PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 8-K
August 12, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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

Date of report (Date of earliest event reported) June 27, 2003

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

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

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

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

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

Item 5. Other Events and Required FD Disclosure.

Pennsylvania Real Estate Investment Trust is re-issuing in an updated format the presentation of Items 6, 7 and 8 as set forth in our Form 10-K for the year ended December 31, 2002, filed on March 31, 2003, to reflect properties sold and/or classified as held for sale since March 31, 2003 as discontinued operations in the statements of income for all periods presented in accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Except as otherwise expressly noted, the information contained in this Current Report on Form 8-K has not been updated to reflect any developments since December 31, 2002. In particular, this Form 8-K does not address the anticipated effects of or risks associated with our proposed merger with Crown American Realty Trust. For information regarding the proposed merger, please see our Form 8-K dated May 13, 2003, filed on May 22, 2003. In addition, together with Crown, we intend to file a registration statement on Form S-4 including a joint proxy statement/prospectus and other materials with the SEC. WE URGE YOU TO READ THESE MATERIALS WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION REGARDING THE PROPOSED MERGER. Investors and security holders may obtain a free copy of these materials when they become available, as well as other materials filed with the SEC concerning Crown and us, at the SEC's website at http://www.sec.gov. In addition, these materials and other documents we file may be obtained for free by directing a request to Pennsylvania Real Estate Investment Trust at The Bellevue, 200 S. Broad Street, Philadelphia, Pennsylvania 19102; Attn: Investor Relations. In addition, these materials and other documents filed by Crown may be obtained for free by directing a request to Crown American Realty Trust at Pasquerilla Plaza, Johnstown, Pennsylvania 15901; Attn: Investor Relations.

We and Crown, and our respective trustees and executive officers and other members of management and employees, may be deemed to be participants in the solicitation of proxies from our shareholders and those of Crown in connection with the merger. Information about our trustees and executive officers and their ownership of our shares is set forth in the proxy statement for our 2003 Annual Meeting of Shareholders, which was filed with the SEC on April 30, 2003. Information about the trustees and executive officers of Crown and their ownership of Crown shares is set forth in Crown's Annual Report on Form 10-K and the amendment to its Form 10-K filed with the SEC on March 31, 2003 and April 22, 2003, respectively. Investors may obtain additional information regarding the interests of such participants by reading the joint proxy statement/prospectus when it becomes available.

This Current Report on Form 8-K, together with other statements and information publicly disseminated by us, contains certain "forward-looking statements" within the meaning of 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 and strategies, anticipated events or 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 may cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. We do not intend to and disclaim any duty or obligation to update or revise any forward-looking statements to reflect new information, future events or otherwise.
Factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements include, but are not limited to:

- the timing and full realization of the expected benefits from the recently completed and currently proposed transactions;

- the cost, timing and difficulty of integrating the properties recently acquired or currently proposed to be acquired into our business; and

- greater than expected operating costs, financing costs and business disruption associated with the recently completed and currently proposed transactions, including without limitation, difficulties in maintaining relationships with employees and tenants following the consummation of such transactions.

In addition, we are subject to the following risks:

Risks Related to Our Properties and Our Business

Our retail properties are concentrated in the Mid-Atlantic region of the United States and adverse market conditions in that region may impact the ability of our tenants to make lease payments and to renew leases, which may reduce the amount of income generated by our properties.

Our retail properties currently are concentrated in the Mid-Atlantic region of the United States. In particular, more than 77% of the square footage of our retail properties are located in Pennsylvania. To the extent adverse conditions affecting retail properties such as population trends and changing demographics, income, sales and property tax laws, availability and costs of financing, construction costs and weather conditions that may increase or decrease energy costs are particularly adverse in Pennsylvania or in the Mid-Atlantic region, our results of operations will be more notably affected. If the sales of stores operating at our properties were to decline significantly due to economic conditions, the risk that our tenants will be unable to fulfill the terms of their leases or will enter into bankruptcy may increase. In particular, economic and market conditions in the Mid-Atlantic region have a substantial impact on the performance of our anchor and other tenants and may impact the ability of our tenants to make lease payments and to renew their leases. If, as a result of such tenant difficulties, our properties do not generate sufficient income to meet our operating expenses, including future debt service, our results of operations would be adversely affected.

After completion of the Rouse and multifamily transactions, as of June 27, 2003, we had approximately $811.6 million of debt, $128.1 million of which was variable rate debt, which may impede our operating performance and put us at a competitive disadvantage.

Required repayments of debt and related interest can adversely affect our operating performance. Of our approximately $811.6 million in total debt outstanding at June 27, 2003, after giving effect to the Rouse and multifamily transactions, approximately $128.1 million was variable rate debt. Increases in interest rates on our existing indebtedness would increase our interest expense, which could harm our cash flow and our ability to pay distributions. Of the $811.6 million of debt, $155.5 million is attributable to joint ventures in which we have an interest.

At June 27, 2003, our outstanding debt included approximately $117.9 million under our $200 million revolving credit facility. The weighted average interest rate on amounts borrowed under this facility was 3.0% for the period from January 1, 2003 to June 27, 2003, after giving effect to two interest rate hedges. This credit facility expires on December 28, 2003 and may be extended for an additional year only with the approval of the lenders. We may be unable to extend the term of this credit facility or to replace this facility on favorable terms, if at all.

Our substantial debt may harm our business and operating results, including:

- requiring us to use a substantial portion of our funds from operations to make principal and interest payments on our debt, which reduces the amount available for distributions;

- placing us at a competitive disadvantage compared to our competitors that have less debt;

- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changes in business and economic conditions; and

o limiting our ability to borrow more money for operations, capital expenditures or to finance acquisitions in the future.

Our financial covenants may restrict our operating or acquisition activities, which may harm our financial condition and operating results.

Our existing $200 million credit facility currently requires our operating partnership, PREIT Associates, L.P., to maintain certain asset and income to debt ratios and minimum income and net worth levels. These covenants could reduce our flexibility in conducting our operations by limiting our ability to borrow and may create a risk of default on our debt if we cannot continue to satisfy these covenants. If we default under this credit facility, the lenders could require us to repay the debt immediately and could take possession of the properties securing the credit facility. We rely on borrowings under this credit facility to finance acquisitions, construction of our development properties, renovations and capital improvements to our properties and for working capital, and if we are unable to borrow under our credit facility or to refinance existing indebtedness, our financial condition and results of operations would be adversely impacted.

During the first quarter of 2002, we placed Creekview Shopping Center, a completed retail development project into the collateral pool for the credit facility and we expect to place additional projects into the collateral pool to provide additional borrowing capacity, as necessary. If we are unable to place additional completed development properties and acquired properties into the collateral pool, or if completed development properties or acquired properties are valued at less than we anticipate, we may be unable to fully access additional borrowing capacity under the credit facility and fund certain of our development and acquisition commitments and short term liquidity needs.

The credit facility we recently entered into with Wells Fargo to help finance the Rouse portfolio acquisition contains the same financial covenants as our $200 million credit facility (which was amended in connection with the Wells Fargo credit facility) and two additional financial covenants, including a covenant that our secured recourse indebtedness not exceed 15% of our Gross Asset Value (as defined in the credit agreement for the credit facility) and a covenant restricting our ability to incur certain unsecured indebtedness, which could further reduce our flexibility in conducting our operations by further limiting our ability to borrow. If, in the future, PREIT Associates, L.P. fails to meet any one or more of these requirements, we would be in default under this credit facility and the lenders could require us to repay the debt immediately.

We may be unable to manage effectively our rapid growth and expansion in the retail sector, which may result in disruptions to our business.

We recently completed our acquisition of six shopping malls from The Rouse Company. In addition, we expect to make future acquisitions or investments in real properties, other assets and other companies. If we do not effectively manage our rapid growth, we may not be able to make expected distributions to our shareholders and the market value of our securities may decline.

To manage our growth effectively, we must successfully integrate new acquisitions. We cannot assure you that we will be able to successfully integrate or effectively manage additional properties. The integration process for the Rouse portfolio acquisition will require substantial management attention that could detract attention from our day to day business, which could impair our relationships with our current tenants and employees. In addition, the Rouse portfolio acquisition and any future acquisitions are subject to, among other risks, the risk that we may experience difficulties and incur expenses related to assimilating and retaining employees, assimilating ongoing businesses or properties and maintaining relationships with tenants following the completion of a transaction, and the risk that the properties that we acquire will not perform at the level we anticipate. For example, we may not achieve the operating efficiencies, economies of scale or other benefits we expect from an acquisition. Accordingly, we may fail to realize the intended benefits of an acquisition and we may fail to realize value from acquisitions comparable to the resources we invest in them. Any difficulties associated with integrating acquired properties could adversely affect our result of operations.

Competition may impede our ability to renew leases or re-let space as leases expire and require us to undertake unbudgeted capital improvements, which could harm our operating results.

We face competition from similar retail centers that are near our retail properties with respect to the renewal of leases and re-letting of space as leases expire. Any new competitive properties that are developed close to our existing properties also may impact our ability to lease space to creditworthy tenants. Increased competition for tenants may require us to make capital improvements to properties that we would not have otherwise planned to make. Any unbudgeted capital improvements could adversely affect our results of operations. Also, to the extent we are unable to renew leases or re-let space as leases expire, it would result in decreased cash flow from tenants and adversely affect our results of operations.

Rising operating expenses could reduce our cash flow and funds available for future distributions.

Our properties and any properties we acquire in the future are and will be subject to operating risks common to real estate in general, any or all of which may negatively affect us. If any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, then we could be required to expend funds for that property's operating expenses. The properties will be subject to increases in real estate and other tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses.

While some of our properties are leased on terms that require tenants to pay a portion of the expenses associated with the property, renewals of leases or future leases may not be negotiated on that basis, in which event we will have to pay those costs. If we are unable to lease properties on a basis requiring the tenants to pay all or some of the expenses associated with the property, or if tenants fail to pay required tax, utility and other impositions, we could be required to pay those costs which could adversely affect our operating results.

