PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 8-K
June 16, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) May 30, 2003

Pennsylvania Real Estate Investment Trust
(Exact Name of Registrant as Specified in Charter)

Pennsylvania	1-6300	23-6216339
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

The Bellevue, 200 S. Broad Street, Philadelphia, Pennsylvania 19102
(Address of Principal Executive Offices) (Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

Item 2. Acquisition or Disposition of Assets.

On May 30, 2003, Pennsylvania Real Estate Investment Trust (together with its subsidiaries and affiliated entities, "PREIT") completed the sale of 13 of its wholly-owned multifamily properties to MPM Acquisition Corp., an affiliate of Morgan Properties, Ltd. (together, "Morgan") for a total sale price of $314 million (approximately $151.5 million of which consisted of assumed indebtedness). The sale was completed pursuant to a purchase and sale agreement entered into by PREIT in March 2003 to sell all of the 19 properties and related assets in its portfolio of multifamily properties to Morgan for $420 million, which included the assumption of certain indebtedness by Morgan. The 19 properties in PREIT's multifamily portfolio (aggregating to a total of 7,242 apartment units), consisted of 15 properties that were wholly-owned by PREIT and four multifamily properties in which PREIT held a 50% joint venture interest. Prior to the closing on May 30, 2003, PREIT and Morgan amended the purchase and sale agreement to exclude from the transaction PREIT's interests in the four properties held in joint venture form, resulting in a reduction of approximately $24.85 million, inclusive of $13.4 million in indebtedness that was to be assumed, from the original sale price of $420 million.

The original purchase and sale agreement was also amended to reflect (1) the deferral of the closing of two of the wholly-owned multifamily properties, Emerald Point in Virginia Beach, Virginia and Regency Lakeside in Omaha, Nebraska, until on or before July 31, 2003 (unless further extended for 90 days by both parties) pending receipt of a required consent from Fannie Mae to Morgan's assumption of the loans secured by those properties and (2) the addition of a purchase price credit of $3 million for Morgan toward its closing costs upon the closing of the sale of all 15 of PREIT's wholly-owned multifamily properties. If the sale of the two remaining wholly-owned properties occurs, the aggregate purchase price for those two properties is expected to be approximately $81 million, inclusive of $34 million in assumed indebtedness and before giving effect to the $3 million purchase price credit. A cash deposit of approximately $3.1 million by Morgan is being held pending the closing of the two remaining wholly-owned properties. If the transaction does not close because Fannie Mae fails to consent, the $3.1 million deposit will be returned to Morgan. If the transaction does not close for any other reason (other than by reason of a default caused by PREIT), PREIT will be entitled to keep the $3.1 million deposit.

With respect to its four joint venture multifamily properties, PREIT has sold its 50% interest in the following two properties: (1) Cambridge Hall Apartments in West Chester, Pennsylvania; sold on May 1, 2003 to Tree Farm Road, L.P. (PREIT's joint venture partner) for $6.7 million, inclusive of $2.5 million in assumed indebtedness and (2) Countrywood Apartments in Tampa, Florida; sold on May 31, 2003 to Countrywood Apartments General Partnership (PREIT's joint venture partner) for $9.1 million, inclusive of $7.3 million in assumed indebtedness. The sale of PREIT's interests in the other two joint venture properties is currently the subject of discussions between PREIT and its joint venture partners.

The purchase price for each of these transactions was determined by arm's length negotiations. PREIT has used the net proceeds of the sales of approximately $164.8 million to pay down its unsecured acquisition credit facility entered into in connection with PREIT's previously announced acquisition of six malls from affiliated companies of The Rouse Company. Approximately $10.2 million is currently outstanding under such credit facility.

PREIT's sale of its multifamily portfolio to Morgan has been designed to meet the requirements of Section 1031 of the Internal Revenue Code for a tax-deferred exchange for certain of the retail properties acquired from The Rouse Company.

Copies of the principal agreements relating to the transactions are attached hereto and incorporated by reference herein. The description contained herein of these agreements does not purport to be complete and is qualified in its entirety by reference to the provisions of these agreements.

