

2017 ANNUAL REPORT

PREIT[®]

actions **creating** **momentum**

The following pages detail PREIT's continued evolution and the remarkable transformation of the Company's portfolio having made difficult decisions to be a first-mover in a rapidly-changing industry. In an uncertain environment, we had a choice to make — to sit still and wait for clarity before choosing a course of action or to take action and shape the future. This is a story of a Company that takes action when others sit and wait and how these **actions** are **creating momentum** that yield improved results.

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 or on Twitter or LinkedIn.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(in thousands, except per share amounts)

Year ended December 31,	2017	2016	2015
Total revenue	\$ 367,490	\$ 399,946	\$ 425,411
Net loss	\$ (32,848)	\$ (12,713)	\$ (129,567)
Net loss attributable to common shareholders	\$ (61,292)	\$ (27,196)	\$ (132,531)
Net loss per share — basic and diluted	\$ (0.89)	\$ (0.40)	\$ (1.93)
Funds from operations*	\$ 123,120	\$ 146,426	\$ 136,246
Investment in real estate, at cost	\$ 3,299,702	\$ 3,300,014	\$ 3,367,889
Total assets	\$ 2,588,771	\$ 2,616,832	\$ 2,800,392
Distributions paid per common share	\$ 0.84	\$ 0.84	\$ 0.84
Number of common shares and OP Units outstanding	78,256	77,866	77,535
Total market capitalization	\$ 3,212,328	\$ 3,653,193	\$ 3,950,597

*Reconciliation to GAAP can be found on page 59.

Dear Fellow Shareholders

2017 was a significant year of structural change in retail. The US saw legacy retailers file for bankruptcy, significant store closures and department store attrition. At PREIT, we believe that we will do best by our shareholders to be a step ahead of the changes, taking swift action and maintaining an in depth understanding of our markets.

We have demonstrated this in a number of ways over the years — we were the first to pursue and conclude a large scale low-productivity mall disposition program; we have been bringing in dining, entertainment and various other uses to our properties for years and we were

2017 WAS ANOTHER YEAR OF ACTION FOR PREIT AND THE RESULTS ARE EVIDENT IN OUR CORE OPERATIONS, CONFIRMING THAT OUR STRATEGY TO CRAFT A HIGHER QUALITY PORTFOLIO WAS THE RIGHT APPROACH.

the first to aggressively take on replacing underperforming department stores.

And 2017 was another year of action for PREIT and the results are evident in our core operations. Despite the headwinds our industry is facing, these results confirm that our strategy to craft a higher quality portfolio was the right approach and that our instincts to pursue certain initiatives ahead of many of our peers were spot on and position the portfolio well for the future. At the 17 malls we sold, 25 anchors have closed or are set to close. These properties are generally located in markets where further capital investment would not align with our strategy.

actions



JOSEPH F. CORADINO Chairman & Chief Executive Officer



MOORESTOWN MALL, MOORESTOWN, NJ



LEGOLAND AT PLYMOUTH MEETING, PLYMOUTH MEETING, PA

Creations.

While taking swift action is important, having a strong portfolio vision is critical in this environment. Our vision is to exceed changing consumer expectations — not just meet them but to offer them a pleasant surprise. Traditional apparel has always been a survival of the fittest game — and as consumers shift their allegiances from certain brands, we have seized the opportunity to re-purpose our real estate and offer more.

Realizing this vision takes proactively curating a tenant mix that extends well beyond traditional mall tenants to include off-price tenants that offer the “thrill of the hunt” experience where consumers can find designer brands at a discount;

DEMAND FOR QUALITY SPACE IS ROBUST AND WE HAVE CAPITALIZED ON THIS, HAVING EXECUTED 76% MORE NEW LEASING THAN IN 2016, FOR A RECORD AMOUNT OF SPACE IN 2017. AS A RESULT OF OUR TENANT DIVERSIFICATION STRATEGY, THE TENANCY TAKES A NEW SHAPE THAN IN YEARS PAST.

it includes health and wellness which continues to garner mindshare by way of diet and exercise as well as health and beauty items; sporting and leisure retail offerings; dining and grocery options which include the rising quick service restaurant industry offerings, the irreplaceable sit-down dining experience, niche grocers and mass market grocers; and entertainment which is probably the fastest growing segment in the space because it offers something people in an increasingly digital world crave — a social interaction with friends and family that is based on the premise of fun.

Demand for quality space is robust and we have capitalized on this, having

CREATING SINCE

AS 2017 KICKED OFF, PREIT HAD 11 VACANT ANCHORS. DURING 2017 AND JANUARY 2018, 5 OF THESE ANCHORS HAVE BEEN REPLACED WITH OPERATING TENANTS. AS I WRITE THIS, WE HAVE EXECUTED LEASES FOR 4 ADDITIONAL REPLACEMENTS, LEAVING 2 VACANCIES, BOTH WITH LEASES PENDING EXECUTION.

executed 76% more new leasing than in 2016, for a record amount of space in 2017. As a result of our tenant diversification strategy, the tenancy takes a new shape than in years past.

As we look at the leases we signed in 2017, excluding the few traditional department stores we signed, two-thirds of the space we leased was committed to a mix of tenants that are the foundation of the mall of the future: Dining & Entertainment made up 19%, Off Price tenants accounted for 14%, Fitness was 9%, Sporting Goods accounted for 8%, Fast Fashion was also 8% and Shoes and Accessories made up 9%.

While vacant boxes are abundant throughout the country, we have adeptly dealt with closings, many of which we pre-planned. As 2017 kicked off, PREIT had 11 vacant anchors. During 2017 and January 2018, five of these anchors have been replaced with operating tenants. As I write this, we have executed leases for four additional replacements, leaving two vacancies, both with leases pending execution.

The results of this initiative are 17 sought after tenants spanning seven diverse uses, paying rents eight times greater than the space previously generated. But the story expands beyond these impressive figures — in replacing dated

Categories of New Leases Signed in 2017





CHERRY HILL MALL, CHERRY HILL, NJ

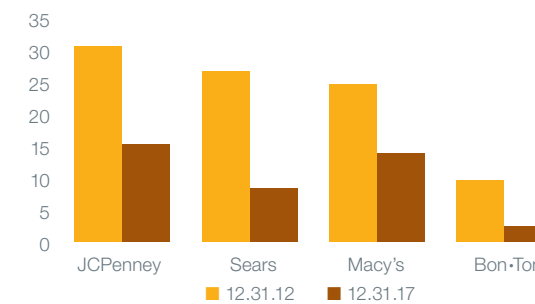


EXTON SQUARE, EXTON, PA

CREATING SUNSHINE

department stores, we are transforming our properties, driving new customers and reinventing our platform!

Through our portfolio repositioning effort, our exposure to potential additional department store closures has been dramatically reduced and we continue to look to proactively take back stores where prudent.



As we move into 2018, we are in a strong

OUR VISION IS TO EXCEED CHANGING CONSUMER EXPECTATIONS – TO NOT JUST MEET THEM BUT TO OFFER THEM A PLEASANT SURPRISE. TRADITIONAL APPAREL HAS ALWAYS BEEN A SURVIVAL OF THE FITTEST GAME – AND AS CONSUMERS SHIFT THEIR ALLEGIANCES FROM CERTAIN BRANDS, WE HAVE SEIZED THE OPPORTUNITY TO RE-PURPOSE OUR REAL ESTATE AND OFFER MORE.

position to drive revenue into the future, having executed leases for future openings for 33% more space than we had at this time last year.

We are also continuing to evolve our sustainability efforts – in 2017, we added three new solar arrays to the two that existed in our portfolio and now offer electric vehicle charging stations at four properties. PREIT properties now produce more than 8 million kWh of electricity from solar panels per year. At Woodland Mall, we recycled more than 20,000 tons of concrete from demolition to be reused as building pads, parking lot base and site grading during the expansion phase of the mall.

MOMENTUM

WE DELIVERED ON OUR ANCHOR REPLACEMENT STRATEGY, LEADING THE INDUSTRY IN LEASING 9 OF 11 VACANT STORES, SETTING THE STAGE FOR FUTURE GROWTH AND STRENGTHENING OUR FOUNDATION; WE DELIVERED STRONG SAME STORE NOI AND OCCUPANCY GROWTH ALONG WITH RECORD NEW LEASING ACTIVITY IN THE FACE OF A CONTRACTING RETAILER ENVIRONMENT.

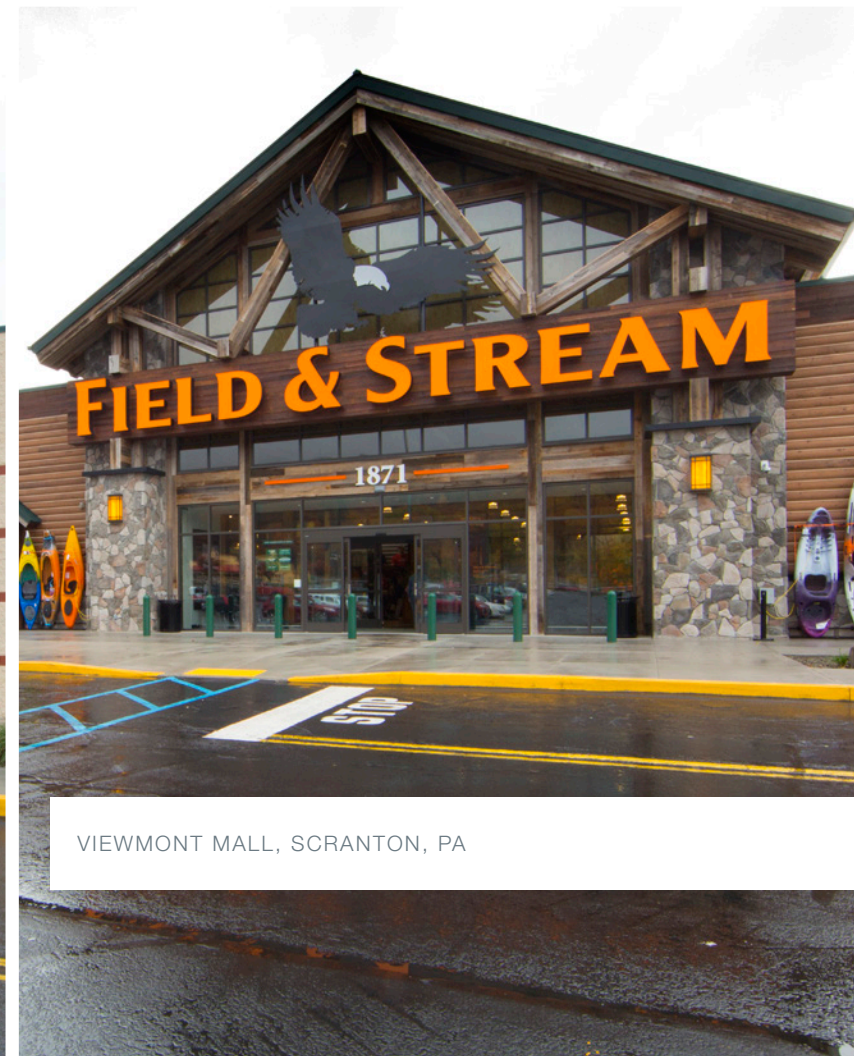
Our 2017 results and our projections for 2018 and beyond prove that we have distinguished ourselves as a quality mall REIT, having delivered on all elements of our strategy. We delivered on our anchor replacement strategy, leading the industry in leasing 9 of 11 vacant stores, setting the stage for future growth and strengthening our foundation; we delivered strong Same Store NOI and occupancy growth along with record new leasing activity in the face of a contracting retailer environment.

And we have done this while improving the condition of our balance sheet by executing on our capital plan to raise over \$450 million, reducing our borrowing costs

and securing liquidity to fund our value-creating redevelopment program.

We also delivered on renewal spreads — in the 4th quarter, we improved our average renewal spreads to 10.8% for tenants under 10,000 sq ft to end the year at a solid 5.1%.

As we move into 2018, the momentum is building as key redevelopment projects are coming online. Our portfolio stands to benefit this year from the completion of Mall at Prince Georges' remerchandising work, anchor replacements at Valley Mall and Moorestown Mall and the opening of the much-anticipated Fashion District here in



VIEWMONT MALL, SCRANTON, PA



FASHION DISTRICT PHILADELPHIA, PHILADELPHIA, PA

MOMENTUM

downtown Philadelphia, which promises to re-shape the retail experience in Philadelphia and re-route patrons to a new district to be noted for fashion, fun, food and cultural experiences.

Throughout our well-located portfolio, we continue to work with third parties to explore opportunities to add other uses to our sites including multifamily housing, hotels and office space. Dense, mixed-use sites that better utilize real estate are key to the future.

With good real estate and a vision to diversify our tenant base, catering to a future consumer that embraces a sharing economy and experiences over goods,

WITH GOOD REAL ESTATE AND A VISION TO DIVERSIFY OUR TENANT BASE, CATER TO A FUTURE CONSUMER THAT EMBRACES A SHARING ECONOMY AND EXPERIENCES OVER GOODS, THE FUTURE LOOKS BRIGHT AND WE MOVE INTO IT KNOWING THE ACTIONS WE HAVE TAKEN ARE CREATING MOMENTUM FOR OUR PORTFOLIO THAT SHOULD TRANSLATE TO OUR SHAREHOLDERS.

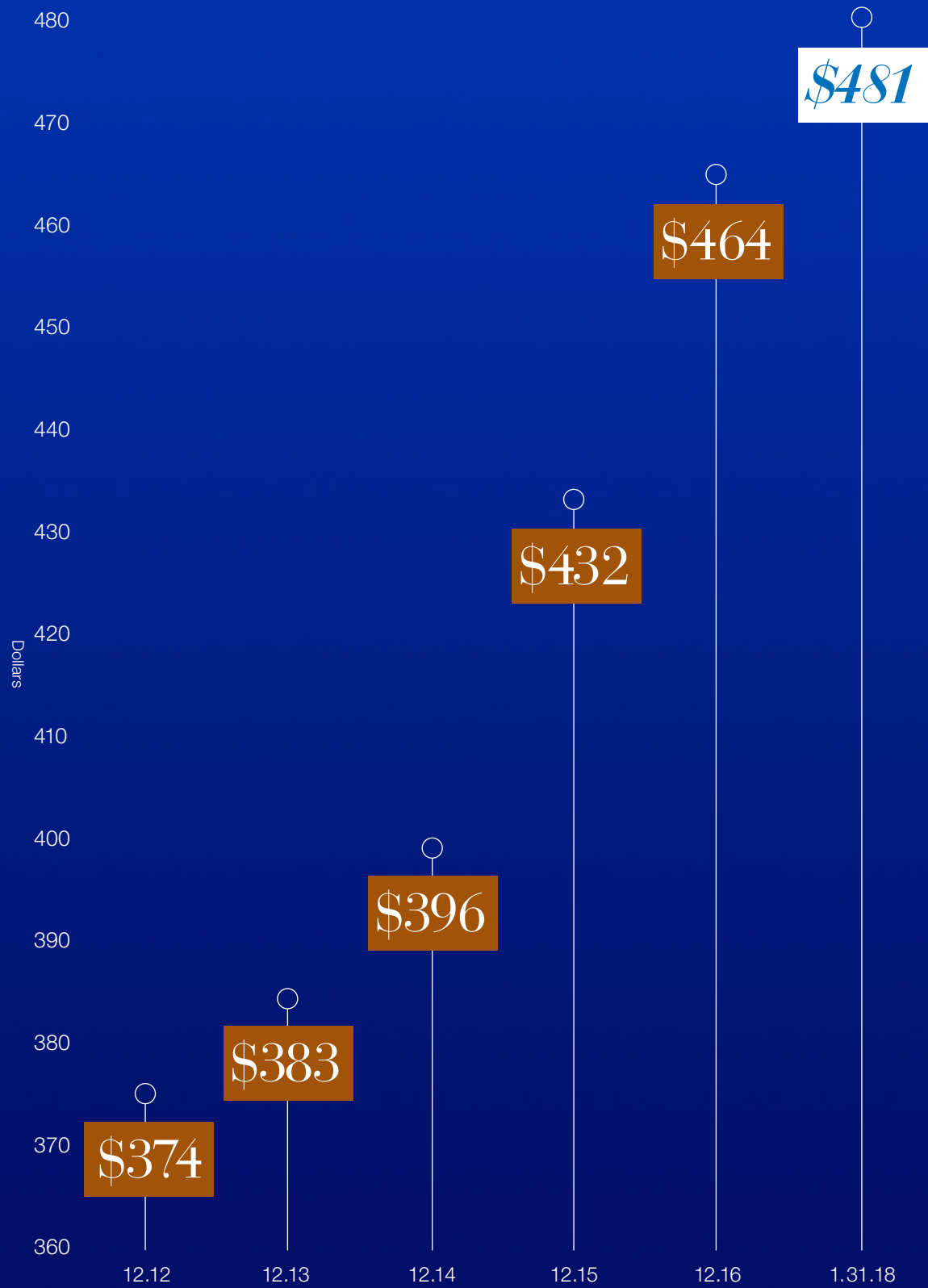
the future looks bright and we move into it knowing the actions we have taken are creating momentum for our portfolio that should translate into shareholder returns.

