other properties are also scheduled to mature in 2013, but we expect to be able to refinance these mortgage loans or extend the maturity dates on these mortgage loans pursuant to the applicable loan agreements, subject to lender approval. We believe that, in the aggregate, the values of these properties will be sufficient to support replacement financing. While mortgage interest rates remain relatively low, we will seek to extend these mortgage loans to the maximum extent possible, or to replace them with longer term mortgage loans. See Item 1A. Risk Factors and Business Strategy Improving Our Balance Sheet by Reducing Debt and Leverage; Maintaining Liquidity.

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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 acquisition, redevelopment and development opportunities, the debt ratios of other mall REITs and publicly-traded real estate companies, and the federal tax law requirement that REITs distribute at least 90% of net taxable income, among other factors. We strive to lengthen and stagger the maturities of our debt obligations in order to better manage our future capital requirements.

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, and subject to our ability to satisfy collateral requirements.

Capital Availability

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 ordinarily fund most of our significant capital requirements, such as the capital for acquisitions, redevelopments and developments, through secured and unsecured indebtedness and, when appropriate, the issuance of additional debt, equity or equity-related securities.

In 2010, we entered into the 2010 Credit Facility, secured by most of our previously unsecured properties. In June 2011, we entered into an amendment to the 2010 Credit Facility, which extended the term to March 10, 2014. In December 2012, we exercised an optional amendment, which decreased the range of applicable interest rates and increased certain coverage ratios. The 2010 Credit Facility contains affirmative and negative covenants. During the term of the 2010 Credit Facility, certain covenants and provisions restrict our ability to use our cash flows and any debt or equity capital we obtain to execute our strategy.

In addition, 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 securities at the time or times we need capital. Uncertainty in the capital and credit markets might negatively affect our ability to access additional financing at reasonable terms, which might negatively affect our ability to fund our long-term strategies and other business initiatives. See Item 1A. Risk Factors Risks Related to Our Indebtedness and Our Financing.

OWNERSHIP STRUCTURE

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates. We are the sole general partner of PREIT Associates and, as of December 31, 2012, held a 96.1% 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 and 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 properties ranges from 40% or 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 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.

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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 and other tenants. We also compete to acquire land for new site development, during more favorable economic conditions. 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. Our tenants face competition from companies at the same and other properties and from other retail formats as well, including internet retailers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent and expense reimbursements that we receive.

The existence or development of competing retail properties and the related increased competition for tenants might, subject to the terms and conditions of the 2010 Credit Facility, lead us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might affect occupancy and net operating income of such properties. Any such capital improvements, undertaken individually or collectively, would involve costs and expenses that could adversely affect our results of operations.

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and prime development sites, including institutional pension funds, other REITs and other owner-operators of retail properties. Our efforts to compete for acquisitions are also subject to the terms and conditions of our 2010 Credit Facility. When we seek to make acquisitions, competitors might drive up the price we must pay for properties, parcels, other assets or other companies or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition, and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property or site, or generate lower cash flow from an acquired property or site than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

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. 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.

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.

We are aware of certain past 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. See Item 1A. Risk Factors We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations.

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EMPLOYEES

We had 644 employees at our properties and in our corporate office as of December 31, 2012. 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.

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 all or a portion of rent based on a percentage of a tenant s sales revenue, or sales revenue over certain levels. Income from such rent is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season and a higher number of tenants vacate their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first and second quarters. Our concentration in the retail sector increases our exposure to seasonality and has resulted, and is expected to continue to result, in a greater percentage of our cash flows being received in the fourth quarter.

AVAILABLE INFORMATION

We maintain a website with the address www.preit.com. We are not including or incorporating by reference the information contained on our website into this report. We make available on our website, free of charge and as soon as practicable after filing with the SEC, copies of our most recently filed Annual Report on Form 10-K, all Quarterly Reports on Form 10-Q and all Current Reports on Form 8-K filed during each year, including all amendments to these reports, if any. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports are also available on the SEC s website at http://www.sec.gov. 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 executive compensation and human resources committees of our Board of Trustees are available free of charge on our website, as well as in print to any shareholder upon request. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. 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.

