

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Form 10-Q

April 30, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2012

or

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

Commission File Number: 1-6300

**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**

(Exact name of Registrant as specified in its charter)

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<b>Pennsylvania</b> (State or other jurisdiction of incorporation or organization)	<b>23-6216339</b> (I.R.S. Employer Identification No.)
<b>200 South Broad Street</b>	
<b>Philadelphia, PA</b> (Address of principal executive offices)	<b>19102</b> (Zip Code)
<b>Registrant's telephone number, including area code (215) 875-0700</b>	

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 the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 April 25, 2012: 55,953,163

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**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**

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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 or the Operating Partnership refer to PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to PRI refer to PREIT-RUBIN, Inc.

**Table of Contents****PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS:</b>		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	\$ 3,473,802	\$ 3,470,167
Construction in progress	96,671	91,538
Land held for development	15,107	15,292
Total investments in real estate	3,585,580	3,576,997
Accumulated depreciation	(875,267)	(844,010)
Net investments in real estate	2,710,313	2,732,987
INVESTMENTS IN PARTNERSHIPS, at equity:	15,866	16,009
<b>OTHER ASSETS:</b>		
Cash and cash equivalents	26,022	21,798
Tenant and other receivables (net of allowance for doubtful accounts of \$16,765 and \$17,930 at March 31, 2012 and December 31, 2011, respectively)	34,322	39,832
Intangible assets (net of accumulated amortization of \$52,248 and \$51,625 at March 31, 2012 and December 31, 2011, respectively)	9,298	9,921
Deferred costs and other assets	88,551	89,707
Total assets	\$ 2,884,372	\$ 2,910,254
<b>LIABILITIES:</b>		
Mortgage loans payable (including debt premium of \$201 and \$282 at March 31, 2012 and December 31, 2011, respectively)	\$ 1,751,517	\$ 1,691,381
Exchangeable Notes (net of debt discount of \$342 and \$849 at March 31, 2012 and December 31, 2011, respectively)	136,558	136,051
Term Loans	240,000	240,000
Revolving Facility	30,000	95,000
Tenants' deposits and deferred rent	15,635	13,278
Distributions in excess of partnership investments	65,869	64,938
Fair value of derivative instruments	19,661	21,112
Accrued expenses and other liabilities	54,866	60,456
Total liabilities	2,314,106	2,322,216
<b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>		
<b>EQUITY:</b>		
Shares of beneficial interest, \$1.00 par value per share; 100,000 shares authorized; issued and outstanding 55,531 shares at March 31, 2012 and 55,677 shares at December 31, 2011	55,531	55,677
Capital contributed in excess of par	1,047,775	1,047,487
Accumulated other comprehensive loss	(32,416)	(34,099)
Distributions in excess of net income	(543,058)	(524,738)
Total equity - PREIT	527,832	544,327
Noncontrolling interest	42,434	43,711
Total equity	570,266	588,038

Total liabilities and equity	\$ 2,884,372	\$ 2,910,254
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See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents****PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

<b>(in thousands of dollars)</b>	<b>Three months ended</b>	
	<b>2012</b>	<b>March 31, 2011</b>
<b>REVENUE:</b>		
Real estate revenue:		
Base rent	\$ 72,040	\$ 71,759
Expense reimbursements	32,026	33,762
Percentage rent	918	982
Lease termination revenue	651	25
Other real estate revenue	3,221	3,034
Total real estate revenue	108,856	109,562
Interest and other income	762	918
Total revenue	109,618	110,480
<b>EXPENSES:</b>		
Operating expenses:		
CAM and real estate taxes	(36,209)	(37,304)
Utilities	(5,289)	(5,831)
Other operating expenses	(4,898)	(5,958)
Total operating expenses	(46,396)	(49,093)
Depreciation and amortization	(33,719)	(34,510)
Other expenses:		
General and administrative expenses	(9,885)	(9,582)
Project costs and other expenses	(358)	(144)
Total other expenses	(10,243)	(9,726)
Interest expense, net	(31,669)	(33,613)
Total expenses	(122,027)	(126,942)
Loss before equity in income of partnerships	(12,409)	(16,462)
Equity in income of partnerships	1,993	1,543
Net loss	(10,416)	(14,919)
Less: net loss attributable to noncontrolling interest	419	601
Net loss attributable to PREIT	\$ (9,997)	\$ (14,318)

See accompanying notes to the unaudited consolidated financial statements.