Any tenant bankruptcies or leasing delays we encounter, particularly with respect to our anchor tenants, could adversely affect our results of operations and financial condition.

We receive a substantial portion of our income as rent under long term leases. At any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. Our tenants may delay lease commencement, fail to make rental payments when due, or declare bankruptcy. Any leasing delays, tenant failures to make rental payments when due or tenant bankruptcies could result in the termination of the tenant's lease and, particularly in the case of a key anchor tenant, material losses to us and harm to our results of operations. Certain tenants occupy stores at multiple locations in our portfolio, and so the impact of any bankruptcy of those tenants may be more significant on us than others. If tenants are unable to comply with the terms of our leases, we may modify lease terms in ways that are unfavorable to us. In addition, under many of our leases, our tenants pay rent based on a percentage of their sales or other operating results. Accordingly, declines in these tenants' performance directly impacts our operating results.

In addition to the loss of rental payments from an anchor tenant, a lease termination by an anchor tenant or a failure by that anchor tenant to occupy the premises could result in lease terminations or reductions in rent by other tenants of the same shopping center whose leases permit cancellation or rent reduction if an anchor tenant's lease is terminated. In that event, we may be unable to re-lease the vacated space. In addition, the leases of some anchor tenants may permit the anchor tenant to transfer its lease to another retailer. The transfer to a new anchor tenant could cause customer traffic in the retail center to decrease which could reduce the income generated by that retail center. A transfer of a lease to a new anchor tenant could also allow other tenants to make reduced rental payments or to terminate their leases at the retail center, which could adversely affect our results of operations.

We depend upon income generated by PREIT-RUBIN's management of properties owned by third parties, and the loss, interruption or termination of one or more management contracts could harm our operating results.

As of March 31, 2003, PREIT-RUBIN, one of our indirectly-owned subsidiaries, managed 14 retail properties containing approximately 5.3 million square feet, four office buildings containing approximately 0.9 million square feet and two multifamily properties with 137 units owned by third parties. Risks associated with PREIT-RUBIN's management of properties owned by third parties include:

- the property owner's termination of the management contract;
- loss of the management contract in connection with a property sale;
- non-renewal of the management contract after expiration;
- renewal of the management contract on terms less favorable than current terms;
- decline in management fees as a result of general real estate market conditions or local market factors; and
- claims of losses due to allegations of mismanagement.

The occurrence of one or more of these events could adversely affect our results of operations.

We may not be successful in identifying suitable acquisitions that meet our criteria, which may impede our growth.

Integral to our business strategy has been our strategic acquisitions of retail properties. Our ability to expand through acquisitions requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We analyze potential acquisitions on a property-by-property and market-by-market basis. We may not be successful in identifying suitable real estate properties or other assets in our existing geographic markets or that otherwise meet our acquisition criteria or consummating acquisitions or investments on satisfactory terms. Failures in identifying or consummating acquisitions could reduce the number of acquisitions we complete and slow our growth, which could adversely affect our results of operations.

We face increasing competition for the acquisition of real estate properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities engaged in real estate investment activities for acquisitions of retail shopping centers, including institutional pension funds, other REITs and other owner-operators of shopping centers. These competitors may drive up the price we must pay for real estate properties, other assets or other companies we seek to acquire or may succeed in acquiring those companies or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more, or may have more compatible operating philosophy. In particular, larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties, our profitability will be reduced, and shareholders may experience a lower return on their investment.

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

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial, and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

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

We have entered into tax protection agreements for the benefit of some limited partners of PREIT Associates, L.P. that may limit our ability to sell some of our properties that we may otherwise want to sell, which could harm our financial condition.

As the general partner of PREIT Associates, L.P. we have agreed to indemnify certain former property owners who have become limited partners of PREIT Associates, L.P. against tax liability that they may incur if we sell these properties within a certain number of years in a taxable transaction. In particular, we have provided tax protection of up to approximately $5.0 million related to the August 1998 acquisition of the Woods Apartments for a period of eight years ending in August 2006. Because the Woods Apartments were sold in connection with the disposition of the multifamily portfolio and because that transaction was treated as a tax-free exchange in connection with the acquisition of Exton Square Mall, The Gallery at Market East and Moorestown Mall from the Rouse Company, we are now obligated to provide tax protection to the former owner of the Woods Apartments if we sell any of Exton Square Mall, The Gallery at Market East or Moorestown Mall prior to August 2006. In some cases, these agreements may make it uneconomical for us to sell these properties, even in circumstances in which it otherwise would be advantageous to do so, which could harm our ability to address liquidity needs in the future or otherwise harm our financial condition.

Our investments in development properties may not yield anticipated returns, which would harm our operating results and reduce the amount of funds available for distributions.

A key component of our growth strategy is exploring our rights in development properties, including our current projects at Christiana Power Center Phase II, Newark, Delaware and New Garden, New Garden Township, Pennsylvania. Christiana Power Center Phase II was to be completed by September 30, 2002 but has experienced significant delays and has not been completed as of March 31, 2003. These delays have led to higher than anticipated costs and we currently do not expect the development of Christiana Power Center Phase II to be completed until the first quarter of 2005, if at all. The development of New Garden is expected to be completed in the fourth quarter of 2004. To the extent we continue these development projects or enter into new development projects, they will be subject to a number of risks, including, among others:

- inability to obtain required zoning, occupancy and other governmental approvals;
- expenditure of money and time on projects that may never be completed;
- higher than estimated construction costs;
- cost overruns and timing delays due to lack of availability of materials and labor, delays in receipt of zoning and other regulatory approvals, weather conditions and other factors outside our control; and
- inability to obtain permanent financing upon completion of development activities.

Unanticipated delays or expenses associated with our development properties could adversely affect the investment returns from these projects and adversely affect our financial condition and results of operations.

Some of our properties are in need of maintenance and/or renovation, which could harm our operating results.

As of March 31, 2003, seven of our 22 retail properties were constructed or last renovated more than 10 years ago. Two of the six retail properties acquired as part of the Rouse portfolio acquisition were constructed or last renovated more than 10 years ago. Older properties may generate lower rentals or may require significant expense for maintenance and/or renovations, which could harm our results of operations.

Our business and, in particular, our acquisition integration efforts could be harmed if Ronald Rubin, our chairman and chief executive officer, and other members of our senior management team terminate their employment with us.

Our future success depends, to a significant extent, upon the continued services of Ronald Rubin our chairman and chief executive officer and of our corporate management team. We are critically dependent upon our corporate management team and other key employees to lead our integration efforts for the Rouse portfolio acquisition. Although we have entered into employment agreements with Mr. Rubin and certain other members of our corporate management team, they could elect to terminate those agreements at any time. In addition, although we have purchased a key man life insurance policy in the amount of $5 million to cover Mr. Rubin, we cannot assure you that this would compensate us for the loss of his services. The loss of services of one or more members of our corporate or management team could harm our business and our prospects.

We hold substantial investments in unconsolidated partnerships and joint ventures, which we may not be able to successfully manage.

After giving effect to the acquisition of the six properties from Rouse, as of March 31, 2003, ten of our 28 retail properties were owned by joint ventures in which we are a party. Of these properties, seven are owned by partnerships in which we are a general partner. The remaining properties are owned by joint ventures in which we have substantially the same powers as a general partner.

Under the terms of the partnership and joint venture agreements, major decisions, such as a sale, lease, refinancing, expansion or rehabilitation of a property, or a change of property manager, require the consent of all partners or co-venturers. Accordingly, necessary actions may be delayed significantly because decisions must be unanimous and it may be difficult or even impossible to remove a partner or co-venturer that is serving as the property manager.

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

Other risks of investments in partnerships and joint ventures include:

- partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions;
- partners or co-venturers might have business interests or goals that are inconsistent with our business interests or goals;
- partners or co-venturers may be in a position to take action contrary to our policies or objectives; and
- potential liability for the actions of our partners or co-venturers.

We may be unable to obtain long term financing required to finance our partnerships and joint ventures, which could harm our operating results.

The profitability of each partnership or joint venture in which we are a partner or co-venturer that has short-term financing or debt requiring a balloon payment is dependent on the availability of long-term financing on satisfactory terms. If satisfactory long-term financing is not available, we may have to rely on other sources of short-term financing, equity contributions or the proceeds of refinancing other properties to satisfy debt obligations which may not be as favorable to us. Although we do not own the entire interest in connection with many of the properties held by such partnerships and joint ventures, we may be required to pay the full amount of any obligation of the partnership or joint venture that we have guaranteed in whole or in part or we may elect to pay a partnership's or joint venture's obligation to protect our equity interest in its properties and assets, which could cause us to use a substantial portion of our funds from operations, reducing amounts available for distribution.

The costs of compliance with environmental laws may harm our operating results.

Under various federal, state and local laws, ordinances and regulations, an owner, former owner or operator of real estate may be liable for the costs of removal or remediation of hazardous or toxic substances present at, on, under, in, or released from its property. They may also be liable to the government or to third parties for substantial property damage, investigation costs or clean up costs. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. Contamination may affect adversely the owner's ability to sell or lease real estate or borrow with real estate as collateral.

From time to time, we respond to inquiries from environmental authorities with respect to properties both currently and formerly owned by us. 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, but we may be required in the future to perform testing relating to these matters and further remediation may be required. We have reserved $0.1 million as of March 31, 2003 for future remediation of these matters, however, we may incur costs associated with such remediation which exceed such amount.

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In addition, at five of the properties in which we currently have an interest, and at two properties in which we formerly had an interest, environmental conditions have been or continue to be investigated and have not been fully remediated. Groundwater contamination has been found at five of these properties. While the former owners of two of the properties with groundwater contamination are presently remediating such contamination, any failure of such former owners to properly remediate such contamination could result in liability to us for such contamination. Dry cleaning operations were performed at three of the properties. Soil contamination has been identified at two of the properties having dry cleaning operations and groundwater contamination was found at the third property having dry cleaning operations. While these properties may be eligible under state law for remediation with state funds, we cannot make any assurances that sufficient funds will be available under state legislation to pay the full costs of any such remediation and we may incur costs in connection with such remediation.

