

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Form 10-Q

November 07, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2007

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-6216339
(I.R.S. Employer
Identification No.)

200 South Broad Street

Philadelphia, PA

19102

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(Address of principal executive offices)

(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common shares of beneficial interest, \$1.00 par value per share, outstanding at November 1, 2007: 38,952,042

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(in thousands, except per share amounts)

(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	\$ 2,960,023	\$ 2,909,862
Construction in progress	320,494	216,892
Land held for development	5,616	5,616
Total investments in real estate	3,286,133	3,132,370
Accumulated depreciation	(375,013)	(306,893)
Net investments in real estate	2,911,120	2,825,477
INVESTMENTS IN PARTNERSHIPS, at equity:	36,895	38,621
OTHER ASSETS:		
Cash and cash equivalents	23,548	15,808
Rents and other receivables (net of allowance for doubtful accounts of \$11,550 and \$11,120 at September 30, 2007 and December 31, 2006, respectively)	38,812	46,065
Intangible assets (net of accumulated amortization of \$129,413 and \$108,545 at September 30, 2007 and December 31, 2006, respectively)	112,519	139,117
Deferred costs and other assets	99,916	79,120
Assets held for sale		1,401
Total assets	\$ 3,222,810	\$ 3,145,609
LIABILITIES:		
Mortgage notes payable	\$ 1,649,278	\$ 1,572,908
Debt premium on mortgage notes payable	16,930	26,663
Exchangeable senior notes	287,500	
Credit Facility	245,000	332,000
Corporate notes payable	1,148	1,148
Tenants' deposits and deferred rents	12,568	12,098
Distributions in excess of partnership investments	55,215	63,439
Accrued expenses and other liabilities	113,674	93,656
Liabilities related to assets held for sale		34
Total liabilities	2,381,313	2,101,946
MINORITY INTEREST:	66,979	114,363

COMMITMENTS AND CONTINGENCIES (Note 9)

SHAREHOLDERS' EQUITY:

Shares of beneficial interest, \$1.00 par value per share; 100,000 shares authorized; issued and outstanding 38,664 shares at September 30, 2007 and 36,947 shares at December 31, 2006, respectively	38,664	36,947
Non-convertible senior preferred shares, 11% cumulative, \$.01 par value per share; 2,475 shares authorized, issued and outstanding at December 31, 2006		25
Capital contributed in excess of par	805,811	917,322
Accumulated other comprehensive income	10,055	7,893
Distributions in excess of net income	(80,012)	(32,887)
 Total shareholders' equity	 774,518	 929,300
 Total liabilities, minority interest and shareholders' equity	 \$ 3,222,810	 \$ 3,145,609

See accompanying notes to the unaudited consolidated financial statements.

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(in thousands of dollars)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
REVENUE:				
Real estate revenue:				
Base rent	\$ 71,547	\$ 70,644	\$ 213,300	\$ 210,909
Expense reimbursements	33,369	33,951	101,028	99,544
Percentage rent	1,289	1,433	4,922	5,196
Lease termination revenue	690	440	1,408	2,583
Other real estate revenue	3,985	4,518	11,638	12,704
Total real estate revenue	110,880	110,986	332,296	330,936
Management company revenue	854	545	1,827	1,832
Interest and other income	535	566	2,323	1,452
Total revenue	112,269	112,097	336,446	334,220
EXPENSES:				
Property operating expenses:				
CAM and real estate taxes	(31,620)	(31,408)	(95,116)	(92,429)
Utilities	(6,886)	(6,886)	(19,055)	(17,965)
Other operating expenses	(5,968)	(6,759)	(17,263)	(19,214)
Total property operating expenses	(44,474)	(45,053)	(131,434)	(129,608)
Depreciation and amortization	(32,743)	(30,807)	(96,970)	(91,421)
Other expenses:				
General and administrative expenses	(9,888)	(9,567)	(31,314)	(29,817)
Executive separation				(3,985)
Income taxes and other	(109)	(142)	(520)	(383)
Total other expenses	(9,997)	(9,709)	(31,834)	(34,185)
Interest expense	(24,866)	(24,041)	(72,338)	(72,319)
Total expenses	(112,080)	(109,610)	(332,576)	(327,533)
Income before equity in income of partnerships, gains on sales of interests in real estate, minority interest and discontinued operations	189	2,487	3,870	6,687
Equity in income of partnerships	1,148	1,044	3,272	4,075
Gains on sales of interests in real estate			579	
Gains on sales of non-operating real estate	247	166	1,731	381
Income before minority interest and discontinued operations	1,584	3,697	9,452	11,143
Minority interest	(103)	(395)	(884)	(1,221)
Income from continuing operations	1,481	3,302	8,568	9,922

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Income (loss) from discontinued operations:				
Operating results from discontinued operations	19	(31)	(118)	(2,386)
Gain on sale of discontinued operations		1,414	6,699	1,414
Minority interest	(1)	(141)	(691)	98
Income (loss) from discontinued operations	18	1,242	5,890	(874)
Net income	1,499	4,544	14,458	9,048
Redemption of preferred shares	13,347		13,347	
Dividends on preferred shares	(1,134)	(3,403)	(7,941)	(10,209)
Net income available (loss allocable) to common shareholders	\$ 13,712	\$ 1,141	\$ 19,864	\$ (1,161)

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
EARNINGS (LOSS) PER SHARE:				
Income from continuing operations	\$ 1,481	\$ 3,302	\$ 8,568	\$ 9,922
Redemption of preferred shares	13,347		13,347	
Dividends on preferred shares	(1,134)	(3,403)	(7,941)	(10,209)
Income (loss) from continuing operations allocable to common shareholders	13,694	(101)	13,974	(287)
Dividends on unvested restricted shares	(272)	(247)	(815)	(796)
Income (loss) from continuing operations used to calculate earnings per share	\$ 13,422	\$ (348)	\$ 13,159	\$ (1,083)
Income (loss) from discontinued operations used to calculate earnings per share	\$ 18	\$ 1,242	\$ 5,890	\$ (874)
Basic earnings (loss) per share				
Income (loss) from continuing operations	\$ 0.35	\$ (0.01)	\$ 0.35	\$ (0.03)
Income (loss) from discontinued operations	0.00	0.03	0.16	(0.02)
	\$ 0.35	\$ 0.02	\$ 0.51	\$ (0.05)
Diluted earnings (loss) per share				
Income (loss) from continuing operations	\$ 0.35	\$ (0.01)	\$ 0.35	\$ (0.03)
Income (loss) from discontinued operations	0.00	0.03	0.16	(0.02)
	\$ 0.35	\$ 0.02	\$ 0.51	\$ (0.05)
Weighted average shares outstanding-basic	38,181	36,282	37,219	36,189
Effect of common shares equivalents	295		363	
Weighted average shares outstanding-diluted	38,476	36,282 ⁽¹⁾	37,582	36,189 ⁽¹⁾

- (1) For the three and nine month periods ended September 30, 2006, there are net losses allocable to common shareholders from continuing operations, so the effect of common share equivalents is excluded from the calculation of diluted income (loss) per share for these periods because it would be antidilutive.

See accompanying notes to the unaudited consolidated financial statements.

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(in thousands of dollars)

(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Cash Flows from Operating Activities:		
Net income	\$ 14,458	\$ 9,048
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	73,433	68,132
Amortization	15,865	17,750
Straight-line rent adjustments	(1,515)	(2,119)
Provision for doubtful accounts	2,083	2,669
Amortization of deferred compensation	5,208	4,657
Minority interest	1,575	1,123
Gains on sales of interests in real estate	(9,009)	(1,794)
Change in assets and liabilities:		
Net change in other assets	(1,238)	1,160
Net change in other liabilities	194	15,189
Net cash provided by operating activities	101,054	115,815
Cash Flows from Investing Activities:		
Investments in consolidated real estate acquisitions, net of cash acquired	(11,280)	(34,969)
Investments in consolidated real estate improvements	(13,589)	(25,006)
Additions to construction in progress	(144,742)	(108,950)
Investments in partnerships	(9,497)	(1,519)
Decrease (increase) in cash escrows	5,049	(961)
Capitalized leasing costs	(3,502)	(3,458)
Additions to leasehold improvements	(811)	(570)
Cash distributions from partnerships in excess of equity in income	2,998	55,454
Cash proceeds from sales of consolidated real estate investments	31,486	9,039
Net cash used in investing activities	(143,888)	(110,940)
Cash Flows from Financing Activities:		
Proceeds from sale of exchangeable senior notes	281,031	
Proceeds from mortgage notes payable	150,000	246,500
Repayment of mortgage notes payable	(56,663)	
Net repayment of Credit Facility	(87,000)	(65,500)
Repayment of corporate notes payable		(94,400)
Principal installments on mortgage notes payable	(16,967)	(17,083)
Cash proceeds from settlement of interest rate swap agreements	4,069	
Payment of deferred financing costs	(3,511)	(1,358)
Purchase of capped calls	(12,578)	
Shares of beneficial interest issued	13,845	4,940
Shares of beneficial interest repurchased	(12,427)	(2,545)
Operating partnership units redeemed	(78)	(352)
Redemption of preferred shares	(129,955)	

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Distributions paid to common shareholders	(64,271)	(62,789)
Distributions paid to preferred shareholders	(8,659)	(10,209)
Distributions paid to operating partnership unit holders and minority partners	(6,262)	(6,587)
Net cash provided by (used in) financing activities	50,574	(9,383)
Net change in cash and cash equivalents	7,740	(4,508)
Cash and cash equivalents, beginning of period	15,808	21,642
Cash and cash equivalents, end of period	\$ 23,548	\$ 17,134

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited)

1. BASIS OF PRESENTATION:

Pennsylvania Real Estate Investment Trust (PREIT or the Company) prepared the accompanying consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading. The consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in PREIT's Annual Report on Form 10-K filed on March 1, 2007 for the year ended December 31, 2006, and as revised by PREIT's Current Report on Form 8-K filed on July 16, 2007 that was filed to reflect the operations of Schuylkill Mall as discontinued operations and the reclassification of P&S Office Building to continuing operations. In management's opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company and its subsidiaries and the consolidated results of its operations and its cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (REITs) in the United States, has a primary investment focus on retail shopping malls and power and strip centers located in the Mid-Atlantic region or in the eastern half of the United States. As of September 30, 2007, the Company's portfolio consisted of a total of 55 properties. The Company's retail portfolio contains 49 properties in 13 states and includes 38 shopping malls and 11 power and strip centers. The ground-up development portion of the Company's portfolio contains six properties in four states, with three classified as power centers, two classified as mixed use (a combination of retail and other uses) and one classified as other.

The Company holds its interest in its portfolio of properties through its operating partnership, PREIT Associates, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership and, as of September 30, 2007, the Company held a 93.5% interest in the Operating Partnership, and consolidates it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem his/her units of limited partnership interest in the Operating Partnership (OP Units) for cash or, at the election of the Company, the Company may acquire such OP Units for shares of the Company on a one-for-one basis, in some cases beginning one year following the respective issue date of the OP Units and in other cases immediately.

The Company provides its management, leasing and real estate development services through two companies: PREIT Services, LLC (PREIT Services), which generally develops and manages properties that the Company consolidates for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally develops and manages properties for third parties as well as properties that the Company does not consolidate for financial reporting purposes, including properties owned by partnerships in which the Company owns an interest. PREIT Services and PRI are consolidated. Because PRI is a taxable REIT subsidiary as defined by federal tax laws, it is capable of offering a broad range of services to tenants without jeopardizing the Company's continued qualification as a real estate investment trust under federal tax law.

Certain prior period amounts have been reclassified to conform with the current period presentation.

**2. RECENT ACCOUNTING PRONOUNCEMENTS:
SFAS No. 159**

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In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has not determined whether the adoption of SFAS No. 159 will have any material effect on the Company s financial statements.

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In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a new definition of fair value, provides guidance on how to measure fair value and establishes new disclosure requirements of assets and liabilities at their fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company has not determined whether the adoption of SFAS No. 157 will have any material effect on the Company's financial statements.

FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 addresses the recognition and measurement of tax-based benefits on the probability that they will be realized. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 had no material impact on the Company's financial statements.

The Company, or its subsidiaries, file income tax returns in the U.S. federal jurisdiction and in various state and local jurisdictions. The Company's open tax years generally include tax years 2003 to 2006 as of the date of adoption.

3. REAL ESTATE ACTIVITIES:

Investments in real estate as of September 30, 2007 and December 31, 2006 were comprised of the following:

(in thousands of dollars)	September 30, 2007	December 31, 2006
Buildings, improvements and construction in progress	\$ 2,749,372	\$ 2,599,499
Land, including land held for development	536,761	532,871
Total investments in real estate	3,286,133	3,132,370
Accumulated depreciation	(375,013)	(306,893)
Net investments in real estate	\$ 2,911,120	\$ 2,825,477

Acquisition

In August 2007, the Company purchased a land parcel in Monroe Township, Pennsylvania for \$5.5 million. The Company intends to develop this land and other land owned by the Company in the area into a power center to be known as Monroe Marketplace.

Dispositions

In August 2007, the Company sold undeveloped land adjacent to Wiregrass Commons for \$2.1 million. The Company recorded a \$0.3 million gain on this sale.

In May 2007, the Company sold an outparcel and related land improvements at Plaza at Magnolia for \$11.3 million. The Company recorded a \$1.5 million gain on the sale.

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

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

Discontinued Operations

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the Company has presented as discontinued operations the operating results of Schuylkill Mall, which was sold in March 2007, and South Blanding Village, which was sold in September 2006.

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The following table summarizes revenue and expense information for the Company's discontinued operations:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Real estate revenue	\$ 19	\$ 1,528	\$ 1,056	\$ 4,785
Expenses:				
Property operating expenses		(907)	(823)	(2,695)
Interest expense		(300)	(136)	(914)
Depreciation and amortization		(352)	(215)	(3,562)
Total expenses		(1,559)	(1,174)	(7,171)
Operating results from discontinued operations	19	(31)	(118)	(2,386)
Gain on sale of discontinued operations		1,414	6,699	1,414
Minority interest	(1)	(141)	(691)	98
Income (loss) from discontinued operations	\$ 18	\$ 1,242	\$ 5,890	\$ (874)

P&S Office Building

During the first quarter of 2007, the Company reclassified P&S Office Building in Gadsden, Alabama for accounting purposes from held for sale to continuing operations. The property no longer meets the conditions for an exception to the one-year classification requirement in SFAS No. 144. The Company intends to continue to actively market P&S Office Building for sale, but at this time, it cannot determine if or when a sale will be consummated. For balance sheet purposes, as of March 31, 2007, the assets and liabilities of P&S Office Building were reclassified from assets held for sale and liabilities related to assets held for sale into the appropriate balance sheet captions. Because P&S Office Building was considered held for sale as of December 31, 2006, no reclassifications related to P&S Office Building were made as of that date. For income statement purposes, the results of operations for the P&S Office Building are presented in continuing operations for all periods presented. In the first quarter of 2007, the Company recorded depreciation and amortization expense of \$0.2 million to reflect the depreciation and amortization during all of the period that P&S Office Building was classified as held for sale.

Capitalization of Costs

Costs incurred for interest, real estate taxes and insurance that are directly related to development and redevelopment projects are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Costs incurred for such items after the property is substantially complete and ready for its intended use are charged to expense as incurred. The Company capitalizes a portion of development department employees' compensation and benefits related to time spent involved in development and redevelopment projects.

The Company capitalizes payments made to obtain options to acquire real property. All other related costs that are incurred before acquisition of a property are capitalized if the acquisition of the property or if the acquisition of an option to acquire the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to expense when it is no longer probable that the property will be acquired.

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

The following table summarizes the Company's capitalized salaries and benefits, real estate taxes and interest for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,	Nine Months Ended September 30,
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(in thousands of dollars)	2007	2006	2007	2006
Development and redevelopment:				
Salaries and benefits	\$ 603	\$ 723	\$ 1,591	\$ 1,707
Real estate taxes	\$ 520	\$ 1,089	\$ 1,818	\$ 1,328
Interest	\$ 4,455	\$ 2,799	\$ 11,883	\$ 6,154
Leasing:				
Salaries and benefits	\$ 1,011	\$ 1,115	\$ 3,502	\$ 3,458

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The following table presents summarized financial information of the equity investments in the Company's unconsolidated partnerships as of September 30, 2007 and December 31, 2006:

(in thousands of dollars)	September 30, 2007	December 31, 2006
ASSETS:		
Investments in real estate, at cost:		
Operating properties	\$ 345,807	\$ 344,909
Construction in progress	34,786	8,312
Total investments in real estate	380,593	353,221
Accumulated depreciation	(84,486)	(75,860)
Net investments in real estate	296,107	277,361
Cash and cash equivalents	634	5,865
Deferred costs and other assets, net	29,807	26,535
Total assets	326,548	309,761
LIABILITIES AND PARTNERS' EQUITY/DEFICIT:		
Mortgage notes payable	379,325	382,082
Other liabilities	24,995	18,418
Total liabilities	404,320	400,500
Net deficit	(77,772)	(90,739)
Partners' share	38,399	44,961
Company's share	(39,373)	(45,778)
Excess investment ⁽¹⁾	14,588	14,211
Advances	6,466	6,749
Net deficit and advances	\$ (18,319)	\$ (24,818)
Investment in partnerships, at equity	\$ 36,896	\$ 38,621
Distributions in excess of partnership investments	(55,215)	(63,439)
Net investments and advances	\$ (18,319)	\$ (24,818)

⁽¹⁾ Excess investment represents the unamortized difference of the Company's investment over the Company's share of the equity in the underlying net investment in the partnerships. The excess investment is amortized over the life of the properties within the partnership, and the amortization is included in Equity in income of partnerships.

The following table summarizes the Company's share of equity in income of partnerships for the three and nine months ended September 30, 2007 and 2006:

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(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Real estate revenue	\$ 16,977	\$ 16,528	\$ 50,542	\$ 48,974
Expenses:				
Property operating expenses	(5,097)	(4,582)	(15,225)	(14,143)
Interest expense	(6,053)	(6,489)	(18,406)	(16,149)
Depreciation and amortization	(3,303)	(3,234)	(9,881)	(10,137)
Total expenses	(14,453)	(14,305)	(43,512)	(40,429)
Net income	2,524	2,223	7,030	8,545
Partners' share	(1,262)	(1,111)	(3,515)	(4,272)
Company's share	1,262	1,112	3,515	4,273
Amortization of excess investment	(114)	(68)	(243)	(198)
Equity in income of partnerships	\$ 1,148	\$ 1,044	\$ 3,272	\$ 4,075

In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall in Whitehall, Pennsylvania entered into a \$150.0 million mortgage loan that is secured by Lehigh Valley Mall. The Company owns an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only are required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 56 basis points. There are three one-year extension options, provided that there is no event of default and that the borrower buys an interest rate cap for the term of any applicable extension. In August 2007, the partnership that owns the mall exercised the first one-year extension option.

In November 2005, the Company and its partner acquired Springfield Mall in Springfield, Pennsylvania, with 0.6 million square feet, for \$103.5 million. To partially finance the acquisition costs, the Company and its partner, an affiliate of Kravco Simon Investments, L.P. and Simon Property Group, Inc. obtained a \$76.5 million mortgage loan. The interest rate on the loan is 1.10% over LIBOR, or 1.275% over LIBOR for any period during which the Strawbridge's retail department store has ceased to be open for business and before another anchor retail department store opens for business in that space. The mortgage loan had a term of two years, and the borrowers have three one-year extension options. In September 2007, the partnership that owns the mall exercised the first one-year extension option.

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5. FINANCING ACTIVITY:

Credit Facility

The Company's \$500.0 million Credit Facility can be increased to \$650.0 million under prescribed conditions, and bears interest at a rate between 0.95% and 1.40% per annum over LIBOR based on the Company's leverage. In determining the Company's leverage, the capitalization rate used to calculate Gross Asset Value is 7.50%. The Credit Facility has a term that expires in January 2009, with an additional 14 month extension option, provided that there is no event of default at that time. The Credit Facility contains affirmative and negative covenants customarily found in facilities of this type. See Note 4 to the audited financial statements of the Company for the year ended December 31, 2006 contained in the Current Report on Form 8-K filed July 16, 2007. As of September 30, 2007, the Company was in compliance with all of these debt covenants.

As of September 30, 2007, \$245.0 million was outstanding under the Credit Facility. The Company pledged \$16.7 million under the Credit Facility as collateral for letters of credit, and the unused portion of the Credit Facility that was available to the Company was \$238.3 million at September 30, 2007. The weighted average effective interest rate based on amounts borrowed was 7.30% and 6.90% for the three and nine month periods ended September 30, 2007, respectively. The weighted average interest rate on outstanding Credit Facility borrowings at September 30, 2007 was 6.70%.

Exchangeable Senior Notes

In May 2007, the Company, through its Operating Partnership, completed the sale of \$287.5 million aggregate principal amount exchangeable senior notes due 2012. The net proceeds from the offering of \$281.0 million were used for the repayment of indebtedness under the Company's Credit Facility, the cost of the related capped call transactions, and for other general corporate purposes.

The notes are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2007, until the maturity date of June 1, 2012. The Operating Partnership's obligations under the notes are fully and unconditionally guaranteed by the Company.

The notes bear interest at 4.00% per annum and contain an exchange settlement feature. Pursuant to this feature, upon surrender of the notes for exchange, the notes will be exchangeable for cash equal to the principal amount of the notes and, with respect to any excess exchange value, at our option, for cash, common shares of the Company or a combination of cash and common shares at an initial exchange rate of 18.303 shares per \$1,000 principal amount of notes, or \$54.64 per share.

The notes will be exchangeable only under certain circumstances. Prior to maturity, the Operating Partnership may not redeem the notes except to preserve the Company's status as a real estate investment trust. If the Company undergoes certain change of control transactions at any time prior to maturity, holders of the notes may require the Operating Partnership to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date.

In connection with the offering of the notes, the Company and the Operating Partnership entered into capped call transactions with affiliates of the initial purchasers of the notes. These agreements effectively increase the exchange price of the notes to \$63.74. The cost of these agreements of \$12.6 million was recorded in the shareholders' equity section of the Company's balance sheet.

Mortgage Activity

In May 2007, the Company entered into a \$150.0 million interest only first mortgage loan that is secured by the Mall at Prince Georges in Hyattsville, Maryland. The mortgage loan has an interest rate of 5.513% with a maturity date of June 1, 2017. Proceeds of the mortgage loan were used to reduce the Company's borrowings under the Credit Facility. The Company repaid the previous mortgage on The Mall at Prince Georges of \$40.2 million in March 2007 using funds borrowed from its Credit Facility and available working capital.

Table of Contents**6. COMPREHENSIVE INCOME:**

The following table sets forth the computation of comprehensive income for the three and nine months ended September 30, 2007 and 2006:

(in thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 1,499	\$ 4,544	\$ 14,458	\$ 9,048
Unrealized gain (loss) on derivatives	(12,635)	(19,788)	2,287	3,741
Other comprehensive income	9	9	27	27
Total comprehensive income (loss)	\$ (11,127)	\$ (15,235)	\$ 16,772	\$ 12,816

7. CASH FLOW INFORMATION:

Cash paid for interest was \$78.4 million (net of capitalized interest of \$11.9 million) and \$81.9 million (net of capitalized interest of \$6.2 million) for the nine months ended September 30, 2007 and 2006, respectively.

On June 6, 2007, the Company issued 1,580,211 common shares of beneficial interest in exchange for a like number of OP Units in a transaction with an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

8. RELATED PARTY TRANSACTIONS:

PRI provides management, leasing and development services for eight properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or their immediate families and affiliated entities have direct or indirect ownership interests. Total revenues earned by PRI for such services were \$0.2 million and \$0.6 million for the three and nine month periods ended September 30, 2007, and \$0.2 million and \$0.8 million for the three and nine month periods ended September 30, 2006, respectively.