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**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (continued)**

**EARNINGS PER SHARE**

**(Unaudited)**

(in thousands of dollars, except per share amounts)	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net loss	\$ (10,416)	\$ (14,919)
Noncontrolling interest	419	601
Dividends on unvested restricted shares	(61)	(117)
Loss used to calculate earnings per share basic and diluted	\$ (10,058)	\$ (14,435)
Basic loss per share	\$ (0.18)	\$ (0.27)
Diluted loss per share	\$ (0.18)	\$ (0.27)
<b>(in thousands of shares)</b>		
Weighted average shares outstanding basic	54,908	54,466
Effect of common share equivalents <sup>(1)</sup>		
Weighted average shares outstanding diluted	54,908	54,466

<sup>(1)</sup> The Company had net losses for all periods presented. Therefore, the effect of common share equivalents of 646 and 555 for the three months ended March 31, 2012 and 2011, respectively, are excluded from the calculation of diluted loss per share for these periods because they would be antidilutive.

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**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

<b>(in thousands of dollars)</b>	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Comprehensive (loss) income:		
Net loss	\$ (10,416)	\$ (14,919)
Unrealized gain on derivatives	1,451	3,490
Other	302	497
Total comprehensive loss	(8,663)	(10,932)
Less: Comprehensive loss attributable to noncontrolling interest	349	440
Comprehensive loss attributable to PREIT	\$ (8,314)	\$ (10,492)

See accompanying notes to the unaudited consolidated financial statements.



**Table of Contents****PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED STATEMENTS OF EQUITY****Three Months Ended****March 31, 2012****(Unaudited)**

(in thousands of dollars, except per share amounts)	Total Equity	Shares of Beneficial Interest, \$1.00 Par	PREIT Shareholders		Distributions in Excess of Net Income	Non- controlling Interest
			Capital Contributed in Excess of Par	Accumulated Other Comprehensive Loss		
Balance January 1, 2012	\$ 588,038	\$ 55,677	\$ 1,047,487	\$ (34,099)	\$ (524,738)	\$ 43,711
Total comprehensive loss	(8,663)			1,683	(9,997)	(349)
Shares issued upon redemption of Operating Partnership Units		20	297			(317)
Shares issued under distribution reinvestment and share purchase plan	149	10	139			
Shares issued under employee share purchase plan	189	12	177			
Shares retired under equity incentive plans, net of shares issued	(2,555)	(188)	(2,367)			
Amortization of deferred compensation	2,042		2,042			
Distributions paid to common shareholders (\$0.15 per share)	(8,323)				(8,323)	
Noncontrolling interests:						
Distributions to Operating Partnership unitholders (\$0.15 per unit)	(349)					(349)
Other distributions to noncontrolling interest, net	(262)					(262)
Balance March 31, 2012	\$ 570,266	\$ 55,531	\$ 1,047,775	\$ (32,416)	\$ (543,058)	\$ 42,434

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents****PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(in thousands of dollars)	Three months ended	
	2012	March 31, 2011
<b>Cash flows from operating activities:</b>		
Net loss	\$ (10,416)	\$ (14,919)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	31,385	31,410
Amortization	4,350	4,706
Straight-line rent adjustments	(153)	(276)
Provision for doubtful accounts	572	1,642
Amortization of deferred compensation	2,042	2,198
Change in assets and liabilities:		
Net change in other assets	6,711	635
Net change in other liabilities	(1,912)	(5,095)
Net cash provided by operating activities	32,579	20,301
<b>Cash flows from investing activities:</b>		
Additions to construction in progress	(7,719)	(7,210)
Investments in real estate improvements	(2,273)	(1,703)
Additions to leasehold improvements	(183)	(42)
Investments in partnerships	(93)	(132)
Capitalized leasing costs	(1,325)	(1,158)
(Increase) decrease in cash escrows	(1,984)	288
Cash distributions from partnerships in excess of equity in income	1,167	897
Net cash used in investing activities	(12,410)	(9,060)
<b>Cash flows from financing activities:</b>		
Net repayment of Revolving Facility	(65,000)	
Proceeds from mortgage loans	65,750	
Principal installments on mortgage loans	(5,533)	(5,226)
Payment of deferred financing costs	(273)	(11)
Dividends paid to common shareholders	(8,323)	(8,327)
Distributions paid to Operating Partnership unitholders and noncontrolling interest	(349)	(347)
Shares of beneficial interest issued	338	139
Shares retired under equity incentive plans, net of shares issued	(2,555)	(1,875)
Net cash used in financing activities	(15,945)	(15,647)
Net change in cash and cash equivalents	4,224	(4,406)
Cash and cash equivalents, beginning of period	21,798	42,327
Cash and cash equivalents, end of period	\$ 26,022	\$ 37,921

See accompanying notes to the unaudited the consolidated financial statements.