None of this would be possible without the relentless pursuit of our team at PREIT, the support of our Board and our shareholders. We look forward to enhancing these relationships and celebrating victories in the years to come.

JOSEPH F. CORADINO
Chairman & Chief Executive Officer

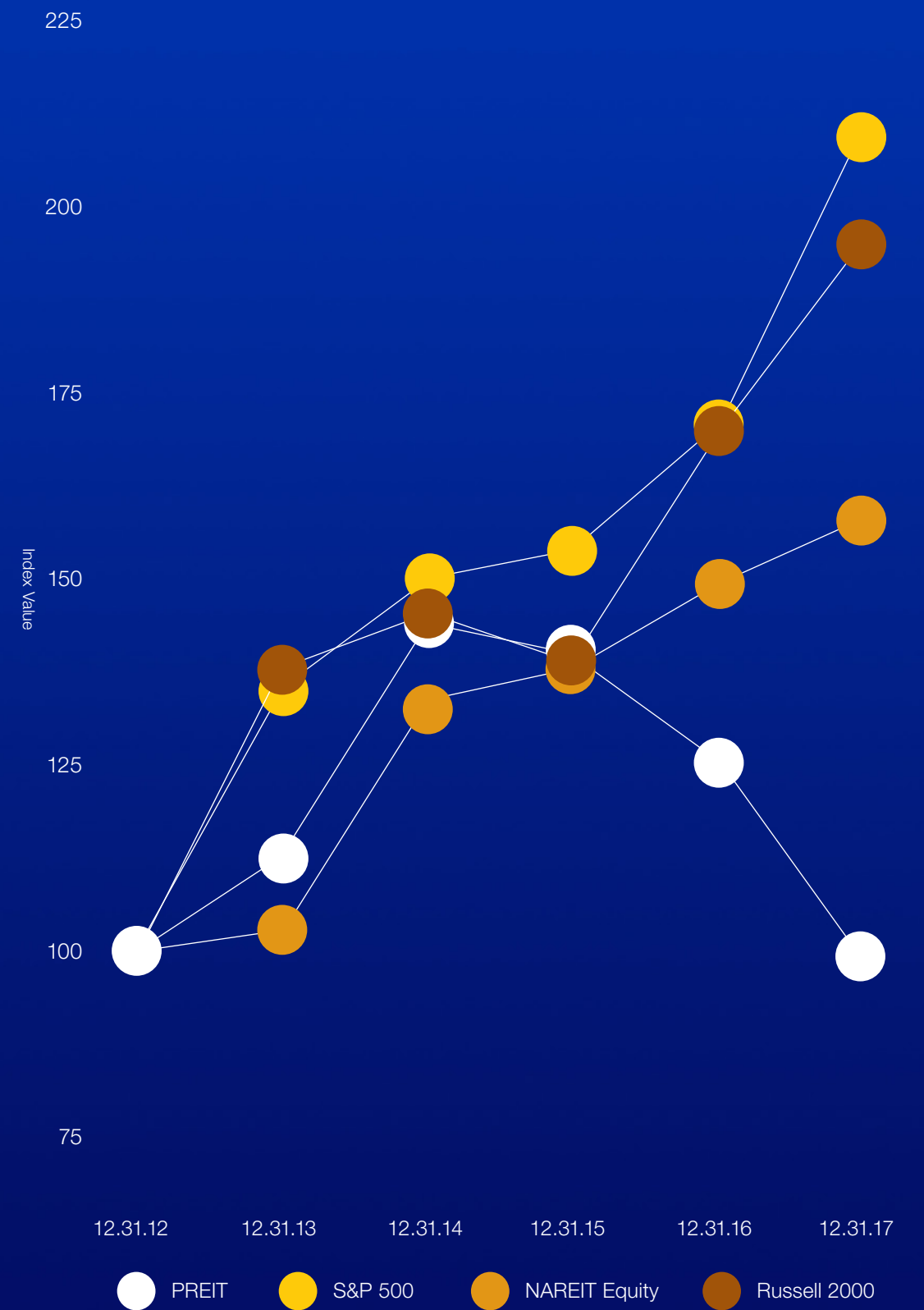
April 2, 2018

Sales Per Square Foot Growth



Sales growth is a leading indicator in our business, indicative of our ability to drive rents and net operating income in the future.

Total Shareholder Return Performance



The five-year performance graph above compares our cumulative total shareholder return with the S&P 500 Index, the NAREIT Equity Index and the Russell 2000 Index. Equity real estate investment trusts are defined as those which derive more than 75% of their income from equity investments in real estate assets. The graph assumes that the value of the investment in each of the four was \$100 on the last trading day of 2009 and that all dividends were reinvested.

Enclosed Malls

As of December 31, 2017



CAPITAL CITY MALL
Camp Hill, PA
Ownership Interest 100%
Acquired 2003
Square Feet 605,000



CHERRY HILL MALL
Cherry Hill, NJ
Ownership Interest 100%
Acquired 2003
Square Feet 1,314,000



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



DARTMOUTH MALL
Dartmouth, MA
Ownership Interest 100%
Acquired 1997
Square Feet 672,000



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 1,170,000



MAGNOLIA MALL
Florence, SC
Ownership Interest 100%
Acquired 1997
Square Feet 574,000



MOORESTOWN MALL
Moorestown, NJ
Ownership Interest 100%
Acquired 2003
Square Feet 873,000



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 737,000



THE MALL AT PRINCE GEORGES
Hyattsville, MD
Ownership Interest 100%
Acquired 1998
Square Feet 920,000



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 793,000



VALLEY VIEW MALL
La Crosse, WI
Ownership Interest 100%
Acquired 2003
Square Feet 629,000



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 1,175,000



WOODLAND MALL
Grand Rapids, MI
Ownership Interest 100%
Acquired 2005
Square Feet 850,000



WYOMING VALLEY MALL
Wilkes-Barre, PA
Ownership Interest 100%
Acquired 1997
Square Feet 909,000

Other Retail Properties

As of December 31, 2017

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	18,697,000
	OTHER RETAIL PROPERTIES	2,316,000
	TOTAL GLA	21,013,000

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



WOODLAND MALL, GRAND RAPIDS, MI

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PLYMOUTH MEETING, PLYMOUTH MEETING, PA

SELECTED FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per share amounts)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Operating results					
Total revenue	\$ 367,490	399,946	\$ 425,411	\$ 432,703	\$ 438,678
Loss from continuing operations	\$ (32,848)	\$ (12,713)	\$ (129,567)	\$ (14,262)	\$ (20,449)
Net (loss) income	\$ (32,848)	\$ (12,713)	\$ (129,567)	\$ (14,262)	\$ 37,213
Net (loss) income attributable to PREIT common shareholders	\$ (61,292)	\$ (27,196)	\$ (132,531)	\$ (29,678)	\$ 20,011
Loss from continuing operations per share – basic and diluted	\$ (0.89)	\$ (0.40)	\$ (1.93)	\$ (0.44)	\$ (0.56)
Net (loss) earnings per share – basic and diluted	\$ (0.89)	\$ (0.40)	\$ (1.93)	\$ (0.44)	\$ 0.31
Cash flows					
Cash provided by operating activities	\$ 136,409	\$ 147,609	\$ 135,661	\$ 145,075	\$ 136,219
Cash (used in) provided by investing activities	\$ (98,279)	\$ 1,971	\$ (379,099)	\$ 31,650	\$ 30,741
Cash (used in) provided by financing activities	\$ (32,585)	\$ (162,632)	\$ 225,860	\$ (170,522)	\$ (166,720)
Cash distributions					
Cash distributions per share – common shares	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.80	\$ 0.74
Cash distributions per share – Series A Preferred shares	\$ 1.7016	\$ 2.0625	\$ 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	\$ 1.5900	\$ —	\$ —	\$ —	\$ —
Cash distributions per share – Series D Preferred shares	\$ 0.4488	\$ —	\$ —	\$ —	\$ —
Funds From Operations⁽¹⁾					
Net (loss) income	\$ (32,848)	\$ (12,713)	\$ (129,567)	\$ (14,262)	\$ 37,213
Dividends on preferred shares	(27,845)	(15,848)	(15,848)	(15,848)	(15,848)
Loss on redemption of preferred shares	(4,103)	—	—	—	—
Gain on sale of real estate by equity method investee	(6,539)	—	—	—	—
Gains on sales of interests in real estate	361	(23,022)	(12,362)	(12,699)	—
Gains on sales of discontinued operations	—	—	—	—	(78,512)
Impairment of assets	55,793	62,603	140,318	19,695	29,966
Depreciation and amortization of real estate assets:					
Wholly owned and consolidated partnerships, net	127,327	125,192	141,142	142,683	139,748
Unconsolidated partnerships	10,974	10,214	12,563	9,850	7,373
Discontinued operations	—	—	—	—	1,161
Funds from operations	\$ 123,120	\$ 146,426	\$ 136,246	\$ 129,419	\$ 121,101
Weighted average number of shares outstanding	69,364	69,086	68,740	68,217	63,662
Weighted average effect of full conversion OP Units	8,297	8,324	6,830	2,128	2,194
Effect of common share equivalents	93	191	485	696	876
Total weighted average shares outstanding including OP Units	77,754	77,601	76,055	71,041	66,732
Funds from operations per diluted share and OP Unit	\$ 1.58	\$ 1.89	\$ 1.79	\$ 1.82	\$ 1.81

(in thousands)

	As of December 31,				
	2017	2016	2015	2014	2013
Balance sheet items					
Investments in real estate, at cost	\$ 3,299,702	\$3,300,014	\$3,367,889	\$3,285,404	\$3,527,868
Total assets	\$ 2,588,771	\$2,616,832	\$2,800,392	\$2,539,703	\$2,718,581
Long term debt					
Consolidated properties:					
Mortgage loans payable	\$ 1,059,438	\$1,227,385	\$ 1,325,495	\$1,407,947	\$1,502,650
Revolving facilities	\$ 53,000	\$ 147,000	\$ 65,000	\$ —	\$ 130,000
Term loans	\$ 550,000	\$ 400,000	\$ 400,000	\$ 130,000	\$ —
Company's share of partnerships:					
Mortgage loans payable	\$ 235,672	\$ 201,509	\$ 202,074	\$ 190,310	\$ 198,451

⁽¹⁾ 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, 2017	December 31, 2016
Assets:		
Investments in real estate, at cost:		
Operating properties	\$ 3,180,212	\$ 3,196,529
Construction in progress	113,609	97,575
Land held for development	5,881	5,910
Total investments in real estate	3,299,702	3,300,014
Accumulated depreciation	(1,111,007)	(1,060,845)
Net investments in real estate	2,188,695	2,239,169
Investments in Partnerships, at equity:	216,823	168,608
Other Assets:		
Cash and cash equivalents	15,348	9,803
Tenant and other receivables (net of allowance for doubtful accounts of \$7,248 and \$6,236 at December 31, 2017 and 2016, respectively)	38,166	39,026
Intangible assets (net of accumulated amortization of \$13,117 and \$11,064 at December 31, 2017 and 2016, respectively)	17,693	19,746
Deferred costs and other assets, net	112,046	93,800
Assets held for sale	—	46,680
Total assets	\$ 2,588,771	\$ 2,616,832
Liabilities:		
Mortgage loans payable	\$ 1,056,084	\$ 1,222,859
Term Loans	547,758	397,043
2013 Revolving Facility	53,000	147,000
Tenants' deposits and deferred rent	11,446	13,262
Distributions in excess of partnership investments	97,868	61,833
Fair value of derivative instruments	20	1,520
Liabilities on assets held for sale	—	2,658
Accrued expenses and other liabilities	61,604	68,251
Total liabilities	1,827,780	1,914,426
Commitments and Contingencies (Note 11)		
Equity:		
Series A Preferred Shares, \$.01 par value per share; 25,000 shares authorized at December 31, 2017 and 2016; 4,600 shares issued and outstanding at December 31, 2016	—	46
Series B Preferred Shares, \$.01 par value per share; 25,000 shares authorized; 3,450 shares issued and outstanding at December 31, 2017 and 2016; 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, 2017; liquidation preference of \$172,500	69	—
Series D Preferred Shares, \$.01 par value per share; 25,000 shares authorized; 5,000 shares issued and outstanding at December 31, 2017; liquidation preference of \$125,000	50	—
Shares of beneficial interest, \$1.00 par value per share; 200,000 shares authorized; 69,983 issued and outstanding shares at December 31, 2017 and 69,553 shares at December 31, 2016	69,983	69,553
Capital contributed in excess of par	1,663,966	1,481,787
Accumulated other comprehensive income	7,226	1,622
Distributions in excess of net income	(1,117,290)	(997,789)
Total equity – Pennsylvania Real Estate Investment Trust	624,039	555,254
Noncontrolling interest	136,952	147,152
Total equity	760,991	702,406
Total liabilities and equity	\$ 2,588,771	\$ 2,616,832

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars)	For The Year Ended December 31,		
	2017	2016	2015
Revenue:			
Real estate revenue:			
Base rent	\$ 230,898	\$ 252,115	\$ 271,957
Expense reimbursements	109,454	118,880	125,505
Percentage rent	4,366	5,245	5,724
Lease termination revenue	2,760	4,460	2,014
Other real estate revenue	14,046	13,897	14,997
Total real estate revenue	361,524	394,597	420,197
Other income	5,966	5,349	5,214
Total revenue	367,490	399,946	425,411
Expenses:			
Operating expenses:			
Property operating expenses:			
CAM and real estate taxes	(111,275)	(124,690)	(133,912)
Utilities	(16,151)	(17,053)	(19,674)
Other	(12,879)	(14,475)	(16,461)
Total property operating expenses	(140,305)	(156,218)	(170,047)
Depreciation and amortization	(128,822)	(126,669)	(142,647)
General and administrative expenses	(36,736)	(35,269)	(34,836)
Provision for employee separation expense	(1,299)	(1,355)	(2,087)
Project costs and other expenses	(768)	(1,700)	(6,108)
Total operating expenses	(307,930)	(321,211)	(355,725)
Interest expense, net	(58,430)	(70,724)	(81,096)
Impairment of assets	(55,793)	(62,603)	(140,318)
Total expenses	(422,153)	(454,538)	(577,139)
Loss before equity in income of partnerships and gains on sales of real estate and non operating real estate	(54,663)	(54,592)	(151,728)
Equity in income of partnerships	14,367	18,477	9,540
Gain on sale of real estate by equity method investee	6,539	—	—
(Losses) gains on sales of real estate, net	(361)	23,022	12,362
Gains on sales of non-operating real estate	1,270	380	259
Net loss	(32,848)	(12,713)	(129,567)
Less: net loss attributed to noncontrolling interest	3,504	1,365	12,884
Net loss attributable to PREIT	(29,344)	(11,348)	(116,683)
Less: preferred share dividends	(27,845)	(15,848)	(15,848)
Less: loss on redemption on preferred shares	(4,103)	—	—
Net loss attributable to PREIT common shareholders	\$ (61,292)	\$ (27,196)	\$ (132,531)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED) EARNINGS PER SHARE

(in thousands of dollars, except per share amounts)	For The Year Ended December 31,		
	2017	2016	2015
Net loss	\$ (32,848)	\$ (12,713)	\$ (129,567)
Preferred dividends	(27,845)	(15,848)	(15,848)
Loss on redemption of preferred shares	(4,103)	—	—
Noncontrolling interest	3,504	1,365	12,884
Dividends on restricted shares	(372)	(322)	(315)
Net loss used to calculate earnings per share – basic and diluted	\$ (61,664)	\$ (27,518)	\$ (132,846)
Basic and diluted loss per share	\$ (0.89)	\$ (0.40)	\$ (1.93)
(in thousands of shares)			
Weighted average shares outstanding – basic	69,364	69,086	68,740
Effect of dilutive common share equivalents ⁽¹⁾	—	—	—
Weighted average shares outstanding – diluted	69,364	69,086	68,740

⁽¹⁾ For the years ended December 31, 2017, 2016 and 2015, there are net losses allocable to common shareholders, so the effect of common share equivalents of 93, 191 and 485 for the years ended December 31, 2017, 2016 and 2015, 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

(in thousands of dollars)	For The Year Ended December 31,		
	2017	2016	2015
Comprehensive loss:			
Net loss	\$ (32,848)	\$ (12,713)	\$ (129,567)
Unrealized gain on derivatives	5,415	6,007	690
Amortization of losses on settled swaps, net of gains	859	503	1,337
Total comprehensive loss	(26,574)	(6,203)	(127,540)
Less: Comprehensive loss attributable to noncontrolling interest	2,834	670	12,666
Comprehensive loss attributable to PREIT	\$ (23,740)	\$ (5,533)	\$ (114,874)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 & 2015

