2000
ANNUAL
REPORT

PENNSYLVANIA
REAL ESTATE
INVESTMENT TRUST

# Real PLACES

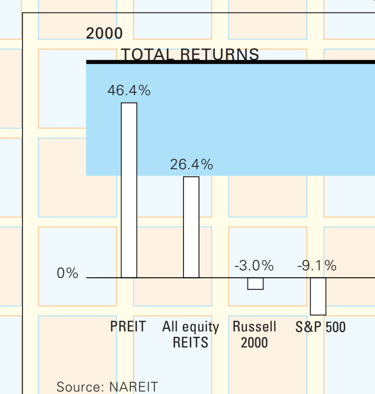
PENNSYLVANIA REAL ESTATE INVESTMENT TRUST (NYSE:PEI), FOUNDED IN 1960 AND ONE OF THE FIRST EQUITY REITS IN THE U.S., HAS A PRIMARY INVESTMENT FOCUS ON SHOPPING CENTERS (APPROXIMATELY 10.8 MILLION SQUARE FEET) AND APARTMENT COMMUNITIES (7,242 UNITS) LOCATED PRIMARILY IN THE EASTERN UNITED STATES. THE COMPANY'S PORTFOLIO CURRENTLY CONSISTS OF 46 PROPERTIES IN 10 STATES. IN ADDITION, THERE ARE SIX RETAIL PROPERTIES UNDER DEVELOPMENT, WHICH WILL ADD APPROXIMATELY 1.6 MILLION SQUARE FEET TO THE PORTFOLIO. PENNSYLVANIA REAL ESTATE INVESTMENT TRUST IS HEADQUARTERED IN PHILADELPHIA, PENNSYLVANIA.

# Real VALUE

As long as there are shoppers and family dinners, as long as there is a need for real places, we will be building them and creating experiences that add value to customers' lives and build value for our shareholders. This value creation is apparent in our strong operating performance, growing development portfolio and recently increased dividend. There is no fluff, no fantasy, no fuzzy math. Just honest-to-goodness profits, reliable dividends and a rock solid company.

2000 PERFORMANCE

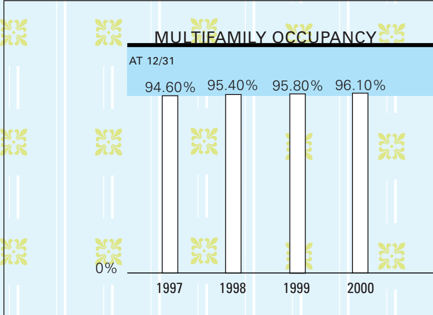
- TOTAL SHAREHOLDER RETURN OF 46.4%
- DIVIDEND INCREASED 8.5%
- FFO INCREASED 17.8%
- RETAIL SAME-STORE NOI UP 6.6%
- MULTIFAMILY SAME-STORE NOI UP 3.6%
- OPENED 3 NEW CENTERS WITH 1.7 MILLION SQ. FT. GLA




Source: NAREIT

# Real LIFE

Whether it's the in-laws at the doorstep or an old college classmate in town for business, we offer fully furnished guest suites to residents at our larger apartment communities. We also provide a variety of value-added services such as fitness centers, free video libraries, and full business centers for busy residents. These strategies helped us achieve occupancy rates above 95 percent and average 4.8 percent growth in "same-store" net operating income for our multifamily portfolio over the past three years. These are just a few of the ways we add value to the lives of our residents — value that we pass along to our shareholders.

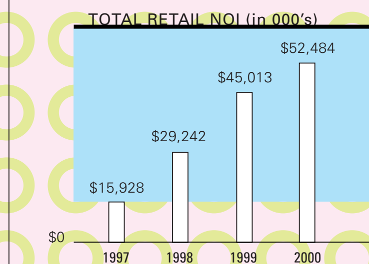


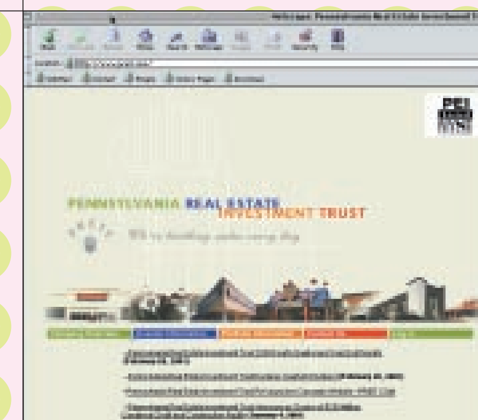
"MY PARENTS ARE ONLY COMING FOR A WEEK."

"LET ME SHOW YOU
HOW MUCH BUSINESS
YOU COULD DO HERE."

# Real INNOVATION

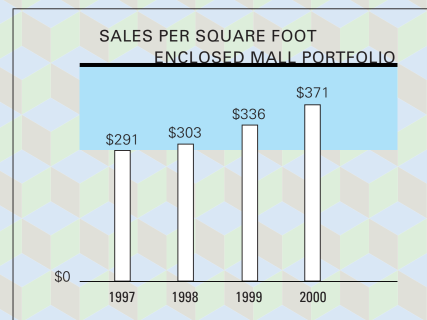
Knowledge is power. This year we deployed new technology to put more power directly into the hands of our retail leasing professionals. We consolidated our company knowledge base and linked it to the Personal Digital Assistant of each member of our team. Now, they can upload integral operating information to their handheld PDAs in the morning, get on a plane and meet with a client for lunch. In the palm of their hands, they can show clients a CAD drawing of the property, data on recent sales, available space, a map of the area, property statistics and other vital information. In a business where every second counts, they can close the deal right at the table. This ability to lease at lightning speed is just one of many innovative ways we are using technology to enhance our efficiency and performance.



# Real SALES

Our 23 retail properties have continued to generate increasing income. We select properties in excellent locations and add strong management to make them high performers. For example, our careful renovation of Dartmouth Mall in Massachusetts, which reopened in November, boosted sales levels from about $250 per square foot when we took over in 1997 to $350 per square foot by the end of 2000. Company-wide, we have approximately 1.9 million square feet in redevelopment, and we continue to make strategic enhancements to increase the returns from our retail portfolio.

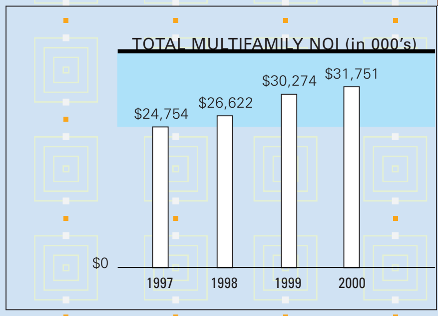



"YOU WON'T BELIEVE THIS SALE!"

"COME ON IN. THE WATER'S WARM."

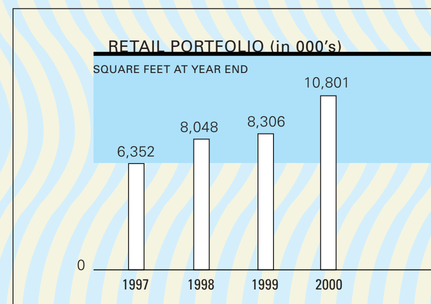
# Real EXPERIENCE

Something as simple as a heated pool can turn up the temperature for an entire multifamily property. With strong experience in multifamily management, we are able to identify the small investments that can produce substantial returns in occupancy rates and rents. As one indication of the resulting high levels of tenant satisfaction, 60 percent of new residents at our Emerald Point community in Virginia Beach, Virginia, came in through referrals by other residents.



# Real FUTURE

Our development projects are a long-term investment in the future. We added nearly 1.7 million square feet of new retail space this year and have about 1.6 million square feet in development. These projects will turn into stabilized operations within two years, increasing the retail square footage we currently own and operate by about 30 percent. With tenant commitments averaging 75 percent before construction begins, these are not pie-in-the-sky projections, but rather spade-in-the-ground realities. We continually fill our pipeline to ensure that our future performance will be even stronger than our past.




"HEY, THAT'S SOMETHING NEW!"

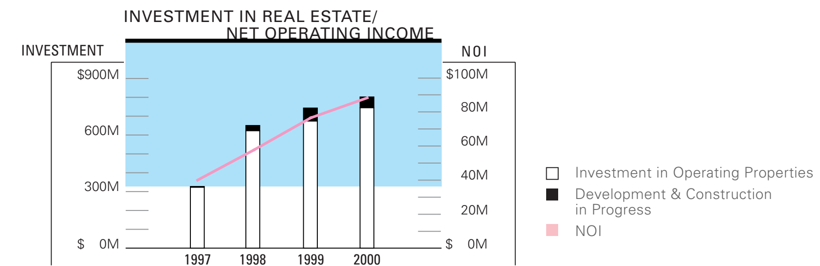
# Real PERFORMANCE, Real RETURNS

FROM LEFT TO RIGHT:
JONATHAN B. WELLER, RONALD RUBIN
AND SYLVAN M. COHEN

TO OUR SHAREHOLDERS:

This was a year in which we demonstrated the value of a bricks-and-mortar business once again. While 2000 was a very strong year for REITs across the board, it was an even stronger year for PREIT. In 2000, we were among the top 20 performers in our industry, based on total return. Our total return of 46.4 percent exceeded the 26.4 percent average increase across all equity REITs, a sector that was already far ahead of major market indices.

We are a company that has a history of consistent earnings and dividends. In 2000, we posted one of the best years in our history, with a 17.8 percent increase in funds from operations (FFO) to $45.8 million, and a 15.8 percent increase in net operating income (NOI) to $88.9 million. FFO totaled $3.06 per share compared to $2.65 per share in 1999. We were pleased that this performance, which was driven by a sound business model emphasizing quality real estate and accretive transactions, was recognized by investors, with a 31.3% percent increase in our share price.




**REAL RETURNS AND FINANCIAL STABILITY**

Reflecting this strong performance and our fiscally conservative philosophy, we boosted our cash dividend to shareholders by 8.5 percent, increasing it from an annual dividend of $1.88 to $2.04 per share. This move extends a 40-year tradition in which our dividend has never been omitted or reduced.

To ensure our future avenues of growth, we closed a new $250 million combined credit and construction financing package that significantly increases our flexibility in pursuing development projects. The finance facility, led by Wells Fargo Bank, combined a $175 million three-year revolving credit facility with a $75 million two-year construction finance facility. The revolving credit facility replaced a $150 million line of credit, which had approximately $110 million in outstanding borrowings at the end of 2000.

This finance facility provides us with end-to-end financing for development projects and represents a strong endorsement of the strength of our business model by the participating financial institutions.

**STRATEGIC GROWTH**

This year we opened the doors of three new major power centers — Metroplex Shopping Center in Plymouth Meeting, Pennsylvania; Paxton Towne Centre in Harrisburg, Pennsylvania; and Creekview Shopping Center in Warrington, Pennsylvania — which added a total of about 1.7 million square feet of new retail space to our portfolio.

Our portfolio of development projects currently includes six retail properties that will add approximately 1.6 million square feet of retail space to our portfolio. Construction is scheduled to begin in mid-2001 on two new power centers, New Garden Township (serving North Wilmington, Delaware) and a second phase of the very successful Christiana Power Center in Newark, Delaware. We also are building power centers in Delran and South Brunswick, New Jersey.

This year we also completed our first joint venture with a major institutional investor. Willow Grove Park, a one million square foot regional mall in Willow Grove, Pennsylvania, was acquired through a partnership with Pennsylvania State Employees Retirement System. The financing arrangement conserved resources, while allowing us to exercise our management and development expertise.

Sharpening our strategic focus, we divested several non-core properties. We generated total proceeds of $27.3 million and a gain of $10.3 million from sales of Valleyview Shopping Center in Wilmington, Delaware; Forestville Shopping Center in Forestville, Maryland; the CVS warehouse and distribution center in Alexandria, Virginia; and our interest in Park Plaza Shopping Center in Pinellas Park, Florida.

Our retail and multifamily portfolios continued to post strong performances. Retail same-store net operating income increased by 6.6 percent over 1999, with total retail NOI reaching $52.5 million. The increase was driven by renovations, rising rental rates and increases in new leases, as well as ancillary revenues. Similarly, multifamily same-store net operating income rose 3.6 percent to $31.8 million.

**ECONOMIC AND TECHNOLOGICAL UNCERTAINTIES**

The year ahead promises to present new challenges, but the nature of our properties and our hands-on expertise allow us to be responsive and opportunistic. Just as we were well-positioned to grow our business during a booming economy, we also are well-positioned to succeed in an economic slowdown. Our retail properties are in strong, densely populated locations with long-term leases that ensure a stable rent stream. Our relationships with national retailers in a wide range of categories — including large players, such as The Home Depot and Target, that are continuing to expand — will provide flexibility in responding to shifts in buying patterns or turbulence in specific retail sectors. The strength of our retail locations and relationships was demonstrated this year, when we

successfully opened and leased nearly 1.5 million square feet of new retail space at Metroplex Shopping Center and at Paxton Towne Centre in a challenging retail environment.

Revenue from multifamily properties is likely to remain strong in a downturn, as more renters postpone home ownership. Demographic bulges among the baby boomers and echo boomers, population groups with a high tendency toward rental housing, ensure continued strong interest in apartment rentals. Because most of our communities are located in markets with high barriers to entry, these assets promise to become more valuable as demand increases.

Technology will continue to offer new challenges and opportunities. As we stated last year, we will deploy technology to enhance the efficiency of our business and the value of our properties. While the first wave of the dot-com revolution may be over, the next wave of internet-based innovation will certainly continue to reshape the way we do business. In the past few years, the power of combining physical space with cyberspace has become increasingly apparent, which means our properties will keep adding value, in new ways.

We are harnessing the power of technology in our own business, with applications such as electronic kiosks in our malls and centers, as well as less visible applications in our back office. This summer, we were selected to beta test J.D. Edwards' "OneWorld®" property management software. This platform synthesizes and coordinates our internal company databases to increase efficiency and improve access and collaboration for staff in the field. We are engaged in an active program to convert our entire enterprise software system to "OneWorld®."

Momentum in technology initiatives continued in 2001 with the re-launch of our corporate website. Reflecting our commitment to enhance communications with the investment community, the new website features an in-depth investor relations section and detailed information on the Company's history, properties and operations. We invite you to visit us at www.preit.com.

