PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-K
February 16, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2017
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
(Exact name of Registrant as specified in its charter)

Pennsylvania	23-6216339
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
The Bellevue 200 South Broad Street Philadelphia, Pennsylvania	19102
(Address of principal executive offices)	(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Shares of Beneficial Interest, par value $1.00 per share	New York Stock Exchange
Series B Preferred Shares, par value $0.01 per share	New York Stock Exchange
Series C Preferred Shares, par value $0.01 per share	New York Stock Exchange
Series D Preferred Shares, par value $0.01 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý
Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The aggregate market value, as of June 30, 2017, of the shares of beneficial interest, par value $1.00 per share, of the Registrant held by non-affiliates of the Registrant was approximately $0.8 billion. (Aggregate market value is estimated solely for the purposes of this report and shall not be construed as an admission for the purposes of determining affiliate status.)
On February 12, 2018, 70,372,236 shares of beneficial interest, par value $1.00 per share, of the Registrant were outstanding.

Documents Incorporated by Reference
Portions of the Registrant's definitive proxy statement for its 2017 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2017
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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K 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, w 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 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.

Except as the context otherwise requires, references in this Annual Report on Form 10-K to “we,” “our,” “us,” the “Company” and “PREIT” refer to Pennsylvania Real Estate Investment Trust and its subsidiaries, including our operating partnership, PREIT Associates, L.P.

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PART I

ITEM 1. BUSINESS.

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). In 2017, we sold three of our wholly owned mall properties.

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.

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.

We are a fully integrated, self-managed and self-administered REIT that has elected to be treated as a REIT for federal income tax purposes. In general, we are required each year to distribute to our shareholders at least 90% of our net taxable income and to meet certain other requirements in order to maintain the favorable tax treatment associated with qualifying as a REIT.

PREIT'S BUSINESS

We are primarily engaged in the ownership, management, leasing, acquisition, redevelopment, and disposition of shopping malls. In general, our malls include tenants that are national or regional department stores, large format retailers or other anchors and a diverse mix of national, regional and local in-line stores offering apparel (women's, family, teen, children's, men's), shoes, eyewear, cards and gifts, jewelry, sporting goods, home furnishings and personal care items, among other things. In recent years, we have increased the portion of our properties that is leased to non-traditional mall tenants, and approximately 20% of our portfolio is space committed to non traditional tenants offering services such as dining and entertainment, health and wellness, off price retail and fast fashion.

To enhance the experience for shoppers, most of our malls have restaurants and/or food courts, and some of the malls have multi-screen movie theaters and other entertainment options, either as part of the mall or on outparcels around the perimeter of the mall property. In addition, many of our malls have outparcels containing restaurants, banks or other stores. Our malls frequently serve as a central place for community, promotional and charitable events in their geographic trade areas.

The largest mall in our retail portfolio is 1.4 million square feet and contains 171 stores, and the smallest is 0.5 million square feet and contains 80 stores. The other properties in our retail portfolio range from 370,000 to 780,000 square feet.

We derive the substantial majority of our revenue from rent received under leases with tenants for space at retail properties in our real estate portfolio. In general, our leases require tenants to pay minimum rent, which is a fixed amount specified in the lease, and which is often subject to scheduled increases during the term of the lease for longer term leases. In 2017, 84% of the new leases that we signed contained scheduled rent increases, and these increases, which are typically scheduled to occur between two and four times during the term, ranged from 1.4% to 13.3%, with approximately 87% ranging from 2.0% to 4.0%. In addition or in the alternative, certain tenants are required to pay percentage rent, which can be either a percentage of their sales revenue that exceeds certain levels specified in their lease agreements, or a percentage of their total sales revenue.

The majority of our leases also provide that the tenant will reimburse us for certain expenses relating to the property for common area maintenance (“CAM”), real estate taxes, utilities, insurance and other operating expenses incurred in the operation of the property subject, in some cases, to certain limitations. The proportion of the expenses for which tenants are responsible was historically related to the tenant’s pro rata share of space at the property. As discussed below, we have continued to shift the provision in our leases that addresses these items to be a fixed amount, which gives greater predictability to tenants, and a majority of such revenue is derived from leases specifying fixed CAM reimbursements.

Retail real estate industry participants sometimes classify malls based on the average sales per square foot of non-anchor mall tenants, the population and average household income of the trade area and the geographic market, the growth rates of the population and average household income in the trade area and geographic market, and numerous other factors. Based on these factors, in general, malls that have high average sales per square foot and are in trade areas with large populations and high household incomes and/or growth rates are considered Class A malls, malls with average sales per square foot that are in the middle range of population or household income and/or growth rates are considered Class B malls, and malls with lower average sales and smaller populations and lower household incomes and/or growth rates are considered Class C malls. Although these classifications are defined differently by different market participants, in general, some of our malls are in the Class A range and many might be classified as Class B properties. The classification of a mall can change, and one of the goals of our current property strategic plans and remerchandising programs is to increase the average sales per square foot of certain of our properties and correspondingly increase their rental income and cash flows, and thus potentially their class, in order to maximize the value of the property. The malls that we have sold pursuant to our strategic property disposition program have generally been Class C properties.