Asbestos-containing materials are present in a number of our properties, primarily in the form of floor tiles and adhesives. Fire-proofing material containing asbestos is present at some of our properties in limited concentrations or in limited areas. We have taken certain actions to remediate or to comply with disclosure requirements, as necessary or appropriate, in connection with the foregoing, but we may be required to take additional actions or to make additional expenditures.

We are aware of environmental concerns at Christiana Power Center Phase II, one of our development properties. The final costs and necessary remediation are not known and may cause us to decide not to develop the property, which would result in us having incurred unnecessary development costs and could have an adverse impact on our operating results. We are also a party to a number of agreements for the purchase of property for development in which initial environmental investigations have revealed environmental risk factors that might require remediation by the owner or prior owners of the property. Such environmental risks may cause us to decide not to purchase such properties, which would result in us having incurred unnecessary development expenses and could adversely affect our results of operations.

Our environmental liability coverage for the types of environmental liabilities described above, which covers liability for pollution and on-site remediation of up to $2 million in any single claim and $4 million in the aggregate, may be inadequate, which could result in our being obligated to fund those liabilities.

In addition to the costs of remediation described above, we may incur additional costs to comply with federal, state and local laws, ordinances and regulations relating to environmental protection and human health and safety generally. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of our tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations which may be applicable to our operations, and which may subject us to liability in the form of fines or damages for noncompliance.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose invested capital and anticipated profits.

Catastrophic losses, such as losses due to wars, earthquakes, floods, hurricanes, pollution and environmental matters, generally are either uninsurable or not economically insurable, or may be subject to insurance coverage limitations, such as large deductibles or co-payments. If one of these events occurred to, or caused the destruction of, one or more of our properties, we could lose both our invested capital and anticipated profits from that property. In addition, if we are unable to obtain insurance in the future at acceptable levels and at a reasonable cost, the possibility of losses in excess of our insurance coverage may increase and we may not be able to comply with covenants under our debt agreements, which could adversely affect our financial condition.

Some of our properties are held by special purpose entities and are not generally available to satisfy creditors' claims in bankruptcy, which could impair our ability to borrow.

Some of our properties are owned or ground-leased by subsidiaries that we created solely for that purpose. The mortgaged properties and related assets are restricted solely for the payment of the related loans and are not available to pay our debts, which could impair our ability to borrow, which in turn could harm our business.

Risks Related to Our Organization and Structure

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

We provide management, leasing and development services for partnerships and other ventures in which some of our officers, including Ronald Rubin, our chairman and chief executive officer, have either direct or indirect ownership interests. In addition, we lease substantial office space from Bellevue

Associates, an entity in which some of our officers have an interest. Our officers who have interests in both sides of these transactions face a conflict of interest in deciding to enter into these agreements and in negotiating their terms, which could result in our obtaining terms that are less favorable than we might otherwise obtain, which could adversely affect our business.

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

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

Our organizational documents contain certain provisions which may discourage a takeover of us and depress our share price.

Our organizational documents contain provisions which may have an anti-takeover effect and inhibit a change in our management. These provisions include:

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

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

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

(2) Our trust agreement permits our board of trustees to issue preferred shares with terms that may discourage a third party from acquiring our company. Our trust agreement permits our board of trustees to create and issue multiple classes and series of preferred shares and classes and series of preferred shares having preferences to the existing shares on any matter, including rights in liquidation or to dividends and option rights, and other securities having conversion or option rights and may authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of shares. Our trust agreement further provides that the terms of such rights or other securities may provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or preferred shares could have the effect of delaying or preventing a change in control over us, even if a change in control were in the shareholders' interest.

(3) Our staggered board of trustees may affect the ability of a shareholder to take control of our company. Our board of trustees has three classes of trustees. The term of office of one class expires each year. Trustees for each class are elected for three year terms upon the expiration of the term of the respective class. The staggered terms for trustees may affect the ability of a shareholder to take control of us, even if a change in control were in the best interests of our shareholders.

In addition, we have adopted a shareholder rights plan that may discourage a tender offer or other transaction that might involve a premium price for our shares or otherwise be in the best interests of our shareholders.

Risks Related to the Real Estate Industry

Negative perceptions of the retail sector generally may result in a decline in our share price.

A substantial portion of our portfolio consists of retail shopping centers and we expect to continue to focus on acquiring retail shopping centers in the future. To the extent that the investing public has a negative perception of the retail sector, the value of our common shares could be negatively impacted, which could result in our common shares trading at a discount below the inherent value of our assets as a whole.

Costs associated with complying with the Americans with Disabilities Act may adversely affect our financial condition and results of operations.

Our properties are subject to the Americans with Disabilities Act of 1990. Under the Americans with Disabilities Act, all places of public accommodation are required to comply with rules related to access and use by disabled persons.

The Americans with Disabilities Act's requirements could require costly modifications to our properties and could result in imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. Future legislation also may impose additional requirements which we cannot predict.

Legislative actions, higher insurance costs and potential new accounting pronouncements could increase our operating expenses and impact our financial condition and results of operations.

In order to comply with the Sarbanes-Oxley Act of 2002 as well as proposed changes to listing standards by the New York Stock Exchange, we have been and continue to be enhancing our internal controls, hiring additional personnel and utilizing additional outside legal, accounting and advisory services. These activities increase our operating expenses. In addition, insurers will likely increase premiums as a result of higher claims rates incurred over the past year, so our premiums for our insurance policies, including our directors' and officers' insurance policies, may increase.

We cannot predict the impact that proposed accounting pronouncements, such as the proposed accounting treatment that would require merger costs to be expensed in the period in which they are incurred, will have on our financial condition or results of operations.

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

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001 and other acts of terrorism or war, may result in declining economic activity, which could harm the demand for and the value of our properties and may adversely affect the value of an investment in our securities. A decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction or loss, and the availability of insurance for such acts may be lower, or cost more, which could adversely affect our financial condition and results of operations. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts may erode business and consumer confidence and spending, and may result in increased volatility in national and international financial markets and economies. Any one of these events may decrease demand for real estate, decrease or delay the occupancy of our new or renovated properties, increase our operating expenses due to increased physical security for our properties and limit our access to capital or increase our cost of raising capital.

Tax Risks

If we fail to qualify as a REIT our shareholders could be adversely affected.

We believe that we have qualified as a REIT since our inception and intend to continue to qualify as a REIT. However, we cannot assure shareholders that we have been qualified or will remain qualified. To qualify as a REIT, we must comply with certain highly technical and complex requirements under the Internal Revenue Code. We cannot be certain we have complied with such requirements because there are very limited judicial and administrative interpretations of these provisions. Even a technical or inadvertent mistake could jeopardize our

REIT status. In addition, facts and circumstances that may be beyond our control may affect our ability to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the federal income tax consequences of qualification.

If we fail to qualify as a REIT, we will be subject to federal income tax on our taxable income at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under statutory provisions, we would remain disqualified from treatment as a REIT for the four taxable years following the year during which we first failed to qualify. The additional tax incurred at regular corporate rates would reduce significantly the cash flow available for distribution to shareholders and for debt service. In addition, we would no longer be required to make any distributions to shareholders.

We may be unable to comply with the strict income distribution requirements applicable to REITs or compliance with such requirements could adversely affect our financial condition.

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

Recent change in taxation of corporate dividends may adversely affect the value of our shares.

President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003 into law on May 28, 2003 (the "Jobs and Growth Tax Act"). The Jobs and Growth Tax Act, among other things, generally reduces to 15% the maximum marginal rate of federal tax payable by individuals on dividends received from a regular C corporation. This reduced tax rate, however, will not apply to dividends paid to individuals by a REIT on its shares except for certain limited amounts. The earnings of a REIT that are distributed to its shareholders will still generally be subject to less federal income taxation than earnings of a non-REIT C corporation that are distributed to its shareholders net of corporate-level income tax. The Jobs and Growth Tax Act, however, could cause individual investors to view shares of regular C corporations as more attractive relative to shares of REITs than was the case prior to the enactment of the legislation because the dividends from regular C corporations will generally be taxed at a lower rate than previously while dividends from REITs will generally be taxed at the same rate as previously. We cannot predict what effect, if any, the enactment of this legislation may have on the value of our common shares, either in terms of price or relative to other investments.

Item 6 of Form 10-K. Selected Financial Data.

The following table sets forth Selected Financial Data for the Company as of and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998. Information for all years presented has been updated to reflect the effects of discontinued operations in accordance with SFAS No. 144. The information set forth below should be read in conjunction with "Item 7 of Form 10-K.

Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto appearing elsewhere in this Current Report on Form 8-K.

	For the Year Ended Decem		
	2002	2001	2000
(dollars in thousands, except per share results)			
Operating results:			
Total revenues	$75,055	$62,334	$51,293
Income from continuing operations	$11,838	$11,613	$24,245
Net income	$23,678	$19,789	$32,254
Income from continuing operations per share-basic	$0.73	$0.79	$1.81
Income from continuing operations per share-diluted	$0.72	$0.79	$1.81
Net income per share - basic	$1.47	$1.35	$2.41
Net income per share - diluted	$1.44	$1.35	$2.41
Balance sheet data:			
Investments in real estate, at cost	$739,429	$636,294	$612,266
Total assets	$703,663	$602,628	$576,663
Total mortgage, bank and construction loans payable	$450,551	$360,373	$382,396
Minority interest	$32,472	$36,768	$29,766
Shareholders' equity	$188,013	$180,285	$143,906
Other data:			
Cash flows from operating activities	$28,541	$37,655	$44,473
Cash flows from investing activities	(24,047)	(25,428)	(36,350)
Cash flows from financing activities	(1,199)	(8,060)	(9,197)
Cash distributions per share	$2.04	$2.04	$1.92

Property acquisitions and dispositions are primarily responsible for the significant fluctuations in the Company's historical financial condition and results of operations. See Item 7 for further discussion.

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Item 7 of Form 10-K. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this report. Except where specifically indicated, the following discussion does not include the anticipated effects of the transactions described under "Significant Transactions."