**REAL PLACES, REAL VALUE.**

As we enter what promises to be another year of change, we are confident but not complacent. Our confidence is derived from more than our current portfolio and operating results. It is based on a business model that has withstood the test of time. Over more than 40 years of transformation and growth, we have proven our ability to perform consistently across demographic changes, new technologies and cycles in the economy and real estate markets. An investment in PREIT in 1960 would have produced an average total return of 13.2% percent over the past four decades, assuming reinvestment of dividends. These are real, consistent returns, based on strong expertise, innovation and management.

At the end of the day, we offer real places to come home to, providing real shelter and real value to customers, partners, employees and shareholders. Thank you for your commitment to PREIT.

Ronald Rubin
Chief Executive Officer

Jonathan B. Weller
President and Chief Operating Officer

Sylvan M. Cohen
Chairman

March 15, 2001



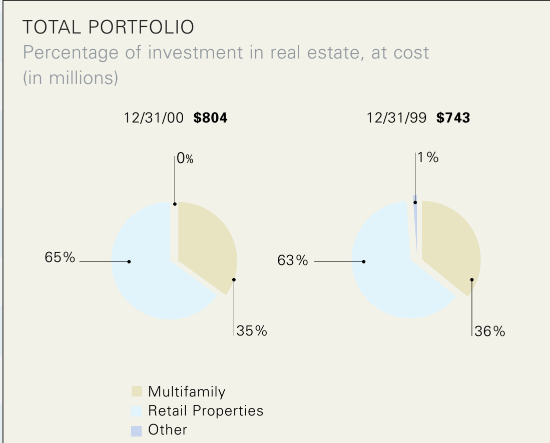
"The ubiquitous claim that the market undervalues a particular company usually falls on deaf ears, but in PREIT's case, the statement may actually be valid."

JEFF CLEMENT
SNL SECURITIES
OCTOBER 2000

We own interests in 10.8 million square feet of retail space, are managing 21.3 million square feet, and have 1.6 million square feet in development. All told, these properties would cover a one-foot path from Philadelphia to Los Angeles and back.

## TOTAL PORTFOLIO

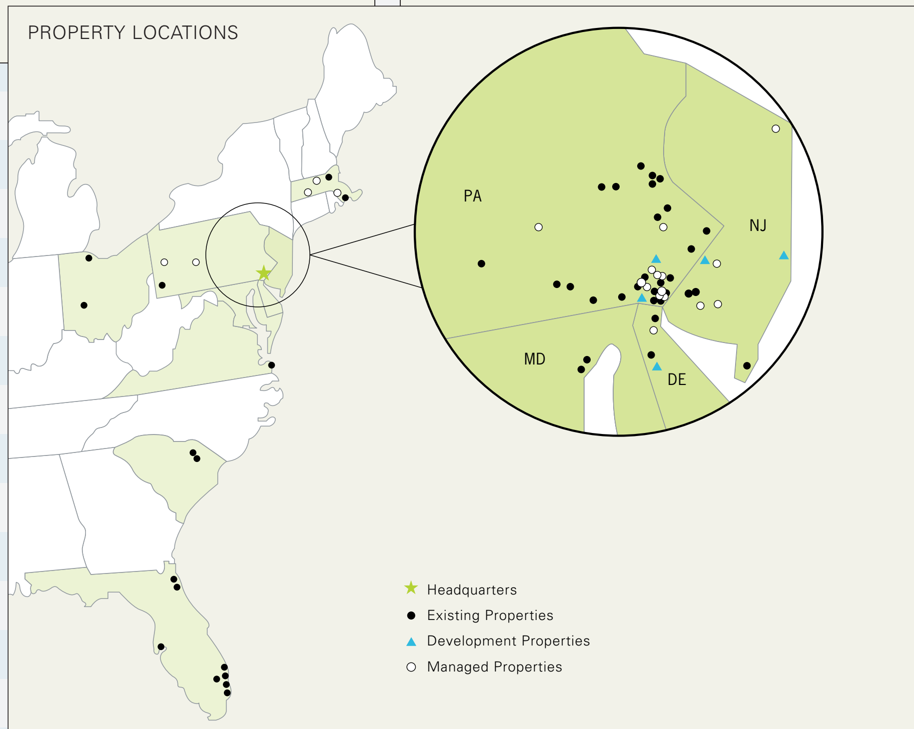
Percentage of investment in real estate, at cost (in millions)




## PORTFOLIO HIGHLIGHTS

| Summary | No. of Properties | Square Feet | Units |
|---|---|---|---|
| **Portfolio at 12/31/99** | | | |
| Retail Properties | 22 | 8,305,954 | — |
| Multifamily | 19 | — | 7,242 |
| Industrial Properties | 5 | 548,791 | — |
| **Total** | **46** | **8,854,745** | **7,242** |
| Development | | | |
| Retail Properties | 6 | 3,050,070 | — |
| **Combined Total** | **52** | **11,904,815** | **7,242** |
| **Portfolio at 12/31/00** | | | |
| Retail Properties | 23 | 10,801,060 | — |
| Multifamily | 19 | — | 7,242 |
| Industrial Properties | 4 | 254,791 | — |
| **Total** | **46** | **11,055,851** | **7,242** |
| Development | | | |
| Retail Properties | 6 | 1,633,853 | — |
| **Combined Total** | **52** | **12,689,704** | **7,242** |

## PROPERTY LOCATIONS




## REAL ESTATE INVESTMENTS

### Existing Retail Properties

| | City | State | Property Type | Ownership Interest | Acquired | Total GLA |
|---|---|---|---|---|---|---|
| Christiana Power Center I | Newark | DE | Power Center | 100% | 1998 | 302,409 |
| Mandarin Corners | Jacksonville | FL | Strip Center | 100% | 1986/1994 | 238,861 |
| South Blanding Village | Jacksonville | FL | Strip Center | 100% | 1988/1990 | 106,857 |
| Dartmouth Mall | Dartmouth | MA | Enclosed Mall | 100% | 1997 | 623,622 |
| Prince Georges Plaza | Hyattsville | MD | Enclosed Mall | 100% | 1998 | 744,993 |
| Rio Mall | Rio Grande | NJ | Strip Center | 60% | 1973 | 165,583 |
| Crest Plaza Shopping Center | Allentown | PA | Strip Center | 100% | 1964 | 154,370 |
| Lehigh Valley Mall | Allentown | PA | Enclosed Mall | 50% | 1973 | 1,051,260 |
| Whitehall Mall | Allentown | PA | Power Center | 50% | 1964 | 533,444 |
| Palmer Park Mall | Easton | PA | Enclosed Mall | 50% | 1972 | 459,835 |
| Festival at Exton | Exton | PA | Strip Center | 100% | 1998 | 144,949 |
| Paxton Towne Centre[1] | Harrisburg | PA | Power Center | 100% | 1999 | 569,004 |
| Laurel Mall | Hazleton | PA | Enclosed Mall | 40% | 1988 | 558,801 |
| Red Rose Commons | Lancaster | PA | Power Center | 50% | 1998 | 463,042 |
| The Court at Oxford Valley | Langhorne | PA | Power Center | 50% | 1997 | 704,486 |
| Northeast Tower Center[1] [2] | Philadelphia | PA | Power Center | 89% | 1998/1999 | 472,296 |
| Metroplex Shopping Center[1] | Plymouth Mtg. | PA | Power Center | 50% | 1999 | 778,261 |
| Springfield Park I & II | Springfield | PA | Strip Center | 50% | 1997/1998 | 268,500 |
| Ingleside Shopping Center[3] | Thorndale | PA | Strip Center | 70% | 1981 | 101,271 |
| Creekview Shopping Center[1] | Warrington | PA | Power Center | 100% | 1999 | 378,796 |
| Willow Grove Park[4] | Willow Grove | PA | Enclosed Mall | – | 2000 | 1,204,123 |
| Florence Commons | Florence | SC | Strip Center | 100% | 1999 | 197,258 |
| Magnolia Mall | Florence | SC | Enclosed Mall | 100% | 1997 | 579,039 |
| **Total (23 properties)** | | | | | | **10,801,060** |

### Development Retail Properties

| | City | State | Property Type | Expected Completion | Status | Ownership Interest | Total GLA[5] |
|---|---|---|---|---|---|---|---|
| Christiana Power Center II | Newark | DE | Power Center | 1Q03 | Pre-Development | 100% | 346,238 |
| Delran | Delran | NJ | Power Center | 2Q02 | Pre-Development | 100% | 221,894 |
| South Brunswick | South Brunswick | NJ | Power Center | 3Q02 | Pre-Development | 100% | 199,857 |
| Cox Cro Road | Tom's River | NJ | Power Center | 1Q03 | Pre-Development | 100% | 237,900 |
| New Garden | New Garden | PA | Power Center | 2Q02 | Pre-Development | 100% | 330,650 |
| Pavilion at Market East | Philadelphia | PA | Entertainment Center | n/a | Pre-Development | 50% | 297,314 |
| **Total (6 properties)** | | | | | | | **1,633,853** |

(1) Income producing as of 12/31/00, but still under development
(2) PREIT will acquire the remaining 11% ownership interest in January 2002
(3) Ingleside Shopping Center was sold in 1Q01
(4) The ownership interest in Willow Grove Park Mall is nominal until the completion of Macy's expansion
(5) Approximate

REAL ESTATE INVESTMENTS (CONTINUED)

## Multifamily Properties

| | City | State | Ownership Interest | Acquired | No. of Units |
|---|---|---|---|---|---|
| Fox Run Apartments | Bear | DE | 100% | 1988/1998 | 414 |
| Boca Palms Apartments | Boca Raton | FL | 100% | 1994 | 522 |
| Eagle's Nest Apartments | Coral Springs | FL | 100% | 1988/1998 | 264 |
| Palms of Pembroke | Pembroke Pines | FL | 100% | 1994 | 348 |
| Cobblestone Apartments | Pompano Beach | FL | 100% | 1992 | 384 |
| Countrywood Apartments | Tampa | FL | 50% | 1993 | 536 |
| Shenandoah Village Apartments | West Palm Beach | FL | 100% | 1993 | 220 |
| Marylander Apartments | Baltimore | MD | 100% | 1962 | 507 |
| Regency Lakeside Apartments | Omaha | NE | 50% | 1990 | 433 |
| Hidden Lakes Apartments | Dayton | OH | 100% | 1994 | 360 |
| Kenwood Gardens | Toledo | OH | 100% | 1963 | 504 |
| The Woods | Ambler | PA | 100% | 1998 | 320 |
| Camp Hill Plaza Apartments | Camp Hill | PA | 100% | 1969 | 300 |
| Lakewood Hills Apartments | Harrisburg | PA | 100% | 1972 | 562 |
| 2031 Locust Street | Philadelphia | PA | 100% | 1961 | 87 |
| Will-O-Hill Apartments | Reading | PA | 50% | 1984 | 190 |
| Fox Run Apartments | Warminster | PA | 50% | 1969 | 196 |
| Cambridge Hall Apartments | West Chester | PA | 50% | 1967 | 233 |
| Emerald Point | Virginia Beach | VA | 100% | 1993/2000 | 862 |
| **Total (19 properties)** | | | | | **7,242** |

## Industrial Properties

| | City | State | Ownership Interest | Acquired | Square Feet |
|---|---|---|---|---|---|
| Warehouse and Plant (Interstate Container Corp.) | Lowell | MA | 100% | 1963 | 197,000 |
| Warehouse (Aramark) | Pennsauken | NJ | 100% | 1962 | 12,034 |
| Warehouse (Sears Roebuck & Co.) | Pennsauken | NJ | 100% | 1963 | 29,450 |
| Warehouse (Aramark) | Allentown | PA | 100% | 1962 | 16,307 |
| **Total (4 properties)** | | | | | **254,791** |

## Major Non-PREIT Owned Managed Properties

| | City | State | Total GLA |
|---|---|---|---|
| Christiana Mall | Newark | DE | 1,000,000 |
| Fairfield Mall | Chicopee | MA | 384,790 |
| Swansea Mall | Swansea | MA | 686,554 |
| Hillview Shopping Center | Cherry Hill | NJ | 340,028 |
| Hudson Mall | Jersey City | NJ | 350,444 |
| Cumberland Mall | Vineland | NJ | 810,000 |
| Beaver Valley Mall | Monaca | PA | 1,172,402 |
| Susquehanna Valley Mall | Selinsgrove | PA | 709,513 |
| **Total (8 properties)** | | | **5,553,731** |

## Managed and Leased Portfolio

| | Retail | | Multifamily | | Office/Industrial | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. | Square Feet | No. | Square Feet | No. | Square Feet | No. | Square Feet |
| PREIT Owned | 15 | 6,205,936 | 14 | 5,363,784 | 4 | 254,791 | 33 | 11,824,511 |
| Non-PREIT Owned | 16 | 7,384,354 | 2 | 123,750 | 7 | 1,938,333 | 25 | 9,446,437 |
| **Total** | **31** | **13,590,290** | **16** | **5,487,534** | **11** | **2,139,124** | **58** | **21,270,948** |





FINANCIAL HIGHLIGHTS

| (Thousands of dollars except per share results) | Years Ended December 31 | | | Years Ended August 31 | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Funds from Operations | $ 45,844 | $ 38,911 | $ 34,576 | $ 19,660 | $ 18,628 |
| Gross Revenues from Real Estate | 100,471 | 89,220 | 61,745 | 40,231 | 38,985 |
| Investment in Real Estate at Cost | 612,266 | 577,521 | 509,406 | 202,443 | 198,542 |
| Distributions Paid to Shareholders/Unitholders | 28,775 | 27,562 | 26,485 | 16,316 | 16,310 |
| Distributions Paid per Share | 1.92 | 1.88 | 1.88 | 1.88 | 1.88 |
| EBITDA | 80,831 | 71,870 | 55,509 | 35,571 | 35,091 |

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## SELECTED FINANCIAL INFORMATION