BUSINESS STRATEGY

Our primary objective is to maximize the long-term value of the Company for our shareholders. To that end, our business goals are to obtain the highest possible rental income, tenant sales and occupancy at our properties in order to maximize our cash flows, net operating income, funds from operations, funds available for distribution to shareholders and other operating measures and results, and ultimately to maximize the values of our properties.

To achieve this primary goal, we have developed a business strategy focused on increasing the values of our properties, and ultimately of the Company, which includes:

- Raising the overall level of quality of our portfolio and of individual properties in our portfolio;
- Improving the operating results of our properties;
- Taking steps to position the Company for future growth opportunities; and
- Improving our balance sheet by reducing debt and leverage, and maintaining a solid liquidity position.

Raising the Overall Level of Quality of Our Portfolio and of Individual Properties in Our Portfolio

Portfolio Actions. We continue to refine our collection of properties to enhance the overall quality of the portfolio. We seek to have a portfolio that derives most of its NOI (a non-GAAP measure; as defined below) from higher productivity properties, and one that is represented in the vicinity of a few major east coast cities. One avenue we used for raising the level of quality of our portfolio was by disposing of certain assets, which had sales productivity or occupancy below the average for our portfolio. In 2017, we sold Beaver Valley Mall, Crossroads Mall and Logan Valley Mall. At December 31, 2016, these properties had average aggregate sales per square foot of $324 and total occupancy of 87.3%, which were substantially less than the metrics for the balance of our portfolio. Since 2012, we have sold 17 low-productivity malls.

Redevelopment. We might also seek to improve particular properties, to increase the potential value of properties in our portfolio, and to maintain or enhance their competitive positions by redeveloping them. We do so in order to attract more customers and retailers, which we expect to lead to increases in sales, occupancy and rental rates. Redevelopments are generally more involved than strategic property plans or remerchandising programs and usually require some use of capital. We give redevelopment priority to properties in our portfolio that are of a higher quality, and where the redevelopment can be economically transformative. Our property redevelopments focus primarily on anchor replacement, remerchandising, renovation and densification. We believe these activities will enable us to optimize our financial returns.

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The table below sets forth our property redevelopment summary as of December 31, 2017.

NAME OF PROJECT LOCATION	PREIT's PROJECTED SHARE OF COST [1] (in millions)	TOTAL PROJECT COST [1] (in millions)	PREIT'S INVESTMENT TO DATE (in millions)	TARGETED RETURN ON INCREMENTAL INVESTMENT	CONSTRUCTION START DATE	EXPECTED CON-STRUCTION COMPLETION	STABILIZAT YEAR
Fashion District Philadelphia [2] Philadelphia, PA	$152.5-$182.5	$305-$365	$132.8	8-9%	2016	2018	2020
-Complete overhaul of the former Gallery at Market East, spanning three city blocks in downtown Philadelphia. Project will of fusion of luxury and moderate outlet shops, flagship retail, destination dining and entertainment experiences.							
Woodland Mall Grand Rapids, MI	$74	$74	$34.1	5-6%	2017	2019	2020
-Upgrade of existing tenant mix inclusive of 90,000 square foot Von Maur, along with an array of 30,000 square feet of high-quality retail in enclosed small shop space and quality polished casual restaurants, will join the roster, replacing a Sears st in 2019.							
The Mall at Prince Georges Hyattsville, MD	$34-$35	$34-$35	$15.6	8-9%	2016	2018	2019
-Property remerchandising, including H&M, with plans to add fast casual restaurants and other retail on the exterior of the mall Minor interior cosmetic renovation and exterior re-facing completed.							
Anchor replacements:							
Capital City Mall Camp Hill, PA	$28-$30	$28-30	$19.8	7-9%	2017	2018	2019
-58,000 square foot Dick’s Sporting Goods replaced Sears along with Fine Wine & Good Spirits, Sears Appliance and addition small shop tenants and outparcels. Dave & Buster's opening fall 2018.							
Magnolia Mall Florence, SC	$15-$19	$15-$19	$8.2	7-9%	2017	2018	2019
-60,000 square foot, first-to-market Burlington replaced Sears in 2017, with HomeGoods and Five Below in 2018.							

