

mall

/mawl/

*noun*

a large building or series of connected buildings containing a variety of retail stores and typically also restaurants.

REDEFINING THE MALL

PREIT (NYSE:PEI) is a publicly traded real estate investment trust that owns and manages quality properties in compelling markets. PREIT's robust portfolio of carefully curated retail and lifestyle offerings mixed with destination dining and entertainment experiences are located primarily in the eastern US with concentrations in the Mid-Atlantic's top MSAs. Since 2012, the Company has driven a transformation guided by an emphasis on portfolio quality and balance sheet strength driven by disciplined capital expenditures. Additional information is available at [preit.com](https://www.preit.com) or on Twitter or LinkedIn.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(in thousands, except per share amounts)

Year ended December 31,	2018	2017	2016
Total revenue	\$ 362,400	\$ 367,490	\$ 399,946
Net loss	\$ (126,503)	\$ (32,848)	\$ (12,713)
Net loss attributable to common shareholders	\$ (137,704)	\$ (57,901)	\$ (25,511)
Net loss per share — basic and diluted	\$ (1.98)	\$ (0.84)	\$ (0.37)
Funds from operations*	\$ 111,496	\$ 123,120	\$ 146,426
Investment in real estate, at cost	\$ 3,184,594	\$ 3,299,702	\$ 3,300,014
Total assets	\$ 2,405,114	\$ 2,588,771	\$ 2,616,832
Distributions paid per common share	\$ 0.84	\$ 0.84	\$ 0.84
Number of common shares and OP Units outstanding	78,767	78,256	77,866
Total market capitalization	\$ 2,874,955	\$ 3,212,328	\$ 3,653,483

\*Reconciliation to GAAP can be found on page 60.

# agile

/aj-uhl, -ahyl/

*adjective*

able to move quickly and easily.

## DEAR FELLOW SHAREHOLDERS

For too long we have allowed malls to be defined in a homogenous manner, as homogenous as their tenancy has historically been. At PREIT, we have changed the definition of the “mall.” No longer just a place to shop for the latest trends from the variety of ubiquitous stores, now a destination for an array of conveniences and social experiences — a place where you can grab a quick bite or sit for a high quality meal, have fun with family or friends catching a movie, bowling or playing video games, shop for groceries, seek and find brand name merchandise at a discount, practice a healthy lifestyle with a workout, find unique limited-time merchandise from local artisans and merchants, even work

and soon... live... **ALL** in addition to shopping for a selection of trend-driven merchandise.

Most people on our management team would say they can’t recall a year with as many challenges as 2018, but we also view it as a year that extended more opportunity to re-craft our industry than ever before. 2018 was a very busy year marked by achievements that are leading us toward many milestones in 2019. As I write this, we are a different company — different than we once were and different than our peers. This is because we have remained **AGILE**.

This industry has been moving quickly. And we continue to fortify our first-

JOSEPH F. CORADINO Chairman & Chief Executive Officer







# anchor

/ang-ker/

*noun*

a person or thing that provides stability or confidence in an otherwise uncertain situation.

mover-advantage status which puts us in a position to capitalize on the momentum we've created. Having been first and fastest in disposing of low-productivity assets has enabled us to position the Company to be proactive with respect to **ANCHOR** repositioning. This program has brought **OVER TWO DOZEN NEW TENANTS** into 11 former department stores in just two years.

As consumer behavior changes and certain department stores have fallen out of favor, we seized the opportunity to deliver what our customers are looking for — variety, value, experiences and social interaction.

In repositioning our anchors and remerchandising our properties, we have

redefined the mall. We've taken the opportunity to **INNOVATE**, and in doing so, created a stronger platform for tomorrow.

We ended the year with core mall **SALES PER SQUARE FOOT AT \$510**, core mall leased space of **96.6%**, **NO UNLEASED ANCHORS** in our core portfolio and strong prospects for adding over **5,000 MULTIFAMILY UNITS** to our properties. We have differentiated ourselves.

We are in the early stages of seeing the benefits of the differentiated tenant base we have created. At properties where we had replaced anchors prior to the 2018 holiday season, traffic was up notably over 5% on average. And over 50% of the leases we signed in 2018 were for



# curating

/kyoo-reyt-ing/

verb

to take charge of (an asset) or organize (a tenant mix).

diverse uses that have not historically been located in malls.

Looking to our future, we are optimistic that the many **MILESTONES** that are foundationally changing our Company and the quality of our properties, will enhance the quality of our earnings stream going forward.

At **PLYMOUTH MEETING MALL**, we will cement the creation of a truly unique experience with the opening of five exciting tenants in the former Macy's box — **DICK'S SPORTING GOODS, BURLINGTON, EDGE FITNESS, MILLER'S ALE HOUSE AND MICHAEL'S** — this lineup underscores the diversity in mall tenancy we have been **CURATING** and will drive significant traffic and sales.

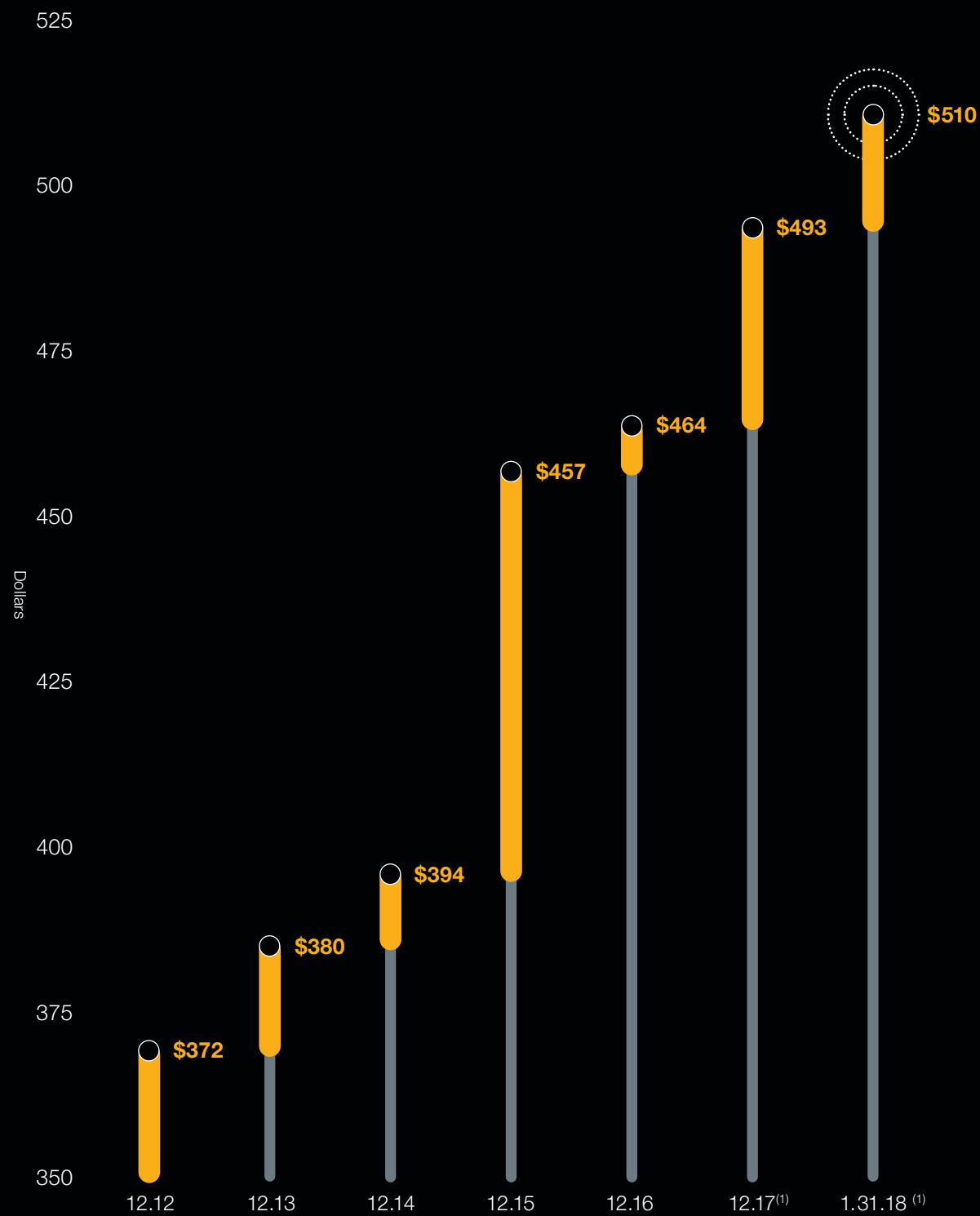
Our existing unique blend of tenants and experiences, which include **DAVE & BUSTER'S, WHOLE FOODS MARKET**, one of nine **LEGOLAND DISCOVERY CENTERS** in the country, accentuated by an **AMC MOVIE THEATRE**, four sit-down restaurants and popular apparel and accessory brands, earned the mall a place among Chain Store Age's Top 10 Retail Destinations in the country. This property is a model for the new mall paradigm having integrated entertainment, dining, grocery and fitness, driving unique visitors to the mall regularly.

Our strong track record in anchor replacement activity comes to life at **VALLEY MALL** where we will open four diverse uses in three former depart-

PLYMOUTH MEETING MALL, PLYMOUTH MEETING, PA

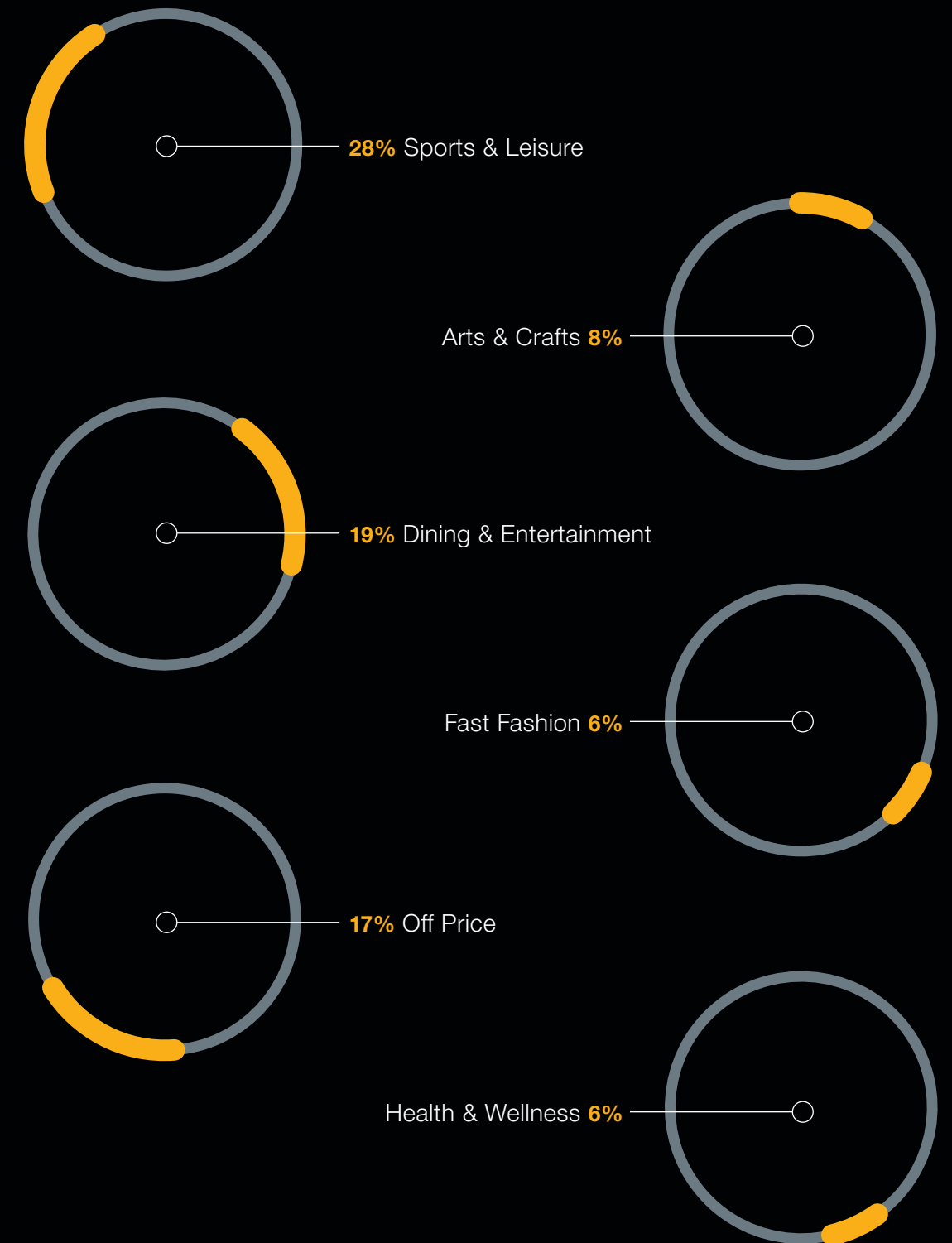


SALES PER SQUARE FOOT GROWTH



<sup>(1)</sup> Represents 2019 core malls only

% OF GLA EXECUTED FOR FUTURE OPENINGS BY CATEGORY





VALLEY MALL, HAGERSTOWN, MD



# innovate

/in·uh·veyt/

*verb*

make changes in something established, especially by introducing new methods, ideas or products.

ment store spaces in just two years, successfully replacing over 300,000 square feet. We have integrated **ONELIFE FITNESS**, a **FULL SERVICE, HIGH-QUALITY FITNESS FACILITY** with an indoor-outdoor swimming pool and an extensive array of fitness classes and they joined **TILT STUDIO**, a **48,000 SQUARE FOOT FAMILY-ORIENTED ENTERTAINMENT DESTINATION** offering rides, bowling and arcade games, in the former Macy's space. **BELK** opened its first store in the region here in 2018, replacing The Bon-Ton. In 2020, we will add **DICK'S SPORTING GOODS**, in place of a former Sears, to complete the project. The new anchor concepts complement PREIT's ongoing transformation of the

mall. **REGAL CINEMA** will be remodeled this year to introduce luxury reclining seating in a stadium format, and PREIT recently upgraded dining amenities at the mall with the addition of BJ's Brewhouse and the recently executed Black Rock Bar & Grill, joining Primanti Bros., Mission BBQ and Red Robin.

The grand reopening of **WOODLAND MALL** is also on the horizon — this project has been underway for two years and we are clearly solidifying our position as the premier destination in Grand Rapids, MI. Along with **VON MAUR**, the project will include the region's only **REI**, **THE CHEESECAKE FACTORY**, **URBAN OUTFITTERS**, and **BLACK ROCK BAR & GRILL** which will join existing tenants



# milestones

/mahyl-stohn/

*noun*

a significant or important event, e.g. in the history of a country or in somebody's life.

**APPLE, ALTAR'D STATE, THE NORTH FACE, LUSH** and many others. With the addition of a fashion department store, the region's only Apple store and The Cheesecake Factory, this property will take its place as a trophy destination, solidifying its position as one of PREIT's top-performing properties.

In the spirit of saving the best for last, we look forward to the September 2019 opening of our marquee project, **FASHION DISTRICT**, here in our hometown, Philadelphia. Spanning three city blocks in downtown Philadelphia, with a prime location just steps away from Philadelphia's historic district and connected to Reading Terminal Market, the Pennsylvania Convention Center,

SEPTA's Jefferson Station and new Jefferson University headquarters, the project will be a vibrant metropolitan destination for shopping, dining, socializing and playing, cementing the next generation of consumer experiences.

As the retail landscape evolves to further integrate lifestyle and dining concepts, the project has adopted four brand pillars: **STYLE, DINING, ENTERTAINMENT, AND ARTS & CULTURE**. With a unique combination of flagship, off-price, fast-fashion, traditional full price and branded outlet stores, Fashion District will offer mass appeal to a diverse customer base, combining a high quality experience with accessible style. **CITY WINERY**, a culinary and cultural wine destination

WOODLAND MALL, GRAND RAPIDS, MI





FASHION DISTRICT, PHILADELPHIA, PA



# sustainable

/suh·stey·nuh·buhl/

*adjective*

able to be maintained or kept going, as an action or process.

offering intimate concerts, food and wine classes, private events and fine dining, will open its seventh location in the country, kick starting the revitalization of Filbert Street, where al fresco dining and outdoor events will transform the street into a hub for interactive experiences. Fashion District will also feature a dedicated third-floor entertainment zone with **AMC THEATRES** — Center City's first movie theatre since 2002 — and **ROUND 1 ENTERTAINMENT**. As dining and entertainment continue to capture consumer spending, these concepts will support local demand for social experiences.

Our vision to redefine the mall has become a reality and positions us for

**SUSTAINABLE** growth well into the future. We have started a new book, while many think a chapter is coming to an end. We are truly invigorated to deliver the new model as it is accepted and embraced across the country.

None of this would be possible without the ingenuity and resilience of our team at PREIT, the support of our trustees and our shareholders. Thank you all for joining us on this journey.

*Joseph F. Coradino*

**JOSEPH F. CORADINO**

Chairman & Chief Executive Officer

April 1, 2019



ENCLOSED MALLS AS OF DECEMBER 31, 2018



**CAPITAL CITY MALL**  
Camp Hill, PA  
Ownership Interest 100%  
Acquired 2003  
Square Feet 612,000



**CHERRY HILL MALL**  
Cherry Hill, NJ  
Ownership Interest 100%  
Acquired 2003  
Square Feet 1,315,000



**CUMBERLAND MALL**  
Vineland, NJ  
Ownership Interest 100%  
Acquired 2005  
Square Feet 951,000



**DARTMOUTH MALL**  
Dartmouth, MA  
Ownership Interest 100%  
Acquired 1997  
Square Feet 673,000



**EXTON SQUARE**  
Exton, PA  
Ownership Interest 100%  
Acquired 2003  
Square Feet 1,046,000



**FRANCIS SCOTT KEY MALL**  
Frederick, MD  
Ownership Interest 100%  
Acquired 2003  
Square Feet 754,000



**FASHION DISTRICT**  
Philadelphia, PA  
Ownership Interest 50%  
Acquired 2003  
Square Feet 838,000



**JACKSONVILLE MALL**  
Jacksonville, NC  
Ownership Interest 100%  
Acquired 2003  
Square Feet 495,000



**LEHIGH VALLEY MALL**  
Whitehall, PA  
Ownership Interest 50%  
Acquired 1973  
Square Feet 1,175,000



**MAGNOLIA MALL**  
Florence, SC  
Ownership Interest 100%  
Acquired 1997  
Square Feet 602,000



**MOORESTOWN MALL**  
Moorestown, NJ  
Ownership Interest 100%  
Acquired 2003  
Square Feet 913,000



**PATRICK HENRY MALL**  
Newport News, VA  
Ownership Interest 100%  
Acquired 2003  
Square Feet 718,000



**PLYMOUTH MEETING**  
Plymouth Meeting, PA  
Ownership Interest 100%  
Acquired 2003  
Square Feet 728,000



**THE MALL AT PRINCE GEORGES**  
Hyattsville, MD  
Ownership Interest 100%  
Acquired 1998  
Square Feet 926,000



**SPRINGFIELD MALL**  
Springfield, PA  
Ownership Interest 50%  
Acquired 2005  
Square Feet 611,000



**SPRINGFIELD TOWN CENTER**  
Springfield, VA  
Ownership Interest 100%  
Acquired 2015  
Square Feet 1,374,000



**VALLEY MALL**  
Hagerstown, MD  
Ownership Interest 100%  
Acquired 2003  
Square Feet 798,000



**VALLEY VIEW MALL**  
La Crosse, WI  
Ownership Interest 100%  
Acquired 2003  
Square Feet 520,000



**VIEWMONT MALL**  
Scranton, PA  
Ownership Interest 100%  
Acquired 2003  
Square Feet 689,000



**WILLOW GROVE PARK**  
Willow Grove, PA  
Ownership Interest 100%  
Acquired 2000/2003  
Square Feet 1,047,000



**WOODLAND MALL**  
Grand Rapids, MI  
Ownership Interest 100%  
Acquired 2005  
Square Feet 834,000



**WYOMING VALLEY MALL**  
Wilkes-Barre, PA  
Ownership Interest 100%  
Acquired 1997  
Square Feet 823,000

OTHER RETAIL PROPERTIES AS OF DECEMBER 31, 2018

**GLOUCESTER PREMIUM OUTLETS**  
Gloucester Township, NJ  
Ownership Interest 25%  
Acquired 2015  
Square Feet 370,000

**RED ROSE COMMONS**  
Lancaster, PA  
Ownership Interest 50%  
Acquired 1998  
Square Feet 463,000

**METROPLEX SHOPPING CENTER**  
Plymouth Meeting, PA  
Ownership Interest 50%  
Acquired 1997  
Square Feet 778,000

**THE COURT AT OXFORD VALLEY**  
Langhorne, PA  
Ownership Interest 50%  
Acquired 1997  
Square Feet 705,000

PREIT®

**MALLS** 18,451,000  
**OTHER RETAIL PROPERTIES** 2,461,000

**TOTAL GLA** 20,912,000

Total square feet represents entire property. PREIT-owned square footage may be less.





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SELECTED FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per share amounts)		Year Ended December 31,				
	2018	2017	2016	2015	2014	
<b>Operating results<sup>(1)</sup></b>						
Total revenue	\$ 362,400	367,490	\$ 399,946	\$ 425,411	\$ 432,703	
Net loss	\$ (126,503)	\$ (32,848)	\$ (12,713)	\$ (129,567)	\$ (14,262)	
Net loss attributable to PREIT common shareholders	\$ (137,704)	\$ (57,901)	\$ (25,511)	\$ (131,129)	\$ (29,201)	
Net loss per share – basic and diluted	\$ (1.98)	\$ (0.84)	\$ (0.37)	\$ (1.91)	\$ (0.43)	
<b>Cash flow data<sup>(1)</sup></b>						
Cash provided by operating activities	\$ 134,864	\$ 142,091	\$ 154,931	\$ 141,108	\$ 148,164	
Cash (used in) provided by investing activities	\$ (41,567)	\$ (105,418)	\$ (4,878)	\$ (382,291)	\$ 31,298	
Cash (used in) provided by financing activities	\$ (94,805)	\$ (32,585)	\$ (162,632)	\$ 225,860	\$ (170,522)	
<b>Cash distributions</b>						
Cash distributions per share – common shares	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.80	
Cash distributions per share – Series A Preferred Shares	\$ —	\$ 1.7016	\$ 2.0625	\$ 2.0625	\$ 2.0625	
Cash distributions per share – Series B Preferred Shares	\$ 1.8438	\$ 1.8438	\$ 1.8438	\$ 1.8438	\$ 1.8438	
Cash distributions per share – Series C Preferred Shares	\$ 1.80	\$ 1.5900	\$ —	\$ —	\$ —	
Cash distributions per share – Series D Preferred Shares	\$ 1.719	\$ 0.4488	\$ —	\$ —	\$ —	
<b>Funds From Operations<sup>(1)(2)</sup></b>						
Net loss	\$ (126,503)	\$ (32,848)	\$ (12,713)	\$ (129,567)	\$ (14,262)	
Dividends on preferred shares	(27,375)	(27,845)	(15,848)	(15,848)	(15,848)	
Loss on redemption of preferred shares	—	(4,103)	—	—	—	
Gain on sale of real estate by equity method investee	(2,772)	(6,539)	—	—	—	
Gains on sales of interests in real estate, net	(1,525)	361	(23,022)	(12,362)	(12,699)	
Impairment of real estate assets	129,365	55,793	62,603	140,318	19,695	
Depreciation and amortization of real estate assets:						
Consolidated partnerships	131,694	127,327	125,192	141,142	142,683	
Unconsolidated partnerships	8,612	10,974	10,214	12,563	9,850	
<b>Funds From Operations</b>	<b>\$ 111,496</b>	<b>\$ 123,120</b>	<b>\$ 146,426</b>	<b>\$ 136,246</b>	<b>\$ 129,419</b>	
Weighted average number of shares outstanding	69,749	69,364	69,086	68,740	68,217	
Weighted average effect of full conversion OP Units	8,273	8,297	8,324	6,830	2,128	
Effect of common share equivalents	203	93	191	485	696	
<b>Total weighted average shares outstanding including OP Units</b>	<b>78,225</b>	<b>77,754</b>	<b>77,601</b>	<b>76,055</b>	<b>71,041</b>	
<b>Funds from operations per diluted share and OP Unit</b>	<b>\$ 1.43</b>	<b>\$ 1.58</b>	<b>\$ 1.89</b>	<b>\$ 1.79</b>	<b>\$ 1.82</b>	

(in thousands)	As of December 31,				
Balance sheet items	2018	2017	2016	2015	2014
Investments in real estate, at cost	\$ 3,184,594	\$3,299,702	\$3,300,014	\$3,367,889	\$3,285,404
Total assets	\$ 2,405,114	\$2,588,771	\$2,616,832	\$2,800,392	\$2,539,703
Long term debt excluding unamortized debt costs					
Consolidated properties:					
Mortgage loans payable	\$ 1,050,970	\$1,059,439	\$ 1,227,385	\$ 1,325,495	\$1,407,947
Revolving facilities	\$ 65,000	\$ 53,000	\$ 147,000	\$ 65,000	\$ —
Term loans	\$ 550,000	\$ 550,000	\$ 400,000	\$ 400,000	\$ 130,000
Company's share of partnerships:					
Mortgage loans payable	\$ 232,355	\$ 235,672	\$ 201,509	\$ 202,074	\$ 190,310

<sup>(1)</sup> Certain prior period amounts for net income (loss) attributable to PREIT common shareholders, basic and diluted earnings per share, noncontrolling interest, total equity — PREIT and cash flow amounts were adjusted to reflect immaterial financial statement error corrections and new accounting rules as discussed in Note 1 to our consolidated financial statements.

<sup>(2)</sup> The National Association of Real Estate Investment Trusts (“NAREIT”) defines Funds From Operations (“FFO”), which is a non-GAAP measure commonly used by REITs, as net income excluding gains and losses on sales of operating properties, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures to reflect funds from operations on the same basis. We compute FFO in accordance with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do. For additional information about FFO, please refer to page 60.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)	December 31, 2018	December 31, 2017
<b>Assets:</b>		
<b>Investments in real estate, at cost:</b>		
Operating properties	\$ 3,063,531	\$ 3,180,212
Construction in progress	115,182	113,609
Land held for development	5,881	5,881
<b>Total investments in real estate</b>	<b>3,184,594</b>	<b>3,299,702</b>
Accumulated depreciation	(1,118,582)	(1,111,007)
<b>Net investments in real estate</b>	<b>2,066,012</b>	<b>2,188,695</b>
<b>Investments in Partnerships, at equity:</b>	<b>131,124</b>	<b>216,823</b>
<b>Other Assets:</b>		
Cash and cash equivalents	18,084	15,348
Tenant and other receivables (net of allowance for doubtful accounts of \$6,597 and \$7,248 at December 31, 2018 and 2017, respectively)	38,914	38,166
Intangible assets (net of accumulated amortization of \$15,543 and \$13,117 at December 31, 2018 and 2017, respectively)	17,868	17,693
Deferred costs and other assets, net	110,805	112,046
Assets held for sale	22,307	—
<b>Total assets</b>	<b>\$ 2,405,114</b>	<b>\$ 2,588,771</b>
<b>Liabilities:</b>		
Mortgage loans payable, net	\$ 1,047,906	\$ 1,056,084
Term Loans, net	547,289	547,758
Revolving Facilities	65,000	53,000
Tenants' deposits and deferred rent	15,400	11,446
Distributions in excess of partnership investments	92,057	97,868
Fair value of derivative instruments	3,010	20
Accrued expenses and other liabilities	87,901	61,604
<b>Total liabilities</b>	<b>1,858,563</b>	<b>1,827,780</b>
<b>Commitments and Contingencies (Note 11)</b>		
<b>Equity:</b>		
Series B Preferred Shares, \$.01 par value per share; 25,000 shares authorized; 3,450 shares issued and outstanding at December 31, 2018 and 2017; liquidation preference of \$86,250	35	35
Series C Preferred Shares, \$.01 par value per share; 25,000 shares authorized; 6,900 shares issued and outstanding at December 31, 2018 and 2017; liquidation preference of \$172,500	69	69
Series D Preferred Shares, \$.01 par value per share; 25,000 shares authorized; 5,000 shares issued and outstanding at December 31, 2018 and 2017; liquidation preference of \$125,000	50	50
Shares of beneficial interest, \$1.00 par value per share; 200,000 shares authorized; 70,495 shares issued and outstanding at December 31, 2018 and 69,983 shares issued and outstanding at December 31, 2017	70,495	69,983
Capital contributed in excess of par	1,671,042	1,663,966
Accumulated other comprehensive income	5,408	7,226
Distributions in excess of net income	(1,306,318)	(1,109,469)
<b>Total equity – Pennsylvania Real Estate Investment Trust</b>	<b>440,781</b>	<b>631,860</b>
Noncontrolling interest	105,770	129,131
<b>Total equity</b>	<b>546,551</b>	<b>760,991</b>
<b>Total liabilities and equity</b>	<b>\$ 2,405,114</b>	<b>\$ 2,588,771</b>

See accompanying notes to consolidated financial statements.