Thousands of dollars, except per share results

| | Calendar Year Ended 12/31 2000 | Calendar Year Ended 12/31 1999 | Calendar Year Ended 12/31 1998 | 4-Month Period Ended 12/31 1997 [2] | Fiscal Years Ended 8/31 1997 | Fiscal Years Ended 8/31 1996 |
|---|---|---|---|---|---|---|
| **Operating Results** | | | | | | |
| Gross revenues from real estate | $ 100,471 | $ 89,220 | $ 61,745 | $ 17,170 | $ 40,231 | $ 38,985 |
| Net income | 32,254 | 20,739 | 23,185 | 5,962 | 10,235 | 11,044 |
| Net income per share | 2.41 | 1.56 | 1.74 | .66 | 1.18 | 1.27 |
| **Balance Sheet Data** | | | | | | |
| Investments in real estate, at cost | $ 612,266 | $ 577,521 | $ 509,406 | $ 287,926 | $202,443 | $198,542 |
| Total assets | 576,570 | 547,590 | 481,615 | 265,566 | 165,657 | 177,725 |
| Total mortgage, bank and construction loans payable | 382,396 | 364,634 | 302,276 | 103,939 | 117,412 | 124,148 |
| Shareholders' equity | 143,906 | 133,412 | 137,082 | 138,530 | 40,899 | 46,505 |
| **Other Data** | | | | | | |
| Cash flows from operating activities | $ 44,123 | $ 29,437 | $ 31,302 | $ 4,237 | $ 15,219 | $ 15,090 |
| Cash distributions per share | 1.92 | 1.88 | 1.88 | .47 | 1.88 | 1.88 |

## FUNDS FROM OPERATIONS

| | Calendar Year Ended 12/31 2000 | Calendar Year Ended 12/31 1999 | Calendar Year Ended 12/31 1998 | 4-Month Period Ended 12/31 1997 | Fiscal Years Ended 8/31 1997 | Fiscal Years Ended 8/31 1996 |
|---|---|---|---|---|---|---|
| Income before minority interest in operating partnership and extraordinary item | $ 36,038 | $ 22,861 | $ 24,878 | $ 6,656 | $ 10,235 | $ 11,044 |
| Less: Gains on sales of interests in real estate | (10,298) | (1,763) | (3,043) | (2,090) | (1,069) | (865) |
| Plus: Provision for losses | — | — | — | — | 500 | — |
| Depreciation and amortization: | | | | | | |
| Wholly owned and consolidated partnerships | 16,155 | 14,223 | 9,406 | 2,629 | 5,989 | 5,650 |
| Unconsolidated partnerships and joint ventures | 4,684 | 4,355 | 3,952 | 1,252 | 3,380 | 3,334 |
| Excess purchase price over net asset acquired | 291 | 195 | 115 | 29 | — | — |
| Refinancing prepayment fees | — | 55 | — | — | 1,133 | — |
| Less: Depreciation of non-real estate assets | (260) | (240) | (228) | (76) | (222) | (202) |
| Amortization of deferred financing costs | (766) | (775) | (504) | (254) | (286) | (333) |
| Funds from operations [1] | $ 45,844 | $ 38,911 | $ 34,576 | $ 8,146 | $ 19,660 | $ 18,628 |

## SUPPLEMENTAL INFORMATION

For Wholly-owned Properties and the Company's Proportionate Share of Partnerships and Joint Ventures

| Earnings before interest, taxes, depreciation and amortization – EBITDA | Calendar Year Ended 12/31 2000 | Calendar Year Ended 12/31 1999 | Calendar Year Ended 12/31 1998 | 4-Month Period Ended 12/31 1997 | Fiscal Years Ended 8/31 1997 | Fiscal Years Ended 8/31 1996 |
|---|---|---|---|---|---|---|
| Gross revenues from real estate | $ 100,471 | $ 89,220 | $ 61,745 | $ 17,170 | $ 40,231 | $ 38,985 |
| Property operating expenses | (32,675) | (31,783) | (22,519) | (6,915) | (16,487) | (16,377) |
| Net operating income: Wholly-owned properties | 67,796 | 57,437 | 39,226 | 10,255 | 23,744 | 22,608 |
| Company's proportionate share of partnerships and joint ventures net operating income | 21,101 | 19,353 | 18,222 | 5,886 | 15,397 | 15,431 |
| Combined net operating income | 88,897 | 76,790 | 57,448 | 16,141 | 39,141 | 38,039 |
| Company's share of PREIT-RUBIN, Inc. net operating (loss) income | (4,498) | (2,504) | 762 | 922 | — | — |
| Provision for losses | — | — | — | — | (500) | — |
| Interest and other income | 1,385 | 1,144 | 650 | 82 | 254 | 171 |
| General and administrative expenses | (4,953) | (3,560) | (3,351) | (1,088) | (3,324) | (3,119) |
| EBITDA | $ 80,831 | $ 71,870 | $ 55,509 | $ 16,057 | $ 35,571 | $ 35,091 |
| **Mortgage, Bank and Construction Loans Payable** | | | | | | |
| Wholly-owned properties | | | | | | |
| Mortgage notes payable | $ 247,449 | $ 266,830 | $ 167,003 | $ 99,364 | $ 83,528 | $ 84,833 |
| Bank loan payable | 110,300 | 91,000 | 135,273 | 4,575 | 33,884 | 39,315 |
| Construction loan payable | 24,647 | 6,804 | — | — | — | — |
| | 382,396 | 364,634 | 302,276 | 103,939 | 117,412 | 124,148 |
| Company's share of partnerships and joint ventures | | | | | | |
| Mortgage notes payable | 111,457 | 113,670 | 106,973 | 103,237 | 77,751 | 63,416 |
| Bank and Construction loans payable | 30,929 | 11,149 | 2,441 | 4,112 | 5,184 | 5,856 |
| Total mortgage, bank and construction loans payable | $ 524,782 | $ 489,453 | $ 411,690 | $ 211,288 | $200,347 | $193,420 |

[1] *Funds from operations ("FFO") is defined as income before gains (losses) on investments and extraordinary items (computed in accordance with generally accepted accounting principles "GAAP") plus real estate depreciation and similar adjustments for unconsolidated joint ventures after adjustments for non-real estate depreciation and amortization of financing costs. FFO should not be construed as an alternative to net income (as determined in accordance with GAAP) as an indicator of the Company's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. In addition, the Company's measure of FFO as presented may not be comparable to similarly titled measures reported by other companies.*

[2] *The Company changed from a fiscal year end to a calendar year end in 1997.*





## CONSOLIDATED BALANCE SHEETS

Thousands of dollars, except per share amounts

| | As of 12/31 2000 | As of 12/31 1999 |
|---|---|---|
| **Assets** | | |
| Investments in real estate, at cost: | | |
| Multifamily properties | $ 249,349 | $ 236,859 |
| Retail properties | 328,637 | 294,945 |
| Industrial properties | 2,504 | 5,078 |
| Land and properties under development | 31,776 | 40,639 |
| Total investments in real estate | 612,266 | 577,521 |
| Less: Accumulated depreciation | 95,026 | 84,577 |
| | 517,240 | 492,944 |
| Investment in and advances to PREIT-RUBIN, Inc. | 8,739 | 10,088 |
| Investments in and advances to partnerships and joint ventures, at equity | 21,470 | 17,912 |
| | 547,449 | 520,944 |
| Less: Allowance for possible losses | 93 | 528 |
| | 547,356 | 520,416 |
| Other assets: | | |
| Cash and cash equivalents | 6,091 | 7,165 |
| Rents and sundry receivables (net of allowance for doubtful accounts of $733 and $582, respectively) | 7,508 | 6,210 |
| Deferred costs, prepaid real estate taxes and expenses, net | 15,615 | 13,799 |
| | $ 576,570 | $ 547,590 |
| **Liabilities and Shareholders' Equity** | | |
| Mortgage notes payable | $ 247,449 | $ 266,830 |
| Bank loan payable | 110,300 | 91,000 |
| Construction loan payable | 24,647 | 6,804 |
| Tenants' deposits and deferred rents | 3,118 | 2,291 |
| Accrued pension and retirement benefits | 992 | 952 |
| Accrued expenses and other liabilities | 16,392 | 13,812 |
| | 402,898 | 381,689 |
| Minority interest | 29,766 | 32,489 |
| Commitments and contingencies (Note 9) | | |
| Shareholders' equity: | | |
| Shares of beneficial interest, $1 par; authorized unlimited; issued and outstanding 13,628 and 13,338 at December 31, 2000 and 1999, respectively | 13,628 | 13,338 |
| Capital contributed in excess of par | 151,117 | 145,697 |
| Deferred compensation | (1,812) | — |
| Distributions in excess of net income | (19,027) | (25,623) |
| Total shareholders' equity | 143,906 | 133,412 |
| | $ 576,570 | $ 547,590 |

*The accompanying notes are an integral part of these statements.*

## CONSOLIDATED STATEMENTS OF INCOME

| Thousands of dollars, except per share results | Year Ended 12/31 2000 | Year Ended 12/31 1999 | Year Ended 12/31 1998 |
|---|---|---|---|
| **Revenues** | | | |
| Gross revenues from real estate | $ 100,471 | $ 89,220 | $ 61,745 |
| Interest and other income | 1,385 | 1,144 | 650 |
| | 101,856 | 90,364 | 62,395 |
| **Expenses** | | | |
| Property operating expenses | 32,675 | 31,783 | 22,519 |
| Depreciation and amortization | 16,155 | 14,223 | 9,406 |
| General and administrative expenses | 4,953 | 3,560 | 3,351 |
| Interest expense | 23,392 | 21,842 | 10,591 |
| | 77,175 | 71,408 | 45,867 |
| Income before equity in unconsolidated entities, gains on sales of interests in real estate, minority interest and extraordinary item | 24,681 | 18,956 | 16,528 |
| Equity in loss of PREIT-RUBIN, Inc. | (6,307) | (4,036) | (678) |
| Equity in income of partnerships and joint ventures | 7,366 | 6,178 | 5,985 |
| Gains on sales of interests in real estate | 10,298 | 1,763 | 3,043 |
| Income before minority interest and extraordinary item | 36,038 | 22,861 | 24,878 |
| Minority interest | (3,784) | (2,122) | (1,423) |
| Income before extraordinary item | 32,254 | 20,739 | 23,455 |
| Extraordinary item-loss on early extinguishment of debt | — | — | (270) |
| **Net Income** | $ 32,254 | $ 20,739 | $ 23,185 |
| Net income per share: | | | |
| Basic | $ 2.41 | $ 1.56 | $ 1.74 |
| Diluted | $ 2.41 | $ 1.56 | $ 1.74 |

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2000, 1999 and 1998

| Thousands of dollars | Shares of Beneficial Interest $1 Par | Capital Contributed in Excess of Par | Deferred Compensation | Distributions in Excess of Net Income |
|---|---|---|---|---|
| **Balance, January 1, 1998** | $ 13,289 | $ 144,746 | $ — | $ (19,505) |
| Net income | — | — | — | 23,185 |
| Shares issued upon exercise of options | 11 | 196 | — | — |
| Option sold to PREIT-RUBIN, Inc. | — | 161 | — | — |
| Distributions paid to shareholders ($1.88 per share) | — | — | — | (25,001) |
| **Balance, December 31, 1998** | 13,300 | 145,103 | — | (21,321) |
| Net income | — | — | — | 20,739 |
| Shares issued under the employees' share purchase plans | 23 | 270 | — | — |
| Shares issued upon conversion of operating partnership units | 15 | 324 | — | — |
| Distributions paid to shareholders ($1.88 per share) | — | — | — | (25,041) |
| **Balance, December 31, 1999** | 13,338 | 145,697 | — | (25,623) |
| Net income | — | — | — | 32,254 |
| Shares issued upon exercise of options | 13 | 211 | — | — |
| Shares issued upon conversion of operating partnership units | 116 | 2,588 | — | — |
| Shares issued under the employees' share purchase plans | 43 | 601 | — | — |
| Shares issued under equity incentive plan | 118 | 2,020 | (2,162) | — |
| Amortization of deferred compensation | — | — | 350 | — |
| Distributions paid to shareholders ($1.92 per share) | — | — | — | (25,658) |
| **Balance, December 31, 2000** | $ 13,628 | $ 151,117 | $ (1,812) | $ (19,027) |

*The accompanying notes are an integral part of these statements.*





## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Thousands of dollars | Year Ended 12/31 2000 | Year Ended 12/31 1999 | Year Ended 12/31 1998 |
|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | |
| Net income | $ 32,254 | $ 20,739 | $ 23,185 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Minority interest, net of distributions | 667 | — | — |
| Depreciation and amortization | 16,155 | 14,223 | 9,406 |
| Provision for doubtful accounts | 151 | 210 | 194 |
| Gains on sales of interests in real estate | (10,298) | (1,763) | (3,043) |
| Loss on early extinguishment of debt | — | — | 270 |
| Equity in loss of PREIT-RUBIN, Inc. | 6,307 | 4,036 | 678 |
| Decrease in allowance for possible losses | — | (98) | (197) |
| Change in assets and liabilities, net of effects from acquisitions: | | | |
| Net change in other assets | (2,750) | (8,386) | (6,271) |
| Net change in other liabilities | 1,637 | 476 | 7,080 |
| Net cash provided by operating activities | 44,123 | 29,437 | 31,302 |
| **Cash Flows from Investing Activities:** | | | |
| Net investments in wholly-owned real estate | (24,886) | (36,971) | (150,793) |
| Investments in property under development | (25,657) | (26,802) | (5,917) |
| Investments in partnerships and joint ventures | (5,093) | (8,299) | (15,030) |
| Investments in and advances to PREIT-RUBIN, Inc. | (5,036) | (2,126) | (1,330) |
| Cash distributions from partnerships and joint ventures in excess of equity in income | 1,338 | 3,789 | 10,328 |
| Cash proceeds from sales of interests in partnerships | 2,940 | 1,491 | 3,008 |
| Cash proceeds from sales of wholly-owned real estate | 20,044 | 4,045 | — |
| Net cash used in investing activities | (36,350) | (64,873) | (159,734) |
| **Cash Flows from Financing Activities:** | | | |
| Principal installments on mortgage notes payable | (4,440) | (3,672) | (1,518) |
| Proceeds from mortgage notes payable | — | 120,500 | 68,314 |
| Proceeds from construction loan payable | 17,843 | 6,804 | — |
| Repayment of mortgage notes payable | (14,942) | (17,000) | (33,680) |
| Net (payment) borrowing from revolving credit facility | 19,300 | (47,873) | 127,706 |
| Payment of deferred financing costs | (1,594) | (1,438) | (1,076) |
| Shares of beneficial interest issued | 644 | 293 | 206 |
| Distributions paid to shareholders | (25,658) | (25,041) | (25,001) |
| Distributions paid to OP unit holders and minority partners, in excess of minority interest | — | (789) | (121) |
| Net cash (used in) provided by financing activities | (8,847) | 31,784 | 134,830 |
| Net (decrease) increase in cash and cash equivalents | (1,074) | (3,652) | 6,398 |
| Cash and cash equivalents, beginning of period | 7,165 | 10,817 | 4,419 |
| Cash and cash equivalents, end of period | $ 6,091 | $ 7,165 | $ 10,817 |

*The accompanying notes are an integral part of these statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2000, 1999 and 1998

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Pennsylvania Real Estate Investment Trust, a Pennsylvania Business Trust (collectively with its subsidiaries, the "Company") is a fully integrated, self-administered and self-managed real estate investment trust ("REIT") which acquires, rehabilitates, develops, and operates retail and multifamily properties. Substantially all of the Company's properties are located in the Eastern United States, with concentrations in the Mid-Atlantic states and in Florida.