(in thousands of dollars, except per share amounts)	PREIT Shareholders									
	Total Equity	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					
January 1, 2015	\$ 844,737	\$ 46	\$ 35	\$ —	\$ —	\$ 68,801	\$ 1,474,183	\$(6,002)	\$(721,605)	\$ 29,279
Net loss	(129,567)	—	—	—	—	—	—	—	(116,683)	(12,884)
Other comprehensive income	2,027	—	—	—	—	—	—	1,809	—	218
Shares issued upon redemption of Operating Partnership Units	—	—	—	—	—	34	675	—	—	(709)
Shares issued under employee compensation plans, net of shares retired	(4,383)	—	—	—	—	362	(4,745)	—	—	—
Amortization of deferred compensation	6,284	—	—	—	—	—	6,284	—	—	—
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)	(58,085)	—	—	—	—	—	—	—	(58,085)	—
Distributions paid to Operating Partnership unit holders (\$0.84 per unit)	(5,703)	—	—	—	—	—	—	—	—	(5,703)
Noncontrolling interests: Operating partnership units issued in connection with Springfield Town Center	145,188	—	—	—	—	—	—	—	—	145,188
Other distributions to noncontrolling interest, net	(20)	—	—	—	—	—	—	—	—	(20)
December 31, 2015	784,630	46	35	—	—	69,197	1,476,397	(4,193)	(912,221)	155,369
Net loss	(12,713)	—	—	—	—	—	—	—	(11,348)	(1,365)
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)	—

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 & 2015

(in thousands of dollars, except per share amounts)	PREIT Shareholders									
	Total Equity	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 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 distributions to noncontrolling interest, net	44	—	—	—	—	—	—	—	—	44
December 31, 2016	702,406	46	35	—	—	69,553	1,481,787	1,622	(997,789)	147,152
Net loss	(32,848)	—	—	—	—	—	—	—	—	(29,344)
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)
Shares issued upon redemption of Operating Partnership Units	—	—	—	—	—	39	375	—	—	(414)
Shares issued under employee compensation plans, net of shares retired	608	—	—	—	—	391	217	—	—	—
Amortization of deferred compensation	5,709	—	—	—	—	—	5,709	—	—	—
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)
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 distributions to noncontrolling interest, net	18	—	—	—	—	—	—	—	—	18
December 31, 2017	\$760,991	\$ —	\$ 35	\$ 69	\$ 50	\$ 69,983	\$ 1,663,966	\$ 7,226	\$(1,117,290)	\$ 136,952

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	For the Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	\$ (32,848)	\$ (12,713)	\$ (129,567)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	119,441	125,426	132,347
Amortization	12,057	3,981	12,907
Straight-line rent adjustments	(2,686)	(2,602)	(1,874)
Provision for doubtful accounts	1,763	1,357	2,510
Amortization of deferred compensation	5,709	6,035	6,284
Loss on hedge ineffectiveness	—	143	512
Gain on sales of interests in real estate and non-operating real estate, net	(7,448)	(23,402)	(12,621)
Equity in income of partnerships in excess of distributions	(3,200)	(3,705)	(2,312)
Amortization of historic tax credits	(1,768)	(1,768)	(1,589)
Impairment of assets and expensed project costs	55,793	62,603	140,790
Change in assets and liabilities:			
Net change in other assets	(5,652)	4,566	5,337
Net change in other liabilities	(4,752)	(12,312)	(17,063)
Net cash provided by operating activities	136,409	147,609	135,661
Cash flows from investing activities:			
Cash proceeds from sales of real estate investments	77,778	154,758	52,956
Proceeds from real estate sold by equity method investee	30,265	—	—
Distribution of refinancing proceeds from equity method investee	35,221	—	—
Investments in consolidated real estate acquisitions	—	—	(319,986)
Additions to construction in progress	(116,550)	(88,161)	(30,684)
Investments in real estate improvements	(51,949)	(49,942)	(52,790)
Additions to leasehold improvements	(683)	(522)	(486)
Investments in partnerships	(73,434)	(14,910)	(25,046)
Capitalized leasing costs	(6,066)	(6,101)	(6,255)
Decrease (increase) in cash escrows	1,457	(473)	(1,996)
Cash distributions from partnerships in excess of equity in income	5,682	7,322	5,188
Net cash (used in) provided by investing activities	(98,279)	1,971	(379,099)
Cash flows from financing activities:			
Net proceeds from issuance of Series C and D Preferred Shares	286,847	—	—
Redemption of Series A Preferred Shares	(115,000)	—	—
Borrowings from Term Loans	—	—	120,000
Net borrowings from 2013 Revolving Facility	56,000	82,000	215,000
Proceeds from mortgage loans	—	139,000	272,044
Repayment of mortgage loans	(150,000)	(280,327)	(272,650)
Principal installments on mortgage loans	(17,945)	(17,868)	(20,761)
Payment of deferred financing costs	(71)	(3,337)	(3,754)
Common shares issued	2,085	1,288	1,393
Dividends paid to common shareholders	(58,651)	(58,372)	(58,085)
Dividends paid to preferred shareholders	(27,403)	(15,848)	(15,848)
Distributions paid to Operating Partnership unit holders and noncontrolling interest	(6,970)	(6,991)	(5,703)
Value of shares issued under equity incentive plans, net of shares retired	(1,477)	(2,177)	(5,776)
Net cash (used in) provided by financing activities	(32,585)	(162,632)	225,860
Net change in cash and cash equivalents	5,545	(13,052)	(17,578)
Cash and cash equivalents, beginning of year	9,803	22,855	40,433
Cash and cash equivalents, end of year	\$ 15,348	\$ 9,803	\$ 22,855

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2017, 2016 and 2015

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, 2017, our portfolio consisted of a total of 29 properties located in 10 states and operating in nine states, including 21 shopping malls, four other retail properties and four 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 2018 and stabilize in 2020. Three properties in our portfolio are classified as under development, however we do not currently have any activity occurring at these properties. In 2017, we sold three of our wholly owned mall properties.

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, 2017, held an 89.4% 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, 2017, the total amount that would have been distributed would have been \$98.4 million, which is calculated using our December 31, 2017 closing share price on the New York Stock Exchange of \$11.89 multiplied by the number of outstanding OP Units held by limited partners, which was 8,272,636 as of December 31, 2017.

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 inter-company 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, 2017, 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 an original maturity of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash and cash equivalents totaled \$15.3 million and \$9.8 million, respectively, and included tenant security deposits of \$2.4 million and \$3.1 million, respectively. Cash paid for interest was \$55.4 million, \$67.9 million and \$76.5 million for the years ended December 31, 2017, 2016 and 2015, respectively, net of amounts capitalized of \$7.6 million, \$3.2 million and \$1.9 million, respectively.

SIGNIFICANT 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 connection with our acquisition of Springfield Town Center in March 2015, we issued 6,250,000 OP Units with a value of \$145.2 million as partial consideration for the purchase.

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 \$309.0 million, \$290.0 million and \$310.0 million, and aggregate repayments were \$403.0 million, \$208.0 million and \$245.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Accrued construction costs decreased by \$8.3 million in the year ended December 31, 2017, increased by \$13.4 million in the year ended December 31, 2016 and decreased by \$1.6 million in the year ended December 31, 2015, 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 (recorded on a straight-line basis), 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”) and straight-line rent. 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 \$2.7 million, \$2.6 million and \$2.0 million in the years ended December 31, 2017, 2016 and

2015, respectively. The straight-line rent receivable balances included in tenant and other receivables on the accompanying consolidated balance sheet as of December 31, 2017 and 2016 were \$25.4 million and \$23.7 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, 2017 and 2016, our tenant accounts receivable included accrued income of \$3.1 million and \$2.3 million, respectively, because actual reimbursable expense amounts eligible to be billed to tenants under applicable contracts exceeded amounts actually billed.

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 a 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 we are no longer obligated to provide space to the tenant. 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 (observ-

able 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 2013 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.

In determining the estimated undiscounted cash flows of the properties that are being analyzed for impairment of assets, we take the sum of the estimated undiscounted cash flows, generally assuming a holding period of 10 years, plus a terminal value calculated using the estimated net operating income in the eleventh year and terminal capitalization rates, which in 2017 ranged from 5.8% to 13.0%, in 2016 ranged from 5.0% to 10.0% and in 2015 ranged from 4.5% to 15.5%. As further detailed in note 2, in 2017, 2016 and 2015, as a result of our analysis, we determined that four, five and seven properties, respectively, had incurred impairment of assets.

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.

We conduct an annual review of our goodwill balances for impairment to determine whether an adjustment to the carrying value of goodwill is required. We have determined the fair value of our properties and the amount of goodwill that is associated with certain of our properties, and we have concluded that goodwill was not impaired as of December 31, 2017. Fair value is determined by applying a capitalization rate to our estimate of projected income at those properties. We also consider qualitative factors such as property sales performance, market position and current and future operating results. This amount is compared to the aggregate of the property basis and the goodwill that has been assigned to that property. If the fair value is less than the property basis and the goodwill, we evaluate whether impairment has occurred.

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.

Gains from sales of real estate properties and interests in partnerships generally are recognized using the full accrual method, provided that various criteria are met relating to the terms of sale and any subsequent involvement by us with the properties sold.

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, 2017 and 2016 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.

Changes in the carrying amount of goodwill for the three years ended December 31, 2017 were as follows:

(in thousands of dollars)	Basis	Accumulated Amortization	Total
January 1, 2015	\$ 6,735	\$ (1,073)	\$ 5,662
Goodwill divested	(137)	—	(137)
Goodwill impaired	(276)	—	(276)
December 31, 2015	6,322	(1,073)	5,249
Goodwill divested	—	—	—
December 31, 2016	6,322	(1,073)	5,249
Goodwill divested	—	—	—
December 31, 2017	\$ 6,322	\$ (1,073)	\$ 5,249

In 2015, we recognized an impairment loss of goodwill of \$0.3 million in connection with the impairment review of Palmer Park Mall. Also in 2015, we divested goodwill of \$0.1 million in connection with the sale of Springfield Park (see note 3).

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 in-place leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value.

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, 2017 and 2016:

(in thousands of dollars)	As of December 31,	
	2017	2016
Value of in-place lease intangibles, net	\$ 12,369	\$ 14,369
Above-market lease intangibles, net	75	128
Subtotal	12,444	14,497
Goodwill, net	5,249	5,249
Total intangible assets	\$17,693	\$ 19,746
Below-market lease intangibles, net	\$ (636)	\$ (901)

Amortization of in-place lease intangibles was \$2.0 million, \$2.4 million and \$1.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Net amortization of above-market and below-market lease intangibles increased revenue by \$0.1 million, \$0.1 million and \$0.3 million for the years ended December 31, 2017, 2016 and 2015, 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)	Value of In-Place Lease Intangibles	Above/(Below) Market Leases, net
For the Year Ending December 31,		
2018	\$ 1,768	\$ (69)
2019	1,742	(89)
2020	1,708	(109)
2021	1,580	(86)
2022	1,445	(54)
2023 and thereafter	4,126	(154)
Total	\$12,369	\$ (561)

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 2017, we determined that Valley View Mall in LaCrosse, Wisconsin met the criteria to classify it as held for sale. Effective December 31, 2017, we determined that it did not meet the held-for-sale criteria because we are no longer actively marketing the property, so we no longer believe that it is likely that we will complete a sale of the property within one year. In the fourth quarter of 2017, we recorded depreciation and amortization expense of \$1.0 million for the period that Valley View Mall was classified as held for sale.

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 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, 2017, 2016 and 2015:

(in thousands of dollars)	For the Year Ended December 31,		
	2017	2016	2015
Development/Redevelopment:			
Salaries and benefits	\$ 1,296	\$ 1,138	\$ 1,001
Real estate taxes	1,035	246	4
Interest	7,620	3,191	1,883
Leasing:			
Salaries, commissions and benefits	6,066	6,101	6,255

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.

We have a mortgage note receivable secured by Wiregrass Commons Mall in Dothan, Alabama with an outstanding balance of \$16.5 million as of December 31, 2017. The note was issued in connection with our 2016 sale of Wiregrass Commons Mall. The note has a fixed interest rate of 6.0% and we recorded \$1.0 million and \$0.7 million of interest income in the years ended December 31, 2017 and 2016, respectively. We review this note quarterly for impairment purposes and have determined that the current carrying value approximates the fair value of the mortgage loan.

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.

The following table summarizes the aggregate cost basis and depreciated basis for federal income tax purposes of our investment in real estate as of December 31, 2017 and 2016:

(in millions of dollars)	As of December 31,	
	2017	2016
Aggregate cost basis for federal income tax purposes	\$ 3,174.7	\$ 3,303.2
Aggregate depreciated basis for federal income tax purposes	2,284.0	2,380.8

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, 2017, 2016 and 2015, 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, 2017, 2016 and 2015:

	As of December 31,		
	2017	2016	2015
Ordinary income	\$ —	\$ —	\$ —
Non-dividend distributions	0.84	0.84	0.84
Per-share distributions	\$ 0.84	\$ 0.84	\$ 0.84

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, 2017, 2016 and 2015:

	For the Year Ended December 31,		
	2017	2016	2015
Series A Preferred Share Dividends			
Ordinary income	\$ —	\$ —	\$ —
Non-dividend distributions	1.70	2.06	2.06
	\$ 1.70	\$ 2.06	\$ 2.06
Series B Preferred Share Dividends			
Ordinary income	\$ —	\$ —	\$ —
Non-dividend distributions	1.84	1.84	1.84
	\$ 1.84	\$ 1.84	\$ 1.84
Series C Preferred Share Dividends			
Ordinary income	\$ —	\$ —	\$ —
Non-dividend distributions	1.59	—	—
	\$ 1.59	\$ —	\$ —
Series D Preferred Share Dividends			
Ordinary income	\$ —	\$ —	\$ —
Non-dividend distributions	0.45	—	—
	\$ 0.45	\$ —	\$ —

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 in the year ended December 31, 2017, and no provision or benefit for federal or state income taxes in the years ended, December 31, 2016 and 2015. We had net deferred tax assets of \$18.0 million and \$25.6 million for the years ended December 31, 2017 and 2016, 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 because we anticipate that the net operating losses that we have historically experienced at our taxable REIT subsidiaries will continue to occur. The deferred tax assets were remeasured for the year ended December 31, 2017 to account for the tax provisions in H. R. 1, which was signed into law on December 22, 2017. We believe this reassessment to be the final adjustment to these amounts in connection with the passage of H. R. 1.

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 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, 2017, 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 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. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company adopted ASU 2017-12 on January 1, 2018. ASU 2017-12 requires a modified retrospective transition method in which the Company 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 Financial Accounting Standards Board (“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. The Company 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. The Company adopted this standard effective January 1, 2018. The adoption of ASU No. 2016-18 will change the presentation of the statement of cash flows for the Company and we will utilize a retrospective transition method for each period presented within financial statements for periods subsequent to the date of adoption.

In August 2016, the FASB issued ASU No. 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which 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. The standard requires the use of the retrospective transition method. The Company adopted this guidance effective January 1, 2017. This new guidance did not have a significant impact on the Company’s financial statements.

In March 2016, the FASB issued guidance intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees’ maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax withholding purposes should be classified as a financing activity on the

statement of cash flows. The Company adopted this guidance effective January 1, 2017. This new guidance did not have a significant impact on the Company’s financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will result in lessees recognizing most leased assets and corresponding lease liabilities on the balance sheet. 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 the current accounting; however, certain refinements were made to conform the standard with the recently issued revenue recognition guidance in ASU 2014-09, specifically related to the allocation and recognition of contract consideration earned from lease and non-lease revenue components. Substantially all of our revenue and the revenues of our equity method investments are earned from arrangements that are within the scope of ASU 2016-02, thus we anticipate that the timing of recognition and financial statement presentation of certain revenues, particularly those that relate to consideration from non-lease components, including fixed common area maintenance arrangements, may be affected. Upon adoption of ASU 2016-02, consideration related to these non-lease components will be accounted for using the guidance in ASU 2014-09. Leasing costs that are eligible to be capitalized as initial direct costs are also limited by ASU 2016-02; such costs totaled approximately \$5.3 million and \$5.1 million for the years ended December 31, 2017 and 2016, respectively. We will adopt ASU 2016-02 on January 1, 2019 using the modified retrospective approach required by the standard. We are currently evaluating the ultimate impact that the adoption of the new standard will have on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of this new standard is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of this new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. In March 2016, the FASB issued ASU No 2016-08, which updates Topic 606 to clarify principal versus agent considerations (reporting revenue gross versus net). The types of our revenues that will be impacted by the new standard include management, development and leasing fee 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 operating expenses and marketing expenses. We expect that the amount and timing of the revenues that are impacted by this standard will be generally consistent with our current measurement and pattern of recognition. We do not expect the adoption of this new standard to have a significant impact on our consolidated financial statements. Expanded quantitative and qualitative disclosures regarding revenue recognition will be required for contracts that are subject to this pronouncement. We adopted the standard effective January 1, 2018 using the modified retrospective approach, which requires a cumulative adjustment as of the date of the adoption, if applicable. We did not record any such cumulative adjustment in connection with the implementation of the new pronouncement.