**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For The Year Ended December 31,		
(in thousands of dollars)	2018	2017	2016
<b>Revenue:</b>			
Real estate revenue:			
Base rent	\$ 226,609	\$ 230,898	\$ 252,115
Expense reimbursements	106,522	109,454	118,880
Percentage rent	4,291	4,366	5,245
Lease termination revenue	8,729	2,760	4,460
Other real estate revenue	12,078	14,046	13,897
<b>Total real estate revenue</b>	<b>358,229</b>	<b>361,524</b>	<b>394,597</b>
Other income	4,171	5,966	5,349
<b>Total revenue</b>	<b>362,400</b>	<b>367,490</b>	<b>399,946</b>
<b>Expenses:</b>			
Operating expenses:			
Property operating expenses:			
CAM and real estate taxes	(113,235)	(111,275)	(124,690)
Utilities	(15,990)	(16,151)	(17,053)
Other property operating expenses	(12,007)	(12,879)	(14,475)
<b>Total property operating expenses</b>	<b>(141,232)</b>	<b>(140,305)</b>	<b>(156,218)</b>
Depreciation and amortization	(133,116)	(128,822)	(126,669)
General and administrative expenses	(38,342)	(36,736)	(35,269)
Provision for employee separation expense	(1,139)	(1,299)	(1,355)
Project costs and other expenses	(693)	(768)	(1,700)
Insurance recoveries, net	689	—	—
<b>Total operating expenses</b>	<b>(313,833)</b>	<b>(307,930)</b>	<b>(321,211)</b>
Interest expense, net	(61,355)	(58,430)	(70,724)
Impairment of assets	(137,487)	(55,793)	(62,603)
<b>Total expenses</b>	<b>(512,675)</b>	<b>(422,153)</b>	<b>(454,538)</b>
Loss before equity in income of partnerships and gains on sales of real estate and non operating real estate	(150,275)	(54,663)	(54,592)
Equity in income of partnerships	11,375	14,367	18,477
Gain on sales of real estate by equity method investee	2,772	6,539	—
Gains (losses) on sales of real estate, net	1,525	(361)	23,022
Gains on sales of non-operating real estate	8,100	1,270	380
<b>Net loss</b>	<b>(126,503)</b>	<b>(32,848)</b>	<b>(12,713)</b>
Less: net loss attributed to noncontrolling interest	16,174	6,895	3,050
<b>Net loss attributable to PREIT</b>	<b>(110,329)</b>	<b>(25,953)</b>	<b>(9,663)</b>
Less: preferred share dividends	(27,375)	(27,845)	(15,848)
Less: loss on redemption on preferred shares	—	(4,103)	—
<b>Net loss attributable to PREIT common shareholders</b>	<b>\$ (137,704)</b>	<b>\$ (57,901)</b>	<b>\$ (25,511)</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)**

**EARNINGS PER SHARE**

	For The Year Ended December 31,		
(in thousands of dollars, except per share amounts)	2018	2017	2016
Net loss	\$ (126,503)	\$ (32,848)	\$ (12,713)
Noncontrolling interest	16,174	6,895	3,050
Preferred share dividends	(27,375)	(27,845)	(15,848)
Loss on redemption of preferred shares	—	(4,103)	—
Dividends on unvested restricted shares	(542)	(372)	(322)
<b>Net loss used to calculate earnings per share – basic and diluted</b>	<b>\$ (138,246)</b>	<b>\$ (58,273)</b>	<b>\$ (25,833)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (1.98)</b>	<b>\$ (0.84)</b>	<b>\$ (0.37)</b>
(in thousands of shares)			
Weighted average shares outstanding – basic	69,749	69,364	69,086
Effect of dilutive common share equivalents <sup>(1)</sup>	—	—	—
<b>Weighted average shares outstanding – diluted</b>	<b>69,749</b>	<b>69,364</b>	<b>69,086</b>

<sup>(1)</sup> For the years ended December 31, 2018, 2017 and 2016, there were net losses allocable to common shareholders, so the effect of common share equivalents of 203, 93 and 191 for the years ended December 31, 2018, 2017 and 2016, respectively, is excluded from the calculation of diluted (loss) earnings per share, as their inclusion would be anti-dilutive.

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For The Year Ended December 31,		
(in thousands of dollars)	2018	2017	2016
Comprehensive loss:			
Net loss	\$ (126,503)	\$ (32,848)	\$ (12,713)
Unrealized (loss) gain on derivatives	(2,755)	5,415	6,007
Amortization of losses on settled swaps, net of gains	721	859	503
Total comprehensive loss	(128,537)	(26,574)	(6,203)
Less: Comprehensive loss attributable to noncontrolling interest	16,390	6,225	2,355
<b>Comprehensive loss attributable to PREIT</b>	<b>\$ (112,147)</b>	<b>\$ (20,349)</b>	<b>\$ (3,848)</b>

See accompanying notes to consolidated financial statements.



**CONSOLIDATED STATEMENTS OF EQUITY**  
 FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(in thousands of dollars, except per share amounts)	Total Equity	PREIT Shareholders								
		Preferred Shares \$.01 par				Shares of Beneficial Interest, \$1.00 par	Capital Contributed in Excess of par	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non- controlling interest
		Series A	Series B	Series C	Series D					
<b>January 1, 2016</b>	<b>\$ 784,630</b>	<b>\$ 46</b>	<b>\$ 35</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$69,197</b>	<b>\$1,476,397</b>	<b>\$(4,193)</b>	<b>\$(909,476)</b>	<b>\$152,624</b>
Net loss	(12,713)	—	—	—	—	—	—	—	(9,663)	(3,050)
Other comprehensive income	6,510	—	—	—	—	—	—	5,815	—	695
Shares issued upon redemption of Operating Partnership Units	—	—	—	—	—	26	574	—	—	(600)
Shares issued under employee compensation plans, net of shares retired	(889)	—	—	—	—	330	(1,219)	—	—	—
Amortization of deferred compensation	6,035	—	—	—	—	—	6,035	—	—	—
Dividends paid to Series A preferred shareholders (\$2.0625 per share)	(9,487)	—	—	—	—	—	—	—	(9,487)	—
Dividends paid to Series B preferred shareholders (\$1.8438 per share)	(6,361)	—	—	—	—	—	—	—	(6,361)	—
Dividends paid to common shareholders (\$0.84 per share)	(58,372)	—	—	—	—	—	—	—	(58,372)	—
Noncontrolling interests: Distributions paid to Operating Partnership unit holders (\$0.84 per unit)	(6,991)	—	—	—	—	—	—	—	—	(6,991)
Other contributions from noncontrolling interest, net	44	—	—	—	—	—	—	—	—	44
<b>December 31, 2016</b>	<b>702,406</b>	<b>46</b>	<b>35</b>	<b>—</b>	<b>—</b>	<b>69,553</b>	<b>1,481,787</b>	<b>1,622</b>	<b>(993,359)</b>	<b>142,722</b>
Net loss	(32,848)	—	—	—	—	—	—	—	(25,953)	(6,895)
Other comprehensive income	6,274	—	—	—	—	—	—	5,604	—	670
Preferred shares issued in Series C and D preferred share offerings, net	286,848	—	—	69	50	—	286,729	—	—	—
Preferred shares redeemed	(115,000)	(46)	—	—	—	—	(110,851)	—	(4,103)	—
Amortization of deferred compensation	5,709	—	—	—	—	—	5,709	—	—	—
Shares issued upon redemption of Operating Partnership Units	—	—	—	—	—	39	375	—	—	(414)
Shares issued under employee compensation plan, net of shares retired	608	—	—	—	—	391	217	—	—	—
Dividends paid to Series A preferred shareholders (\$1.7016 per share)	(7,827)	—	—	—	—	—	—	—	(7,827)	—
Dividends paid to Series B preferred shareholders (\$1.8438 per share)	(6,361)	—	—	—	—	—	—	—	(6,361)	—
Dividends paid to Series C preferred shareholders (\$1.5900 per share)	(10,971)	—	—	—	—	—	—	—	(10,971)	—

**CONSOLIDATED STATEMENTS OF EQUITY**  
 FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(in thousands of dollars, except per share amounts)	Total Equity	PREIT Shareholders								
		Preferred Shares \$.01 par				Shares of Beneficial Interest, \$1.00 par	Capital Contributed in Excess of par	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non- controlling interest
		Series A	Series B	Series C	Series D					
Dividends paid to Series D preferred shareholders (\$0.4488 per share)	(2,244)	—	—	—	—	—	—	—	(2,244)	—
Dividends paid to common shareholders (\$0.84 per share)	(58,651)	—	—	—	—	—	—	—	(58,651)	—
Noncontrolling interests: Distributions paid to Operating Partnership unit holders (\$0.84 per unit)	(6,970)	—	—	—	—	—	—	—	—	(6,970)
Other contributions from noncontrolling interest, net	18	—	—	—	—	—	—	—	—	18
<b>December 31, 2017</b>	<b>760,991</b>	<b>—</b>	<b>35</b>	<b>69</b>	<b>50</b>	<b>69,983</b>	<b>1,663,966</b>	<b>7,226</b>	<b>(1,109,469)</b>	<b>129,131</b>
Net loss	(126,503)	—	—	—	—	—	—	—	(110,329)	(16,174)
Other comprehensive loss	(2,034)	—	—	—	—	—	—	(1,818)	—	(216)
Shares issued under employee compensation plan, net of shares retired	663	—	—	—	—	512	151	—	—	—
Amortization of deferred compensation	6,925	—	—	—	—	—	6,925	—	—	—
Dividends paid to Series B preferred shareholders (\$1.8438 per share)	(6,361)	—	—	—	—	—	—	—	(6,361)	—
Dividends paid to Series C preferred shareholders (\$1.80 per share)	(12,420)	—	—	—	—	—	—	—	(12,420)	—
Dividends paid to Series D preferred shareholders (\$1.719 per share)	(8,594)	—	—	—	—	—	—	—	(8,594)	—
Dividends paid to common shareholders (\$0.84 per share)	(59,145)	—	—	—	—	—	—	—	(59,145)	—
Noncontrolling interests: Distributions paid to Operating Partnership unit holders (\$0.84 per unit)	(6,949)	—	—	—	—	—	—	—	—	(6,949)
Other distributions to noncontrolling interest, net	(22)	—	—	—	—	—	—	—	—	(22)
<b>December 31, 2018</b>	<b>\$546,551</b>	<b>\$ —</b>	<b>\$35</b>	<b>\$69</b>	<b>\$50</b>	<b>\$70,495</b>	<b>\$1,671,042</b>	<b>\$5,408</b>	<b>\$(1,306,318)</b>	<b>\$105,770</b>

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
(in thousands of dollars)	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net loss	\$ (126,503)	\$ (32,848)	\$ (12,713)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	121,644	119,441	125,426
Amortization	14,554	12,057	3,981
Straight-line rent adjustments	(1,989)	(2,686)	(2,602)
Provision for doubtful accounts	2,461	1,763	1,357
Non-cash lease termination revenue	(4,200)	—	—
Gain on insurance proceeds, net	(689)	—	—
Amortization of deferred compensation	6,925	5,709	6,035
Loss on hedge ineffectiveness	—	—	143
Gain on sales of interests in real estate and non-operating real estate, net	(9,625)	(909)	(23,402)
Equity in income of partnerships	(11,375)	(14,367)	(18,477)
Gain on sale of real estate by equity method investee	(2,772)	(6,539)	—
Cash distributions from partnerships	9,421	16,849	22,094
Amortization of historic tax credits	(829)	(1,768)	(1,768)
Impairment of real estate assets	129,365	55,793	62,603
Impairment of mortgage loan receivable	8,122	—	—
Change in assets and liabilities:			
Net change in other assets	(5,998)	(5,652)	4,566
Net change in other liabilities	6,352	(4,752)	(12,312)
<b>Net cash provided by operating activities</b>	<b>134,864</b>	<b>142,091</b>	<b>154,931</b>
<b>Cash flows from investing activities:</b>			
Investments in consolidated real estate acquisitions	(17,611)	—	—
Cash proceeds from sales of real estate	13,730	77,778	154,758
Proceeds from insurance claims related to damage to real estate assets	700	—	—
Cash distributions from partnerships of proceeds from real estate sold	19,727	30,265	—
Distribution of refinancing proceeds from equity method investee	123,000	35,221	—
Additions to construction in progress	(75,649)	(116,550)	(88,161)
Investments in real estate improvements	(35,170)	(51,949)	(49,942)
Additions to leasehold improvements and corporate fixed assets	(160)	(683)	(522)
Investments in equity method investees	(58,112)	(73,434)	(14,910)
Capitalized leasing costs	(12,022)	(6,066)	(6,101)
<b>Net cash used in investing activities</b>	<b>(41,567)</b>	<b>(105,418)</b>	<b>(4,878)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of preferred shares	—	286,847	—
Redemption of Series A Preferred Shares	—	(115,000)	—
Repayments under revolving facilities	12,000	56,000	82,000
Proceeds from mortgage loans	10,185	—	139,000
Repayment of mortgage loans	—	(150,000)	(280,327)
Principal installments on mortgage loans	(18,655)	(17,945)	(17,868)
Payment of deferred financing costs	(5,529)	(71)	(3,337)
Value of shares of beneficial interest issued	1,410	2,085	1,288
Dividends paid to common shareholders	(59,145)	(58,651)	(58,372)
Dividends paid to preferred shareholders	(27,375)	(27,403)	(15,848)
Distributions paid to Operating Partnership unit holders and noncontrolling interest	(6,949)	(6,970)	(6,991)
Value of shares retired under equity incentive plans, net of shares issued	(747)	(1,477)	(2,177)
<b>Net cash used in financing activities</b>	<b>(94,805)</b>	<b>(32,585)</b>	<b>(162,632)</b>
Net change in cash, cash equivalents, and restricted cash	(1,508)	4,088	(12,579)
Cash, cash equivalents, and restricted cash, beginning of period	33,953	29,865	42,444
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 32,445</b>	<b>\$ 33,953</b>	<b>\$ 29,865</b>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

**NATURE OF OPERATIONS** Pennsylvania Real Estate Investment Trust (“PREIT”), a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (“REITs”) in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of December 31, 2018, our portfolio consisted of a total of 27 properties located in nine states, including 21 shopping malls, four other retail properties and two development or redevelopment properties. We have one property under redevelopment classified as “retail” (redevelopment of The Gallery at Market East into Fashion District Philadelphia). This redevelopment is expected to open in 2019 and stabilize in 2021. One property in our portfolio is classified as under development, however we do not currently have any activity occurring at this property. The above property counts do not include undeveloped land parcels located in Gainesville, Florida and New Garden Township, Pennsylvania because these properties were classified as “held for sale” as of December 31, 2018.

We hold our interest in our portfolio of properties through our operating partnership, PREIT Associates, L.P. (“PREIT Associates” or the “Operating Partnership”). We are the sole general partner of the Operating Partnership and, as of December 31, 2018, held an 89.5% controlling interest in the Operating Partnership, and consolidated it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the Operating Partnership's partnership agreement, each of its limited partners has the right to redeem such partner's units of limited partnership interest in the Operating Partnership (“OP Units”) for cash or, at our election, we may acquire such OP Units in exchange for our common shares on a one-for-one basis, in some cases beginning one year following the respective issue date of the OP Units, and in other cases immediately. If all of the outstanding OP Units held by limited partners had been redeemed for cash as of December 31, 2018, the total amount that would have been distributed would have been \$49.1 million, which is calculated using our December 31, 2018 closing share price on the New York Stock Exchange of \$5.94 multiplied by the number of outstanding OP Units held by limited partners, which was 8,272,635 as of December 31, 2018.

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

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate our consolidated operations on a geographic basis. Due to the nature of our operating properties, which involve retail shopping, we have concluded that our individual properties have similar economic characteristics and meet all other aggregation criteria. Accordingly, we have aggregated our individual properties into one reportable segment. In addition, no single tenant accounts for 10% or more of our consolidated revenue, and none of our properties are located outside the United States.

**CONSOLIDATION** We consolidate our accounts and the accounts of the Operating Partnership and other controlled subsidiaries, and we reflect the remaining interest in such entities as noncontrolling interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

The operating partnership meets the criteria as a variable interest entity. The Company's significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company's debt is also an obligation of the Operating Partnership.

**PARTNERSHIP INVESTMENTS** We account for our investments in partnerships that we do not control using the equity method of accounting. These investments, each of which represents a 25% to 50% noncontrolling ownership interest at December 31, 2018, are recorded initially at our cost, and subsequently adjusted for our share of net equity in income and cash contributions and distributions. We do not control any of these equity method investees for the following reasons:

- Except for two properties that we co-manage with our partner, the other entities are managed on a day-to-day basis by one of our other partners as the managing general partner in each of the respective partnerships. In the case of the co-managed properties, all decisions in the ordinary course of business are made jointly.
- The managing general partner is responsible for establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.
- All major decisions of each partnership, such as the sale, refinancing, expansion or rehabilitation of the property, require the approval of all partners.
- Voting rights and the sharing of profits and losses are in proportion to the ownership percentages of each partner.

We do not have a direct legal claim to the assets, liabilities, revenues or expenses of the unconsolidated partnerships beyond our rights as an equity owner, in the event of any liquidation of such entity, and our rights as a tenant in common owner of certain unconsolidated properties.

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

We hold legal title to a property owned by one of our unconsolidated partnerships through a tenancy in common arrangement. For this property, such legal title is held by us and another entity, and each has an undivided interest in title to the property. With respect to this property, under the applicable agreement between us and the other entity with an ownership interest, we and such other entity have joint control because decisions regarding matters such as the sale, refinancing, expansion or rehabilitation of the property require the approval of both us and the other entity owning an interest in the property. Hence, we account for this property like our other unconsolidated partnerships using the equity method of accounting. The balance sheet items arising from the properties appear under the caption “Investments in partnerships, at equity.”

For further information regarding our unconsolidated partnerships, see note 3.



**STATEMENTS OF CASH FLOWS** We consider all highly liquid short-term investments with a maturity of three months or less at purchase or acquisition to be cash equivalents. At December 31, 2018 and 2017, cash and cash equivalents and restricted cash totaled \$32.4 million and \$34.0 million, respectively, and included tenant security deposits of \$2.3 million and \$2.4 million, respectively. Cash paid for interest was \$58.4 million, \$55.4 million and \$67.9 million for the years ended December 31, 2018, 2017 and 2016, respectively, net of amounts capitalized of \$6.4 million, \$7.6 million and \$3.2 million, respectively.

The following table provides a summary of cash, cash equivalents, and restricted cash within the statement of cash flows as of December 31, 2018, 2017, and 2016,

	As of December 31,		
(in thousands of dollars)	2018	2017	2016
Cash and cash equivalents	\$18,084	\$ 15,348	\$ 9,803
Restricted cash included in other assets	14,361	18,605	20,062
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$32,445	\$33,953	\$29,865

Our restricted cash consists of cash held in escrow by banks for real estate taxes and other purposes.

**SIGNIFICANT NON-CASH TRANSACTIONS** During the second quarter of 2018, we received the building and improvements formerly occupied by one of our tenants as part of the consideration for the termination of that tenant’s lease. We recorded non-cash lease termination income of \$4.2 million in connection with this transaction, which we determined was the fair value of the building and improvements.

Paydowns of the 2014 5-Year Term Loan and the 2015 5-Year Term Loan of \$150.0 million each were made in the year ended December 31, 2018, which were directly paid from the 2018 Term Loan Facility borrowing and are considered to be non-cash transactions.

During 2017, a \$150.0 million paydown of the 2013 Revolving Facility was made, which was directly paid from an additional borrowing from our 2014 7-Year Term Loan, and is considered to be a non-cash transaction.

In our statement of cash flows, we report cash flows on our revolving facilities on a net basis. Aggregate borrowings on our revolving facilities were \$65.0 million, \$309.0 million and \$290.0 million, and aggregate repayments were \$53.0 million, \$403.0 million and \$208.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Accrued construction costs increased by \$15.7 million in the year ended December 31, 2018, decreased by \$8.3 million in the year ended December 31, 2017 and increased by \$13.4 million in the year ended December 31, 2016, representing non-cash changes in construction in progress.

**ACCOUNTING POLICIES USE OF ESTIMATES** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates. We believe that our most significant and subjective

accounting estimates and assumptions are those relating to asset impairment, fair value and accounts receivable reserves.

Our management makes complex or subjective assumptions and judgments in applying its critical accounting policies. In making these judgments and assumptions, our management considers, among other factors, events and changes in property, market and economic conditions, estimated future cash flows from property operations, and the risk of loss on specific accounts or amounts.

**REVENUE RECOGNITION** We derive over 95% of our revenue from tenant rent and other tenant-related activities. Tenant rent includes base rent, percentage rent, expense reimbursements (such as reimbursements of costs of common area maintenance (“CAM”), real estate taxes and utilities), and the amortization of above-market and below-market lease intangibles (as described below under “Intangible Assets”). We record base rent on a straight-line basis, which means that the monthly base rent revenue according to the terms of our leases with our tenants is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. When tenants vacate prior to the end of their lease, we accelerate amortization of any related unamortized straight-line rent balances, and unamortized above-market and below-market intangible balances are amortized as a decrease or increase to real estate revenue, respectively. The straight-line rent adjustment increased revenue by \$2.0 million, \$2.7 million and \$2.6 million in the years ended December 31, 2018, 2017 and 2016, respectively. The straight-line rent receivable balances included in tenant and other receivables on the accompanying consolidated balance sheet as of December 31, 2018 and 2017 were \$27.2 million and \$25.4 million, respectively.

Percentage rent represents rental revenue that the tenant pays based on a percentage of its sales, either as a percentage of its total sales or as a percentage of sales over a certain threshold. In the latter case, we do not record percentage rent until the sales threshold has been reached.

Revenue for rent received from tenants prior to their due dates is deferred until the period to which the rent applies.

In addition to base rent, certain lease agreements contain provisions that require tenants to reimburse a fixed or pro rata share of certain CAM costs, real estate taxes and utilities. Tenants generally make monthly expense reimbursement payments based on a budgeted amount determined at the beginning of the year. During the year, our income increases or decreases based on actual expense levels and changes in other factors that influence the reimbursement amounts, such as occupancy levels. As of December 31, 2018 and 2017, our tenant accounts receivable included accrued income of \$1.9 million and \$3.1 million, respectively, because actual reimbursable expense amounts eligible to be billed to tenants under applicable contracts exceeded amounts actually billed. We record reimbursement revenue from tenants whose leases include fixed CAM provisions in accordance with the contractual terms of the respective leases.

Certain lease agreements contain co-tenancy clauses that can change the amount of rent or the type of rent that tenants are required to pay, or, in some cases, can allow the tenant to terminate their lease, in the event that certain events take place, such as a decline in property occupancy levels below certain defined levels or the vacating of an anchor store. Co-tenancy clauses do not generally have any retroactive effect when they are triggered. The effect of co-tenancy clauses is applied on a prospective basis to recognize the new rent that is in effect.

Payments made to tenants as inducements to enter into a lease are treated as deferred costs that are amortized as a reduction of rental revenue over the term of the related lease.

Lease termination fee revenue is recognized in the period when a termination agreement is signed, collectibility is assured, and the tenant has vacated the space. In the event that a tenant is in bankruptcy when the termination agreement is signed, termination fee income is deferred and recognized when it is received.

We also generate revenue by providing management services to third parties, including property management, brokerage, leasing and development. Management fees generally are a percentage of managed property revenue or cash receipts. Leasing fees are earned upon the consummation of new leases. Development fees are earned over the time period of the development activity and are recognized on the percentage of completion method. These activities are collectively included in “Other income” in the consolidated statements of operations.

**FAIR VALUE** Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under relevant accounting authority.

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

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

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

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

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

**FINANCIAL INSTRUMENTS** Carrying amounts reported on the consolidated balance sheet for cash and cash equivalents, tenant and other receivables, accrued expenses, other liabilities and the 2018 Revolving Facility approximate fair value due to the short-term nature of these instruments. Most of our variable rate debt is subject to interest rate derivative instruments that have effectively fixed the interest rates on the underlying debt. The estimated fair value for fixed rate debt, which is calculated for disclosure purposes, is based on the borrowing rates available to us for fixed rate mortgage loans with similar terms and maturities.

**IMPAIRMENT OF ASSETS** Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable, which is referred to as a “triggering event.” In connection with our review of our long-lived assets for impairment, we utilize qualitative and quantitative factors in order to estimate fair value. The significant qualitative factors that we use include age and condition of the property, market conditions in the property’s trade area, competition with other shopping centers within the property’s trade area and the creditworthiness and performance of the property’s tenants. The significant quantitative factors that we use include historical and forecasted financial and operating information relating to the property, such as net operating income, occupancy statistics, vacancy projections and tenants’ sales levels. Our fair value assumptions relating to real estate assets are within Level 3 of the fair value hierarchy.

If there is a triggering event in relation to a property to be held and used, we will estimate the aggregate future cash flows, net of estimated capital expenditures, to be generated by the property, undiscounted and without interest charges. In addition, this estimate may consider a probability weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or when a range of possible values is estimated.

The determination of undiscounted cash flows requires significant estimates by our management, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in the anticipated action to be taken with respect to the property could affect the determination of whether an impairment exists, and the effects of such changes could materially affect our net income. If the estimated undiscounted cash flows are less than the carrying value of the property, the carrying value is written down to its fair value. Assessment of our ability to recover certain lease related costs must be made when we have a reason to believe that a tenant might not be able to perform under the terms of the lease as originally expected. This requires us to make estimates as to the recoverability of such costs.

An other-than-temporary impairment of an investment in an unconsolidated joint venture is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value. To the extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is recorded as a reduction to income.

**MANAGEMENT’S RESPONSIBILITY TO EVALUATE THE COMPANY’S ABILITY TO CONTINUE AS A GOING CONCERN** When preparing financial statements for each annual and interim reporting period, management has the responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. No such conditions or events were identified as of the issuance date of the financial statements contained in this Annual Report.

**REAL ESTATE** Land, buildings, fixtures and tenant improvements are recorded at cost and stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to operations as incurred. Renovations or replacements, which improve or extend the life of an asset, are capitalized and depreciated over their estimated useful lives. For financial reporting purposes, properties are depreciated using the straight-line method over the estimated useful lives of the assets.



The estimated useful lives are as follows:

Buildings	20-40 years
Land improvements	15 years
Furniture/fixtures	3-10 years
Tenant improvements	Lease term

We are required to make subjective assessments as to the useful lives of our real estate assets for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those assets based on various factors, including industry standards, historical experience and the condition of the asset at the time of acquisition. These assessments affect our annual net income. If we were to determine that a different estimated useful life was appropriate for a particular asset, it would be depreciated over the newly estimated useful life, and, other things being equal, result in changes in annual depreciation expense and annual net income.

We recognize gains from sales of real estate properties and interests in partnerships when an enforceable contract is in place, control of the asset transfers to a buyer and it is probable that we will collect the consideration due in exchange for transferring the asset.