OVERVIEW

As of December 31, 2002, the Company owned interests in 22 retail properties containing an aggregate of approximately 11.8 million square feet, 19 multifamily properties containing 7,242 units and four industrial properties with an aggregate of approximately 0.3 million square feet. The Company also owns interests in two retail properties currently under development, which are expected to contain an aggregate of approximately 0.8 million square feet upon completion. As described below in "Significant Transactions - Acquisition of Shopping Malls from Rouse," since December 31, 2002, the Company has acquired interests in six additional retail properties. Also, as further described below in "Significant Transactions - Sale of Multifamily Portfolio," the Company has sold its interest in 17 of its multifamily properties and has entered into agreements to sell the remaining two.

As of December 31, 2002, the Company provided management, leasing and development services for affiliated and third-party property owners with respect to 18 retail properties containing approximately 6.9 million square feet, six office buildings containing approximately 1.1 million square feet and two multifamily properties with 137 units.

The Company has achieved significant growth since 1997 with the acquisition of The Rubin Organization ("TRO") and the formation of PREIT - Rubin, Inc. ("PRI"). During 2002, the Company continued this trend with two retail properties in its development pipeline, and same store net operating income growth of 6.5% and 1.0% in the retail and multifamily sectors, respectively. Since December 31, 2002, the Company has aggressively pursued its growth strategy through the acquisition of six malls from The Rouse Company. As part of the Company's strategic decision to focus on the retail sector, the Company also has sold a substantial portion of its multifamily portfolio and has entered into agreements to sell its interest in two remaining multifamily properties. In connection with these transactions, management, anticipates that it will need to devote significant resources to integrating the properties acquired and proposed to be acquired into the Company's existing retail portfolio. This integration process could impact the Company's day-to-day business.

The Company's net income increased by $3.9 million to $23.7 million for the year ended December 31, 2002 as compared to $19.8 million for the year ended December 31, 2001. Real estate properties sold in 2002 generated gains of $4.1 million as compared to $2.1 million for the properties sold in 2001. Property acquisitions and the placement in service in 2002 of properties previously under development resulted in an increase in Company real estate revenues, with a corresponding increase in property operating expenses, and depreciation, amortization and interest expenses.

As of December 31, 2002, the Company had investments in 14 unconsolidated partnerships and joint ventures (the "Joint Ventures"). As further described in "Significant Transactions - Sale of Multifamily Portfolio," two of these investments were sold subsequent to December 31, 2002 and the Company has entered into agreements to sell its interests in two additional joint ventures. The purpose of the Joint Ventures is to own and operate real estate. It is a common practice in the real estate industry to invest in real estate in this manner. Of the 14 Joint Venture properties existing at December 31, 2002, the Company managed four of the properties and other parties, including several of the Company's Joint Venture partners, managed the remaining 10 properties. None of the Company's Joint Venture partners are affiliates of the Company. One of the Company's key strategic objectives is to obtain managerial control of all its assets, although the Company cannot assure you that it will do so. The Company holds a non-controlling interest in each Joint Venture, and accounts for the Joint Ventures using the equity method of accounting. Under this accounting method, the Company does not consolidate the Joint Ventures. Instead, the Company records the earnings from the Joint Ventures under the income statement caption entitled "Equity in income of partnerships and joint ventures." Changes in the Company's investment in these entities are recorded in the balance sheet caption entitled "Investment in and advances to partnerships and joint ventures, at equity". For further information regarding the Company's Joint Ventures, see Note 3 to the consolidated financial statements.

SIGNIFICANT TRANSACTIONS

Acquisition of Shopping Malls from Rouse

On April 28, 2003, the Company acquired Moorestown Mall, The Gallery at Market East and Exton Square Mall from affiliated entities of The Rouse Company ("Rouse"). In a related transaction, on June 5, 2003, the Company acquired Echelon Mall and Plymouth Meeting Mall from Rouse. Additionally, on June 5, 2003, the Company acquired the ground lessor's interest in Plymouth Meeting Mall from the Teachers Insurance and Annuity Association ("TIAA"). These transactions were conducted by the Company through an exchange accommodation title holder in accordance with the provisions of Section 1031 of the Internal Revenue Code. In addition, on April 28, 2003, New Castle Associates acquired Cherry Hill Mall

from Rouse in exchange for its interest in Christiana Mall, cash and the assumption by New Castle Associates of mortgage debt on Cherry Hill Mall. As further described below, on that same date, the Company also acquired an ownership interest in New Castle Associates and an option to acquire the remaining ownership interests.

The aggregate purchase price for the Company's acquisition of the five malls from Rouse, for TIAA's ground lease interest in Plymouth Meeting Mall and for its interest in New Castle Associates (including the additional purchase price expected to be paid upon exercise of the Company's option to acquire the remaining interests in New Castle Associates) was $549.4 million, including approximately $237.4 million in cash, the assumption of $277 million in non-recourse mortgage debt and the issuance of $35 million in units of limited partnership interest in the Company's operating partnership ("PALP OP Units"). All of the PALP OP Units were or will be issued as part of the consideration for the Company's acquisition of its interest in New Castle Associates. One of the partners of New Castle Associates, Pan American Associates, the former sole general partner and a limited partner of New Castle Associates, is controlled by Ronald Rubin, the Company's Chairman and Chief Executive Officer, and George Rubin, a trustee of the Company and President of the Company's management subsidiaries, PREIT-RUBIN, Inc. and PREIT Services, LLC.

The Company financed the cash portion of the purchase price through the acquisition credit facility and the financings described below under "Liquidity and Capital Resources - Acquisition Credit Facility" and "- Mortgage Refinancings."

The Company's acquisition of its interest in New Castle Associates consisted of acquiring 49% of the aggregate partnership interests in New Castle Associates from partners of New Castle Associates other than Pan American Associates on April 28, 2003, in exchange for an aggregate of 585,422 PALP OP Units valued at $17.1 million. Simultaneously with this acquisition, the Company increased its aggregate ownership interest in New Castle Associates to 72.89% by acquiring an additional ownership interest directly from New Castle Associates in exchange for a cash investment in New Castle Associates of approximately $30.8 million. This cash investment was used by New Castle Associates to pay to Rouse the majority of the cash portion of the purchase price and associated costs for the acquisition of Cherry Hill Mall.

The Company also obtained an option, exercisable commencing April 30, 2004 and expiring October 27, 2004, to acquire the remaining interests in New Castle Associates, including that of Pan American Associates, in exchange for an aggregate of 609,317 additional PALP OP Units. If the Company does not exercise this option, the remaining partners of New Castle Associates will have the right, beginning April 28, 2008 and expiring October 25, 2008, to require the Company to acquire the remaining interests in New Castle Associates in exchange for an aggregate of 670,248 additional PALP OP Units. Unless and until the Company acquires the remaining interests in New Castle Associates, the remaining partners of New Castle Associates other than the Company will be entitled to receive a cumulative preferred distribution equal to approximately $1.2 million in the aggregate per annum, subject to certain downward adjustments based upon certain capital distributions by New Castle Associates. If the Company does not exercise its call right, this preferred distribution will increase by 50% beginning January 1, 2005 and by an additional 5% over the amount for the preceding year beginning each January 1 thereafter. If the remaining New Castle Associates partners do not exercise their put rights, this preferred distribution will terminate on October 25, 2008.

In connection with the Company's acquisition of its interest in New Castle Associates, Pan American Associates ceased to be a general partner of New Castle Associates and the Company designated one of its affiliates as the sole general partner. Certain former partners of New Castle Associates not affiliated with the Company exercised their special right to redeem for cash an aggregate of 261,349 PALP OP Units issued to such partners at closing, and the Company paid to those partners an aggregate amount of approximately $7.7 million. In addition, the Company granted registration rights to the partners of New Castle Associates with respect to the Company shares underlying the PALP OP Units issued or to be issued to them, other than those redeemed for cash following the closing.

To facilitate the exchange of Christiana Mall for Cherry Hill Mall, the Company waived any right of first refusal that it may have had with respect to the sale of Christiana Mall by New Castle Associates. Upon the sale of Christiana Mall by New Castle Associates, and before the Company's investment in New Castle Associates, the Company's management and leasing agreement for that property was terminated, and the Company received a brokerage fee of $2 million from New Castle Associates in respect of the exchange of Christiana Mall for Cherry Hill Mall. The Company also entered into a new management and leasing agreement with New Castle Associates for Cherry Hill Mall, which provides for a fee of approximately 5.25% of all rents and other revenues received by New Castle Associates from the Cherry Hill Mall.

The following chart shows information related to each of these malls:

Mall Name	Total Square Feet (in thousands)	Total Owned Square Feet (in thousands)	% Occupied In-Line(1)	Sales per SF(1)	Major Tenants	Lease Expiration(2)	Mortgage Balance (in millions) (3),(4)	Mortgage Interest Rate (4)

Cherry Hill Mall Cherry Hill, NJ	1,282	533	94.5%	$404	JCPenney Macy's Strawbridge's	N/A N/A N/A	$74 60	10.6% 5.0%
Moorestown Mall Moorestown, NJ	1,036	716	93.9%	312	Boscov's Lord & Taylor Sears Strawbridge's	2005 N/A 2022 N/A	64	LIBOR +125 bps.
Exton Square Mall Exton, PA	1,098	463	89.7%	361	Boscov's Sears JCPenney Strawbridge's	N/A N/A N/A N/A	101	6.95%
The Gallery at Market East Philadelphia, PA	1220	191	98.9%	419	K-Mart Strawbridge's	N/A N/A	--	--
Echelon Mall Voorhees, NJ	1,140	601	80.1%	252	Boscov's Strawbridge's	N/A N/A	--	--
Plymouth Meeting Mall Plymouth Meeting, PA	823	607	87.4%	244	Boscov's Strawbridge's	2015 N/A	--	--
TOTAL / AVERAGE	6,599	3,111	90.0%	$328			$299	

(1) Information is as of 12/31/02.
(2) The lease expiration date for tenants that own their own store is noted as N/A.
(3) Mortgage balances are as of the settlement date.
(4) Reflects the June 2003 refinancing of Moorestown Mall.