This report contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and other matters that are not historical facts. These forward-looking statements reflect PREIT's current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause future events, achievements or results to differ materially from those expressed by the forward-looking statements. In particular, PREIT may not be able to consummate the sale of its two wholly-owned multifamily properties or its interests in the two remaining multifamily joint ventures on previously announced terms, favorable terms to PREIT, or at all, or if such transactions are consummated, PREIT's actual results may differ significantly from those expressed in any forward-looking statement. Certain factors that could cause PREIT not to consummate the transactions include, without limitation, the inability to agree on terms for the sale of the two joint venture properties to PREIT's joint venture partners, the satisfaction of closing conditions applicable to the transactions (some of which are beyond PREIT's control), and other economic, business or competitive factors. In addition, PREIT's business is subject to uncertainties regarding the revenues, operating expenses, leasing activities, occupancy rates, and other competitive factors relating to PREIT's portfolio and changes in local market conditions as well as general economic, financial and political conditions, including the possibility of outbreak or escalation of war or terrorist attacks, any of which may cause future events, achievements or results to differ materially from those expressed by the forward-looking statements. PREIT does not intend to and disclaims any duty or obligation to update or revise any forward-looking statements set forth in this report to reflect new information, future events or otherwise.

Item 7. Financial Statements and Exhibits.

(b) Pro forma Financial Information:

The following unaudited pro forma financial information is attached hereto:

(i) Pro Forma Balance Sheet of PREIT as of March 31, 2003.

(ii) Pro Forma Statement of Income of PREIT for the Year Ended December 31, 2002.

(iii) Pro Forma Statement of Income of PREIT for the Three Months Ended March 31, 2003.

(iv) Notes to Management's Assumptions to Unaudited Pro Forma Financial Information.

(c) Exhibits

2.1+ Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of March 3, 2003, filed as Exhibit 2.1 to PREIT's Current Report on Form 8-K dated March 3, 2003 and filed March 6, 2003, is incorporated herein by reference.

2.2 First Amendment to Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of March 3, 2003, filed as Exhibit 2.2 to PREIT's Current Report on Form 8-K dated March 3, 2003 and filed March 6, 2003, is incorporated herein by reference.

2.3 Second Amendment to Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of April 4, 2003 filed as Exhibit 2.1 to PREIT's Current Report on Form 8-K dated April 4, 2003 and filed April 10, 2003, is incorporated herein by reference.

2.4+* Third Amendment to Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of May 27, 2003.

2.5* Letter Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp, dated May 30, 2003.

2.6+* Purchase and Sale Agreement between Mid-Island Properties, Inc. and PREIT Associates, L.P. dated May 1, 2003.

2.7* Assignment and Assumption of Purchase and Sale Agreement between Mid-Island Properties, Inc. and Tree Farm Road, L.P. dated May 1, 2003.

2.8* Partnership Assignment Agreement between PREIT Associates, L.P. and Tree Farm Road, L.P. dated May 1, 2003.

-4-

2.9*+ Purchase and Sale Agreement by and among Countrywood Apartments Limited Partnership, Countrywood Apartments General Partnership, PR Countrywood LLC and PREIT Associates, L.P. dated May 30, 2003.

+ Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits and schedules have been omitted, copies of which will be furnished to the SEC upon request.

* Filed herewith.

-5-

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

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: June 16, 2003 By: Jonathan B. Weller

Jonathan B. Weller
President and Chief Operating Officer

Exhibit Index

2.1+ Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of March 3, 2003, filed as Exhibit 2.1 to PREIT's Current Report on Form 8-K dated March 3, 2003 and filed March 6, 2003, is incorporated herein by reference.

2.2 First Amendment to Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of March 3, 2003, filed as Exhibit 2.2 to PREIT's Current Report on Form 8-K dated March 3, 2003 and filed March 6, 2003, is incorporated herein by reference.

2.3 Second Amendment to Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of April 4, 2003 filed as Exhibit 2.1 to PREIT's Current Report on Form 8-K dated April 4, 2003 and filed April 10, 2003, is incorporated herein by reference.

2.4+* Third Amendment to Purchase and Sale Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp., dated as of May 27, 2003.

2.5* Letter Agreement between PREIT Associates, L.P., et al. and MPM Acquisition Corp, dated May 30, 2003.

2.6+* Purchase and Sale Agreement between Mid-Island Properties, Inc. and PREIT Associates, L.P. dated May 1, 2003.