The Company leases its principal executive offices from Bellevue Associates (the Landlord). Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. The Company's base rent is \$1.4 million per year during the first five years of the office lease and \$1.5 million during the second five years. Total rent expense under this lease was \$0.3 million and \$1.0 million, respectively, for each of the three and nine month periods ended September 30, 2007 and 2006.

The Company uses an airplane in which Ronald Rubin owns a fractional interest. The Company paid \$23,000 and \$35,000 in the three and nine months ended September 30, 2007, respectively, and \$6,000 and \$24,000 in the three and nine months ended September 30, 2006, respectively, for flight time used by employees on Company-related business.

On June 6, 2007, the Company issued 1,580,211 common shares of beneficial interest in exchange for a like number of OP Units. The shares were issued to an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

9. COMMITMENTS AND CONTINGENCIES:**Development and Redevelopment Activities**

In connection with its current ground-up development and its redevelopment projects, the Company has made contractual commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional service providers. As of September 30, 2007, the remainder to be paid against such contractual and other commitments was \$131.4 million, which is expected to be financed through the Credit Facility, other unsecured indebtedness or through short-term construction loans.

Tax Protection Agreements

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The Company has entered into tax protection agreements in connection with certain completed property acquisitions. Under these agreements, the Company has agreed not to dispose of certain protected properties in a taxable transaction until certain dates. In some cases, members of the Company's senior management and/or board of trustees are the beneficiaries of these agreements.

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Other

In the normal course of business, the Company has become and may, in the future, become involved in legal actions relating to the ownership and operations of its properties and the properties it manages for third parties. In management's opinion, the resolution of any such pending legal actions is not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

10. DERIVATIVES:

In the normal course of business, the Company is exposed to financial market risks, including interest rate risk on its interest-bearing liabilities. The Company endeavors to limit these risks by following established risk management policies, procedures and strategies, including the use of financial instruments. The Company does not use financial instruments for trading or speculative purposes.

Financial instruments are recorded on the balance sheet as assets or liabilities based on each instrument's fair value. Changes in the fair value of financial instruments are recognized currently in earnings, unless the financial instrument meets the criteria for hedge accounting contained in Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted (SFAS No. 133). If the financial instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the financial instrument are deferred in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A contract that is designated as a hedge of an anticipated transaction that is no longer likely to occur is immediately recognized in earnings.

The anticipated transaction to be hedged must expose the Company to interest rate risk, and the hedging instrument must reduce the exposure and meet the requirements for hedge accounting under SFAS No. 133. The Company must formally designate the financial instrument as a hedge and document and assess the effectiveness of the hedge at inception and on a quarterly basis. Interest rate hedges that are designated as cash flow hedges hedge the future cash outflows on debt.

As of September 30, 2007 and December 31, 2006, the Company had 13 and 16 forward-starting interest rate swap agreements, respectively, as detailed below.

The Company's swaps will be settled in cash for the present value of the difference between the locked swap rate and the then-prevailing rate on or before the cash settlement dates corresponding to the dates of issuance of new long-term debt obligations. If the prevailing market interest rate exceeds the rate in the swap agreement, then the counterparty will make a payment to the Company. If it is lower, the Company will pay the counterparty. The settlement amounts will be amortized over the life of the debt as a yield adjustment.

The Company entered into these swap agreements in order to hedge the expected interest payments associated with a portion of the Company's anticipated future issuances of long-term debt. The Company assessed the effectiveness of these swaps as hedges at inception and on September 30, 2007 and considers these swaps to be highly effective cash flow hedges under SFAS No. 133.

In March 2007, the Company settled three swaps. The settled swaps had a value of \$4.3 million as of December 31, 2006 and at the cash settlement date, the Company received \$4.1 million in cash and recorded an unrealized loss of \$0.2 million to Other Accumulated Comprehensive Income. The swaps were settled in anticipation of the Company's issuance of long-term debt. Amortization of the settlement amount commenced upon the issuance of such debt and is being recorded as a decrease in interest expense over the term of the new long-term debt.

To determine the fair values of derivative instruments prior to settlement, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments, including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and there can be no assurance that the value in an actual transaction will be equivalent to the fair value set forth in the Company's financial statements.

The counterparties to these swap agreements are all major financial institutions and participants in the Credit Facility. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due.

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The following table summarizes the terms and fair values of the Company's derivative financial instruments at September 30, 2007 and December 31, 2006. All of the instruments presented below are cash flow swaps. The notional amounts at September 30, 2007 provide an indication of the extent of the Company's involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks. All of the instruments that are outstanding as of September 30, 2007 have an effective date of September 10, 2008 and a cash settlement date of December 10, 2008.

Notional Value	Fair Value at September 30, 2007	Fair Value at December 31, 2006	Interest Rate
\$ 50 million ⁽¹⁾	N/A	\$ 1.8 million	4.6830%
50 million ⁽¹⁾	N/A	1.8 million	4.6820%
20 million ⁽¹⁾	N/A	0.7 million	4.7025%
50 million	\$ 1.7 million	1.3 million	4.8120%
50 million	1.8 million	1.5 million	4.7850%
20 million	0.7 million	0.5 million	4.8135%
45 million	1.5 million	1.2 million	4.8135%
10 million	0.3 million	0.3 million	4.8400%
50 million	1.8 million	1.4 million	4.7900%
25 million	0.8 million	0.7 million	4.8220%
50 million	(0.2) million	(0.5) million	5.3380%
25 million	(0.2) million	(0.3) million	5.3500%
25 million	(0.2) million	(0.3) million	5.3550%
20 million	(0.2) million	(0.3) million	5.3750%
15 million	(0.1) million	(0.2) million	5.3810%
15 million	(0.1) million	(0.2) million	5.3810%
Total	\$ 7.6 million	\$ 9.4 million	

(1) These swaps were settled in March 2007 resulting in a payment to the Company of \$4.1 million.

As of September 30, 2007 and December 31, 2006, the net estimated unrealized gain attributed to the cash flow hedges was \$7.6 million and \$9.4 million, respectively, and has been included in deferred costs and other assets and accumulated other comprehensive income in the accompanying consolidated balance sheets. The decrease in the aggregate value from December 31, 2006 to September 30, 2007 is due to the three swaps settled in March 2007, partially offset by the change in value resulting in part from an increase in market interest rates during the first nine months of 2007.

11. PREFERRED SHARE REDEMPTION:

On July 31, 2007, the Company redeemed all of its 2,475,000, 11% non-convertible senior preferred shares for \$131.8 million, or \$52.50 per preferred share plus accrued and unpaid dividends to the redemption date. The preferred shares were issued in November 2003 in connection with the Company's merger (the Merger) with Crown American Realty Trust (Crown), and were initially recorded at \$57.90 per preferred share, the fair value based on the market value of the corresponding Crown preferred shares as of May 13, 2003, the date on which the financial terms of the Merger were substantially complete. In order to finance the redemption, the Company borrowed \$131.8 million under its Credit Facility. As a result of the redemption, the \$13.3 million excess of the carrying amount of the preferred shares, net of expenses, over the redemption price is included in Income Available to Common Shareholders.

12. COMMON SHARE REPURCHASE PROGRAM:

In October 2005, the Company's Board of Trustees (the Board) authorized a program to repurchase up to \$100.0 million of the Company's common shares through solicited or unsolicited transactions in the open market or privately negotiated or other transactions. The Company may fund repurchases under the program from multiple sources, including up to \$50.0 million from its Credit Facility. The Company is not required

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to repurchase any shares under the program. The dollar amount of shares that may be repurchased or the timing of such transactions is dependent on the prevailing price of the Company's common shares and market conditions, among other factors.

Repurchased shares are treated as authorized but unissued shares. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, the Company accounts for the purchase price of the shares repurchased as a reduction to shareholder's equity and is allocated between retained earnings, shares of beneficial interest and capital contributed in excess of par as required.

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From January 1 through September 30, 2007, the Company repurchased 152,500 shares at an average price of \$35.67, or an aggregate purchase price of \$5.4 million. The cumulative amount of shares repurchased from inception of the program to September 30, 2007 was 371,200 shares at an average price of \$37.15, or an aggregate purchase price of \$13.8 million.

As of September 30, 2007, the remaining authorized amount for share repurchases under this program was \$86.2 million.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

OVERVIEW

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity REITs in the United States, has a primary investment focus on retail shopping malls and power and strip centers located in the Mid-Atlantic region or in the eastern half of the United States. Our operating portfolio currently consists of a total of 55 properties. The retail portion of our portfolio contains 49 properties in 13 states and includes 38 shopping malls and 11 power and strip centers. The ground-up development portion of our portfolio contains six properties in four states, with three classified as power centers, two classified as mixed use (a combination of retail and other uses) and one classified as other. The retail properties have a total of 33.7 million square feet, of which we and partnerships or tenancy in common arrangements (collectively, partnerships) in which we own an interest own 25.6 million square feet. The retail properties that we consolidate for financial reporting purposes have 29.3 million square feet, of which we own 22.8 million square feet. Properties that are owned by unconsolidated partnerships with third parties (see below) have 4.4 million square feet, of which 2.8 million square feet are owned by such partnerships.

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

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates, L.P. (PREIT Associates). We are the sole general partner of PREIT Associates and, as of September 30, 2007, held a 93.5% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 49 operating retail properties in our portfolio through unconsolidated partnerships with third parties in which we own a 50% interest. We hold a non-controlling interest in each unconsolidated partnership, and account for such partnerships using the equity method of accounting. We do not control any of these equity method investees for the following reasons:

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

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

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

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

For further information regarding our unconsolidated partnerships, see Note 4 to our consolidated financial statements.

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We provide our management, leasing and development services through PREIT Services, LLC, which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally develops and manages properties that we own interests in through partnerships with third parties and properties that are owned by third parties in which we do not have an interest. One of our long-term objectives is to obtain managerial control of as many of our assets as possible. Due to the nature of our existing partnership arrangements, we cannot anticipate when this objective will be achieved, if at all.

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

Our net income available to common shareholders was \$19.9 million for the nine months ended September 30, 2007, an increase of \$21.1 million from a loss allocable to common shareholders of \$1.2 million for the nine months ended September 30, 2006. The increase in net income available to common shareholders for the nine months ended September 30, 2007 was largely due to the impact of the preferred share redemption, including a decrease in dividends on preferred shares. Also, the results for the nine months ended September 30, 2007 include gains of \$9.8 million resulting from sales of discontinued operations, an operating retail parcel and several non-operating real estate parcels. The 2006 results were impacted by separation expenses associated with the retirement of a Vice Chairman of the Company in the first quarter of 2006 that did not recur in 2007, and the impact in March 2006 of \$2.8 million of depreciation and amortization from one property that was reclassified from discontinued operations to continuing operations.

ACQUISITIONS, DISPOSITIONS AND DEVELOPMENT ACTIVITIES

We record our acquisitions based on estimates of fair value as determined by our management, using information available and based on assumptions of future performance. These allocations are subject to revisions, in accordance with GAAP, during the twelve-month periods following the closings of the respective acquisitions.

We are actively involved in pursuing and evaluating acquisition opportunities. Our evaluation includes an analysis of whether the properties meet the investment criteria we apply, given economic, market and other circumstances.

Acquisition

In August 2007, we purchased a 116 acre land parcel in Monroe Township, Pennsylvania for \$5.5 million. We intend to develop this land and other land owned by us in the area into a power center to be known as Monroe Marketplace.

Dispositions

In August 2007, we sold 47 acres of undeveloped land adjacent to Wiregrass Commons for \$2.1 million. We recorded a \$0.3 million gain on this sale.

In May 2007, we sold a 4.6 acre parcel and related land improvements at Plaza at Magnolia for \$11.3 million. We recorded a \$1.5 million gain on the sale.

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

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

Valley View Downs

On October 1, 2007, the Company entered into an amendment to its October 2004 agreement with Valley View Downs, LP ("Valley View") and Centaur Pennsylvania, LLC ("Centaur") with respect to the development of a proposed harness racetrack and casino in western Pennsylvania.