Moorestown Mall Moorestown, NJ	$41-$42	$41-$42	$10.1	9-10%	2018	2019	2020
-Sierra Trading Post, HomeSense, grocer, and other tenants to replace former Macy's.							
Valley Mall Hagerstown, MD	$26-$27	$26-$27	$7.5	7-8%	2018	2019	2020
-Belk, Onelife Fitness, and Tilt Studio replacing former Macy's and BonTon.							

(1) PREIT's projected share of costs and total project costs are net of any expected tenant reimbursements, parcel sales, tax credits or other incentives.
(2) Total Project Costs are net of $25.0 million of approved public financing grants that will be a reduction of costs.

Since 2014, we, along with our 50/50 joint venture partner, The Macerich Company ("Macerich"), have been engaged in a redevelopment of the Fashion District Philadelphia (formerly The Gallery). In connection therewith, we contributed and sold real estate assets to the venture and Macerich acquired its interest in the venture and real estate from us for $106.8 million in cash. We and Macerich are jointly and severally responsible for a minimum investment in the project of $300.0 million. Fashion District Philadelphia is in a key location in central Philadelphia, strategically positioned above regional mass transit, adjacent to the convention center and tourism sites, and amidst numerous offices and residential sites.

In January 2018, we along with Macerich, 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 draw the remaining $100.0 million available under the FDP Term Loan during 2018 in connection with further development of the project.
An important aspect of any redevelopment project, including the redevelopment of the Fashion District Philadelphia, is its effect on the property and on the tenants and customers during the time that a redevelopment is taking place. While we might undertake a redevelopment to maximize the long term performance of the property, in the short term, the operations and performance of the property, as measured by sales, occupancy and NOI, will often be negatively affected. Tenants might be dislodged as space for the redevelopment is aggregated, which affects tenant sales and rental rates. As the Fashion District Philadelphia is redeveloped, it is expected that occupancy, sales and NOI will continue to decrease until the newly constructed space is completed, leased and occupied. As of December 31, 2017, the portion of the Fashion District Philadelphia that was formerly known as Gallery I and the rest of the inline space at the Fashion District Philadelphia was closed, and most of the space was closed for the majority of 2016 and all of 2017. Through December 31, 2017, we had incurred costs of $132.8 million relating to our share of the redevelopment costs of the project.

Mall-Specific Plans. We seek to unlock value in our portfolio through a variety of targeted efforts at our properties. We believe that certain of our properties, including ones which are in trade areas around major cities or are leading properties in secondary markets, can benefit from strategic remerchandising strategies, including, for example, selective re-tenanting of certain spaces in certain properties with higher quality, better-matched tenants. Based on the demographics of the trade area or the relevant competition, we believe that this subset of properties provides opportunities for meaningful value creation at the property level. We believe that we can successfully implement particular strategies at these assets, such as adding restaurants, making fashion and certain fashion categories the focus of the retailers at such properties, and relocating and right-sizing certain stores. We also continuously work to optimize the match between the demographics of the trade area, such as the household income level, and the nature and mix of tenants at such properties. We strive to work closely with tenants to enhance their merchandising opportunities at our properties. We believe that these approaches can attract more national and other tenants to the property and can lead to higher occupancy and NOI.
Shopper Experiences. In addition to such property-wide remerchandising efforts, we also seek to offer unique shopper experiences at our properties by having tenants that provide products, services or interactions that are unlike other offerings in the trade area. We seek to add first-to-market tenants, entertainment options, beauty and fashion purveyors, and unique tenants like Legoland Discovery Center, as well as providing amenities like children's play areas and mall shopping smartphone apps.
Vacant 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. Since 2012, we reduced the number of Sears locations from 27 to eight, and the number of Macy's locations from 25 to 14.
Since 2015, 13 anchor stores within our portfolio were recaptured or closed. To date, all of these stores have tenants that are either open, under construction, or have leases that are executed or near execution.

	Former/Existing Anchors				Replacement Tenant(s)		
Property	Name	GLA '000's	Date Store Closed/Closing	Date De-commissioned	Name	GLA '000's	Actual/Targeted Occupancy Date
Completed:							
Cumberland Mall	JC Penney	51	Q3 15	Q3 15	Dick's Sporting Goods	50	Q4 16
Exton Square Mall	JC Penney	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
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 TBD	Q4 19 Q4 19
Magnolia Mall	Sears	See Above			HomeGoods 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	Onelife Fitness Tilt	70 48	Q3 18 Q3 18
	Bon Ton	123	Q1 18	n/a	Belk	123	Q4 18
Willow Grove Park	JC Penney	125	Q3 17	n/a	Movie theater and entertainment	93	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.

Improving the Operating Results of Our Properties

We aim to improve the overall operational performance of our portfolio of properties with a multi-pronged approach.