The Company's interest in its properties is held through PREIT Associates, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership and, as of December 31, 2000, the Company held an 89.5% interest in the Operating Partnership.

Pursuant to the terms of the partnership agreement, each of the other limited partners of the Operating Partnership has the right to convert his/her interest in the Operating Partnership into shares of beneficial interest or cash, at the election of the Company on a one for one basis beginning one year following the respective issue date.

As of December 31, 2000, the Operating Partnership held a 95% economic interest in PREIT-RUBIN, Inc. (the "Management Company") through its ownership of 95% of the Management Company's stock, which represented all of the nonvoting common stock of the Management Company.

Effective January 1, 2001, in exchange for Company shares valued at approximately $0.5 million, the Operating Partnership acquired the 5% minority interest representing all of the voting common stock in the Management Company, which is now 100% owned by the Operating Partnership. Also effective January 1, 2001, the Management Company was converted to a Taxable REIT Subsidiary, as defined under the Internal Revenue Code. As a Taxable REIT Subsidiary, the Management Company is able to pursue certain business opportunities not previously available under the rules governing REITs.

#### Consolidation

The Company consolidates its accounts and the accounts of the Operating Partnership and reflects the remaining interest in the Operating Partnership as minority interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Investment in Management Company

The Company's investment in the Management Company is accounted for using the equity method through December 31, 2000. Effective January 1, 2001, the Management Company will be consolidated with the Company. See Notes 3 and 10 for further discussion. The excess of the Company's investment over the underlying equity in the net assets of the Management Company ($6,682 at December 31, 2000) is being amortized over 35 years.

#### Partnership and Joint Venture Investments

The Company accounts for its investment in partnerships and joint ventures which it does not control using the equity method of accounting. These investments, which represent 0.01% (See Note 10) to 70% noncontrolling ownership interests, are recorded initially at the Company's cost and subsequently adjusted for the Company's net equity in income and cash contributions and distributions.

#### Statements of Cash Flows

The Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. Cash paid for interest, net of amounts capitalized was $24,159, $22,101 and $10,146 for the years ended December 31, 2000, 1999 and 1998, respectively. At December 31, 2000 and 1999, cash and cash equivalents totaling $6,091 and $7,165, respectively included tenant escrow deposits of $1,165 and $724, respectively.

#### Capitalization of Costs

It is the Company's policy to capitalize interest and real estate taxes related to properties under development and to depreciate these costs over the life of the related assets in order to match revenues and expenses. These items are capitalized for income tax purposes and amortized or depreciated in accordance with the provisions of the Internal Revenue Code. For the years ended December 31, 2000, 1999 and 1998, the Company capitalized interest and real estate taxes of $5,159, $2,311 and $1,578, respectively.

The Company capitalized as deferred costs certain expenditures related to the financing and leasing of certain properties. Capitalized loan fees are amortized over the term of the related loans and leasing commissions are amortized over the term of the related leases.

The Company capitalizes certain deposits associated with planned future purchases of real estate. These deposits are transferred to the properties upon consummation of the transaction.

#### Depreciation

The Company, for financial reporting purposes, depreciates its buildings, equipment and leasehold improvements over their estimated useful lives of 10 to 50 years, using the straight-line method of depreciation. For federal income tax purposes, the Company currently uses the straight-line method of depreciation and the useful lives prescribed by the Internal Revenue Code. Depreciation expense was $15,389, $13,448 and $8,902 for the years ended December 31, 2000, 1999 and 1998, respectively.

#### Allowance for Possible Losses

The Company reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for these assets is based on the estimated fair market value of the assets.





#### Derivative Financial Instruments

The Company at times enters into interest rate swap and cap agreements in order to manage interest rate exposure on certain floating rate debt. When interest rates change, the differential to be paid or received is accrued as interest expense and is recognized over the life of the swap agreements. The costs of cap transactions are deferred and amortized over the contract period. The amortized costs of cap transactions and interest income and interest expense on swap transactions are included in interest expense.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting For Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company adopted this statement effective as of January 1, 2001. The impact of adopting this statement resulted in a decrease in other comprehensive income of approximately $0.6 million as of January 1, 2001. There was no impact on the Company's results of operations.

#### Income Taxes

The Company has elected to qualify as a real estate investment trust under Sections 856-860 of the Internal Revenue Code and intends to remain so qualified. Accordingly, no provision for federal income taxes has been reflected in the accompanying financial statements.

Earnings and profits, which determine the taxability of distributions to shareholders, will differ from net income reported for financial reporting purposes due to differences in cost basis, differences in the estimated useful lives used to compute depreciation and differences between the allocation of the Company's net income and loss for financial reporting purposes and for tax reporting purposes.

The Company is subject to a federal excise tax computed on a calendar year basis. The excise tax equals 4% of the excess, if any, of 85% of the Company's ordinary income plus 95% of the Company's capital gain net income for the year plus 100% of any prior year shortfall over cash distributions during the year, as defined by the Internal Revenue Code. The Company has in the past distributed a substantial portion of its taxable income in the subsequent fiscal year and may also follow this policy in the future.

A provision for excise tax of $211 was recorded for the year ended December 31, 2000. No provision for excise tax was made for the years ended December 31, 1999 and 1998, as no tax was due.

The tax status of per share distributions paid to shareholders was composed of the following for the years ended December 31, 2000, 1999, and 1998:

| | Year Ended 12/31/00 | Year Ended 12/31/99 | Year Ended 12/31/98 |
|---|---|---|---|
| Ordinary income | $ 1.14 | $ 1.67 | $ 1.63 |
| Capital gains | .78 | .21 | .25 |
| | $ 1.92 | $ 1.88 | $ 1.88 |

The Management Company is subject to federal, state and local income taxes. The operating results of the Management Company include a provision or benefit for income taxes. Tax benefits are recorded by the Management Company to the extent realizable.

The aggregate cost for Federal income tax purposes of the Company's investment in real estate was approximately $609 million and $574 million at December 31, 2000 and 1999, respectively.

#### Fair Value of Financial Instruments

Carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable and accrued expenses, and borrowings under the Credit Facility and the construction loan payable approximate fair value due to the nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures.

#### Revenue Recognition

Rental revenue is recognized on a straight-line basis over the lease term regardless of when payments are due. The straight-line rent adjustment increased revenue by approximately $1,218 in 2000, $731 in 1999, and $551 in 1998. Certain lease agreements contain provisions that require tenants to reimburse a pro rata share of real estate taxes and certain common area maintenance costs. Percentage rents are recorded after annual tenant sales targets are met.

No tenant represented 10% or more of the Company's rental revenue in 2000, 1999 or 1998.

#### Comprehensive Income

Net income as reported by the Company reflects total comprehensive income for the years ended December 31, 2000, 1999 and 1998.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

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

2. INVESTMENTS IN PARTNERSHIPS & JOINT VENTURES

The following table presents summarized financial information of the Company's equity investments in 16 partnerships and joint ventures as of December 31, 2000 and 1999, including 3 properties with development activity.

| | Year Ended 12/31/00 | Year Ended 12/31/99 |
|---|---|---|
| **Assets** | | |
| Investments in real estate, at cost: | | |
| Multifamily properties | $ 57,200 | $ 56,112 |
| Retail properties | 410,745 | 212,238 |
| Properties under development | 28,477 | 38,766 |
| Total investments in real estate | 496,422 | 307,116 |
| Less: Accumulated depreciation | 78,025 | 70,520 |
| | 418,397 | 236,596 |
| Cash and cash equivalents | 5,788 | 7,952 |
| Deferred costs, prepaid real estate taxes and other, net | 56,012 | 43,677 |
| Total assets | 480,197 | 288,225 |
| **Liabilities and Partners' Equity** | | |
| Mortgage notes payable | 327,684 | 231,611 |
| Construction loans payable | 61,857 | 22,298 |
| Other liabilities | 33,127 | 16,707 |
| Total liabilities | 422,668 | 270,616 |
| Net equity | 57,529 | 17,609 |
| Less: Partners' share | 36,578 | (264) |
| | 20,951 | 17,873 |
| Advances | 519 | 39 |
| Investment in and advances to partnerships and joint ventures | $ 21,470 | $ 17,912 |

Mortgage notes payable, which are secured by 13 of the related properties, are due in installments over various terms extending to the year 2016 with interest rates ranging from 6.40% to 8.39% with an average interest rate of 7.52% at December 31, 2000. Principal payments are due as follows:

| Year Ended 12/31 | |
|---|---|
| 2001 | $ 4,712 |
| 2002 | 5,204 |
| 2003 | 26,649 |
| 2004 | 5,021 |
| 2005 | 5,665 |
| 2006 and thereafter | 280,433 |
| | $ 327,684 |

The liability under each mortgage note is limited to the particular property except for a loan with a balance of $5,986 which is guaranteed by the partners of the respective partnerships, including the Company.

Also, the Company and its joint venture partner have jointly and severally guaranteed the construction loan payable on a development project. The balance of the loan at December 31, 2000 was $61,857 and the remaining commitment from the lender was $4,143 for a total credit line of $66,000. At December 31, 2000 this loan bears interest at the London Interbank Offered Rate ("LIBOR") plus 2.0% or 8.65%. The loan matures in May 2001. The joint venture is pursuing long-term financing for the property.

The Company's investments in certain partnerships and joint ventures reflect cash distributions in excess of the Company's net investments totaling $2,099 and $2,065 as of December 31, 2000 and 1999, respectively.

The following table summarizes the Company's equity in income for the years ended December 31, 2000, 1999 and 1998.

| | Year Ended 12/31/00 | Year Ended 12/31/99 | Year Ended 12/31/98 |
|---|---|---|---|
| **Equity In Income of Partnerships and Joint Ventures** | | | |
| Gross revenues from real estate | $ 80,303 | $ 58,817 | $ 57,792 |
| Expenses: | | | |
| Property operating expenses | 27,267 | 19,785 | 20,662 |
| Mortgage and bank loan interest | 25,477 | 17,475 | 16,647 |
| Depreciation and amortization | 12,436 | 9,131 | 8,348 |
| | 65,180 | 46,391 | 45,657 |
| | 15,123 | 12,426 | 12,135 |
| Partners' share | (7,757) | (6,248) | (6,150) |
| Equity in income of partnerships and joint ventures | $ 7,366 | $ 6,178 | $ 5,985 |





The Company has a 50% partnership interest in Lehigh Valley Mall Associates which is included in the amounts above. Summarized financial information as of December 31, 2000, 1999 and 1998 for this investment, which is accounted for by the equity method, is as follows:

| | Year Ended 12/31/00 | Year Ended 12/31/99 | Year Ended 12/31/98 |
|---|---|---|---|
| Total assets | $ 21,148 | $ 23,283 | $ 24,093 |
| Mortgages payable | 50,596 | 51,518 | 52,369 |
| Revenues | 17,295 | 17,296 | 15,669 |
| Property operating expenses | 5,888 | 6,057 | 5,074 |
| Interest expense | 4,068 | 4,103 | 4,176 |
| Net income | 6,565 | 6,356 | 5,642 |
| Equity in income of partnership | 3,282 | 3,178 | 2,821 |

3. INVESTMENT IN THE MANAGEMENT COMPANY

The Management Company is responsible for various activities, including management, leasing and real estate development of certain of the Company's properties and for properties on behalf of third parties. Total management fees paid by the Company's properties to the Management Company are included in property operating expenses in the accompanying consolidated statements of income and amounted to $862, $634 and $249 for the years ended December 31, 2000, 1999 and 1998. The Company's properties also paid leasing and development fees to the Management Company totaling $1,272, $477 and $1,100 for the years ended December 31, 2000, 1999 and 1998.

Leasing and development fees paid by the Company's properties to the Management Company are capitalized and amortized to expense in accordance with the Company's accounting policies as described in Note 1. Intercompany profits earned by the Management Company related to such activities are deferred and will be recognized as income over these same periods in order to match revenues and expenses.

In July 1998, the Management Company issued 134,500 non-qualified stock options to its employees ("PRI options") to purchase shares of beneficial interest in the Company at a price equal to fair market value of the shares ($23.85) on the grant date. The options vest in four equal annual installments commencing July 15, 1999. At the same time, the Company sold an option to the Management Company which will enable the Management Company to purchase an equal number of shares from the Company with the same terms and conditions as the PRI options. The purchase price for the options was determined based on the Black-Scholes option pricing model and was valued at $1.20 per option. There were no stock options issued in 1999 or 2000.

The Management Company also provides management, leasing and development services for partnerships and other ventures in which certain officers of the Company and the Management Company have either direct or indirect ownership interests. Total revenues earned by the Management Company for such services were $3,158, $3,593 and $3,489 for the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000 and 1999, $661 and $988, respectively, was due from these affiliates. Of these amounts, approximately $490 and $988, respectively, were collected subsequent to December 31, 2000 and 1999. The remaining related party accounts receivable amounts of $171 are due by their terms in installments to be paid through 2010, plus interest, where applicable.