Under the original October 2004 agreement, (i) the Company made certain payments and agreed to make additional payments to Valley View, (ii) Valley View agreed to purchase certain parcels located in Beaver County, Pennsylvania and enter into options to acquire certain other parcels, (iii) the Company agreed to acquire this aggregated property and lease it to Valley View pursuant to a ground lease, (iv) Valley View and PRI agreed to enter into a development agreement pursuant to which PRI would provide customary management services for all aspects of the development and construction phases of the racing and gaming facilities on the property, and (v) the parties agreed to enter into other definitive documents to implement the provisions of the agreement.

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Under the Amendment, the Company has waived and terminated its rights to purchase the property contemplated for the racetrack and casino or to purchase an alternative location, and its right to ground lease such site to Valley View. The Company will be repaid the \$983,000 it paid to Valley View in connection with the original agreement, with interest from the date of the Amendment, in 24

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equal consecutive monthly installments beginning on the earlier of (i) a date sixty days after the start of casino operations (Alternative Gaming), if any, at the property, or (ii) October 1, 2014. Valley View has obtained a harness racing license from the Pennsylvania Horse Racing Commission. However, there can be no assurance that Valley View will be successful in obtaining an Alternative Gaming license from the Pennsylvania Gaming Control Board. The Company will not own the property or the improvements on the property, nor will the Company have any ownership interest in the assets of Valley View, including Valley View's harness racing license or any Alternative Gaming licenses awarded to Valley View.

In consideration of the Company's waiver and termination, Valley View or Centaur or the affiliate of either that receives the Alternative Gaming license will pay the Company \$57.0 million over nine years, payable \$250,000 per month from March 1, 2010 to February 1, 2019, including a final payment of \$30.0 million payable on March 1, 2019.

In addition, Valley View has entered into a development agreement with PRI. Under this development agreement, PRI will provide customary management services for all aspects of the development and construction phases of the racetrack and casino. The fee for such services will be \$3.0 million, payable as follows: \$125,000 per month will accrue beginning October 1, 2007 through September 1, 2009 and will be paid \$75,000 per month beginning April 1, 2009 to and including August 1, 2009; thereafter, Valley View will pay \$500,000 per month beginning on September 1, 2009 to and including January 1, 2010, and a final payment of \$125,000 on February 1, 2010.

P&S Office Building

During the first quarter of 2007, we reclassified P&S Office Building in Gadsden, Alabama for accounting purposes from held for sale to continuing operations. We reached this decision because the property no longer met the conditions for an exception to the one-year classification requirement in SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets. We intend to continue to actively market P&S Office Building for sale, but at this time, we cannot determine if or when a sale will be consummated. For balance sheet purposes, as of March 31, 2007, the assets and liabilities of P&S Office Building were reclassified from assets held for sale and liabilities related to assets held for sale into the appropriate balance sheet captions. Because P&S Office Building was considered held for sale as of December 31, 2006, no reclassifications related to P&S Office Building were made as of that date. For income statement purposes, the results of operations for P&S Office Building are presented in continuing operations for all periods presented. In the first quarter of 2007, we recorded depreciation and amortization expense of \$0.2 million to reflect the depreciation and amortization during all of the period that P&S Office Building was held for sale.

Development and Redevelopment

We are engaged in the ground-up development of six retail and other mixed-use projects that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. As of September 30, 2007, we had incurred \$143.5 million of costs related to these projects. The costs identified to date to complete these ground-up projects are expected to be \$98.2 million in the aggregate, excluding the Springhills (Gainesville, Florida) and Pavilion at Market East (Philadelphia, Pennsylvania) projects because details of those projects and the related costs have not been determined. In each case, we will evaluate the financing opportunities available to us at the time a project requires funding. In cases where the project is undertaken with a partner, our flexibility in funding the project might be governed by the partnership agreement or the covenants contained in our Credit Facility, which limit our involvement in such projects.

We generally seek to develop these projects in areas that we believe evidence the likelihood of supporting additional retail development and have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We usually have several development projects under way at one time in various stages of the development process. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing. We monitor our developments closely, including costs and tenant interest.

The following table sets forth the amount of our intended investment in each ground-up development project:

Development Project	Estimated	
	Project Cost	Invested as of September 30, 2007
New Garden Town Center	\$ 82.1 million	\$ 37.6 million
Sunrise Plaza (Lacey Retail Center)	39.1 million	30.6 million
New River Valley Center	29.2 million	24.6 million

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Monroe Marketplace	61.6 million	21.0 million
Springhills	To be determined	28.4 million
Pavilion at Market East ⁽¹⁾	To be determined	1.3 million
		\$ 143.5 million

⁽¹⁾ The property is unconsolidated. The amount shown represents our share.

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We are engaged in the redevelopment of 10 of our consolidated properties and one of our unconsolidated properties, and expect to increase the number of such projects in the future. These projects may include the introduction of residential, office or other uses to our properties.

The following table sets forth the amount of our intended investment for each redevelopment project:

Project	Estimated Project Cost	Invested as of September 30, 2007
Cherry Hill Mall	\$ 197.7 million	\$ 42.4 million
Plymouth Meeting Mall	83.9 million	32.8 million
Willow Grove Park	39.1 million	25.8 million
New River Valley Mall	26.0 million	25.1 million
Voorhees Town Center	60.7 million	24.9 million
Magnolia Mall	18.5 million	15.4 million
Lehigh Valley Mall ⁽¹⁾	22.2 million	15.2 million
North Hanover Mall	35.1 million	13.8 million
Beaver Valley Mall	9.2 million	8.1 million
Moorestown Mall	13.7 million	3.6 million
Jacksonville Mall	4.0 million	2.3 million
	\$ 510.1 million	\$ 209.4 million

⁽¹⁾ The property is unconsolidated. The amounts shown represent our share.

In connection with our current ground-up development and our redevelopment projects, we have made contractual and other commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general contractors and other professional services providers. As of September 30, 2007, the remainder to be paid against such contractual and other commitments was \$131.4 million, which, during the construction phase, is expected to be financed through our Credit Facility, other unsecured debt or through short-term construction loans. The development and redevelopment projects on which these commitments have been made have total remaining estimated costs of \$403.4 million. In connection with our completed redevelopment and development projects, we expect to seek longer-term, fixed-rate mortgages when projects are completed and the properties are stabilized.

OFF BALANCE SHEET ARRANGEMENTS

We have no material off balance sheet items other than the partnerships described in Note 4 to the consolidated financial statements and in the Overview section above. We have, however, entered into tax protection agreements in connection with certain property acquisitions. Under these agreements, we have agreed not to dispose of certain protected properties in a taxable transaction until certain dates. In some cases, members of our senior management and/or board of trustees are the beneficiaries of these agreements.

RELATED PARTY TRANSACTIONS

PRI provides management, leasing and development services for eight properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or their immediate families and affiliated entities have direct or indirect ownership interests. Total revenues earned by PRI for such services were \$0.2 million and \$0.6 million for the three and nine month periods ended September 30, 2007, and \$0.2 million and \$0.8 million for the three and nine month periods ended September 30, 2006.

We lease our principal executive offices from Bellevue Associates (the Landlord). Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. Our base rent is \$1.4 million per year during the first five years of the office lease and \$1.5 million per year during the second five years. Total rent expense under this lease was \$0.3 million and \$1.0 million, respectively, for each of the three and nine month periods ended September 30, 2007 and 2006.

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We use an airplane in which Ronald Rubin owns a fractional interest. We paid \$23,000 and \$35,000 in the three and nine months ended September 30, 2007, respectively, and \$6,000 and \$24,000 in the three and nine months ended September 30, 2006, respectively, for flight time used by employees on Company-related business.

On June 6, 2007, we issued 1,580,211 common shares of beneficial interest in exchange for a like number of units of Class B limited partnership interest. The shares were issued to an entity that is an affiliate of Mark Pasquerilla, a trustee of the Company.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require the application of management's most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses.

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

events and changes in property, market and economic conditions;

estimated future cash flows from property operations; and

the risk of loss on specific accounts or amounts.

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2007 and 2006, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected. See our Current Report on Form 8-K filed on July 16, 2007 for a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2007 and 2006

Overview

Our results of operations for the three and nine months ended September 30, 2007 and 2006 were significantly affected by ongoing redevelopment initiatives that were in various stages at 10 of our consolidated mall properties and one of our unconsolidated properties. While we might undertake a redevelopment to maximize the long term performance of the property, in the short term, the operations and performance of the property, as measured by occupancy and net operating income, will be negatively affected. Tenants may be relocated or leave as space for the redevelopment is aggregated, which affects tenant sales and rental rates. Some space at a property may be taken out of retail use during the redevelopment, and some space may only be made available for short periods of time pending scheduled renovation. The increase in net income available to common shareholders for the three and nine months ended September 30, 2007 was due to the impact of the preferred share redemption, including a decrease in dividends on preferred shares. Also, the results in 2007 include gains of \$9.8 million resulting from sales of discontinued operations, an operating retail parcel and several non-operating real estate parcels. The 2006 results were impacted by separation expenses associated with the retirement of a Vice Chairman of the Company in the first quarter of 2006 that did not recur in 2007, and the impact in March 2006 of \$2.8 million of depreciation and amortization from one property that was reclassified from discontinued operations to continuing operations.

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The table below sets forth occupancy statistics for our consolidated properties as of September 30, 2007 and 2006:

	Occupancy As of September 30,	
	2007	2006
Retail portfolio weighted average:		
Total including anchors	90.8% ⁽¹⁾	90.3% ⁽¹⁾
Excluding anchors	88.4%	87.9%
Enclosed malls weighted average:		
Total including anchors	90.0% ⁽¹⁾	89.2% ⁽¹⁾
Excluding anchors	87.3%	86.4%
Power/strip centers weighted average:	96.2%	97.6%

(1) Includes acquired vacant anchor stores until the space is decommissioned pending redevelopment.

The following information summarizes our results of operations for the three and nine months ended September 30, 2007 and 2006. The amounts reflected as income from continuing operations reflect income from properties wholly-owned by us or owned by partnerships that we consolidate for financial reporting purposes, with the exception of income from the properties that are classified as discontinued operations. Our unconsolidated partnerships are presented under the equity method of accounting in the line item entitled Equity in income of partnerships.

(in thousands of dollars)	Three Months Ended September 30,		% Change 2006 to 2007
	2007	2006	
Real estate revenue	\$ 110,880	\$ 110,986	%
Property operating expenses	(44,474)	(45,053)	(1) %
Management company revenue	854	545	57 %
Interest and other income	535	566	(5) %
General and administrative and other	(9,997)	(9,709)	3 %
Interest expense	(24,866)	(24,041)	3 %
Depreciation and amortization	(32,743)	(30,807)	6 %
Equity in income of partnerships	1,148	1,044	10 %
Gains on sales of non-operating real estate	247	166	49 %
Minority interest	(103)	(395)	(74) %
Income from continuing operations	1,481	3,302	(55) %
Income from discontinued operations	18	1,242	(99) %
Net income	\$ 1,499	\$ 4,544	(67) %

(in thousands of dollars)	Nine Months Ended September 30,		% Change 2006 to 2007
	2007	2006	
Real estate revenue	\$ 332,296	\$ 330,936	%
Property operating expenses	(131,434)	(129,608)	1 %
Management company revenue	1,827	1,832	%
Interest and other income	2,323	1,452	60 %
General and administrative and other	(31,834)	(30,200)	5 %
Executive separation		(3,985)	%
Interest expense	(72,338)	(72,319)	%
Depreciation and amortization	(96,970)	(91,421)	6 %
Equity in income of partnerships	3,272	4,075	(20) %

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Gains on sales of interests in real estate	579		%
Gains on sales of non-operating real estate	1,731	381	354 %
Minority interest	(884)	(1,221)	(28) %
Income from continuing operations	8,568	9,922	(14) %
Income (loss) from discontinued operations	5,890	(874)	774 %
Net income	\$ 14,458	\$ 9,048	60 %

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Real Estate Revenue

Real estate revenue decreased by \$0.1 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Real estate revenue decreased primarily due to decreases of \$0.6 million in expense reimbursements, \$0.5 million in other revenue and \$0.1 million in percentage rents, partially offset by increases of \$0.9 million in base rent, which is comprised of minimum rent, straight line rent and rent from tenants that pay a percentage of sales in lieu of minimum rent, and \$0.2 million in lease termination revenue.