Occupancy. We continue to work to increase non-anchor and total occupancy in our properties. In 2017, non-anchor occupancy at our malls was 93.8%, a decrease of 30 basis point over 2016 and total occupancy at our malls remained flat at 95.9%. In connection with the remerchandising plans at several of our properties described above, we are seeking or have obtained tenants for space in our properties that are the focus of remerchandising plans and for new space of different types such as pads or kiosks. We are also seeking tenants that have not previously been prevalent at our mall properties.

Key Tenants; Mall Leasing. We continue to recruit, and expand our relationships with, certain high profile retailers, and to initiate and expand our relationships with other quality and first-to-market retailers or concepts. We coordinate closely with tenants on new store locations in an effort to position our properties for our tenants' latest concept or store prototype, in order to drive traffic to our malls and stimulate customer spending. We believe that increasing our occupancy in ways that are tailored to particular properties will be helpful to our leasing efforts and will help increase rental rates and tenant sales. We have also diversified the mix of tenants within our portfolio, with approximately 20% of space committed to non traditional tenants offering services such as dining and entertainment, health and wellness, off price retail and fast fashion.

Rental Rates and Releasing Spreads. For the year ended December 31, 2017, we generated sales per square foot of $475 from our malls, an increase of 2.4% from 2016, excluding sold malls and Fashion District Philadelphia, which is under redevelopment. At properties with improved or already higher sales per square foot, these sales levels have helped attract new tenants and helped us retain current tenants that seek to take advantage of the property's increased productivity. We have worked to capitalize on the increase in, or high level of, sales per square foot by seeking positive rent renewal spreads, including from renewals and new leases following expirations of leases entered into during the economic downturn of recent years. In 2017, renewal spreads increased 1.9% on non-anchor leases under 10,000 square feet. Despite a significant increase in sales productivity, occupancy costs have remained relatively constant. We believe we have a meaningful opportunity to drive NOI and asset values by capitalizing on this increased sales productivity through increased rents on renewals or replacing underperforming tenants.

As discussed above, since 2012, we sold 17 underperforming malls. We believe that the disposition of these less productive assets will help improve our negotiating position with retailers with multiple stores in our portfolio (including stores at these properties), and potentially enable us to obtain higher rental rates from them at our remaining properties.

Specialty Leasing and Partnership Marketing. Some space at our properties might be available for a shorter period of time, pending a lease with a permanent tenant or in connection with a redevelopment. We strive to manage the use of this space through our specialty leasing function, which manages the short term leasing of stores and the licensing of income-generating carts and kiosks, with the goal of maximizing the rent we receive during the period when a space is not subject to a longer term lease.

We also seek to generate ancillary revenue (such as sponsorship marketing revenue and promotional income) from the properties in our portfolio. We believe that increased efforts in this area can enable us to increase the proportion of net operating income derived from ancillary revenue.

Operating Expenses and CAM Reimbursements. Our strategy for improving operating results also includes efforts to control or reduce the costs of operating our properties. With respect to operating expenses, we have taken steps to manage a significant proportion of them through contracts with third party vendors for housekeeping and maintenance, security services, landscaping and trash removal. These contracts provide reasonable control, certainty and predictability. We also seek to contain certain expenses through our active programs for managing utility expense and real estate taxes. We have taken advantage of opportunities to buy electricity economically in states that have opened their energy markets to competition, and we expect to continue with this approach. We have instituted a solar energy program at five of our properties, which we expect will lower our utility expenses. We also review the annual tax assessments of our properties and, when appropriate, pursue appeals.

With respect to CAM reimbursements, we have converted many of our leases to fixed CAM reimbursement, in contrast to the traditional pro-rata CAM reimbursement. Fixed CAM reimbursement, while shifting some risk to us as landlord, offers tenants increased predictability of their costs, a decrease in the number of items to be negotiated in a lease thus speeding lease execution, and reduced need for detailed CAM billings, reconciliations and collections. It is taking several years for all tenants of our properties to be subject to leases with a fixed CAM reimbursement provision, but we believe there is an opportunity to increase our operating margins.

Taking Steps to Position the Company for Future Growth Opportunities

We are taking steps to position the Company to generate future growth. In connection therewith, we have implemented processes designed to ensure strong internal discipline in the use, harvesting and recycling of our capital, and these processes will be applied in connection with proposals to redevelop properties or to reposition properties with a mix of uses, or possibly, in the future, to acquire additional properties.