The Management Company also leases office space from an affiliate of certain officers of the Company and the Management Company. Total rent expense under this lease, which expires in 2010, was $700, $649 and $613 for the years ended December 31, 2000, 1999 and 1998, respectively. Minimum rental payments under this lease are $706 per year from 2001 to 2010.

Summarized financial information for the Management Company as of and for the years ended December 31, 2000, 1999 and 1998 is as follows:

| | Year Ended 12/31/00 | Year Ended 12/31/99 | Year Ended 12/31/98 |
|---|---|---|---|
| Total assets | $ 6,782 | $ 7,185 | $ 12,142 |
| Management fees | $ 3,739 | $ 4,526 | $ 4,700 |
| Leasing commissions | 4,113 | 5,312 | 8,183 |
| Development fees | 617 | 691 | 1,539 |
| Other revenues | 3,620 | 4,382 | 4,131 |
| Total revenue | $ 12,089 | $ 14,911 | $ 18,553 |
| Net loss | $ (6,624) | $ (4,237) | $ (707) |
| Company's share of net loss | $ (6,307) | $ (4,036) | $ (678) |

## 4. MORTGAGE NOTES, BANK AND CONSTRUCTION LOANS PAYABLE

### Mortgage Notes Payable

Mortgage notes payable which are secured by 18 of the Company's properties are due in installments over various terms extending to the year 2025 with interest at rates ranging from 5.90% to 9.50% with a weighted average interest rate of 7.45% at December 31, 2000. Principal payments are due as follows:

| Year Ended 12/31 | | |
|---|---|---|
| 2001 | $ | 4,466 |
| 2002 | | 4,769 |
| 2003 | | 11,122 |
| 2004 | | 5,103 |
| 2005 | | 17,991 |
| 2006 and thereafter | | 203,998 |
| | $ | 247,449 |

The fair value of the mortgage notes payable was approximately $247,261 at December 31, 2000 based on year-end interest rates and market conditions.

### Credit Facility

In December 2000, the Operating Partnership entered into a Credit Facility consisting of a $175 million three-year revolving credit facility (the "Revolving Facility") and a $75 million two-year construction finance facility (the "Construction Facility"). The obligations of the Operating Partnership under the Credit Facility are secured by a pool of properties and have been guaranteed by the Company.

The Credit Facility replaced a $150 million line of credit which had $110.3 million outstanding at its maturity in December 2000.

The Credit Facility bears interest at the London Interbank Offered Rate plus margins ranging from 1.3% to 1.8%, depending on the Company's consolidated Leverage Ratio, as defined by the Credit Facility.

The Credit Facility is secured by 10 of the Company's existing retail and industrial properties. The facility contains covenants and agreements which affect, among other things, the amount of permissible borrowings and other liabilities of the Company. The initial term of the Revolving Facility may be extended for an additional year on the lenders' approval or, alternatively, may be converted by the Company into a two-year amortizing term loan at the beginning of the third year. In addition, properties financed under the Construction Facility may join the collateral pool for the Revolving Facility upon their completion.

As of December 31, 2000, the Operating Partnership had $110.3 million outstanding on the Revolving Facility. The weighted average interest rate based on amounts borrowed on the Company's credit facilities (old and new) was 8.22%, 6.95% and 7.06% for the years ended December 31, 2000, 1999 and 1998, respectively. The weighted average interest rate at December 31, 2000 was 8.45%.

The Credit Facility contains affirmative and negative covenants customarily found in facilities of this type, as well as requirements that the Company maintain, on a consolidated basis: (i) a maximum Leverage Ratio of 65%; (ii) a maximum Borrowing Base Value (as defined in the Credit Facility) of 70% under the Revolving Facility; (iii) a minimum weighted average collateral pool property occupancy of 85%; (iv) minimum tangible net worth of $229 million plus 75% of cumulative net proceeds from the sale of equity securities; (v) minimum ratios of EBITDA to Debt Service and Interest expense (as defined in the Credit Facility) of 1.40:1 and 1.75:1, respectively, at December 31, 2000; (vi) maximum floating rate debt of $250 million; and (vii) maximum commitments for properties under development not in excess of 25% of Gross Asset Value (as defined in the Credit Facility). As of December 31, 2000, the Company was in compliance with all debt covenants.

The Company has limited its exposure to increases in LIBOR on a total of $95 million of its floating rate debt by entering into three swap agreements versus 30-day LIBOR as follows:

| Notional Amount | Fixed Interest Rate | Maturity Date |
|---|---|---|
| $20 million | 6.12% | June 2001 |
| $20 million | 6.02% | December 2003 |
| $55 million | 6.00% | December 2003 |

For the Company to terminate the swap agreements referred to above, the cost to the Company at December 31, 2000 would have been approximately $0.6 million.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the swap agreements; however, the Company does not anticipate nonperformance by the counterparties.

During the calendar year ended December 31, 1998, the Company incurred a prepayment penalty of $0.3 million in connection with a mortgage refinancing. This amount has been reflected as an extraordinary item in the accompanying consolidated statements of income for 1998.

### Construction Loan Payable

The Company has a construction loan outstanding with a balance of $24,647 at December 31, 2000. The construction loan bears interest at the rate of LIBOR plus 1.75% or 8.40%, at December 31, 2000. The loan is secured by a first mortgage on the property under development. The construction loan has an additional $5,353 available under the total commitment of $30,000. The loan matures in 2001, prior to which time the Company expects to pursue long-term financing for the property.



Thousands of dollars, except per share results, unless otherwise noted

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST 2000 ANNUAL REPORT

## 5. NET INCOME PER SHARE

Basic Earnings Per Share ("EPS") is based on the weighted average number of common shares outstanding during the year. Diluted EPS is based on the weighted average number of shares outstanding during the year, adjusted to give effect to common share equivalents. A reconciliation between basic and diluted EPS is shown below.

| | Year Ended 12/31/00 | | Year Ended 12/31/99 | | Year Ended 12/31/98 | |
|---|---|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Income before extraordinary item | $32,254 | 32,254 | $20,739 | $20,739 | $23,455 | $23,455 |
| Extraordinary item | — | — | — | — | (270) | (270) |
| Net income | $32,254 | 32,254 | $20,739 | $20,739 | $23,185 | $23,185 |
| Weighted average shares outstanding | 13,403 | 13,403 | 13,318 | 13,318 | 13,297 | 13,297 |
| Effect of share options issued | — | — | — | — | — | 17 |
| Total weighted average shares outstanding | 13,403 | 13,403 | 13,318 | 13,318 | 13,297 | 13,314 |
| Income per share before extraordinary item | $ 2.41 | 2.41 | $ 1.56 | $ 1.56 | $ 1.76 | $ 1.76 |
| Extraordinary item per share | — | — | — | — | (.02) | (.02) |
| Net income per share | $ 2.41 | 2.41 | $ 1.56 | $ 1.56 | $ 1.74 | $ 1.74 |

## 6. BENEFIT PLANS

The Company maintains a 401(k) Plan (the "Plan") in which substantially all of its officers and employees are eligible to participate. The Plan permits eligible participants, as defined in the Plan agreement, to defer up to 15% of their compensation, and the Company, at its discretion, may match a percentage of the employees' contributions. The employees' contributions and contributions from the Company are fully vested, as defined in the Plan agreement. The Company's contributions to the Plan for the years ended December 31, 2000, 1999 and 1998 were $25, $ 34 and $29, respectively.

The Company also maintains a Supplemental Retirement Plan (the "Supplemental Plan") covering certain senior management employees. The Supplemental Plan provides eligible employees through normal retirement date, as defined in the Supplemental Plan agreement, a benefit amount similar to the amount that would have been received under the provisions of a pension plan that was terminated in 1994. Contributions due by the Company under the provisions of this plan were $65, $62 and $60 for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company and the Management Company also each maintain share purchase plans through which Company and the Management Company employees may purchase shares of beneficial interest at a 15% discount of the fair market value. In 2000 and 1999, 43,000 and 23,000 shares were purchased for total consideration of $644 and $293, respectively.

## 7. STOCK OPTION PLANS

The Company has five plans that provide for the granting of options to purchase shares of beneficial interest to key employees and nonemployee trustees of the Company. Options are granted at the fair market value of the shares on the date of the grant. The options vest and are exercisable over periods determined by the Company, but in no event later than 10 years from the grant date. Changes in options outstanding are as follows:

| | 1999 Equity Incentive Plan | 1997 Stock Option Plan | 1993 Stock Option Plan | 1990 Employees Plan | 1990 Nonemployee Trustee Plan |
|---|---|---|---|---|---|
| Authorized shares | 400,000 | 455,000 | 100,000 | 400,000 | 100,000 |
| Available for grant at December 31, 2000 | 181,500 [(1)] | — | — | — | — |

[(1)] *Amount is net of 118,500 restricted stock awards issued to certain employees as incentive compensation in 2000. The restricted stock was awarded at its fair value that ranged from $18.16 to $18.56 per share for a total value of $2,162. Restricted stock vests ratably over periods of three to five years. The Company recorded compensation expense of $350 in 2000 related to these restricted stock awards.*

| | Exercise Price | 1999 Equity Incentive Plan | 1997 Stock Option Plan | 1993 Stock Option Plan | 1990 Employees Plan | 1990 Nonemployee Trustees Plan |
|---|---|---|---|---|---|---|
| Options outstanding at 12/31/97 | $15.75–$25.41 | — | 455,000 | 100,000 | 340,125 | 37,000 |
| Options granted | $23.85–$24.50 | — | — | — | 17,500 | 5,000 |
| Options exercised | $18.00–$20.375 | — | — | — | (5,875) | (5,000) |
| Options forfeited | $18.00–$22.75 | — | (23,000) | — | (4,875) | — |
| Options outstanding at 12/31/98 | $15.75–$25.41 | | 432,000 | 100,000 | 346,875 | 37,000 |
| Options granted | $20.00 | — | — | — | — | 5,000 |
| Options forfeited | $18.00–$25.41 | — | (72,000) | — | (500) | (5,500) |
| Options outstanding at 12/31/99 | $15.75–$25.41 | — | 360,000 | 100,000 | 346,375 | 36,500 |
| Options granted | $17.00–$17.94 | 100,000 | — | — | — | 12,500 |
| Options exercised | $15.75–$16.00 | — | — | — | (12,625) | (4,000) |
| Options forfeited | $18.00–$23.63 | — | — | — | (89,500) | — |
| Options outstanding at 12/31/00 | $17.00–$25.41 | 100,000 | 360,000 | 100,000 | 244,250 | 45,000 |

At December 31, 2000, options for 519,235 shares of beneficial interest with an aggregate purchase price of $11,806 (average of $22.74 per share) were exercisable.

Outstanding options as of December 31, 2000 have a weighted average remaining contractual life of 6.21 years, an average exercise price of $22.64 per share and an aggregate purchase price of $19,230.

The fair value of each option granted was estimated on the grant date using the Black-Scholes options pricing model and the assumptions presented below:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Weighted average fair value | $ 0.81 | $ 1.06 | $ 1.20 |
| Expected life in years | 5 | 5 | 5 |
| Risk-free interest rate | 5.80% | 4.59% | 5.52% |
| Volatility | 17.34% | 19.05% | 17.76% |
| Dividend yield | 10.04% | 9.40% | 9.67% |

The Company accounts for stock-based compensation under the guidelines of SFAS No. 123, "Accounting for Stock-Based Compensation," which encourages a fair value method of accounting for employee stock options and similar equity instruments. The statement also allows an entity to continue to account for stock-based compensation using the intrinsic value method in APB Opinion No. 25. As provided for in the statement, the Company elected to continue the intrinsic value method of expense recognition. If compensation cost for these plans had been determined using the fair value method prescribed by SFAS No. 123, the impact on the Company's net income and net income per share would have been immaterial.





## 8. OPERATING LEASES

The Company's multifamily apartment units are typically leased to residents under operating leases for a period of one year. The Company's retail properties are leased to tenants under operating leases with expiration dates extending to the year 2025.

Future minimum rentals under noncancelable operating leases with terms greater than one year are as follows:

| Years Ended 12/31 | |
|---|---|
| 2001 | $ 31,889 |
| 2002 | 31,362 |
| 2003 | 29,607 |
| 2004 | 27,600 |
| 2005 | 25,008 |
| 2006 and thereafter | 139,092 |
| | $ 284,558 |

The total future minimum rentals as presented do not include amounts that may be received as tenant reimbursements for charges to cover increases in certain operating costs or contingent amounts that may be received as percentage rents.

## 9. COMMITMENTS AND CONTINGENCIES

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. In each case, the Company will evaluate the financing opportunities available to it at the time the 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. At December 31, 2000, the Company had approximately $28.1 million committed to complete current development and redevelopment projects. Of this amount, the Company expects that approximately $22.8 million will be financed through the Company's $75 million Construction Facility and expects that $5.3 million will be financed using construction loans.

In connection with certain development properties, the Company may be required to issue additional OP units upon the achievement of certain financial results. Further, the Company is obligated to acquire the remaining 11% interest in a retail property by the end of the first quarter of 2002. Finally, the Company is committed to issuing OP units valued at approximately $6 million in connection with the acquisition of land on which the Christiana Power Center (Phase I) is built. These units are expected to be issued in 2001.

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties. The Company is involved in routine litigation arising in the ordinary course of business which is expected to be covered by the Company's liability insurance.

The Company is aware of certain environmental matters at certain of its properties, including ground water contamination, above-normal radon levels and the presence of asbestos containing materials and lead-based paint. The Company has, in the past, performed remediation of such environmental matters, and, at December 31, 2000, the Company is not aware of any significant remaining potential liability relating to these environmental matters. The Company may be required in the future to perform testing relating to these matters. The Company has reserved approximately $0.1 million to cover such costs if they are necessary.

## 10. ACQUISITIONS AND DIVESTITURES

During 2000, the Company acquired an additional 35% interest in a multifamily property, which it now wholly owns. The Company paid approximately $11.0 million for the interest, including $5.7 million in assumed debt and $5.3 million borrowed under the line of credit. The Company also formed a partnership with an unrelated third party to purchase a shopping center. At December 31, 2000, the Company's interest in the shopping center was 0.01%. Upon completion of certain requirements by the Company, including the funding of an expansion to the shopping center, the Company's interest in the partnership that owns the shopping center will increase to a subordinated 50% general partnership interest.