Expense reimbursements decreased by \$0.6 million in the three months ended September 30, 2007, primarily due to lower reimbursable expenses and lower recovery rates at properties currently under redevelopment. Many of our properties, including those currently in redevelopment and others, are experiencing a trend toward more gross leases, which provide that tenants pay a higher base rent in lieu of contributing toward common area maintenance costs and real estate taxes, leases that pay a percentage of sales in lieu of minimum rent and rental concessions made to tenants impacted by the redevelopment activities. We expect the lower recovery rates at our redevelopment properties to improve as construction is completed, tenants take occupancy and our leasing leverage improves. Other revenue decreased by \$0.5 million, primarily due to a \$0.3 million decrease in marketing revenue. The decrease in marketing revenue was offset by a corresponding \$0.3 million decrease in marketing expense, as discussed below under Property Operating Expenses. Marketing revenue is generally recognized in tandem with marketing expense. Other revenue decreased an additional \$0.2 million due to a bankruptcy court distribution received from one tenant in the three months ended September 30, 2006. Base rent increased primarily due to a \$1.4 million increase in rental rates and increased occupancy at recently completed redevelopment projects. These increases were partially offset by decreases in base rent at Voorhees Town Center and Moorestown Mall, two of our current redevelopment properties, which had decreases of \$0.3 million and \$0.2 million, respectively, for the three month period, as in-line occupancy decreased and more tenants were converted from fixed rent to percentage of sales in order to maintain occupancy during the redevelopment period. Lease termination revenue increased by \$0.2 million, primarily due to \$0.4 million received from one tenant in the three months ended September 30, 2007.

Real estate revenue increased by \$1.4 million, or 1%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. Real estate revenue increased primarily due to increases of \$2.4 million in base rent and \$1.5 million in expense reimbursements, partially offset by a \$1.2 million decrease in lease termination revenue, a \$1.1 million decrease in other revenue and a \$0.2 million decrease in percentage rent.

Base rent increased primarily due to a \$4.0 million increase in rental rates and increased occupancy at recently completed redevelopment projects. These increases were partially offset by decreases in base rent at Voorhees Town Center, Moorestown Mall and Plymouth Meeting Mall, three of our current redevelopment properties, which had decreases of \$0.8 million, \$0.7 million and \$0.4 million, respectively, for the nine month period, as in-line occupancy decreased and more tenants were converted from fixed rent to percentage of sales in order to maintain occupancy during the redevelopment period at each property. Expense reimbursements increased by \$1.5 million in the nine months ended September 30, 2007 due to higher reimbursable expenses, as discussed below under Property Operating Expenses, partially offset by decreased recoveries at some of our properties that are under redevelopment. Lease termination revenue decreased by \$1.2 million, primarily due to \$1.2 million received from two tenants in the nine months ended September 30, 2006. Other revenue decreased by \$1.1 million, primarily due to a \$0.8 million decrease in marketing revenue. The decrease in marketing revenue was offset by a corresponding \$0.8 million decrease in marketing expense, as discussed below under Property Operating Expenses. Other revenues decreased an additional \$0.2 million due to a bankruptcy court distribution received from one tenant in the nine months ended September 30, 2006.

Property Operating Expenses

Property operating expenses decreased by \$0.6 million, or 1%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Property operating expenses decreased primarily due to a \$0.5 million decrease in common area maintenance expense and a \$0.8 million decrease in other operating expenses. These decreases were partially offset by a \$0.7 million increase in real estate tax expense.

Common area maintenance expenses decreased by \$0.5 million in the three months ended September 30, 2007 primarily due to decreases of \$0.2 million in landscaping expense and \$0.2 million in parking lot maintenance expense. Other operating expenses

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decreased by \$0.8 million, including a \$0.3 million decrease in marketing expenses, offsetting the \$0.3 million decrease in marketing revenues, as discussed above under Real Estate Revenues. The marketing expense decrease resulted from marketing expenditures at some properties being deferred compared to last year, with higher expenditures anticipated over the remaining three months of 2007. In addition to the decrease in marketing expenses, other operating expenses were impacted by a \$0.2 million decrease in bad debt expense, a \$0.1 million decrease in professional fees and a \$0.1 million decrease in grand re-opening advertising expenses.

Property operating expenses increased by \$1.8 million, or 1%, in the first nine months of 2007 compared to the first nine months of 2006. Property operating expenses increased primarily due to a \$1.6 million increase in common area maintenance expense, a \$1.1 million increase in real estate tax expense and a \$1.1 million increase in utility expense. These increases were partially offset by a \$2.0 million decrease in other operating expenses.

Common area maintenance expenses increased by \$1.6 million in the nine months ended September 30, 2007 primarily due to an increase of \$1.2 million in snow removal expense. Snowfall amounts increased during the first three months of 2007 compared to the first three months of 2006, at our properties located in Pennsylvania and New Jersey in particular. Real estate tax expense increased by \$1.1 million, including a \$0.4 million increase resulting from property value reassessments at two of our recently completed redevelopment properties. Utility expense increased by \$1.1 million in the nine months ended September 30, 2007 due to an increase in energy consumption at some of our properties as a result of colder temperatures compared to the nine months ended September 30, 2006. Other operating expenses decreased by \$2.0 million, including a \$0.8 million decrease in marketing expenses, offsetting the \$0.8 million decrease in marketing revenues, as discussed above under Real Estate Revenues. The marketing expense decrease resulted from marketing expenditures at some properties being deferred compared to last year, with higher expenditures anticipated over the remaining three months of 2007. In addition to the marketing expense decrease, other operating expenses decreased due to a \$0.4 million decrease in recoverable tenant service expense (offset by a \$0.4 million decrease in recoverable tenant service income), a \$0.4 million decrease in bad debt expense and a \$0.3 million decrease in professional fees.

General and Administrative Expenses and Other

General and administrative expenses increased \$0.3 million, or 3%, for the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The increase was due to a \$0.6 million increase in compensation expense due to salary increases, incentive compensation, and increased headcount, offset by a \$0.3 million decrease in other miscellaneous expenses.

General and administrative expenses increased \$1.5 million, or 5%, for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The increase was due to a \$1.8 million increase in compensation expense, offset by a \$0.3 million decrease in professional fees.

Executive Separation

Executive separation expense in the nine months ended September 30, 2006 represents a \$4.0 million expense related to separation costs associated with the retirement of Jonathan Weller, a former Vice Chairman of the Company.

Depreciation and Amortization

Depreciation and amortization expense increased by \$1.9 million, or 6%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. This increase was primarily due to a higher asset base resulting from capital improvements, particularly at properties where we have recently completed redevelopments.

Depreciation and amortization expense increased by \$5.5 million, or 6%, in the first nine months of 2007 compared to the first nine months of 2006. This increase was primarily due to a higher asset base resulting from capital improvements, particularly at properties where we have recently completed redevelopments.

Interest Expense

Interest expense increased \$0.8 million, or 3%, for the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The increase resulted from a \$1.2 million increase due to increased borrowings under the Credit Facility and the issuance of senior exchangeable notes (a weighted average balance of \$443.9 million in the third quarter of 2007 as compared to \$259.3 million in the third quarter of 2006) partially offset by a \$0.4 million decrease in interest paid on mortgage loans outstanding during the three months ended September 30, 2007 and 2006 due to principal amortization.

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Interest expense was unchanged for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. A \$0.9 million increase in interest expense due to increased average borrowings under the Credit Facility and the issuance of senior exchangeable notes (a weighted average balance of \$395.1 million for the nine months ended September 30, 2007 as compared to \$274.6 million for the nine months ended September 30, 2006) was offset by a \$0.9 million decrease in interest paid on mortgage loans outstanding during the nine months ended September 30, 2007 and 2006 due to principal amortization.

Gains on Sales of Real Estate

Gains on sales of interests in real estate were \$0.6 million for the nine months ended September 30, 2007, due to the sale of an outparcel and related land improvements containing an operating restaurant at New River Valley Mall in May 2007. There were no gains on sales of interests in real estate for the three months ended September 30, 2007 or for the three and nine months ended September 30, 2006.

Gains on sales of non-operating real estate was \$0.2 million for each of the three month periods ended September 30, 2007 and 2006, and \$1.7 million and \$0.4 million, respectively, for the nine months ended September 30, 2007 and 2006. The results of operations for the three and nine months ended September 30, 2007 include a gain of \$1.5 million on the sale of a parcel and related land improvements at Plaza at Magnolia in May 2007 and a gain of \$0.3 million on the sale of land adjacent to Wiregrass Commons in August 2007.

Gains on Sales of Discontinued Operations

Gains on sales of discontinued operations were \$6.7 million for the nine months ended September 30, 2007, due to the sale of Schuylkill Mall in March 2007. There were no gains on sales of discontinued operations for the nine months ended September 30, 2006.

Discontinued Operations

The Company has presented as discontinued operations the operating results of Schuylkill Mall, which was sold in March 2007, and South Blanding Village, which was sold in September 2006.

Property operating results and related minority interest for the properties in discontinued operations for the periods presented were as follows:

(in thousands of dollars)	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Operating results from discontinued operations	\$ 19	\$ (31)	\$ (118)	\$ (2,386)
Gain on sale of discontinued operations		1,414	6,699	1,414
Minority interest	(1)	(141)	(691)	98
Income (loss) from discontinued operations	\$ 18	\$ 1,242	\$ 5,890	\$ (874)

NET OPERATING INCOME

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

The following tables present net operating income results for the three and nine months ended September 30, 2007 and 2006. The results are presented using the proportionate-consolidation method (a non-GAAP measure), which presents our share of the results of our partnership

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investments. Under GAAP, we account for our partnership investments under the equity method of accounting. Property operating results for retail properties that we owned for the full periods presented (Same Store) include the results of properties that have undergone or were undergoing redevelopment during the applicable periods, and excludes properties acquired or disposed of during the periods presented:

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	Three months ended			Three months ended			% Change	
	September 30, 2007			September 30, 2006			2007 vs. 2006	
	Same	Non-Same	Total	Same	Non-Same	Total	Same	Total
(in thousands of dollars)	Store	Store	Total	Store	Store	Total	Store	Total
Real estate revenue	\$ 119,319	\$ 44	\$ 119,363	\$ 119,204	\$ 1,574	\$ 120,778	%	(1) %
Property operating expenses	(47,064)	16	(47,048)	(47,340)	(914)	(48,254)	(1) %	(3) %
Net operating income	\$ 72,255	\$ 60	\$ 72,315	\$ 71,864	\$ 660	\$ 72,524	1 %	%

	Nine months ended			Nine months ended			% Change	
	September 30, 2007			September 30, 2006			2007 vs. 2006	
	Same	Non-Same	Total	Same	Non-Same	Total	Same	Total
(in thousands of dollars)	Store	Store	Total	Store	Store	Total	Store	Total
Real estate revenue	\$ 357,418	\$ 1,206	\$ 358,624	\$ 355,285	\$ 4,923	\$ 360,208	1%	%
Property operating expenses	(139,073)	(849)	(139,922)	(136,667)	(2,710)	(139,377)	2%	%
Net operating income	\$ 218,345	\$ 357	\$ 218,702	\$ 218,618	\$ 2,213	\$ 220,831	%	(1)%

Primarily because of the items discussed above under Real Estate Revenue and Property Operating Expenses, total net operating income decreased by \$0.2 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Same Store net operating income increased by \$0.4 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Non-Same Store net operating income decreased by \$0.6 million.

Primarily because of the items discussed above under Real Estate Revenue and Property Operating Expenses, total net operating income decreased by \$2.1 million in the first nine months of 2007 compared to the first nine months of 2006. Same Store net operating income decreased by \$0.3 million in the first nine months of 2007 compared to the first nine months of 2006. Non-Same Store net operating income decreased by \$1.9 million.