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ITEM 1A. RISK FACTORS.
RISKS RELATED TO OUR INDEBTEDNESS AND OUR FINANCING

We have substantial debt and stated value of preferred shares outstanding, which could adversely affect our overall financial health and our operating flexibility. We require significant cash flows to satisfy our debt service and dividends on our preferred shares outstanding. These obligations may prevent us from using our cash flows for other purposes. If we are unable to satisfy these obligations, we might default on our debt or reduce, defer or suspend our dividend payments on preferred shares.

We use a substantial amount of debt and preferred shares outstanding to finance our business. As of December 31, 2012, we had an aggregate consolidated indebtedness, including mortgage loans on two properties classified as held for sale, of $1,999.8 million, which was secured by substantially all of our properties. As of December 31, 2012, $182.0 million was outstanding under the 2010 Term Loan, and no amount was outstanding under the Revolving Facility, which were secured by a pool of collateral properties. In 2012, we obtained new mortgage loans of $467.8 million and we repaid $320.7 million of existing mortgage loan debts. These aggregate debt amounts do not include our proportionate share of indebtedness of our partnership properties, which was $201.7 million at December 31, 2012. Our consolidated debt represented 61.8% of our total market capitalization as of December 31, 2012. As of December 31, 2012, under the 2010 Credit Facility, our ratio of Total Liabilities to Gross Asset Value was 62.44%. We also had outstanding, in aggregate, $115.0 million of 8.25% Series A Preferred Shares and $86.3 million of 7.375% Series B Preferred Shares.

Our substantial indebtedness and preferred shares outstanding involve significant obligations for the payment of interest, principal and dividends. If we do not have sufficient cash flow from operations to meet these obligations, we might be forced to sell assets to generate cash, which might be on unfavorable terms, or 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 the value of our preferred shares or our ability to make distributions to shareholders.

Our substantial obligations arising from our indebtedness and preferred shares could also have other negative consequences to our shareholders, including the acceleration of a significant amount of our debt if we are not in compliance with the terms of such debt or, if such debt contains cross-default or cross-acceleration provisions, other debt. If we fail to meet our obligations under our debt and our preferred shares, we could lose assets due to foreclosure or sale on unfavorable terms, which could create taxable income without accompanying cash proceeds, or such failure could harm our ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions, redevelopment and development activities, execution of our business strategy or other general corporate purposes. Also, our indebtedness and mandated debt service might limit our ability to refinance existing debt or to do so at a reasonable cost, might make us more vulnerable to adverse economic and industry conditions, might limit our ability to respond to competition or to take advantage of opportunities, and might discourage business partners from working with us or counterparties from entering into hedging transactions with us.

In addition to our current debt, we might incur additional debt in the future in the form of mortgage loans, unsecured borrowings, Revolving Facility borrowings or other financing vehicles, or issue additional preferred shares in order to finance acquisitions, to develop or redevelop properties or for other general corporate purposes, subject to the terms and conditions of our 2010 Credit Facility, which could exacerbate the risks set forth above.

If we are unable to comply with the covenants in our 2010 Credit Facility, we might be adversely affected.

The 2010 Credit Facility requires us to satisfy certain customary affirmative and negative covenants and to meet numerous financial tests, including tests relating to our leverage, interest coverage, fixed charge coverage, tangible net worth, corporate debt yield and facility debt yield. We expect the current conditions in the economy and the retail industry to continue to affect our operating results. The leverage covenant in the 2010 Credit Facility 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 affect our ability to comply with other financial ratio covenants contained in our 2010 Credit Facility, which are calculated on a trailing four quarter basis. These covenants could restrict our ability to pursue property acquisitions, redevelopment and development projects or 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, manage our cash flows, repurchase securities, make capital expenditures, make distributions to shareholders or engage in

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acquisitions. In addition, the predetermined release price for a property might exceed the amount we receive in a sale transaction for a collateral property, which might require us to deliver some additional cash from other sources to the lenders.

An inability to comply with these 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 waiver or amendment could result in a breach and a possible event of default under our 2010 Credit Facility, which could allow the lenders to discontinue lending or issuing letters of credit, terminate any commitments they have made to provide us with additional funds and/or declare amounts outstanding to be immediately due and payable. 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. If we are unable to do so, we might have to liquidate assets, potentially on unfavorable terms. 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.

We might not be able to refinance our existing obligations or obtain the capital required to finance our activities.

The REIT provisions of the Internal Revenue Code of 1986, as amended, 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, and subject to the terms of the 2010 Credit Facility, we generally fund certain capital requirements, such as the capital for renovations, expansions, redevelopments, other non-recurring capital improvements, scheduled debt maturities, and acquisitions of properties or other assets, through secured and unsecured indebtedness and, when available and market conditions are favorable, the issuance of additional equity securities.