2.7* Assignment and Assumption of Purchase and Sale Agreement between Mid-Island Properties, Inc. and Tree Farm Road, L.P. dated May 1, 2003.

2.8* Partnership Assignment Agreement between PREIT Associates, L.P. and Tree Farm Road, L.P. dated May 1, 2003.

2.9*+ Purchase and Sale Agreement by and among Countrywood Apartments Limited Partnership, Countrywood Apartments General Partnership, PR Countrywood LLC and PREIT Associates, L.P. dated May 30, 2003.

+ Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits and schedules have been omitted, copies of which will be furnished to the SEC upon request.

* Filed herewith.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
PRO FORMA BALANCE SHEET AND
STATEMENTS OF INCOME

This pro forma information should be read in conjunction with the historical financial statements and notes of PREIT included in its annual report on Form 10-K for the year ended December 31, 2002 and its quarterly report filed on Form 10-Q for the three months ended March 31, 2003.

The following unaudited pro forma information sets forth the pro forma balance sheet of PREIT as of March 31, 2003 and the pro forma statements of income for the year ended December 31, 2002 and the three months ended March 31, 2003 to give effect to the disposition or planned disposition of PREIT's multifamily properties as described above in Item 2.

The following unaudited pro forma balance sheet presents information as if the dispositions had taken place on March 31, 2003. The following unaudited pro forma statement of income for the year ended December 31, 2002 presents information as if the dispositions had taken place on January 1, 2002 and as if the properties that PREIT now intends to sell were "held for sale" as of that date. Pursuant to SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," PREIT reflects the operating results of properties "held for sale" in discontinued operations. There is no pro forma impact from the dispositions or planned dispositions in the income statement for the three months ended March 31, 2003 because the multifamily portfolio was classified as discontinued operations in that income statement.

The pro forma financial information is unaudited and prepared for informational purposes only and is not necessarily indicative of future results or of actual results that would have been achieved had the dispositions of the properties been consummated as of the dates noted in the prior paragraph.

Pennsylvania Real Estate Investment Trust
Pro Forma Balance Sheet
As of March 31, 2003

(Unaudited)
(In thousands, except per share amounts)

	Company Historical	Multifamily Disposition	(A)	Tr

Assets:			
Investments in real estate, at cost:			
Retail properties	$ 426,428	$ -	$
Construction in progress	19,232	-	
Industrial properties	2,504	-	
Total investments in real estate	448,164	-	
Less accumulated depreciation	(44,036)	-	
	404,128	-	
Investments in and advances to partnerships and joint ventures, at equity	25,556	2,712	
	429,684	2,712	
Other assets:			
Assets held for sale	205,021	(155,482)	
Cash and cash equivalents	8,115	164,750	
Rents and sundry receivables (net of allowance for doubtful accounts of $1,084)	9,829	-	
Deferred costs and other assets, net	46,598	-	
	$ 699,247	$ 11,980	$
Liabilities:			
Mortgage notes payable	$ 126,193	$ -	$
Bank loans payable	146,900	-	
Liabilities related to assets held for sale	190,679	(155,857)	
Tenants' deposits and deferred rents	1,633	-	
Accrued expenses and other liabilities	16,172	-	
Total liabilities	481,577	(155,857)	
Minority interest	32,236	-	
Shareholders' equity:			
Shares of beneficial interest, $1 par; 100,000 authorized; issued and outstanding 16,754 shares	16,754	-	
Capital contributed in excess of par	218,158	-	
Deferred compensation	(3,579)	-	
Accumulated other comprehensive loss	(3,845)	-	
Distributions in excess of net income	(42,054)	167,837	
Total shareholders' equity	185,434	167,837	
	$ 699,247	$ 11,980	$

The accompanying notes are an integral part of the pro forma financial statements.