**REAL ESTATE ACQUISITIONS** We account for our property acquisitions by allocating the purchase price of a property to the property's assets based on management's estimates of their fair value. Debt assumed in connection with property acquisitions is recorded at fair value at the acquisition date, and any resulting premium or discount is amortized through interest expense over the remaining term of the debt, resulting in a non-cash decrease (in the case of a premium) or increase (in the case of a discount) in interest expense. The determination of the fair value of intangible assets requires significant estimates by management and considers many factors, including our expectations about the underlying property, the general market conditions in which the property operates and conditions in the economy. The judgment and subjectivity inherent in such assumptions can have a significant effect on the magnitude of the intangible assets or the changes to such assets that we record.

**INTANGIBLE ASSETS** Our intangible assets on the accompanying consolidated balance sheets as of December 31, 2018 and 2017 each included \$5.2 million (in each case, net of \$1.1 million of amortization expense recognized prior to January 1, 2002) of goodwill recognized in connection with the acquisition of The Rubin Organization in 1997. Approximately \$1.5 million of this goodwill balance is allocated to three equity method investees with negative investment balances.

Changes in the carrying amount of goodwill for the three years ended December 31, 2018 were as follows:

(in thousands of dollars)	Basis	Accumulated Amortization	Total
<b>January 1, 2016</b>	<b>\$ 6,322</b>	<b>\$ (1,073)</b>	<b>\$ 5,249</b>
Goodwill divested	—	—	—
<b>December 31, 2016</b>	<b>6,322</b>	<b>(1,073)</b>	<b>5,249</b>
Goodwill divested	—	—	—
<b>December 31, 2017</b>	<b>6,322</b>	<b>(1,073)</b>	<b>5,249</b>
Goodwill divested	—	—	—
<b>December 31, 2018</b>	<b>\$ 6,322</b>	<b>\$ (1,073)</b>	<b>\$ 5,249</b>

We allocate a portion of the purchase price of a property to intangible assets. Our methodology for this allocation includes estimating an “as-if vacant” fair value of the physical property, which is allocated to land, building and improvements. The difference between the purchase price and the “as-if vacant” fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value, including operating covenants.

The value of in-place leases is estimated based on the value associated with the costs avoided in originating leases comparable to the acquired in-place leases, as well as the value associated with lost rental revenue during the assumed lease-up period. The value of in-place leases is amortized as real estate amortization over the remaining lease term.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimates of fair market lease rates for comparable in-place leases, based on factors such as historical experience, recently executed transactions and specific property issues, measured over a period equal to the remaining non-cancelable term of the lease. Above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. Below-market lease values are amortized as an increase to rental income over the remaining terms of the respective leases, including any below-market optional renewal periods, and are included in “Accrued expenses and other liabilities” in the consolidated balance sheets.

We allocate purchase price to customer relationship intangibles based on management's assessment of the fair value of such relationships.

The following table presents our intangible assets and liabilities, net of accumulated amortization, as of December 31, 2018 and 2017:

(in thousands of dollars)	As of December 31,	
	2018	2017
Intangible Assets:		
Value of lease intangibles, net	\$ 12,594	\$ 12,369
Above-market lease intangibles, net	25	75
<b>Subtotal</b>	<b>12,619</b>	<b>12,444</b>
Goodwill, net	5,249	5,249
<b>Total intangible assets</b>	<b>\$17,868</b>	<b>\$ 17,693</b>
Intangible Liabilities		
Below-market lease intangibles, net	\$ 403	\$ 636
Above-market ground lease	5,484	5,590
<b>Total intangible liabilities</b>	<b>\$ 5,887</b>	<b>\$ 6,226</b>

Amortization of lease intangibles was \$2.4 million, \$2.0 million and \$2.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Net amortization of above-market and below-market lease intangibles increased revenue by \$0.2 million, \$0.1 million and \$0.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. Amortization of above-market ground lease intangibles increased revenue by \$0.1 million for each of the years ended December 31, 2018, 2017 and 2016, respectively. In the normal course of business, our intangible assets will amortize in the next five years and thereafter as follows:

(in thousands of dollars) For the Year Ending December 31,	Value of Lease Intangibles	Customer Relationship Value	Above/(Below) Market Leases, net	Above Market Ground Leases
2019	\$ 1,852	\$ 945	\$ (73)	\$ (106)
2020	1,819	77	(76)	(106)
2021	1,697	—	(56)	(106)
2022	1,561	—	(19)	(106)
2023	1,522	—	(19)	(106)
2024 and thereafter	3,121	—	(135)	(4,954)
<b>Total</b>	<b>\$11,572</b>	<b>\$ 1,022</b>	<b>\$(378)</b>	<b>\$(5,484)</b>

**ASSETS CLASSIFIED AS HELD FOR SALE** The determination to classify an asset as held for sale requires significant estimates by us about the property and the expected market for the property, which are based on factors including recent sales of comparable properties, recent expressions of interest in the property, financial metrics of the property and the physical condition of the property. We must also determine if it will be possible under those market conditions to sell the property for an acceptable price within one year. When assets are identified by our management as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs, of such assets. We generally consider operating properties to be held for sale when they meet criteria such as whether the sale transaction has been approved by the appropriate level of management and there are no known material contingencies relating to the sale such that the sale is probable and is expected to qualify for recognition as a completed sale within one year. If the expected net sales price of the asset that has been identified as held for sale is less than the net book value of the asset, the asset is written down to fair value less the cost to sell. Assets and liabilities related to assets classified as held for sale are presented separately in the consolidated balance sheet. If we determine that a property no longer meets the held-for-sale criteria, we reclassify the property's assets and liabilities to their original locations on the consolidated balance sheet and record depreciation and amortization expense for the period that the property was in held-for-sale status.

In June 2018, we determined that the land parcel in Gainesville, Florida met the criteria to classify it as held for sale. This determination was made because the property is under contract, and we believe that it is likely that we will complete a sale of the property within one year.

In December 2018, we determined that the land parcel in New Garden Township, Pennsylvania met the criteria to classify it as held for sale. This determination was made because we have been in advanced negotiations with a buyer and we believe that it is likely that we will complete a sale of the property within one year.

**CAPITALIZATION OF COSTS** Costs incurred in relation to development and redevelopment projects for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Costs incurred for such items after the property is substantially complete and ready for its intended use are charged to expense as incurred. Capitalized costs, as well as tenant inducement amounts and internal and external commissions, are recorded in construction in progress. We capitalize a portion of development department employees' compensation and benefits related to time spent involved in development and redevelopment projects. We also capitalize interest on equity method investments while the investee is engaged in activities neces-

sary to commence its planned principal activities.

We capitalize payments made to obtain options to acquire real property. Other related costs that are incurred before acquisition that are expected to have ongoing value to the project are capitalized if the acquisition of the property is probable. If the property is acquired, other expenses related to the acquisition are recorded to project costs and other expenses. When it is probable that the property will not be acquired, capitalized pre-acquisition costs are charged to expense.

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

The following table summarizes our capitalized salaries, commissions and benefits, real estate taxes and interest for the years ended December 31, 2018, 2017 and 2016:

(in thousands of dollars)	For the Year Ended December 31,		
	2018	2017	2016
Development/Redevelopment:			
Salaries and benefits	\$ 1,380	\$ 1,296	\$ 1,138
Real estate taxes	\$ 1,198	\$ 1,035	\$ 246
Interest	\$ 6,395	\$ 7,620	\$ 3,191
Leasing:			
Salaries, commissions and benefits	\$ 7,022	\$ 6,066	\$ 6,101

**RECEIVABLES** We make estimates of the collectibility of our tenant receivables related to tenant rent including base rent, straight-line rent, expense reimbursements and other revenue or income. We specifically analyze accounts receivable, including straight-line rent receivable, historical bad debts, customer creditworthiness and current economic and industry trends, when evaluating the adequacy of the allowance for doubtful accounts. The receivables analysis places particular emphasis on past-due accounts and considers the nature and age of the receivables, the payment history and financial condition of the payor, the basis for any disputes or negotiations with the payor, and other information that could affect collectibility. In addition, with respect to tenants in bankruptcy, we make estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectibility of the related receivable. In some cases, the time required to reach an ultimate resolution of these claims can exceed one year. For straight-line rent, the collectibility analysis considers the probability of collection of the unbilled deferred rent receivable, given our experience regarding such amounts.



**INCOME TAXES** We have elected to qualify as a real estate investment trust, or REIT, under Sections 856-860 of the Internal Revenue Code of 1986, as amended, and intend to remain so qualified.

In some instances, we follow methods of accounting for income tax purposes that differ from generally accepted accounting principles. Earnings and profits, which determine the taxability of distributions to shareholders, will differ from net income or loss 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 our net income or loss for financial reporting purposes and for tax reporting purposes.

We could be subject to a federal excise tax computed on a calendar year basis if we were not in compliance with the distribution provisions of the Internal Revenue Code. We have, in the past, distributed a substantial portion of our taxable income in the subsequent fiscal year and might also follow this policy in the future. No provision for excise tax was made for the years ended December 31, 2018, 2017 and 2016, as no excise tax was due in those years.

The per share distributions paid to common shareholders had the following components for the years ended December 31, 2018, 2017 and 2016:

	For the Year Ended December 31,		
	2018	2017	2016
Ordinary income	\$ 0.25	\$ —	\$ —
Non-dividend distribution	0.59	0.84	0.84
<b>Per-share distributions</b>	<b>\$ 0.84</b>	<b>\$ 0.84</b>	<b>\$ 0.84</b>

The per share distributions paid to Series A, Series B, Series C and Series D preferred shareholders had the following components for the years ended December 31, 2018, 2017 and 2016:

	For the Year Ended December 31,		
	2018	2017	2016
Series A Preferred Share Dividends <sup>(1)</sup>			
Ordinary income		\$ —	\$ —
Non-dividend distributions		1.70	2.06
		<b>\$ 1.70</b>	<b>\$ 2.06</b>
Series B Preferred Share Dividends			
Ordinary income	\$ 1.84	\$ —	\$ —
Non-dividend distributions	—	1.84	1.84
	<b>\$ 1.84</b>	<b>\$ 1.84</b>	<b>\$ 1.84</b>
Series C Preferred Share Dividends			
Ordinary income	\$ 1.80	\$ —	\$ N/A
Non-dividend distributions	—	1.59	N/A
	<b>\$ 1.80</b>	<b>\$ 1.59</b>	<b>\$ N/A</b>
Series D Preferred Share Dividends			
Ordinary income	\$ 1.72	\$ —	\$ N/A
Non-dividend distributions	—	0.45	N/A
	<b>\$ 1.72</b>	<b>\$ 0.45</b>	<b>\$ N/A</b>

<sup>(1)</sup> The Series A Preferred Shares were redeemed in 2017.

We follow accounting requirements that prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. We must determine whether it is “more likely than not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the “more likely than not” recognition threshold, the position is measured at the largest amount of benefit that is greater than 50% likely to be realized upon settlement to determine the amount of benefit to recognize in the consolidated financial statements.

PRI is subject to federal, state and local income taxes. We had a nominal federal income tax provision/benefit in the year ended December 31, 2018, and no provision or benefit for federal or state income taxes in the years ended December 31, 2017 and 2016. We had net deferred tax assets of \$16.7 million and \$18.0 million for the years ended December 31, 2018 and 2017, respectively. The deferred tax assets are primarily the result of net operating losses. A valuation allowance has been established for the full amount of the net deferred tax assets, since it is more likely than not that these assets will not be realized based on recent earnings history for our taxable REIT subsidiaries. The deferred tax assets were remeasured for the year ended December 31, 2017 to account for the tax provisions in H.R. 1 (the Tax Cuts and Jobs Act), which was signed into law on December 22, 2017.

**DEFERRED FINANCING COSTS** Deferred financing costs include fees and costs incurred to obtain financing. Such costs are amortized to interest expense over the terms of the related indebtedness. Interest expense is determined in a manner that approximates the effective interest method in the case of costs associated with mortgage loans, or on a straight line basis in the case of costs associated with our 2018 Revolving Facility (and in prior years, our 2013 Revolving Facility) and Term Loans (see note 4).

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

Currently, we use interest rate swaps to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

Derivative financial instruments are recorded on the consolidated balance sheet as assets or liabilities based on the fair value of the instrument. Changes in the fair value of derivative financial instruments are recognized currently in earnings, unless the derivative financial instrument meets the criteria for hedge accounting. If the derivative financial instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the instrument are deferred in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A contract that is designated as a hedge of an anticipated transaction that is no longer likely to occur is immediately recognized in earnings.

The anticipated transaction to be hedged must expose us to interest rate risk, and the hedging instrument must reduce the exposure and meet the requirements for hedge accounting. We must formally designate the

instrument as a hedge and document and assess the effectiveness of the hedge at inception and on a quarterly basis. Interest rate hedges that are designated as cash flow hedges are designed to mitigate the risks associated with future cash outflows on debt.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and our counterparties. As of December 31, 2018, we have assessed the significance of the effect of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

**OPERATING PARTNERSHIP UNIT REDEMPTIONS** Shares issued upon redemption of OP Units are recorded at the book value of the OP Units surrendered.

**SHARE-BASED COMPENSATION EXPENSE** Share-based payments to employees and non-employee trustees, including grants of restricted shares and share options, are valued at fair value on the date of grant, and are expensed over the applicable vesting period.

**EARNINGS PER SHARE** The difference between basic weighted average shares outstanding and diluted weighted average shares outstanding is the dilutive effect of common share equivalents. Common share equivalents consist primarily of shares that are issued under employee share compensation programs and outstanding share options whose exercise price is less than the average market price of our common shares during these periods.

**NEW ACCOUNTING DEVELOPMENTS LEASE ACCOUNTING RELATED** In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842), which will result in lessees recognizing most leased assets and corresponding lease liabilities in their financial statements. Leases of land and other arrangements where we are the lessee will be recognized on our balance sheet. Lessor accounting will remain substantially similar to current accounting under ASU 840. Subsequent to the issuance of ASU 2016-02, the FASB has issued additional clarifying guidance as set forth in the following paragraphs. Topic 842, incorporating all associated guidance, became effective on January 1, 2019.

In December 2018, the FASB issued ASU 2018-20, Leases (Topic 842): *Narrow-Scope Improvements for Lessors*. The purpose of this guidance was to address certain issues facing lessors when applying the new leasing standard. The guidance clarified, among other things, that lessors should exclude lessor costs from revenue, such as real estate taxes paid by lessees directly to third parties.

In November 2018, the FASB issued ASU 2018-19, *Codification of Improvements to Topic 326, Financial Instruments — Credit Losses*. This guidance clarified, among other things, that receivables arising from operating leases are not within the scope of the credit losses standards, but rather, should be accounted for in accordance with the leases standard.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. This guidance provided entities with an additional (and optional) transition method for the new lease accounting standard. Under this new transition method, an entity is permitted to initially adopt the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The guidance also provides lessors with a series of practical expedients to apply when adopting the new lease accounting standard.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. These amendments affect narrow aspects of the guidance issued in ASU 2016-02. We adopted ASU 2016-02, ASU 2018-10, ASU 2018-11, ASU 2018-19 and ASU 2018-20 effective January 1, 2019 using the optional transition method and the following practical expedients:

- We have elected to not separate non-lease components such as CAM from the associated lease component (base rent). Instead, will account for the lease and non-lease components as a single component because such non-lease components would otherwise be accounted for under the new revenue guidance (ASC 606) and both (1) the timing and pattern of transfer are the same for the nonlease components and associated lease component and (2) the lease component, if accounted for separately, would be classified as an operating lease.

- We have also elected the package of practical expedients that allows us to not reassess whether any expired or existing contracts are or contain leases; to not reassess the lease classification for any expired or existing leases; and to not reassess initial direct costs for any existing leases.

For leases under which the Company is a lessee (effective January 1, 2019), we will record a right of use asset estimated to be between \$23.0 million and \$27.0 million and corresponding lease liability for all leases previously accounted for as operating leases under ASU 840. The Company will derecognize an unfavorable ground lease liability of \$5.5 million and reduce the corresponding ROU asset by the same amount.

Effective January 1, 2019, the Company will recognize fixed CAM revenues on a straight-line basis; previously, such amounts were recognized as billed in accordance with the terms of the respective leases.

For leases under which the Company is a lessor, certain leasing costs that were previously capitalized under ASC 840 will be recorded as period costs under ASC 842. Such costs totaled approximately \$5.1 million, \$4.6 million and \$4.6 million for the years ended December 31, 2018, 2017 and 2016, respectively. We will continue to amortize previously capitalized initial direct costs over the remaining terms of the associated leases.

**REVENUE ACCOUNTING RELATED** On January 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers*. ASC 606 provides a single comprehensive model to use in accounting for revenue arising from contracts with customers, and gains and losses arising from transfers of non-financial assets including sales of property and equipment, real estate, and intangible assets. We adopted ASC 606 for all applicable contracts using the modified retrospective method, which would have required a cumulative-effect adjustment, if any, as of the date of adoption. The adoption of ASC 606 did not have a material impact on our consolidated financial statements as of the date of adoption, and therefore a cumulative-effect adjustment was not required.

The majority of our revenues are derived from leases and are not subject to ASC 606; rather, they were governed by ASC 840 through December 31, 2018 and will be subject to ASC 842, which we adopted effective



January 1, 2019. Property operating revenues are disaggregated on the consolidated statement of operations into the categories of base rent, expense reimbursements, percentage rent, lease termination revenue and other real estate revenue, primarily in the amounts that correspond to these different categories as documented in various tenant leases.

The types of our revenues that were impacted by ASC 606 include property management and development revenues for services performed for third-party owned properties and for certain of our joint ventures, and certain billings to tenants for reimbursement of property marketing expenses. The amount and timing of the revenues that are impacted by ASC 606 were consistent with our previous measurement and pattern of recognition.

Revenue from the reimbursement of marketing expenses is generated through tenant leases that require tenants to reimburse a defined amount of property marketing expenses. Our contractual performance obligations are fulfilled as marketing expenditures are made. Tenant payments are received monthly as required by the respective lease terms. We defer income recognition if the reimbursements exceed the aggregate marketing expenditures made through that date. Deferred marketing reimbursement revenue is recorded in tenants' deposits and deferred rent on the consolidated balance sheet, and was \$0.2 million and \$0.3 million as of December 31, 2018 and 2017, respectively. The marketing reimbursements are recognized as revenue at the time that the marketing expenditures occur. Marketing revenue, included in other real estate revenues in the consolidated statements of operations, was \$3.9 million, \$4.4 million and \$4.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Property management revenue from management and development activities is generated through contracts with third party owners of real estate properties or with certain of our joint ventures, and is recorded in other income in the consolidated statement of operations. In the case of management fees, our performance obligations are fulfilled over time as the management services are performed and the associated revenues are recognized on a monthly basis when the customer is billed. In the case of development fees, our performance obligations are fulfilled over time as we perform certain stipulated development activities as set forth in the respective development agreements and the associated revenues are recognized on a monthly basis when the customer is billed. Property management fee revenue was \$0.7 million, \$0.9 million and \$1.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. Development fee revenue was \$0.8 million, \$0.9 million and \$0.3 million for years ended December 31, 2018, 2017 and 2016, respectively.

**OTHER ACCOUNTING** In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) as a Benchmark Interest Rate for Hedge Accounting*. This ASU adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate hedging strategies for both risk management and hedge accounting purposes. Because we adopted ASU 2017-12, this guidance became effective January 1, 2019. The adoption of this guidance will not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of

those activities. We early adopted ASU 2017-12 on January 1, 2018. ASU 2017-12 requires a modified retrospective transition method in which we will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The adoption of this standard did not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect that future property acquisitions will generally qualify as asset acquisitions under the standard, which requires the capitalization of acquisition costs to the underlying assets. We adopted this new guidance effective January 1, 2017. This new guidance did not have a significant impact on our financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents within the statement of cash flows. Accordingly, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this standard effective January 1, 2018. The adoption of ASU No. 2016-18 changed our presentation of the statement of cash flows to provide additional details regarding changes in restricted cash and we utilized a retrospective transition method for each period presented within financial statements. In applying the retrospective transition method, net cash used in investing activities for the year ended December 31, 2017 increased by \$1.5 million and net cash provided by investing activities for the year ended December 31, 2017 increased by \$0.5 million, as the change in escrow accounts is now included directly in net change in cash, cash equivalents and restricted cash. See note 1 for details regarding cash and restricted cash as presented within the consolidated statement of cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 is intended to reduce diversity in the practice of how certain transactions are classified in the statement of cash flows, including classification guidance for distributions received from equity method investments. We adopted this new standard effective January 1, 2018 using the retrospective transition method. The statement of cash flows for the years ended December 31, 2017 and 2016 has been restated to reflect the adoption of ASU 2016-15. Upon adoption, we changed the prior period presentation of the statement of cash flows for the years ended December 31, 2017 and 2016 for \$5.7 million and \$7.3 million, respectively, of cash distributions from partnerships that was previously presented within net cash used in investing activities to now be reflected within net cash provided by operating activities for the years ended December 31, 2017 and 2016 using the nature of the distribution approach.

In February 2017, the FASB issued ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance*. ASU 2017-05 focuses on recognizing gains and losses from the transfer of nonfinancial assets with noncustomers. It provides guidance as to the definition of an "in substance nonfinancial asset," and provides guidance for sales of real estate, including partial sales. We adopted this new guidance effective January 1, 2018. This new guidance did not have a significant impact on our financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test referenced in ASC 350, *Intangibles—Goodwill and Other*. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In January 2018, we elected to early adopt ASU 2017-04 effective January 1, 2018. This new guidance did not have any impact on our financial statements.

**IMMATERIAL ERROR CORRECTION** The Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016 include the impact of correcting the reporting of net loss (income) attributable to noncontrolling interest and common shareholders. Specifically, the correction adjusts for a computational error by reducing net income (and comprehensive income) or by increasing the net loss (and comprehensive loss) attributable to noncontrolling interest by \$3.4 million and \$1.7 million for the years ended December 31, 2017 and 2016, respectively. The 2018 and 2017 quarterly results were also adjusted by increasing the net loss (and comprehensive loss) attributable to noncontrolling interest in the amount of \$0.7 million for each of the three months ended March 31, 2018 and 2017; \$0.7 million and \$0.8 million for the three months ended June 30, 2018 and 2017, respectively; \$0.8 million for the three months ended September 30, 2017, and \$1.2 million for the three months ended December 31, 2017. The adjustments also increased the amount of net income (and comprehensive income) or decreased the amount of loss (and comprehensive loss) attributable to PREIT and PREIT common shareholders by the corresponding amounts. The adjustments also increased the amount of basic and diluted earnings per share or decreased the amount of basic and diluted loss per share by \$0.05 for the year ended December 31, 2017 and \$0.02 for the year ended December 31, 2016. The 2018 and 2017 quarterly results were also adjusted by increasing the amount of basic and diluted earnings per share or decreased the amount of basic and diluted loss per share by \$0.01 for each of the three months ended March 31, 2018 and 2017; June 30, 2018 and 2017; September 30, 2017, and \$0.02 for the three months ended December 31, 2017.

The Consolidated Statement of Equity for the years ended December 31, 2018, 2017 and 2016 included the cumulative impact of \$9.3 million, \$7.8 million and \$4.4 million, respectively, which corrected the reporting of noncontrolling interest by decreasing noncontrolling interest and increasing Total Equity - Pennsylvania Real Investment Trust by the corresponding amount.

These corrections had no impact on the previously reported amounts of net income (loss), total equity, and consolidated cash flows from operating, investing or financing activities.

We evaluated these corrections and determined, based on quantitative and qualitative factors, that the changes were not material to the consolidated financial statements taken as a whole for any previously filed consolidated financial statements.

## 2. Real Estate Activities

Investments in real estate as of December 31, 2018 and 2017 were comprised of the following:

(in thousands of dollars)	As of December 31,	
	2018	2017
Buildings, improvements and construction in progress	\$ 2,719,400	\$ 2,808,622
Land, including land held for development	465,194	491,080
Total investments in real estate	3,184,594	3,299,702
Accumulated depreciation	(1,118,582)	(1,111,007)
<b>Net investments in real estate</b>	<b>\$ 2,066,012</b>	<b>\$ 2,188,695</b>

**IMPAIRMENT OF ASSETS** During the years ended December 31, 2018, 2017, and 2016, we recorded asset impairment losses of \$137.5 million, \$55.8 million and \$62.6 million, respectively. Such impairment losses are recorded in "Impairment of assets" for the years ended 2018, 2017 and 2016. The assets that incurred impairment losses and the amount of such losses are as follows:

(in thousands of dollars)	For the Year Ended December 31,		
	2018	2017	2016
Exton Square Mall	\$ 73,218	\$ —	\$ —
Wyoming Valley Mall	32,177	—	—
Valley View Mall	14,294	15,521	—
Wiregrass Mall mortgage loan receivable	8,122	—	—
New Garden Township land	7,567	—	20,786
Gainesville land	2,089	1,275	—
Logan Valley Mall	—	38,720	—
Sunrise Plaza land	—	226	—
Beaver Valley Mall	—	—	18,055
Washington Crown Center	—	—	14,117
Crossroads Mall	—	—	9,038
Office building located at Voorhees Town Center	—	—	607
Other	20	51	—
<b>Total Impairment of Assets</b>	<b>\$137,487</b>	<b>\$55,793</b>	<b>\$62,603</b>

**WYOMING VALLEY MALL** In connection with the preparation of our financial statements as of and for the quarter ended June 30, 2018, we recorded a loss on impairment of assets on Wyoming Valley Mall in Wilkes-Barre, Pennsylvania of \$32.2 million as we determined that the pending closure of two anchor stores at the property (as further discussed in Note 4) was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon our estimates, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. Our fair value analysis was based on discounted estimated future cash flows at the property, using a discount rate of 10.5% and a terminal capitalization rate of 9.0%, which was determined using management's assessment of property operating performance and general market conditions and were classified in Level 3 of the fair value hierarchy.



**EXTON SQUARE MALL** In connection with the preparation of our annual financial statements for the year ended December 31, 2018, we recorded a loss on impairment of assets on Exton Square Mall in Exton, Pennsylvania of \$73.2 million. In conjunction with the preparation of our annual business plan, we anticipated decreases in occupancy and net operating income at this property as a result, which led us to conduct an analysis of possible impairment at this property. Based upon our estimates, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. Our fair value analysis was based on discounted estimated future cash flows for the mall parcel, using a discount rate of 10.5% and a terminal capitalization rate of 10.0% for the mall parcel, and a direct capitalization rate of 5.5% for a parcel adjacent to the mall. The discount and capitalization rates were determined using management’s assessment of property operating performance and general market conditions and were classified in Level 3 of the fair value hierarchy.

**WIREGRASS MORTGAGE LOAN RECEIVABLE** In connection with the sale of three malls in 2016, we received a \$17.0 million mortgage note secured by Wiregrass Commons Mall in Dothan, Alabama. The note has a fixed interest rate of 6.0% and we recorded \$1.0 million, \$1.0 million and \$0.7 million of interest income in the years ended December 31, 2018, 2017 and 2016, respectively. During 2018, the original buyer sold Wiregrass Commons Mall to an unrelated party and the mortgage note was assumed by this new buyer as part of that sale transaction. In the fourth quarter of 2018, we reclassified the mortgage note receivable from held-to-maturity to held-for-sale. In connection with this reclassification, we recorded an impairment loss of \$8.1 million to reduce the \$16.1 million carrying value of the mortgage note receivable to its estimated fair value of \$8.0 million based on negotiations with a buyer. This mortgage note receivable was sold in February 2019 for \$8.0 million.

**NEW GARDEN TOWNSHIP DEVELOPMENT LAND PARCEL** In 2018, we recorded a loss on impairment of assets on a land parcel located in New Garden Township, Pennsylvania of \$7.6 million in connection with negotiations with a potential buyer of the property. In connection with these negotiations, we determined that the estimated proceeds from the sale of the property would be less than the carrying value of the property, and recorded a loss on impairment of assets. This land parcel is classified as held-for-sale in our consolidated balance sheet.