As of December 31, 2012, we had $682.0 million of indebtedness with initial maturities on or before December 31, 2014 at our consolidated properties. Also, subject to the terms and conditions of our 2010 Credit Facility, we estimate that we will need $51.6 million of additional capital to complete our current active development and redevelopment projects. Our ability to finance growth from financing sources depends, in part, on our creditworthiness, our ability to refinance our existing debt as it comes due, the availability of credit to us from financing sources, or the market for our debt, equity or equity-related securities when we need capital, and on conditions in the capital markets generally. In the past, one avenue available to us to finance our obligations or new business initiatives has been to obtain unsecured debt, based in part on the existence of properties in our portfolio that were not subject to mortgage loans. The terms of the 2010 Credit Facility include our grant of a security interest currently consisting of a first lien on 14 properties. As a result, we have few remaining assets that we could use to support unsecured debt financing. Our lack of properties in the portfolio that could be used to support unsecured debt might limit our ability to obtain capital in this way. 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.

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 loans 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.

Conditions in the U.S. economy continue to be challenging, and might adversely affect our cash flows from operations.

The U.S. economy has continued to experience relatively high unemployment and reduced or fluctuating business and consumer confidence. These conditions have negatively affected consumer spending on retail goods compared to before the recession. This lower demand has led to decreased operating performance of several retailer tenants, which has led to delays or deferred decisions regarding lease renewals and the openings of new retail stores at our properties, and has affected the ability of our current tenants to meet their obligations to us. This, in turn, has caused a decrease in the revenue generated by our properties and could adversely affect our ability to generate cash flows, meet our debt service requirements, comply with the covenants under our 2010 Credit Facility, make capital expenditures and make distributions to shareholders. These conditions could also have a material adverse effect on our financial condition and results of operations. There can be no assurance that past, current and future government responses to the disruptions in the economy will restore business and consumer confidence and employment 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, including under the 2010 Credit Facility, 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 both to 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 only 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 after the claims of the creditors, including mortgage lenders and 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.

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

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest-bearing liabilities. 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. As of December 31, 2012, the aggregate fair value of our derivative instruments was an unrealized loss of $9.7 million, which is expected to be subsequently reclassified into earnings in the period that the hedged forecasted transactions affect earnings. Developing an effective interest rate risk strategy is complex, and no strategy can completely insulate us from risks associated with interest rate fluctuations. We might enter into interest rate swaps as hedges in connection with forecasted debt transactions or payments, and if we repay such debt earlier than expected and are no longer obligated to make such payments, then we might determine that the swaps no longer meet the criteria for effective hedges, and we might incur gain or loss on such ineffectiveness. For the year ended December 31, 2012, we recorded a loss on hedge ineffectiveness of $1.2 million in connection with our early and anticipated early repayment of variable interest rate debt. 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.

We are subject to risks associated with increases in interest rates, including in connection with our variable interest rate debt.

As of December 31, 2012, we had $574.2 million of indebtedness with variable interest rates, including the 2010 Term Loan that is part of the 2010 Credit Facility. We have fixed the interest rates on all of our variable rate debt using derivative instruments. We might incur additional variable rate debt in the future, through borrowings under the Revolving Facility or otherwise, and, if we do so, the proportion of our debt with variable interest rates might increase. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

An increase in market interest rates applicable to the variable portion of the debt portfolio would increase the interest incurred and cash flows necessary to service such debt. This has and could, in the future, adversely affect our results of operations and our ability to make distributions to shareholders. Also, in coming years, as our current mortgage loans mature, if these mortgage loans are refinanced at higher interest rates than the rates in effect at the time of the prior loans, our interest expense in connection with debt secured by such properties will increase, and could adversely affect our results of operations and ability to make distributions to shareholders.

RISKS RELATED TO OUR BUSINESS AND OUR PROPERTIES

Approximately 38% of our non anchor leases and 18% of our anchor leases will expire in 2013 or 2014 or are in holdover status, and if we are unable to renew these leases or re-lease the space covered by these leases on equivalent terms, we might experience reduced occupancy and traffic at our properties and lower rental revenue, net operating income, cash flows and funds available for distributions.