During 2000, the Company sold two shopping centers, one industrial property and its 50% interest in a shopping center. Total proceeds from these sales was approximately $23.0 million. The property sales resulted in gains totaling approximately $10.3 million.

During 1999, the Company acquired two shopping centers, three shopping center development sites, and an additional 10% interest in a shopping center in which it now owns a 60% interest. The Company paid approximately $51.4 million, consisting of $28.0 million in cash, $12.5 million in assumed debt, $9.9 million borrowed under the line of credit and $1.0 million of OP units.

Each of these acquisitions was accounted for by the purchase method of accounting. The results of operations for the acquired properties have been included from their respective purchase dates. The 2000 and 1999 acquisitions did not result in a requirement to present pro forma information.

During 1998, the Company acquired six shopping centers, one multifamily property, a parcel of undeveloped land and the remaining 50% interest in two multifamily properties. The Company paid approximately $180.7 million, consisting of $101.9 in assumed debt, $65.1 million borrowed under the line of credit and $13.7 million of OP units. The unaudited pro forma information presented within this footnote is not necessarily indicative of the results which actually would have occurred if the acquisitions had been consummated on January 1, 1998, nor does the pro forma information purport to represent the results of operations for future periods.

Pro forma 1998 revenues, net income, basic net income per share and diluted earnings per share, reflecting the purchases as if they all took place on January 1, 1998, are $76.8 million, $23.7 million, $1.78 per share and $1.78 per share, respectively.

In connection with the Company's 1997 acquisition of the Management Company and certain other property interests, the Company agreed to issue up to 800,000 additional Class A OP units over a five-year period ending September 30, 2002, if certain earnings are achieved. The Company intends to account for the issuance of contingent OP units as additional purchase price when when such amounts are determinable. Through December 31, 2000, 497,500 contingent OP units had been earned, resulting in additional purchase price of approximately $8.9 million.





## 11. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting financial information about operating segments in interim and annual financial reports and provides for a "management approach" in identifying the reportable segments.

The Company has four reportable segments: (1) retail properties, (2) multifamily properties, (3) development and other, and (4) corporate. The retail segment includes the operation and management of 23 regional and community shopping centers (12 wholly-owned and 11 owned in joint venture form). The multifamily segment includes the operation and management of 19 apartment communities (14 wholly-owned and 5 owned in joint venture form). The other segment includes the operation and management of 6 retail properties under development (5 wholly-owned and 1 owned in joint venture form) and 4 industrial properties (all wholly-owned). The corporate segment includes cash and investment management and certain other general support functions.

The accounting policies for the segments are the same as those described in Note 1, except that for segment reporting purposes, the Company uses the "proportionate-consolidation method" of accounting (a non-GAAP measure) for joint venture properties, instead of the equity method of accounting. The Company calculates the proportionate-consolidation method by applying its percentage ownership interest to the historical financial statements of their equity method investments.

The chief operating decision making group for the Company's Retail, Multifamily, Development and Other and Corporate segments is comprised of the Company's President, Chief Executive Officer and the lead executives of each of the Company's operating segments. The lead executives of each operating segment also manage the profitability of each respective segment. The operating segments are managed separately because each operating segment represents different property types, as well as properties under development and corporate services.

| Year Ended 12/31/00 | Retail | Multifamily | Development and Other | Corporate | Total | Adjustments to Equity Method | Total Consolidated |
|---|---|---|---|---|---|---|---|
| Real estate operating revenues[1] | $ 72,773 | $ 54,199 | $ 4,707 | $ — | $ 131,679 | $ (31,208) | $ 100,471 |
| Property operating expenses | 20,289 | 22,448 | 45 | — | 42,782 | (10,107) | 32,675 |
| Net operating income | 52,484 | 31,751 | 4,662 | — | 88,897 | (21,101) | 67,796 |
| General and administrative expenses | — | — | — | (4,953) | (4,953) | — | (4,953) |
| Interest income | — | — | — | 1,385 | 1,385 | — | 1,385 |
| PREIT-RUBIN, Inc. net operating loss | — | — | — | (4,498) | (4,498) | 4,498 | — |
| EBITDA | 52,484 | 31,751 | 4,662 | (8,066) | 80,831 | (16,603) | 64,228 |
| Interest expense | (18,428) | (13,917) | — | (1,141) | (33,486) | 10,094 | (23,392) |
| Depreciation and amortization | (11,151) | (9,130) | (63) | (1,261) | (21,605) | 5,450 | (16,155) |
| Gains on sales of interests in real estate | 3,650 | — | 6,648 | — | 10,298 | — | 10,298 |
| Minority interest in operating partnership | — | — | — | (3,784) | (3,784) | — | (3,784) |
| Equity in interest of partnerships and joint ventures | — | — | — | — | — | 7,366 | 7,366 |
| Equity in loss of PREIT-RUBIN, Inc. | — | — | — | — | — | (6,307) | (6,307) |
| Net income | $ 26,555 | $ 8,704 | $ 11,247 | $ (14,252) | $ 32,254 | $ — | $ 32,254 |
| Investments in real estate, at cost | $ 464,633 | $ 278,199 | $ 60,727 | $ — | $ 803,559 | $(191,293) | $ 612,266 |
| Total assets | $ 448,720 | $ 211,328 | $ 58,820 | $ 15,678 | $ 734,546 | $(157,976) | $ 576,570 |
| Recurring capital expenditures | $ 642 | $ 3,464 | $ | $ | $ 4,106 | $ (627) | $ 3,479 |

[1] *Includes lease termination income of approximately $6 million.*

| Year Ended 12/31/99 | Retail | Multifamily | Development and Other | Corporate | Total | Adjustments to Equity Method | Total Consolidated |
|---|---|---|---|---|---|---|---|
| Real estate operating revenues | $ 64,870 | $ 51,891 | $ 1,534 | $ — | $ 118,295 | $ (29,075) | $ 89,220 |
| Property operating expenses | 19,857 | 21,617 | 31 | — | 41,505 | (9,722) | 31,783 |
| Net operating income | 45,013 | 30,274 | 1,503 | — | 76,790 | (19,353) | 57,437 |
| General and administrative expenses | — | — | — | (3,560) | (3,560) | — | (3,560) |
| Interest income | — | — | — | 1,144 | 1,144 | — | 1,144 |
| PREIT-RUBIN, Inc. net operating loss | — | — | — | (2,504) | (2,504) | 2,504 | — |
| EBITDA | 45,013 | 30,274 | 1,503 | (4,920) | 71,870 | (16,849) | 55,021 |
| Interest expense | (17,261) | (12,534) | (263) | (1,107) | (31,165) | 9,323 | (21,842) |
| Depreciation and amortization | (10,615) | (7,712) | (98) | (1,238) | (19,663) | 5,440 | (14,223) |
| PREIT-RUBIN, Inc. income taxes | — | — | — | 56 | 56 | (56) | — |
| Gains on sales of interests in real estate | 445 | — | 1,318 | — | 1,763 | — | 1,763 |
| Minority interest in operating partnership | — | — | — | (2,122) | (2,122) | — | (2,122) |
| Equity in interest of partnerships and joint ventures | — | — | — | — | — | 6,178 | 6,178 |
| Equity in loss of PREIT-RUBIN, Inc. | — | — | — | — | — | (4,036) | (4,036) |
| Net income | $ 17,582 | $ 10,028 | $ 2,460 | $ (9,331) | $ 20,739 | $ — | $ 20,739 |
| Investments in real estate, at cost | $ 402,154 | $ 265,165 | $ 75,819 | $ — | $ 743,138 | $(165,617) | $ 577,521 |
| Total assets | $ 384,417 | $ 208,020 | $ 72,796 | $ 15,812 | $ 681,045 | $(133,455) | $ 547,590 |
| Recurring capital expenditures | $ 293 | $ 3,332 | $ — | $ — | $ 3,625 | $ (432) | $ 3,193 |

| Year Ended 12/31/98 | Retail | Multifamily | Development and Other | Corporate | Total | Adjustments to Equity Method | Total Consolidated |
|---|---|---|---|---|---|---|---|
| Real estate operating revenues | $ 42,272 | $ 46,167 | $ 1,619 | $ — | $ 90,058 | $ (28,313) | $ 61,745 |
| Property operating expenses | 13,030 | 19,545 | 35 | — | 32,610 | (10,091) | 22,519 |
| Net operating income | 29,242 | 26,622 | 1,584 | — | 57,448 | (18,222) | 39,226 |
| General and administrative expenses | — | — | — | (3,351) | (3,351) | — | (3,351) |
| Interest income | — | — | — | 650 | 650 | — | 650 |
| PREIT-RUBIN, Inc. net operating income | — | — | — | 762 | 762 | (762) | — |
| EBITDA | 29,242 | 26,622 | 1,584 | (1,939) | 55,509 | (18,984) | 36,525 |
| Interest expense | (11,067) | (7,050) | (341) | (973) | (19,431) | 8,840 | (10,591) |
| Depreciation and amortization | (6,182) | (6,869) | (117) | (1,198) | (14,366) | 4,960 | (9,406) |
| PREIT-RUBIN, Inc. income taxes | — | — | — | 123 | 123 | (123) | — |
| Gains on sales of interests in real estate | 1,277 | 1,766 | — | — | 3,043 | — | 3,043 |
| Minority interest in operating partnership | — | — | — | (1,423) | (1,423) | — | (1,423) |
| Equity in interest of partnerships and joint ventures | — | — | — | — | — | 5,985 | 5,985 |
| Equity in loss of PREIT-RUBIN, Inc. | — | — | — | — | — | (678) | (678) |
| Loss on early extinguishment of debt | — | (270) | — | — | (270) | — | (270) |
| Net income | $ 13,270 | $ 14,199 | $ 1,126 | $ (5,410) | $ 23,185 | $ — | $ 23,185 |
| Investments in real estate, at cost | $ 356,243 | $ 258,195 | $ 33,712 | $ — | $ 648,150 | $(138,744) | $ 509,406 |
| Total assets | $ 269,829 | $ 137,125 | $ 9,410 | $ 179,517 | $ 595,881 | $(114,266) | $ 481,615 |
| Recurring capital expenditures | $ 831 | $ 3,777 | $ — | $ — | $ 4,608 | $ (974) | $ 3,634 |

## 12. SUBSEQUENT EVENTS

In January 2001, the Company refinanced a mortgage secured by a multifamily property. The mortgage amount was $15 million, has a 10-year term and bears interest at the rate of 7.52% per annum.

In January 2001, a partnership in which the Company owns a 50% interest sold an undeveloped parcel of land adjacent to a shopping center owned by the partnership. The purchase price was approximately $8 million.The Company's expects to record a nominal gain on the sale of the land.

## 13. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following presents a summary of the unaudited quarterly financial information for the years ended December 31, 2000 and 1999.

| In thousands of dollars, except per share data | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Year Ended 12/31/00 Total |
|---|---|---|---|---|---|
| Revenues[1] | $ 23,452 | $ 28,446 | $ 23,657 | $ 26,301 | $ 101,856 |
| Net income[2] | $ 6,389 | $ 15,084 | $ 6,162 | $ 4,619 | $ 32,254 |
| Basic net income per share | $ 0.48 | $ 1.13 | $ 0.46 | $ 0.34 | $ 2.41 |
| Diluted income per share | $ 0.48 | $ 1.13 | $ 0.46 | $ 0.34 | $ 2.41 |

[1] *Includes lease termination fees of approximately $6.0 million in 2nd Quarter.*

[2] *Includes gains on sale of real estate of approximately $2.3 million (1st Quarter), $6.6 million (2nd Quarter), and $1.3 million (3rd Quarter).*

| In thousands of dollars, except per share data | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Year Ended 12/31/99 Total |
|---|---|---|---|---|---|
| Revenues | $ 21,739 | $ 22,061 | $ 22,242 | $ 24,322 | $ 90,364 |
| Net income | $ 5,870 | $ 4,918 | $ 5,064 | $ 4,887 | $ 20,739 |
| Basic net income per share | $ .44 | $ .37 | $ .38 | $ .37 | $ 1.56 |
| Diluted income per share | $ .44 | $ .37 | $ .38 | $ .37 | $ 1.56 |





## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Trustees of
Pennsylvania Real Estate Investment Trust:

We have audited the accompanying consolidated balance sheets of Pennsylvania Real Estate Investment Trust (a Pennsylvania Business Trust) and Subsidiaries as of December 31, 2000 and December 31, 1999 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for Lehigh Valley Mall Associates, a partnership in which the Company has a 50% interest which is reflected in the accompanying financial statements using the equity method of accounting. The equity in net income of Lehigh Valley Mall Associates represents 10%, 15% and 12% of net income for the years ended December 31, 2000, 1999 and 1998, respectively. The financial statements of Lehigh Valley Mall Associates were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Lehigh Valley Mall Associates, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pennsylvania Real Estate Investment Trust and Subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Philadelphia, Pennsylvania
February 23, 2001

## MANAGEMENT'S DISCUSSION & 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.

### LIQUIDITY AND 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 Company expects to meet certain long-term capital requirements such as property 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 use the remaining funds available under its $175 million revolving credit facility (the "Revolving Facility") and its $75 million construction facility (the "Construction Facility") to fund acquisitions, development activities and capital improvements on an interim basis.

At December 31, 2000 the Company had borrowed $110 million against its Revolving Facility and had pledged $6 million under the Revolving Facility as collateral for several letters of credit. The proceeds of the $110 million in borrowings were used to fund acquisitions from 1997 to 2000 and several development projects. Of the unused portion of the Revolving Facility of approximately $59 million, as of December 31, 2000, the Company's loan covenant restrictions allowed the Company to borrow approximately an additional $4 million based on the existing property collateral pool. In January 2001, the amount available to borrow increased to approximately $18 million due to a mortgage refinancing (see Note 12 to the Consolidated Financial Statements).

#### The Credit Facility

The Company's operating partnership has entered into a Credit Facility consisting of the Revolving Facility and the Construction Facility with a group of banks led by Wells Fargo Bank National Association. The obligations of the Company's operating partnership under the Credit Facility are secured by a pool of ten properties and have been guaranteed by the Company.

The Credit Facility bears interest at the London Interbank Offered Rate (LIBOR) plus margins ranging from 1.3% to 1.8%, 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.