In 2016, we previously recorded a loss on impairment of assets on this land parcel of \$20.8 million. In connection with our decision to market the property, which we concluded was a triggering event, we conducted an analysis of possible impairment at this property. We determined that the estimated proceeds from potential sales of the property would likely be less than the carrying value of the property, and recorded a loss on impairment of assets.

**GAINESVILLE DEVELOPMENT LAND PARCEL** In 2018 and 2017, we recorded losses on impairment of assets on a land parcel located in Gainesville, Florida of \$2.1 million and \$1.3 million, respectively, in connection with negotiations with a potential buyer of the property. In connection with these negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded losses on impairment of assets. This land parcel is classified as held-for-sale in our consolidated balance sheet.

**LOGAN VALLEY MALL** In 2017, we recorded an aggregate loss on impairment of assets on Logan Valley Mall in Altoona, Pennsylvania of \$38.7 million in connection with negotiations with the buyer of the property. In

connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. We sold Logan Valley Mall in August 2017.

**VALLEY VIEW MALL** In connection with the preparation of our annual financial statements for the year ended December 31, 2018, we recorded a loss on impairment of assets on Valley View Mall in La Crosse, Wisconsin of \$14.3 million. In the fourth quarter of 2018, Sears ceased operations at this mall. In conjunction with the preparation of our annual business plan, we anticipated decreases in occupancy and net operating income at this property resulting from lower co-tenancy rents from other tenants in 2019 and beyond, which led us to conduct an analysis of possible impairment at this property. Based upon our estimates, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, based on a probability-weighted assessment were less than the carrying value of the property, and recorded a loss on impairment of assets. Our fair value analysis was based on a direct capitalization rate of 12.0% on stabilized NOI of the property. The capitalization rate was determined using management’s assessment of property operating performance and general market conditions and was classified in Level 3 of the fair value hierarchy.

We previously recorded a loss on impairment of assets on Valley View Mall in La Crosse, Wisconsin of \$15.5 million in 2017 in connection with our decision to market the property for sale. In connection with this decision, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon our estimates, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. Our fair value analysis was based on an estimated capitalization rate of approximately 12% for Valley View Mall, which was determined using management’s assessment of property operating performance and general market conditions.

**SUNRISE PLAZA LAND** In 2017, we recorded a loss on impairment of assets on a land parcel located at Sunrise Plaza in Forked River, New Jersey of \$0.2 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets.

**BEAVER VALLEY MALL** In 2016, we recorded a loss on impairment of assets on Beaver Valley Mall in Monaca, Pennsylvania of \$18.1 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was classified as “held for sale” as of December 31, 2016 and the property was sold in January 2017.

**WASHINGTON CROWN CENTER** In 2016, we recorded a loss on impairment of assets on Washington Crown Center in Washington, Pennsylvania of \$14.1 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was sold in August 2016.

**CROSSROADS MALL** In 2016, we recorded a loss on impairment of assets on Crossroads Mall in Beckley, West Virginia of \$9.0 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was classified as “held for sale” as of December 31, 2016, and the property was sold January 2017.

**OFFICE BUILDING LOCATED AT VOORHEES TOWN CENTER** In 2016, we recorded a loss on impairment of assets on an office building located

in Voorhees, New Jersey of \$0.6 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was sold in September 2016.

**ACQUISITIONS** In 2018, we purchased certain real estate and related improvements at Moorestown Mall and Valley Mall for a total of \$17.6 million.

In 2017, we purchased vacant anchor stores from Macy’s located at Moorestown Mall, Valley View Mall and Valley Mall for an aggregate of \$13.9 million. We executed a lease with a replacement tenant for the Valley View Mall location and this tenant opened in September 2017 and subsequently closed in the third quarter of 2018. We also have replacement tenants for the Moorestown Mall and Valley Mall former anchors and currently have redevelopment activities at these locations.

In connection with the March 2015 acquisition of Springfield Town Center, the previous owner of the property was potentially entitled to receive consideration (the “Earnout”) under the terms of the Contribution Agreement which were to be calculated as of March 31, 2018. As of December 31, 2017, the estimated value of the Earnout is zero and no amounts were paid out after March 31, 2018.

**DISPOSITIONS** The table below presents our dispositions since January 1, 2016. Proceeds from property sales were used for general corporate purposes, repayment of mortgage loans that secured the properties (if applicable) and repayment of then-outstanding amounts on our Credit Agreements (see note 4), unless otherwise noted.

Sale Date	Property and Location	Description of Real Estate Sold	Capitalization Rate	Sale Price	Gain/(Loss)
				(in millions of dollars)	
<b>2017 Activity:</b>					
January	Beaver Valley Mall, Monaca, PA	Mall	15.6%	\$ 24.2	\$ —
	Crossroads Mall, Beckley, WV	Mall	15.5%	24.8	—
August	Logan Valley Mall, Altoona, PA	Mall	16.5%	33.2	—
<b>2016 Activity:</b>					
February	Palmer Park Mall, Easton, PA	Mall	13.6%	18.0	0.1
March	Gadsden Mall, Gadsden, AL	Three Malls (single combined transaction)	17.4%	66.0	1.6
	New River Valley Mall, Christiansburg, VA and Wiregrass Commons Mall, Dothan, AL				
June	Lycoming Mall, Pennsdale, PA	Mall	18.0%	26.4	0.3
	Street retail located on Walnut and Chestnut Streets, Philadelphia, PA	Street Retail	3.2%	45.0	20.3
	Washington Crown Center, Washington, PA	Mall	14.5%	20.0	(0.1)



**DISPOSITIONS – OTHER ACTIVITY** In 2018, we sold a parcel located adjacent to Exton Square Mall in Exton, Pennsylvania for \$10.3 million. We recorded a gain of \$8.1 million on this sale in the fourth quarter of 2018.

In 2018, we sold an outparcel on which two operating restaurants are located at Valley Mall in Hagerstown, Maryland for \$2.4 million. We recorded a gain of \$1.0 million on this sale in the fourth quarter of 2018.

In 2018, we sold an outparcel on which an operating restaurant is located at Magnolia Mall in Florence, South Carolina for \$1.7 million. We recorded a gain of \$0.7 million on this sale in the second quarter of 2018.

In 2017, we sold three non operating parcels located at Beaver Valley Mall, Exton Square Mall and Valley Mall for an aggregate of \$6.4 million and recorded aggregate gains of \$1.3 million on these parcels.

In 2016, we sold an office building adjacent to Voorhees Town Center, three non operating parcels and one operating parcel located at Beaver Valley Mall, Francis Scott Key Mall, Monroe Retail Center and Sunrise Plaza for aggregate of \$9.3 million, and recorded aggregate gains of \$0.9 million.

**DEVELOPMENT ACTIVITIES** As of December 31, 2018 and 2017, we had capitalized amounts related to construction and development activities. The following table summarizes certain capitalized construction and development information for our consolidated properties as of December 31, 2018 and 2017:

	As of December 31,	
(in thousands of dollars)	2018	2017
Construction in progress	\$ 115,182	\$ 113,609
Land held for development	5,881	5,881
Deferred costs and other assets	6,487	2,182
<b>Total capitalized construction and development activities</b>	<b>\$127,550</b>	<b>\$ 121,672</b>

### 3. Investments in Partnerships

The following table presents summarized financial information of our equity investments in unconsolidated partnerships as of December 31, 2018 and 2017:

	As of December 31,	
(in thousands of dollars)	2018	2017
<b>ASSETS:</b>		
Investments in real estate, at cost:		
Operating properties	\$ 575,149	\$ 612,689
Construction in progress	420,771	293,102
Total investments in real estate	995,920	905,791
Accumulated depreciation	(212,574)	(202,424)
Net investments in real estate	783,346	703,367
Cash and cash equivalents	20,446	26,158
Deferred costs and other assets, net	30,549	34,345
<b>Total assets</b>	<b>\$834,341</b>	<b>\$763,870</b>

	As of December 31,	
(in thousands of dollars)	2018	2017
<b>LIABILITIES AND PARTNERS' INVESTMENT:</b>		
Mortgage loans payable, net	\$ 507,090	\$ 513,139
FDP Term Loan, net	247,901	—
Other liabilities	34,463	37,971
<b>Total liabilities</b>	<b>\$789,454</b>	<b>\$551,110</b>
Net investment	\$ 44,887	\$ 212,760
Partners' share	21,583	106,886
PREIT's share	23,304	105,874
Excess investment <sup>(1)</sup>	15,763	13,081
<b>Net investments and advances</b>	<b>\$ 39,067</b>	<b>\$118,955</b>
Investment in partnerships, at equity	\$ 131,124	\$216,823
Distributions in excess of partnership investments	(92,057)	(97,868)
<b>Net investments and advances</b>	<b>\$ 39,067</b>	<b>\$118,955</b>

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

We present distributions from our equity investments using the nature of the distributions approach in the accompanying consolidated statement of cash flows.

The following table summarizes our share of equity in income of partnerships for the years ended December 31, 2018, 2017 and 2016:

	For the Year Ended December 31,		
(in thousands of dollars)	2018	2017	2016
Real estate revenue	\$98,781	\$115,118	\$117,912
Expenses:			
Property operating and other expenses	(30,839)	(33,273)	(33,597)
Interest expense	(23,373)	(25,251)	(21,573)
Depreciation and amortization	(19,393)	(24,872)	(23,326)
<b>Total expenses</b>	<b>(73,605)</b>	<b>(83,396)</b>	<b>(78,496)</b>
Net income	25,176	31,722	39,416
Less: Partners' share	(13,719)	(17,607)	(21,137)
PREIT's share	11,457	14,115	18,279
Amortization of excess investment	(82)	252	198
<b>Equity in income of partnerships</b>	<b>\$ 11,375</b>	<b>\$ 14,367</b>	<b>\$18,477</b>

**DISPOSITIONS** In February 2018, a partnership in which we hold a 50% ownership share sold its office condominium interest in 907 Market Street in Philadelphia, Pennsylvania for \$41.8 million. The partnership recorded a gain on sale of \$5.5 million, of which our share was \$2.8 million, which is recorded in gain on sale of real estate by equity method investee in the accompanying consolidated statement of operations. The partnership distributed to us proceeds of \$19.7 million in connection with this transaction.

In September 2017, a partnership in which we hold a 50% ownership share sold its condominium interest in 801 Market Street in Philadelphia, Pennsylvania for \$61.5 million. The partnership recorded a gain on sale of \$13.1 million, of which our share was \$6.5 million. The partnership distributed to us proceeds of \$30.3 million in connection with this transaction in

**MORTGAGE LOANS OF UNCONSOLIDATED PROPERTIES** Mortgage loans, which are secured by seven of the unconsolidated properties (including one property under development), are due in installments over various terms extending to the year 2027. Five of the mortgage loans bear interest at a fixed interest rate and two of the mortgage loans bear interest at a variable interest rate. The balances of the fixed interest rate mortgage loans have interest rates that range from 4.06% to 5.56% and had a weighted average interest rate of 4.55% at December 31, 2018. The balances of the variable interest rate mortgage loans have interest rates that range from 3.85% to 5.29% and had a weighted average interest rate of 4.04% at December 31, 2018. The weighted average interest rate of all unconsolidated mortgage loans was 4.50% at December 31, 2018. The liability under each mortgage loan is limited to the unconsolidated partnership that owns the particular property. Our proportionate share, based on our respective partnership interest, of principal payments due in the next five years and thereafter is as follows:

(in thousands of dollars) For the Year Ending December 31,	Company's Proportionate Share			Property Total
	Principal Amortization	Balloon Payments	Total	
2019	\$ 4,204	\$ —	\$ 4,204	\$ 8,453
2020	4,386	—	4,386	8,822
2021	4,049	41,170	45,219	91,945
2022	3,738	21,500	25,238	93,476
2023	3,620	33,502	37,122	74,245
2024 and thereafter	10,099	106,087	116,186	232,373
<b>Total principal payments</b>	<b>\$30,096</b>	<b>\$ 202,259</b>	<b>\$ 232,355</b>	<b>509,314</b>
Less: Unamortized debt issuance costs				2,224
<b>Carrying value of mortgage notes payable</b>				<b>\$507,090</b>

The following table presents the mortgage loans secured by the unconsolidated properties entered into since January 1, 2017:

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Interest Rate	Maturity
<b>2018 Activity:</b>				
February	Pavilion at Market East <sup>(1)</sup>	\$ 8.3	LIBOR plus 2.85%	February 2021
March	Gloucester Premium Outlets <sup>(2)</sup>	\$ 86.0	LIBOR plus 1.50%	March 2022
<b>2017 Activity:</b>				
October	Lehigh Valley Mall <sup>(3)(4)</sup>	\$ 200.0	Fixed 4.06%	November 2027

<sup>(1)</sup> We own a 40% partnership interest in Pavilion at Market East and our share of this mortgage loan is \$3.2 million.

<sup>(2)</sup> We own a 25% partnership interest in Gloucester Premium Outlets and our share of this mortgage loan is \$21.5 million.

<sup>(3)</sup> The proceeds were used to repay the existing \$124.6 million mortgage loan plus accrued interest. We own a 50% partnership interest in Lehigh Valley Mall and our share of this mortgage loan is \$100.0 million.

<sup>(4)</sup> We received \$35.3 million of proceeds as a distribution in connection with the financing. In connection with this new mortgage loan financing, the unconsolidated entity recorded \$3.1 million of prepayment penalty and accelerated the amortization of \$0.1 million of unamortized financing costs in the fourth quarter of 2017.



**SIGNIFICANT UNCONSOLIDATED SUBSIDIARY** We have a 50% partnership interest in Lehigh Valley Associates LP, the owner of Lehigh Valley Mall, which met the definition of a significant unconsolidated subsidiary in the year ended December 31, 2016. Lehigh Valley Mall did not meet the definition of a significant subsidiary as of or for the years ended December 31, 2018 or 2017. Summarized financial information as of or for the years ended December 31, 2018, 2017 and 2016 for this property, which is accounted for by the equity method, is as follows:

	As of or for the years ended December 31,		
(in thousands of dollars)	2018	2017	2016
Total assets	\$ 52,255	\$ 43,850	\$ 49,264
Mortgage payable	196,328	199,451	126,520
Revenue	35,662	34,945	36,923
Property operating expenses	9,014	9,038	8,659
Interest expense	8,222	10,907	7,570
Net income	15,605	11,389	17,264
PREIT’s share of equity in income of partnership	7,803	5,695	8,632

4. Financing Activity

**CREDIT AGREEMENTS** We have entered into two credit agreements (collectively, as amended, the “Credit Agreements”): (1) the 2018 Credit Agreement, which, as described in more detail below, includes (a) the 2018 Revolving Facility, and (b) the 2018 Term Loan Facility, and (2) the 2014 7-Year Term Loan. The 2018 Term Loan Facility and the 2014 7-Year Term Loan are collectively referred to as the “Term Loans.”

As of December 31, 2018, we had borrowed \$550.0 million under the Term Loans and \$65.0 million under the 2018 Revolving Facility (with \$5.1 million pledged as collateral for letters of credit at December 31, 2018). The carrying value of the Term Loans on our consolidated balance sheet as of December 31, 2018 is net of \$2.7 million of unamortized debt issuance costs. The net operating income (“NOI”) from our unencumbered properties is at a level such that within the Unencumbered Debt Yield covenant (as described below) under the Credit Agreements, the maximum unsecured amount that was available to us as of December 31, 2018 was \$179.3 million.

Interest expense and the deferred financing fee amortization related to the Credit Agreements for the years ended December 31, 2018, 2017 and 2016 were as follows:

	For the Year Ended December 31,		
(in thousands of dollars)	2018	2017	2016
Revolving Facilities:			
Interest expense	\$ 1,807	\$ 2,463	\$ 3,209
Deferred financing amortization	1,052	796	795
Term Loans:			
Interest expense	17,585	14,935	12,262
Deferred financing amortization	763	759	619
Accelerated financing fee	363	—	—

**CREDIT AGREEMENTS** On May 24, 2018, we entered into an Amended and Restated Credit Agreement (the “2018 Credit Agreement”) with Wells Fargo Bank, National Association, U.S. Bank National Association, Citizens Bank, N.A., and the other financial institutions signatory thereto, for an aggregate \$700.0 million senior unsecured facility consisting of (i) a \$400 million senior unsecured revolving credit facility (the “2018 Revolving Facility”), which replaced our previously existing \$400 million revolving credit agreement (the “2013 Revolving Facility”), and (ii) a \$300 million term loan facility (the “2018 Term Loan Facility”), which was used to pay off a previously existing \$150 million five year term loan (the “2014 5-Year Term Loan”) and a second \$150 million five year term loan (the “2015 5-Year Term Loan”). The maturity date of the 2018 Revolving Facility is May 23, 2022, subject to two six-month extensions at our election, and the maturity date of the 2018 Term Loan Facility is May 23, 2023. In connection with this activity, we recorded accelerated amortization of financing costs of \$0.4 million.

As of December 31, 2018, \$250.0 million was outstanding under the 2014 7-Year Term Loan, which matures on December 29, 2021.

On June 5, 2018, we entered into the Fifth Amendment (the “Amendment”) to the 2014 7-Year Term Loan. The Amendment was entered into to make certain provisions of the 2014 7-Year Term Loan consistent with the 2018 Credit Agreement. Among other things, the Amendment (i) adds and updates certain definitions and provisions, including tax-related provisions, relating to foreign lenders under the 2014 7-Year Term Loan, (ii) updates the definition of “Existing Credit Agreement” to refer to the 2018 Credit Agreement, which updates the cross defaults between the 2014 7-Year Term Loan and the 2018 Credit Agreement (replacing such cross defaults to the agreements the 2018 Credit Agreement replaced), (iii) adds and amends provisions consistent with those provided in the 2018 Credit Agreement for determining an alternative rate of interest to LIBOR, when and if required, and (iv) adjusts or eliminates some of the covenants applicable to the Borrower, as defined therein. The Amendment does not extend the maturity date of the 2014 7-Year Term Loan or change the amounts that can be borrowed thereunder.

**IDENTICAL COVENANTS AND COMMON PROVISIONS CONTAINED IN THE CREDIT AGREEMENTS** Each of the Credit Agreements contains certain affirmative and negative covenants and other provisions, which are identical to those contained in the other Credit Agreements, and which are described in detail below.

Amounts borrowed under the Credit Agreements bear interest at the rate specified below per annum, depending on our leverage, in excess of LIBOR, unless and until we receive an investment grade credit rating and provide notice to the Administrative Agent (the “Rating Date”), after which alternative rates would apply, as described below. In determining our leverage (the ratio of Total Liabilities to Gross Asset Value), the capitalization rate used to calculate Gross Asset Value is 6.50% for each property having an average sales per square foot of more than \$500 for the most recent period of 12 consecutive months and (b) 7.50% for any other property. Capitalized terms used and not otherwise defined in this Annual Report on Form 10-K have the meanings ascribed to such terms in the applicable credit agreement document. The 2018 Revolving Facility is subject to a facility fee, which is currently 0.30%, depending upon leverage, and is recorded as interest expense in the consolidated statements of operations. In the event we seek and obtain an investment grade credit rating, alternative facility fees would apply.

Level	Ratio of Total Liabilities to Gross Asset Value	Applicable Margin			
		Revolving Loans that are LIBOR Loans	Revolving Loans that are Base Rate Loans	Term Loans that are LIBOR Loans	Term Loans that are Base Rate Loans
1	Less than 0.450 to 1.00	1.20%	0.20%	1.35%	0.35%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00	1.25%	0.25%	1.45%	0.45%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00 <sup>(1)</sup>	1.30%	0.30%	1.60%	0.60%
4	Equal to or greater than 0.550 to 1.00	1.55%	0.55%	1.90%	0.90%

<sup>(1)</sup> The rates in effect under the Credit Agreements were based upon the Level 3 Ratio of Total Liabilities to Gross Asset Value as of December 31, 2018.

We may prepay the amounts due under the Credit Agreements at any time without premium or penalty, subject to reimbursement obligations for the lenders’ breakage costs for LIBOR borrowings.

The Credit Agreements contain certain affirmative and negative covenants, including, without limitation, requirements that PREIT maintain, on a consolidated basis: (1) Minimum Tangible Net Worth of \$1,463.2 million, plus 75% of the Net Proceeds of all Equity Issuances effected at any time after March 31, 2018; (2) maximum ratio of Total Liabilities to Gross Asset Value of 0.60:1, provided that it will not be a Default if the ratio exceeds 0.60:1 but does not exceed 0.625:1 for more than two consecutive quarters on more than two occasions during the term; (3) minimum ratio of Adjusted EBITDA to Fixed Charges of 1.50:1; (4) minimum Unencumbered Debt Yield of (a) 11.0% through and including June 30, 2020, (b) 11.25% any time after June 30, 2020 through and including June 30, 2021, and (c) 11.50% anytime thereafter; (5) minimum Unencumbered NOI to Unsecured Interest Expense of 1.75:1; (6) maximum ratio of Secured Indebtedness to Gross Asset Value of 0.60:1; and (7) Distributions may not exceed (a) with respect to our preferred shares, the amounts required by the terms of the preferred shares, and (b) with respect to our common shares, the greater of (i) 95.0% of Funds From Operations (FFO) and (ii) 110% of REIT taxable income for a fiscal year. The covenants and restrictions in the Credit Agreements limit our ability to incur additional indebtedness, grant liens on assets and enter into negative pledge agreements, merge, consolidate or sell all or substantially all of our assets, and enter into transactions with affiliates. The Credit Agreements are subject to customary events of default and are cross-defaulted with one another.

As of December 31, 2018, we were in compliance with all such financial covenants.

**CONSOLIDATED MORTGAGE LOANS** Our consolidated mortgage loans, which are secured by 11 of our consolidated properties, are due in installments over various terms extending to the year 2025. Eight of these mortgage loans bear interest at fixed interest rates that range from 3.88% to 5.95% and had a weighted average interest rate of 4.28% at December 31, 2018. Three of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 4.60% at December 31, 2018. The weighted average interest rate of all consolidated mortgage loans was 4.36% at December 31, 2018. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments,” and are not included in the table below.

The following table outlines the timing of principal payments and balloon payments pursuant to the terms of our consolidated mortgage loans of our consolidated properties as of December 31, 2018:

(in thousands of dollars) For the Year Ending December 31,	Principal Amortization	Balloon Payments	Total
2019	\$ 18,561	\$ —	\$ 18,561
2020	19,759	27,161	46,920
2021	20,685	188,785	209,470
2022	15,082	410,704	425,786
2023	8,030	120,046	128,076
2024 and thereafter	10,811	211,346	222,157
<b>Total principal payments</b>	<b>\$ 92,928</b>	<b>\$958,042</b>	<b>\$1,050,970</b>
Less: Unamortized debt issuance costs			3,064
<b>Carrying value of mortgage notes payable</b>			<b>\$ 1,047,906</b>

The estimated fair values of our consolidated mortgage loans based on year-end interest rates and market conditions at December 31, 2018 and 2017 are as follows:

(in millions of dollars)	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Consolidated mortgage loans <sup>(1)</sup>	\$1,047.9	\$1,002.3	\$1,056.1	\$1,029.7

<sup>(1)</sup> The carrying value of consolidated mortgage loans has been reduced by unamortized debt issuance costs of \$3.1 million and \$3.4 million as of December 31, 2018 and 2017, respectively.

The consolidated mortgage loans contain various customary default provisions. As of December 31, 2018, we were not in default on any of the consolidated mortgage loans.



**MORTGAGE LOAN ACTIVITY** The following table presents the mortgage loans we have entered into or extended since January 1, 2016 relating to our consolidated properties:

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Interest Rate	Maturity
<b>2018 Activity:</b>				
January	Francis Scott Key Mall <sup>(1)</sup>	\$ 68.5	LIBOR plus 2.60%	January 2022
February	Viewmont Mall <sup>(2)</sup>	\$ 10.2	LIBOR plus 2.35%	March 2021
<b>2016 Activity:</b>				
March	Viewmont Mall <sup>(2)</sup>	\$ 9.0	LIBOR plus 2.35%	March 2021
April	Woodland Mall <sup>(3)</sup>	\$ 130.0	LIBOR plus 2.00%	April 2021

<sup>(1)</sup> The \$68.5 million mortgage loan’s maturity date was extended to January 2022, and has a one-year extension option that would further extend the maturity date to January 2023.

<sup>(2)</sup> In 2018, the mortgage was increased by \$10.2 million to \$67.2 million. In 2016, the mortgage was increased by \$9.0 million to \$57.0 million, and the interest rate was lowered to LIBOR plus 2.35% and the maturity date was extended to March 2021.

<sup>(3)</sup> The proceeds from the new mortgage loan were used to pay down a portion of the Credit Facility borrowings that were used to repay the previous \$141.2 million mortgage loan plus accrued interest.

**OTHER MORTGAGE LOAN ACTIVITY** As a result of its Chapter 11 bankruptcy filing, the Bon-Ton anchor store at Wyoming Valley Mall in Wilkes-Barre, Pennsylvania closed on August 31, 2018. In addition, the Sears store at Wyoming Valley Mall ceased operations on July 15, 2018 and Sears vacated the premises on August 1, 2018, the date its lease expired. We have received a notice of transfer of servicing, dated July 9, 2018, from the special servicer for the mortgage loan secured by Wyoming Valley Mall, which had a balance of \$73.8 million as of December 31, 2018. Our subsidiary that is the borrower under the loan has also received a notice of default on the loan from the lender, dated December 14, 2018. The loan is subject to a cash sweep arrangement as a result of an anchor tenant trigger event. We are working with the special servicer regarding a potential deed in lieu of foreclosure, but make no assurances as to whether an agreement will ultimately be reached. The lender’s recourse is limited to foreclosing on the property and we have not guaranteed the payment of principal or interest on the mortgage loan.

In March 2017, we repaid a \$150.6 million mortgage loan plus accrued interest secured by The Mall at Prince Georges in Hyattsville, Maryland using \$110.0 million from our 2013 Revolving Facility and the balance from available working capital.

In March 2016, we repaid a \$79.3 million mortgage loan plus accrued interest secured by Valley Mall in Hagerstown, Maryland using \$50.0 million from our 2013 Revolving Facility and the balance from available working capital.

In March 2016, we repaid a \$32.8 million mortgage loan plus accrued interest secured by Lycoming Mall in Pennsdale, Pennsylvania in connection with the March 2016 sale of the property using proceeds from the sale and available working capital.

In March 2016, we repaid a \$28.1 million mortgage loan plus accrued interest secured by New River Valley Mall in Christiansburg, Virginia in connection with the March 2016 sale of the property using proceeds from the sale.

5. Equity Offerings

**PREFERRED SHARE OFFERINGS** In January 2017, we issued 6,900,000 7.20% Series C Cumulative Redeemable Perpetual Preferred Shares (the “Series C Preferred Shares”) in a public offering at \$25.00 per share. We received net proceeds from the offering of approximately \$166.3 million after deducting payment of the underwriting discount of \$5.4 million (\$0.7875 per Series C Preferred Share) and offering expenses of \$0.8 million. We

used a portion of the net proceeds from this offering to repay all \$117.0 million of then-outstanding borrowings under the 2013 Revolving Facility.

In September and October 2017, we issued an aggregate of 5,000,000 6.875% Series D Cumulative Redeemable Perpetual Preferred Shares (the “Series D Preferred Shares”) in a public offering at \$25.00 per share, including 200,000 shares that were issued pursuant to the underwriter’s exercise of an overallotment option. We received aggregate net proceeds from the offering of approximately \$120.5 million after deducting payment of the underwriting discount of \$4.0 million (\$0.7875 per Series D Preferred Share) and offering expenses of \$0.5 million. We used the net proceeds from the offering of our Series D Preferred Shares to redeem all of our then outstanding 8.25% Series A Cumulative Redeemable Perpetual Preferred Shares (the “Series A Preferred Shares”) and for general corporate purposes.