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

	Three month period ended		Nine month period ended	
	September 30,		September 30,	
	2007	2006	2007	2006
(in thousands of dollars)				
Net income	\$ 1,499	\$ 4,544	\$ 14,458	\$ 9,048
Adjustments:				
Depreciation and amortization:				
Wholly-owned and consolidated partnerships	32,743	30,807	96,970	91,421
Unconsolidated partnerships	1,714	1,679	5,127	5,255
Discontinued operations		352	215	3,562
Interest expense:				
Wholly-owned and consolidated partnerships	24,866	24,041	72,338	72,319
Unconsolidated partnerships	3,028	3,247	9,208	8,083
Discontinued operations		300	136	914
Minority interest	104	536	1,575	1,123
Gain on sale of discontinued operations		(1,414)	(6,699)	(1,414)
Gains on sales of interests in real estate			(579)	
Gains on sales of non-operating real estate	(247)	(166)	(1,731)	(381)
Other expenses	9,997	9,709	31,834	30,200

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Executive separation				3,985
Management company revenue	(854)	(545)	(1,827)	(1,832)
Interest and other income	(535)	(566)	(2,323)	(1,452)
Net operating income	\$ 72,315	\$ 72,524	\$ 218,702	\$ 220,831

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FUNDS FROM OPERATIONS

The National Association of Real Estate Investment Trusts (NAREIT) defines Funds From Operations, which is a non-GAAP measure, as income before gains and losses on sales of operating properties and extraordinary items (computed in accordance with GAAP); plus real estate depreciation; plus or minus adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. We compute Funds From Operations by taking the amount determined pursuant to the NAREIT definition and subtracting dividends on preferred shares (FFO). FFO includes the effect of the Company s redemption of all of its 11% non-convertible senior preferred shares in July 2007.

Funds From Operations is a commonly used measure of operating performance and profitability in the real estate industry. We use FFO and FFO per diluted share and OP unit (FFO per share) as supplemental non-GAAP measures to compare our Company s performance to that of our industry peers. Similarly, we use FFO and FFO per share as performance measures for determining bonus amounts earned under certain of our performance-based executive compensation programs. We compute FFO in accordance with standards established by NAREIT, less dividends on preferred shares, which may not be comparable to Funds From Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do.

FFO does not include gains or losses on sales of operating real estate assets, which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial performance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as net operating income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including our ability to make cash distributions.

We believe that net income is the most directly comparable GAAP measurement to FFO. We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as various non-recurring items that are considered extraordinary under GAAP, gains on sales of operating real estate and depreciation and amortization of real estate.

FFO was \$47.7 million for the three months ended September 30, 2007, an increase of \$15.2 million, or 47%, compared to \$32.5 million for the three months ended September 30, 2006. FFO per share increased \$0.36 to \$1.16 for the three months ended September 30, 2007, compared to FFO per share of \$0.80 for the three months ended September 30, 2006. FFO for the third quarter of 2007 includes the \$13.3 million impact of the Company s July 2007 redemption of its preferred shares.

FFO was \$114.8 million for the first nine months of 2007, an increase of \$17.7 million, or 18%, compared to \$97.1 million for the first nine months of 2006. FFO per share increased \$0.42 to \$2.79 for the first nine months of 2007, compared to FFO per share of \$2.37 for the first nine months of 2006. FFO for the first nine months of 2007 includes, in addition to the effect of the Company s redemption of its preferred shares, a \$1.5 million gain from a parcel sale at The Plaza at Magnolia in Florence, South Carolina, and \$0.8 million of condemnation proceeds at Capital City Mall in Harrisburg, Pennsylvania. FFO for the first nine months of 2006 was affected by \$4.0 million executive separation expenses associated with the retirement of Jonathan B. Weller, formerly a Vice Chairman of the Company.

The shares used to calculate FFO per share include common shares and OP Units not held by us. FFO per share also includes the effect of common share equivalents.

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The following information is provided to reconcile net income to FFO, and to show the items included in our FFO for the periods indicated:

(in thousands, except per share amounts)	Three months ended September 30, 2007	Per diluted share and OP Unit	Three months ended September 30, 2006	Per diluted share and OP Unit
Net income	\$ 1,499	\$ 0.04	\$ 4,544	\$ 0.11
Minority interest	104		536	0.01
Dividends on preferred shares	(1,134)	(0.03)	(3,403)	(0.08)
Redemption of preferred shares	13,347	0.33		
Gains on sale of discontinued operations			(1,414)	(0.03)
Depreciation and amortization:				
Wholly-owned and consolidated partnerships ⁽¹⁾	32,178	0.78	30,241	0.74
Unconsolidated partnerships	1,714	0.04	1,679	0.04
Discontinued operations			352	0.01
Funds from operations ⁽²⁾	\$ 47,708	\$ 1.16	\$ 32,535	\$ 0.80
Weighted average number of shares outstanding	38,181		36,282	
Weighted average effect of full conversion of OP Units	2,694		4,081	
Effect of common share equivalents ⁽³⁾	295		560	
Total weighted average shares outstanding, including OP Units	41,170		40,923	

(1) Excludes depreciation of non-real estate assets and amortization of deferred financing costs.

(2) Includes the non-cash effect of straight-line rents of \$0.6 million and \$0.8 million for the three months ended September 30, 2007 and 2006, respectively.

(3) For the three months ended September 30, 2006, there are net losses allocable to common shareholders from continuing operations, so there is no impact of common share equivalents on the calculation of diluted income (loss) per share for this period. However, common share equivalents are included in the calculation of FFO per share.

(in thousands, except per share amounts)	Nine months ended September 30, 2007	Per diluted share and OP Unit	Nine months ended September 30, 2006	Per diluted share and OP Unit
Net income	\$ 14,458	\$ 0.35	\$ 9,048	\$ 0.22
Minority interest	1,575	0.04	1,123	0.03
Dividends on preferred shares	(7,941)	(0.19)	(10,209)	(0.25)
Redemption of preferred shares	13,347	0.32		
Gains on sales of interests in real estate	(579)	(0.01)		
Gain on sale of discontinued operations	(6,699)	(0.16)	(1,414)	(0.04)
Depreciation and amortization:				
Wholly-owned and consolidated partnerships ⁽¹⁾	95,275	2.31	89,747	2.19
Unconsolidated partnerships	5,127	0.12	5,255	0.13
Discontinued operations	215	0.01	3,562	0.09
Funds from operations ⁽²⁾	\$ 114,778	\$ 2.79	\$ 97,112	\$ 2.37
Weighted average number of shares outstanding	37,219		36,189	
Weighted average effect of full conversion of OP Units	3,610		4,125	
Effect of common share equivalents ⁽³⁾	363		590	
Total weighted average shares outstanding, including OP Units	41,192		40,904	

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- (1) Excludes depreciation of non-real estate assets and amortization of deferred financing costs.
 - (2) Includes the non-cash effect of straight-line rents of \$1.5 million and \$2.2 million for the nine months ended September 30, 2007 and 2006, respectively.
 - (3) For the nine months ended September 30, 2006, there are net losses allocable to common shareholders from continuing operations, so there is no impact of common share equivalents on the calculation of diluted income (loss) per share for these periods. However, common share equivalents are included in the calculation of FFO per share.

PREFERRED SHARE REDEMPTION

On July 31, 2007, the Company redeemed all of its 2,475,000 11% non-convertible senior preferred shares for \$131.8 million, or \$52.50 per preferred share plus accrued and unpaid dividends to the redemption date. The preferred shares were issued in November 2003 in connection with the Company's merger (the Merger) with Crown American Realty Trust (Crown), and were initially recorded at \$57.90 per preferred share, the fair value based on the market value of the corresponding Crown preferred shares as of May 13, 2003, the date on which the financial terms of the Merger were substantially complete. In order to finance the redemption, the Company borrowed \$131.8 million under its Credit Facility. The \$13.3 million excess of the carrying amount of the preferred shares, net of expenses, over the redemption price is included in Income Available to Common Shareholders.

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COMMON SHARE REPURCHASE PROGRAM

In October 2005, our Board of Trustees (the Board) authorized a program to repurchase up to \$100.0 million of our common shares through solicited or unsolicited transactions in the open market or privately negotiated or other transactions. We may fund repurchases under the program from multiple sources, including up to \$50.0 million from our Credit Facility. We are not required to repurchase any shares under the program. The dollar amount of shares that may be repurchased or the timing of such transactions is dependent on the prevailing price of our common shares and market conditions, among other factors.

Repurchased shares are treated as authorized but unissued shares. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, we account for the purchase price of the shares repurchased as a reduction to shareholders' equity.

From January 1, 2007 through September 30, 2007 we repurchased 152,500 shares at an average price of \$35.67, or an aggregate purchase price of \$5.4 million. The cumulative amount of shares repurchased from inception of the program to September 30, 2007 was 371,200 shares at an average price of \$37.15, or an aggregate purchase price of \$13.8 million.

As of September 30, 2007, the remaining authorized amount for share repurchases under this program was \$86.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

Our \$500.0 million Credit Facility can be increased to \$650.0 million under prescribed conditions, and the Credit Facility bears interest at a rate between 0.95% and 1.40% per annum over LIBOR based on our leverage. In determining our leverage, the capitalization rate used to calculate Gross Asset Value is 7.50%. The availability of funds under the Credit Facility is subject to our compliance with financial and other covenants and agreements. The Credit Facility has a term that expires in January 2009, with an additional 14 month extension option, provided that there is no event of default at that time.

As of September 30, 2007, \$245.0 million was outstanding under the Credit Facility. We pledged \$16.7 million under the Credit Facility as collateral for letters of credit, and the unused portion of the Credit Facility that was available to us was \$238.3 million at September 30, 2007. The weighted average effective interest rate based on amounts borrowed was 7.30% and 6.90% for the three and nine month period ended September 30, 2007. The weighted average interest rate on outstanding Credit Facility borrowings at September 30, 2007 was 6.70%.

We must repay the entire principal amount outstanding under the Credit Facility at the end of its term. We may prepay any revolving loan at any time without premium or penalty. Accrued and unpaid interest on the outstanding principal amount under the Credit Facility is payable monthly, and any unpaid amount is payable at the end of the term. The Credit Facility has a facility fee of 0.15% to 0.20% per annum of the total commitments, depending on leverage and without regard to usage. The Credit Facility contains some lender yield protection provisions related to LIBOR loans. The Company and certain of its subsidiaries are guarantors of the obligations arising under the Credit Facility.

The Credit Facility contains affirmative and negative covenants customarily found in facilities of this type. As of September 30, 2007, we were in compliance with all of these covenants.

Upon the expiration of any applicable cure period following an event of default, the lenders may declare all obligations of the Company in connection with the Credit Facility immediately due and payable, and the commitments of the lenders to make loans under the Credit Facility will terminate. Upon the occurrence of a voluntary or involuntary bankruptcy proceeding of the Company, PREIT Associates, PRI or any material subsidiary, all outstanding amounts will automatically become immediately due and payable and the commitments of the lenders to make loans will automatically terminate.

Exchangeable Senior Notes

In May 2007, we completed the sale of \$287.5 million aggregate principal amount of exchangeable senior notes due 2012. The net proceeds from the offering of \$281.0 million were used for the repayment of indebtedness under our Credit Facility, the cost of the related capped call transactions, and for other general corporate purposes.

The notes are general unsecured senior obligations of PREIT Associates and rank equally in right of payment with all other senior unsecured indebtedness of PREIT Associates. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2007, until the maturity

date of June 1, 2012. PREIT Associates obligations under the notes are fully and unconditionally guaranteed by the Company.

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The notes bear interest at 4.00% per annum and contain an exchange settlement feature. Pursuant to this feature, upon surrender of the notes for exchange, the notes will be exchangeable for cash equal to the principal amount of the notes and, with respect to any excess exchange value, at our option, for cash, common shares of the Company or a combination of cash and common shares at an initial exchange rate of 18.303 shares per \$1,000 principal amount of notes, or \$54.64 per share. In connection with the offering of the notes, the Company and PREIT Associates entered into capped call transactions with affiliates of the initial purchasers. These agreements effectively increase the exchange price of the notes to \$63.74. The cost of these agreements of \$12.6 million was recorded in the shareholders equity section of the Company's balance sheet.