The Credit Facility contains affirmative and negative covenants customarily found in facilities of this type, as well as requirements that the Company maintain, on a consolidated basis: (i) a maximum Leverage Ratio of 65%; (ii) a maximum Borrowing Base Value (as defined in the Credit Facility) of 70% under the Revolving Facility; (iii) a minimum weighted average collateral pool property occupancy of 85%; (iv) minimum tangible net worth of $229 million plus 75% of cumulative net proceeds from the sale of equity securities; (v) minimum ratios of EBITDA to Debt Service and Interest expense (as defined in the Credit Facility) of 1.40:1 and 1.75:1, respectively, at December 31, 2000; (vi) maximum floating rate debt of $250 million; and (vii) maximum commitments for properties under development not in excess of 25% of Gross Asset Value (as defined in the Credit Facility). As of December 31, 2000, the Company was in compliance with all debt covenants.

#### Mortgage Notes

In addition to amounts due under the Credit Facility, during the next three years construction and mortgage loans secured by properties owned by three partnerships in which the Company has an interest, mature by their terms. Balloon payments on these loans total $88.7 million of which the Company's proportionate share is $42.1 million. Construction and mortgage loans on properties wholly-owned by the Company also mature by their terms. Balloon payments on these loans total $30.8 million. The Company is pursuing long-term financing for properties with balloon payments coming due in 2001.

In 1999 the Company concluded the financing of eight multifamily communities with $108.0 million of permanent, fixed-rate, long-term debt. With the financing, the Company replaced short-term floating rate debt with fixed rate, mortgage debt. The new 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 May 2009.

#### Commitments

At December 31, 2000, the Company had approximately $28.1 million committed to complete current development and redevelopment projects. Of this amount, approximately $22.8 million is expected to be financed through the Construction Facility and $5.3 million is expected to be financed using construction loans. In connection with certain development properties, including those development properties acquired as part of the Company's acquisition of The Rubin Organization, the Company may be required to issue additional units of limited partner interest in its operating partnership ("OP Units") upon the achievement of certain financial results.

#### Cash Flows

During the year ended December 31, 2000, the Company generated $44.1 million in cash flow from operating activities. Financing activities included: (i) $19.3 million net borrowing under the Company's then outstanding credit facility, and (ii) $17.8 million proceeds from a construction loan payable; offset by (i) $14.9 million of repayment of mortgage notes payable, (ii) $4.4 million of mortgage notes payable principal installments, (iii) $25.7 million of distributions to shareholders and (iv) $1.6 million payment of deferred financing costs. During the year ended December 31, 2000, the Company had net investing activities of $36.4 million including: (i) investments in wholly-owned real estate assets ($24.9 million), (ii) investments in property under development ($25.7 million), (iii) investments in partnerships and joint ventures ($5.1 million), (iv) investments in the affiliated management company ($5.0 million), offset by (i) cash proceeds from sales of real estate interests of $23.0 million and (ii) cash distributions from partnerships and joint ventures in excess of equity in income of $1.3 million.





#### Contingent Liabilities

The Company along with certain of its joint venture partners has guaranteed debt totaling $6.0 million (see Note 2 to the Consolidated Financial Statements).

Also, the Company and its joint venture partner have jointly and severally guaranteed the construction loan payable on a development project. The balance of the loan at December 31, 2000 was $61.9 million and the remaining commitment from the lender was $4.1 million for a total construction loan commitment of $66.0 million.

#### Interest Rate Protection

In order to reduce exposure to variable interest rates, the Company has entered into interest rate swap agreements as follows:

| Notional Amount | Fixed Interest Rate vs. 30-day LIBOR | Maturity Date |
|---|---|---|
| $20 million | 6.12% | June 2001 |
| $20 million | 6.02% | December 2003 |
| $55 million | 6.00% | December 2003 |

#### Financial Instruments Sensitivity Analysis

The analysis below presents the sensitivity of the market value of the Company's financial instruments to selected changes in market interest rates. In order to mitigate the impact of fluctuation in market interest rates, the Company has entered into three interest rate swap agreements totaling $95.0 million. All derivative instruments are entered into for other than trading purposes. As of December 31, 2000, the Company's consolidated debt portfolio consisted of $247.4 million in fixed rate mortgage notes and $110.3 million borrowed under its Revolving Facility.

Changes in market interest rates have different impacts on the fixed and variable portions of the Company's debt portfolio. A change in market interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but, it has no impact on interest incurred or cash flows. A change in market interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position. The sensitivity analysis related to the fixed debt portfolio assumes an immediate 100 basis point move in interest rates from their actual December 31, 2000 levels, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the net financial instrument position of $10.7 million at December 31, 2000. A 100 basis point decrease in market interest rates would result in an increase in the net financial instrument position of $11.6 million at December 31, 2000. Based on the variable-rate debt included in the Company's debt portfolio, including three interest rate swap agreements, as of December 31, 2000, a 100 basis point increase in interest rates would result in an additional $0.2 million in interest incurred at December 31, 2000. A 100 basis point decrease would reduce interest incurred by $0.2 million at December 31, 2000.

### ACQUISITIONS

The Company is actively involved in pursuing and evaluating a number of individual property and portfolio acquisition opportunities. 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.

#### 2000 Acquisitions

Significant 2000 acquisitions included the purchase of the remaining 35% interest in the Emerald Point multifamily community in Virginia Beach, VA and the acquisition of an interest in the Willow Grove Park Mall. The Company entered into an agreement giving it an interest in Willow Grove Park, a 979,000 square foot regional mall in Willow Grove, PA. Under the agreement, the Company is responsible for the expansion of the property to include a new Macy's store and decked parking. The expected cost of the expansion is approximately $15 million and is scheduled to be completed in the Fall of 2001. Upon the successful completion of the expansion, the Company will contribute the expansion asset to the Joint Venture in return for a subordinated 50% general partnership interest.

#### 1999 Acquisitions

Significant 1999 acquisitions included the purchase of land for three development properties: Creekview Shopping Center, a 379,000 square-foot power center in Warrington, PA; Metroplex Shopping Center, a 778,000 square-foot power center in Plymouth Meeting, PA; and Paxton Towne Centre, a 569,000 square-foot power center in Harrisburg, PA. Other acquisitions during 1999 included the Home Depot at the Northeast Tower Center in Philadelphia, PA and Florence Commons, a 197,000 square-foot strip center adjacent to Magnolia Mall in Florence, SC. On December 15, 1999, the Company also acquired an additional 10% interest (giving it a 60% total interest) in Rio Mall, a 166,000 square-foot strip center in Rio Grande, NJ.

#### Dispositions

Consistent with management's stated long-term strategic plan to review and evaluate all joint venture real estate holdings and non-core properties, during 1999 and 2000 the Company sold its interests in four properties. The four properties sold in 2000 were CVS warehouse and distribution center in Alexandria, VA; Valleyview Shopping Center in Wilmington, DE; Forestville Shopping Center in Forestville, MD and the Company's 50% interest in Park Plaza Shopping Center in Pinellas Park, FL. The four properties sold in 1999 were 135 Commerce Drive, a 141,000 square-foot warehouse in Fort Washington, PA; 54 acres of undeveloped land in Rancocas, NJ; 14 acres of undeveloped land in Coral Springs, FL; and 22 acres of undeveloped land in Elizabethtown, PA. In 1999 the Company also sold surplus land at Crest Plaza in Allentown, PA. The combined cash proceeds of $23.0 million and $6.6 million in 2000 and 1999, respectively, were applied to reduce outstanding borrowings under the Company's then outstanding credit facility.

### 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 9 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.

| Acquisition Date | Property Name | Property Type | Property Location City | State | Purchase Price | Capital Resources Credit Facility | Capital Resources New/Assumed Debt | Capital Resources OP Units |
|---|---|---|---|---|---|---|---|---|
| 1/03/00 | Emerald Point | Multifamily | Virginia Beach | VA | $ 11,000 | $ 5,350 | $ 5,650 | $ — |
| 2/28/00 | Willow Grove Park | Enclosed Mall | Willow Grove | PA | $ —[1] | $ — | $ — | $ — |
| | Total Completed 2000 Acquisitions | | | | $ 11,000 | $ 5,350 | $ 5,650 | $ — |
| 1/12/99 | Creekview Shopping Center | Power Center | Warrington | PA | $ 1,380 | $ 1,380 | $ — | $ — |
| 4/1/99 | Northeast Tower Center (Home Depot) | Power Center | Philadelphia | PA | 13,500 | — | 12,500 | 1,000 |
| 6/8/99 | Metroplex Shopping Center | Power Center | Plymouth Meeting | PA | 9,880 | — | 9,880 | — |
| 6/25/99 | Paxton Towne Centre | Power Center | Harrisburg | PA | 20,000 | 20,000 | — | — |
| 12/15/99 | Florence Commons | Shopping Center | Florence | SC | 6,417 | 6,417 | — | — |
| 12/15/99 | Rio Mall | Shopping Center | Rio Grande | NJ | 260 | 260 | — | — |
| | Total Completed 1999 Acquisitions | | | | $ 51,437 | $ 28,057 | $ 22,380 | $ 1,000 |

[1] *The Company is required to make certain investments, including the funding of an expansion to the mall. The Company incurred nominal costs at the acquisition date. The total cost to the Company will be determined upon the completion of the expansion.*

### Year Ended December 31, 2000 compared with Year Ended December 31, 1999

Net income increased 56% to $32.2 million in 2000 from $20.7 million for 1999. In 2000, net gains on the sales of interests in real estate were $10.3 million as compared to $1.8 million in 1999. In 2000, gains were recognized from the sale of a 50% interest in Park Plaza Shopping Center, Pinellas, FL; the sale of a CVS Warehouse and Distribution Center in Alexandria, VA; and the sale of Valleyview Shopping Center, Wilmington, DE. In addition, Forestville Shopping Center, Forestville, MD, was sold for a loss, which had been previously reserved. In 1999, gains were recognized from the sales of interests in 135 Commerce Drive, Fort Washington, PA and undeveloped land in Rancocas, NJ; Coral Springs, FL; Elizabethtown, PA and Allentown, PA.

Gross revenues from real estate increased by $11.3 million or 12.6% to $100.5 million for the year ended December 31, 2000, as compared to the year ended December 31, 1999. Retail property revenues increased by $5.9 million. Of this amount $2.6 million is attributable to 1999 acquisitions and properties under development in 1999 now placed in service. In addition, $1.6 million in termination fees were received during the 2000 period. The remaining $1.7 million represents a $2.0 million increase for properties owned during both periods due to increased tenant leasing activities, offset by a decrease of $0.3 million due to the sale of Forestville Shopping Center. Multifamily property revenues increased by $2.2 million for properties owned during both periods due to rental rate increases and higher occupancy rates. Industrial property revenues increased by $3.2 million primarily due to the $4.0 million CVS lease termination fee, offset by a decrease in rents of $0.8 million due to the CVS lease termination.

In 2000, property operating expenses increased by $0.9 million to $32.7 million. Retail property operating expenses increased by $0.2 million with a $0.4 million increase attributable to 1999 acquisitions and properties under development in 1999 now placed in service, offset by operating expenses for properties owned during both periods, which decreased by $0.2 million due to the recovery of tenant receivable amounts previously reserved. Multifamily operating expenses increased by $0.7 million due to increased repairs and maintenance, payroll and bad debt costs.

In 2000, depreciation and amortization increased by $2.0 million to $16.2 million. Retail property depreciation increased by $0.4 million, of which $0.6 million is the result of 1999 acquisitions and the new development properties placed in service. Retail depreciation decreased by $0.2 million for properties owned during both periods because of the property dispositions in 1999 and 2000 noted above. Multifamily depreciation increased by $1.6 million for properties owned during both periods due to a higher asset base.

In 2000, interest expense increased by $1.6 million to $23.4 million. Interest expense incurred on the newly placed multifamily mortgages resulted in a $1.7 million increase. Retail property interest expense increased by $0.6 million primarily attributable to 1999 properties under development now placed in service. Interest expense on the Credit Facility decreased by $0.7 million because increased development activity in 2000 allowed the Company to capitalize a greater portion of Credit Facility interest.

Equity in income of partnerships and joint ventures increased by $1.2 million to $7.4 million primarily attributable to increased income from Whitehall Mall which was under redevelopment in 1999.

Equity in net loss of PREIT-RUBIN, Inc. for the 2000 period was $6.3 million compared with $4.0 million for the 1999 period. The $2.3 million increase in the equity in net loss was primarily due





to decreases in non-recurring brokerage commissions of $1.2 million, management fees of $1.0 million, publication fees of $0.4 million and depreciation and amortization expense of $0.2 million, offset by decreased operating expenses of $0.5 million due to a $0.3 million decrease in publication costs and a $0.2 million decrease in professional services.

Gains from the sale of interests in real estate were $10.3 million and $1.8 million for 2000 and 1999, respectively. The 2000 period reflects a gain on the sale of interest in Park Plaza Shopping Center in Pinellas Park, FL; the CVS Warehouse and Distribution Center in Alexandria, VA and the Valleyview Shopping Center in Wilmington, DE. The 1999 period includes gains on the sale of interests in 135 Commerce Drive, Fort Washington, PA and an undeveloped land parcel at Crest Plaza in Allentown, PA.

Minority interest in the operating partnership increased $1.7 million to $3.8 million primarily as a result of increased earnings and 167,500 additional contingent OP units earned under the Contribution Agreement related to the acquisition of The Rubin Organization in 1997.

### Year Ended December 31, 1999 compared with Year Ended December 31, 1998

Net income for the year ended December 31, 1999, decreased 11% to $20.7 million from $23.2 million for 1998. In 1999, net gains on the sales of interests in real estate were $1.8 million as compared to $3.0 million in 1998. In 1999, gains were recognized from the sales of interests in 135 Commerce Drive, Fort Washington, PA and undeveloped land in Rancocas, NJ, Coral Springs, FL, Elizabethtown, PA and Allentown, PA. In 1998, gains resulted from sales of the Company's interests in Punta Gorda Mall, Punta Gorda, FL; Ormond Beach Mall, Daytona Beach, FL and Charter Pointe Apartments in Altamonte Springs, FL.