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**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**1. BASIS OF PRESENTATION**

*Nature of Operations*

Pennsylvania Real Estate Investment Trust ( PREIT or the Company ) prepared the accompanying unaudited 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 we believe that the included disclosures are adequate to make the information presented not misleading. Our unaudited 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, as amended, for the year ended December 31, 2011. In our opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and the consolidated results of our operations and our cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

PREIT, 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 located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of March 31, 2012, our portfolio consisted of a total of 49 properties in 13 states, including 38 shopping malls, eight strip and power centers and three development properties, with two of the development properties classified as mixed use (a combination of retail and other uses) and one of the development properties classified as other.

We hold our interest in our portfolio of properties through our operating partnership, PREIT Associates, L.P. ( PREIT Associates or the Operating Partnership ). We are the sole general partner of the Operating Partnership and, as of March 31, 2012, we held a 96.0% interest in the Operating Partnership, and consolidated 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 such partner's units of limited partnership interest in the Operating Partnership ( OP Units ) for cash or, at our election, we may acquire such OP Units in exchange for our common shares 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. In the event that all of the outstanding OP Units held by limited partners were redeemed for cash, the total amount that would have been distributed as of March 31, 2012 would have been \$35.3 million, which is calculated using our March 30, 2012 closing share price on the New York Stock Exchange of \$15.27 multiplied by the number of outstanding OP Units held by limited partners, which was 2,309,118 as of March 31, 2012.

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

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate consolidated operations on a geographic basis. We do not have any significant revenue or asset concentrations, 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 consolidated revenue, and none of our properties are located outside the United States.



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### ***Fair Value***

Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, these accounting requirements establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. We utilize the fair value hierarchy in our accounting for derivatives (Level 2) and financial instruments (Level 2) and in our reviews for impairment of real estate assets (Level 3) and goodwill (Level 3).

### ***New Accounting Developments***

The Financial Accounting Standards Board has proposed new accounting pronouncements related to lease accounting and to fair value accounting for long lived assets, including real estate. These pronouncements, if adopted, could have a significant effect on our financial statements. The effective dates of these possible accounting pronouncement changes, if any, are unknown at this time.

In 2011, we adopted new accounting requirements relating to the presentation of comprehensive income. These accounting requirements have increased the prominence of other comprehensive income in our financial statements. We now present the components of net income and comprehensive income in two financial statements under the heading Consolidated Statements of Operations. The new accounting requirements eliminate the option to present other comprehensive income in the statement of changes in equity. We have applied these changes retrospectively. The adoption of these new accounting requirements did not have a material effect on our financial statements.

In 2011, we adopted new accounting requirements relating to testing for goodwill impairment that permit us to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If we conclude it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we do not perform the two-step impairment test.

Effective January 1, 2012, in conjunction with our implementation of updates to the fair value measurements guidance, we made an accounting policy election to measure derivative financial instruments subject to master netting agreements on a net basis. This accounting policy election did not have a material effect on our financial statements.

**Table of Contents****2. REAL ESTATE ACTIVITIES**

Investments in real estate as of March 31, 2012 and December 31, 2011 were comprised of the following:

(in thousands of dollars)	As of March 31, 2012	As of December 31, 2011
Buildings, improvements and construction in progress	\$ 3,068,092	\$ 3,060,095
Land, including land held for development	517,488	516,902
<b>Total investments in real estate</b>	<b>3,585,580</b>	<b>3,576,997</b>
Accumulated depreciation	(875,267)	(844,010)
<b>Net investments in real estate</b>	<b>\$ 2,710,313</b>	<b>\$ 2,732,987</b>

***Capitalization of Costs***

The following table summarizes our capitalized salaries, commissions and benefits, real estate taxes and interest for the three months ended March 31, 2012 and 2011:

(in thousands of dollars)	Three months ended March 31,	
	2012	2011
<b>Development/Redevelopment Activities:</b>		
Salaries and benefits	\$ 133	\$ 215
Real estate taxes	393	47
Interest	547	397
<b>Leasing Activities:</b>		
Salaries, commissions and benefits	1,325	1,158

We expensed project costs that did not meet or no longer met our criteria for capitalization of \$0.2 million and \$0.1 million for the three months ended March 31, 2012 and 2011, respectively.