The notes will be exchangeable only under certain circumstances. Prior to maturity, PREIT Associates may not redeem the notes except to preserve our status as a real estate investment trust. If we undergo certain change of control transactions at any time prior to maturity, holders of the notes may require PREIT Associates to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date.

Financing Activity

The following table sets forth a summary of significant mortgage, corporate note, exchangeable note, and Credit Facility activity for the nine months ended September 30, 2007:

(in thousands of dollars)	Mortgage Notes Payable	Exchangeable Notes	Credit Facility	Corporate Notes Payable	Total
Balance at January 1, 2007	\$ 1,572,908	\$	\$ 332,000	\$ 1,148	\$ 1,906,056
Exchangeable Notes issuance		287,500	(281,000)		6,500
The Mall at Prince Georges mortgage financing	150,000		(143,000)		7,000
Preferred Shares Redemption			131,800		131,800
Schuylkill Mall mortgage repayment	(16,461)				(16,461)
The Mall at Prince Georges mortgage repayment	(40,202)				(40,202)
Principal amortization	(16,967)				(16,967)
Capital expenditures and other uses			205,200		205,200
Balance at September 30, 2007	\$ 1,649,278	\$ 287,500	\$ 245,000	\$ 1,148	\$ 2,182,926

In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall in Whitehall, Pennsylvania entered into a \$150.0 million mortgage loan that is secured by Lehigh Valley Mall. We own an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only are required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 56 basis points. There are three one-year extension options, provided that there is no event of default and that the borrower buys an interest rate cap for the term of any applicable extension. In August 2007, the partnership that owns the mall exercised the first one-year extension option.

In November 2005, we and our partner acquired Springfield Mall in Springfield, Pennsylvania, with 0.6 million square feet, for \$103.5 million. To partially finance the acquisition costs, we and our partner, an affiliate of Kravco Simon Investments, L.P. and Simon Property Group, Inc. obtained a \$76.5 million mortgage loan. The interest rate on the loan is 1.10% over LIBOR, or 1.275% over LIBOR for any period during which the Strawbridge's retail department store has ceased to be open for business and before another anchor retail department store opens for business in that space. The mortgage loan had a term of two years, and the borrowers have three one-year extension options. In September 2007, the partnership that owns the mall exercised the first one-year extension option.

Derivatives

As of September 30, 2007 and December 31, 2006, we had a total of 13 and 16 forward-starting interest rate swap agreements, respectively, as detailed in Note 10 to our consolidated financial statements. The swap agreements that are currently outstanding have an aggregate notional amount of \$400.0 million, and settle in 2008.

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We entered into our swap agreements in order to hedge the expected interest payments associated with a portion of our anticipated future issuances of long-term debt. We assessed the effectiveness of our swaps as hedges at inception and on September 30, 2007, and consider these swaps to be highly effective cash flow hedges under SFAS No. 133 (See Note 10 to our consolidated financial statements).

Capital Resources

We expect to meet our short-term liquidity requirements, including recurring capital expenditures, tenant improvements and leasing commissions, but excluding development and redevelopment projects, generally through our available working capital and net cash provided by operations. We believe that our net cash provided by operations will be sufficient to allow us to make any distributions necessary to enable us to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The aggregate distributions made to common shareholders and OP Unitholders in the nine months ended September 30, 2007 were \$70.5 million. The following are some of the factors that could affect our cash flows and require the funding of future distributions, capital expenditures, tenant improvements or leasing commissions with sources other than operating cash flows:

adverse changes in general, local or retail industry economic, financial, credit market or competitive conditions, leading to a reduction in real estate revenues or cash flows or an increase in expenses;

inability to achieve targets for, or decreases in, property occupancy and rental rates, or higher costs or delays in completion of our development and redevelopment projects, resulting in lower real estate revenues and operating income;

deterioration in our tenants' business operations and financial stability, including tenant bankruptcies and leasing delays or terminations, causing declines in rents and cash flows;

increases in interest rates resulting in higher borrowing costs; and

increases in operating costs that cannot be passed on to tenants, resulting in reduced operating income and cash flows.

For the remainder of 2007, we expect to spend an additional \$73.5 million on previously disclosed development and redevelopment projects. For the balance of the year, we anticipate funding these capital requirements with additional borrowings under our Credit Facility, which as of September 30, 2007 had \$238.3 million of available borrowing capacity, or from other sources as described below.

We expect to meet certain of our current obligations to fund existing development and redevelopment projects and certain long-term capital requirements, including future development and redevelopment projects, property and portfolio acquisitions, expenses associated with acquisitions, scheduled debt maturities, renovations, expansions and other non-recurring capital improvements, through various capital sources, including secured or unsecured indebtedness.

Consistent with our stated capital strategy, we might seek to place long-term fixed-rate debt on our stabilized properties when conditions are favorable for such financings. We also expect to raise capital through selective sales of assets and the issuance of additional equity securities, when warranted. Furthermore, we might seek to satisfy our long-term capital requirements through the formation of joint ventures with institutional partners, private equity investors or other REITs.

In general, as credit markets tighten, we might encounter resistance from lenders when we seek financing or refinancing for properties or proposed acquisitions. In addition, the following are some of the potential impediments to accessing additional funds under the Credit Facility:

constraining leverage, interest coverage and tangible net worth covenants;

increased interest rates affecting coverage ratios; and

reduction in our consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) affecting coverage ratios.

In December 2003, we announced that the SEC had declared effective a \$500.0 million universal shelf registration statement. We may use the shelf registration to offer and sell common shares of beneficial interest, preferred shares and various types of debt securities, among other types of securities, to the public. However, we may be unable to issue securities under the shelf registration statement, or otherwise, on terms that are favorable to us, if at all.

This Liquidity and Capital Resources section contains certain forward-looking statements that relate to expectations and projections that are not historical facts. These forward-looking statements reflect our current views about our future liquidity and capital resources, and are subject to risks and uncertainties that might cause our actual liquidity and capital resources to differ

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materially from the forward-looking statements. Additional factors that might affect our liquidity and capital resources include those discussed in the section of our Annual Report on Form 10-K and in the section of this Quarterly Report on Form 10-Q entitled Item 1A. Risk Factors. We do not intend to update or revise any forward-looking statements about our liquidity and capital resources to reflect new information, future events or otherwise.

Mortgage Notes

Mortgage notes payable, which are secured by 30 of our consolidated properties, are due in installments over various terms extending to the year 2017, with fixed interest at rates ranging from 4.95% to 7.61% and a weighted average interest rate of 6.05% at September 30, 2007. Mortgage notes payable for properties owned by unconsolidated partnerships are accounted for in Investments in partnerships, at equity on the consolidated balance sheets and are not included in the table below. The following table outlines the timing of principal payments related to our mortgage notes associated with our consolidated properties as of September 30, 2007.

(in thousands of dollars)	Payments by Period				
	Total	Up to 1 Year	2-3 Years	4-5 Years	More than 5 Years
Principal payments	\$ 118,780	\$ 6,259	\$ 36,688	\$ 32,085	\$ 43,748
Balloon payments	1,530,498		555,574		974,924
Total	\$ 1,649,278	\$ 6,259	\$ 592,262	\$ 32,085	\$ 1,018,672

In March 2007, we repaid a \$40.2 million mortgage loan on the Mall at Prince Georges using funds borrowed from our Credit Facility and available working capital. Also in March 2007, we repaid the \$16.5 million mortgage loan at Schuylkill Mall using proceeds from the sale of Schuylkill Mall.

Contractual Obligations

The following table presents our aggregate contractual obligations as of September 30, 2007, for the periods presented:

(in thousands of dollars)	More than				
	Total	Up to 1 Year	2-3 Years	4-5 Years	5 Years
Mortgages ⁽¹⁾	\$ 1,649,278	\$ 6,259	\$ 592,262	\$ 32,085	\$ 1,018,672
Interest on mortgages	466,132	24,566	155,867	109,537	176,162
Credit Facility ⁽²⁾	245,000		245,000		
Exchangeable senior notes	287,500				287,500
Corporate notes	1,148	1,148			
Capital leases ⁽³⁾	385	46	339		
Operating leases	12,922	699	4,996	3,621	3,606
Ground leases	26,159	257	2,060	2,060	21,782
Development and redevelopment commitments ⁽⁴⁾	131,418	111,418	20,000		
Other long-term liabilities ⁽⁵⁾	2,707		2,707		
Total	\$ 2,822,649	\$ 144,393	\$ 1,023,231	\$ 147,303	\$ 1,507,722

(1) Includes amounts reflected in the Mortgage Notes table above. Excludes the indebtedness of our unconsolidated partnerships.

(2) The Credit Facility has a term that expires in January 2009, with an option for us to extend the term for an additional 14 months, provided that there is no event of default at that time.

(3) Includes interest.

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- (4) The timing of the payment of these amounts is uncertain. We estimate that a significant portion of these amounts will be paid in the upcoming year, but situations could arise at these development and redevelopment projects that could delay the settlement of these obligations.
- (5) Represents long-term incentive compensation.

Intended Investments Related to Development and Redevelopment

We intend to invest approximately \$398.9 million over the next three years in connection with our development and redevelopment projects announced to date, excluding the Springhills (Gainesville, Florida) and Pavilion at Market East (Philadelphia, Pennsylvania) projects. See Development and Redevelopment. We also intend to invest significant additional amounts in additional development and redevelopment projects over that period. See Capital Resources above.

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CASH FLOWS

Net cash provided by operating activities totaled \$101.1 million in the first nine months of 2007, compared to \$115.8 million for the first nine months of 2006. Net income after adjustments for non-cash revenues and expenses was \$2.6 million higher in the first nine months of 2007 compared to the first nine months of 2006, as executive separation paid in 2006 offset the decrease in real estate net operating income in 2007 compared to 2006.

Cash flows used in investing activities were \$143.9 million in the first nine months of 2007, compared to \$110.9 million in the first nine months of 2006. Investing activities in the first nine months of 2007 reflect investment in construction in progress of \$144.7 million and real estate improvements of \$13.6 million, both of which primarily relate to our development and redevelopment activities. Investing activities in 2007 also include \$31.5 million in proceeds from the sale of Schuylkill Mall and land parcels at Magnolia Mall, New River Valley Mall and Wiregrass Commons. Investing activities in the first nine months of 2006 reflect the acquisition of land parcels in Gainesville, Florida (\$21.5 million) and two former Strawbridge's department stores at Cherry Hill Mall and Willow Grove Park (\$33.5 million).

Cash flows provided by financing activities were \$50.6 million in the first nine months of 2007, compared to \$9.4 million used in the first nine months of 2006. Cash provided by financing activities for the first nine months of 2007 were primarily affected by \$281.0 million raised through the sale of exchangeable senior notes and \$150.0 million of proceeds from the mortgage loan on The Mall at Prince Georges. Portions of these cash flows were applied toward \$87.0 million of net Credit Facility repayment, mortgage note repayments of \$56.7 million, dividends and distributions of \$79.2 million, purchase of capped call agreements of \$12.3 million in connection with the exchangeable senior notes, and principal installments on mortgage notes payable of \$17.0 million. The Company also used \$130.0 million to redeem its 2,475,000 11% non-convertible senior preferred shares excluding paid and accrued dividends. Financing activities in the first nine months of 2006 included new mortgage loans on Woodland Mall and Valley Mall.

Cash flows generated from discontinued operations have been included within the three reporting categories above.

COMMITMENTS

At September 30, 2007, we had \$131.4 million of contractual obligations to complete current development and redevelopment projects. Total remaining estimated costs for the particular projects with such commitments are \$403.4 million. We expect to finance these amounts through borrowings under our Credit Facility or through various other capital sources. See Liquidity and Capital Resources Capital Resources.

CONTINGENT LIABILITIES

We are aware of certain environmental matters at some of our properties, including ground water contamination and the presence of asbestos containing materials. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential liability relating to these environmental matters. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to \$5.0 million per occurrence and up to \$5.0 million in the aggregate.