The current conditions in the economy have negatively affected employment compared to before the recession and have caused fluctuations and variations in consumer confidence and consumer spending on retail goods. The weaker operating performance of retailers has resulted in delays or deferred decisions regarding the openings of new retail stores at some of our properties and regarding renewals of both anchor and non anchor leases.

In recent years, in connection with the factors described above, we frequently entered into leases with terms of one year, two years or three years, rather than the more typical five years or ten years. These shorter term leases enabled both the tenant and us, before entering into a longer term lease, to evaluate the advantages and disadvantages of a longer term lease at a later time in the economic cycle, at least in part with the view that there will be greater visibility into expected future conditions in the economy and expected future trends. As a result, we have higher percentages of such leases that are in holdover status or will expire in the next few years, including some leases with our top 20 tenants, and including both anchor and non anchor leases. See Item 2. Properties Retail Lease Expiration Schedule and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Leasing Activity. We might not be successful in renewing the leases for, or re-leasing, the space covered by leases that are in holdover status or that are expiring in 2013 and 2014, or doing so on terms comparable to those of the expiring leases. If we are not successful, we will be likely to experience reduced occupancy, traffic, rental revenue and net operating income, which could have a material adverse effect on our financial condition, results of operations and ability to make distributions to shareholders.

Changes in the retail industry, particularly among anchor tenant retailers, could adversely affect our results of operations and financial condition.

The income we generate depends in part on our anchor tenants ability to attract customers to our properties and generate traffic, which affects the property s ability to attract non anchor tenants, and thus the revenue generated by the property. In recent years, in connection with economic conditions and other changes in the retail industry, including customers use of smartphones and websites and the continued expansion of ecommerce generally, some anchor tenant retailers have experienced decreases in operating performance, and in response, they are contemplating strategic, operational and other changes. The strategic and operational changes being considered by anchor tenants, including combinations and other consolidation designed to increase scale, leverage with suppliers like landlords, and other efficiencies, might result in the restructuring of these companies which could involve withdrawal from certain geographic areas, such as secondary or tertiary trade areas, and closures or sales of stores operated by them. For example, Sears Holdings Corporation s Kmart chain had relatively weak same store sales performance in late 2012, as did jcpenney, which has undertaken a significant repositioning. We cannot assure you that there will not be store closings by Sears, Kmart, jcpenney or any other anchor tenant in the future, which could affect our results of operations, cash flows, and ability to make cash distributions. The closure of one or more anchor stores would have a negative effect on the affected properties, on our portfolio and on our results of operations, particularly if the affected properties are not classified as Class A malls. In addition, a lease termination by an anchor for any reason, a failure by an 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 (i.e., co-tenancy provisions) if an anchor s lease is terminated or the anchor otherwise ceases occupancy or operations. In that event, we might be unable to re-lease the vacated space of the anchor or non anchor stores 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.

Expense reimbursements have decreased and, in the future, might continue to decrease because of a trend toward gross and percentage of sales leases. Also, operating expense amounts have increased and, in the future, are likely to continue to increase, reducing our cash flow and funds available for future distributions.

Our leases have historically provided that the tenant is liable for a portion of common area maintenance (CAM) costs, real estate taxes and other operating expenses. If these expenses increase, then under such provisions, the tenant s portion of such expenses also increases. Our properties are experiencing a trend towards more gross leases (leases that provide that tenants pay a higher minimum rent amount in lieu of contributing toward CAM costs and real estate taxes), as well as leases providing for fixed CAM or caps in the rate of annual increases in CAM, and leases that provide for the rent amount to be determined on the basis of a percentage of sales in lieu of minimum rent, with no contribution toward CAM costs and real estate taxes. In these cases, a tenant will pay a single specified rent amount or a set or capped 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, and to the extent that any new fixed CAM provision sets an amount below actual expense levels, we are liable for the cost of such expenses in excess of the portion paid by tenants, if any. This has and could, in the future, adversely affect our net effective rent, our results of operations and our ability to make distributions to shareholders. Further, if a property is not fully occupied, as it typically is not, we would be required to pay the portion of the expenses allocable to the vacant space that is otherwise typically paid by our tenants, which would adversely affect our results of operations and our ability to make distributions to shareholders.