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. The Company adopted this new guidance effective January 1, 2018. We do not expect this new guidance to have a significant impact on our financial statements other than in future partial sale transactions, should they occur.

2. Real Estate Activities

Investments in real estate as of December 31, 2017 and 2016 were comprised of the following:

(in thousands of dollars)	As of December 31,	
	2017	2016
Buildings, improvements and construction in progress	\$ 2,808,622	\$ 2,794,213
Land, including land held for development	491,080	505,801
Total investments in real estate	3,299,702	3,300,014
Accumulated depreciation	(1,111,007)	(1,060,845)
Net investments in real estate	\$ 2,188,695	\$ 2,239,169

IMPAIRMENT OF ASSETS During the years ended December 31, 2017, 2016, and 2015, we recorded asset impairment losses of \$55.8 million, \$62.6 million and \$140.3 million, respectively. Such impairment losses are recorded in "Impairment of assets" for the years ended 2017, 2016 and 2015. 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,		
	2017	2016	2015
Logan Valley Mall	\$38,720	\$ —	\$ —
Valley View Mall	15,521	—	—
Gainesville land	1,275	—	—
Sunrise Plaza land	226	—	—
White Clay Point land	—	20,786	—
Beaver Valley Mall	—	18,055	—
Washington Crown Center	—	14,117	—
Crossroads Mall	—	9,038	—
Office building located at Voorhees Town Center	—	607	—
Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall	—	—	63,904
Voorhees Town Center	—	—	39,242
Lycoming Mall	—	—	28,345
Uniontown Mall	—	—	7,394
Palmer Park Mall	—	—	1,383
Other	51	—	50
Total Impairment of Assets	\$55,793	\$62,603	\$140,318

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 potential 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 2017, we recorded a loss on impairment of assets on Valley View Mall, in La Crosse, Wisconsin of \$15.5 million 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.

GAINESVILLE LAND In 2017, we recorded a loss on impairment of assets on a land parcel located in Gainesville, Florida of \$1.3 million in connection with negotiations with the potential 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.

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 potential 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.

WHITE CLAY POINT LAND In 2016, we recorded a loss on impairment of assets on White Clay Point land, in New Garden Township, Pennsylvania 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 a potential sale of the property, would likely be 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. 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. The property was sold in 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 a 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.

GADSDEN MALL, NEW RIVER VALLEY MALL AND WIREGRASS COMMONS MALL In 2015, we recorded aggregate losses on impairment of assets on Gadsden Mall in Gadsden, Alabama, New River Valley Mall in Christiansburg, Virginia and Wiregrass Commons Mall in Dothan, Alabama of \$63.9 million in connection with negotiations with a prospective buyer of the properties. As a result of these negotiations, we determined that the holding period for the properties was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at these properties. Based upon the purchase and sale agreement with the prospective buyer of the properties and subsequent further negotiations, we determined that the estimated aggregate undiscounted cash flows, net of estimated capital expenditures, for Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall were less than the aggregate carrying value of the properties, and recorded a loss on impairment of assets. The properties were sold in March 2016.

VOORHEES TOWN CENTER In 2015, we recorded a loss on impairment of assets on Voorhees Town Center in Voorhees, New Jersey of \$39.2 million in connection with negotiations with the buyer of the property. In connection with these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the purchase and sale agreement with the buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Voorhees Town Center were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was sold in October 2015.

LYCOMING MALL In 2015, we recorded aggregate losses on impairment of assets on Lycoming Mall in Pennsdale, Pennsylvania of \$28.3 million in connection with negotiations with a prospective buyer of the property. In connection with these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the initial purchase and sale agreement with the prospective buyer of the property, as well as a subsequent purchase and sale agreement, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Lycoming Mall were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was sold in March 2016.

UNIONTOWN MALL In 2015, we recorded aggregate losses on impairment of assets on Uniontown Mall in Uniontown, Pennsylvania of \$7.4 million. In connection with negotiations with the buyer of the property, we had determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the original purchase and sale agreement with the buyer of the property and subsequent further negotiations, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Uniontown Mall were less than the carrying value of the property, and recorded both an initial loss on impairment of assets and a subsequent additional loss on impairment of assets. The property was sold in August 2015.

PALMER PARK MALL In 2015, we recorded a loss on impairment of assets on Palmer Park Mall in Easton, Pennsylvania of \$1.4 million. In connection with negotiations with the buyer of the property, we had determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the purchase and sale agreement with the buyer of the property and subsequent further negotiations, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Palmer Park Mall were less than the carrying value of the property, and recorded a loss on impairment of assets. The property was sold in February 2016.

ACQUISITIONS 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. 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 is potentially entitled to receive consideration (the "Earnout") under the terms of the Contribution Agreement which will be calculated as of March 31, 2018. As of December 31, 2017, the estimated value of the Earnout is zero.

DISPOSITIONS The table below presents our dispositions since January 1, 2015. 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)	
2017 Activity:					
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	—
2016 Activity:					
February	Palmer Park Mall, Easton, PA	Mall	13.6%	18.0	0.1
March	Gadsden Mall, Gadsden, AL New River Valley Mall, Christiansburg, VA and Wiregrass Commons Mall, Dothan, AL ⁽¹⁾	Three Malls (single combined transaction)	17.4%	66.0	1.6
	Lycoming Mall, Pennsdale, PA	Mall	18.0%	26.4	0.3
June	Street retail located on Walnut and Chestnut Streets, Philadelphia, PA	Street Retail	3.2%	45.0	20.3
August	Washington Crown Center, Washington, PA	Mall	14.5%	20.0	(0.1)
2015 Activity:					
August	Uniontown Mall, Uniontown, PA	Mall	17.5%	23.0	—
October	Voorhees Town Center, Voorhees, NJ	Mall	10.3%	13.4	—

⁽¹⁾ In connection with this transaction, we issued a mortgage loan to the buyer for \$17.0 million, which is recorded in "Deferred costs and other assets, net" on our consolidated balance sheet. The mortgage loan is secured by Wiregrass Commons Mall, bears interest at a fixed rate of 6.00% per annum and has a maturity of April 2026. As of December 31, 2017, the balance of the mortgage loan was \$16.5 million.

DISPOSITIONS – OTHER ACTIVITY 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.

In 2015, we sold two operating parcels and one non operating parcel for an aggregate sales price of \$5.1 million. We recorded net gains on sales of real estate of \$0.6 million on these transactions.

DEVELOPMENT ACTIVITIES As of December 31, 2017 and 2016, 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, 2017 and 2016:

(in thousands of dollars)	As of December 31,	
	2017	2016
Construction in progress	\$ 113,609	\$ 97,575
Land held for development	5,881	5,910
Deferred costs and other assets	2,182	2,752
Total capitalized construction and development activities	\$121,672	\$ 106,237

3. Investments in Partnerships

The following table presents summarized financial information of our equity investments in unconsolidated partnerships as of December 31, 2017 and 2016:

(in thousands of dollars)	As of December 31,	
	2017	2016
ASSETS:		
Investments in real estate, at cost:		
Retail properties	\$ 612,689	\$ 649,960
Construction in progress	293,102	160,699
Total investments in real estate	905,791	810,659
Accumulated depreciation	(202,424)	(207,987)
Net investments in real estate	703,367	602,672
Cash and cash equivalents	26,158	27,643
Deferred costs and other assets, net	34,345	37,705
Total assets	763,870	668,020
LIABILITIES AND PARTNERS' EQUITY:		
Mortgage loans	\$ 513,139	\$ 445,224
Other liabilities	37,971	23,945
Total liabilities	551,110	469,169
Net equity	212,760	198,851
Partners' share	106,886	101,045
Company's share	105,874	97,806
Excess investment ⁽¹⁾	13,081	8,969
Net investments and advances	\$ 118,955	\$ 106,775
Investment in partnerships, at equity	\$ 216,823	\$ 168,608
Distributions in excess of partnership investments	(97,868)	(61,833)
Net investments and advances	\$ 118,955	\$ 106,775

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

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

The following table summarizes our share of equity in income of partnerships for the years ended December 31, 2017, 2016 and 2015:

(in thousands of dollars)	For the Year Ended December 31,		
	2017	2016	2015
Real estate revenue	\$115,118	\$117,912	\$105,813
Expenses:			
Property operating expenses	(33,273)	(33,597)	(39,134)
Interest expense	(25,251)	(21,573)	(21,021)
Depreciation and amortization	(24,872)	(23,326)	(25,718)
Total expenses	(83,396)	(78,496)	(85,873)
Net income	31,722	39,416	19,940
Less: Partners' share	(17,607)	(21,137)	(10,128)
Company's share	14,115	18,279	9,812
Amortization of excess investment	252	198	(272)
Equity in income of partnerships	\$14,367	\$ 18,477	\$9,540

DISPOSITIONS 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 is \$6.5 million. The partnership distributed to us proceeds of \$30.3 million in connection with this transaction in September 2017, which is recorded in gain on sale of real estate by equity method investee in the accompanying consolidated statement of operations.

In July 2015, we sold our entire 50% interests in the Springfield Park shopping center in Springfield, Pennsylvania for \$20.2 million, representing a capitalization rate of 7.0%, and recognized a gain of \$12.0 million. In connection with our interest in the property, we had an ongoing obligation to sublet approximately 10,100 square feet of space at the property, which we transferred as part of the transaction. In connection with the sale, a mortgage loan of approximately \$9.0 million, of which our share was 50%, was assumed by the buyer of our interests. We divested \$0.1 million of goodwill in connection with this transaction. We used the net proceeds from the transaction for general corporate purposes. See note 10 regarding the related party aspect of this transaction.

TERM LOAN 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 have secured the FDP Term Loan by pledging their respective equity interests of 50% each in the entities that own Fashion District Philadelphia. The initial draw on the FDP Term Loan was \$150.0 million, and we received \$73.0 million as a distribution of our share of the draw in January 2018. The project intends to withdraw the remaining \$100.0 million available under the FDP Term Loan during 2018 to fund capital expenditures for this redevelopment project.

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 2025. 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 4.56% at December 31, 2017. The balances of the variable interest rate mortgage loans have interest rates that range from 2.76% to 4.19% and had a weighted average interest rate of 2.95% at December 31, 2017. The weighted average interest rate of all unconsolidated mortgage loans was 4.39% at December 31, 2017. 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	
2018	\$ 3,798	\$ 24,232	\$ 28,030	\$ 99,650
2019	4,107	—	4,107	8,215
2020	4,287	79,789	84,076	168,151
2021	4,040	38,160	42,200	84,401
2022	3,738	—	3,738	7,476
2023 and thereafter	13,720	59,801	73,521	147,040
Total principal payments	\$33,690	\$ 201,982	\$ 235,672	514,933
Less: Unamortized debt issuance costs				1,794
Carrying value of mortgage notes payable				\$513,139

The following table presents the mortgage loans secured by the unconsolidated properties entered into since January 1, 2016:

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Interest Rate	Maturity
2018 Activity:				
February	Pavilion at Market East ⁽¹⁾	\$ 8.3	LIBOR plus 2.85%	February 2021
2017 Activity:				
October	Lehigh Valley Mall ⁽²⁾⁽³⁾	200.0	Fixed 4.06%	November 2027

⁽¹⁾ We own a 40% partnership interest in Pavilion at Market East and our share of this mortgage loan is \$3.3 million.

⁽²⁾ 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.

⁽³⁾ 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, 2017 or 2015. Summarized financial information as of or for the years ended December 31, 2017, 2016 and 2015 for this property, which is accounted for by the equity method, is as follows:

(in thousands of dollars)	As of or for the years ended December 31,		
	2017	2016	2015
Total assets	\$ 43,850	\$ 49,264	\$ 49,919
Mortgage payable	199,451	126,520	128,883
Revenue	34,945	36,923	36,497
Property operating expenses	9,038	8,659	9,599
Interest expense	10,907	7,570	7,708
Net income	11,389	17,264	15,844
PREIT's share of equity in income of partnership	5,695	8,632	7,922

Interest expense and the deferred financing fee amortization related to the Credit Agreements for the years ended December 31, 2017, 2016 and 2015 was as follows:

(in thousands of dollars)	For the Year Ended December 31,		
	2017	2016	2015
2013 Revolving Facility:			
Interest expense	\$ 2,463	\$ 3,209	\$ 2,914
Deferred financing amortization	796	795	1,187
Accelerated financing fee	—	—	193
Term Loans:			
Interest expense	14,935	12,262	8,965
Deferred financing amortization	759	619	396

2013 REVOLVING FACILITY, AS AMENDED In April 2013, PREIT, PREIT Associates and PRI (collectively, the “Borrower” or “we”) entered into a credit agreement (as amended, the “2013 Revolving Facility”) with Wells Fargo Bank, National Association, and the other financial institutions signatory thereto, for a \$400.0 million senior unsecured revolving credit facility. In December 2013, we amended the 2013 Revolving Facility to make certain terms of the 2013 Revolving Facility consistent with the terms of the 2014 Term Loans (as defined below). In June 2015, we further amended the 2013 Revolving Facility to lower the interest rates in the applicable pricing grid, modify one covenant and to extend the Termination Date to June 26, 2018. All capitalized terms used in this note 4 and not otherwise defined herein have the meanings ascribed to such terms in the 2013 Revolving Facility.

Pursuant to the June 2015 amendment, the initial maturity of the 2013 Revolving Facility is June 26, 2018, and the Borrower has options for two one-year extensions of the initial maturity date, subject to certain conditions and to the payment of extension fees of 0.15% and 0.20% of the Facility Amount for the first and second options, respectively. We expect to exercise the first of these one-year extension options or negotiate an extension of the maturity date during the first half of 2018.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2013 Revolving Facility, through an accordion option, from \$400.0 million to as much as \$600.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in Revolving Commitments from the current lenders or Revolving Commitments from new lenders. No increase to the maximum amount available under the 2013 Revolving Facility has been exercised by the Borrower.

TERM LOANS 2015 5-YEAR TERM LOAN In June 2015, the Borrower entered into a five year term loan agreement (the “2015 5-Year Term Loan”) with Wells Fargo Bank, National Association, PNC Bank, National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured five year term loan facility. The maturity date of the 2015 5-Year Term Loan is June 2020. At closing, the Borrower borrowed the entire \$150.0 million under the 2015 5-Year Term Loan, and used the proceeds to repay \$150.0 million of the then outstanding balance under the Borrower's 2013 Revolving Facility.

2014 TERM LOANS In January 2014, the Borrower entered into two unsecured term loans in the initial aggregate amount of \$250.0 million, comprised of:

(1) a 5 Year Term Loan Agreement (the “2014 5-Year Term Loan”) with Wells Fargo Bank, National Association, U.S. Bank National Association and the other financial institutions signatory thereto, for a \$150.0 million senior unsecured 5 year term loan facility; and

(2) a 7 Year Term Loan Agreement (the “2014 7-Year Term Loan” and, together with the 2014 5-Year Term Loan, the “2014 Term Loans”) with Wells Fargo Bank, National Association, Capital One, National Association and the other financial institutions signatory thereto, for a \$100.0 million senior unsecured 7 year term loan facility.

In May 2017, we borrowed an additional \$150.0 million on the 2014 7-Year Term Loan, which was used to repay borrowings under the 2013 Revolving Facility. The carrying value of the Term Loans on our consolidated balance sheet is net of \$2.4 million of unamortized debt issuance costs.

In June 2016, the Borrower entered into an Amendment (the “Amendment”) to the 2014 7-Year Term Loan. The Amendment increased potential borrowing under the 2014 7-Year Term Loan from \$100.0 million to \$250.0 million, and expanded the accordion feature of the 2014 7-Year Term Loan from up to \$200.0 million to up to \$400.0 million. Among other things, the Amendment lowered the interest rates in the applicable pricing grid and extended the maturity date from January 7, 2021 to December 29, 2021. Pursuant to the Amendment, amounts borrowed under the 2014 7-Year Term Loan bear interest at a rate between 1.35% and 1.90% per annum, depending on PREIT's leverage, in excess of LIBOR, which is a reduction from the former range of 1.80% to 2.35%.

In June 2015, the Borrower entered into an amendment to each of the 2014 Term Loans under which PREIT is required to maintain, on a consolidated basis, minimum Unencumbered Debt Yield of 11.0%, versus 12.0% previously, consistent with the amendment to the covenant in the 2013 Revolving Facility, and the provision of the 2015 5-Year Term Loan. The cross-default provisions in the 2014 Term Loans were also amended to add the 2015 5-Year Term Loan.