External Opportunities. We seek to acquire, in an opportunistic, selective and disciplined manner, properties that are well-located, that are in trade areas with growing or stable demographics, that have operating metrics that are better than or equal to our existing portfolio averages, and that we believe have strong potential for increased cash flows and appreciation in value if we call upon our relationships with retailers and apply our skills in asset management and redevelopment. We also seek to acquire additional parcels or properties that are included within, or adjacent to, the properties already in our portfolio, in order to gain greater control over the merchandising and tenant mix of a property. Taking advantage of any acquisition opportunities will likely involve some use of debt or equity capital. In March 2015, we completed the acquisition of Springfield Town Center, in Springfield, Virginia. The redeveloped property re-opened in October 2014, its facilities are currently being leased, and we expect operations at the property to stabilize in 2018.

We pursue development of retail and mixed use projects that we expect can meet the financial and strategic criteria we apply, given economic, market and other circumstances. We seek to leverage our skill sets in site selection, entitlement and planning, design, cost estimation and project management to develop new retail and mixed use properties. We seek properties in trade areas that we believe have sufficient demand, once developed, to generate cash flows that meet the financial thresholds we establish in the given environment. We manage all aspects of these undertakings, including market and trade area research, acquisition, preliminary development work, construction and leasing.

Depending on the nature of the acquisition or development opportunity, we might involve a partner, including in connection with projects involving a use other than retail.

Organic Opportunities. We look for ways to maximize the value of our assets by adding a mix of uses, such as office or multi-family residential housing, initiated either by ourselves or with a partner, that are designed to attract a greater number of people to the property. Multiple constituencies, from local governments to city planners to citizen groups, have indicated a preference for in-place development, development near transportation hubs, the addition of uses to existing properties, and sustainable development, as opposed to locating, acquiring and developing new green field sites. Also, if appropriate, we will seek to attract certain nontraditional tenants to these properties, including tenants using the space for purposes such as entertainment, education, health care, government and child care, which can bring larger numbers of people to the property, as well as regional, local or nontraditional retailers. Such uses will, we believe, increase traffic and enable us to generate additional revenue and grow the value of the property.

Improving Our Balance Sheet by Reducing Debt and Leverage; Maintaining Liquidity

Leverage. We continue to seek ways to reduce our leverage by improving our operating performance and through a variety of other means available to us. These means might include selling properties or interests in properties with values in excess of their mortgage loans and applying any excess proceeds to debt reduction; entering into joint ventures or other partnerships or arrangements involving our contribution of assets; issuing common or preferred equity or equity-related securities if market conditions are favorable; or through other actions. Along these lines, we issued 6,900,000 shares of 7.20% Series C Preferred Shares for net proceeds of $166.3 million in January 2017, and issued 5,000,000 shares of 6.875% Series D Preferred Shares in September and October 2017, for proceeds of $120.5 million, a portion of which was used to redeem the then-outstanding 8.25% Series A Preferred Shares, resulting in an annual reduction in fixed charges of $0.9 million.

Mortgage Loan Refinancings and Repayments. We might pursue opportunities to make favorable changes to individual mortgage loans on our properties. When we refinance such loans, we might seek a new term, better rates and excess proceeds. An aspect of our approach to debt financing is that we strive to lengthen and stagger the maturities of our debt obligations in order to better manage our future capital requirements. We might seek to repay certain mortgage loans in full in order to unencumber the associated properties, which enables us to increase our pool of unencumbered assets, have greater financial flexibility and obtain additional financing.

Liquidity. As of December 31, 2017, our consolidated balance sheet reflected $15.3 million in cash and cash equivalents, and in January 2018, we received a $73.0 million distribution upon the closing of the FDP Term Loan. We believe that this amount and our net cash provided by operations, together with the available credit under the 2013 Revolving Facility, the remaining availability under the FDP Term Loan, and other sources of capital, provide sufficient liquidity to meet our liquidity requirements and to take advantage of opportunities in the short to intermediate term.

Capital Recycling. We regularly conduct portfolio property reviews and, if appropriate, we seek to dispose of malls, other retail properties or outparcels that we do not believe meet the financial and strategic criteria we apply, given economic, market and other circumstances. Disposing of these properties can enable us to redeploy or recycle our capital to other uses, such as to repay debt, to reinvest in other real estate assets and development and redevelopment projects, and for other corporate purposes.

RECENT DEVELOPMENTS

Dispositions

The table below presents our dispositions of consolidated properties since January 1, 2017:

Sale Date	Property and Location	Description of Real Estate Sold	Capitalization Rate	Sale Price (in millions of dollars)	Gain/ (Loss)
2017					
January	Beaver Valley Mall, Monaca, Pennsylvania	Mall	15.6%	$24.2	$ —
	Crossroads Mall, Beckley, West Virginia	Mall	15.5%	$24.8	$ —
August	Logan Valley Mall, Altoona, Pennsylvania	Mall	16.5%	$33.2	$ —

Operating Performance

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.