Gross revenues from real estate increased by $27.5 million or 44% to $89.2 million for the year ended December 31, 1999, as compared to the year ended December 31, 1998. The 1999 period included an increase of $25.8 million of revenues attributable to the 1998 acquisitions. The balance of the increase in revenues of $1.7 million is attributable to an increase in revenues from properties owned during both periods. This was primarily the result of an increase in multifamily revenues of $1.2 million.

In 1999, property operating expenses increased by $9.3 million to $31.8 million. The 1999 period included $8.7 million of expenses attributable to the 1998 acquisitions. The balance of the increase of $0.6 million is attributable to operating expenses from properties owned during both periods. This increase was primarily due to an increase in multifamily operating costs.

In 1999, depreciation and amortization increased by $4.8 million to $14.2 million primarily as a result of the 1998 acquisitions. Depreciation and amortization for properties owned during both periods increased by $0.3 million.

In 1999, interest expense increased by $11.2 million to $21.8 million. Interest expense attributable to mortgaged properties increased by $10.9 million due to the 1998 acquisitions ($5.6 million) and the refinancing of multifamily properties in the second quarter of 1999 ($5.3 million). Interest expense incurred against the Company's then outstanding credit facility increased by $0.3 million.

Equity in income of partnerships and joint ventures increased by $0.2 million to $6.2 million primarily as a result of an increase in multifamily revenues from partnerships and joint ventures.

Equity in net loss of PREIT-RUBIN, Inc. for the 1999 period was $4.0 million compared with $0.7 million for the 1998 period primarily attributable to a decrease in leasing commissions of $2.8 million due to several large, non-recurring leasing commissions earned in the 1998 period and a decrease in development fees of $0.8 million due to the completion of several development projects that generated fees in 1998 only.

Minority interest in the operating partnership increased $0.7 million as a result of the Units issued in connection with the Company's acquisition of The Rubin Organization and Units issued in connection with five acquisitions during 1998 and one transaction during 1999.

In 1998, loss on early extinguishment of debt was due to a refinancing prepayment fee on Fox Run Apartments of $0.3 million.

## FUNDS FROM OPERATIONS

The Company computes Funds from Operations in accordance with standards established by NAREIT, which may not be comparable to Funds from Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. Funds from Operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or as an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

Funds from operations increased 17.8% to $45.8 million for the year ended December 31, 2000, as compared to $38.9 million in 1999. The increase was primarily due to an improvement in net operating income from same store retail and residential properties and newly acquired properties in 2000 and 1999.

### Capital Expenditures

During 2000, the Company expended $4.1 million for capital expenditures; $3.5 million ($497 per unit owned adjusted for partnership interests) for multifamily communities and $0.6 million for shopping centers. The Company's policy is to capitalize expenditures for floor coverings, appliances and major exterior preparation and painting for apartments. During the year, $1.5 million ($216 per unit owned) was expended for floor covering and $0.6 million ($77 per unit owned) for appliances.

### Competition

The Company's shopping centers compete with other shopping centers in their trade areas as well as alternative retail formats, including catalogues, home shopping networks and internet commerce. Apartment properties compete for tenants with other multifamily properties in their markets. Economic factors, such as employment trends and the level of interest rates, impact shopping center sales as well as a prospective tenant's choice to rent or own his/her residence.

### Seasonality

Shopping center leases often provide for the payment of rents based on a percentage of sales over certain levels. Income from such rents is recorded only after the minimum sales levels have been met. The sales levels are often met in the fourth quarter, in the December holiday season.

### Inflation

Inflation can have many effects on the financial performance of the Company. Shopping center leases often provide for the payment of rents based on a percentage of sales, which may increase with inflation. Leases may also provide for tenants to bear all or a portion of operating expenses, which may reduce the impact of such increases on the Company. Apartment leases are normally for a one-year term, which may allow the Company to seek increased rents as leases are renewed or when new tenants are obtained.

### Forward-Looking Statements

The matters discussed in this report, as well as news releases issued from time to time by the Company use forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," "plan," or "continue" or the negative thereof or other variations thereon, or comparable terminology which constitute "forward-looking statements." Such forward-looking statements (including without limitation, information concerning the Company's continuing dividend levels, planned acquisition, development and divestiture activities, short- and long-term liquidity position, ability to raise capital through public and private offerings of debt and/or equity securities, availability of adequate funds at reasonable cost, revenues and operating expenses for some or all of the properties, leasing activities, occupancy rates, changes in local market conditions or other competitive factors) involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company's results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.



PENNSYLVANIA REAL ESTATE INVESTMENT TRUST 2000 ANNUAL REPORT

## TRUSTEES

### Sylvan M. Cohen, Chairman

Age 86; Trustee since 1960; Chairman of Property Committee

Founding Trustee; Chief Executive Officer until 1997. Of counsel to Drinker Biddle & Reath LLP and former partner in the Philadelphia law firm of Cohen, Shapiro, Polisher, Shiekman and Cohen. Trustee and former President of the International Council of Shopping Centers and the National Association of Real Estate Investment Trusts. Trustee of Orleans Homebuilders, Inc. Member of Advisory Board of the Real Estate Center at the Wharton School. Former President of the Jewish Federation of Greater Philadelphia and trustee or director of United Way, March of Dimes, University of Pennsylvania Medical Center, National Conference of Christians and Jews and Police Athletic League of Philadelphia.

### William R. Dimeling

Age 59; Trustee since 1982; Member of the Audit Committee and Executive Compensation and Human Resources Committee

Partner and co-founder, Dimeling, Schreiber and Park (private investment partnership); Former Executive Vice President of the Reading Company and partner in the law firm of Townsend, Elliot and Munson. Director of New Piper Aircraft Corporation, Burlingtone Motor Carriers and a number of the DS&P portfolio firms.

### Rosemarie B. Greco

Age 54; Trustee since 1997; Member of Audit Committee

Principal, GRECOventures (business investments and leadership development); former CEO and President, CoreStates Bank, N.A. and President, CoreStates Financial Corp.; former corporate director of General Accident Insurance (USA), Cardone Industries, Inc., and Genuardi's Family Markets, Inc.; currently director of Exelon Corporation, PRWT ComServe, Inc., Radian, Inc.; SEI Investment Management, and Sunoco, Inc. Former chair of the Greater Philadelphia Chamber of Commerce, former interim president and CEO of Philadelphia Private Industry Council, former member of Philadelphia Planning Commission and Board of Education; current chair of Workforce Investment Board, Co-Chair of Delaware Valley Habitat for the Humanity, Trustee of the University of Pennsylvania School of Nursing, and board member, National Liberty Museum.

### Lee H. Javitch

Age 70; Trustee since 1985; Member of Audit Committee and Executive Compensation and Human Resources Committee

Private Investor and former Chairman and Chief Executive Officer, Giant Food Stores, Inc. Director of Jewish Theological Seminary of America, Allfirst Financial Inc., and Jewish Community Center of Harrison, NY. Former director of MAZON: A Jewish Response to Hunger, Rye Country Day School, Pennsylvania Council on Arts, and executive committee member of Boy Scouts of America.

### Leonard I. Korman

Age 65; Trustee since 1996; Member of Property Committee and Executive Compensation and Human Resources Committee

Chairman and Chief Executive Officer, Korman Commercial Properties, Inc. (real estate development and management). Member of regional advisory board of First Union National Bank. Trustee of Albert Einstein Health Care Network, Thomas Jefferson University, and Korman Family Foundation.

### Jeffrey P. Orleans

Age 54; Trustee since 1986; Member of Property Committee and Audit Committee

Chairman and Chief Executive Officer, Orleans Homebuilders, Inc. (residential development). Partner, Orleans Builders and Developers. Director of Builders League of South Jersey, the National Association of Home Builders, New Jersey National Bank, Mainard, Inc., and Resort at Palm Aire, Inc. Member of Board of Federation of Jewish Agencies, The Baldwin School, The William Penn Charter School, The American Committee for the Weizmann Institute of Science, Albert Einstein Medical Center and Children's Hospital.

### George F. Rubin

Age 58; President, PREIT-RUBIN, Inc.; Trustee since 1997

Joined The Rubin Organization, Inc. in 1970. Board member of Lafayette College, Elwyn Institute, the Central Philadelphia Development Corporation, the Foundation for Architecture, and The Philadelphia Vietnam Veteran's Memorial. Chairman of the Board of Thorncroft Therapeutic Horseback Riding, Inc.

### Ronald Rubin

Age 69; Chief Executive Officer; Trustee since 1997; Member of Property Committee

Joined Richard I. Rubin and Co., Inc. in 1953 and served as chairman and chief executive officer of The Rubin Organization, Inc. for over 25 years. Trustee of International Council of Shopping Centers. Director of Exelon Corporation. Past Chairman of Center City District and past Chairman of the Greater Philadelphia Chamber of Commerce. Past President of Jewish Federation of Greater Philadelphia. Served on boards of Franklin Institute, Philadelphia Orchestra, Albert Einstein Medical Center, Tel Aviv University, American Friends of Hebrew University, Midlantic Bank (now PNC), University of the Arts and the United Jewish Appeal.

### Jonathan B. Weller

Age 54; President and Chief Operating Officer; Trustee since 1994; Member of Property Committee

Joined the Company in 1994; former Executive Vice President and Director of Eastdil Realty, Inc. (real estate investment banking). Member of National Association of Real Estate Investment Trusts, Urban Land Institute and International Council of Shopping Centers. Chair of Lower Merion Conservancy. Director of Ramapo-Anchorage Camp.

## OFFICERS

### Pennsylvania Real Estate Investment Trust

**Sylvan M. Cohen**
Chairman

**Ronald Rubin**
Chief Executive Officer

**Jonathan B. Weller**
President and Chief Operating Officer

**Edward A. Glickman**
Executive Vice President and Chief Financial Officer

**Jeffrey A. Linn**
Senior Vice President – Acquisitions and Secretary

**David J. Bryant**
Senior Vice President – Finance and Treasurer

**Raymond J. Trost**
Senior Vice President – Multifamily Division

**Bruce Goldman**
Senior Vice President – Legal

### PREIT Services LLC

**George F. Rubin**
President

**Joseph F. Coradino**
Executive Vice President – Retail Division

**Douglas S. Grayson**
Executive Vice President – Development

**Leonard B. Shore**
Executive Vice President – Special Projects

**Harvey Diamond**
Senior Vice President – Site Acquisition

**Powell W. Arms III**
Vice President – Development

**Judith E. Baker**
Vice President – Human Resources

**Jonathen Bell**
Vice President – Financial Services

**Elaine Berger**
Vice President – Specialty Leasing

**Vernon Bowen**
Vice President – Risk Management

**Nicolina Columbo**
Vice President – Director of Mall Leasing

**Cheryl K. Dougherty**
Vice President – Marketing

**R. Scott Petrie**
Vice President – Retail Management

**Timothy R. Rubin**
Vice President – Director of Community Center Leasing

**Larry Trachtman**
Vice President – Legal

**Mario C. Ventresca, Jr.**
Vice President – Retail Asset Management



## INVESTOR INFORMATION

**Headquarters**
200 South Broad Street
Philadelphia, PA 19102–3803
215.875.0700
215.546.7311 Fax
www.preit.com

**Independent Public Accountants**
Arthur Andersen LLP
1601 Market Street
Philadelphia, PA 19103–2499

**Legal Counsel**
Drinker Biddle & Reath LLP
One Logan Square
18th & Cherry Streets
Philadelphia, PA 19103–6996

**Transfer Agent and Registrar**
For change of address, lost dividend checks, shareholder records and other shareholder matters, contact:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
800.937.5449
718.331.1852 Fax
info@amstock.com

**Distribution Reinvestment and Share Purchase Plan**
The Company has a direct stock purchase and dividend reinvestment plan, which allows investors to invest in shares of the Company at a 1% discount with no transaction fee, and to reinvest their dividends at no cost to the shareholder. For further information, please contact the Company, or the Plan Administrator at (800) 278-4353 or (718) 921-8283.

**Investor Inquiries**
Shareholders, prospective investors and analysts seeking information about the company should direct their inquiries to:

Jean Dardzinski
Director of Investor Relations
Pennsylvania Real Estate Investment Trust
200 South Broad Street
Philadelphia, PA 19102–3803
866.875.0700 ext. 735
215.546.2504 Fax
Email: investorinfo@preit.com

**Annual Meeting**
The Annual Meeting of Shareholders is scheduled for 11 am on Thursday, May 10, 2001 at the Park Hyatt at the Bellevue, 200 South Broad Street, Philadelphia, Pennsylvania.

**Forms 10-K and 10-Q**
The Company's Annual Report on Form 10-K, including financial statements and schedules, and Quarterly Reports on Form 10-Q, which are filed with the Securities and Exchange Commission, may be obtained without charge from the Company.

**NYSE Market Price and Distribution Record**
The following table shows the high and low sales prices for the Company's shares and cash distributions paid for the periods indicated.

| Quarters Ended Year 2000 | High | Low | Distributions Paid |
|---|---|---|---|
| March 31 | $17.25 | $14.63 | $ 0.47 |
| June 30 | 18.50 | 16.00 | 0.47 |
| September 30 | 18.06 | 16.88 | 0.47 |
| December 31 | 19.75 | 16.81 | 0.51 |
| | | | $ 1.92 |

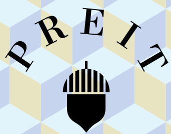
| Quarters Ended Year 1999 | High | Low | Distributions Paid |
|---|---|---|---|
| March 31 | $20.25 | $18.56 | $ 0.47 |
| June 30 | 21.69 | 18.56 | 0.47 |
| September 30 | 21.00 | 18.56 | 0.47 |
| December 31 | 18.88 | 14.00 | 0.47 |
| | | | $ 1.88 |

As of December 31, 2000, there were approximately 1,200 shareholders of record of the Company's shares of beneficial interest.

**Stock Market**
New York Stock Exchange

**PREIT is a member of:**
National Association of Real Estate Investment Trusts
International Council of Shopping Centers
National Multi-Housing Council
Pension Real Estate Association
Urban Land Institute

Design: Allemann Almquist & Jones; Editorial: Robert Gunther; Photography: Various




Pennsylvania Real Estate Investment Trust

200 South Broad Street
Philadelphia, PA 19102–3803

www.preit.com