Subject to the terms of the Credit Agreements, the Borrower has the option to increase the maximum amount available under the 2014 Term Loans, through an accordion option (subject to certain conditions), in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank's ability to obtain increases in commitments from the current lenders or from new lenders. The 2014 5-Year Term Loan may be increased from \$150.0 million to as much as \$300.0 million, and the 2014 7-Year Term Loan may be increased from \$200.0 million to as much as \$400.0 million, as set forth in the Amendment discussed above.

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.

The 2015 5-Year Term Loan also contains an additional covenant that prohibits us prior to receiving an investment grade credit rating, if any, from allowing the amount of the Gross Asset Value attributable to assets directly owned by PREIT, PREIT Associates, PRI and the guarantors to be less than 95% of Gross Asset Value excluding assets owned by Excluded Subsidiaries or Unconsolidated Affiliates.

Amounts borrowed under the Credit Agreements bear interest at the rate specified below per annum, depending on PREIT's leverage, in excess of LIBOR, unless and until the Borrower receives an investment grade credit rating and provides notice to the Administrative Agent (the “Rating Date”), after which alternative rates would apply. In determining PREIT's 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. The 2013 Revolving Facility is subject to a facility fee, which is currently 0.25%, depending on leverage, and is recorded in interest expense in the consolidated statements of operations. In the event that 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 (above LIBOR)			
		2013 Revolving Facility	2014 7-Year Term Loan	2014 5-Year Term Loan	2015 5-Year Term Loan
1	Less than 0.450 to 1.00	1.20%	1.35%	1.35%	1.35%
2	Equal to or greater than 0.450 to 1.00 but less than 0.500 to 1.00 ⁽¹⁾	1.25%	1.45%	1.45%	1.45%
3	Equal to or greater than 0.500 to 1.00 but less than 0.550 to 1.00	1.30%	1.60%	1.60%	1.60%
4	Equal to or greater than 0.550 to 1.00	1.55%	1.90%	1.90%	1.90%

⁽¹⁾ The rate in effect at December 31, 2017.

The Borrower may prepay any of the Credit Agreements at any time without premium or penalty, subject to reimbursement obligations for the lenders' breakage costs for LIBOR borrowings. The Borrower must repay the entire principal amount outstanding under the 2013 Revolving Facility at the end of its term, as the term may be extended.

The Credit Agreements contain certain affirmative and negative covenants that are identical, including, without limitation, requirements that PREIT maintain, on a consolidated basis: (1) minimum Tangible Net Worth of not less than 75% of the Company's tangible net worth on December 31, 2012, plus 75% of the Net Proceeds of all Equity Issuances effected at any time after December 31, 2012; (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 11.0%; (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; (7) maximum Investments in unimproved real estate and predevelopment costs not in excess of 5.0% of Gross Asset Value; (8) maximum Investments in Persons other than Subsidiaries, Consolidated Affiliates and Unconsolidated Affiliates not in excess of 5.0% of Gross Asset Value; (9) maximum Mortgages in favor of the Borrower or any other Subsidiary not in excess of 5.0% of Gross Asset Value; (10) the aggregate value of the Investments and the other items subject to the preceding clauses (7) through (9) not in excess of 10.0% of Gross Asset Value; (11) maximum Investments in Consolidation Exempt Entities not in excess of 25.0% of Gross Asset Value; (12) maximum Projects Under Development not in excess of 15.0% of Gross Asset Value; (13) the aggregate value of the Investments and the other items subject to the preceding clauses (7) through (9) and (11) and (12) not in excess of 35.0% of Gross Asset Value; (14) 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 and (ii) 110% of REIT taxable income for a fiscal year; and (15) PREIT may not permit the amount of the Gross Asset Value attributable to assets directly owned by PREIT, PREIT Associates, PRI and the guarantors to be less than 95% of Gross Asset Value excluding assets owned by Excluded Subsidiaries or Unconsolidated Affiliates.

These covenants and restrictions limit PREIT's ability to incur additional indebtedness, grant liens on assets and enter into negative pledge agreements, merge, consolidate or sell all or substantially all of its assets and enter into certain transactions with affiliates. The Credit Agreements are subject to customary events of default and are cross-defaulted with one another. As of December 31, 2017, the Borrower was in compliance with all such financial covenants.

PREIT and the subsidiaries of PREIT that either (1) account for more than 2.5% of adjusted Gross Asset Value (other than an Excluded Subsidiary), (2) own or lease an Unencumbered Property, (3) own, directly or indirectly, a subsidiary described in (2), or (4) with respect to the Term Loans, are guarantors under the 2013 Revolving Facility, as amended, will serve as guarantors for funds borrowed under the Credit Agreements. In the event that we seek and obtain an investment grade credit rating, if any, PREIT may request that a subsidiary guarantor be released, unless such guarantor becomes obligated in respect of the debt of the Borrower or another subsidiary or owns Unencumbered Property or incurs recourse debt.

Upon the expiration of any applicable cure period following an event of default, the lenders may declare all of the obligations in connection with the Credit Agreements immediately due and payable, and the Commitments of the lenders to make further loans under the 2013 Revolving Facility and the 2014 Term Loans will terminate. Upon the occurrence of a voluntary or involuntary bankruptcy proceeding of PREIT, PREIT Associates, PRI, any Material Subsidiary, any subsidiary that owns or leases an Unencumbered Property or certain other subsidiaries, all outstanding amounts will automatically become immediately due and payable and the Commitments of the lenders to make further loans will automatically terminate.

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, 2017. Three of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 3.60% at December 31, 2017. The weighted average interest rate of all consolidated mortgage loans was 4.12% at December 31, 2017. 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, 2017:

(in thousands of dollars) For the Year Ending December 31,	Principal Amortization	Balloon Payments	Total
2018	\$ 18,487	\$ 68,469 ⁽¹⁾	\$ 86,956
2019	19,517	—	19,517
2020	19,791	27,161	46,952
2021	19,162	178,600	197,762
2022	14,163	410,739	424,902
2023 and thereafter	18,705	264,645	283,350
Total principal payments	\$ 109,825	\$ 949,614	\$ 1,059,439
Less: Unamortized debt issuance costs			3,355
Carrying value of mortgage notes payable			\$ 1,056,084

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
2018 Activity:				
January	Francis Scott Key Mall ⁽¹⁾	\$ 68.5	LIBOR plus 2.60%	January 2022
2016 Activity:				
March	Viewmont Mall ⁽²⁾	9.0	LIBOR plus 2.35%	March 2021
April	Woodland Mall ⁽³⁾	130.0	LIBOR plus 2.00%	April 2021

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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. Interest only payments.

OTHER MORTGAGE LOAN ACTIVITY 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.

⁽¹⁾ This balloon payments represents the principal balance of a mortgage loan that is secured by Francis Scott Key Mall, in Frederick, Maryland, which was refinanced in January 2018 (see below).

The estimated fair values of our consolidated mortgage loans based on year-end interest rates and market conditions at December 31, 2017 and 2016 are as follows:

(in millions of dollars)	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage loans ⁽¹⁾	\$ 1,056.1	\$ 1,029.7	\$ 1,222.9	\$ 1,189.6

⁽¹⁾ The carrying value of consolidated mortgage loans has been reduced by unamortized debt issuance costs of \$3.4 million and \$4.5 million as of December 31, 2017 and 2016, respectively.

The consolidated mortgage loans contain various customary default provisions. As of December 31, 2017, we were not in default on any of the consolidated mortgage loans.

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

Amounts reported in “Accumulated other comprehensive income (loss)” that are related to derivatives will be reclassified to “Interest expense, net” as interest payments are made on our corresponding debt. During the next twelve months, we estimate that \$2.0 million will be reclassified as a decrease to interest expense in connection with derivatives.

INTEREST RATE SWAPS As of December 31, 2017, we had entered into 30 interest rate swap agreements with a weighted average interest swap rate of 1.35% on a notional amount of \$749.6 million maturing on various dates through December 2021, and one forward starting interest rate swap agreement with a base interest rate of 1.42% on a notional amount of \$48.0 million, which became effective starting January 2018 and will mature in February 2021. Also in January 2018, we entered into an interest rate swap agreement with an interest swap rate of 2.41% on a notional amount of \$64.8 million with an effective date of February 1, 2018 and an expiration date of December 1, 2021.

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. We have assessed the effectiveness of these interest rate swap agreements as hedges at inception and do so on a quarterly basis. As of December 31, 2017, we considered these interest rate swap agreements to be highly effective as cash flow hedges. The interest rate swap agreements are net settled monthly.

In the years ended December 31, 2016 and 2015, 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.

Following our July 2014 repayment of the \$25.8 million mortgage loan secured by 801 Market Street, Philadelphia, Pennsylvania, we anticipated that we would not have sufficient 1-month LIBOR based interest payments to meet the entire swap notional amount related to two of our swaps, and we estimated that this condition would exist until approximately March 2015, when we planned to incur variable rate debt as part of the consideration for Springfield Town Center. These swaps, with an aggregate notional amount of \$40.0 million, did not qualify for ongoing hedge accounting for the period from July 2014 to March 2015 as a result of the unrealized forecasted transactions. We recognized mark-to-market interest expense on these two swaps of \$0.5 million for the period from January 2015 to March 31, 2015.

Accumulated other comprehensive income (loss) as of December 31, 2017 includes a net loss of \$0.7 million relating to forward-starting swaps that we cash settled in prior years that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

The following table summarizes the terms and estimated fair values of our interest rate swap derivative instruments at December 31, 2017 and 2016. 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.

(in millions of dollars) Notional Value	Fair Value at December 31, 2017 ⁽¹⁾	Fair Value at December 31, 2016 ⁽¹⁾	Interest Rate	Effective Date	Maturity Date
Interest Rate Swaps					
\$28.1	N/A	\$ —	1.38%		January 2, 2017
48.0	\$ —	(0.1)	1.12%		January 1, 2018
7.6	—	—	1.00%		January 1, 2018
55.0	—	(0.1)	1.12%		January 1, 2018
30.0	—	(0.3)	1.78%		January 2, 2019
25.0	—	0.3	0.70%		January 2, 2019
20.0	—	(0.2)	1.78%		January 2, 2019
20.0	—	(0.2)	1.78%		January 2, 2019
20.0	—	(0.2)	1.79%		January 2, 2019
20.0	—	(0.2)	1.79%		January 2, 2019
20.0	—	(0.2)	1.79%		January 2, 2019
25.0	0.2	0.1	1.16%		January 2, 2019
25.0	0.2	0.1	1.16%		January 2, 2019
25.0	0.2	0.1	1.16%		January 2, 2019
20.0	0.1	—	1.16%		January 2, 2019
20.0	0.4	0.2	1.23%		June 26, 2020
20.0	0.4	0.2	1.23%		June 26, 2020
20.0	0.4	0.2	1.23%		June 26, 2020
20.0	0.4	0.2	1.23%		June 26, 2020
20.0	0.4	0.2	1.24%		June 26, 2020
9.0	0.2	0.2	1.19%		February 1, 2021
35.0	1.1	0.9	1.01%		March 1, 2021
35.0	1.1	0.9	1.02%		March 1, 2021
20.0	0.6	0.5	1.01%		March 1, 2021
20.0	0.6	0.5	1.02%		March 1, 2021
20.0	0.6	0.5	1.02%		March 1, 2021
50.0	0.7	N/A	1.75%		December 29, 2021
25.0	0.3	N/A	1.75%		December 29, 2021
25.0	0.3	N/A	1.75%		December 29, 2021
25.0	0.3	N/A	1.75%		December 29, 2021
25.0	0.3	N/A	1.75%		December 29, 2021
Forward Starting Swap					
\$48.0	0.9	N/A	1.42%	January 2, 2018	February 1, 2021
	\$ 9.7	\$ 3.6			

⁽¹⁾ As of December 31, 2017 and December 31, 2016, derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy and we do not have any significant recurring fair value measurements related to derivative instruments using significant unobservable inputs (Level 3).

The table below presents the effect of our derivative financial instruments on our consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015:

(in millions of dollars)	For the Year Ended December 31,			Consolidated Statements of Operations Location
	2017	2016	2015	
Derivatives in cash flow hedging relationships:				
Interest rate products				
Gain (loss) recognized in Other Comprehensive Income (Loss) on derivatives	\$ 4.0	\$ 1.5	\$ (2.4)	N/A
Loss reclassified from Accumulated Other Comprehensive Income (Loss) into income (effective portion)	2.3	5.1	5.0	Interest expense
Loss recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	—	(0.1)	(0.5)	Interest expense

CREDIT-RISK-RELATED CONTINGENT FEATURES We have agreements with some of our derivative counterparties that contain a provision pursuant to which, if our entity that originated such derivative instruments defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of December 31, 2017, 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, 2017, 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 less than \$0.1 million. If we had breached any of the default provisions in these agreements as of December 31, 2017, we might have been required to settle our obligations under the agreements at their termination value (including accrued interest) of less than \$0.1 million. We had not breached any of these provisions as of December 31, 2017.

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, \$1.0 million and \$1.1 million for the years ended December 31, 2017, 2016 and 2015 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 \$0.3 million, \$0.4 million, and \$0.4 million for the years ended December 31, 2017, 2016 and 2015, 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, 2017, 2016 and 2015, approximately 38,000, 24,000 and 25,000 shares, respectively, were purchased for total consideration of \$0.4 million, \$0.5 million and \$0.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. We recorded expense of \$0.1 million in each of the years ended December 31, 2017, 2016 and 2015, related to the share purchase plan.

8. Share Based Compensation

SHARE BASED COMPENSATION PLANS As of December 31, 2017, we make share based compensation awards using our Second Amended and Restated 2003 Equity Incentive Plan, which is a share based compensation plan that was approved by our shareholders in 2012 (the “2003 Equity Incentive Plan”). Previously, we maintained five 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, 2017, 2016 and 2015, we recorded aggregate compensation expense for share based awards of \$5.7 million (including a net reversal of \$0.2 million of amortization relating to employee separation), \$6.0 million (including \$0.3 million of accelerated amortization relating to employee separation) and \$6.3 million, (including \$0.2 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, 2017, 2016 and 2015, we capitalized compensation costs related to share based awards of \$0.1 million, \$0.2 million, and \$0.2 million, respectively.

2003 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 2003 Equity Incentive Plan (pursuant to options, restricted shares, shares issuable pursuant to current or future RSU Programs, or otherwise) was 677,384 as of December 31, 2017. The share based awards described in this footnote were all made under the 2003 Equity Incentive Plan.

RESTRICTED SHARES The aggregate fair value of the restricted shares that we granted to our employees in 2017, 2016 and 2015 was \$4.0 million, \$4.3 million and \$4.0 million, respectively. As of December 31, 2017, there was \$4.0 million of total unrecognized compensation cost related to unvested share based compensation arrangements granted under the 2003 Equity Incentive Plan. The cost is expected to be recognized over a weighted average period of 0.8 years. The total fair value of shares vested during the years ended December 31, 2017, 2016 and 2015 was \$3.9 million, \$3.6 million and \$3.7 million, respectively.

A summary of the status of our unvested restricted shares as of December 31, 2017 and changes during the years ended December 31, 2017, 2016 and 2015 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2015	438,049	\$ 19.11
Shares granted	195,255	23.38
Shares vested	(282,125)	17.12
Shares forfeited	(8,849)	21.32
December 31, 2015	342,330	23.13
Shares granted	264,989	19.27
Shares vested	(206,480)	20.77
Shares forfeited	(14,427)	19.60
December 31, 2016	386,412	21.88
Shares granted	336,296	14.95
Shares vested	(238,859)	19.56
Shares forfeited	(34,427)	18.00
December 31, 2017	449,422	\$ 16.85

RESTRICTED SHARES SUBJECT TO TIME BASED VESTING In 2017, 2016 and 2015, 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 245,950, 230,429 and 169,131 restricted shares subject to time based vesting to our employees in 2017, 2016 and 2015, respectively. The weighted average grant date fair values of time based restricted shares was \$16.43 per share in 2017, \$18.67 per share in 2016 and \$23.55 per share in 2015. Compensation cost relating to time based restricted share awards is recorded ratably over the respective vesting periods. We recorded \$3.9 million (including \$0.2 million of accelerated amortization relating to employee separation), \$3.3 million (including \$0.2 million of accelerated amortization relating to employee separation) and \$3.9 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, 2017, 2016 and 2015, respectively.

On January 19, 2018, the Company granted 392,697 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.