Sale of Multifamily Portfolio

On May 30, 2003, the Company completed the sale of 13 of its wholly-owned multifamily properties to MPM Acquisition Corp., an affiliate of Morgan Properties, Ltd. (together, "Morgan"), for a total sale price of $314 million (approximately $151.5 million of which consisted of assumed indebtedness). The sale was completed pursuant to a purchase and sale agreement entered into by the Company in March 2003 to sell all of the 19 properties and related assets in its portfolio of multifamily properties to Morgan for $420 million, which included the assumption of certain indebtedness by Morgan. The 19 properties in the Company's multifamily portfolio (aggregating to a total of

7,242 apartment units), consisted of 15 properties that were wholly-owned by the Company and four multifamily properties in which the Company held a 50% joint venture interest. Prior to the closing on May 30, 2003, the Company and Morgan amended the purchase and sale agreement to exclude from the transaction the Company's interests in the four properties held in joint venture form, resulting in a reduction of approximately $24.85 million, inclusive of $13.4 million in indebtedness that was to be assumed, from the original sale price of $420 million.

The original purchase and sale agreement was also amended to reflect (1) the deferral of the closing of two of the wholly-owned multifamily properties, Emerald Point in Virginia Beach, Virginia and Regency Lakeside in Omaha, Nebraska, until on or before July 31, 2003 (unless further extended for 90 days by both parties) pending receipt of a required consent from Fannie Mae to Morgan's assumption of the loans secured by those properties and (2) the addition of a purchase price credit of $3 million for Morgan toward its closing costs upon the closing of the sale of all 15 of the Company's wholly-owned multifamily properties. On July 25, 2003, the Company completed the sale of the two remaining wholly-owned properties to Morgan for $81.4 million, inclusive of $33.8 million in assumed indebtedness and before giving effect to the $3 million purchase price credit. Morgan's cash deposit of approximately $3.1 million was returned to Morgan upon the closing of the

two additional wholly-owned properties. The net cash proceeds received by the Company were $44.3 million.

With respect to its four joint venture multifamily properties, the Company has sold its 50% interest in the following two properties: (1) Cambridge Hall Apartments in West Chester, Pennsylvania; sold on May 1, 2003 to Tree Farm Road, L.P. (the Company's joint venture partner) for $6.7 million, inclusive of $2.5 million in assumed indebtedness and (2) Countrywood Apartments in Tampa, Florida; sold on May 31, 2003 to Countrywood Apartments General Partnership (the Company's joint venture partner) for $9.1 million, inclusive of $7.3 million in assumed indebtedness. The Company also has entered into two separate agreements to sell its interests in the other two joint venture properties to its joint venture partners for an aggregate of approximately $8.6 million, inclusive of approximately $3.5 million of assumed indebtedness. Closing on these two sales is expected to occur no later than October 13, 2003.

The Company has used a substantial portion of the net proceeds of the sales of its multifamily properties to pay off the amounts borrowed under its unsecured acquisition credit facility entered into in connection with the Company's acquisition of six malls from affiliated companies of The Rouse Company.

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

CRITICAL ACCOUNTING POLICIES

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 these financial statements, management has utilized available information including the Company's 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 those estimates. In addition, other companies may utilize different estimates, which may impact comparability of the Company's results of operations to those of companies in similar businesses. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. This summary should be read in conjunction with the more complete discussion of the Company's accounting policies included in Note 1 to the consolidated financial statements of the Company.

Revenue Recognition

The Company derives over 84% of its revenues from tenant rents and other tenant related activities. Tenant rents include base rents, percentage rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities) and straight-line rents. The Company records base rents on a straight-line basis, which means that the monthly base rent income according to the terms of the Company's leases with its tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The difference between base rent and straight-line rent is a non-cash increase or decrease to rental income. The straight-line rent adjustment increased revenue by approximately $1.0 million in 2002, $0.8 million in 2001 and $1.2 million in 2000. Percentage rents represent rental income that the tenant pays based on a percentage of its sales. Tenants that pay percentage rent usually pay in one of two ways, either a percentage of their total sales or a percentage of sales over a certain threshold. In the latter case, the Company does not record percentage rent until the sales threshold has been reached. Deferred revenue represents rental revenue received from tenants prior to their due dates. Certain lease agreements contain provisions that require tenants to reimburse a pro rata share of real estate taxes and certain common area maintenance costs. Expense reimbursement payments generally are made monthly based on a budgeted amount determined at the beginning of the year. During the year, the Company's income increases or decreases based on actual expense levels and changes in other factors that influence the reimbursement amounts, such as occupancy levels. In 2002, the Company accrued $0.6 million of income because reimbursable expense levels were greater than amounts billed. Shortly after the end of the year, the Company prepares a reconciliation of the actual amounts due from tenants. The difference between the actual amount due and the amounts paid by the tenant throughout the year is billed or credited to the tenant, depending on whether the tenant paid too much or too little during the year. Termination fee income is recognized in the period when a termination agreement is signed. In the event that a tenant is in bankruptcy when the termination agreement is signed, termination fee income is recognized when it is received.

The Company's other significant source of revenues comes from management activities, including property management, leasing and development. Management fees generally are a percentage of managed property revenues or cash receipts. Leasing fees are earned upon the consummation of new leases. Development fees are earned over the time period of the development activity. These activities collectively are referred to as "management fees" in the consolidated statement of income. There are no significant cash versus accrual differences for these activities.

Allowance for Doubtful Accounts Receivable

The Company makes estimates of the collectibility of its accounts receivables related to tenant rents, including base rents, percentage rents, straight line rentals, expense reimbursements and other revenue or income. The Company specifically analyzes accounts receivable, historical bad debts, customer credit worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In addition, with respect to tenants in bankruptcy, the Company makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the time required to reach an ultimate resolution of these claims can exceed one year. These estimates have a direct impact on the Company's net income because a higher bad debt reserve results in less net income.

Real Estate

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

Properties are depreciated using the straight line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	30-50 years
Land Improvements	15 years
Furniture/Fixtures	3-10 years
Tenant Improvements	Lease term

The Company is required to make subjective assessments as to the useful life of its properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties. These assessments have a direct impact on the Company's net income. If the Company were to lengthen the expected useful life of a particular asset, it would be depreciated over more years, and result in less depreciation expense and higher annual net income.

Assessment by the Company of certain other lease related costs must be made when the Company has a reason to believe that the tenant may not be able to perform under the terms of the lease as originally expected. This requires management to make estimates as to the recoverability of such assets. Gains from sales of real estate properties generally are recognized using the full accrual method in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 66 - "Accounting for Real Estate Sales," provided that various criteria are met relating to the terms of sale and any subsequent involvement by the Company with the properties sold.

The Company has certain joint venture investments that are consolidated for financial reporting purposes because the Company either is subject to a majority of the risk of loss or is entitled to receive a majority of the entity's residual returns or both. The operations that are not allocable to the Company's joint venture in these entities are reflected in minority interest in the consolidated statements of income.

Off Balance Sheet Arrangements

The Company has a number of off balance sheet joint ventures and other unconsolidated arrangements with varying structures described more fully in Note 3 to the consolidated financial statements. All of these arrangements are accounted for under the equity method because the Company has the ability to exercise significant influence, but not control over the operating and financial decisions of the joint ventures. Accordingly, the Company's share of the earnings of these joint ventures and companies is reflected in consolidated net income based upon the Company's estimated economic ownership percentage.

To the extent that the Company contributes assets to a joint venture, the Company's investment in the joint venture is recorded at the Company's cost basis in the assets that were contributed to the joint venture. To the extent that the Company's cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and reflected in the Company's share of equity in net income of joint ventures.

Assets Held for Sale

The Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. This standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs of such assets. If, in management's opinion, the net sales price of the assets that have been identified for sale is less than the net book value of the assets, a valuation allowance is established. The Company generally considers assets to be held for sale when the transaction has been approved by the appropriate level of management and there are no known material contingencies relating to the sale such that the sale is probable within one year. Accordingly, the results of operations of operating properties disposed of or classified as held for sale subsequent to January 1, 2002 for which the Company has no significant continuing involvement, are reflected as discontinued operations.

The Company's multifamily segment was originally reported as continuing operations in the consolidated statements of income included in the Company's Annual Report on Form 10-K for the year ending December 31, 2002. Since the filing of the Form 10-K on March 31, 2003, the wholly-owned multifamily properties have either been sold or classified as held for sale. Accordingly, pursuant to SFAS No. 144, the Company is re-issuing the financial statements included in its Form 10-K to reflect such properties as discontinued operations in the statements of income for all periods presented.

Asset Impairment

On a periodic basis, management assesses whether there are any indicators that the value of the real estate properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows - undiscounted and without interest charges - to be generated by the property are less than the carrying value of the property. These estimates consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. In addition, these estimates may consider a probability weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long lived asset are under consideration or when a range is estimated. The determination of undiscounted cash flows requires significant estimates by management and considers the expected course of action at the balance sheet date. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated action could impact the determination of whether an impairment exists and whether the effects could materially impact the Company's net income. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

The Company conducts an annual review of goodwill balances for impairment and to determine whether any adjustments to the carrying value of goodwill are recognized.

LIQUIDITY AND CAPITAL RESOURCES

Equity Offering

On July 11, 2001, the Company issued, through a public offering, 2.0 million shares of beneficial interest at a price of $23.00 per share (the "Offering"). Net proceeds from the Offering after deducting the underwriting discount of $1.5 million and other expenses of approximately $0.2 million were approximately $44.3 million. Proceeds from the Offering were used to repay $20.7 million outstanding on an existing construction loan and $16.5 million of outstanding indebtedness under the Company's Credit Facility. The remaining proceeds were used to fund projects then under development.