**Table of Contents****3. INVESTMENTS IN PARTNERSHIPS**

The following table presents summarized financial information of the equity investments in our unconsolidated partnerships as of March 31, 2012 and December 31, 2011:

(in thousands of dollars)	As of March 31, 2012	As of December 31, 2011
<b>ASSETS:</b>		
Investments in real estate, at cost:		
Retail properties	\$ 404,446	\$ 404,219
Construction in progress	1,949	2,092
<b>Total investments in real estate</b>	<b>406,395</b>	<b>406,311</b>
Accumulated depreciation	(147,908)	(144,671)
<b>Net investments in real estate</b>	<b>258,487</b>	<b>261,640</b>
Cash and cash equivalents	10,716	11,379
Deferred costs and other assets, net	20,111	19,687
<b>Total assets</b>	<b>289,314</b>	<b>292,706</b>
<b>LIABILITIES AND PARTNERS DEFICIT:</b>		
Mortgage loans payable	409,616	410,978
Other liabilities	6,623	6,645
<b>Total liabilities</b>	<b>416,239</b>	<b>417,623</b>
<b>Net deficit</b>	<b>(126,925)</b>	<b>(124,917)</b>
Partners' share	(67,661)	(66,667)
PREIT's share	(59,264)	(58,250)
Excess investment <sup>(1)</sup>	9,261	9,321
<b>Net investments and advances</b>	<b>\$ (50,003)</b>	<b>\$ (48,929)</b>
Investment in partnerships, at equity	\$ 15,866	\$ 16,009
Distributions in excess of partnership investments	(65,869)	(64,938)
<b>Net investments and advances</b>	<b>\$ (50,003)</b>	<b>\$ (48,929)</b>

<sup>(1)</sup> Excess investment represents the unamortized difference between our investment and our share of the equity in the underlying net investment in the partnerships. The excess investment is amortized over the life of the properties, and the amortization is included in Equity in income of partnerships.

We record distributions from our equity investments up to an amount equal to the equity in income of partnerships as cash from operating activities. Amounts in excess of our share of the income in the equity investments are treated as a return of partnership capital and recorded as cash from investing activities.



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The following table summarizes our share of equity in income of partnerships for the three months ended March 31, 2012 and 2011:

(in thousands of dollars)	Three months ended March 31,	
	2012	2011
Real estate revenue	\$ 19,377	\$ 18,708
Expenses:		
Operating expenses	(5,927)	(6,046)
Interest expense	(5,654)	(5,587)
Depreciation and amortization	(3,612)	(3,846)
Total expenses	(15,193)	(15,479)
Net income	4,184	3,229
Less: Partners' share	(2,087)	(1,603)
PREIT's share	2,097	1,626
Amortization of excess investment	(104)	(83)
Equity in income of partnerships	\$ 1,993	\$ 1,543

**4. FINANCING ACTIVITY*****Amended, Restated and Consolidated Senior Secured Credit Agreement***

Our credit facility consists of a revolving line of credit with a capacity of \$250.0 million (the Revolving Facility) and term loans with an aggregate balance as of March 31, 2012 of \$240.0 million (collectively, the 2010 Term Loan and, together with the Revolving Facility, and as amended the 2010 Credit Facility).

As of March 31, 2012, \$30.0 million was outstanding under our Revolving Facility. No amounts were pledged as collateral for letters of credit, and the unused portion that was available to us was \$220.0 million at March 31, 2012. In April 2012, we used proceeds from the Series A Preferred Share offering (see note 8) to repay \$30.0 million of outstanding borrowings on our Revolving Facility. Following this paydown, there were no amounts outstanding under the Revolving Facility and the unused portion available to us was \$250.0 million.

The weighted average interest rate on outstanding Revolving Facility borrowings as of March 31, 2012 was 4.25%. Interest expense related to the Revolving Facility was \$0.7 million and \$0.1 million for the three months ended March 31, 2012 and 2011, respectively, excluding non-cash amortization of deferred financing fees.

As of March 31, 2012, \$240.0 million was outstanding under the 2010 Term Loan. The weighted average effective interest rates based on amounts borrowed under the 2010 Term Loan for the three months ended March 31, 2012 was 5.08%. Interest expense related to the 2010 Term Loan was \$3.3 million and \$5.1 million, respectively, for the three months ended March 31, 2012 and 2011, excluding non-cash amortization of deferred financing fees.

Deferred financing fee amortization associated with the 2010 Credit Facility for each of the three months ended March 31, 2012 and 2011 was \$0.9 million.

The 2010 Credit Facility contains affirmative and negative covenants of the type customarily found in credit facilities of this nature. As of March 31, 2012, we were in compliance with all financial covenants.

***Exchangeable Notes***

As of both March 31, 2012 and December 31, 2011, \$136.9 million in aggregate principal amount of our 4.0% Senior Exchangeable Notes due 2012 (the Exchangeable Notes) remained outstanding, excluding debt discount of \$0.3 million and \$0.8 million, respectively.