Our properties are also subject to the risk of increases in CAM and other operating expenses, which typically include real estate taxes, energy and other utility costs, repairs, maintenance on and capital improvements to common areas, security, housekeeping, property and liability insurance and administrative costs. For example, municipalities might seek to raise real estate taxes paid by our property in their jurisdiction because of their strained budgets, our recent redevelopment of such property or for other reasons. In 2012, real estate taxes on Cherry Hill Mall increased by a material amount. In some cases, our mall might be the largest single taxpayer in a jurisdiction, which could make real estate tax increases significant to us. 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, in either case, could adversely affect our results of operations and limit our ability to make distributions to shareholders.

The valuation and accounting treatment of certain long-lived assets, such as real estate, or of 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, such as a decrease in net operating income or the loss of an anchor tenant, indicate that the carrying amount of the property might not be recoverable. An operating 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. In addition, this estimate 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. This estimate takes into consideration factors such as expected future net operating income, trends and prospects, and upcoming lease maturities, as well as the effects of demand, competition and other factors. The current conditions in the economy have negatively affected employment and consumer spending on retail goods. We have consequently decreased our estimates of future cash flows generated by our properties, and these factors might cause further decreases in our estimates in the future. If we find that the carrying value of real estate investments and related intangible assets has been impaired, as we did in 2011 and 2012, we will recognize impairment with respect to such assets.

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Applicable accounting principles require 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 goodwill or certain intangible assets exceeds 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 impairment with respect to such investments or goodwill or intangible assets.

Impairment of long-lived assets is required to be recorded as a noncash operating expense. Our 2012 and 2011 impairment analyses resulted in noncash impairment charges on long lived assets of $3.8 million and $52.3 million, respectively, and, as a result, the carrying values of our impaired assets were reset to their estimated fair values as of the respective dates on which the impairments were recognized. 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 Impairment.

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

We receive a substantial portion of our operating income as rent under leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. Such tenants might enter into or renew leases with relatively shorter terms. Such tenants might also defer or fail to make rental payments when due, delay or defer lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant s lease, or preclude the collection of rent in connection with the space for a period of time, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants, and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy or store closing of those tenants might be more significant to us than the bankruptcy or store closings of other tenants. See Item 2. Properties Major Tenants. Given current conditions in the economy, in some instances retailers that have sought protection from creditors under bankruptcy law have had difficulty in obtaining debtor-in-possession financing, which has decreased the likelihood that such retailers will emerge from bankruptcy protection and has limited their alternatives. In addition, under many of our leases, our tenants pay rent based, in whole or in part, on a percentage of their sales. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Real Estate Revenue. Accordingly, declines in these tenants sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of our leases, or otherwise seek changes to the terms, including changes to the amount of rent, we might modify lease terms in ways that are less favorable to us.

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 in connection with such balances. 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, such a scenario with one tenant could result in lease terminations or reductions in rent by other tenants of the same property whose leases have co-tenancy provisions. These other tenants might seek changes to the terms of their leases, including changes to the amount of rent. Any unsecured claim we hold against a bankrupt tenant 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.

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

Before 2011, we completed construction at the properties in our recent major redevelopment program. Currently, we are engaged in redevelopment projects at a few of our properties. We are also engaged in various early stage development steps at three mixed use and other projects, although we do not expect to make material investments in these projects in the short term, except some amounts that we expect will be reimbursed. To the extent we continue current redevelopment or development projects or enter into new redevelopment or development projects in the longer term, 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:

- delayed ability or inability to reach projected occupancy, rental rates, profitability, and investment return;
- timing delays due to tenant decision delays and other factors outside our control, which might make a project less profitable or unprofitable, or delay profitability;
- expenditure of money and time on projects that might be significantly delayed before stabilization.

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, if incurred, could harm our results of operations. Subject to the terms and conditions of our 2010 Credit Facility, 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. These plans are subject to then-prevailing economic, capital market and retail industry conditions.

We might elect not to proceed with certain development projects after they are begun. In general, when we elect not to proceed with a project, development costs for such a project will be expensed in 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.

Online shopping and other uses of smartphones and other technology could affect the business models and viability of retailers, which could, in turn, affect their demand for retail real estate.