Pennsylvania Real Estate Investment Trust
Pro Forma Statement of Income
For the Year Ended December 31, 2002

(Unaudited)

(In thousands, except per share amounts)

	Company Historical	Multifamily Disposition (A)
Revenues:		
Real estate revenue		
Base rent	$ 94,636	$ (48,614)
Expense reimbursements	13,068	(109)
Percentage rent	1,948	-
Lease termination revenue	1,034	(280)
Other real estate revenues	3,913	(2,255)
Total real estate revenues	114,599	(51,258)
Management company revenue	11,003	-
Interest and other income	711	-
Total revenues	126,313	(51,258)
Expenses:		
Property operating expenses	37,548	(21,283)
Depreciation and amortization	21,411	(8,442)
General and administrative expenses:		
Corporate payroll and benefits	14,138	-
Other general and administrative expenses	10,609	-
Total general and administrative expenses	24,747	-
Interest expense	28,000	(12,622)
Total expenses	111,706	(42,347)
	14,607	(8,911)
Equity in income of partnerships and joint ventures	7,449	(1,064)
Income before minority interest and discontinued operations	22,056	(9,975)
Minority interest in operating partnership	(2,194)	992
Income from continuing operations	$ 19,862	$ (8,983)
Basic income from continuing operations per share	$ 1.23	
Diluted income from continuing operations per share	$ 1.21	
Weighted average number of shares outstanding:		
Basic	16,162	
Diluted	16,388	

The accompanying notes are an integral part of the pro forma financial statements.

Pennsylvania Real Estate Investment Trust
Pro Forma Statement of Income
For the Three Months Ended March 31, 2003

(Unaudited)
(In thousands, except per share amounts)

	Company Historical	Multifamily Disposition (A)
Revenues:		
Real estate revenue		
Base rent	$ 11,924	$ -
Expense reimbursements	3,902	-
Percentage rent	273	-
Lease termination revenue	259	-
Other real estate revenue	334	-
Total real estate revenue	16,692	-
Management company revenue	2,181	-
Interest and other income	142	-
Total revenues	19,015	-
Expenses:		
Property operating expenses	4,899	-
Depreciation and amortization	3,513	-
General and administrative expenses:		
Corporate payroll and benefits	3,636	-
Other general and administrative expenses	2,690	-
Total general and administrative expenses	6,326	-
Interest expense	4,046	-
Total expenses	18,784	-
	231	-
Equity in income of partnerships and joint ventures	1,593	-
Gains on sales of interests in real estate	1,191	-
Income before minority interest and discontinued operations	3,015	-
Minority interest in operating partnership	(287)	-
Income from continuing operations	$ 2,728	$ -
Basic income from continuing operations per share	$ 0.16	
Diluted income from continuing operations per share	$ 0.16	
Weighted average number of shares outstanding:		
Basic	16,545	

Diluted	16,818

The accompanying notes are an integral part of the pro forma financial statements.

Pennsylvania Real Estate Investment Trust
Notes to Management's Assumptions to
Unaudited Pro Forma Financial Information

1. Basis of Presentation

Pennsylvania Real Estate Investment Trust, (collectively with its subsidiaries, the "Company") is a fully integrated, self-administered and self-managed real estate investment trust that acquires, develops, redevelops and operates retail, multifamily and industrial properties. The Company's interest in its properties is held through PREIT Associates, L.P.

2. Adjustments to Pro Forma Balance Sheet

(A) To record the disposition of certain multifamily properties. The wholly-owned multifamily properties were classified as held for sale in the historical March 31, 2003 balance sheet. The two multifamily joint ventures that have been sold were reflected in the investment in joint ventures balance in the historical March 31, 2003 balance sheet. The combined investment in those joint ventures was a deficit of ($2.7 million).

(B) To illustrate the pro forma effect of the completion of the pending sale of the two remaining wholly-owned multifamily properties upon the satisfaction of the conditions to closing.

(C) The Company has not yet entered into a definitive agreement to sell its interests in the two remaining multifamily joint venture properties, Fox Run Apartments in Warminister, Pennsylvania and Willow-O-Hill Apartments in Reading, Pennsylvania. The combined investment in those joint ventures was a deficit of ($1.2 million) and is reflected in the investment in joint ventures balance and accordingly no pro forma balance sheet adjustment has been presented.

3. Adjustments to Pro Forma Statements of Income

(A) To remove the income statement impact of all of the multifamily properties from the historical income statement for the year ended December 31, 2002. There is no pro forma impact to the historical income statement for the three months ended March 31, 2003 because the multifamily portfolio was classified as assets held for sale at March 31, 2003 and all operations were included in discontinued operations in that income statement.