We may not redeem the Series C Preferred Shares and the Series D Preferred Shares before January 27, 2022 and September 15, 2022, respectively, except to preserve our status as a REIT or upon the occurrence of a Change of Control, as defined in the Trust Agreement addendums designating the Series C Preferred Shares and Series D Preferred Shares. On and after January 27, 2022 for the Series C Preferred Shares and September 15, 2022 for the Series D Preferred Shares, we may redeem any or all of the Series C Preferred Shares or Series D Preferred Shares at \$25.00 per share plus any accrued and unpaid dividends. In addition, upon the occurrence of a Change of Control, we may redeem any or all of the Series C Preferred Shares or Series D Preferred Shares for cash within 120 days after the first date on which such Change of Control occurred, at \$25.00 per share plus any accrued and unpaid dividends. The Series C Preferred Shares and Series D Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption provisions, and will remain outstanding indefinitely unless we redeem or otherwise repurchase them or they are converted.

**PREFERRED SHARE REDEMPTION** On October 12, 2017 (the “Redemption Date”), we redeemed all 4,600,000 of its Series A Preferred Shares remaining issued and outstanding as of the Redemption Date, for \$115.0 million (the redemption price of \$25.00 per share) plus accrued and unpaid dividends of \$0.7 million (the amount equal to all accrued and unpaid dividends on the Series A Preferred Shares (whether or not declared) from September 15, 2017 up to but excluding the Redemption Date). The Series A Preferred Shares were initially issued in April 2012. As a result of this redemption, the \$4.1 million excess of the redemption price over the carrying amount of the Series A Preferred Shares was deducted from Net income (loss) attributed to PREIT common shareholders in the fourth quarter of 2017.

6. Derivatives

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

**CASH FLOW HEDGES OF INTEREST RATE RISK** For derivatives that have been designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in “Accumulated other comprehensive income” and subsequently reclassified into “Interest expense, net” in the same periods during which the hedged transaction affects earnings. As of December 31, 2018, all of our outstanding derivatives were designated as cash flow hedges. We recognize all derivatives at fair value as either assets or liabilities in the accompanying consolidated balance sheets. Our derivative assets are recorded in “Deferred costs and other assets” and our derivative liabilities are recorded in “Fair value of derivative instruments.”

The following table summarizes the terms and estimated fair values of our interest rate swap derivative instruments designated as cash flow hedges of interest rate risk at December 31, 2018 and December 31, 2017 based on the year they mature. The notional values provide an indication of the extent of our involvement in these instruments, but do not represent exposure to credit, interest rate or market risks.

Maturity Date	Aggregate Notional Value at December 31, 2018 (in millions of dollars)	Aggregate Fair Value at December 31, 2018 <sup>(1)</sup> (in millions of dollars)	Aggregate Fair Value at December 31, 2017 (in millions of dollars)	Weighted Average Interest Rate
Interest Rate Swaps				
2018	N/A	N/A	\$ —	N/A
2019	\$ 250.0	\$ —	0.8	1.44%
2020	100.0	1.9	1.9	1.23%
2021	397.3	8.1	7.0	1.57%
2022	—	—	N/A	—
2023	50.0	(0.4)	N/A	2.62%
Forward Starting Swaps				
2023	250.0	(2.6)	N/A	2.71%
<b>Total</b>	<b>\$1,047.3</b>	<b>\$ 7.0</b>	<b>\$ 9.7</b>	<b>1.83%</b>

The tables below present the effect of derivative financial instruments on accumulated other comprehensive income and on our consolidated statements of operations for the years ended December 31, 2018 and 2017:

(in millions of dollars)	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative Instruments			Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Interest Expense		
	2018	2017	2016	2018	2017	2016
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Interest rate products	\$(0.4)	\$4.0	\$1.5	\$2.4	\$2.3	\$5.1
				For the Year Ended December 31,		
(in millions of dollars)				2018	2017	2016
Total interest expense presented in the consolidated statements of operations in which the effects of cash flow hedges are recorded				\$ (61.4)	\$ (58.4)	\$ (70.7)
Amount of gain reclassified from accumulated other comprehensive income into interest expense				\$ 2.4	\$ 2.3	\$ 5.1

In the years ended December 31, 2017 and 2016, we recorded net losses on hedge ineffectiveness of \$0.1 million and \$0.5 million, respectively.

In 2016, in connection with the sale of, and repayment of, the mortgage loan secured by Lycoming Mall, we recorded a net loss on hedge ineffectiveness of \$0.1 million.

**CREDIT-RISK-RELATED CONTINGENT FEATURES** We have agreements with some of our derivative counterparties that contain a provision pursuant to which, if our entity that originated such derivative instruments defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared to be in default on our derivative obligations. As of December 31, 2018, we were not in default on any of our derivative obligations.

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

As of December 31, 2018, the fair value of derivatives in a liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was \$3.0 million. If we had breached any of the default provisions in these agreements as of December 31, 2018, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$3.2 million. We had not breached any of these provisions as of December 31, 2018.

7. Benefit Plans

**401(k) PLAN** We maintain a 401(k) Plan (the “401(k) Plan”) in which substantially all of our employees are eligible to participate. The 401(k) Plan permits eligible participants, as defined in the 401(k) Plan agreement, to defer up to 30% of their compensation, and we, at our discretion, may match a specified percentage of the employees’ contributions. Our and our employees’ contributions are fully vested, as defined in the 401(k) Plan agreement. Our contributions to the 401(k) Plan were \$0.9 million, \$0.9 million and \$1.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

**SUPPLEMENTAL RETIREMENT PLANS** We maintain Supplemental Retirement Plans (the “Supplemental Plans”) covering certain senior management employees. Expenses under the provisions of the Supplemental Plans were \$0.2 million, \$0.3 million, and \$0.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

**EMPLOYEE SHARE PURCHASE PLAN** We maintain a share purchase plan through which our employees may purchase common shares at a 15% discount to the fair market value (as defined therein). In the years ended December 31, 2018, 2017 and 2016, approximately 31,000, 38,000 and 24,000 shares, respectively, were purchased for total consideration of \$0.2 million, \$0.4 million and \$0.5 million, respectively. We recorded expense of approximately \$43,000 in the year ended December 31, 2018 and \$0.1 million in each of the years ended December 31, 2017 and 2016, related to the share purchase plan.

8. Share Based Compensation

**SHARE BASED COMPENSATION PLANS** As of December 31, 2018, we make share based compensation awards using our 2018 Equity Incentive Plan, which is a share based compensation plan that was approved by our shareholders in 2018. Previously, we maintained six other plans pursuant to which we granted equity awards in various forms. Certain restricted shares and certain options granted under these previous plans remain subject to restrictions or remain outstanding and exercisable, respectively. In addition, we previously maintained two plans pursuant to which we granted options to our non-employee trustees.

We recognize expense in connection with share based awards to employees and trustees by valuing all share based awards at their fair value on the date of grant, and then expensing them over the applicable vesting period.

For the years ended December 31, 2018, 2017 and 2016, we recorded aggregate compensation expense for share based awards of \$6.9 million (including \$0.1 million of accelerated amortization relating to employee separation), \$5.7 million (including a net reversal of \$0.2 million of amortization relating to employee separation) and \$6.0 million, (including \$0.3 million of accelerated amortization related to employee separation), respectively, in connection with the equity incentive programs described below. There was no income tax benefit recognized in the income statement for share based compensation arrangements. For the years ended December 31, 2018, 2017 and 2016, we capitalized compensation costs related to share based awards of \$0.1 million, \$0.1 million, and \$0.2 million, respectively.

**2018 EQUITY INCENTIVE PLAN** Subject to any future adjustments for share splits and similar events, the total remaining number of common shares that may be issued to employees or trustees under our 2018 Equity Incentive Plan (pursuant to options, restricted shares, shares issuable pursuant to current or future RSU Programs, or otherwise) was 1,718,352 as of December 31, 2018. The share based awards described in this footnote were made under the 2003 Equity Incentive Plan and the 2018 Equity Incentive Plan.

**RESTRICTED SHARES SUBJECT TO TIME BASED VESTING** The aggregate fair value of the restricted shares that we granted to our employees and non-employee trustees in 2018, 2017 and 2016 was \$5.1 million, \$4.8 million, and \$5.1 million, respectively, based on the share price on the date of the grant. As of December 31, 2018, there was \$4.3 million of total unrecognized compensation cost related to unvested share based compensation arrangements granted under the 2003 Equity Incentive Plan and the 2018 Equity Incentive Plan. The cost is expected to be recognized over a weighted average period of 0.7 years.

A summary of the status of our unvested restricted shares as of December 31, 2018 and changes during the years ended December 31, 2018, 2017 and 2016 is presented below:

	Shares	Weighted Average Grant Date Fair Value
<b>Unvested at January 1, 2016</b>	<b>342,330</b>	<b>\$ 23.13</b>
Shares granted	264,989	19.27
Shares vested	(206,480)	20.77
Shares forfeited	(14,427)	19.60
<b>December 31, 2016</b>	<b>386,412</b>	<b>21.88</b>
Shares granted	336,296	14.95
Shares vested	(238,859)	19.56
Shares forfeited	(34,427)	18.00
<b>December 31, 2017</b>	<b>449,422</b>	<b>16.85</b>
Shares granted	461,395	11.02
Shares vested	(260,178)	16.58
Shares forfeited	(29,241)	14.17
<b>December 31, 2018</b>	<b>621,398</b>	<b>\$ 13.29</b>

**RESTRICTED SHARES AWARDED TO EMPLOYEES** In 2018, 2017 and 2016, we made grants of restricted shares subject to time based vesting. The awarded shares vest over periods of one to three years, typically in equal annual installments, provided the recipient is our employee on the vesting date. For all grantees, the shares generally vest immediately upon death or disability. Recipients are entitled to receive an amount equal to the dividends on the shares prior to vesting. We granted a total of 392,697, 245,950 and 230,429 restricted shares subject to time based vesting to our employees in 2018, 2017 and 2016, respectively. The weighted average grant date fair values of time based restricted shares was \$10.99 per share in 2018, \$16.43 per share in 2017 and \$18.67 per share in 2016. The aggregate fair value of the restricted shares in 2018, 2017, and 2016 were \$4.3 million, \$4.0 million, and \$4.3 million, respectively. Compensation cost relating to time based restricted share awards is recorded ratably over the respective vesting periods. We recorded \$4.3 million (including \$0.1 million of accelerated amortization relating to employee separation), \$3.9 million (including \$0.2 million of accelerated amortization relating to employee separation) and \$3.3 million (including \$0.2 million of accelerated amortization relating to employee separation) of compensation expense related to time based restricted shares for the years ended December 31, 2018, 2017 and 2016, respectively. The total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016 was \$2.0 million, \$3.9 million and \$3.6 million, respectively.

On January 29, 2019, the Company granted 683,570 time-based restricted shares to employees with a grant date fair value of \$4.3 million that vest over periods of two to three years in annual installments. Of the time-based restricted shares granted, 517,783 have Outperformance Units (“OPUs”) attached to them. The OPUs will entitle the employees to receive additional shares tied to a multiple of the employee’s time-based restricted share award if the Company achieves certain specified operating performance metrics measured over a three-year period. If any shares are issued in respect of the OPUs at the end of the three-year measurement period, 50% will vest immediately, 25% will be subject to an additional one-year vesting requirement, and 25% will be subject to an additional two-year vesting requirement. Dividend equivalents on the common shares will accrue on any awarded OPUs and are credited to “acquire” more OPUs for the account of the employee at the 20-day average closing price per common share ending on the dividend payment date, but will vest only if performance measures are achieved.

**RESTRICTED SHARES AWARDED TO NON-EMPLOYEE TRUSTEES** As part of the compensation we pay to our non-employee trustees for their service, we grant restricted shares subject to time based vesting. The awarded shares vest over a one-year period. These annual awards have been made under the 2003 Equity Incentive Plan and the 2018 Equity Incentive Plan. We granted a total of 68,698, 64,358, and 34,560 restricted shares subject to time based vesting to our non-employee trustees in 2018, 2017, and 2016, respectively. The weighted average grant date fair values of time based restricted shares was \$11.17 per share in 2018, \$11.45 per share in 2017 and \$23.29 per share in 2016. The aggregate fair value of the restricted shares in 2018, 2017 and 2016 were \$0.8 million, \$0.7 million and \$0.8 million, respectively, based on the share price on the date of the

grant. Compensation cost relating to time based restricted share awards is recorded ratably over the respective vesting periods. We recorded \$0.5 million, \$0.5 million and \$0.6 million of compensation expense related to time based vesting of non-employee trustee restricted share awards in 2018, 2017 and 2016, respectively. As of December 31, 2018, there was \$0.3 million of total unrecognized compensation expense related to unvested restricted share grants to non-employee trustees. The total fair value of shares granted to non-employee trustees that vested was \$0.6 million, \$0.8 million, and \$0.8 million for the years ended December 31, 2018, 2017 and 2016, respectively. In 2019, we will record compensation expense of \$0.3 million in connection with the amortization of existing non-employee trustee restricted share awards.

We will record future compensation expense in connection with the vesting of existing time based restricted share awards to employees and non-employee trustees as follows (including restricted shares issued in 2019):

(in thousands of dollars) For the Year Ending December 31,	Future Compensation Expense		
	Employees	Non-Employee Trustees	Total
2019	\$ 3,949	\$ 300	\$ 4,249
2020	2,827	—	2,827
2021	1,431	—	1,431
2022	157	—	157
<b>Total</b>	<b>\$8,364</b>	<b>\$ 300</b>	<b>\$8,664</b>

**RESTRICTED SHARE UNIT PROGRAMS** In 2018, 2017, 2016, 2015 and 2014, our Board of Trustees established the 2018-2020 RSU Program, 2017-2019 RSU Program, 2016-2018 RSU Program, 2015-2017 RSU Program, and the 2014-2016 RSU Program, respectively (collectively, the “RSU Programs”).

Under the RSU Programs, we may make awards in the form of market based performance-contingent restricted share units, or RSUs. The RSUs represent the right to earn common shares in the future depending on our performance in terms of total return to shareholders (as defined in the RSU Programs) for applicable three year periods or a shorter period ending upon the date of a change in control of the Company (each, a “Measurement Period”) relative to the total return to shareholders, as defined, for the applicable Measurement Period of companies comprising an index of real estate investment trusts (the “Index REITs”). In 2018, only one half of the awarded RSUs were tied to our relative total return to shareholders compared to the Index REITs, with the other half of the RSUs were tied to our absolute level of total return to shareholders. Dividends are deemed credited to the participants’ RSU accounts and are applied to “acquire” more RSUs for the account of the participants at the 20-day average price per common share ending on the dividend payment date. If earned, awards will be paid in common shares in an amount equal to the applicable percentage of the number of RSUs in the participant’s account at the end of the applicable Measurement Period.



The aggregate fair values of the RSU awards in 2018, 2017 and 2016 were determined using a Monte Carlo simulation probabilistic valuation model, and are presented in the table below. The table also sets forth the assumptions used in the Monte Carlo simulations used to determine the aggregate fair values of the RSU awards in 2018, 2017 and 2016 by grant date:

(in thousands of dollars, except per share data)				
RSUs and assumptions by Grant Date				
Grant Date:	January 29, 2018		February 27, 2017	February 23, 2016
Measurement Basis:	Absolute TSR RSUs	Relative TSR RSUs	Relative TSR RSUs	Relative TSR RSUs
RSUs granted	115,614	115,614	140,490	127,421
Aggregate fair value of shares granted	\$ 1,336	\$ 1,779	\$ 1,620	\$ 1,914
Weighted average fair value per share <sup>(4)</sup>	\$ 10.93	\$ 14.56	\$ 11.53	\$ 15.02
Volatility	31.6%	31.6%	25.8%	25.3%
Risk free interest rate	2.19%	2.19%	1.42%	0.90%
PREIT Stock Beta compared to Dow Jones US Real Estate Index <sup>(1)</sup>	N/A	N/A	0.706	1.184

<sup>(4)</sup> 2018's RSU Award valuation used a matrix approach, where the correlation was calculated between PREIT and each of its peers and each peer against all other peers.

Compensation cost relating to the RSU awards is expensed ratably over the applicable three year vesting period. We recorded \$2.1 million, \$1.3 million (including a reversal of \$0.4 million of accelerated amortization relating to employee separation), and \$1.8 million of compensation expense related to the RSU Programs for the years ended December 31, 2018, 2017 and 2016, respectively. We will record future aggregate compensation expense of \$5.6 million related to the existing awards under the RSU Programs (including the effect of the 2019 RSUs described below).

For the years ended December 31, 2018, 2017 and 2016, no shares were issued from the 2016-2018, 2015-2017, and 2014-2016 RSU programs because the required criteria were not met.

On January 29, 2019, the Board of Trustees established the 2019-2021 Equity Award program, and the Company granted 420,385 RSUs to employees (the “2019 RSUs”) with an aggregate fair value of \$3.1 million. The 2019 RSUs have a three-year measurement period that ends on December 31, 2021 or a shorter period ending upon the change in control of the Company. One half of the 2019 RSU awards are tied to our relative total return to shareholders compared to the Index REITs, and the other half are tied to our absolute level of total return to shareholders.

### 9. Leases

**AS LESSOR** Our retail properties are leased to tenants under operating leases with various expiration dates ranging through 2095. Future minimum rent under noncancelable operating leases with terms greater than one year at our consolidated properties is as follows:

(in thousands of dollars) For the Year Ending December 31,	
2019	\$ 187,007
2020	166,056
2021	149,007
2022	131,519
2023	113,845
2024 and thereafter	337,516
	<b>\$ 1,084,950</b>

The total future minimum rent as presented does not include amounts that may be received as tenant reimbursements for certain operating costs or contingent amounts that may be received as percentage rent.

**AS LESSEE** We have operating leases for our corporate office space (see note 10) and for various computer, office and mall equipment. Furthermore, we are the lessee under third-party ground leases for portions of the land at Springfield Town Center and at Plymouth Meeting Mall. Total amounts incurred relating to such leases were \$2.8 million, \$2.5 million and \$2.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. We account for ground rent and operating lease expense on a straight line basis. Minimum future lease payments due in each of the next five years and thereafter are as follows:

(in thousands of dollars) For the Year Ending December 31,	Operating Leases	Ground Leases
2019	\$ 1,823	\$ 1,184
2020	461	1,384
2021	272	1,584
2022	89	1,584
2023	9	1,584
2024 and thereafter	—	33,959
	<b>\$ 2,654</b>	<b>\$ 41,279</b>

### 10. Related Party Transactions

**GENERAL** In 2016, we provided management, leasing and development services for properties owned by partnerships and other entities in which certain of our officers or current or former trustees or members of their immediate family and affiliated entities have indirect ownership interests. As of December 31, 2016, we no longer manage any of these properties. Total revenue earned by PRI for such services was \$0.3 million for the year ended December 31, 2016.

**OFFICE LEASES** We currently lease our principal executive offices from Bellevue Associates, an entity that is owned by Ronald Rubin, one of our former trustees, collectively with members of his immediate family and affiliated entities. Total rent expense under this lease was \$1.3 million, \$1.3 million and \$1.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. This lease expires in October 2019.

In December 2018, we entered into a lease for new office space at One Commerce Square, which is located at 2005 Market Street, Philadelphia, Pennsylvania, with Brandywine Realty Trust. Our lead independent trustee is also a Trustee of Brandywine Realty Trust. The lease commencement date and our corporate office relocation date is expected to occur during the third quarter of 2019.

**EMPLOYEE HEALTH INSURANCE** We purchase healthcare benefits for our employees through Independence Blue Cross (“IBX”). Our lead independent trustee became chairman of the board of directors of IBX during 2018. We paid total insurance healthcare premiums of \$2.7 million to IBX during 2018.

### 11. Commitments and Contingencies

**CONTRACTUAL OBLIGATIONS** As of December 31, 2018, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$117.9 million in the form of tenant allowances and contracts with general service providers and other professional service providers. In addition, our operating partnership, PREIT Associates, has jointly and severally guaranteed the obligations of the joint venture we formed with Macerich to develop Fashion District Philadelphia to commence and complete a comprehensive redevelopment of that property costing not less than \$300.0 million within 48 months after commencement of construction, which was March 14, 2016. As of December 31, 2018, we expect to meet this obligation.

**EMPLOYMENT AGREEMENTS** Two officers of the Company currently have employment agreements with terms that renew automatically each year for additional one-year terms. These employment agreements provided for aggregate base compensation for the year ended December 31, 2018 of \$1.3 million, subject to increases as approved by the Executive Compensation and Human Resources Committee of our Board of Trustees in future years, as well as additional incentive compensation.

**PROVISION FOR EMPLOYEE SEPARATION EXPENSE** We recorded \$1.1 million, \$1.3 million and \$1.4 million of employee separation expense in 2018, 2017 and 2016, respectively, in connection with the termination of certain employees. As of December 31, 2018, \$1.1 million of these amounts was accrued and unpaid.

**PROPERTY DAMAGE FROM NATURAL DISASTER** During September 2018, Jacksonville Mall in Jacksonville, North Carolina incurred property damage and an interruption of business operations as a result of Hurricane Florence. The property was closed for business during and immediately after the natural disaster, however, significant remediation efforts were quickly undertaken and the mall was reopened shortly thereafter.

During the twelve months ended December 31, 2018, we recorded recoveries, net in excess of losses, of approximately \$0.7 million. This amount consisted of combined estimated property impairment and remediation losses of \$2.3 million, offset by a corresponding insurance claim recovery of \$3.0 million. Our current insurance policies contain business interruption coverage. To date, we have not recorded any recoveries of such business interruption losses, as such recoveries will be recorded at such time that the recovery is probable.

**OTHER** In 2015, in connection with the acquisition of Springfield Town Center in Springfield, Virginia, we recorded a contingent liability representing the estimated fair value of additional consideration that the seller would potentially be eligible to receive (the “Earnout”). As of December 31, 2015, the estimated fair value of the Earnout was \$8.6 million. In September 2016, based on revised leasing assumptions and other factors, we revised our estimate and eliminated the entire contingent liability associated with the Earnout. The change in the estimated fair value of this contingent liability was recorded as a component of depreciation and amortization expense in the accompanying consolidated statement of operations. The measurement period for the contingent consideration ended on March 31, 2018 and no amounts were paid as additional consideration.

**LEGAL ACTIONS** In the normal course of business, we have and might become involved in legal actions relating to the ownership and operation of our properties and the properties we manage for third parties. In management’s opinion, the resolutions of any such pending legal actions are not expected to have a material adverse effect on our consolidated financial position or results of operations.

**ENVIRONMENTAL** We are aware of certain environmental matters at some of our properties. We have, in the past, performed remediation of such environmental matters, and are not aware of any significant remaining potential liability relating to these environmental matters. We might be required in the future to perform testing relating to these matters. We do not expect these matters to have any significant impact on our liquidity or results of operations. However, we can provide no assurance that the amounts reserved will be adequate to cover further environmental costs. We have insurance coverage for certain environmental claims up to \$25.0 million per occurrence and up to \$25.0 million in the aggregate.

**TAX PROTECTION AGREEMENTS** In connection with the acquisition of Springfield Town Center on March 31, 2015, PREIT Associates, L.P. agreed to provide tax protection to Vornado Realty, L.P. (“VRLP”) in the event of the future taxable sale or disposition of the property. The tax protection is in an amount equal to VRLP’s pre-existing tax protection to Meshulam Riklis (“MR”), the original contributor of the property, plus documented out-of-pocket reasonable costs and expenses. Tax protection ends when VRLP’s liability under the MR tax protection agreement ceases, which will be either (a) upon the death of MR, which occurred after December 31, 2018 or (b) upon the execution of an amendment releasing VRLP from any liability to MR in the event of a sale or disposition of the property.

There were no other tax protection agreements in effect as of December 31, 2018.

### 12. Historic Tax Credits

In the second quarter of 2012, we closed a transaction with a Counterparty (the “Counterparty”) related to the historic rehabilitation of an office building located at 801 Market Street in Philadelphia, Pennsylvania (the “Project”). In December 2018, the historic tax credit arrangement ended when the Counterparty exercised its put option and the Project paid a total of \$1.0 million, comprised of \$0.9 million in exchange for the Counterparty’s ownership interest and an additional \$0.1 million in accrued priority returns for 2018.

The tax credits received by the Counterparty were subject to five year credit recapture periods that ended in 2018. Our obligation to the Counterparty with respect to the tax credits was ratably relieved annually each year. In each of the third quarters of 2018, 2017 and 2016, we recognized \$1.0 million, \$1.9 million, and \$1.9 million, respectively, as “Other income” in the consolidated statements of operations.

We also recorded \$0.2 million of priority returns earned by the Counterparty during each of the third quarters 2018, 2017 and 2016, respectively.

In aggregate, we recorded \$0.8 million, \$1.8 million and \$1.8 million in net income to “Other income” in the consolidated statements of operations in connection with the Project during the years ended December 31, 2018, 2017 and 2016, respectively.

13. Summary of Quarterly Results (Unaudited)

The following presents a summary of the unaudited quarterly financial information for the years ended December 31, 2018 and 2017:

(in thousands of dollars, except per share amounts) For the Year Ended December 31, 2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter <sup>(1)</sup>	Total
Total revenue	\$ 86,282	\$ 91,973	\$ 88,103	\$96,042	\$ 362,400
Net loss <sup>(2)(3)</sup>	(3,712)	(32,321)	(1,636)	(88,834)	(126,503)
Net loss attributable to PREIT <sup>(2)(3)(4)</sup>	(2,601)	(28,201)	(745)	(78,782)	(110,329)
Basic and diluted (loss) earnings per share <sup>(4)</sup>	(0.14)	(0.50)	(0.11)	(1.23)	(1.98)
(in thousands of dollars, except per share amounts) For the Year Ended December 31, 2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter <sup>(1)</sup>	Total
Total revenue	\$ 89,264	\$ 89,250	\$ 89,211	\$ 99,765	\$ 367,490
Net income (loss) <sup>(2)(3)</sup>	(486)	(53,277)	12,300	8,615	(32,848)
Net income (loss) attributable to PREIT <sup>(3)(4)</sup>	227	(46,856)	11,793	8,883	(25,953)
Basic and diluted (loss) earnings per share <sup>(4)</sup>	(0.09)	(0.78)	0.06	(0.03)	(0.84)

<sup>(1)</sup> Fourth Quarter revenue includes a significant portion of annual percentage rent as most percentage rent minimum sales levels are met in the fourth quarter.

<sup>(2)</sup> Includes impairment losses of \$34.2 million (2nd Quarter 2018), \$103.2 million (4th quarter 2018), \$53.9 million (2nd Quarter 2017), \$1.8 million (3rd Quarter 2017) and 0.1 million (4th Quarter 2017).

<sup>(3)</sup> Includes gains on sales of interests in real estate by equity method investee of \$2.8 million (1st Quarter 2018) and \$6.7 million (3rd Quarter 2017), adjustment to gain of equity method investee of \$0.2 million (4th Quarter 2017), gains on sale of interests in real estate \$0.7 million (2nd Quarter 2018) and gains on sales of non operating real estate of \$8.1 million (4th Quarter 2018).

<sup>(4)</sup> Certain prior period amounts for net income (loss) attributable to PREIT common shareholders, basic and diluted earnings per share, noncontrolling interest, total equity - PREIT and cash flow amounts were adjusted to reflect immaterial financial statement error corrections and new accounting rules as discussed in Note 1 to our consolidated financial statements.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Pennsylvania Real Estate Investment Trust (“us” or the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in the rules of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Trustees, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- (1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company’s transactions and the dispositions of assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company’s management and trustees; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company’s annual consolidated financial statements, management has conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management’s assessment included an evaluation of the design of the Company’s internal control over financial reporting and testing of the operational effectiveness of those controls. Based on this evaluation, we have concluded that, as of December 31, 2018, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our independent registered public accounting firm, KPMG LLP, independently assessed the effectiveness of the Company’s internal control over financial reporting. KPMG LLP has issued a report on the effectiveness of internal control over financial reporting that is included on page 50 in this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

**OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS** We have audited the accompanying consolidated balance sheets of Pennsylvania Real Estate Investment Trust and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

**BASIS FOR OPINION** These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company’s auditor since 2002.

Philadelphia, Pennsylvania  
February 25, 2019



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

**OPINION ON INTERNAL CONTROL OVER FINANCIAL REPORTING**  
We have audited Pennsylvania Real Estate Investment Trust and subsidiaries’ (the “Company”) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated February 25, 2019 expressed an unqualified opinion on those consolidated financial statements.