Online retailing and shopping and the use of technology to aid purchase decisions have increased in recent years, and are expected to continue to increase in the future. Also, small businesses and specialty retailers, who have previously been limited to marketing and selling their products within their immediate geographical area, are now able to reach a broader group of consumers and compete with a broader group of retailers including the retailers at our properties. In certain categories, such as books, music and electronics, online retailing has become a significant proportion of total sales, and has affected retailers in those categories significantly, such as Borders Group, Inc., which filed for bankruptcy protection and liquidated in 2011. The information available online empowers consumers with knowledge about products and information about prices and other offers in a different way than is available in a single physical store. Consumers are able to compare more products than are typically found in a single retail location, and they are able to read product reviews and to compare product features and pricing. In addition, retailers have recently begun to experience the phenomenon of customers, who are physically present in their stores to evaluate merchandise, checking competitors product offerings and prices while in their stores using technology, including smart phones. Online shopping and technology, such as smartphone applications, might affect the business models, sales and profitability of retailers, which might, in turn, affect the demand for retail real estate, occupancy at our properties and the amount of rent that we receive. Any resulting decreases in rental revenue could have a material adverse effect on our financial condition, results of operations and ability to make distributions to shareholders.

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 are concentrated in the Eastern United States, particularly in the Mid-Atlantic region, including several properties in the Philadelphia, Pennsylvania metropolitan area. To the extent adverse conditions affecting retail

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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, New Jersey or in the Mid-Atlantic region more broadly, 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 distributions to shareholders would be adversely affected.

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 or ownership of existing properties or the development of new properties, in contrast to acquiring or owning properties or developing projects by ourselves. Entering into partnerships with third parties involves risks not present where we act alone, in that we might not have primary control over the acquisition, development, redevelopment, financing, leasing, management, budgeting 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 be required 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 partnership that owns the property, 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, which might be at a disadvantageous time;
- 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, non anchor and other tenants. We also compete to acquire land for new site development, during more favorable economic conditions. Our properties face competition from similar retail centers, including more recently developed or renovated centers that are near our retail properties. We also face competition from a variety of different retail formats, including internet retailers, discount or value retailers, home shopping networks, mail order operators, catalogs, and telemarketers. Our tenants face competition from companies at the same and other properties and from other retail formats as well, including online retailers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent and expense reimbursements that we receive.

The existence or development of competing retail properties and the related increased competition for tenants might, subject to the terms and conditions of our 2010 Credit Facility, require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make, and might affect the occupancy and net operating income of such properties. Any such capital improvements, undertaken individually or collectively, would involve costs and expenses that could adversely affect our results of operations.

We might be unable to effectively manage any redevelopment and development projects involving a mix of uses, which could affect our financial condition and results of operations.

The complex nature of redevelopment and development projects calls for substantial management time, attention and skill. Some of our redevelopment and development projects currently, and 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. If a development project includes a non-retail use, we might seek to sell the rights to that component to a third-party developer with experience in that use, or we might seek to partner with such a developer. If we are not able to sell the rights to, or partner with, such a developer, or if we choose to develop the other component ourselves, we would be exposed not only to those risks typically associated with the development of commercial real estate generally, and of retail real estate, but also to specific risks associated with the development, ownership and property management of non-retail real estate, such as the demand for residential or office space of the types to be developed and the effects of general economic conditions on such property types, as opposed to the effects on retail real estate, with which we are more familiar. In addition, even if we sell the rights to develop the other component or elect to participate in the development through a partnership, we might be exposed to the risks associated with the failure of the other party to complete the development as expected. These include the risk that the other party would default on its obligations, necessitating that we complete the other component ourselves (including providing any necessary financing). The lack of sufficient management resources, or of the necessary skill sets to execute our plans, or the failure of a partner in connection with a joint, mixed-use development, could delay or prevent us from realizing our expectations with respect to any such projects and could adversely affect our results of operations and financial condition.

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. Our efforts to compete for acquisitions are also subject to the terms and conditions of our 2010 Credit Facility. When we seek to make acquisitions, competitors might drive up the price we must pay for properties, parcels, other assets or other companies, or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition, and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property or site, or generate lower cash flow from an acquired property or site than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

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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 historically been an important component of our growth strategy. However, subject to the terms and conditions of our 2010 Credit Facility, and given current economic and retail industry conditions, we expect our acquisition activities to be limited in the short term. Expanding by acquisitions requires us to identify suitable acquisition candidates or investment opportunities that meet the criteria we apply, given economic, market or other circumstances, and that are compatible with our growth strategy, to make the acquisition successfully over competing suitors. We must also typically obtain financing 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 successfully identify, consummate or finance 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.