We will record future compensation expense in connection with the vesting of existing time based restricted share awards to employees as follows (including restricted shares issued in 2018):

(in thousands of dollars) For the Year Ending December 31,	Future Compensation Expense
2018	\$ 3,960
2019	2,776
2020	1,420
2021	151
Total	\$ 8,307

RESTRICTED SHARE UNIT PROGRAMS In 2017, 2016, 2015, 2014 and 2013, our Board of Trustees established the 2017-2019 RSU program, 2016-2018 RSU program, 2015-2017 RSU Program, the 2014-2016 RSU Program, and the 2013-2015 RSU Program, respectively (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”). 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 2017, 2016 and 2015 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 2017, 2016 and 2015 by grant date:

(in thousands of dollars, except per share data)	RSUs and assumptions by Grant Date		
	February 27, 2017	February 23, 2016	February 24, 2015
RSUs granted	140,490	127,421	94,014
Aggregate fair value of shares granted	\$ 1,620	\$ 1,914	\$ 2,074
Weighted average fair value per share	\$ 11.53	\$ 15.02	\$ 22.06
Volatility	25.8%	25.3%	25.3%
Risk free interest rate	1.42%	0.90%	0.97%
PREIT Stock Beta compared to Dow Jones US Real Estate Index	0.706	1.184	1.221

Compensation cost relating to the RSU awards is expensed ratably over the applicable three year vesting period. We recorded \$1.3 million (including a reversal of \$0.4 million of amortization relating to employee separation), \$1.8 million (including \$0.3 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, 2017, 2016 and 2015, respectively. We will record future aggregate compensation expense of \$1.6 million related to the existing awards under the RSU Programs (not including the effect of the 2018 RSUs described below, the valuation for which has not yet been determined).

For the years ended December 31, 2017 and 2016, no shares were issued from the 2015-2017 and 2014-2016 RSU programs because the required criteria were not met. For the year ended December 31, 2015, the number of shares issued to employees resulting from the measurement of the 2013-2015 RSU program was 134,733.

On January 19, 2018, the Board of Trustees established the 2018-2020 RSU program, and the Company granted 231,227 RSUs to employees (the “2018 RSUs”) with an aggregate fair value of \$3.1 million. The 2018 RSUs have a three-year measurement period that ends on December 31, 2020 or a shorter period ending upon the change in control of the Company.

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 are made under the 2003 Equity Incentive Plan. We granted a total of 64,358, 34,560, and 26,124 restricted shares subject to time based vesting to our non-employee trustees in 2017, 2016, and 2015, respectively. The aggregate fair value of the restricted shares in 2017, 2016 and 2015 was \$0.7 million, \$0.8 million and \$0.6 million, respectively. We recorded \$0.5 million, \$0.6 million and \$0.6 million of compensation expense related to time based vesting of non-employee trustee restricted share awards in 2017, 2016 and 2015, respectively. As of December 31, 2017, there was \$0.6 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 \$0.8 million, \$0.8 million, and \$1.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. In 2018, we will record compensation expense of \$0.6 million in connection with the vesting of existing non-employee trustee restricted share awards.

OPTIONS OUTSTANDING Options, when granted, are typically granted with an exercise price equal to the fair market value of the underlying shares on the date of the grant. The options vest and are exercisable over periods determined by us, but in no event later than ten years from the grant date. We have six plans under which we have historically granted options. We have not granted any options to our employees since 2003. From 2003 to 2013, we only made option grants to non-employee trustees on the date they became trustees in accordance with past practice (under the 2003 Equity Incentive Plan). No options were granted to non-employee trustees since 2013. In 2013, the Board of Trustees determined that it would no longer grant options to new non-employee trustees. The following table presents the changes in the number of options outstanding from January 1, 2015 through December 31, 2017:

Options outstanding at January 1, 2015	15,000
Options forfeited (weighted average exercise price of \$38.00)	(5,000)
Options outstanding at December 31, 2015	10,000
Options forfeited	—
Options outstanding at December 31, 2016	10,000
Options forfeited	—
Options outstanding at December 31, 2017⁽¹⁾	10,000
Outstanding exercisable and unexercisable options	10,000
Average exercise price per share	\$ 16.63
Aggregate exercise price ⁽²⁾	\$ 166
Intrinsic value of options outstanding ⁽²⁾	—

⁽¹⁾ The weighted average remaining contractual life of these outstanding options is 4.86 years (weighted average exercise price of \$16.63 per share and an aggregate exercise price of \$0.2 million).

⁽²⁾ Amounts in thousands of dollars.

The following table summarizes information relating to all options outstanding as of December 31, 2017:

Options Outstanding and Exercisable as of December 31, 2017		
Number of Shares	Exercise Price (Per Share)	Weighted Average Remaining Life (Years)
5,000	\$ 12.87	4.4
5,000	\$ 20.40	5.3

9. Leases

AS LESSOR Our retail properties are leased to tenants under operating leases with various expiration dates ranging through 2037. 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,		
2018	\$	191,313
2019		172,239
2020		150,072
2021		131,732
2022		114,916
2023 and thereafter		364,705
		\$ 1,124,977

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 expensed relating to such leases were \$2.5 million, \$2.4 million and \$2.5 million for the years ended December 31, 2017, 2016 and 2015, 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
2018	\$ 2,075	\$ 1,021
2019	1,762	1,184
2020	346	1,384
2021	149	1,584
2022	15	1,584
2023 and thereafter	—	42,300
	\$ 4,347	\$ 49,057

10. Related Party Transactions

GENERAL In 2016 and 2015, 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 and \$0.8 million for the years ended December 31, 2016 and 2015, respectively.

OFFICE LEASE We lease our principal executive offices from Bellevue Associates, an entity that is owned by Ronald Rubin, one of our trustees, collectively with members of his immediate family and affiliated entities. Total rent expense under this lease was \$1.3 million, \$1.4 million and \$1.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

SPRINGFIELD PARK DISPOSITION As disclosed in note 3, we sold our entire 50% interest in Springfield Park shopping center in Springfield, Pennsylvania in July 2015. The buyer, Rubin Retail Acquisitions, L.P., is an entity controlled by Ronald Rubin, a Trustee of PREIT. In accordance with PREIT's Related Party Transactions Policy, a Special Committee consisting exclusively of independent members of PREIT's Board of Trustees considered and approved the terms of the transaction. The disinterested members of PREIT's Board of Trustees also approved the transaction.

11. Commitments and Contingencies

CONTRACTUAL OBLIGATIONS As of December 31, 2017, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$110.4 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, 2017, 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, 2017 of \$1.2 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 \$1.3 million, \$1.4 million and \$2.1 million of employee separation expense in 2017, 2016 and 2015, respectively, in connection with the termination of certain employees. As of December 31, 2017, \$1.1 million of these amounts were accrued and unpaid.

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 determined that the entire contingent liability associated with the Earnout should be eliminated. The change in the estimated fair value of this

contingent liability is recorded as a component of depreciation and amortization expense in the accompanying consolidated statement of operations.

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 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, 2017.

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"). The Project has two stages of development. The Counterparty contributed a total of \$5.5 million of equity to the first stage of the project through December 31, 2013, and \$5.8 million to the second stage of the project through September 30, 2014, and we recorded these contributions in "Accrued expenses and other liabilities" as of December 31, 2014. In exchange for its contributions into the Project, the Counterparty received substantially all of the historic rehabilitation tax credits associated with the Project as a distribution. The Counterparty does not have a material interest in the underlying economics of the Project. The transaction also includes a put/call option whereby we might be obligated or entitled to repurchase the Counterparty's ownership interest in the Project at a stated value of \$1.7 million. We believe that the put option will be exercised by the Counterparty, and an amount attributed to that option is included in the recorded balance of "Accrued expenses and other liabilities."

Based on the contractual arrangements that obligate us to deliver tax credits and provide other guarantees to the Counterparty and that entitle us, through fee arrangements, to receive substantially all available cash flow from the Project, we concluded that the Project should be consolidated. We also concluded that capital contributions received from the Counterparty are, in substance, consideration that we received in exchange for the put

option and our obligation to deliver tax credits to the Counterparty. The Counterparty's contributions, other than the amounts allocated to the put option, are classified as "Accrued expenses and other liabilities" and recognized as "Other income" in the consolidated financial statements as our obligation to deliver tax credits is relieved.

The tax credits are subject to a five year credit recapture period, as defined in the Internal Revenue Code of 1986, as amended, beginning one year after the completion of the Project, of which the first stage was completed in the second quarter of 2012, and the second stage was completed in the second quarter of 2013. Our obligation to the Counterparty with respect to the tax credits is ratably relieved annually in the third quarter of each year, upon the expiration of each portion of the recapture period and the satisfaction of other revenue recognition criteria. In each of the third quarters of 2017, 2016 and 2015, we recognized \$0.9 million, related to the fifth (and final), fourth and third recapture periods of the first stage, and \$1.0

million \$1.0 million and \$1.2 million and \$1.0 million, respectively, related to the fourth, third and second recapture periods of the second stage, of the contribution received from the Counterparty, as "Other income" in the consolidated statements of operations. We also recorded \$0.2 million, \$0.2 million and \$0.3 million of priority returns earned by the Counterparty during each of the third quarters 2017, 2016 and 2015, respectively.

In aggregate, we recorded net income of \$1.8 million to "Other income" in each of the consolidated statements of operations in connection with the Project in 2017, 2016 and 2015, respectively. Pursuant to terms customarily found in such agreements, we have agreed to indemnify the Counterparty for its contributions, penalties and interest in the event all or a portion of the historic tax credits are disallowed.

13. Summary of Quarterly Results (Unaudited)

The following presents a summary of the unaudited quarterly financial information for the years ended December 31, 2017 and 2016:

(in thousands of dollars, except per share amounts) For the Year Ended December 31, 2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter ⁽¹⁾	Total
Total revenue	\$ 89,264	\$ 89,250	\$ 89,211	\$99,765	\$ 347,490
Net (loss) income ⁽²⁾⁽³⁾	(486)	(53,277)	12,300	8,615	(32,848)
Net (loss attributable) income available to PREIT ⁽²⁾⁽³⁾	(434)	(47,608)	10,995	7,703	(29,344)
Basic and diluted (loss) earnings per share	(0.10)	(0.79)	0.05	(0.05)	(0.89)

(in thousands of dollars, except per share amounts) For the Year Ended December 31, 2016	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter ⁽¹⁾	Total
Total revenue	\$ 101,972	\$ 94,253	\$ 98,860	\$ 104,861	\$ 399,946
Net income (loss) ⁽²⁾⁽³⁾	1,929	9,169	2,916	(26,727)	(12,713)
Net income (loss) attributable to PREIT ⁽³⁾	1,721	8,187	2,604	(23,860)	(11,348)
Basic and diluted (loss) per share	(0.03)	0.06	(0.02)	(0.40)	(0.40)

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

⁽²⁾ Includes impairment losses of \$53.9 million (2nd Quarter 2017), \$1.8 million (3rd Quarter 2017), \$0.1 million (4th Quarter 2017), \$0.6 million (1st Quarter 2016), \$14.1 million (2nd Quarter 2016), \$9.9 million (3rd Quarter 2016) and \$38.0 million (4th Quarter 2016).

⁽³⁾ Includes gains on sales of interests in real estate by equity method investee of \$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 of \$2.0 million (1st Quarter 2016), \$20.9 million (2nd Quarter 2016) and gains on sales of non operating real estate of \$0.8 million (4th Quarter 2017).

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, 2017, 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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, 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, 2017, 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 16, 2018 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 16, 2018

**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, 2017, 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, 2017, 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, 2017 and 2016, 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, 2017, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 16, 2018 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 16, 2018

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 29 retail properties, of which 25 are operating properties and four are development or redevelopment properties. The 25 operating properties include 21 shopping malls and four other retail properties, have a total of 20.2 million square feet and are located in nine states. We and partnerships in which we hold an interest own 15.5 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 12.6 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 and exclude 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, formerly referred to as Fashion Outlets of Philadelphia). This redevelopment is expected to open in 2018 and stabilize in 2020. We have three properties in our portfolio that are classified as under development, however we do not currently have any activity occurring at these properties.

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 \$20.1 million to a net loss of \$32.8 million for the year ended December 31, 2017 from a net loss of \$12.7 million for the year ended December 31, 2016. 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.

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, 2017, held a 89.4% 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 two of the four 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 acquisition in 2017, 2016 and 2015.

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 ⁽¹⁾	Number of locations impacted	GLA ⁽²⁾	PREIT's Share of Annualized Gross Rent ⁽³⁾ (in thousands)	Number of locations closed		PREIT's Share of Annualized Gross Rent ⁽³⁾
2017							
Consolidated properties	16	75	341,701	\$ 10,837.3	19	95,812	\$ 3,327.6
Unconsolidated properties	9	16	191,538	2,103.1	7	82,713	974.3
Total	18	91	533,239	\$ 12,940.4	26	178,525	\$ 4,301.9
2016							
Consolidated properties	7	38	137,111	\$ 6,738.7	20	73,011	\$ 3,181.5
Unconsolidated properties	6	10	86,012	1,166.9	4	64,809	471.4
Total	9	48	223,123	\$ 7,905.6	24	137,820	\$ 3,652.9

⁽¹⁾ Total represents unique tenants.

⁽²⁾ Gross Leasable Area ("GLA") in square feet.

⁽³⁾ 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, 2017.

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 have entered into a ground lease for the land associated with the Macy's store located at Plymouth Meeting Mall, and are in negotiations with replacement tenants for that location.

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

Property	Former/Existing Anchors				Replacement Tenant(s)		
	Name	GLA '000's	Date Store Closed/Closing	Date Decommissioned	Name	GLA '000's	%
Completed:							
Cumberland Mall	JCPenney	51	Q3 15	Q3 15	Dick's Sporting Goods	50	Q4 16
Exton Square Mall	JCPenney	118	Q2 15	n/a	Round 1	58	Q4 16
Viewmont Mall	Sears	193	Q3 16	Q2 17	Dick's Sporting Goods; Field & Stream; HomeGoods	113	Q3 17
Capital City Mall	Sears	101	Q1 17	Q2 17	Dick's Sporting Goods; Sears Appliance; Fine Wine and Spirits	88	Q3 17 Q4 17 Q4 17
Magnolia Mall	Sears	91	Q1 17	Q2 17	Burlington	46	Q3 17
Valley View Mall	Macy's	100	Q1 17	Q2 17	Herberger's	100	Q3 17
Exton Square Mall	K-Mart	96	Q1 16	Q2 16	Whole Foods	58	Q1 18
In Process:							
Woodland Mall	Sears	313	Q2 17	Q2 17	Von Maur Restaurants and small shop space	86	Q4 19
Magnolia Mall	Sears Sears		See above		Home Goods Five Below	22 8	Q2 18 Q2 18
Moorestown Mall	Macy's	200	Q1 17	n/a	Sierra Trading Post HomeSense Grocer and other tenant	19 28 32	Q1 19 Q4 18 Q4 18
Valley Mall	Macy's	120	Q1 16	n/a	One Life Fitness Tilt	70 48	Q3 18 Q3 18
Willow Grove Park	Bon-Ton JCPenney	123 125	Q1 18 Q3 17	n/a n/a	Belk Movie theater and entertainment	123 93	Q4 18 Q3 19
Pending:							
Plymouth Meeting Mall	Macy's ⁽¹⁾	215	Q1 17	n/a	Various large format tenants	153	Q4 19

⁽¹⁾ Property is third party-owned and is subject to a ground lease dated June 23, 2017.

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 IMPROVEMENT PROJECTS AND DEVELOPMENT 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 \$113.6 million as of December 31, 2017.

As of December 31, 2017, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects at our consolidated and unconsolidated properties of \$110.4 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 have secured the FDP Term Loan by pledging their respective equity interests of 50% each in the entities that own the Fashion District Philadelphia. The initial draw on the FDP Term Loan was \$150.0 million, and we received \$73.0 million as a distribution of our share of the draw in January 2018. The project intends to draw the remaining \$100.0 million available under the FDP Term Loan during 2018 in connection with further development of the redevelopment project.

We are also engaged in several types of projects at our development properties. However, we do not expect to make any significant investment in these projects in the short term other than Fashion District Philadelphia.

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 2017, 2016 and 2015, 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.

In determining the estimated undiscounted cash flows of the property or properties that are being analyzed for impairment of assets, we take the sum of the estimated undiscounted cash flows, generally assuming a holding period of 10 years, plus a terminal value calculated using the estimated net operating income in the eleventh year and terminal capitalization rates, which in 2017 ranged from 5.8% to 13.0%, 2016 ranged from 5.0% to 10.0% and in 2015 ranged from 4.5% to 15.5%. As further detailed in note 2 to our consolidated financial statements, in 2017, 2016 and 2015, as a result of our analysis, we determined that four, five and seven properties, respectively, had incurred impairment of assets.

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).

OCCUPANCY The tables below set forth certain occupancy statistics for our retail properties as of December 31, 2017, 2016 and 2015:

	Occupancy ⁽¹⁾ as of December 31,								
	Consolidated Properties			Unconsolidated Properties			Combined ⁽²⁾		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Retail portfolio weighted average:									
Total excluding anchors	93.6%	93.4%	93.2%	92.2%	94.2%	96.1%	93.3%	93.6%	93.9%
Total including anchors	95.8%	95.8%	94.9%	93.6%	95.3%	96.8%	95.4%	95.7%	95.2%
Malls weighted average:									
Total excluding anchors	94.2%	93.4%	93.2%	90.2%	94.8%	95.8%	93.8%	93.5%	93.5%
Total including anchors	96.2%	95.8%	94.9%	93.3%	96.4%	97.1%	95.9%	95.9%	95.1%
Other Retail Properties weighted average:	36.7%	N/A	N/A	93.8%	94.4%	96.6%	91.4%	94.4%	96.6%

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

⁽²⁾ 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.