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Interest expense related to our Exchangeable Notes for each of the three months ended March 31, 2012 and 2011, was \$1.4 million, excluding the non-cash amortization of debt discount of \$0.5 million and the non-cash amortization of deferred financing fees of \$0.2 million. The Exchangeable Notes have an effective interest rate of 5.94%.

We intend to repay in full the Exchangeable Notes upon their maturity in June 2012, using available cash and borrowings from our Revolving Facility.

**Table of Contents****Mortgage Loans**

The carrying value (including debt premium of \$0.2 million and \$0.3 million as of March 31, 2012 and December 31, 2011, respectively) and estimated fair values of mortgage loans based on interest rates and market conditions at March 31, 2012 and December 31, 2011 were as follows:

(in millions of dollars)	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans	\$ 1,751.5	\$ 1,765.4	\$ 1,691.4	\$ 1,683.4

The mortgage loans contain various customary default provisions. As of March 31, 2012, we were not in default on any of the mortgage loans.

**Mortgage Loan Activity**

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

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Rate	Maturity
2012 Activity:				
January	New River Valley Mall	\$ 28.1	LIBOR plus 3.00%	January 2019
February	Capital City Mall	65.8	5.30% fixed	March 2022

**5. CASH FLOW INFORMATION**

Cash paid for interest was \$27.2 million (net of capitalized interest of \$0.5 million) and \$30.1 million (net of capitalized interest of \$0.4 million) for the three months ended March 31, 2012 and 2011, respectively.

**6. COMMITMENTS AND CONTINGENCIES****Contractual Obligations**

As of March 31, 2012, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$18.4 million in the form of tenant allowances, lease termination fees, and contracts with general service providers and other professional service providers.

**Related Party Transactions**

We lease our principal executive offices from Bellevue Associates (the Landlord), an entity in which certain of our officers/trustees have an interest. Under the original lease, our base rent was \$1.5 million. Our total rent expense in 2011 was \$1.8 million. The office lease had a 10 year term that commenced on November 1, 2004. We had the option to renew the office lease for up to two additional five year periods at the then-current fair market rate calculated in accordance with the terms of the office lease. Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord.

Under the office lease, we also had the right on one occasion at any time during the seventh lease year to terminate the lease upon the satisfaction of certain conditions. In April 2012, we entered into an amendment to our office lease with the Landlord, effective June 1, 2012. The amendment was negotiated in light of the aforementioned termination right. Under this amendment, the term has been extended for five years to October 31, 2019, and we have the option to renew the amended office lease for up to two additional periods for an aggregate of 10 years, at the then-current market base rental rate calculated in accordance with the terms of the amended office lease. The first extension period shall be no less than three and no more than seven years, at our discretion, and the second shall be for 10 years less the number of years of the first extension. The base rent will be approximately \$1.2 million per year, increasing incrementally to approximately \$1.4 million in 2019.

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In accordance with PREIT's related party transactions policy, PREIT's Special Committee considered and approved the terms of the transaction.

### *Employment Agreements*

On April 25, 2012, we entered into amended employment agreements with Ronald Rubin and Joseph F. Coradino. See our Form 8-K filed on April 27, 2012 for further information.

### **7. DERIVATIVES**

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest bearing liabilities. We attempt to limit these risks by following established risk management policies, procedures and strategies, including the use of financial instruments such as derivatives. We do not use financial instruments for trading or speculative purposes.

#### *Cash Flow Hedges of Interest Rate Risk*

Our outstanding derivatives have been designated under applicable accounting authority as cash flow hedges. The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in Accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. To the extent these instruments are ineffective as cash flow hedges, changes in the fair value of these instruments are recorded in Interest expense, net. We recognize all derivatives at fair value as either assets or liabilities in the accompanying consolidated balance sheets. Our derivative assets and liabilities are recorded in Fair value of derivative instruments.

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Amounts reported in Accumulated other comprehensive loss that are related to derivatives will be reclassified to Interest expense, net as interest payments are made on our corresponding debt. During the next twelve months, we estimate that \$17.3 million will be reclassified as an increase to interest expense in connection with derivatives.

**Interest Rate Swaps and Cap**

As of March 31, 2012, we had entered into nine interest rate swap agreements and one cap agreement with a weighted average interest rate of 2.54% on a notional amount of \$632.6 million maturing on various dates through November 2013, and two forward starting interest rate swap agreements with a weighted average interest rate of 2.76% on a notional amount of \$228.1 million maturing on various dates through January 2017.