Credit Facility

The Company's operating partnership has a $200 million revolving credit facility (the "Credit Facility") with a group of banks. As of December 31, 2002, the obligations of the Company's operating partnership under the Credit Facility were secured by a pool of 11 properties and were guaranteed by the Company. There was $130.8 million outstanding under the Credit Facility at December 31, 2002. The Credit Facility expires in December 2003. The initial term of the Credit Facility may be extended for an additional year on the lender's approval. The Company has not yet determined if it will seek to extend the existing Credit Facility or if it will seek another financing alternative.

The Credit Facility bears interest at the London Interbank Offered Rate (LIBOR) plus margins ranging from 130 to 190 basis points (after giving effect to an amendment to the Credit Facility in the second quarter of 2003), depending on the ratio of the Company's consolidated liabilities to gross asset value (the "Leverage Ratio"), each as determined pursuant to the terms of the Credit Facility. As of December 31, 2002, the margin was set at 165 basis points.

The Credit Facility, as amended in the second quarter of 2003, contains affirmative and negative covenants customarily found in facilities of this type, as well as requirements that the Company maintain, on a consolidated basis: (1) a maximum Leverage Ratio of 0.70:1; (2) a maximum Borrowing Base Value (as defined in the Credit Facility) of 70%; (3) a minimum weighted average collateral pool property occupancy of 85%; (4) minimum Tangible Net Worth (as defined in the Credit Facility) of $262 million plus 75% of cumulative net proceeds from the sale of equity securities; (5) minimum ratios of earnings before interest, taxes, depreciation, and amortization ("EBITDA") to Debt Service and Interest Expense (as defined in the Credit Facility) of 1.55:1 and 1.90:1, respectively, at December 31, 2002; (6) maximum floating rate debt of $400 million; and (7) maximum commitments for properties under development not in excess of 25% of Gross Asset Value (as defined in the Credit Facility). As of the date of this report, the Company is in compliance with all of these debt covenants.

The amendment to the Credit Facility in the second quarter of 2003 also modified the definition of Total Liabilities to exclude the debt premiums on the properties acquired from The Rouse Company resulting from the above-market interest rates on the assumed debt. The Company agreed to pay each lender under the Credit Facility an amendment fee of 0.15% of each lender's existing revolving commitment amount, which fees totaled $300,000.

Acquisition Credit Facility

The Company financed a significant portion of the cash portion of the purchase price for its acquisition of six malls from The Rouse Company through an unsecured credit facility (the "Acquisition Credit Facility"). The Acquisition Credit Facility included a $175 million term loan and a $25 million revolving line of credit. PREIT applied a substantial portion of the proceeds from the sale of its multifamily portfolio to repay in full all amounts borrowed under the Acquisition Credit Facility as of July 25, 2003. The revolving line of credit remains available for future borrowings. The fees paid to Wells Fargo for the term loan and the revolving line of credit were $1,312,500 and $187,500, respectively. In addition, there is a fee of 0.125% per annum on the unused portion of the revolving line of credit payable to Wells Fargo quarterly in arrears. At PREIT's option, the revolving line of credit bears interest at either the Base Rate (the greater of Wells Fargo's prime rate or the Federal Funds Rate plus 0.5%) or the LIBOR rate for which deposits are offered to Wells Fargo for one-, two-, three- or six-month periods, plus margins ranging from 2.5% to 3.0%, depending on PREIT's ratio of Total Liabilities to Gross Asset Value (as defined in the credit agreement for the Acquisition Credit Facility). As of July 29, 2003, the margins for the LIBOR Loans were set at 3.0%.

The financial covenants of the Acquisition Credit Facility are the same as those of the Credit Facility, plus two additional covenants providing that the Company's secured recourse indebtedness may not exceed 15% of its Gross Asset Value and that the Company may not, without Wells Fargo's approval, incur unsecured indebtedness (as defined in the credit agreement for the Acquisition Credit Facility) other than under the Acquisition Credit Facility and the Credit Facility or with respect to trade payables.

Mortgage Refinancings

In the second quarter of 2003, the Company refinanced Dartmouth Mall in Dartmouth, Massachusetts for $70 million and Moorestown Mall in Moorestown, New Jersey for $64.3 million. The term of the refinancings is ten years, with amortization on a 30-year basis, at an interest rate of 4.95%. The Company received net cash proceeds of $74.2 million from the refinancings after repayment of the existing mortgage debt on these properties. The proceeds of the refinancings were used toward the cash portion of the purchase price for the Company's acquisition of six malls from The Rouse Company.

Capital Resources

The Company expects to meet its short-term liquidity requirements generally through its available working capital and net cash provided by operations. The Company believes that its net cash provided by operations will be sufficient to allow the Company to make any distributions necessary to enable the Company to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The Company also believes that the foregoing sources of liquidity will be sufficient to fund its short-term liquidity needs for the foreseeable future, including capital expenditures, tenant improvements and leasing commissions. The following are some of the risks that could impact the Company's cash flows and require the funding of future distributions, capital expenditures, tenant improvements and/or leasing commissions with sources other than operating cash flows:

- increase in tenant bankruptcies reducing revenue and operating cash flows;
- increase in interest expenses as a result of borrowing incurred in order to finance long-term capital requirements such as property and portfolio acquisitions;
- increase in interest rates affecting the Company's net cost of borrowing;
- increase in insurance premiums and/or the Company's portion of claims;
- eroding market conditions in one or more of the Company's primary geographic regions adversely affecting property operating cash flows; and
- disputes with tenants over common area maintenance and other charges.

The Company expects to meet certain long-term capital requirements such as property and portfolio acquisitions, scheduled debt maturities, renovations, expansions and other non-recurring capital improvements through long-term secured and unsecured indebtedness and the issuance of additional equity securities. The Company also expects to increase the funds available under the Credit Facility by placing acquired or developed properties into the collateral pool upon the achievement of prescribed criteria so as to fund acquisitions, development activities and capital improvements. In general, when the credit markets are tight, the Company may encounter resistance from lenders when the Company seeks financing or refinancing for properties or proposed acquisitions. The Company also may be unable to sell additional equity securities on terms that are favorable to the Company, if at all. Additionally, the following are some of the potential impediments to accessing additional funds under the Credit Facility:

- reduction in occupancy at one or more properties in the collateral pool;
- reduction in appraised value of one or more properties in the collateral pool;
- reduction in net operating income at one or more properties in the collateral pool;
- constraining leverage covenants under the Credit Facility;
- increased interest rates affecting interest coverage ratios; and
- reduction in the Company's consolidated earnings before interest, taxes, depreciation and amortization (EBITDA).

At December 31, 2002 the Company had outstanding borrowings of $130.8 million under its Credit Facility and had pledged $0.7 million under the Credit Facility as collateral for several letters of credit. Of the unused portion of the Credit Facility of approximately $68.5 million, as of December 31, 2002, the Company's loan covenant restrictions allowed the Company to borrow approximately an additional $22.6 million based on the existing property collateral pool. As noted, one of the additional means of increasing the Company's borrowing capacity under the Credit Facility is the addition of unencumbered acquisition and/or development properties to the collateral pool. For example, during the first quarter of 2002, the Company placed Creekview Shopping Center, a recently completed retail development project, into the collateral pool, which increased the Company's borrowing capacity by approximately $20 million. The Company expects to place additional projects into the collateral pool to provide additional borrowing capacity, as necessary. The Company believes that the anticipated placement of properties into the collateral pool will allow for sufficient availability of borrowing capacity to fund the development pipeline, as well as any short-term liquidity needs that are not fulfilled by cash flows from operations. At May 31, 2003, the Company had outstanding borrowings of $103.9 million under its Credit Facility and had pledged $0.7 million under the Credit Facility as collateral for several letters of credit. Of the unused portion of the Credit Facility of $95.4 million, as of May 31, 2003, the Company's loan covenant restrictions allowed the Company to borrow approximately an additional $15.6 million based on the existing property collateral pool.

Mortgage Notes

Mortgage notes payable, which are secured by 19 of the Company's wholly-owned properties, are due in installments over various terms extending to the year 2025 with interest at rates ranging from 4.70% to 8.70% with a weighted average interest rate of 7.32% at December 31, 2002. The following table outlines the timing of payment requirements related to the Company's mortgage notes and Credit Facility as of December 31, 2002 (in thousands):

		Payments by Period		
	Total	Up to 1 Year	2-3 Years	4-5 Years
Fixed Rate Mortgages	$319,751(1)	$ 10,924	$22,794	$85,585
Credit Facility	130,800	130,800	-	-
	$450,551	$141,724	$22,794	$85,585

(1) Includes approximately $192.9 million of mortgages related to the wholly-owned multifamily portfolio.

The foregoing table includes $18.7 million of balloon payments that come due under the Company's mortgage notes during the next three years. Of this amount, $6.2 million, representing the mortgage on The Woods Apartments, was repaid in January 2003. In addition to the obligations reflected in the foregoing table, a balloon payment of $22.1 million, of which the Company's proportionate share is $8.8 million, comes due in December 2003 with respect to a mortgage loan secured by a retail property owned by a partnership in which the Company has a 40% interest.

As of December 31, 2002, eight of the Company's multifamily communities are financed with $104 million of permanent, fixed-rate, long-term debt. This debt carries a weighted average fixed interest rate of approximately 6.77%. The eight properties secure the non-recourse loans, which amortize over 30 years and mature in 2009. This debt was assumed by the purchaser upon the sale of the Company's multifamily portfolio as described under "Significant Transactions - Sale of Multifamily Portfolio."

In March 2002, the mortgage on Camp Hill Plaza Apartments in Camp Hill, Pennsylvania, was refinanced. The new $12.8 million mortgage has a 10-year term and bears interest at the fixed rate of 7.02% per annum. In connection with the refinancing, unamortized deferred financing costs of $0.1 million were written off and are reflected as interest expense in the consolidated statements of income in accordance with the provisions of SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"), which was adopted by the Company in 2002. This mortgage was assumed by the purchaser upon the sale of the Company's Multifamily Portfolio, as described under "Significant Transactions - Sale of Multifamily

Portfolio."