From 2016 to 2017, total occupancy for our retail portfolio decreased 30 basis points to 95.4%, and mall occupancy remained at 95.9%, including consolidated and unconsolidated properties (and including all tenants irrespective of the term of their agreement).

Results of Operations

OVERVIEW Net loss for the year ended December 31, 2017 was \$32.8 million, compared to a 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.

Net loss for the year ended December 31, 2016 was \$12.7 million, compared to net loss for the year ended December 31, 2015 of \$129.6 million. The change in our 2016 results of operations from the prior year was primarily due to a decrease in impairment of assets of \$77.7 million, a decrease of \$16.0 million in depreciation and amortization, an increase in gains on sales of interests in real estate of \$10.7 million and a decrease in interest expense of \$10.4 million, partially offset by a decrease of \$5.3 million of NOI.

LEASING ACTIVITY The table below sets forth summary leasing activity information with respect to our properties for the year ended December 31, 2017, 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 ⁽¹⁾		Avg Rent Spread ⁽²⁾	Annualized Tenant Improvements psf ⁽³⁾
						\$	%		
New Leases									
Under 10,000 sf	150	283,036	6.6	\$ 48.02	N/A	N/A	N/A	N/A	N/A
Over 10,000 sf	20	464,204	10.2	15.17	N/A	N/A	N/A	N/A	N/A
Total New Leases	170	747,240	8.8	\$27.61	N/A	N/A	N/A	N/A	N/A
Renewal Leases									
Under 10,000 sf	242	475,599	3.7	\$62.64	\$61.47	\$ 1.17	1.9%	5.1%	\$ 0.18
Over 10,000 sf	16	336,453	3.3	16.49	17.14	(0.65)	(3.8%)	0.9%	—
Total Fixed Rent	258	812,052	3.5	\$43.52	\$43.10	\$0.42	1.0%	4.4%	\$0.11
Percentage in Lieu	15	91,809	1.9	15.86	22.69	(6.83)	(30.1)%	N/A	—
Total Renewal Leases	273	903,861	3.3	40.71	\$41.03	\$(0.32)	(0.8)%	N/A	
Total Non Anchor⁽⁴⁾⁽⁵⁾	443	1,651,101	5.8	\$34.78					
Anchor									
New Leases	5	349,972	11.0	\$ 7.70	N/A	N/A	N/A	N/A	\$1.38
Renewal Leases	8	1,071,158	7.1	5.31	\$ 5.28	\$0.03	0.6%	N/A	—
Total	13	1,421,130	8.1	\$ 5.90					

⁽¹⁾ 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.

⁽²⁾ 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.

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

⁽⁴⁾ Includes 41 leases and 188,624 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.

⁽⁵⁾ Includes 19 leases totaling 51,697 square feet with respect to tenants whose leases were restructured and extended following a bankruptcy filing. Excluding these leases, the initial gross rent spread was 2.4% for leases under 10,000 square feet and (0.6)% for all non-anchor leases. Excluding these leases, the average rent spread was 5.2% for leases under 10,000 square feet and 4.5% for all non-anchor leases.

See our Annual Report on Form 10-K for the year ended December 31, 2017 "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, 2017, 2016 and 2015:

(in thousands of dollars)	For the Year Ended December 31, 2017	% Change 2016 to 2017	For the Year Ended December 31, 2016	% Change 2015 to 2016	For the Year Ended December 31, 2015
Results of operations:					
Total real estate revenue	\$ 361,524	(8)%	\$ 394,597	(6)%	\$ 420,197
Other income	5,966	12%	5,349	3%	5,214
Total property operating expenses	(140,305)	(10)%	(156,218)	(8)%	(170,047)
General and administrative expenses	(36,736)	4%	(35,269)	1%	(34,836)
Provision for employee separation	(1,299)	(4)%	(1,355)	(35)%	(2,087)
Project costs and other expenses	(768)	(55)%	(1,700)	(72)%	(6,108)
Interest expense, net	(58,430)	(17)%	(70,724)	(13)%	(81,096)
Depreciation and amortization	(128,822)	2%	(126,669)	(11)%	(142,647)
Impairment of assets	(55,793)	(11)%	(62,603)	(55)%	(140,318)
Equity in income of partnerships	14,367	(22)%	18,477	94%	9,540
Gain on sale of real estate by equity method investee	6,539	—%	—	—%	—
(Losses) gains on sales of interests in real estate, net	(361)	(102)%	23,022	86%	12,362
Gains on sales of non-operating real estate	1,270	234%	380	47%	259
Net loss	\$ (32,848)	158%	\$ (12,713)	(90)%	\$ (129,567)

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 \$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.

Real estate revenue decreased by \$25.6 million, or 6%, in 2016 as compared to 2015, primarily due to:

- a decrease of \$40.8 million in real estate revenue related to properties and real estate interests sold in 2015 and 2016; and

- a decrease of \$3.2 million in Same Store expense reimbursements, due to decreases in utility expense and snow removal 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; partially offset by
- an increase of \$14.6 million in real estate revenue from the acquisition of Springfield Town Center in March 2015;
- an increase of \$2.5 million in Same Store lease terminations;
- an increase of \$0.8 million in Same Store base rent due to increases from new store openings and lease renewals with higher base rental amounts, with notable increases at Moorestown Mall and Capital City Mall; and
- an increase of \$0.4 million in Same Store partnership marketing revenue

PROPERTY OPERATING EXPENSES 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.

Property operating expenses decreased by \$13.8 million, or 8%, in 2016 as compared to 2015, primarily due to:

- a decrease of \$17.3 million in property operating expenses related to properties and real estate interests sold in 2015 and 2016;
- a decrease of \$1.1 million in Same Store non-common area utility expense as a result of warmer temperatures across the Mid-Atlantic States during the first quarter of 2016, resulting in lower electricity usage compared to the first quarter of 2015. In addition, there was a significant increase in electric rates during February 2015 due to extreme cold weather that particularly affected our properties located in Pennsylvania, New Jersey and Maryland. These effects were partially offset by a warmer summer in the three months ended September 30, 2016;
- a decrease of \$0.8 million in Same Store common area maintenance expense, including a decrease of \$0.7 million in snow removal expense; and
- a decrease of \$0.4 million in Same Store bad debt expense; partially offset by
- an increase of \$5.6 million in property operating expenses from the acquisition of Springfield Town Center in March 2015; and
- an increase of \$0.4 million in Same Store real estate tax expenses due to a combination of higher property assessments and higher tax rates at some properties.

IMPAIRMENT OF ASSETS During the years ended December 31, 2017, 2016, and 2015, we recorded impairment of assets of \$55.8 million, \$62.6 million and \$140.3 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,		
	2017	2016	2015
Logan Valley Mall	\$38,720	\$ —	\$ —
Valley View Mall	15,521	—	—
Gainesville land	1,275	—	—
Sunrise Plaza land	226	—	—
White Clay Point land	—	20,786	—
Beaver Valley Mall	—	18,055	—
Washington Crown Center	—	14,117	—
Crossroads Mall	—	9,038	—
Office building located at Voorhees Town Center	—	607	—
Gadsden Mall, New River Valley Mall and Wiregrass Commons Mall	—	—	63,904
Voorhees Town Center	—	—	39,242
Lycoming Mall	—	—	28,345
Uniontown Mall	—	—	7,394
Palmer Park Mall	—	—	1,383
Other	51	—	50
Total Impairment of Assets	\$55,793	\$62,603	\$140,318

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

PROJECT COSTS AND OTHER EXPENSES Project costs and other expenses decreased by \$0.9 million, or 55% in 2017 as compared to 2016 primarily due to a decrease of \$0.5 million related to professional fees and decreased project costs of \$0.3 million.

Project costs and other expenses decreased by \$4.4 million, or 72% in 2016 as compared to 2015 primarily due to a decrease of \$3.3 million in acquisition costs primarily related to Springfield Town Center and a decrease of \$1.4 million of professional fees, partially offset by an increase of \$0.4 million related to project costs.

INTEREST EXPENSE 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. Also we had lower weighted average effective borrowing rate (4.01% for 2017 as compared to 4.19% for 2016).

Interest expense decreased by \$10.4 million, or 13%, in 2016 as compared to 2015. The decrease was primarily due to a lower weighted average effective borrowing rate (4.19% for 2016 as compared to 4.63% for 2015) and a lower overall debt balance (an average of \$1,760.5 million in 2016 compared to \$1,780.8 million in 2015). In 2016, we also recorded a loss on hedge ineffectiveness of \$0.1 million.

DEPRECIATION AND AMORTIZATION 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.
- Depreciation and amortization expense decreased by \$16.0 million, or 11%, in 2016 as compared to 2015, primarily because of:
- a decrease of \$19.9 million related to properties sold in 2015 and 2016; and
 - a decrease of \$8.7 million due to a change in an estimated contingent liability recorded in connection with a property acquisition; partially offset by
 - an increase of \$4.7 million related to the March 2015 acquisition of Springfield Town Center; and
 - an increase of \$7.9 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.

EQUITY IN INCOME OF PARTNERSHIPS 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 by Lehigh Valley Mall, a \$1.3 million decrease in lease termination income and an aggregate decrease of \$1.0 million related to 2017 bankruptcies.

Equity in income of partnerships increased by \$8.9 million, or 94%, in 2016 as compared to 2015. This increase was primarily due to a \$4.2 million increase in equity in income from Fashion District Philadelphia due

to recovery of previously expensed amounts and lower operating costs, a \$1.7 million increase of income from Gloucester Premium Outlets, which opened during the third quarter of 2015, a decrease of \$1.2 million in depreciation and amortization from Metroplex as a result of fully depreciated assets, a \$1.3 million increase at Red Rose Commons and The Court at Oxford Valley due to an increase in lease termination revenue and a \$0.7 million increase at Lehigh Valley Mall due to a combination of increased base rent and lower operating expenses, including reductions in snow removal expense, utility expense and bad debt expense, partially offset by a \$0.4 million decrease from properties sold in 2015.

GAIN ON SALES OF INTERESTS IN REAL ESTATE, NET Gain on sales of interests of real estate, net was \$23.0 million in 2016, 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 interests of real estate, net was \$12.4 million in 2015, primarily as a result of a \$12.0 million gain on the sale of our 50% interest in Springfield Park.

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 loss on redemption of preferred shares, provision for employee separation expense, prepayment penalties and accelerated amortization of financing costs, loss on hedge ineffectiveness and acquisition costs.

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

	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
Total NOI	\$246,669	\$247,900	\$11,310	\$29,476	\$257,979	\$277,376
Less: lease termination revenue	3,142	6,009	85	183	3,227	6,192
Total NOI - excluding lease termination	\$ 243,527	\$241,891	\$ 11,225	\$29,293	\$254,752	\$271,184

Total NOI decreased by \$19.4 million, or 7.0%, in 2017 as compared to 2016. NOI from Non Same Store properties decreased \$18.2 million. This decrease was primarily due to the properties sold in 2017 and 2016. NOI from Same Store properties decreased \$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”

The table below reconciles net income (loss) to NOI of our consolidated properties for the years ended 2017, 2016 and 2015:

(in thousands of dollars)	For the Year Ended December 31,		
	2017	2016	2015
Net loss	\$ (32,848)	\$(12,713)	\$(129,567)
Other income	(5,966)	(5,349)	(5,214)
Depreciation and amortization	128,822	126,669	142,647
General and administrative expenses	36,736	35,269	34,836
Provision for employee separation expenses	1,299	1,355	2,087
Project costs and other expenses	768	1,700	6,108
Interest expense, net	58,430	70,724	81,096
Impairment of assets	55,793	62,603	140,318
Equity in income of Partnerships	(14,367)	(18,477)	(9,540)
Gain on sale of real estate by equity method investee	(6,539)	—	—
Losses (gains) on sales of interests in real estate	361	(23,022)	(12,362)
Gains on sales of non operating real estate	(1,270)	(380)	(259)
Net operating income from consolidated properties	\$221,219	\$ 238,379	\$250,150

The table below reconciles equity in income of partnerships to NOI of our share of unconsolidated properties for the years ended 2017, 2016 and 2015:

(in thousands of dollars)	For the Year Ended December 31,		
	2017	2016	2015
Equity in income of partnerships	\$ 14,367	\$ 18,477	\$ 9,540
Other income	(594)	—	—
Depreciation and amortization	10,974	10,214	12,563
Interest and other expenses	12,013	10,306	10,415
Net operating income from equity method investments at ownership share	\$ 36,760	\$ 38,997	\$ 32,518

The table below presents total NOI and total NOI excluding lease terminations for the years ended December 31, 2016 and 2015:

(in thousands of dollars)	Same Store		Non Same Store		Total (non-GAAP)	
	2016	2015	2016	2015	2016	2015
NOI from consolidated properties	\$203,107	\$200,352	\$35,272	\$49,798	\$238,379	\$250,150
NOI from equity method investments at ownership share	29,281	26,822	9,716	5,696	38,997	32,518
Total NOI	232,388	227,174	44,988	55,494	277,376	282,668
Less: lease termination revenue	5,825	1,813	367	275	6,192	2,088
Total NOI - excluding lease termination revenue	\$ 226,563	\$225,361	\$44,621	\$55,219	\$271,184	\$280,580

Total NOI decreased by \$5.3 million or 1.9%, in 2016 as compared to 2015. NOI from Same Store properties increased \$5.2 million primarily due to increased lease termination income. NOI from Non Same Store properties decreased by \$10.5 million. This decrease was primarily due to the properties sold in 2016 and 2105. See the “— Results of Operations – Real Estate Revenue” and “Property Operation Expenses” discussions above for further information about property results.

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, which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial performance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as 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, 2017, 2016 and 2015, respectively, to show the effect of such items as loss on redemption of preferred shares, provision for employee separation expense, prepayment penalties and accelerated amortization of financing costs, loss on hedge ineffectiveness and acquisition costs, which had an effect on our results of operations, but are not, in our opinion, indicative of our 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 loss on redemption of preferred shares, provision for employee separation expense, prepayment penalties and accelerated amortization of financing costs, loss on hedge ineffectiveness and acquisition costs.

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, 2017, 2016 and 2015:

(in thousands, except per share amounts)	2017	% Change 2016 to 2017	2016	% Change 2015 to 2016	2015
Net loss	\$ (32,848)		\$ (12,713)		\$ (129,567)
Adjustments:					
Depreciation and amortization on real estate					
Consolidated	127,327		125,192		141,142
Unconsolidated	10,974		10,214		12,563
Gain on sale of real estate by equity method investee	(6,539)		—		—
Losses (gains) on sales of real estate, net	361		(23,022)		(12,362)
Impairment of assets	55,793		62,603		140,318
Dividends on preferred shares	(27,845)		(15,848)		(15,848)
Loss on redemption of preferred shares	(4,103)		—		—
Funds from operations attributable to common shareholders and OP Unit holders	123,120	(15.9%)	146,426	7.5%	136,246
Loss on redemption of preferred shares	4,103		—		—
Provision for employee separation expense	1,299		1,355		2,087
Prepayment penalty and accelerated amortization of deferred financing costs	1,557		—		1,071
Loss on hedge ineffectiveness	—		143		512
Acquisition costs	—		—		3,470
Funds from operations attributable to common shareholders and OP Unit holders, as adjusted	\$130,079	(12.1%)	\$147,924	3.2%	\$ 143,386
Funds from operations attributable to common shareholders and OP Unit holders per diluted share and OP Unit	\$ 1.58	(16.4%)	\$ 1.89	5.6%	\$ 1.79
Funds from operations attributable to common shareholders and OP Unit holders, as adjusted, per diluted share and OP Unit	\$ 1.67	(12.6%)	\$ 1.91	1.1%	\$ 1.89
Weighted average number of shares outstanding	69,364		69,086		68,740
Weighted average effect of full conversion of OP Units	8,297		8,324		6,830
Effect of common share equivalents	93		191		485
Total weighted average shares outstanding, including OP Units	77,754		77,601		76,055

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 \$12.3 million decrease in interest expense; and
- a \$1.2 million increase in Same Store NOI.

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

FFO was \$146.4 million for 2016, an increase of \$10.2 million, or 7.5%, compared to \$136.2 million for 2015. This increase was primarily due to:

- a \$10.4 million decrease in interest expense (including our proportionate share of interest expense of our partnership properties and the effects of loss on hedge ineffectiveness) resulting from lower average interest rates and lower overall debt balances;
- a \$5.2 million increase in Same Store NOI; and
- a \$4.5 million decrease in project costs and other expenses; partially offset by
- a \$10.5 million decrease in Non Same Store NOI due to properties sold.