We entered into these interest rate swap agreements (including the forward starting swap agreements) and the cap agreement in order to hedge the interest payments associated with the 2010 Credit Facility and our issuances of variable interest rate long-term debt. We have assessed the effectiveness of these interest rate swap agreements and cap agreement as hedges at inception and on a quarterly basis. On March 31, 2012, we considered these interest rate swap agreements and the cap agreement to be highly effective as cash flow hedges. The interest rate swap agreements and cap agreement are net settled monthly.

Accumulated other comprehensive loss as of March 31, 2012 includes a net loss of \$10.3 million relating to forward-starting swaps that we cash settled in prior years that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

The following table summarizes the terms and estimated fair values of our interest rate swap, cap and forward starting swap derivative instruments at March 31, 2012 and December 31, 2011. The notional amounts provide an indication of the extent of our involvement in these instruments, but do not represent exposure to credit, interest rate or market risks. The fair values of our derivative instruments are recorded in Fair value of derivative instruments on our balance sheet.

(in millions of dollars)					
Notional Value	Fair Value at March 31, 2012 <sup>(1)</sup>	Fair Value at December 31, 2011 <sup>(1)</sup>	Interest Rate	Effective Date	Maturity Date
<b>Interest Rate Swaps</b>					
\$200.0	\$ (0.0)	\$ (0.7)	1.78%		April 2, 2012
25.0	(0.3)	(0.3)	1.83%		December 31, 2012
60.0	(0.8)	(0.9)	1.74%		March 11, 2013
40.0	(0.6)	(0.6)	1.82%		March 11, 2013
65.0	(2.9)	(3.2)	3.60%		September 9, 2013
68.0	(3.2)	(3.5)	3.69%		September 9, 2013
56.3	(2.7)	(2.9)	3.73%		September 9, 2013
55.0	(2.2)	(2.4)	2.90%		November 29, 2013
48.0	(2.0)	(2.1)	2.90%		November 29, 2013
<b>Interest Rate Cap</b>					
15.3	(0.0)	(0.0)	2.50%		April 2, 2012
<b>Forward Starting Interest Rate Swaps</b>					
200.0	(4.9)	(4.5)	2.96%	April 2, 2012	March 11, 2013
28.1	(0.1)	N/A	1.38%	January 2, 2013	January 2, 2017
	\$ (19.7)	\$ (21.1)			

<sup>(1)</sup> As of March 31, 2012 and December 31, 2011, derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. As of March 31, 2012 and December 31, 2011, we do not have any significant recurring fair value measurements related to derivative instruments using significant unobservable inputs (Level 3).



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The table below presents the effect of our derivative financial instruments on our consolidated statements of operations for the three months ended March 31, 2012 and 2011:

	Three months ended		Consolidated Statements of Operations location
	March 31, 2012	March 31, 2011	
Derivatives in cash flow hedging relationships			
Interest Rate Products			
Loss recognized in Other comprehensive income (loss) on derivatives	\$ (2.1) million	\$ (0.4) million	N/A
Loss reclassified from Accumulated Other Comprehensive loss into income (effective portion)	\$ 3.9 million	\$ 4.3 million	Interest expense
Gain (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)			Interest expense

***Credit-Risk-Related Contingent Features***

We have agreements with some of our derivative counterparties that contain a provision pursuant to which, if our entity that originated such derivative instruments defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of March 31, 2012, we were not in default on any of our derivative obligations.

We have an agreement with a derivative counterparty that incorporates the loan covenant provisions of our loan agreement with a lender affiliated with the derivative counterparty. Failure to comply with the loan covenant provisions would result in us being in default on any derivative instrument obligations covered by the agreement.

As of March 31, 2012, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was \$19.7 million. If we had breached any of the default provisions in these agreements as of March 31, 2012, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$21.6 million. We had not breached any of these provisions as of March 31, 2012.

**8. SERIES A PREFERRED SHARE OFFERING**

In April 2012, we issued 4,600,000 of our 8.25% Series A Cumulative Redeemable Perpetual Preferred Shares (the Series A Preferred Shares) in a public offering at \$25.00 per share plus accrued dividends. We received net proceeds from the offering of \$110.7 million after deducting payment of the underwriting discount of \$3.6 million (\$0.7875 per Series A Preferred Share) and offering expenses of \$0.7 million. We used a portion of the net proceeds from this offering to repay \$30.0 million of outstanding borrowings under the Revolving Facility. After the repayment, there were no amounts outstanding under the Revolving Facility.