**BASIS FOR OPINION** The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**DEFINITION AND LIMITATIONS OF INTERNAL CONTROL OVER FINANCIAL REPORTING** A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG LLP

Philadelphia, Pennsylvania  
February 25, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (“REITs”) in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region.

We currently own interests in 27 retail properties, of which 25 are operating properties and two are development or redevelopment properties. The 25 operating properties include 21 shopping malls and four other retail properties, have a total of 20.1 million square feet and are located in nine states. We and partnerships in which we hold an interest own 15.7 million square feet at these properties (excluding space owned by anchors or third parties).

There are 19 operating retail properties in our portfolio that we consolidate for financial reporting purposes. These consolidated properties have a total of 16.0 million square feet, of which we own 12.9 million square feet. The six operating retail properties that are owned by unconsolidated partnerships with third parties have a total of 4.1 million square feet, of which 2.8 million square feet are owned by such partnerships. “Same Store” properties are properties that have been owned for the full periods presented excluding Wyoming Valley Mall and properties acquired or disposed of or under redevelopment during the periods presented.

We have one property under redevelopment classified as “retail” (redevelopment of The Gallery at Market East into Fashion District Philadelphia). This redevelopment is expected to open in 2019 and stabilize in 2021. We have one property in our portfolio that is classified as under development, however we do not currently have any activity occurring at this property.

The above property counts do not include undeveloped land parcels located in Gainesville, Florida and New Garden Township, Pennsylvania because these properties were classified as “held for sale” as of December 31, 2018.

Our primary business is owning and operating retail shopping malls, which we do primarily through our operating partnership, PREIT Associates, L.P. (“PREIT Associates” or the “Operating Partnership”). We provide management, leasing and real estate development services through PREIT Services, LLC (“PREIT Services”), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (“PRI”), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties owned by partnerships in which we own an interest, and properties that are owned by third parties in which we do not have an interest. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means

that it is able to offer additional services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law.

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

Our net loss increased by \$93.7 million to a net loss of \$126.5 million for the year ended December 31, 2018 from a net loss of \$32.8 million for the year ended December 31, 2017. The change in our 2018 results of operations was primarily due to increased impairment losses in 2018 as compared to 2017 and dilution from asset sales.

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate our consolidated operations on a geographic basis. Due to the nature of our operating properties, which involve retail shopping, we have concluded that our individual properties have similar economic characteristics and meet all other aggregation criteria. Accordingly, we have aggregated our individual properties into one reportable segment. In addition, no single tenant accounts for 10% or more of our consolidated revenue, and none of our properties are located outside the United States.

We hold our interest in our portfolio of properties through the Operating Partnership. We are the sole general partner of the Operating Partnership and, as of December 31, 2018, held a 89.5% controlling interest in the Operating Partnership, and consolidated it for reporting purposes. We hold our investments in six of the 25 operating retail properties and the two development and redevelopment properties in our portfolio through unconsolidated partnerships with third parties in which we own a 25% to 50% interest.

**ACQUISITIONS AND DISPOSITIONS** See note 2 to our consolidated financial statements for a description of our dispositions and acquisitions in 2018, 2017 and 2016.

**CURRENT ECONOMIC CONDITIONS AND OUR NEAR TERM CAPITAL NEEDS** Conditions in the economy have caused fluctuations and variations in business and consumer confidence, retail sales, and consumer spending on retail goods. Further, traditional mall tenants, including department store anchors and smaller format retail tenants face significant challenges resulting from changing consumer expectations, the convenience of e-commerce shopping, competition from fast fashion retailers, the expansion of outlet centers, and declining mall traffic, among other factors. In recent years, there has been an increased level of tenant bankruptcies and store closings by tenants who have been significantly impacted by these factors.

The table below sets forth information related to our tenants in bankruptcy for our consolidated and unconsolidated properties (excluding tenants in bankruptcy at sold properties):

Year	Pre-bankruptcy				Units Closed		
	Number of Tenants <sup>(1)</sup>	Number of locations impacted	GLA <sup>(2)</sup>	PREIT's Share of Annualized Gross Rent <sup>(3)</sup> (in thousands)	Number of locations closed	GLA <sup>(2)</sup>	PREIT's Share of Annualized Gross Rent <sup>(3)</sup> (in thousands)
<b>2018</b>							
Consolidated properties	10	43	1,221,433	\$ 7,072	4	265,399	\$ 1,549
Unconsolidated properties	3	5	14,977	402	—	—	—
Total	10	48	1,236,410	\$ 7,474	4	265,399	\$ 1,549
<b>2017</b>							
Consolidated properties	16	75	341,701	\$ 10,837	27	176,221	\$ 4,809
Unconsolidated properties	9	16	191,538	2,103	9	164,228	1,581
Total	18	91	533,239	\$ 12,940	36	340,449	\$ 6,390

<sup>(1)</sup> Total represents unique tenants and includes both tenant-owned and landlord-owned stores.

<sup>(2)</sup> Gross Leasable Area ("GLA") in square feet.

<sup>(3)</sup> Includes our share of tenant gross rent from partnership properties based on PREIT's ownership percentage in the respective equity method investments as of December 31, 2018.

**ANCHOR REPLACEMENTS** In recent years, through property dispositions, proactive store recaptures, lease terminations and other activities, we have made efforts to reduce our risks associated with certain department store concentrations. In December 2016, we acquired the Sears property at Woodland Mall and we recaptured the Sears premises at Capital City Mall and Magnolia Mall in 2017. In 2017, we purchased the Macy's locations at Moorestown Mall, Valley View Mall and Valley Mall locations. We entered into a ground lease for the land associated with the Macy's store located at Plymouth Meeting Mall in 2017, and have executed leases with replacement tenants for that location in 2018.

The table below sets forth information related to our anchor replacement program:

Property	Former/Existing Anchors			Replacement Tenant(s)		
	Name	GLA '000's	Date Closed/ Closing	Date Decommissioned	Name	GLA '000's

Completed:

Valley Mall	Macy's	120	Q1 16	n/a	Tilt	48	Q3 18
	Bon-Ton	123	Q1 18	n/a	Onelife Fitness Belk	70 123	Q1 19 Q4 18
Moorestown Mall	Macy's	200	Q1 17	n/a	HomeSense Five Below	28 9	Q3 18 Q4 18
Magnolia Mall	Sears	91	Q1 17	Q2 17	Burlington	46	Q3 17
					HomeGoods	22	Q2 18
Exton Square Mall	K-mart	96	Q1 16	Q2 16	Five Below	8	Q2 18
					Whole Foods	55	Q1 18

In Process:

Woodland Mall	Sears	313	Q2 17	Q2 17	Von Maur	86	Q4 19
					REI	20	Q4 19
					Urban Outfitters	8	Q4 19
					Restaurants and small shop space	22	Q4 19
					Burlington	41	Q4 19
Plymouth Meeting Mall	Macy's <sup>(1)</sup>	215	Q1 17	n/a	Dick's Sporting Goods	58	Q4 19
					Michael's	26	Q4 19
					Edge Fitness	38	Q4 19
					Miller's Ale House	7	Q4 19
					Sierra Trading Post	19	Q1 19
Moorestown Mall	Macy's	200	Q1 17	n/a	Michael's	25	Q3 19
Valley Mall	Sears	123	Q3 17	Q2 18	Dick's Sporting Goods	50	Q1 20
Willow Grove Park	JCPenney	125	Q3 17	n/a	Studio Movie Grill	49	Q2 20
					Entertainment and small shop space	44	Q4 19

<sup>(1)</sup> Property is subject to a ground lease.

In response to anchor store closings and other trends in the retail space, we have been changing the mix of tenants at our properties. We have been reducing the percentage of traditional mall tenants and increasing the share of space dedicated to dining, entertainment, fast fashion, off price, and large format box tenants. Some of these changes may result in the redevelopment of all or a portion of our properties. See “—Capital Improvements, Redevelopment and Development Projects.”

To fund the capital necessary to replace anchors and to maintain a reasonable level of leverage, we expect to use a variety of means available to us, subject to and in accordance with the terms of our Credit Agreements. These steps might include (i) making additional borrowings under our Credit Agreements, (ii) obtaining construction loans on specific projects, (iii) selling properties or interests in properties with values in excess of their mortgage loans (if applicable) and applying the excess proceeds to fund capital expenditures or for debt reduction, (iv) obtaining capital from joint ventures or other partnerships or arrangements involving our contribution of assets with institutional investors, private equity investors or other REITs, or (v) obtaining equity capital, including through the issuance of common or preferred equity securities if market conditions are favorable, or through other actions.

**CAPITAL IMPROVEMENTS, REDEVELOPMENT AND DEVELOPMENT PROJECTS** We might engage in various types of capital improvement projects at our operating properties. Such projects vary in cost and complexity, and can include building out new or existing space for individual tenants, upgrading common areas or exterior areas such as parking lots, or redeveloping the entire property, among other projects. Project costs are accumulated in “Construction in progress” on our consolidated balance sheet until the asset is placed into service, and amounted to \$115.2 million as of December 31, 2018.

As of December 31, 2018, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects at our consolidated and unconsolidated properties of \$117.9 million in the form of tenant allowances and contracts with general service providers and other professional service providers.

In 2014, we entered into a 50/50 joint venture with The Macerich Company (“Macerich”) to redevelop Fashion District Philadelphia. As we redevelop Fashion District Philadelphia, operating results in the short term, as measured by sales, occupancy, real estate revenue, property operating expenses, NOI and depreciation, will continue to be affected until the newly constructed space is completed, leased and occupied.

In January 2018, we along with Macerich, our partner in the Fashion District Philadelphia redevelopment project, entered into a \$250.0 million term loan (the “FDP Term Loan”). The initial term of the FDP Term Loan is five years, and bears interest at a variable rate of 2.00% over LIBOR. PREIT and Macerich secured the FDP Term Loan by pledging their respective equity interests of 50% each in the entities that own Fashion District Philadelphia. The entire \$250.0 million available under the FDP Term Loan was drawn during the first quarter of 2018, and we received an aggregate \$123.0 million as a distribution of our share of the draw in 2018.

We also own one development property, but we do not expect to make any significant investment at this property in the short term.

### Critical Accounting Policies

Critical Accounting Policies are those that require the application of management's most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that might change in subsequent periods. In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the consolidated financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Management has also considered events and changes in property, market and economic conditions, estimated future cash flows from property operations and the risk of loss on specific accounts or amounts in determining its estimates and judgments. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may affect comparability of our results of operations to those of companies in a similar business. The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2018, 2017 and 2016, except as otherwise noted, and none of these estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. We will continue to monitor the key factors underlying our estimates and judgments, but no change is currently expected.

Set forth below is a summary of the accounting policy that management believes is critical to the preparation of the consolidated financial statements. This summary should be read in conjunction with the more complete discussion of our accounting policies included in note 1 to our consolidated financial statements.

**ASSET IMPAIRMENT** Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property to be held and used is considered impaired only if management's estimate of the aggregate future cash flows, less estimated capital expenditures, to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. This estimate takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors.

The determination of undiscounted cash flows requires significant estimates by management, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in the anticipated action to be taken with respect to the property could impact the determination of whether an impairment exists and whether the effects could materially affect our net income. To the extent estimated undiscounted cash flows are less than the carrying value of the property, the loss will be measured as the excess of the carrying amount of the property over the estimated fair value of the property.

Assessment of our ability to recover certain lease related costs must be made when we have a reason to believe that the tenant might not be able to perform under the terms of the lease as originally expected. This requires us to make estimates as to the recoverability of such costs.



An other than temporary impairment of an investment in an unconsolidated joint venture is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value. To the extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is charged to income.

If there is a triggering event in relation to a property to be held and used, we will estimate the aggregate future cash flows, less estimated capital expenditures, to be generated by the property, undiscounted and without interest charges. In addition, this estimate may consider a probability weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or when a range of possible values is estimated.

**NEW ACCOUNTING DEVELOPMENTS** See note 1 to our consolidated financial statements for descriptions of new accounting developments.

Off-Balance Sheet Arrangements

We have no material off-balance sheet items other than (i) the partnerships described in note 3 to our consolidated financial statements and in the “Overview” section above and (ii) specifically with respect to our joint venture formed with Macerich to develop Fashion District Philadelphia, our operating partnership, PREIT Associates, has jointly and severally guaranteed the obligations of the joint venture to commence and complete

a comprehensive redevelopment of that property costing not less than \$300.0 million within 48 months after commencement of construction, which was March 14, 2016, and has severally guaranteed its 50% share of the FDP Term Loan (see note 3 to our consolidated financial statements), which currently has \$150.0 million outstanding (our share of which is \$75.0 million).

Results of Operations

**OVERVIEW** Net loss for the year ended December 31, 2018 was \$126.5 million, compared to a net loss for the year ended December 31, 2017 of \$32.8 million. The change in our 2018 results of operations was primarily due to increased impairment losses in 2018 as compared to 2017 and dilution from asset sales.

Net loss for the year ended December 31, 2017 was \$32.8 million, compared to net loss for the year ended December 31, 2016 of \$12.7 million. The change in our 2017 results of operations was primarily due to gains from real estate sales of \$23.0 million in 2016, as well as a \$18.2 million decrease in non same store net operating income due to property sales in 2016 and 2017. These factors were partially offset by a \$12.3 million decrease in interest expense and a \$6.8 million decrease in impairment of assets.

**OCCUPANCY** The tables below set forth certain occupancy statistics for our retail properties in total and our Core Malls as of December 31, 2018, 2017 and 2016:

	Occupancy <sup>(1)</sup> as of December 31,								
	Consolidated Properties			Unconsolidated Properties			Combined <sup>(2)</sup>		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Retail portfolio weighted average: <sup>(3)</sup>									
Total excluding anchors	93.2%	93.6%	93.4%	90.5%	92.2%	94.2%	92.6%	93.3%	93.6%
Total including anchors	92.8%	95.8%	95.7%	92.2%	93.6%	95.3%	92.7%	95.4%	95.6%
Core Malls weighted average: <sup>(4)</sup>									
Total excluding anchors	94.3%	94.7%	94.1%	88.4%	90.2%	94.8%	93.6%	94.2%	94.2%
Total including anchors	96.5%	96.7%	96.5%	92.0%	93.3%	96.4%	96.0%	96.3%	96.5%

<sup>(1)</sup> Occupancy for all periods presented includes all tenants irrespective of the term of their agreement.

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

<sup>(3)</sup> Retail portfolio includes all retail properties excluding Fashion District Philadelphia because that property is under redevelopment.

<sup>(4)</sup> Core Malls excludes Fashion District Philadelphia, Exton Square Mall, Valley View Mall, Wyoming Valley Mall, power centers and Gloucester Premium Outlets.

From 2017 to 2018, total occupancy for our retail portfolio, including consolidated and unconsolidated properties (and including all tenants irrespective of the term of their agreement), decreased 270 basis points to 92.7%.

From 2017 to 2018, total occupancy for our Core Malls, including consolidated and unconsolidated properties, decreased 30 basis points to 96.0%.

**LEASING ACTIVITY** The table below sets forth summary leasing activity information with respect to our properties for the year ended December 31, 2018, including anchor and non-anchor space at consolidated and unconsolidated properties:

Non Anchor	Number	GLA	Term (in years)	Initial Rent psf	Previous Rent psf	Initial Gross Rent Spread <sup>(1)</sup>		Avg Rent Spread <sup>(2)</sup>	Annualized Tenant Improvements psf <sup>(3)</sup>
						\$	%	%	
New Leases									
Under 10,000 sf	105	343,594	7.3	\$ 44.46	N/A	N/A	N/A	N/A	\$ 10.85
Over 10,000 sf	16	378,155	10.5	19.67	N/A	N/A	N/A	N/A	4.43
Total New Leases	121	721,749	9.0	\$31.47	N/A	N/A	N/A	N/A	6.92
Renewal Leases									
Under 10,000 sf	128	305,119	3.4	\$55.14	\$55.16	\$ (0.20)	—%	5.0%	\$ 0.19
Over 10,000 sf	12	306,229	5.3	21.32	20.64	0.67	3.3%	11.9%	2.45
Total Fixed Rent	140	611,348	4.3	\$38.20	\$37.87	\$0.33	0.9%	6.9%	\$1.58
Percentage in Lieu	46	130,276	1.7	35.27	44.02	(8.75)	(19.9)%	N/A	—
Total Renewal Leases <sup>(4)</sup>	186	741,624	3.9	\$ 37.69	\$38.95	\$(1.27)	(3.3)%	6.9%	\$1.46
Total Non Anchor <sup>(5)</sup>	307	1,463,373	6.4	\$34.62					
Anchor									
New Leases	2	99,258	10.0	\$ 13.30	N/A	N/A	N/A	N/A	\$0.40
Renewal Leases	4	512,858	5.6	3.28	\$ 3.36	(0.08)	(2.4)%	N/A	—
Total	6	612,116	7.1	\$ 4.90					

<sup>(1)</sup>Initial gross rent renewal spread is computed by comparing the initial rent per square foot in the new lease to the final rent per square foot amount in the expiring lease. For purposes of this computation, the rent amount includes minimum rent, common area maintenance (“CAM”) reimbursements, estimated real estate tax reimbursements and marketing charges, but excludes percentage rent. In certain cases, a lower rent amount may be payable for a period of time until specified conditions in the lease are satisfied.

<sup>(2)</sup>Average renewal spread is computed by comparing the average rent per square foot over the new lease term to the final rent per square foot amount in the expiring lease. For purposes of this computation, the rent amount includes minimum rent and fixed CAM reimbursements, but excludes pro rata CAM reimbursements, estimated real estate tax reimbursements, marketing charges and percentage rent.

<sup>(3)</sup> These leasing costs are presented as annualized costs per square foot and are spread uniformly over the initial lease term.

<sup>(4)</sup> Includes 7 leases and 11,102 square feet of GLA with respect to tenants whose leases were restructured and extended following a bankruptcy filing. Excluding those leases, the initial gross rent spread was 1.0% for leases under 10,000 square feet and (2.4%) for all non anchor leases. Excluding these leases, the average rent spreads were 6.2% for leases under 10,000 square feet and 7.8% for all non anchor leases.

<sup>(5)</sup> Includes 53 leases and 172,994 square feet of GLA with respect to our unconsolidated partnerships. We own a 25% to 50% interest in each of our unconsolidated properties and do not control such properties. Our percentage ownership is not necessarily indicative of the legal and economic implications of our ownership interest. See “—Use of Non GAAP Measures” for further details on our ownership interests in our unconsolidated properties.

See our Annual Report on Form 10-K for year ended December 31, 2018 “Item 2. Properties—Retail Lease Expiration Schedule” for information regarding average minimum rent on expiring leases.

The following table sets forth our results of operations for the years ended December 31, 2018, 2017 and 2016:					
(in thousands of dollars)	For the Year Ended December 31, 2018	% Change 2017 to 2018	For the Year Ended December 31, 2017	% Change 2016 to 2017	For the Year Ended December 31, 2016
Results of operations:					
Total real estate revenue	\$ 358,229	(1)%	\$ 361,524	(8)%	\$ 394,597
Other income	4,171	(30)%	5,966	12 %	5,349
Total property operating expenses	(141,232)	1 %	(140,305)	(10)%	(156,218)
General and administrative expenses	(38,342)	4 %	(36,736)	4%	(35,269)
Provision for employee separation expense	(1,139)	(12)%	(1,299)	(4)%	(1,355)
Project costs and other expenses	(693)	(10)%	(768)	(55)%	(1,700)
Insurance recoveries, net	689	N/A	—	N/A	—
Interest expense, net	(61,355)	5 %	(58,430)	(17)%	(70,724)
Depreciation and amortization	(133,116)	3 %	(128,822)	2 %	(126,669)
Impairment of assets	(137,487)	146 %	(55,793)	(11)%	(62,603)
Equity in income of partnerships	11,375	(21)%	14,367	(22)%	18,477
Gain on sale of real estate by equity method investee	2,772	(58)%	6,539	—%	—
Gains (losses) on sales of interests in real estate, net	1,525	522 %	(361)	(102)%	23,022
Gains on sales of non-operating real estate	8,100	538 %	1,270	234 %	380
<b>Net loss</b>	<b>\$ (126,503)</b>	<b>285 %</b>	<b>\$ (32,848)</b>	<b>158 %</b>	<b>\$ (12,713)</b>

The amounts in the preceding table reflect our consolidated properties and our unconsolidated properties. Our unconsolidated properties are presented under the equity method of accounting in the consolidated statements of operations in the line item “Equity in income of partnerships.”

**REAL ESTATE REVENUE** Real estate revenue decreased by \$3.3 million, or 1%, in 2018 as compared to 2017, primarily due to:

- a decrease of \$8.5 million in real estate revenue related to sold properties;
- a decrease of \$2.4 million in same store common area expense reimbursements, due to a decrease in common area expense (see “—Property Operating Expenses”), as well as lower occupancy at some properties and rental concessions made to some tenants under which the terms of their leases were modified such that they no longer pay expense reimbursements;
- a decrease of \$0.9 million in same store partnership marketing revenue;
- a decrease of \$0.6 million in same store utility reimbursements due to a decrease in tenant electric consumption, partially offset by an increase in tenant electric billing rates established by each state’s public utility commission;
- a decrease of \$0.5 million at Wyoming Valley Mall due to two anchor store closings and associated co-tenancy concessions during 2018; and
- a decrease of \$0.2 million in same store marketing revenue; partially offset by
- an increase of \$6.0 million in same store lease termination revenue, including \$8.6 million from the termination of leases with three tenants during 2018, partially offset by \$2.4 million received from four tenants during 2017;
- an increase of \$2.3 million in same store real estate tax reimbursements, due to an increase in real estate tax expense (see “—Property Operating Expenses”), partially offset by lower occupancy at some properties and rental concessions made to some tenants under which the terms of their leases were modified such that they no longer pay expense reimbursements; and
- an increase of \$1.6 million in same store base rent due to \$3.4 million

from net new store openings over the previous twelve months, partially offset by a \$1.0 million decrease related to tenant bankruptcies in 2017 and 2018, as well as a \$0.8 million decrease related to co-tenancy concessions due to anchor closings.

Real estate revenue decreased by \$33.1 million, or 8%, in 2017 as compared to 2016, primarily due to:

- a decrease of \$32.6 million in real estate revenue related to properties sold in 2016 and 2017;
- a decrease of \$2.4 million in same store common area expense reimbursements, due to lower occupancy at some properties, rental concessions made to some tenants under which the terms of their leases were modified such that they no longer pay expense reimbursements, and a decrease in common area expense for tenants who do not pay a fixed amount for common area expense reimbursement (see “—Property Operating Expenses”);
- a decrease of \$1.7 million in lease termination revenue, including \$2.9 million received from one tenant for two locations during 2016;
- a decrease of \$0.7 million in same store utility reimbursements due to a combination of lower tenant electric billing rates as set by the Public Utility Commission, as well as a decrease in electric consumption; and
- a decrease of \$0.6 million in same store percentage rent due to lease renewals with higher base rents and corresponding higher sales break-points for calculating percentage rent, as well as lower sales from some tenants that paid percent rent during 2016; partially offset by
- an increase of \$3.6 million in same store base rent due to \$5.7 million from net new store openings over the previous twelve months, partially offset by a \$1.8 million decrease related to tenant bankruptcies in 2016 and 2017, as well as a \$0.3 million decrease related to co-tenancy concessions due to anchor closings in 2016 and 2017; and
- an increase of \$1.1 million in same store ancillary income.

**PROPERTY OPERATING EXPENSES** Property operating expenses increased by \$0.9 million, or 1%, in 2018 as compared to 2017, primarily due to:

- an increase of \$6.7 million in same store real estate tax expense due to a combination of increases in the real estate tax assessment value and the real estate tax rate, as well as a successful real estate tax appeal at one of our properties resulting in lower real estate tax expense during 2017; and;
- an increase of \$0.1 million in same store other property operating expenses, including a \$0.9 million increase in bad debt expense due to increased reserves for bankruptcy and other troubled tenants and a \$0.2 million increase in non-reimbursable maintenance costs, partially offset by a \$1.0 million decrease in personnel costs; partially offset by
- a decrease of \$4.0 million in property operating expenses related to sold properties; and
- a decrease of \$1.8 million in same store common area maintenance expense, including a \$1.7 million decrease in housekeeping, maintenance and loss prevention expense due to negotiated rate reductions with the service providers and a \$1.2 million decrease in personnel costs, partially offset by a \$0.4 million increase in common area electric expense and a \$0.2 million increase in snow removal expense due to extremely cold temperatures during January 2018 and higher snow fall amounts across the Mid-Atlantic states, where many of our properties are located.

Property operating expenses decreased by \$15.9 million, or 10%, in 2017 as compared to 2016, primarily due to:

- a decrease of \$14.3 million in property operating expenses related to properties sold in 2016 and 2017;
- a decrease of \$3.4 million in same store common area maintenance expense, including a \$2.7 million decrease in personnel costs; and
- a decrease of \$0.3 million in same store tenant utility expense due to lower electricity usage, partially offset by an increase in electricity rates; partially offset by
- an increase of \$1.5 million in same store real estate tax expense due to a combination of increases in the real estate tax assessment value and the real estate tax rate; partially offset by a successful real estate tax appeal at one property; and
- an increase of \$0.5 million in same store bad debt expense due to an increase in the number of tenant bankruptcies during 2017.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses increased by \$1.6 million, or 4%, in 2018 as compared to 2017, primarily due to increases in employee salaries, short-term incentive compensation expense and long-term deferred compensation amortization, as well as an increase in professional fee expense.

General and administrative expenses increased by \$1.5 million, or 4%, in 2017 as compared to 2016, primarily due to increases in employee costs and increases in professional fee expense.

**INSURANCE RECOVERIES, NET** During September 2018, Jacksonville Mall in Jacksonville, North Carolina incurred property damage and an interruption of business operations as a result of Hurricane Florence. The property was closed for business during and immediately after the natural disaster, however, significant remediation efforts were quickly undertaken

and the mall was reopened shortly thereafter.

During the twelve months ended December 31, 2018, we recorded recoveries, net in excess of losses, of approximately \$0.7 million. This amount consisted of combined estimated property impairment and remediation losses of \$2.3 million, offset by a corresponding insurance claim recovery of \$3.0 million. Our current insurance policies contain business interruption coverage. To date, we have not recorded any recoveries of such business interruption losses, as such recoveries will be recorded at such time that the recovery is probable.

**IMPAIRMENT OF ASSETS** During the years ended December 31, 2018, 2017, and 2016, we recorded impairment of assets of \$137.5 million, \$55.8 million and \$62.6 million, respectively. The assets that incurred impairments and the amount of such impairments are as follows:

(in thousands of dollars)	For the Year Ended December 31,		
	2018	2017	2016
Exton Square Mall	\$ 73,218	\$ —	\$ —
Wyoming Valley Mall	32,177	—	—
Valley View Mall	14,294	15,521	—
Wiregrass Mall mortgage note receivable	8,122	—	—
New Garden land	7,567	—	20,786
Gainesville land	2,089	1,275	—
Logan Valley Mall	—	38,720	—
Sunrise land	—	226	—
Beaver Valley Mall	—	—	18,055
Washington Crown Center	—	—	14,117
Crossroads Mall	—	—	9,038
Office building located at Voorhees Town Center	—	—	607
Other	20	51	—
<b>Total impairment of assets</b>	<b>\$137,487</b>	<b>\$55,793</b>	<b>\$62,603</b>

See note 2 to our consolidated financial statements for a further discussion of impairment of assets.

**INTEREST EXPENSE** Interest expense increased by \$2.9 million, or 5%, in 2018 as compared to 2017 due to a decrease in capitalized interest and higher weighted average effective interest rates (4.15% in 2018 compared to 4.01% in 2017), partially offset by lower weighted average debt balance (\$1,624.6 million in 2018 compared to \$1,648.5 million in 2017).