Mortgage notes payable, after giving effect to the Rouse transactions and the sale of the multifamily portfolio, are secured by ten of the Company's wholly-owned properties. The mortgage notes are due in installments over various terms extending to the year 2013 with interest rates ranging from 4.95% to 10.60% with a weighted average interest rate of 6.99% at June 27, 2003. The following table outlines the timing of payment requirements related to the Company's mortgage notes, Acquisition Credit Facility, and Credit Facility as of June 27, 2003 (in thousands):

		Payments by Period			
	Total	Up to 12/31/03	1/1/04 to 12/31/05	1/1/06 to 12/31/07	Payments Thereafter
Fixed Rate Mortgages	$527,996	$ 4,043	$158,345	$88,137	$277,471
Acquisition Credit Facility	10,250(1)	10,250(1)	-	-	-
Credit Facility	117,900	117,900	-	-	-
	$656,146	$132,193	$158,345	$88,137	$277,471

(1) The $10.2 million was repaid subsequent to June 27, 2003.

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The foregoing table includes $140.9 million of balloon payments that come due under the Company's mortgage notes during the next 2 1/2 years.

Commitments

At December 31, 2002, the Company had approximately $15.0 million committed to complete current development and redevelopment projects. This amount is expected to be financed through the Credit Facility or through short-term construction loans. In connection with certain development and predevelopment properties acquired as part of the Company's acquisition of TRO, the Company was required as of December 31, 2002 to issue additional Units in its operating partnership to the former owners of the properties upon final determination of the values attributable to the properties by a special committee of disinterested members of the Company's Board of Trustees. Further, as of December 31, 2002, up to an additional 135,000 Units may have been earned by the former TRO affiliates for the period from January 1, 2002 to September 30, 2002, depending upon the final determination by the special committee of the Company's adjusted funds of operations for such period. The special committee has retained independent legal and accounting advisors in connection with its review of the payments owed to the former TRO affiliates. The special committee and its advisors and the former TRO affiliates and their advisors have engaged in discussions concerning the appropriate number of Class A Units to be issued in respect of the nine month period ended September 30, 2002 and the development and predevelopment properties. The discussions between the special committee, the former TRO affiliates and their respective advisors are continuing.

Cash Flows

During the year ended December 31, 2002, the Company generated $28.5 million in cash flows from operating activities. Financing activities used cash of $1.2 million including: (1) $33.2 million of distributions to shareholders,

(2) $13.0 million and $4.0 million of repayments on a mortgage note payable and a construction loan payable, respectively, (3) $5.0 million of mortgage notes payable principal installments, (4) $1.7 million of net distributions to unit holders of the Company's operating partnership and minority partners and (5) $0.2 million payment of deferred financing costs offset by (1) $10.8 million of net proceeds from shares of beneficial interest issued, (2) $32.3 million of net bank loan borrowings and (3)$12.8 million of proceeds from a mortgage loan. Investing activities used cash of $24.0 million including: (1) $25.2 million of investments in wholly-owned real estate assets, (2) $10.0 million of investments in property under development and (3) $1.7 million of investments in partnerships and joint ventures; offset by (1) cash proceeds from sales of real estate interests of $8.9 million and (2) cash distributions from partnerships and joint ventures in excess of equity in income of $4.0 million.

Contingent Liabilities

As of December 31, 2002, the Company along with certain of its joint venture partners had guaranteed debt totaling $5.5 million. The debt matures in 2003 (see Note 3 to the consolidated financial statements).

In June and July respectively, of 2003, a former administrative employee and a former building engineer of PREIT-Rubin Inc. ("PREIT-Rubin") pled guilty to criminal charges related to the misappropriation of funds at a property owned by a third-party for which PREIT-Rubin provided certain management services. The former employees worked under the supervision of the Director of Real Estate for the third-party, who earlier pled guilty to criminal charges. Together with other individuals, the former PREIT-Rubin employees and the third-party's Director of Real Estate misappropriated funds from the third-party through a series of schemes. The third-party has estimated its losses at approximately $15 million, and has alleged that PREIT-Rubin is responsible for such losses under its management agreement. However, no claim has been filed against PREIT-Rubin. The Company believes that restitution to be paid by the individual participants and the fidelity policy carried by the third-party owner will result in mitigation of the third-party's losses. In addition, the Company believes that PREIT-Rubin has valid defenses to any potential claims of the third-party and that it has insurance to cover some or all of any potential claims. The Company is unable to determine an estimate or the likelihood of any loss.

ACQUISITIONS, DISPOSITIONS AND DEVELOPMENT ACTIVITIES

The Company is actively involved in pursuing and evaluating a number of individual property and portfolio acquisition opportunities. Please refer to "Significant Transactions" above and to Notes 15 and 16 to the consolidated financial statements for a discussion of certain transactions and other significant events that occurred after December 31, 2002. In addition, the Company has stated that a key strategic goal is to obtain managerial control of all of its assets. In certain cases where existing joint venture assets are managed by outside partners, the Company is considering the possible acquisition of these outside interests. In certain cases where that opportunity does not exist, the Company is considering the disposition of its interests. There can be no assurance that the Company will consummate any such acquisition or disposition.

Acquisitions

In 2000, the Company entered into an agreement giving it a partnership interest in Willow Grove Park, a 1.2 million square foot regional mall in Willow Grove, Pennsylvania. Under the agreement, the Company was responsible for the expansion of the property to include a new Macy's store and decked parking. The total cost of the expansion was $16.6 million. In June 2002, the Company contributed the expansion asset to the partnership. As a result of this contribution, the Company increased its capital interest in the partnership that owns Willow Grove Park to 30% and its management interest in the partnership to 50%, and became the managing general partner of the partnership.

In 2000, the Company acquired the remaining 35% interest in Emerald Point, a multifamily property located in Virginia Beach, Virginia. The Company paid approximately $11.0 million for the interest, including $5.7 million in assumed debt and $5.3 million borrowed under the Credit Facility.

In April 2002, the Company purchased Beaver Valley Mall located in Monaca, Pennsylvania for a purchase price of $60.8 million. The purchase was financed primarily through a $48.0 million mortgage and a $10.0 million bank borrowing. The bank borrowing was subsequently repaid. Also in 2002, the Company exercised an option to purchase a portion of the land on which Beaver Valley Mall is situated for $0.5 million.

In July 2002, the Company acquired the remaining 11% interest in Northeast Tower Center pursuant to the Contribution Agreement entered into in connection with the acquisition of The Rubin Organization. The purchase price for the acquisition consisted of 24,337 Units in the Company's operating partnership, PREIT Associates, L.P.

In October 2002, the Company acquired the remaining 50% interest in Regency Lakeside Apartments. The Company paid approximately $14.2 million for the interest, including $9.6 million in the form of an assumed mortgage, $2.5 million borrowed under the Credit Facility and $2.1 million in cash.

Dispositions

In 2001, the Company sold parcels of land located at Paxton Towne Centre in Harrisburg, Pennsylvania and Commons at Magnolia in Florence, South Carolina and an undeveloped parcel of land adjacent to the Metroplex Shopping Center in Plymouth Meeting, Pennsylvania. Consistent with management's stated long-term strategic plan to review and evaluate all joint venture real estate holdings and non-core properties, during 2001 and 2000 the Company sold its interests in several properties. Under this plan, in 2001, the Company sold its interest in the Ingleside Shopping Center in Thorndale, Pennsylvania, and in 2000, the Company sold the CVS Warehouse and Distribution Center in Alexandria, Virginia; Valleyview Shopping Center in Wilmington, Delaware; Forestville Shopping Center in Forestville, Maryland and the Company's 50% interest in Park Plaza Shopping Center in Pinellas Park, Florida.

In July 2002, the Company sold Mandarin Corners shopping center in Jacksonville, Florida for $16.3 million. The Company recorded a gain on the sale of approximately $4.1 million. In accordance with the provisions of Statement of Financial Accounting Standards No. 144, the operating results and gain on sale of Mandarin Corners Shopping Center are included in discontinued operations for all periods presented.

In 2003, the Company sold a parcel of land located at Crest Plaza Shopping Center located in Allentown, Pennsylvania for $3.2 million. The Company will recognize a gain of approximately $2.0 million in 2003 as a result of this sale.

Development, Expansions and Renovations

The Company is involved in a number of development and redevelopment projects, which may require equity funding by the Company or third-party debt or equity financing (see Note 11 to the consolidated financial statements). In each case, the Company will evaluate the financing opportunities available to it at the time a project requires funding. In cases where the project is undertaken with a joint venture partner, the Company's flexibility in funding the project may be governed by the joint venture agreement or the covenants existing in its line of credit, which limit the Company's involvement in joint venture projects.

RELATED PARTY TRANSACTIONS/OFF BALANCE SHEET ARRANGEMENTS

The Company provides management, leasing and development services for partnerships and other ventures in which certain officers of the Company have either direct or indirect ownership interests, including Ronald Rubin, the Company's Chairman and Chief Executive Officer. The Company believes that the terms of the management agreements for these services are no less favorable to the Company than its agreements with non-affiliates. As discussed in "Significant Transactions - Acquisition of Shopping Malls from Rouse," the Company canceled one such management agreement in the second quarter of 2003, with respect to Christiana Mall, and received a $2 million brokerage fee from the sale of that mall.

The Company has no material off-balance sheet transactions other than the Joint Ventures described in Note 3 of the consolidated financial statements and the "Overview" section above, and the interest rate swap agreements discussed in "Item 7A. Quantitative and Qualitative Disclosure About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. No officer or employee of the Company benefits from or has benefited from any off-balance sheet transactions with or involving the Company.

The Company leases its corporate home office space from Bellevue Associates, an affiliate of certain officers of the Company, including Ronald Rubin, the Company's Chairman and Chief Executive Officer. In the third quarter of 2002, the Company expanded this lease to include additional space within the same building. Management believes that the lease terms were established at market rates at the commencement of the lease.