The Series A Preferred Shares will not be redeemable before April 20, 2017, except under circumstances intended to preserve our status as a real estate investment trust, or REIT, for federal and/or state income tax purposes and except upon the occurrence of a Change of Control, as defined in the Trust Agreement addendum designating the Series A Preferred Shares. On and after April 20, 2017, we may, at our option, redeem any or all of the Series A Preferred Shares for cash at \$25.00 per share plus, subject to exceptions, any accrued and unpaid dividends to but excluding the date fixed for redemption. In addition, upon the occurrence of a Change of Control, we may, at our option, redeem any or all of the Series A Preferred Shares for cash within 120 days after the first date on which such Change of Control occurred at \$25.00 per share plus, subject to certain exceptions, any accrued and unpaid dividends to but excluding the date fixed for redemption. The Series A Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless we redeem or otherwise repurchase them or they become convertible and are converted.

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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 real estate investment trusts ( REITs ) in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 49 properties in 13 states, including 38 enclosed malls, eight strip and power centers and three development properties. The operating retail properties have a total of approximately 33.1 million square feet. The operating retail properties that we consolidate for financial reporting purposes have a total of approximately 28.5 million square feet, of which we own approximately 22.8 million square feet. The operating retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.6 million square feet, of which 2.9 million square feet are owned by such partnerships. The development portion of our portfolio contains three properties in two states, with two classified as mixed use (a combination of retail and other uses) and one classified as other.

Our primary business is owning and operating retail shopping malls, which we primarily do through our operating partnership, PREIT Associates, L.P. ( PREIT Associates ). We provide management, leasing and real estate development services through PREIT Services, LLC ( PREIT Services ), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. ( PRI ), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties we own interests in through partnerships with third parties and properties that are owned by third parties in which we do not have an interest. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer additional services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law.

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

Net loss for the three months ended March 31, 2012 was \$10.4 million, a decrease of \$4.5 million compared to a net loss of \$14.9 million for the three months ended March 31, 2011. This increase was primarily due to lower operating expenses and lower interest expenses.

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. We do not have any significant revenue or asset concentrations, 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. We are the sole general partner of PREIT Associates and, as of March 31, 2012, held a 96.0% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 46 retail properties and one of the three development properties in our portfolio through unconsolidated partnerships with third parties in which we own a 40% to 50% interest. We hold a noncontrolling 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.



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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 statements of operations caption entitled Equity in income of partnerships, rather than consolidating the results of the unconsolidated partnerships with our results. Changes in our investments in these entities are recorded in the balance sheet caption entitled Investment in partnerships, at equity. In the case of deficit investment balances, such amounts are recorded in Distributions in excess of partnership investments.

We hold our interest in three of our unconsolidated partnerships through tenancy in common arrangements. For each of these properties, title is held by us and another person or persons, and each has an undivided interest in the property. With respect to each of the three properties, under the applicable agreements between us and the other persons with ownership interests, we and such other persons have joint control because decisions regarding matters such as the sale, refinancing, expansion or rehabilitation of the property require the approval of both us and the other person (or at least one of the other persons) owning an interest in the property. Hence, we account for each of the properties using the equity method of accounting. The balance sheet items arising from these properties appear under the caption Investments in partnerships, at equity. The statements of operations items arising from these properties appear in Equity in income of partnerships.

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

### ***Current Economic Conditions and Our Leverage***

The conditions in the economy and the disruptions in the financial markets have reduced employment and have caused fluctuations and variations in business and consumer confidence and consumer spending on retail goods. We continue to adjust our plans and actions to take into account the current environment.

The conditions in the economy and their effect on retail sales, as well as our significant leverage resulting from use of debt to fund our redevelopment program and other development activity, have combined to necessitate that we vary our approach to obtaining, using and recycling capital. In light of these conditions, we are focusing on appropriately managing our liquidity. We intend to consider all of our available options for accessing the capital markets, given our position and constraints. We believe that we have access to sufficient capital to fund our remaining redevelopment project and our other capital improvement projects.

We continue to contemplate ways to reduce our leverage through a variety of means available to us, subject to and in accordance with the terms of our Amended, Restated and Consolidated Senior Secured Credit Agreement (as amended, the 2010 Credit Facility ). These steps might include obtaining additional equity capital, including through the issuance of common or preferred equity securities if market conditions are favorable, through joint ventures or other partnerships or arrangements involving our contribution of assets with institutional investors, private equity investors or other REITs, through sales of properties or interests in properties with values in excess of their mortgage loans or allocable debt and application of the excess proceeds to debt reduction, or through other actions.

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### ***Capital Improvements and Development Projects***

We might make capital improvements at our operating properties. Such improvements vary in cost and complexity, and can include building out new or existing space for individual tenants, upgrading common areas or exterior areas such as parking lots, or redeveloping the entire property, among other projects. Project costs are accumulated in *Construction in progress* on our consolidated balance sheet until the asset is placed into service, and amounted to \$96.7 million as of March 31, 2012.