Interest expense decreased by \$12.3 million, or 17%, in 2017 as compared to 2016. Our weighted average debt balance was reduced to \$1,648.5 million in 2017 compared to \$1,760.5 million in 2016 due to the application of cash proceeds from property sales in 2016 and 2017, along with the net proceeds from our 2017 Series C and Series D Preferred Share issuances, net of the redemption of the Series A Preferred Shares, and capital expenditures related to anchor replacements and redevelopment spending. In 2017, we also had lower weighted average effective interest rates than in 2016 (4.01% for 2017 as compared to 4.19% for 2016).

**DEPRECIATION AND AMORTIZATION** Depreciation and amortization expense increased by \$4.3 million, or 3%, in 2018 as compared to 2017, primarily because of:

- an increase of \$5.7 million due to a higher asset base resulting from capital improvements related to new tenants at our same store properties, as well as accelerated amortization of capital improvements associated with store closings; partially offset by



- a decrease of \$1.4 million related to sold properties.

Depreciation and amortization expense increased by \$2.2 million, or 2%, in 2017 as compared to 2016, primarily because of:

- an \$8.7 million benefit recognized in 2016 due to a change in an estimated contingent liability recorded in connection with a property acquisition that did not recur in 2017; and
- an increase of \$1.4 million due to a higher asset base resulting from capital improvements related to new tenants at our same store properties, as well as accelerated amortization of capital improvements associated with store closings; partially offset by
- a decrease of \$7.9 million related to properties sold in 2016 and 2017.

**EQUITY IN INCOME OF PARTNERSHIPS** Equity in income of partnerships decreased by \$3.0 million, or 21%, in 2018 as compared to 2017. This decrease was primarily due to unamortized below-market lease intangibles written off in 2017 related to Fashion District Philadelphia, partially offset by a \$1.6 million mortgage prepayment penalty incurred at Lehigh Valley Mall in 2017 that did not recur.

Equity in income of partnerships decreased by \$4.1 million, or 22%, in 2017 as compared to 2016. This decrease was primarily due to a \$1.6 million mortgage prepayment penalty incurred at Lehigh Valley Mall in 2017, a \$1.3 million decrease in lease termination income in 2017 as compared to 2016, and an aggregate decrease of \$1.0 million related to 2017 bankruptcies.

**GAINS ON SALE OF REAL ESTATE BY EQUITY METHOD INVESTEE** Gain on sale of real estate by equity method investee was \$2.8 million in 2018, which resulted from our 50% share of a \$5.5 million gain on the sale of a condominium interest in 907 Market Street in Philadelphia, Pennsylvania recorded by a partnership in which we hold a 50% ownership interest.

Gain on sale of real estate by equity method investee was \$6.5 million in 2017, which resulted from our 50% share of a \$13.1 million gain on the sale of a condominium interest in 801 Market Street in Philadelphia, Pennsylvania recorded by a partnership in which we hold a 50% ownership interest.

**GAINS (LOSSES) ON SALES OF REAL ESTATE** Gain on sale of real estate was \$1.5 million in 2018, which was primarily due to a \$1.0 million gain on the sale of an outparcel on which two restaurants are located at Valley Mall in Hagerstown, Maryland and a \$0.7 million gain on the sale of an outparcel on which a restaurant is located at Magnolia Mall in Florence, South Carolina, partially offset by adjustment to gains from properties sold in prior periods.

Gain (losses) on sale of real estate, net in 2017 was \$(0.4) million, which was primarily due to adjustments to gains of sales from properties sold in prior periods.

Gain on sale of real estate, net in 2016 was \$23.0 million, which was primarily as a result of a \$20.3 million gain on the sale of two street retail properties in Philadelphia, Pennsylvania.

**GAIN ON SALES OF NON-OPERATING REAL ESTATE, NET** Gain on sales of non-operating real estate was \$8.1 million in 2018, which was primarily due to the sale of a parcel adjacent to Exton Square Mall in Exton, Pennsylvania.

Gain on sales of non-operating real estate was \$1.3 million in 2017, which was primarily due to the sale of three non-operating parcels located at Beaver Valley Mall, Exton Square Mall and Valley Mall.

## NON-GAAP SUPPLEMENTAL FINANCIAL MEASURES

**OVERVIEW** The preceding discussion analyzes our financial condition and results of operations in accordance with generally accepted accounting principles, or GAAP, for the periods presented. We also use Net Operating Income (“NOI”) and Funds from Operations (“FFO”) which are non-GAAP financial measures, to supplement our analysis and discussion of our operating performance:

- We believe that NOI is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment and provides a method of comparing property performance over time. When we use and present NOI, we also do so on a same store (Same Store NOI) and non-same store (Non Same Store NOI) basis to differentiate between properties that we have owned for the full periods presented and properties acquired, sold or under redevelopment during those periods. Furthermore, our use and presentation of NOI combines NOI from our consolidated properties and NOI attributable to our share of unconsolidated properties in order to arrive at total NOI. We believe that this is also helpful information because it reflects the pro rata contribution from our unconsolidated properties that are owned through investments accounted for under GAAP as equity in income of partnerships. See “Unconsolidated Properties and Proportionate Financial Information” below.
- We believe that FFO is also helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as gains on sales of operating real estate and depreciation and amortization of real estate, among others. In addition to FFO and FFO per diluted share and OP Unit, we also present FFO, as adjusted and FFO per diluted share and OP Unit, as adjusted to show the effect of items such as impairment of mortgage asset, provision for employee separation expense, insurance recoveries, prepayment penalties, accelerated amortization of deferred financing costs, loss on redemption of preferred shares and loss on hedge ineffectiveness.

NOI and FFO are commonly used non-GAAP financial measures of operating performance in the real estate industry, and we use them as supplemental non-GAAP measures to compare our performance between different periods and to compare our performance to that of our industry peers. Our computation of NOI, FFO and other non-GAAP financial measures, such as Same Store NOI, Non Same Store NOI, NOI attributable to our share of unconsolidated properties, and FFO, as adjusted, may not be comparable to other similarly titled measures used by our industry peers. None of these measures are measures of performance in accordance with GAAP, and they have limitations as analytical tools. They should not be considered as alternative measures of our net income, operating performance, cash flow or liquidity. They are not indicative of funds available for our cash needs, including our ability to make cash distributions. Please see below for a discussion of these non-GAAP measures and their respective reconciliation to the most directly comparable GAAP measure.

### UNCONSOLIDATED PROPERTIES AND PROPORTIONATE FINANCIAL INFORMATION

The non-GAAP financial measures presented below incorporate financial information attributable to our share of unconsolidated properties. This proportionate financial information is non-GAAP financial information, but we believe that it is helpful information because it reflects the pro rata contribution from our unconsolidated properties that are owned through investments accounted for under GAAP using the equity method of accounting. Under such method, earnings from these unconsolidated partnerships are

recorded in our statements of operations prepared in accordance with GAAP under the caption entitled “Equity in income of partnerships.”

To derive the proportionate financial information reflected in the tables below as “unconsolidated,” we multiplied the percentage of our economic interest in each partnership on a property-by-property basis by each line item. Under the partnership agreements relating to our current unconsolidated partnerships with third parties, we own a 25% to 50% economic interest in such partnerships, and there are generally no provisions in such partnership agreements relating to special non-pro rata allocations of income or loss, and there are no preferred or priority returns of capital or other similar provisions. While this method approximates our indirect economic interest in our pro rata share of the revenue and expenses of our unconsolidated partnerships, we do not have a direct legal claim to the assets, liabilities, revenues or expenses of the unconsolidated partnerships beyond our rights as an equity owner in the event of any liquidation of such entity. Our percentage ownership is not necessarily indicative of the legal and economic implications of our ownership interest. Accordingly, NOI and FFO results based on our share of the results of unconsolidated partnerships do not represent cash generated from our investments in these partnerships.

We have determined that we hold a noncontrolling interest in each of our unconsolidated partnerships, and account for such partnerships using the equity method of accounting, because:

- Except for two properties that we co-manage with our partner, all of the other entities are managed on a day-to-day basis by one of our other partners as the managing general partner in each of the respective partnerships. In the case of the co-managed properties, all decisions in the ordinary course of business are made jointly.
- The managing general partner is responsible for establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.
- All major decisions of each partnership, such as the sale, refinancing, expansion or rehabilitation of the property, require the approval of all partners.
- Voting rights and the sharing of profits and losses are generally in proportion to the ownership percentages of each partner.

We hold legal title to a property owned by one of our unconsolidated partnerships through a tenancy in common arrangement. For this property, such legal title is held by us and another entity, and each has an undivided interest in title to the property. With respect this property, under the applicable agreements between us and the entity with ownership interests, we and such other entity have joint control because decisions regarding matters such as the sale, refinancing, expansion or rehabilitation of the property require the approval of both us and the other entity owning an interest in the property. Hence, we account for this property like our other unconsolidated partnerships using the equity method of accounting. The balance sheet items arising from this property appear under the caption “Investments in partnerships, at equity.”

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

**NET OPERATING INCOME (“NOI”)** NOI (a non-GAAP measure) is derived from real estate revenue (determined in accordance with GAAP, including lease termination revenue), minus property operating expenses (determined in accordance with GAAP), plus our pro rata share of revenue and property operating expenses of our unconsolidated partnership investments. NOI does not represent cash generated from operating

activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity. It is not indicative of funds available for our cash needs, including our ability to make cash distributions. We believe NOI is helpful to management and investors as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. We believe that net income is the most directly comparable GAAP measure to NOI. NOI excludes other income, general and administrative expenses, provision for employee separation expenses, interest expense, depreciation and amortization, gains on sales of real estate by equity method investees, gain on sale of non operating real estate, gain on sale of interest in real estate, impairment of assets, project costs and other expenses.

Same Store NOI is calculated using retail properties owned for the full periods presented and excludes properties acquired or disposed of or under redevelopment during the periods presented. Non Same Store NOI is calculated using the retail properties excluded from the calculation of Same Store NOI.

The table below reconciles net loss to NOI of our consolidated properties for the years ended 2018, 2017 and 2016:

(in thousands of dollars)	For the Year Ended December 31,		
	2018	2017	2016
Net loss	\$ (126,503)	\$(32,848)	\$(12,713)
Other income	(4,171)	(5,966)	(5,349)
Depreciation and amortization	133,116	128,822	126,669
General and administrative expenses	38,342	36,736	35,269
Provision for employee separation expenses	1,139	1,299	1,355
Project costs and other expenses	693	768	1,700
Insurance recoveries, net	(689)	—	—
Interest expense, net	61,355	58,430	70,724
Impairment of assets	137,487	55,793	62,603
Equity in income of Partnerships	(11,375)	(14,367)	(18,477)
Gain on sales of real estate by equity method investee	(2,772)	(6,539)	—
Gains (losses) on sales of interests in real estate	(1,525)	361	(23,022)
Gains on sales of non-operating real estate	(8,100)	(1,270)	(380)
<b>Net operating income from consolidated properties</b>	<b>\$216,997</b>	<b>\$ 221,219</b>	<b>\$238,379</b>

The table below reconciles equity in income of partnerships to NOI of our share of unconsolidated properties for the years ended 2018, 2017 and 2016:

(in thousands of dollars)	For the Year Ended December 31,		
	2018	2017	2016
Equity in income of partnerships	\$ 11,375	\$ 14,367	\$ 18,477
Other income	(82)	(594)	—
Depreciation and amortization	8,612	10,974	10,214
Interest and other expenses	10,828	12,013	10,306
<b>Net operating income from equity method investments at ownership share</b>	<b>\$ 30,733</b>	<b>\$ 36,760</b>	<b>\$ 38,997</b>

(in thousands of dollars)	Same Store		Non Same Store		Total (non-GAAP)	
	2018	2017	2018	2017	2018	2017
NOI from consolidated properties	\$210,112	\$209,244	\$6,885	\$ 11,975	\$ 216,997	\$ 221,219
NOI from equity method investments at ownership share	30,161	30,266	572	6,494	30,733	36,760
<b>Total NOI</b>	<b>\$240,273</b>	<b>\$239,510</b>	<b>\$7,457</b>	<b>\$18,469</b>	<b>\$247,730</b>	<b>\$257,979</b>
Less: lease termination revenue	9,183	3,142	35	85	9,218	3,227
<b>Total NOI - excluding lease termination revenue</b>	<b>\$231,090</b>	<b>\$236,368</b>	<b>\$7,422</b>	<b>\$18,384</b>	<b>\$238,512</b>	<b>\$254,752</b>

Total NOI decreased by \$10.2 million, or 4.0%, in 2018 as compared to 2017. NOI from Non Same Store properties decreased by \$11.0 million. This decrease was primarily due to the properties sold in 2018 and 2017. NOI from Same Store properties increased by \$0.8 million primarily due to property results as discussed in “—Results of Operations—Real Estate Revenue” and “—Property Operating Expenses.”

The table below presents total NOI and total NOI excluding lease terminations for the years ended December 31, 2017 and 2016:

(in thousands of dollars)	Same Store		Non Same Store		Total (non-GAAP)	
	2017	2016	2017	2016	2017	2016
NOI from consolidated properties	\$216,403	\$ 215,321	\$ 4,816	\$23,058	\$ 221,219	\$ 238,379
NOI from equity method investments at ownership share	30,266	32,579	6,494	6,418	36,760	38,997
<b>Total NOI</b>	<b>246,669</b>	<b>247,900</b>	<b>11,310</b>	<b>29,476</b>	<b>257,979</b>	<b>277,376</b>
Less: lease termination revenue	3,142	6,009	85	183	3,227	6,192
<b>Total NOI - excluding lease termination revenue</b>	<b>\$243,527</b>	<b>\$241,891</b>	<b>\$11,225</b>	<b>\$29,293</b>	<b>\$254,752</b>	<b>\$271,184</b>

Total NOI decreased by \$19.4 million, or 7.0%, in 2017 as compared to 2016. NOI from Non Same Store properties decreased by \$18.2 million. This decrease was primarily due to the properties sold in 2017 and 2016. NOI from Same Store properties decreased by \$1.2 million primarily due to decreased lease termination income, partially offset by the property results as discussed in “—Results of Operations—Real Estate Revenue” and “—Property Operating Expenses”.

**FUNDS FROM OPERATIONS** The National Association of Real Estate Investment Trusts (“NAREIT”) defines Funds From Operations (“FFO”), which is a non-GAAP measure commonly used by REITs, as net income (computed in accordance with GAAP) excluding gains and losses on sales of operating properties, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures to reflect funds from operations on the same basis. We compute FFO in accordance with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do. NAREIT’s established guidance provides that excluding impairment write downs of depreciable real estate is consistent with the NAREIT definition.

FFO is a commonly used measure of operating performance and profitability among REITs. We use FFO and FFO per diluted share and unit of limited partnership interest in our operating partnership (“OP Unit”) in measuring our performance against our peers and as one of the performance measures for determining incentive compensation amounts earned under certain of our performance-based executive compensation programs.

FFO does not include gains and losses on sales of operating real estate assets or impairment write downs of depreciable real estate (including development land parcels), which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial perfor-

mance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as NOI. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that net income is the most directly comparable GAAP measurement to FFO.

We also present Funds From Operations, as adjusted, and Funds From Operations per diluted share and OP Unit, as adjusted, which are non-GAAP measures, for the years ended December 31, 2018, 2017 and 2016, respectively, to show the effect of such items as impairment of mortgage asset, provision for employee separation expense, insurance recoveries, prepayment penalties, accelerated amortization of deferred financing costs, loss on redemption of preferred shares and loss on hedge ineffectiveness which had an effect on our results of operations, but are not, in our opinion, indicative of our ongoing operating performance.

We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income that do not relate to or are not indicative of operating performance, such as gains on sales of operating real estate and depreciation and amortization of real estate, among others. We believe that Funds From Operations, as adjusted, is helpful to management and investors as a measure of operating performance because it adjusts FFO to exclude items that management does not believe are indicative of our operating performance, such as impairment of mortgage asset, provision for employee separation

expense, insurance recoveries, prepayment penalties, accelerated amortization of deferred financing costs, loss on redemption of preferred shares and loss on hedge ineffectiveness.

The following table presents a reconciliation of net income (loss) determined in accordance with GAAP to FFO attributable to common shareholders and OP Unit holders, FFO attributable to common shareholders and OP Unit holders per diluted share and OP Unit, FFO attributable to common shareholders and OP Unit holders, as adjusted and FFO attributable to common shareholders and OP Unit holders, as adjusted per diluted share and OP Unit, for the years ended December 31, 2018, 2017 and 2016:

(in thousands, except per share amounts)	For the Year Ended December 31,			
	2018	% Change 2017 to 2018	2017	% Change 2016 to 2017
Net loss	\$ (126,503)		\$ (32,848)	\$ (12,713)
Adjustments:				
Depreciation and amortization on real estate				
Consolidated	131,694		127,327	125,192
Unconsolidated	8,612		10,974	10,214
Gain on sale of real estate by equity method investee	(2,772)		(6,539)	—
Gains (losses) on sales of real estate, net	(1,525)		361	(23,022)
Impairment of real estate assets	129,365		55,793	62,603
Dividends on preferred shares	(27,375)		(27,845)	(15,848)
Loss on redemption of preferred shares	—		(4,103)	—
<b>Funds from operations attributable to common shareholders and OP Unit holders</b>	<b>111,496</b>	<b>(9.4%)</b>	<b>123,120</b>	<b>(15.9%)</b>
Impairment of mortgage loan receivable	8,122		—	—
Provision for employee separation expense	1,139		1,299	1,355
Insurance recoveries, net	(689)		—	—
Prepayment penalty and accelerated amortization of deferred financing costs	363		1,557	—
Loss on redemption of preferred shares	—		4,103	—
Loss on hedge ineffectiveness	—		—	143
<b>Funds from operations attributable to common shareholders and OP Unit holders, as adjusted</b>	<b>\$ 120,431</b>	<b>(7.4%)</b>	<b>\$130,079</b>	<b>(12.1%)</b>
<b>Funds from operations attributable to common shareholders and OP Unit holders per diluted share and OP Unit</b>	<b>\$ 1.43</b>	<b>(9.5%)</b>	<b>\$ 1.58</b>	<b>(16.4%)</b>
<b>Funds from operations attributable to common shareholders and OP Unit holders, as adjusted, per diluted share and OP Unit</b>	<b>\$ 1.54</b>	<b>(7.8%)</b>	<b>\$ 1.67</b>	<b>(12.6%)</b>
Weighted average number of shares outstanding	69,749		69,364	69,086
Weighted average effect of full conversion of OP Units	8,273		8,297	8,324
Effect of common share equivalents	203		93	191
<b>Total weighted average shares outstanding, including OP Units</b>	<b>78,225</b>		<b>77,754</b>	<b>77,601</b>

FFO was \$111.5 million for 2018, a decrease of \$11.6 million, or 9.4%, compared to \$123.1 million for 2017. This decrease was primarily due to:

- a \$11.0 million decrease in Non Same Store NOI primarily due to properties sold; and
- a \$8.1 million impairment on a mortgage loan receivable asset; partially offset by
- a \$4.1 million loss on preferred share redemption in 2017;
- a \$1.7 million decrease in interest expense; and
- a \$0.8 million increase in Same Store NOI.

FFO per diluted share and OP Unit decreased \$0.15 per share to \$1.43 per share for 2018, compared to \$1.58 per share for 2017 due to the factors noted above and higher share count in the 2018 period.

FFO was \$123.1 million for 2017, a decrease of \$23.3 million, or 15.9%, compared to \$146.4 million for 2016. This decrease was primarily due to:

- a \$18.2 million decrease in Non Same Store NOI primarily due to properties sold;
- a \$12.0 million increase in preferred share dividends; and
- a \$4.1 million loss on preferred share redemption in 2017; partially offset by
- a \$10.5 million decrease in interest expense; and
- a \$1.2 million increase in Same Store NOI.

FFO per diluted share decreased \$0.31 per share to \$1.58 per share for 2017, compared to \$1.89 per share for 2016 primarily due to the factors noted above.



Liquidity and Capital Resources

This “Liquidity and Capital Resources” section contains certain “forward-looking statements” that relate to expectations and projections that are not historical facts. These forward-looking statements reflect our current views about our future liquidity and capital resources, and are subject to risks and uncertainties that might cause our actual liquidity and capital resources to differ materially from the forward-looking statements. Additional factors that might affect our liquidity and capital resources include those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018 in the section entitled “Item 1A. Risk Factors.” We do not intend to update or revise any forward-looking statements about our liquidity and capital resources to reflect new information, future events or otherwise.

**CAPITAL RESOURCES** We expect to meet our short-term liquidity requirements, including distributions to shareholders, recurring capital expenditures, tenant improvements and leasing commissions, but excluding acquisitions and redevelopment and development projects, generally through our available working capital and net cash provided by operations and our 2018 Revolving Facility, subject to the terms and conditions of our 2018 Revolving Facility. We believe that our net cash provided by operations will be sufficient to allow us to make any distributions necessary to enable us to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. The aggregate distributions made to preferred shareholders, common shareholders and OP Unit holders for 2018 were \$93.5 million, based on distributions of \$1.8438 per Series B Preferred Share, distributions of \$1.8000 per Series C Preferred Share, distributions of \$1.7188 per Series D Preferred Share and distributions of \$0.84 per common share and OP Unit. For the first quarter of 2019, we have announced a distribution of \$0.21 per common share and OP Unit.

In December 2017, our universal shelf registration statement was filed with the SEC and became effective. We may use the availability under our shelf registration statement to offer and sell common shares of beneficial interest, preferred shares and various types of debt securities, among other types of securities, to the public.

During 2018, we raised capital from a number of sources, including proceeds of \$33.5 million from our share of asset sales by us and our unconsolidated subsidiaries, \$123.0 million in distributions from the proceeds of the Fashion District Philadelphia Term Loan, net proceeds of \$12.0 million from our revolving facilities and an additional \$10.2 million on the mortgage loan secured by Viewmont Mall.

The following are some of the factors that could affect our cash flows and require the funding of future cash distributions, recurring capital expenditures, tenant improvements or leasing commissions with sources other than operating cash flows:

- adverse changes or prolonged downturns in general, local or retail industry economic, financial, credit or capital market or competitive conditions, leading to a reduction in real estate revenue or cash flows or an increase in expenses;
- deterioration in our tenants’ business operations and financial stability, including anchor or non-anchor tenant bankruptcies, leasing delays or terminations, or lower sales, causing deferrals or declines in rent, percentage rent and cash flows;
- inability to achieve targets for, or decreases in, property occupancy and rental rates, resulting in lower or delayed real estate revenue and operating income;
- increases in operating costs, including increases that cannot be passed on to tenants, resulting in reduced operating income and cash flows; and
- increases in interest rates, resulting in higher borrowing costs.

We expect to meet certain of our longer-term requirements, such as obligations to fund redevelopment and development projects, certain capital

requirements (including scheduled debt maturities), future property and portfolio acquisitions, renovations, expansions and other non-recurring capital improvements, through a variety of capital sources, subject to the terms and conditions of our Credit Agreements, as further described below.

**CREDIT AGREEMENTS** We have entered into two credit agreements (collectively, as amended, the “Credit Agreements”): (1) the 2018 Credit Agreement, which, as described in more detail below, includes (a) the 2018 Revolving Facility, and (b) the 2018 Term Loan Facility, and (2) the 2014 7-Year Term Loan. The 2018 Term Loan Facility and the 2014 7-Year Term Loan are collectively referred to as the “Term Loans.”

As of December 31, 2018, we had borrowed \$550.0 million under the Term Loans and \$65.0 million under the 2018 Revolving Facility (with \$5.1 million pledged as collateral for letters of credit at December 31, 2018). The carrying value of the Term Loans on our consolidated balance sheet as of December 31, 2018 is net of \$2.7 million of unamortized debt issuance costs. The net operating income (“NOI”) from our unencumbered properties is at a level such that within the Unencumbered Debt Yield covenant (see note 4 in the notes to our consolidated financial statements) under the Credit Agreements, the maximum amount that was available to be borrowed by us under the 2018 Revolving Facility as of December 31, 2018 was \$179.3 million.

**IDENTICAL COVENANTS AND COMMON PROVISIONS CONTAINED IN THE CREDIT AGREEMENTS** See note 4 in the notes to our consolidated financial statements for a description of the identical covenants and common provisions contained in the Credit Agreements.

As of December 31, 2018, we were in compliance with all such financial covenants.

**PREFERRED SHARES** We have 3,450,000 7.375% Series B Cumulative Redeemable Perpetual Preferred Shares (the “Series B Preferred Shares”) outstanding, 6,900,000 7.20% Series C Cumulative Redeemable Perpetual Preferred Shares (the “Series C Preferred Shares”) outstanding and 5,000,000 6.875% Series D Cumulative Redeemable Perpetual Preferred Shares (the “Series D Preferred Shares”) outstanding. Upon 30 days notice, we may redeem any or all of the Series B Preferred Shares at \$25.00 per share plus any accrued and unpaid dividends. We may not redeem the Series C Preferred Shares and the Series D Preferred Shares before January 27, 2022 and September 15, 2022, respectively, except to preserve our status as a REIT or upon the occurrence of a Change of Control, as defined in the Trust Agreement addendums designating the Series C and Series D Preferred Shares, respectively. On and after January 27, 2022 and September 15, 2022, we may redeem any or all of the Series C Preferred Shares or the Series D Preferred Shares, respectively, at \$25.00 per share plus any accrued and unpaid dividends. In addition, upon the occurrence of a Change of Control, we may redeem any or all of the Series C Preferred Shares or the Series D Preferred Shares for cash within 120 days after the first date on which such Change of Control occurred at \$25.00 per share plus any accrued and unpaid dividends. The Series B Preferred Shares, the Series C Preferred Shares and the Series D Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless we redeem or otherwise repurchase them or they are converted.

**MORTGAGE LOAN ACTIVITY—CONSOLIDATED PROPERTIES** The following table presents the mortgage loans we have entered into or extended since January 1, 2016 related to our consolidated properties:

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Interest Rate	Maturity
<b>2018 Activity:</b>				
January	Francis Scott Key Mall <sup>(1)</sup>	\$ 68.5	LIBOR plus 2.60%	January 2022
February	Viewmont Mall <sup>(2)</sup>	\$ 10.2	LIBOR Plus 2.35%	March 2021
<b>2016 Activity:</b>				
March	Viewmont Mall <sup>(2)</sup>	\$ 9.0	LIBOR plus 2.35%	March 2021
April	Woodland Mall <sup>(3)</sup>	\$ 130.0	LIBOR plus 2.00%	April 2021

<sup>(1)</sup> In January 2018, the \$68.5 million mortgage loan secured by Francis Scott Key was amended to extend the initial maturity date to January 2022, and has a one-year extension option that would further extend the maturity date to January 2023.

<sup>(2)</sup> In 2018, the mortgage was increased by \$10.2 million to \$67.2 million. In 2016, the mortgage was increased by \$9.0 million and the interest rate was lowered to LIBOR plus 2.35% and the maturity date was extended to March 2021.

<sup>(3)</sup> The proceeds from the new mortgage loan were used to pay down a portion of the Credit Facility borrowings that were used to repay the previous \$141.2 million mortgage loan.

As a result of its Chapter 11 bankruptcy filing, the Bon-Ton anchor store at Wyoming Valley Mall in Wilkes-Barre, Pennsylvania closed on August 31, 2018. In addition, the Sears store at Wyoming Valley Mall ceased operations on July 15, 2018 and Sears vacated the premises on August 1, 2018, the date its lease expired. We have received a notice of transfer of servicing, dated July 9, 2018, from the special servicer for the mortgage loan secured by Wyoming Valley Mall, which had a balance of \$73.8 million as of December 31, 2018, and with respect to which we received a notice of default on the loan from the lender, dated December 14, 2018. The loan is subject to a cash sweep arrangement as a result of an anchor tenant trigger event. We are working with the special servicer regarding a potential deed in lieu of foreclosure, but make no assurances as to whether an agreement will ultimately be reached. The lender’s recourse is limited to foreclosing on the property and we have not guaranteed the payment of principal or interest on the mortgage loan.