FFO per diluted share increased \$0.10 per share to \$1.89 per share for 2016, compared to \$1.79 per share for 2015 primarily due to the impact of the 6,250,000 OP Units issued in connection with the March 2015 acquisition of Springfield Town Center.

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 the section entitled “Item 1A. Risk Factors.” We do not intend to update in our Annual Report on Form 10-K 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 2013 Revolving Facility, subject to the terms and conditions of our 2013 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 2017 were \$93.0 million, based on distributions of \$1.7016 per Series A Preferred Share, distributions of \$1.8438 per Series B Preferred Share, distributions of \$1.5900 per Series C Preferred Share, distributions of \$0.4488 per Series D Preferred Share and \$0.84 per common share and OP Unit. For the first quarter of 2018, 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 2017, we raised capital from a number of sources, including proceeds of \$117.2 million from our share of asset sales (by us and our unconsolidated subsidiaries), and \$286.8 million from the issuances of Series C and D Preferred Shares, part of which was used to redeem our Series A Preferred Shares in October 2017. We also received \$35.3 million in net proceeds after an early mortgage refinancing by one of our unconsolidated subsidiaries.

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 four credit agreements (collectively, as amended, the “Credit Agreements”), as further discussed and defined below: (1) the 2013 Revolving Facility, (2) the 2014 7-Year Term Loan, (3) the 2014 5-Year Term Loan, and (4) the 2015 5-Year Term Loan. The 2014 7-Year Term Loan, the 2014 5-Year Term Loan and the 2015 5-Year Term Loan are collectively referred to as the “Term Loans.”

As of December 31, 2017, the Company had borrowed \$550.0 million under the Term Loans and \$53.0 million under the 2013 Revolving Facility. Following recent property sales, the net operating income (“NOI”) from the Company’s remaining 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 the Company under the 2013 Revolving Facility as of December 31, 2017 was \$144.5 million. Following the \$53.0 million repayment of the 2013 Revolving Facility in January 2018, the maximum unsecured amount that is available to be borrowed by the Company under the Credit Agreements is \$197.5 million.

Subject to the terms of the Credit Agreements, we have the option to increase the maximum amount available under the 2013 Revolving Facility, through an accordion option, from \$400.0 million to as much as \$600.0 million, in increments of \$5.0 million (with a minimum increase of \$25.0 million), based on Wells Fargo Bank’s ability to obtain increases in Revolving Commitments (as defined in the 2013 Revolving Facility) from the current lenders or Revolving Commitments from new lenders. No increase to the maximum amount available under the 2013 Revolving Facility has been exercised by the Borrower.

Pursuant to the June 2015 amendment, the initial maturity of the 2013 Revolving Facility is June 26, 2018, and the Borrower has options for two one-year extensions of the initial maturity date, subject to certain conditions and to the payment of extension fees of 0.15% and 0.20% of the Facility Amount for the first and second options, respectively. We expect to exercise the first of these one-year extension options or negotiate an extension of the maturity date during the first half of 2018. We expect to either refinance the 2014 5-Year Term Loan upon its maturity in January 2019, or repay it using borrowings from the 2013 Revolving Facility.

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, 2017, 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
2018 Activity:				
January	Francis Scott Key Mall ⁽¹⁾	\$ 68.5	LIBOR plus 2.60%	January 2022
2016 Activity:				
March	Viewmont Mall ⁽²⁾	9.0	LIBOR plus 2.35%	March 2021
April	Woodland Mall ⁽³⁾	130.0	LIBOR plus 2.00%	April 2021

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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. Interest only payments.

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, 2017. Three of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 3.60% at December 31, 2017. The weighted average interest rate of all consolidated mortgage loans was 4.12% at December 31, 2017. 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, 2017:

(in thousands of dollars)	Payments by Period					
	Total	2018	2019	2020	2021-2022	Thereafter
Consolidated mortgage loans:						
Principal payments	\$ 109,825	\$ 18,487	\$ 19,517	\$ 19,791	\$ 33,325	\$ 18,705
Balloon payments ⁽¹⁾	949,614	68,469	—	27,161	589,339	264,645
Total consolidated mortgage	\$ 1,059,439	\$ 86,956	\$ 19,517	\$ 46,952	\$ 622,664	\$ 283,350
Less: Unamortized debt issuance costs	3,355					
Carrying value of mortgage notes payable	\$ 1,056,084					

⁽¹⁾ The 2018 period includes \$68.5 million related to the mortgage loan on Francis Scott Key Mall for which the maturity date was extended to 2022 in January 2018.

CONTRACTUAL OBLIGATIONS The following table presents our consolidated aggregate contractual obligations as of December 31, 2017 for the periods presented:

(in thousands of dollars)	Total	2018	2019	2020	2021-2022	Thereafter
Mortgage loans	\$ 1,059,438	\$ 86,956 ⁽¹⁾	\$ 19,517	\$ 46,952	\$ 622,664	\$ 283,350
Term Loans	550,000	—	150,000	150,000	250,000	—
2013 Revolving Facility	53,000	53,000	—	—	—	—
Interest on indebtedness ⁽²⁾	261,908	60,593	54,810	51,173	66,756	28,576
Operating leases	4,347	2,075	1,762	346	164	—
Ground leases	49,057	1,021	1,184	1,384	3,168	42,300
Development and redevelopment commitments ⁽³⁾	110,390	109,904	486	—	—	—
Total	\$2,088,140	\$313,549	\$227,759	\$249,855	\$942,752	\$354,226

⁽¹⁾ The 2018 period includes \$68.5 million related to the mortgage loan on Francis Scott Key Mall for which the maturity date was extended to 2022 in January 2018.

⁽²⁾ Includes interest payments expected to be made on consolidated debt, including those in connection with interest rate swap agreements. Includes payments due under the mortgage loan on Francis Scott Key Mall which was extended in January 2018.

⁽³⁾ The timing of the payments of these amounts is uncertain. We expect that more than half of such payments will be made prior to December 31, 2018, 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 properties entered into since January 1, 2016:

Financing Date	Property	Amount Financed or Extended (in millions of dollars)	Stated Interest Rate	Maturity
2018 Activity:				
February	Pavilion at Market East ⁽¹⁾	\$ 8.3	LIBOR plus 2.85%	February 2021
2017 Activity:				
October	Lehigh Valley Mall ⁽²⁾⁽³⁾	200.0	Fixed 4.06%	November 2027

⁽¹⁾ We own a 40% partnership interest in Pavilion at Market East and our share of this mortgage loan is \$3.3 million.

⁽²⁾ 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.

⁽³⁾ 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, 2017, we had entered into 30 interest rate swap agreements with a weighted average interest swap rate of 1.35% on a notional amount of \$749.6 million maturing on various dates through December 2021, and one forward starting interest rate swap agreement with a base interest rate of 1.42% on a notional amount of \$48.0 million. We entered into these interest rate swap agreements in order to hedge the interest payments associated with our issuances of variable rate long term debt. We assessed the effectiveness of these swap agreements as hedges at inception and do so on a quarterly basis. On December 31, 2017, we considered these interest rate swap agreements to be highly effective as cash flow hedges. The interest rate swap agreements are net settled monthly.

As of December 31, 2017, the fair value of derivatives in a net liability position, which excludes accrued interest but includes any adjustment for nonperformance risk related to these agreements, was less than \$0.1 million. 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 \$136.4 million for 2017 compared to \$147.6 million for 2016 and \$135.7 million for 2015. The decrease in cash from operating activities in 2017 was primarily due to a decrease in net operating income as a result of property sales. The increase in cash from operating activities in 2016 was primarily due to a decrease in cash paid for interest.

Cash flows used in investing activities were \$98.3 million for 2017 compared to cash flows provided by investing activities of \$2.0 million for 2016 and cash flows used in investing activities of \$379.1 million for 2015.

Investing activities in 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 ongoing improvements at our properties), partially offset by \$77.8 million of proceeds from sales of Logan Valley Mall, Beaver Valley Mall, Crossroads Mall 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 allowances, recurring capital expenditures and ongoing improvements at our properties.

Investing activities for 2015 included \$320.0 million used in acquiring Springfield Town Center, investment in construction in progress of \$30.7 million and real estate improvements of \$52.8 million, offset by aggregate proceeds from sales of real estate investments totaling \$53.0 million.

Cash flows used in financing activities were \$32.6 million for 2017 compared to cash flows used in financing activities of \$162.6 million for 2016 and cash flows provided by financing activities of \$225.9 million for 2015.

Cash flows provided by financing activities for 2017 included \$286.8 million of proceeds from our 2017 Series C and D Preferred Share offerings and \$56.0 million of net borrowings on our 2013 Revolving Facility, partially offset by the mortgage loan repayments of The Mall of Prince

Georges of \$150.0 million, 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.

Cash flows used in financing activities in 2016 included the mortgage loan repayment of \$140.5 million on Woodland Mall, the mortgage loan repayment of \$79.0 million on Valley Mall, the \$32.8 million repayment of the mortgage loan on Lycoming Mall, the \$28.1 million repayment of the mortgage loan on 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 borrowing 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.

Cash flows provided by financing activities for 2015 included net borrowing of \$215.0 million from our 2013 Revolving Facility, proceeds from mortgage loans of \$272.0 million (Willow Grove park, Patrick Henry Mall and Magnolia Mall), \$120.0 million of net borrowings from our Term Loans, offset by mortgage loan repayments of \$272.7 million (Willow Grove Park, Patrick Henry Mall and Francis Scott Key Mall), dividends and distributions of \$79.6 million, and principal installments on mortgage loans of \$20.8 million.

See note 1 to our consolidated financial statements for details regarding costs capitalized during 2017 and 2016.

Commitments

As of December 31, 2017, we had unaccrued contractual and other commitments related to our capital improvement projects and development projects of \$110.4 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 properties. We have, in the past, performed remediation of such environmental matters, and we are not aware of any significant remaining potential liability relating to these environmental matters 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 ended December 31, 2017 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 ended December 31, 2017 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, 2017, together with other statements and information publicly disseminated by us, contain certain "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. When used, the words "anticipate," "believe," "estimate," "target," "goal," "expect," "intend," "may," "plan," "project," "result," "should," "will," and similar expressions, which do not relate solely to historical matters, are intended to identify forward looking statements. 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 uncertainties affecting real estate businesses generally as well as the following, among other factors:

- changes in the retail industry, including consolidation and store closings, particularly among anchor tenants;
- our ability to maintain and increase property occupancy, sales and rental rates, in light of the relatively high number of leases that have expired or are expiring in the next two years;
- increases in operating costs that cannot be passed on to tenants;
- current economic conditions and the state of employment growth and consumer confidence and spending, and the corresponding effects on tenant business performance, prospects, solvency and leasing decisions and on our cash flows, and the value and potential impairment of our properties;
- the effects of online shopping and other uses of technology on our retail tenants;
- risks related to our development and redevelopment activities;
- acts of violence at malls, including our properties, or at other similar spaces, and the potential effect on traffic and sales;
- our ability to identify and execute on suitable acquisition opportunities and to integrate acquired properties into our portfolio;
- our partnerships and joint ventures with third parties to acquire or develop properties;

- concentration of our properties in the Mid-Atlantic region;
- changes in local market conditions, such as the supply of or demand for retail space, or other competitive factors;
- changes to our corporate management team and any resulting modifications to our business strategies;
- our ability to sell properties that we seek to dispose of or our ability to obtain prices we seek;
- our substantial debt and the liquidation preference value of our preferred shares and our high leverage ratio;
- constraining leverage, unencumbered debt yield, interest and tangible net worth covenants under our principal credit agreements;
- potential losses on impairment of certain long-lived assets, such as real estate, or of intangible assets, such as goodwill, including such losses that we might be required to record in connection with any dispositions of assets;
- our ability to refinance our existing indebtedness when it matures, on favorable terms or at all;
- our ability to raise capital, including through joint ventures or other partnerships, through sales of properties or interests in properties, through the issuance of equity or equity-related securities if market conditions are favorable, or through other actions;
- our short- and long-term liquidity position;
- potential dilution from any capital raising transactions or other equity issuances; and
- general economic, financial and political conditions, including credit and capital market conditions, changes in interest rates or unemployment.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in our Annual Report on Form 10-K for the year ended December 31, 2017 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, 2017, our consolidated debt portfolio consisted primarily of \$1,056.1 million (net of unamortized debt issuance costs) of fixed and variable rate mortgage loans, \$150.0 million borrowed under our 2015 5-Year Term Loan, which bore interest at 2.81%, \$150.0 million borrowed under our 2014 5-Year Term Loan, which bore interest at a rate of 2.81%, \$250.0 million borrowed under our 2014 7-Year Term Loan, which bore interest at a rate of 2.81% and \$53.0 million borrowed under our 2013 Revolving Facility, which bore interest at a rate of 2.74%.

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, 2017. Three of our mortgage loans bear interest at variable rates and had a weighted average interest rate of 3.60% at December 31, 2017. The weighted average interest rate of all consolidated mortgage loans was 4.12% at December 31, 2017. 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)	Fixed Rate Debt		Variable Rate Debt	
	Principal Payments	Weighted Average Interest Rate	Principal Payments	Weighted Average Interest Rate ⁽¹⁾
For the Year Ending December 31,				
2018	\$ 16,807	4.25%	\$123,149	3.61%
2019	\$ 17,837	4.25%	\$151,680	2.88%
2020	\$ 45,272	5.03%	\$151,680	2.82%
2021	\$ 18,602	4.20%	\$429,160	2.89%
2022 and thereafter	\$708,252	4.21%	\$ —	—%

⁽¹⁾ Based on the weighted average interest rate in effect as of December 31, 2017 and does not include the effect of our interest rate swap derivative instruments as described below.

At December 31, 2017, we had \$855.7 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, 2017, we had entered into 30 interest rate swap agreements with a weighted average interest swap rate of 1.35% on a notional amount of \$749.6 million maturing on various dates through December 2021. 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.

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, 2017 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 \$50.5 million at December 31, 2017. A 100 basis point decrease in market interest rates would have resulted in an increase in our net financial instrument position of \$53.1 million at December 31, 2017. Based on the variable rate debt included in our debt portfolio at December 31, 2017 a 100 basis point increase in interest rates would have resulted in an additional \$1.1 million in interest expense annually. A 100 basis point decrease would have reduced interest incurred by \$1.1 million annually. Because the information presented above includes only those exposures that existed as of December 31, 2017, 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 (2)(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 (3)(4) Trustee Since 2003
Former Global Managing Partner
PricewaterhouseCoopers LLP

RONALD RUBIN
Former Chairman
Pennsylvania Real Estate Investment Trust

(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

ANDREW M. IOANNOU
Executive Vice President
Finance and Acquisitions

MARIO C. VENTRESCA, JR.
Executive Vice President
Operations

JONATHAN BELL
Senior Vice President
and Chief Accounting Officer

HEATHER CROWELL
Senior Vice President
Strategy and Communications

DANIEL M. HERMAN
Senior Vice President
Development

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

RUDOLPH ALBERTS, JR.
Vice President
Asset Management

SAM COLLIER
Vice President
Leasing

BETH DESISTA
Vice President
Specialty Leasing

JOHANNA DIDIO
Vice President
Legal

ANTHONY DILORETO
Regional Vice President
Leasing

MICHAEL A. FENCHAK
Vice President
Asset Management

MARK GAMBILL
Vice President
Development

BRADFORD HUGHART
Vice President
Information Technology

WILLIAM INGRAHAM
Vice President
Partnership and Property Marketing

MICHAEL A. KHOURI
Vice President
Leasing

DAVID MARSHALL
Vice President
Financial Services

SEAN MULROY
Vice President
Business Analytics

DANIEL PASCALE
Vice President
Development

DANIEL RUBIN
Vice President
Outparcel Leasing

JOSHUA SCHRIER
Vice President
Acquisitions

JEFFREY SNEDDON
Vice President
Leasing

JOSHUA TALLEY
Vice President
Legal

VINCE VIZZA
Regional Vice President
Leasing

Investor Information

HEADQUARTERS

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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, Wells Fargo 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

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200 South Broad Street, Third Floor
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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 statements 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 30, 2017, 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, 2017.

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 Calendar Year 2017	High	Low	Distributions Paid per Common Share
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>

Quarter Ended Calendar Year 2016	High	Low	Distributions Paid per Common Share
March 31	\$21.95	\$16.42	\$0.21
June 30	\$23.99	\$20.36	0.21
September 30	\$25.67	\$21.32	0.21
December 31	\$22.86	\$18.12	0.21
			<u>\$0.84</u>

In February 2018, our Board of Trustees declared a cash dividend of \$0.21 per share payable in March 2018. Our future payment of distributions 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, 2017, there were approximately 2,000 registered shareholders and 20,000 beneficial holders of record of the Company's common shares of beneficial interest. The Company had an aggregate of approximately 297 employees as of December 31, 2017.

STOCK MARKET

New York Stock Exchange
Common Ticker Symbol: PEI

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 11AM on Thursday, May 31, 2018 at the Hyatt 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



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