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In connection with the Company's acquisition of TRO in 1997, the Company issued 200,000 Class A Units in its operating partnership, and agreed to issue up to 800,000 additional Class A Units over a five-year period ending September 30, 2002 contingent on the Company achieving specified performance targets. Through December 31, 2001, 665,000 of the contingent Class A Units had been issued. A special committee of disinterested members of the Company's Board of Trustees will determine whether the remaining 135,000 Class A Units for the period from January 1, 2002 to September 30, 2002 have been earned. Additional Class A Units also will be payable with respect to development and predevelopment properties acquired in the TRO transaction in an amount to be determined by the special committee based on the Contribution Agreement under which the Company acquired its interest in the properties and on the other facts that the special committee deems relevant. The special committee has retained independent legal and accounting advisors in connection with its review of the payments owed to the former TRO affiliates. The special committee and its advisors and the former TRO affiliates and their advisors have engaged in discussions concerning the appropriate number of Class A Units to be issued in respect of the nine month period ended September 30, 2002 and the development and predevelopment properties. The discussions between the special committee, the former TRO affiliates and their respective advisors are continuing. No payments have yet been made or allocated among the former TRO affiliates, but, collectively, Ronald Rubin, George F. Rubin, Edward A. Glickman, Joseph F. Coradino, Douglas S. Grayson and David J. Bryant, each of whom is a former TRO affiliate and an executive officer of the Company, are expected to receive a substantial portion thereof upon payment.

Officers of the Company, including Ronald Rubin, also are parties to the Rouse transaction through their ownership interest in New Castle Associates, as described above in "Significant Transactions - Acquisition of Shopping Malls from Rouse."

RESULTS OF OPERATIONS

Year Ended December 31, 2002 compared with Year Ended December 31, 2001

Net income increased by $3.9 million to $23.7 million ($1.47 per share) for the year ended December 31, 2002 as compared to $19.8 million ($1.35 per share) for the year ended December 31, 2001. This increase was primarily because of increased gains on the sale of real estate interests and increased net operating income from properties placed in service or acquired in 2002.

Revenues increased by $12.8 million or 20% to $75.1 million for the year ended December 31, 2002 from $62.3 million for the year ended December 31, 2001. Gross revenues from real estate increased by $12.7 million to $63.3 million for the year ended December 31, 2002 from $50.6 million for the year ended December 31, 2001. This increase in gross revenues resulted from a $9.5 million increase in base rents, a $3.2 million increase in expense reimbursements and a $0.2 million increase in percentage rents. Base rents increased due to a $9.5 million increase in retail rents, resulting primarily from the inclusion of rents from the newly acquired Beaver Valley Mall ($6.4 million) and two properties under development in 2001 that were placed in service ($2.0 million), and higher rents due to new and renewal leases at higher rates in 2002. Expense reimbursements increased due to an increase in reimbursable property operating expenses. Management company revenue decreased by $0.3 million. Interest and other income increased by $0.3 million due to increased interest on notes receivable from Joint Ventures.

Property operating expenses increased by $3.6 million to $16.3 million for the year ended December 31, 2002 compared to $12.7 million for the year ended December 31, 2001. Real estate and other taxes increased by $1.2 million due to higher property tax rates. Payroll expense increased $0.8 million due to normal salary increases and increased benefit costs. Utilities increased by $0.2 million. Other operating expenses increased by $1.4 million due primarily to increased insurance and repairs and maintenance expenses. Property operating expenses also were generally higher due to the newly acquired Beaver Valley Mall.

Depreciation and amortization expense increased by $3.7 million to $13.0 million for the year ended December 31, 2002 from $9.3 million for the year ended December 31, 2001 due to $1.4 million from the newly acquired Beaver Valley Mall, $1.1 million from two properties under development in 2001 that were placed in service, and $1.2 million from additional property improvements.

General and administrative expenses increased by $1.1 million to $24.7 million for the year ended December 31, 2002 from $23.6 million for the year ended December 31, 2001 primarily due to a $0.8 million increase in payroll and benefits and a $0.3 million increase in marketing costs.

Interest expense increased by $3.1 million to $15.4 million for the year ended December 31, 2002 as compared to $12.3 million for the year ended December 31, 2001. Mortgage interest increased by $1.3 million. This was primarily due to $2.7 million interest expense for the Beaver Valley Mall mortgage, partially offset by a $1.4 million reduction in interest expense associated with the repayment of a construction note payable at Paxton Towne Centre. Bank loan interest expense increased by $1.8 million because of greater weighted average amounts outstanding in 2002 as compared to 2001.

Equity in income of partnerships and joint ventures increased by $0.9 million to $7.4 million for the year ended December 31, 2002 from $6.5 million for the year ended December 31, 2001. The increase was primarily due to increased rental revenues, partially offset by increased property operating, depreciation and mortgage interest expense.

Gains on sales of interests in real estate were $2.1 million in the year 2001 resulting from the sale of the Company's interests in Ingleside Center in Thorndale, Pennsylvania and land parcels at Commons at Magnolia and Paxton Towne Centre in 2001.

Minority interest in the operating partnership decreased $0.2 million to $1.3 million for the year ended December 31, 2002 from $1.5 million for the year ended December 31, 2001.

Income from discontinued operations increased $3.6 million in the year ended 2002 compared with the year ended 2001. This increase resulted from the $4.1 million gain on the sale of Mandarin Corners Shopping Center, partially offset by a $0.5 decrease in results of operations and minority interest.

Year Ended December 31, 2001 compared with Year Ended December 31, 2000

Net income decreased by $12.5 million to $19.8 million ($1.35 per share) for the year ended December 31, 2001 as compared to $32.3 million ($2.41 per share) for the year ended December 31, 2000.

Revenues increased by $11.0 million or 21% to $62.3 million for the year ended December 31, 2001 from $51.3 million for the year ended December 31, 2000. Gross revenues from real estate increased by $0.7 million to $50.6 million for the year ended December 31, 2001 from $49.9 million for the year ended December 31, 2000. This increase in gross revenues resulted from a $2.9 million increase in base rents, a $0.3 million increase in percentage rents and a $1.5 million increase in expense reimbursements. Offsetting this increase is a $3.7 million decrease in lease termination fees from $4.6 million in 2000 to $0.8 million in 2001. Lease termination fees in 2000 included a $4.0 million fee received in connection with the sale of the CVS Warehouse and Distribution Center. Base rents increased due to a $3.3 million increase in retail rents, resulting from two properties under development in 2000 that were placed in service, and higher rents due to new and renewal leases at higher rates in 2001. These increases include an offset from the sale of two retail properties that were sold in the third quarter of 2000, resulting in a $0.8 million reduction in base rents. The increase in base rents was offset by a $0.4 million decrease in industrial rents due to the sale of the CVS Warehouse and Distribution Center. Percentage rents increased due to higher tenant sales levels. Expense reimbursements increased due to two properties under development in 2000 that were placed in service, increased property operating expenses and the recovery of 2000 renovation costs over 10 years at Dartmouth Mall. Management fees were $11.3 million for the year ended December 31, 2001. This entire amount represents an increase in consolidated revenues in 2001 because PREIT-Rubin was not consolidated in 2000. Interest and other income decreased by $1.0 million because interest income on a loan with PREIT-Rubin was eliminated in 2001 due to the consolidation of PREIT-Rubin effective January 1, 2001. Without the effects of the consolidation of PREIT-Rubin, the Company's revenues for 2001 would have increased by $1.4 million over revenues in 2000.

Property operating expenses increased by $0.1 million to $12.7 million for the year ended December 31, 2001 from $12.6 million for the year ended December 31, 2000. Payroll expense increased $0.3 million or 12% due to normal salary increases and increased benefit costs. Real estate and other taxes increased by $0.4 million as two properties under development in 2000 were placed in service and tax rates were slightly higher for properties owned during both periods, partially offset by savings from the sale of two properties in 2000. Utilities decreased by $0.1 million. Other operating expenses decreased by $0.8 million due to decreased repairs and maintenance expenses.

Depreciation and amortization expense increased by $2.4 million to $9.3 million for the year ended December 31, 2001 from $6.9 million for the year ended December 31, 2000 primarily due to $0.9 million from two properties under development in 2000 now placed in service and $1.5 million from a higher asset base, of which $0.9 million is attributable to the 2000 renovation at Dartmouth Mall.

General and administrative expenses increased by $18.6 million to $23.6 million for the year ended December 31, 2001 from $5.0 million for the year ended December 31, 2000. The primary reason for the increase is the consolidation of PREIT-Rubin in 2001, which accounted for $16.3 million of the increase. General and administrative expenses also increased primarily due to a $1.2 million increase in payroll and benefits expenses, as well as minor increases in several other expense categories totaling $1.0 million in the aggregate.

Interest expense increased by $1.2 million to $12.3 million for the year ended December 31, 2001 as compared to $11.1 million for the year ended December 31, 2000. Retail mortgage interest increased by $0.5 million. Of this amount, $0.6 million was due to a full year of interest on a mortgage for a property placed in service in 2000, offset by $0.1 million due to amortization of mortgage balances. Bank loan interest expense increased by $0.8 million because of higher amounts outstanding in 2001 as compared to 2000, and because of lower capitalized interest in 2001 due to development assets placed in service in 2001.

Equity in loss of PREIT-RUBIN was $6.3 million in the year ended December 31, 2000. There was no corresponding amount in 2001 due to the consolidation of PREIT-Rubin in 2001.

Equity in income of partnerships and joint ventures decreased $0.9 million to $6.5 million for the year ended December 31, 2001 as compared to $7.4 million for the year ended December 31, 2000.

Minority interest in the operating partnership decreased $1.3 million to $1.5 million in the year ended December 31, 2001 from $2.8 million in the year ended December 31, 2000.

Gains on sales of interests in real estate were $2.1 million and $10.3 million, respectively, in the years ended December 31, 2001 and 2000 resulting from the sales of the Company's interests in Ingleside Center and land parcels at the Commons at Magnolia Shopping Center and Paxton Towne Centre in 2001, and Park Plaza, the CVS Warehouse and Distribution Center, Valley View Shopping Center and Forestville Shopping Center in 2000.

Income from discontinued operations increased $0.2 million to $8.2 million for the year ended December 31, 2001 from $8.0 million for the year ended December 31, 2000.

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