Subject to the terms and conditions of our 2010 Credit Facility, to the extent that we pursue 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 value-creation potential, operating efficiencies, economies of scale or other benefits of such transactions;
- we might not have adequate personnel, personnel with necessary skill sets or financial and other resources to successfully handle our increased operations;
- we might not be successful in leasing space in acquired properties or renewing leases of existing tenants after our acquisition of the property;
- 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 to incorporate any such acquisitions; 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 to 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 members of our senior management team terminate their employment with us or otherwise are unable to continue in their current capacity.

Our future success depends, to a meaningful extent, upon the continued services of Ronald Rubin, our executive chairman, and Joseph F. Coradino, our chief executive officer, and the services of our corporate management team. These executives have substantial experience in managing, developing and acquiring retail real estate. Although we have entered into employment agreements with Joseph F. Coradino and Ronald Rubin and certain other members of our corporate management team, they could elect to terminate those agreements at any time. The loss of services of one or more members of our corporate management team could harm our business and our prospects.

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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, information technology system failures and lease and contract claims, that are generally uninsurable or not economically insurable, or might be subject to insurance coverage limitations, including large deductibles or co-payments or caps on coverage amounts. 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 loan 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 and investigation and cleanup 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 that 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 at a number of our properties, primarily in the form of floor tiles, mastics, roofing materials and adhesives. Fire-proofing material containing asbestos is present at some of our properties in limited concentrations or in limited areas. Under applicable laws and practices, asbestos-containing materials in good, non-friable condition are allowed to be present, although removal might be required in certain circumstances. In particular, in the course of any redevelopment, renovation, construction or build out of tenant space, asbestos-containing materials are generally removed.

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

Ground Water and Soil Contamination. 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.

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 $20.0 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.

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 operating expenses, which could increase occupancy costs for tenants and, to the extent that we are unable to recover operating expenses from tenants, could increase 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.

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. 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, subject to the terms and conditions of our 2010 Credit Facility. Currently, we face significant challenges because the conditions in the economy have reduced employment and have caused fluctuations and variations in business and consumer confidence and consumer spending on retail goods. In general, a number of factors can negatively affect the income generated by a retail property or the value of a property, including: a downturn in the national, regional or local economy; a decrease in employment or consumer confidence or spending; increases in operating costs, such as common area maintenance, real estate taxes, utility rates and insurance premiums; higher energy or fuel costs resulting from adverse weather conditions, natural disasters, geopolitical concerns, terrorist activities and other factors; changes in interest rate levels and the cost and availability of financing; 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; perceived changes in the convenience and quality of competing retail properties and other retailing options such as internet retailers or other strategies, such as using smartphones or other technologies to determine where to make and assist in making purchases; and changes in laws and regulations applicable to real property, including tax and zoning laws. Changes in one or more of these factors can lead to a decrease in the revenue or income generated by our properties and can have a material adverse effect on our financial condition and results of operations.

The illiquidity of real estate investments might delay or prevent us from selling properties that we determine no longer meet the strategic and financial criteria we apply and could significantly affect our ability to respond in a timely manner 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. We review all of the assets in our portfolio regularly and we make determinations about which assets have growth potential and which properties do not meet the strategic or financial criteria we apply and should be divested. We consider a few properties as non-core and intend to dispose of them. We have recently sold two mall properties and one power center property and are under contract to dispose of one power center property. Because real estate investments are relatively illiquid, our ability to quickly sell one or more properties in our portfolio in response to our evaluation or to changing economic and financial conditions is limited, particularly given current economic and retail industry conditions. The real estate market is affected by many factors that are beyond our control, such as general economic conditions, the availability of financing, interest rates, and the supply and demand for space. 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. The number of prospective buyers interested in purchasing malls is limited. 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 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. Furthermore, the properties that serve as collateral for our 2010 Credit Facility are subject to specified release prices being repaid to the lenders, which might be higher than the price we are offered (as was the case in connection with the sale of Phillipsburg Mall in 2013), and other mortgage loans might contain substantial prepayment penalties, which might restrict our ability to dispose of a property. There are also limitations under federal income tax laws applicable to REITs that limit our ability to sell assets. Therefore, if we want to sell one or more of our properties, we might not be able to make such dispositions in the desired time period, or at all, and might receive less consideration than we seek or than we originally invested in the property.

Before a property can be sold, we might be required to make expenditures to correct defects or to make improvements. We cannot assure you that we will have funds available to correct those defects or to make those improvements, and if we cannot do so, we might not be able to sell the property, or might be required to sell the property on unfavorable terms. In acquiring a property, we might agree with the sellers or others 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 war or violence, including at our properties, could adversely affect our financial condition and results of operations.