We are also engaged in several types of development projects. However, we do not expect to make any significant investment in these projects in the short term. As of March 31, 2012, we had incurred \$56.7 million of costs (net of impairment charges recorded in prior years) related to our activity at development properties.

As of March 31, 2012, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$18.4 million in the form of tenant allowances, lease termination fees, and contracts with general service providers and other professional service providers.

### ***Dispositions***

We did not dispose of any properties during the three months ended March 31, 2012.

## **CRITICAL ACCOUNTING POLICIES**

Critical Accounting Policies are those that require the application of management's most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that might change in subsequent periods. In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Management has also considered 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 in determining its estimates and judgments. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may affect comparability of our results of operations to those of companies in similar businesses. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2012 and 2011, except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected.

For additional information regarding our Critical Accounting Policies, see *Critical Accounting Policies* in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011, as amended.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

**Table of Contents****RESULTS OF OPERATIONS***Occupancy*

The table below sets forth certain occupancy statistics for our properties as of March 31, 2012 and 2011:

	Occupancy <sup>(1)</sup> as of March 31,					
	Consolidated Properties		Unconsolidated Properties		Combined <sup>(2)</sup>	
	2012	2011	2012	2011	2012	2011
Retail portfolio weighted average:						
Total excluding anchors	86.9%	86.2%	93.1%	92.3%	87.9%	87.1%
Total including anchors	91.6%	90.4%	94.8%	94.2%	91.9%	90.8%
Malls weighted average:						
Total excluding anchors	86.6%	85.9%	92.5%	94.8%	87.0%	86.5%
Total including anchors	91.4%	90.2%	94.0%	95.9%	91.5%	90.4%
Strip and power centers weighted average	97.2%	96.1%	95.2%	93.3%	95.8%	94.2%

<sup>(1)</sup> Occupancy for both periods presented includes all tenants irrespective of the terms of their agreements.

<sup>(2)</sup> Combined occupancy is calculated by using occupied gross leasable area ( GLA ) for consolidated and unconsolidated properties and dividing by total GLA for consolidated and unconsolidated properties.

*Leasing Activity*

The table below sets forth summary leasing activity information with respect to our consolidated and unconsolidated properties for the three months ended March 31, 2012.

	Number	GLA	Average Base Rent psf		Increase (Decrease) in Base Rent psf		Annualized Tenant Improvements psf <sup>(2)</sup>
			Previous	New	Dollar	Percentage <sup>(1)</sup>	
New Leases -Previously Leased Space:							
1st Quarter	32	119,188	\$ 20.58	\$ 21.54	\$ 0.96	4.7%	\$ 3.02
New Leases -Previously Vacant Space: <sup>(3)</sup>							
1st Quarter	35	124,425	N/A	\$ 28.60	\$ 28.60	N/A	\$ 3.82
Renewal: <sup>(4)</sup>							
1st Quarter	139	481,428	\$ 22.28	\$ 22.92	\$ 0.64	2.9%	\$
Anchor New:							
1st Quarter	3	285,136	N/A	\$ 13.87	\$ 13.87	N/A	\$ 3.40
Anchor Renewal:							
1st Quarter	1	100,115	\$ 3.13	\$ 3.13	\$		\$

<sup>(1)</sup> Leasing spreads on a gross rent basis (base rent plus common area maintenance, real estate taxes and other charges) were 1.3% for New Leases - Previously Leased Space and 0.0% for Renewals.

<sup>(2)</sup> These leasing costs are presented as annualized costs per square foot and are spread uniformly over the initial lease term.

<sup>(3)</sup> This category includes newly constructed and recommissioned space.

<sup>(4)</sup> This category includes expansions, relocations and lease extensions.

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As of March 31, 2012, for non-anchor leases, the average base rent per square foot as of the expiration date was \$26.41 for the renewing leases in Holdover status and \$25.34 for leases expiring in 2012.

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The following information sets forth our results of operations for each of the three months ended March 31, 2012 and 2011.

*Financial Overview*

Net loss for the three months ended March 31, 2012 was \$10.4 million, a decrease of \$4.5 million compared to a net loss of \$14.9 million for the three months ended March 31, 2011. Our March 31, 2012 results of operations were primarily affected by lower operating expenses and decreased interest expense.

(in thousands of dollars)	Three months ended		% Change 2010 to 2011
	2012	March 31, 2011	
Real estate revenue	\$ 108,856	\$ 109,562	(1%)
Interest and other income	762	918&n	