In March 2017, we repaid a \$150.6 million mortgage loan plus accrued interest secured by The Mall at Prince Georges in Hyattsville, Maryland using \$110.0 million from our 2013 Revolving Facility and the balance from available working capital.

In March 2016, we repaid a \$79.3 million mortgage loan plus accrued interest secured by Valley Mall in Hagerstown, Maryland using \$50.0 million from our 2013 Revolving Facility and the balance from available working capital.

In March 2016, we repaid a \$32.8 million mortgage loan plus accrued interest secured by Lycoming Mall in Pennsdale, Pennsylvania in connection with the March 2016 sale of the property using proceeds from the sale and available working capital.

In March 2016, we repaid a \$28.1 million mortgage loan plus accrued interest secured by New River Valley Mall in Christiansburg, Virginia in connection with the March 2016 sale of the property using proceeds from the sale.

**MORTGAGE LOANS** Our mortgage loans, which are secured by 11 of our consolidated properties, are due in installments over various terms extending to the year 2025. Eight of these mortgage loans bear interest at fixed interest rates that range from 3.88% to 5.95% and had a weighted average interest rate of 4.28% at December 31, 2018. Three of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 4.60% at December 31, 2018. The weighted average interest rate of all consolidated mortgage loans was 4.36% at December 31, 2018. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments,” and are not included in the table below.

The following table outlines the timing of principal payments and balloon payments pursuant to the terms of our mortgage loans on our consolidated properties as of December 31, 2018:

(in thousands of dollars)	Payments by Period					
	Total	2019	2020	2021	2022-2023	Thereafter
<b>Consolidated mortgage loans</b>						
Principal payments	\$ 92,928	\$ 18,561	\$ 19,759	\$ 20,685	\$ 23,112	\$ 10,811
Balloon payments	958,042	—	27,161	188,785	530,750	211,346
<b>Total consolidated mortgage loans</b>	<b>\$ 1,050,970</b>	<b>\$ 18,561</b>	<b>\$ 46,920</b>	<b>\$ 209,470</b>	<b>\$ 553,862</b>	<b>\$ 222,157</b>
Less: Unamortized debt issuance costs	3,064					
<b>Carrying value of mortgage notes payable</b>	<b>\$ 1,047,906</b>					

**CONTRACTUAL OBLIGATIONS** The following table presents our consolidated aggregate contractual obligations as of December 31, 2018 for the periods presented:

(in thousands of dollars)	Total	2019	2020	2021	2022-2023	Thereafter
Mortgage loans	\$ 1,050,970	\$ 18,561	\$ 46,920	\$ 209,470	\$ 553,862	\$ 222,157
Term Loans	550,000	—	—	250,000	300,000	—
2018 Revolving Facility	65,000	—	—	65,000	—	—
Interest on indebtedness <sup>(1)</sup>	247,102	65,268	64,573	58,201	43,737	15,323
Operating leases	2,654	1,823	461	272	98	—
Ground leases	41,279	1,184	1,384	1,584	3,168	33,959
Development and redevelopment commitments <sup>(2)</sup>	117,906	110,766	7,140	—	—	—
<b>Total</b>	<b>\$2,074,911</b>	<b>\$197,602</b>	<b>\$ 120,478</b>	<b>\$584,527</b>	<b>\$900,865</b>	<b>\$271,439</b>

<sup>(1)</sup> Includes interest payments expected to be made on consolidated debt, including those in connection with interest rate swap agreements.

<sup>(2)</sup> The timing of the payments of these amounts is uncertain. We expect that a significant majority of such payments (of which we include 100% of Fashion District Philadelphia which is scheduled to open in the third quarter of 2019) will be made prior to December 31, 2019, but cannot provide any assurance that changed circumstances at these projects will not delay the settlement of these obligations. In addition, our operating partnership, PREIT Associates, has jointly and severally guaranteed the obligations of the joint venture we formed with Macerich to develop Fashion District Philadelphia to commence and complete a comprehensive redevelopment of that property costing not less than \$300.0 million within 48 months after commencement of construction, which was March 14, 2016.

**MORTGAGE LOAN ACTIVITY—UNCONSOLIDATED PROPERTIES** The following table presents the mortgage loans secured by our unconsolidated prop-erties entered into since January 1, 2016:

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Interest Rate	Maturity
<b>2018 Activity:</b>				
February	Pavilion at Market East <sup>(1)</sup>	\$ 8.3	LIBOR plus 2.85%	February 2021
March	Gloucester Premium Outlets <sup>(2)</sup>	\$ 86.0	LIBOR plus 1.50%	March 2022
<b>2017 Activity:</b>				
October	Lehigh Valley Mall <sup>(3)(4)</sup>	\$200.0	Fixed 4.06%	November 2027

<sup>(1)</sup> We own a 40% partnership interest in Pavilion at Market East and our share of this mortgage loan is \$3.2 million.

<sup>(2)</sup> We own a 25% partnership interest in Gloucester Premium Outlets and our share of this mortgage loan is \$21.5 million.

<sup>(3)</sup> The proceeds were used to repay the existing \$124.6 million mortgage loan plus accrued interest. We own a 50% partnership interest in Lehigh Valley Mall and our share of this mortgage loan is \$100.0 million.

<sup>(4)</sup> We received \$35.3 million of proceeds as a distribution in connection with the financing. In connection with this new mortgage loan financing, the unconsolidated entity recorded \$3.1 million of prepayment penalty and accelerated the amortization of \$0.1 million of unamortized financing costs in the fourth quarter of 2017.

**INTEREST RATE DERIVATIVE AGREEMENTS** As of December 31, 2018, we had interest rate swap agreements outstanding with a weighted average base interest rate of 1.55% on a notional amount of \$797.3 mil-lion, maturing on various dates through May 2023, and forward starting interest rate swap agreements outstanding with a weighted average base interest rate of 2.71% on a notional amount of \$250.0 million, with effec-tive dates from January 2019 through June 2020, and maturity dates in May 2023. We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long term debt. The interest rate swap agreements are net settled monthly. We assessed the effectiveness of these swap agreements as hedges at inception and do so on a quarterly basis. On December 31, 2018, we considered these interest rate swap agreements to be highly effective as cash flow hedges.

As of December 31, 2018, the fair value of derivatives in a liability position, which excludes accrued interest but includes any adjustment for nonperfor-mance risk related to these agreements, was \$3.0 million. If we had breached any of the default provisions in these agreements as of December 31, 2018, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of \$3.2 million. We had not breached any of these provisions as of December 31, 2018.

The carrying amount of the associated assets are recorded in “Deferred costs and other assets,” liabilities are reflected in “Fair value of derivative instruments” and the net unrealized loss is reflected in “Accumulated other comprehensive loss” in the accompanying consolidated balance sheets and consolidated statements of comprehensive income.

**Cash Flows**

Net cash provided by operating activities totaled \$134.9 million for 2018 compared to \$142.1 million for 2017 and \$154.9 million for 2016. The decrease in net cash provided by operating activities in 2018 is primarily due to dilution from sales of operating properties in 2017, partially offset by changes in working capital and other items. The decrease in net cash provided by operating activities in 2017 also was primarily due to dilution from sales of operating properties in 2016 and 2017.

Cash flows used in investing activities were \$41.6 million for 2018, com-pared to \$105.4 million for 2017 and \$4.9 million for 2016.

Investing activities in 2018 included investment in construction in progress of \$75.6 million, investments in partnerships of \$58.1 million (primarily at Fashion District Philadelphia) and real estate improvements of \$35.2 mil-lion (primarily related to capital improvements at our properties, including tenant allowances), partially offset by \$13.7 million of proceeds from land and outparcel sales, \$123.0 million of distributions from the FDP Term Loan, and \$19.7 million of proceeds from the sale of 907 Market Street by the Fashion District Philadelphia joint venture.

Investing activities for 2017 included investment in construction in progress of \$116.6 million, investments in partnerships of \$73.4 million (primarily at Fashion District Philadelphia) and real estate improvements of \$51.9 million (primarily related to capital improvements at our properties, including tenant allowances), partially offset by \$77.8 million of proceeds from the sale of three operating properties and two non-operating parcels, \$35.2 million of distributions of refinancing proceeds from Lehigh Valley Mall and \$30.3 million of proceeds from the sale of 801 Market Street by the Fashion District Philadelphia joint venture.

Investing activities for 2016 included proceeds totaling \$154.8 million from the sale of seven operating properties and two outparcels, partially offset by investment in construction in progress of \$88.2 million and real

estate improvements of \$49.9 million, primarily related to tenant allow-ances, recurring capital expenditures, and ongoing improvements at our properties.

Cash flows used in financing activities were \$94.8 million for 2018 com-pared to cash flows used in financing activities of \$32.6 million for 2017 and cash flows used in financing activities of \$162.6 million for 2016.

Cash flows used in financing activities for 2018 included aggregate div-idends and distributions of \$93.5 million and principal installments on mortgage loans of \$18.7 million, partially offset by \$12.0 million of net borrowings on our 2013 Revolving Facility and a \$10.2 million increase in Viewmont Mall’s mortgage principal.

Cash flows used in financing activities in 2017 included the mortgage loan repayments of \$150.0 million on The Mall of Prince Georges, the Series A preferred share redemption of \$115.0 million, aggregate dividends and distributions of \$93.0 million, and principal installments on mortgage loans of \$17.9 million, partially offset by \$286.8 million of proceeds from our 2017 Series C and D Preferred Share offerings and \$56.0 million of net borrowings from our 2013 Revolving Facility.

Cash flows used in financing activities for 2016 included the mortgage loan repayments of \$280.3 million (relating to Woodland Mall, Valley Mall, Lycoming Mall, and New River Valley Mall), dividends and distributions of \$81.2 million and principal installments on mortgage loans of \$17.9 million, partially offset by net borrowings of \$82.0 million from our 2013 Revolving Facility, \$130.0 million from the mortgage loan on Woodland Mall and a \$9.0 million additional draw borrowed on the mortgage loan secured by Viewmont Mall.

See note 1 to our consolidated financial statements for details regarding costs capitalized during 2018 and 2017.

**Commitments**

As of December 31, 2018, we had unaccrued contractual and other commitments related to our capital improvement projects and develop-ment projects of \$117.9 million in the form of tenant allowances, lease termination fees, and contracts with general service providers and other professional service providers. In addition, our operating partnership, PREIT Associates, has jointly and severally guaranteed the obligations of the joint venture we formed with Macerich to develop Fashion District Philadelphia to commence and complete a comprehensive redevelopment of that property costing not less than \$300.0 million within 48 months after commencement of construction, which was March 14, 2016.

**Environmental**

We are aware of certain environmental matters at some of our proper-ties. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential lia-bility relating to these environmental matters or of any obligation to satisfy requirements for further remediation. We may be required in the future to perform testing relating to these matters. We have insurance coverage for certain environmental claims up to \$25.0 million per occurrence and up to \$25.0 million in the aggregate. See our Annual Report on Form 10-K for the year ending December 31, 2018 in the section entitled “Item 1A. Risk Factors—We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations.”

**Competition And Tenant Credit Risk**

Competition in the retail real estate market is intense. We compete with other public and private retail real estate companies, including companies that own or manage malls, power centers, strip centers, lifestyle centers, factory outlet centers, theme/festival centers and community centers, as



well as other commercial real estate developers and real estate owners, particularly those with properties near our properties, on the basis of several factors, including location and rent charged. We compete with these companies to attract customers to our properties, as well as to attract anchor and non-anchor store and other tenants. We also compete to acquire land for new site development or to acquire parcels or properties to add to our existing properties. Our malls and our other operating properties face competition from similar retail centers, including more recently developed or renovated centers that are near our retail properties. We also face competition from a variety of different retail formats, including internet retailers, discount or value retailers, home shopping networks, mail order operators, catalogs, and telemarketers. Our tenants face competition from companies at the same and other properties and from other retail formats as well, including internet retailers. This competition could have a material adverse effect on our ability to lease space and on the amount of rent and expense reimbursements that we receive.

The existence or development of competing retail properties and the related increased competition for tenants might, subject to the terms and conditions of the Credit Agreements, require us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might also affect the total sales, sales per square foot, occupancy and net operating income of such properties. Any such capital improvements, undertaken individually or collectively, would involve costs and expenses that could adversely affect our results of operations.

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and prime development sites or sites adjacent to our properties, including institutional pension funds, other REITs and other owner-operators of retail properties. When we seek to make acquisitions, competitors might drive up the price we must pay for properties, parcels, other assets or other companies or might themselves succeed in acquiring those properties, parcels, assets or companies. In addition, our potential acquisition targets might find our competitors to be more attractive suitors if they have greater resources, are willing to pay more, or have a more compatible operating philosophy. In particular, larger REITs might enjoy significant competitive advantages that result from, among other things, a lower cost of capital, a better ability to raise capital, a better ability to finance an acquisition, better cash flow and enhanced operating efficiencies. We might not succeed in acquiring retail properties or development sites that we seek, or, if we pay a higher price for a property and/or generate lower cash flow from an acquired property than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We receive a substantial portion of our operating income as rent under leases with tenants. At any time, any tenant having space in one or more of our properties could experience a downturn in its business that might weaken its financial condition. Such tenants might enter into or renew leases with relatively shorter terms. Such tenants might also defer or fail

to make rental payments when due, delay or defer lease commencement, voluntarily vacate the premises or declare bankruptcy, which could result in the termination of the tenant's lease or preclude the collection of rent in connection with the space for a period of time, and could result in material losses to us and harm to our results of operations. Also, it might take time to terminate leases of underperforming or nonperforming tenants and we might incur costs to remove such tenants. Some of our tenants occupy stores at multiple locations in our portfolio, and so the effect of any bankruptcy or store closings of those tenants might be more significant to us than the bankruptcy or store closings of other tenants. See our Annual Report on Form 10-K for the year ending December 31, 2018 in the section entitled "Item 2. Properties—Major Tenants." In addition, under many of our leases, our tenants pay rent based, in whole or in part, on a percentage of their sales. Accordingly, declines in these tenants' sales directly affect our results of operations. Also, if tenants are unable to comply with the terms of their leases, or otherwise seek changes to the terms, including changes to the amount of rent, we might modify lease terms in ways that are less favorable to us. Given current conditions in the economy, certain industries and the capital markets, in some instances retailers that have sought protection from creditors under bankruptcy law have had difficulty in obtaining debtor-in-possession financing, which has decreased the likelihood that such retailers will emerge from bankruptcy protection and has limited their alternatives.

Seasonality

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

Inflation

Inflation can have many effects on financial performance. Retail property leases often provide for the payment of rent based on a percentage of sales, which might increase with inflation. Leases might also provide for tenants to bear all or a portion of operating expenses, which might reduce the impact of such increases on us. However, rent increases might not keep up with inflation, or if we recover a smaller proportion of property operating expenses, we might bear more costs if such expenses increase because of inflation.

Forward Looking Statements

This Annual Report for the year ended December 31, 2018, together with other statements and information publicly disseminated by us, contain certain forward-looking statements that can be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "project," and similar expressions. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. These forward-looking statements reflect our current views about future events, achievements or results and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be materially and adversely affected by the following:

- changes in the retail and real estate industries, including consolidation and store closings, particularly among anchor tenants;
- current economic conditions and the corresponding effects on tenant business performance, prospects, solvency and leasing decisions;
- our inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise;
- our ability to maintain and increase property occupancy, sales and rental rates;
- increases in operating costs that cannot be passed on to tenants;
- the effects of online shopping and other uses of technology on our retail tenants;
- risks related to our development and redevelopment activities, including delays, cost overruns and our inability to reach projected occupancy or rental rates;
- acts of violence at malls, including our properties, or at other similar spaces, and the potential effect on traffic and sales;
- our ability to sell properties that we seek to dispose of or our ability to obtain prices we seek;
- potential losses on impairment of certain long-lived assets, such as real estate, including losses that we might be required to record in connection with any dispositions of assets;

- our substantial debt and the liquidation preference of our preferred shares and our high leverage ratio;
- our ability to refinance our existing indebtedness when it matures, on favorable terms or at all;
- our ability to raise capital, including through sales of properties or interests in properties and through the issuance of equity or equity-related securities if market conditions are favorable; and
- potential dilution from any capital raising transactions or other equity issuances.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in our Annual Report on Form 10-K for the year ending December 31, 2018 in the section entitled "Item 1A. Risk Factors." We do not intend to update or revise any forward-looking statements to reflect new information, future events or otherwise.

Quantitative and Qualitative Disclosures About Market Risk

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. As of December 31, 2018, our consolidated debt portfolio consisted primarily of \$1,047.9 million (net of unamortized debt issuance costs) of fixed and variable rate mortgage loans, \$300.0 million borrowed under our 2018 Term Loan Facility, which bore interest at a rate of 3.95%, \$250.0 million borrowed under our 2014 7-Year Term Loan, which bore interest at a rate of 3.95% and \$65.0 million borrowed under our 2018 Revolving Facility, which bore interest at a rate of 3.71%.

Our mortgage loans, which are secured by 11 of our consolidated properties, are due in installments over various terms extending to the year 2025. Eight of these mortgage loans bear interest at fixed interest rates that range from 3.88% to 5.95% and had a weighted average interest rate of 4.28% at December 31, 2018. Three of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 4.60% at December 31, 2018. The weighted average interest rate of all consolidated mortgage loans was 4.36% at December 31, 2018. Mortgage loans for properties owned by unconsolidated partnerships are accounted for in “Investments in partnerships, at equity” and “Distributions in excess of partnership investments,” and are not included in the table below.

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

(in thousands of dollars) For the Year Ending December 31,	Fixed Rate Debt		Variable Rate Debt	
	Principal Payments	Weighted Average Interest Rate	Principal Payments	Weighted Average Interest Rate <sup>(1)</sup>
2019	\$ 16,881	4.26%	\$ 1,680	4.35%
2020	\$ 45,240	5.03%	\$ 1,680	4.35%
2021	\$ 18,568	4.20%	\$ 440,902	4.05%
2022	\$ 358,874	4.05%	\$ 66,912	4.95%
2023 and thereafter	\$ 350,233	4.24%	\$ 365,000	3.91%

<sup>(1)</sup> Based on the weighted average interest rate in effect as of December 31, 2018 and does not include the effect of our interest rate swap derivative instruments as described below.

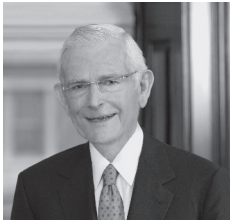
At December 31, 2018, we had \$876.2 million of variable rate debt. To manage interest rate risk and limit overall interest cost, we may employ interest rate swaps, options, forwards, caps and floors, or a combination thereof, depending on the underlying exposure. Interest rate differentials that arise under swap contracts are recognized in interest expense over the life of the contracts. If interest rates rise, the resulting cost of funds is expected to be lower than that which would have been available if debt with matching characteristics was issued directly. Conversely, if interest rates fall, the resulting costs would be expected to be higher. We may also employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the underlying transaction occurs, expires or is otherwise terminated. See note 6 to our consolidated financial statements.

As of December 31, 2018, we had interest rate swap agreements outstanding with a weighted average base interest rate of 1.55% on a notional amount of \$797.3 million, maturing on various dates through May 2023, and forward starting interest rate swap agreements outstanding with a weighted average base interest rate of 2.71% on a notional amount of

\$250.0 million, with effective dates from January 2019 through June 2020, and maturity dates in May 2023. We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable interest rate long term debt. The interest rate swap agreements are net settled monthly.

Changes in market interest rates have different effects on the fixed and variable portions of our debt portfolio. A change in market interest rates applicable to the fixed portion of the debt portfolio affects the fair value, but it has no effect on interest incurred or cash flows. A change in market interest rates applicable to the variable portion of the debt portfolio affects the interest incurred and cash flows, but does not affect the fair value. The following sensitivity analysis related to the fixed debt portfolio, which includes the effects of our interest rate swap agreements, assumes an immediate 100 basis point change in interest rates from their actual December 31, 2018 levels, with all other variables held constant.

A 100 basis point increase in market interest rates would have resulted in a decrease in our net financial instrument position of \$49.2 million at December 31, 2018. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of \$51.5 million at December 31, 2018. Based on the variable rate debt included in our debt portfolio at December 31, 2018 a 100 basis point increase in interest rates would have resulted in an additional \$0.8 million in interest expense annually. A 100 basis point decrease would have reduced interest incurred by \$0.8 million annually. Because the information presented above includes only those exposures that existed as of December 31, 2018, it does not consider changes, exposures or positions which could arise after that date. The information presented herein has limited predictive value. As a result, the ultimate realized gain or loss or expense with respect to interest rate fluctuations will depend on the exposures that arise during the period, our hedging strategies at the time and interest rates.



TRUSTEES

UPPER ROW (FROM LEFT TO RIGHT)

**GEORGE J. ALBURGER** (3) Trustee Since 2017  
Former Executive Vice President and CFO of Liberty Property Trust

**JOSEPH F. CORADINO** Trustee Since 2006  
Chairman and Chief Executive Officer  
Pennsylvania Real Estate Investment Trust

**MICHAEL J. DEMARCO** (2)(4) Trustee Since 2015  
Chief Executive Officer  
Mack-Cali Realty Corp

**JOANNE E. EPPS** (1) Trustee Since 2018  
Executive Vice President and Provost  
Temple University

**LEONARD I. KORMAN** (2)(4) Trustee Since 1996  
Chairman and Chief Executive Officer  
Korman Commercial Properties, Inc.

LOWER ROW (FROM LEFT TO RIGHT)

**MARK PASQUERILLA** (1)(3) Trustee Since 2003  
President  
Pasquerilla Enterprises, LP

**CHARLES P. PIZZI** (1)(2) Trustee Since 2013  
Former President and Chief Executive Officer  
Tasty Baking Company

**JOHN J. ROBERTS** (1)(3)(4) Trustee Since 2003  
Former Global Managing Partner  
PricewaterhouseCoopers LLP

(1) Nominating & Governance Committee

(2) Executive Compensation & Human Resources Committee

(3) Audit Committee

(4) Special Committee

**BOLD** indicates Committee Chairperson

OFFICERS

**JOSEPH F. CORADINO**  
Chief Executive Officer

**ROBERT F. MCCADDEN**  
Executive Vice President  
and Chief Financial Officer

**JOSEPH J. ARISTONE**  
Executive Vice President  
Leasing

**HEATHER CROWELL**  
Executive Vice President  
Strategy and Communications

**ANDREW M. IOANNOU**  
Executive Vice President  
Finance and Acquisitions

**MARIO C. VENTRESCA, JR.**  
Executive Vice President  
Operations

**DANIEL M. HERMAN**  
Senior Vice President  
Development

**LISA M. MOST**  
Senior Vice President  
General Counsel and  
Chief Compliance Officer

**ANTHONY DILORETO**  
First Vice President  
Leasing

**MICHAEL A. FENCHAK**  
First Vice President  
Asset Management

**VINCE VIZZA**  
First Vice President  
Leasing

**RUDOLPH ALBERTS, JR.**  
Vice President  
Asset Management

**SAM COLLIER**  
Vice President  
Leasing

**PAULA CHARLES**  
Vice President  
Leasing

**JOHANNA DIDIO**  
Vice President  
Legal

**MARK GAMBILL**  
Vice President  
Development

**BRADFORD HUGHART**  
Vice President  
Information Technology

**MICHAEL A. KHOURI**  
Vice President  
Leasing

**SEAN LINEHAN**  
Vice President  
Leasing

**DAVID MARSHALL**  
Vice President  
Financial Services

**EUGENE McCAFFERY**  
Vice President  
Leasing

**SEAN MULROY**  
Vice President  
Business Analytics

**DANIEL PASCALE**  
Vice President  
Development

**JOSHUA SCHRIER**  
Vice President  
Acquisitions

**JOSHUA TALLEY**  
Vice President  
Legal



Investor Information

**HEADQUARTERS**  
200 South Broad Street, Third Floor  
Philadelphia, PA 19102-3803  
215.875.0700  
215.875.7311 Fax  
866.875.0700 Toll Free  
preit.com

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**  
KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103–2499

**LEGAL COUNSEL**  
Drinker Biddle & Reath LLP  
One Logan Square, Ste. 2000  
Philadelphia, PA 19103–6996

**TRANSFER AGENT AND REGISTRAR**  
For change of address, lost dividend checks, shareholder records and other shareholder matters, contact:

- Mailing Address**  
EQ Shareowner Services  
P.O. Box 64874  
St. Paul, MN 55164-0874  
651.450.4064 (outside the United States)  
651.450.4085 Fax  
800.468.9716 Toll Free  
shareowneronline.com

**Street or Courier Address**  
1110 Centre Pointe Curve, Suite 101  
MAC N9173 -010  
Mendota Heights, MN 55120

**DISTRIBUTION REINVESTMENT AND SHARE PURCHASE PLAN**  
The Company has a Distribution Reinvestment and Share Purchase Plan for common shares (NYSE:PEI) that allows investors to invest directly in shares of the Company at a 1% discount with no transaction fee, and to reinvest their dividends at no cost to the shareholder. The minimum initial investment is \$250, the minimum subsequent investment is \$50, and the maximum monthly amount is \$5,000, without a waiver.

Further information and forms are available on our web site at preit.com under Investor Relations, DRIP/Stock Purchase. You may also contact the Plan Administrator, EQ Shareowner Services, at 800.468.9716 or 651.450.4064.

**INVESTOR INQUIRIES**  
Shareholders, prospective investors and analysts seeking information about the Company should direct their inquiries to:

- Investor Relations**  
Pennsylvania Real Estate Investment Trust  
200 South Broad Street, Third Floor  
Philadelphia, PA 19102–3803  
215.875.0735  
215.546.1271 Fax  
866.875.0700 ext. 50735 Toll Free  
email: investorinfo@preit.com  
preit.com

**FORMS 10-K AND 10-Q; CEO AND CFO CERTIFICATIONS**  
The Company's Annual Report on Form 10-K, including financial state-ments and a schedule, and Quarterly Reports on Form 10-Q, which are filed with the Securities and Exchange Commission, may be obtained without charge from the Company.

The Company's chief executive officer certified to the New York Stock Exchange (NYSE) that, as of June 15, 2018, he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 were filed as Exhibits 31.1 and 31.2, respectively, to our Annual Report on Form 10-K for the year ended December 31, 2018.

**NYSE MARKET PRICE AND DISTRIBUTION RECORD**  
The following table shows the high and low prices for the Company's common shares and cash distributions paid for the periods indicated.

Quarter Ended			Distributions Paid per Common Share
Calendar Year 2018	High	Low	
March 31	\$12.47	\$ 9.38	\$0.21
June 30	\$12.07	\$ 8.97	0.21
September 30	\$11.40	\$ 9.34	0.21
December 31	\$ 9.68	\$ 5.68	0.21
			<u>\$0.84</u>

Quarter Ended			Distributions Paid per Common Share
Calendar Year 2017	High	Low	
March 31	\$19.92	\$13.76	\$0.21
June 30	\$15.34	\$10.00	0.21
September 30	\$13.02	\$ 9.75	0.21
December 31	\$12.11	\$ 9.32	0.21
			<u>\$0.84</u>

In February 2019, our Board of Trustees declared a cash dividend of \$0.21 per share payable in March 2019. Our future payment of distri-butions will be at the discretion of our Board of Trustees and will depend on numerous factors, including our cash flow, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors that our Board of Trustees deems relevant.

As of December 31, 2018, there were approximately 2,200 registered shareholders and 21,000 beneficial holders of record of the Company's common shares of beneficial interest. The Company had an aggregate of approximately 274 employees as of December 31, 2018.

**STOCK MARKET**  
New York Stock Exchange  
Common Ticker Symbol: PEI

**ANNUAL MEETING**  
The Annual Meeting of Shareholders is scheduled for 11AM on Thursday, May 30, 2019 at the Bellevue, 200 South Broad Street, Philadelphia, Pennsylvania.

**PREIT IS A MEMBER OF**  
National Association of Real Estate Investment Trusts  
International Council of Shopping Centers  
Pension Real Estate Association  
Urban Land Institute



The paper used in this report contains 10% recycled post-consumer waste. The use of this recycled paper is consistent with PREIT's Green Enterprise Initiative.