Future terrorist attacks in the United States, or other acts of war or violence, 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. Such a decrease in retail demand could make it difficult for us to renew leases or enter into new leases at our properties at lease rates equal to or above historical rates. Terrorist or other attacks or violent activities also could directly affect the value of our properties as a result of casualties or through damage, destruction or loss, or by making shoppers afraid to patronize such properties, and the availability of insurance for such acts, or of insurance generally, might decrease, 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 directly or indirectly affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. Customers of the tenants at an affected property, and at other properties, might be less inclined to shop at an affected location or at a retail property generally. Such acts might erode business and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for retail goods or real estate, decrease or delay the occupancy of our 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 might 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 of 1986, as amended), 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 of 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 the 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 of 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*. The Company s advance notice procedures with regard to shareholder proposals relating to the nomination of candidates for election as trustees, as provided in our amended and restated Trust Agreement, require, among other things, that advance written notice of any such proposals, containing prescribed information, 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).

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 F. Rubin and Joseph F. 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 or refinance, 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 are officers or trustees or 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 executive chairman, and George F. Rubin, a trustee and our vice chairman, have indirect ownership interests. In addition, we lease substantial office space from an entity in which the Rubins have an interest. Although we have a related party transaction policy and provision for a Special Committee of the Board of Trustees that reviews such transactions, our officers or trustees 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.

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RISKS RELATING TO OUR SECURITIES

Holders of our common shares might have their interest in us diluted by actions we take in the future.

Our May 2010 common share offering and our 2012 preferred share offerings were dilutive to our shareholders, and we continue to contemplate ways to reduce our leverage through a variety of means available to us, subject to the terms of the 2010 Credit Facility. These means might include obtaining equity capital, including through the issuance of common or preferred equity or equity-related securities if market conditions are favorable. Any issuance of equity securities might result in substantial dilution in the percentage of our common shares held by our then existing shareholders, and the interest of our shareholders might be materially adversely affected. The market price of our common shares could decline as a result of sales of a large number of shares in the market or the perception that such sales could occur. Additionally, future sales or issuances of substantial amounts of our common shares might be at prices below the then-current market price of our common shares and might adversely affect the market price of our common shares.

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

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

- Increases in market interest rates, relative to the dividend yield on our shares. If market interest rates increase, prospective purchasers of our securities might require a higher yield. Higher market interest rates would not, however, result in more funds being available 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 decrease;

- Possible future issuances of equity, equity-related or convertible securities, including securities senior as to distributions or liquidation rights;

- 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 the tax treatment of dividends and distributions);

- Perception, by market professionals and participants, of REITs generally and REITs in the retail sector, and malls, 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; and

- Investor confidence in the stock market or the real estate sector generally.

The issuances of preferred shares and any additional issuances of preferred shares in the future might adversely affect the earnings per share available to common shareholders and amounts available to common shareholders for payments of dividends.

We are not restricted by our organizational documents, contractual arrangements or otherwise from issuing additional preferred shares, including any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, preferred shares or any substantially similar securities in the future.

The market value of our common shares is based primarily upon the market s perception of our liquidity and capital resources, 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 shares will decrease. These metrics might be adversely affected by the existence of preferred shares, including our existing preferred shares and additional preferred shares that we might issue.

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We might change the dividend policy for our common shares in the future.

In February 2013, our Board of Trustees declared a cash dividend of $0.18 per share, payable in March 2013. 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, the terms and conditions of our 2010 Credit Facility and other factors that our Board of Trustees deems relevant. Any change in our dividend policy could have a material adverse effect on the market price of our common shares.

In addition, the 2010 Credit Facility provides generally that dividends may not exceed 110% of REIT Taxable Income for a fiscal year, or 95% of funds from operations (unless necessary for us to maintain our status as a REIT). All capitalized terms used in this section and not otherwise defined have the meanings ascribed to such terms in the 2010 Credit Facility. We must maintain our status as a REIT at all times.

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 39.6%. In 2003, the maximum tax rate on certain corporate dividends received by individuals was reduced to an historically low maximum rate of 15%. Beginning January 1, 2013, this maximum rate was increased to 20%. However, dividends from REITs do not generally qualify for the lower tax rate on corporate dividends because REITs generally do not pay corporate-level