Funds From Operations ("FFO"), a non-GAAP measure, decreased 15.9% from the prior year, and FFO as adjusted, another non-GAAP measure, decreased 12.1% from the prior year. Adjustments to FFO included loss on redemption of the Series A Preferred Shares, provision for employee separation expense, prepayment penalties and accelerated amortization of financing costs, loss on hedge ineffectiveness and acquisition costs. FFO as adjusted per share decreased 12.6% from 2016.

Same Store net operating income ("Same Store NOI"), a non-GAAP measure, decreased 0.5% over the prior year. Same Store NOI, excluding lease termination revenue, increased 0.7% compared to 2016.

Renewal spreads at our properties increased 1.9% on non-anchor leases under 10,000 square feet and decreased 3.8% for non-anchor leases of at least 10,000 square feet. Renewal spreads increased 0.6% for anchors.

Retail portfolio occupancy at December 31, 2017 was 95.4%, a decrease of 30 basis points. Non-anchor occupancy was 93.3%, a decrease of 30 basis points. Mall occupancy remained flat at 95.9%. Mall non-anchor occupancy was 93.8%, an increase of 30 basis points.

Sales per square foot at our mall properties were $475, an increase of 2.4% from 2016, including consolidated and unconsolidated properties and excluding malls sold and Fashion District Philadelphia.

Descriptions of each non-GAAP measure mentioned above and the related reconciliation to the comparable GAAP measures are located in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Reconciliation of GAAP Net Income (Loss) to Non-GAAP Measures."

Financing Activity

We have entered into four credit agreements (collectively, 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."

Leverage. In 2017, our ratio of Total Liabilities to Gross Asset Value under our Credit Agreements decreased 47 basis points to 50.7%.

Mortgage Loan Activity. In January 2018, we amended and extended a $68.5 million mortgage loan secured by Francis Scott Key Mall in Frederick, Maryland. The mortgage loan has a four year term with one 1-year extension option and bears interest at LIBOR Plus 2.60%.
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.

CAPITAL STRATEGY

In support of the business strategies described above, our long-term corporate finance objective is to maximize the availability and minimize the cost of the capital we employ to fund our operations. In pursuit of this objective and for other business reasons, we seek the broadest range of funding sources (including commercial banks, institutional lenders, equity and debt investors and joint venture partners) and funding vehicles (including mortgage loans, commercial loans, sales of properties or interests in properties, and debt and equity securities) available to us on the most favorable terms. We pursue this goal by maintaining relationships with various capital sources and utilizing a variety of financing instruments, enhancing our flexibility to execute our business strategy in different economic environments or at different points in the business cycle.

Following the extension of the maturity date of the mortgage loan on Francis Scott Key Mall in January 2018, we have no wholly owned mortgage maturities until July 2020. While mortgage interest rates remain relatively low, we will continue to seek to extend the maturity dates of our mortgage loans to the maximum extent possible, or to replace them with longer term mortgage loans. Our 2013 Revolving Facility has an initial maturity date in June 2018, with two one-year extension options, subject to certain conditions and option fees, as described in greater detail in Note 4 to our consolidated financial statements. We intend to exercise the first one-year extension option in the first half of 2018. The 2014 5-Year Term Loan has a maturity date of January 2019. We expect to either refinance the 2014 5-Year Term Loan or repay it using borrowings from the 2013 Revolving Facility. Also, in January 2018, the joint venture entity directing the development of Fashion District Philadelphia entered into a $250.0 million term loan (our share of which is $125.0 million), which provides us with additional liquidity.

In general, in determining the amount and type of debt capital to employ in our business, we consider several factors, including: general economic conditions, the capital market environment, prevailing and forecasted interest rates for various debt instruments, the cost of equity capital, property values, capitalization rates for mall properties, our financing needs for acquisition, redevelopment and development opportunities, the debt ratios of other mall REITs and publicly-traded real estate companies, and the federal tax law requirement that REITs distribute at least 90% of net taxable income, among other factors.
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 various types of financial instruments. 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 our underlying exposure, and subject to our ability to satisfy collateral requirements.

Capital Availability

To maintain our status as a REIT, we are required, under federal tax laws, to distribute to shareholders 90% of our net taxable income, which generally leaves insufficient funds to finance major initiatives internally. Because of these requirements, we ordinarily fund most of our significant capital requirements, such as the capital for acquisitions, redevelopments and developments, through secured and unsecured indebtedness, sales of properties or interests in properties and, when appropriate, the issuance of additional debt, equity or equity-related securities.