COMPETITION AND TENANT CREDIT RISK

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

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

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We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites, including institutional pension funds, other REITs and other owner-operators of retail properties. These competitors might drive up the price we must pay for properties, parcels, other assets or other companies we seek to acquire 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, and enhanced operating efficiencies. Also, the number of entities, as well as the available capital resources competing for suitable investment properties or desirable development sites, have increased and might continue to increase, resulting in increased demand for these assets and therefore increased prices paid for them. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay higher prices for properties, or generate lower cash flow from an acquired property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We receive a substantial portion of our operating income as rent under long-term leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. These tenants might defer or fail to make rental payments when due, delay lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant's lease, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy of those tenants might be more significant to us than the bankruptcy of other tenants. In addition, under many of our leases, our tenants pay rent based on a percentage of their sales. Accordingly, declines in these tenants' sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of our leases, we might modify lease terms in ways that are less favorable to us.

SEASONALITY

There is seasonality in the retail real estate industry. Retail property leases often provide for the payment of a portion of rents based on a percentage of a tenant's sales over certain levels. Income from such rents is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, during the December holiday season. Also, many new and temporary leases are entered into later in the year in anticipation of the holiday season and many tenants vacate their space early in the year. As a result, our occupancy and cash flows are generally higher in the fourth quarter and lower in the first quarter, excluding the effect of ongoing redevelopment projects. Our concentration in the retail sector increases our exposure to seasonality and is expected to continue to result in a greater percentage of our cash flows being received in the fourth quarter.

INFLATION

Inflation can have many effects on financial performance. Retail property leases often provide for the payment of rents based on a percentage of sales, which may increase with inflation. Leases may also provide for tenants to bear all or a portion of operating expenses, which may reduce the impact of such increases on us. However, during times when inflation is greater than increases in rent as provided for in a lease, rent increases may not keep up with inflation.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the three months ended September 30, 2007, together with other statements and information publicly disseminated by us, contain certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

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

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

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

concentration of our properties in the Mid-Atlantic region;

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risks relating to development and redevelopment activities, including construction and receipt of government and tenant approvals;

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

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

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

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

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

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

our short-term and long-term liquidity position;

possible environmental liabilities;

our ability to obtain insurance at a reasonable cost; and

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

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 and this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q to "we," "our," "us," "the Company" and "PREIT" refer to Pennsylvania Real Estate Investment Trust and its subsidiaries, including our operating partnership, PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to "PREIT Associates" refer to PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to "PRI" refer to PREIT-RUBIN, Inc.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of September 30, 2007, our consolidated debt portfolio consisted of \$245.0 million borrowed under our Credit Facility, which bears interest at LIBOR plus the applicable margin, \$1,649.3 million in fixed-rate mortgage notes, including \$16.9 million of mortgage debt premium, and \$287.5 million of 4.00% exchangeable senior notes due 2012.

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Mortgage notes payable, which are secured by 30 of our consolidated properties, are due in installments over various terms extending to the year 2017, with fixed interest at rates ranging from 4.95% to 7.61% and a weighted average interest rate of 6.05% at September 30, 2007. Mortgage notes payable for properties owned by unconsolidated partnerships are accounted for in Investments in partnerships, at equity on the consolidated balance sheet.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts of the expected annual maturities and the weighted average interest rates for the principal payments in the specified periods:

(in thousands of dollars)	Fixed-Rate Debt		Variable-Rate Debt	
	Principal Payments	Weighted Average Interest Rate ⁽¹⁾	Principal Payments	Weighted Average Interest Rate
Year Ended December 31,				
2007	\$ 6,259	6.58%		
2008	\$ 527,755	7.27%		
2009	\$ 64,507	6.01%	\$ 245,000 ⁽²⁾	6.70% ⁽³⁾
2010	\$ 15,587	5.65%		
2011	\$ 16,498	5.65%		
2012 and thereafter	\$ 1,306,172	5.47%		

- (1) Based on the weighted average stated interest rate of the respective mortgages and the exchangeable senior notes as of September 30, 2007.
- (2) Our Credit Facility has a term that expires in January 2009, with an additional 14 month extension option, provided that there is no event of default at that time.
- (3) Based on the weighted average interest rate in effect as of September 30, 2007.

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Changes in market interest rates have different impacts on the fixed and variable portions of our debt portfolio. A change in market interest rates on the fixed portion of the debt portfolio impacts the fair value, but it has no impact on interest incurred or cash flows. A change in market interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the fair value. The sensitivity analysis related to the fixed debt portfolio, which includes the effects of the forward-starting interest rate swap agreements described below, assumes an immediate 100 basis point change in interest rates from their actual September 30, 2007 levels, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the net financial instrument position of \$46.3 million at September 30, 2007. A 100 basis point decrease in market interest rates would result in an increase in the net financial instrument position of \$47.7 million at September 30, 2007. Based on the variable-rate debt included in our debt portfolio as of September 30, 2007, a 100 basis point increase in interest rates would result in an additional \$2.5 million in interest annually. A 100 basis point decrease would reduce interest incurred by \$2.5 million annually. The variable rate debt included in our debt portfolio is incurred under our Credit Facility, which bears interest at LIBOR plus the applicable margin.

To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors or a combination thereof, depending on the underlying exposure. Interest rate differentials that arise under swap contracts are recognized in interest expense over the life of the contracts. If interest rates rise, the resulting cost of funds is expected to be lower than that which would have been available if debt with matching characteristics was issued directly. Conversely, if interest rates fall, the resulting costs would be expected to be higher. We may also employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying transaction occurs, expires or is otherwise terminated. See also Note 10 to our unaudited consolidated financial statements.

As of September 30, 2007 and December 31, 2006, we had a total of 13 and 16 forward-starting interest rate swap agreements, respectively, as detailed in Note 10 to our consolidated financial statements. The swap agreements that are currently outstanding have an aggregate notional amount of \$400.0 million, and settle in 2008.

A forward-starting interest rate swap is an agreement that effectively hedges future base rates on debt for an established period of time. We entered into these swap agreements in order to hedge the expected interest payments associated with a portion of our anticipated future issuances of long-term debt. We assessed the effectiveness of these swaps as hedges at inception and on September 30, 2007, and consider these swaps to be highly effective cash flow hedges under SFAS No. 133. See Note 10 to our unaudited consolidated financial statements.

Because the information presented above includes only those exposures that exist as of September 30, 2007, it does not consider those changes, exposures or positions which could arise after that date. The information presented herein has limited predictive value. As a result, the ultimate realized gain or loss or expense with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at the time and interest rates.

Item 4. Controls and Procedures.

We are committed to providing accurate and timely disclosure in satisfaction of our SEC reporting obligations. We have a Disclosure Committee to formalize our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2007, and have concluded as follows:

Our disclosure controls and procedures are designed to ensure that the information that we are required to disclose in our reports under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported accurately and on a timely basis.

Information that we are required to disclose in our Exchange Act reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

In the normal course of business, the Company has become and might in the future become involved in legal actions relating to the ownership and operation of its properties and the properties it manages for third parties. In management's opinion, the resolution of any such pending legal actions are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

In June 2007, the Company filed a complaint in the Circuit Court of the State of Florida alleging that the Alachua County Board of Supervisors (the County) violated provisions of Florida law in its denial of the Company's application to develop a mixed-use development project known as Springhills on Company-owned land in Alachua County, Florida. The Company acquired the approximately 540 acre site in February 2006 for \$21.5 million. The Company had \$28.4 million invested in this project as of September 30, 2007.

The complaint alleges that the County violated provisions of Florida's sunshine law in its consideration of the project, and that the County's stated reasons for the denial of the Company's development applications were a pretext and, in fact, resulted from the Company's refusal to accede to the County's demand for payment and construction by the Company of public transportation facilities, the need for which are not reasonably attributable to the proposed Company development, and for which there is no rational nexus or rough proportionality. Further, the complaint alleges that the North Central Regional Florida Planning Council conducted the transportation study relied upon by the County in its determination in a manner inconsistent with an agreed upon pre-application methodology.

The complaint requests that the County be enjoined from relying on any of the bases used as a pretext, and that the County and the regional planning commission be enjoined from relying on the transportation study. The requested relief would invalidate the denial of the Company's development application.

The ultimate disposition of this proceeding cannot be predicted and the Company is not in a position to indicate when or if the Springhills project will be constructed.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risks that could materially affect our business, financial condition or results of operations, which are discussed under the caption "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Unregistered Offerings

On September 4, 2007, we issued 17,000 common shares in return for an equal number of Class A Units tendered for redemption by a limited partner of PREIT Associates. The shares were issued under exemptions provided by Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering.

After the end of the quarter, on or about October 22, 2007, we issued an aggregate of 286,721 common shares in return for an equal amount of Class A and Class B units tendered for redemption by three limited partners of PREIT Associates. The shares were issued under exemptions provided by Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering.

Issuer Purchases of Equity Securities

The following table shows the total number of shares that we acquired in the three months ended September 30, 2007 and the average price paid per share. The purchases reflected in the table were pursuant to our share repurchase program as well as employees' use of shares to pay the exercise price of options and to pay the withholding taxes payable upon the exercise of options or the vesting of restricted shares. The table also shows the aggregate dollar amount of shares that may be repurchased under the Company's existing share repurchase program.

Period		(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1	July 31, 2007	438	\$ 41.01		\$ 91,600,000
August 1	August 31, 2007	152,500	35.67	152,500	86,160,000
September 1	September 30, 2007	145,044	37.55		
Total		297,982	\$ 39.53	152,500	\$ 86,160,000

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- (1) On October 31, 2005, we announced that our Board of Trustees authorized a program to repurchase up to \$100.0 million of our common shares in the open market or in privately negotiated or other transactions until the end of 2007.

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Item 6. Exhibits.

- 3.1 Amended and Restated Trust Agreement of Pennsylvania Real Estate Investment Trust filed as Exhibit 3.1 to the Current Report on Form 8-K dated July 26, 2007 is incorporated herein by reference.
- 3.2 Amended and Restated Bylaws of Pennsylvania Real Estate Investment Trust filed as Exhibit 3.2 to the Current Report on Form 8-K dated July 26, 2007 is incorporated herein by reference.
- 10.1 Pennsylvania Real Estate Investment Trust 2007-2009 Restricted Share Unit Program (established under the Pennsylvania Real Estate Investment Trust 2003 Equity Incentive Plan), filed as Exhibit 10.2 to the Current Report on Form 8-K/A dated February 21, 2007 is incorporated herein by reference.
- 10.2 Form of Restricted Share Units and Dividend Equivalent Rights Award Agreement, filed as Exhibit 10.3 to the Current Report on Form 8-K/A dated February 21, 2007 is incorporated herein by reference.
- 10.3 Amendment No. 1 to the Pennsylvania Real Estate Investment Trust 2006 - 2008 Restricted Share Unit Program filed as Exhibit 10.1 to the Current Report on Form 8-K dated July 25, 2007 is incorporated herein by reference.
- 10.4 Amendment No. 1 to the Pennsylvania Real Estate Investment Trust 2007 - 2009 Restricted Share Unit Program filed as Exhibit 10.2 to the Current Report on Form 8-K dated July 25, 2007 is incorporated herein by reference.
- 10.5 Form of Amendment to Restricted Share Units and Dividend Equivalent Rights Award Agreement under Pennsylvania Real Estate Investment Trust's 2006 - 2008 and 2007 - 2009 Restricted Share Unit Programs filed as Exhibit 10.3 to the Current Report on Form 8-K dated July 25, 2007 is incorporated herein by reference.
- 31.1* Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

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SIGNATURE OF REGISTRANT

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

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: November 7, 2007

By: /s/ Ronald Rubin
Ronald Rubin
Chief Executive Officer

By: /s/ Robert F. McCadden
Robert F. McCadden
Executive Vice President and Chief Financial Officer

By: /s/ Jonathen Bell
Jonathen Bell
Senior Vice President - Chief Accounting Officer (Principal
Accounting Officer)