In 2015, we recast our $400.0 million 2013 Revolving Facility. In 2014 and 2015, we entered the Term Loans for an aggregate amount of $400.0 million: a five year agreement for a $150.0 million facility, expandable to $300.0 million, a seven year agreement for a $100.0 million facility, as amended, expandable to $400.0 million and a five year agreement for a $150.0 million facility. Certain covenants and provisions of these loans might restrict our ability to use our cash flows and any debt or equity capital we obtain to execute our strategy. The 2013 Revolving Facility had $147.0 million outstanding at December 31, 2016 and was paid down to $53.0 million as of December 31, 2017. 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 (as described below) 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.

In addition, our ability to finance our growth using these sources depends, in part, on our creditworthiness, the availability of credit to us, the market for our securities at the time or times we need capital and prevailing conditions in the capital and credit markets, among other things. We believe that we have adequate access to capital to fund the remaining cost of our redevelopment program, which we currently estimate to be approximately $300.0 million.

OWNERSHIP STRUCTURE

We hold our interests in our portfolio of properties through our operating partnership, PREIT Associates, L.P. We are the sole general partner of PREIT Associates and, as of December 31, 2017, held a 89.4% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We own our interests in our properties through various ownership structures, including partnerships and tenancy in common arrangements (collectively, "partnerships"). PREIT Associates' direct or indirect economic interest in the properties ranges from 25% or 50% (for eight partnership properties) up to 100%. See "Item 2. Properties—Retail Properties."

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.

COMPETITION

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 in-line stores 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 retail 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 channels or 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 our Credit Agreements, lead us to make capital improvements to properties that we would have deferred or would not have otherwise planned to make and might affect 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 or site, or generate lower cash flow from an acquired property or site than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

ENVIRONMENTAL

Under various federal, state and local laws, ordinances, regulations and case law, an owner, former owner or operator of real estate might be liable for the costs of removal or remediation of hazardous or toxic substances present at, on, under, in or released from its property, regardless of whether the owner, operator or other responsible party knew of or was at fault for the release or presence of hazardous or toxic substances. Contamination might adversely affect the owner's ability to sell or lease real estate or borrow with real estate as collateral. In connection with our ownership, operation, management, development and redevelopment of properties, or any other properties we acquire in the future, we might be liable under these laws and might incur costs in responding to these liabilities.

Each of our retail properties has been subjected to a Phase I or similar environmental audit (which involves a visual property inspection and a review of records, but not soil sampling or ground water analysis) by environmental consultants. These audits have not revealed, and we are not aware of, any environmental liability that we believe would have a material adverse effect on our results of operations. It is possible, however, that there are material environmental liabilities of which we are unaware.

We are aware of certain past environmental matters at some of our properties. We have, in the past, investigated and, where appropriate, performed remediation of such environmental matters, but we might be required in the future to perform testing relating to these matters or to satisfy requirements for further remediation, or we might incur liability as a result of such environmental matters. See "Item 1A. Risk Factors—Risks Related to Our Business and Our Properties—We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations."

SUSTAINABILITY

We strive to be socially and environmentally conscious. We have solar arrays at five of our properties, and offer electric vehicle charging stations at four of our properties. Our properties now produce more than 8 million kilowatt hours of electricity from solar panels per year. The annual environmental benefit accrued through the production of renewable energy at these five properties is equivalent to a reduction in greenhouse gas emissions from more than 1,200 passenger vehicles. Additionally, as part of our redevelopment at Woodland Mall in Grand Rapids, Michigan, we diverted more than 20,000 tons of concrete from two former Sears buildings from landfills, instead recycling it for reuse as building pads, parking lot base and site grading during the expansion phase of the mall.

EMPLOYEES

We had 297 employees at our properties and in our corporate office as of December 31, 2017. None of our employees are represented by a labor union.

INSURANCE

We have comprehensive liability, fire, flood, cyber liability, terrorism, extended coverage and rental loss insurance that we believe is adequate and consistent with the level of coverage that is standard in our industry. We cannot assure you, however, that our insurance coverage will be adequate to protect against a loss of our invested capital or anticipated profits, or that we will be able to obtain adequate coverage at a reasonable cost in the future.

STATUS AS A REIT

We conduct our operations in a manner intended to maintain our qualification as a REIT under the Internal Revenue Code of 1986, as amended. Generally, as a REIT, we will not be subject to federal or state income taxes on our net taxable income that we currently distribute to our shareholders. Our qualification and taxation as a REIT depend on our ability to meet various qualification tests (including dividend distribution, asset ownership and income tests) and certain share ownership requirements prescribed in the Internal Revenue Code.

CORPORATE HEADQUARTERS

Our principal executive offices are located at The Bellevue, 200 South Broad Street, Philadelphia, Pennsylvania 19102. 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.

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.

AVAILABLE INFORMATION

We maintain a website with the address www.preit.com. We are not including or incorporating by reference the information contained on our website into this report. We make available on our website, free of charge and as soon as practicable after filing with the SEC, copies of our most recently filed Annual Report on Form 10-K, all Quarterly Reports on Form 10-Q and all Current Reports on Form 8-K filed during each year, including all amendments to these reports, if any. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports are also available on the SEC's website at http://www.sec.gov. In addition, copies of our corporate governance guidelines, codes of business conduct and ethics (which include the code of ethics applicable to our Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer) and the governing charters for the audit, nominating and governance, and executive compensation and human resources committees of our Board of Trustees are available free of charge on our website, as well as in print to any shareholder upon request. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We intend to comply with the requirements of Item 5.05 of Form 8-K regarding amendments to and waivers under the code of business conduct and ethics applicable to our Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer by providing such information on our website within four days after effecting any amendment to, or granting any waiver under, that code, and we will maintain such information on our website for at least twelve months.

ITEM 1A. RISK FACTORS.

RISKS RELATED TO OUR BUSINESS AND OUR PROPERTIES

Any store closings, leasing and construction delays, lease terminations, tenant financial difficulties or tenant bankruptcies we encounter could adversely affect our financial condition and results of operations.

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. There are also a number of tenants that are based outside the U.S., and these tenants are affected by economic conditions in the country where their headquarters are located and internationally. Any of 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 closing of those tenants might be more significant to us than the bankruptcy or store closings of other tenants. In addition, under some 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 could directly affect our results of operations. Also, if tenants are unable to comply with the terms of our 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.

If a tenant files for bankruptcy, the tenant might have the right to reject and terminate its leases, and we cannot be sure that it will affirm its leases and continue to make rental payments in a timely manner. A bankruptcy filing by, or relating to, one of our tenants would bar all efforts by us to collect pre-bankruptcy debts from that tenant, or from their property, unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of its bankruptcy. If a lease is assumed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages in connection with such balances. If a bankrupt tenant vacates a space, it might not do so in a timely manner, and we might be unable to re-lease the vacated space during that time, or at all. In addition, such a scenario with one tenant could result in lease terminations or reductions in rent by other tenants of the same property whose leases have co-tenancy provisions. These other tenants might seek changes to the terms of their leases, including changes to the amount of rent to be paid. Any unsecured claim we hold against a bankrupt tenant might be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims, and there are restrictions under bankruptcy laws that limit the amount of the claim we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of any unsecured claims we hold, which could adversely affect our financial condition and results of operations. 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. Tenant bankruptcies and liquidations have adversely affected, and are likely in the future to adversely affect, our financial condition and results of operations.

Changes in the retail industry, particularly among anchor tenant retailers, could adversely affect our results of operations and financial condition.

The income we generate depends in part on our anchor or other major tenants’ ability to attract customers to our properties and generate traffic, which affects the property’s ability to attract non-anchor tenants, and thus the revenue generated by the property. In recent years, in connection with economic conditions and other changes in the retail industry, including customers’ use of smartphones and websites and the continued expansion of ecommerce generally, some anchor tenant retailers have experienced decreases in operating performance, and in response, they are contemplating strategic, operational and other changes. The strategic and operational changes being considered by anchor tenants include subleasing, combinations and other consolidation designed to increase scale, leverage with suppliers like landlords, and other efficiencies, which might result in the restructuring of these companies and which could involve withdrawal from certain geographic areas, such as secondary or tertiary trade areas, or the closure or sale of stores operated by them. We cannot assure you that there will not be additional store closings by any anchor or other tenant in the future, which could affect our results of operations, cash flows, and ability to make cash distributions. The closure of one or more anchor stores would have a negative effect on the affected properties, on our portfolio and on our results of operations. In addition, a lease termination by an anchor for any reason, a failure by an anchor to occupy the premises, or any other cessation of operations by an anchor could result in lease terminations or reductions in rent by other tenants of the same property whose leases permit cancellation or rent reduction (i.e., co-tenancy provisions) if an anchor's lease is terminated or the anchor otherwise ceases occupancy or operations. In that event, we might

be unable to re-lease the vacated space of the anchor or non-anchor stores in a timely manner, or at all. If a large number of anchor stores close in a particular region, competition to fill these vacancies could cause us to lease space at lower rates than we would otherwise seek, which could negatively affect our results of operations. In addition, the leases of some anchors might permit the anchor to transfer its lease, including any attendant approval rights, to another retailer. The transfer to a new anchor could cause customer traffic in the property to decrease or to be composed of different types of customers, which could reduce the income generated by that property. A transfer of a lease to a new anchor also could allow other tenants to make reduced rental payments or to terminate their leases at the property, which could adversely affect our results of operations.
Approximately 33% of our non-anchor leases expire in 2018 or 2019 or are in holdover status, and if we are unable to renew these leases or re-lease the space covered by these leases on equivalent terms, we might experience reduced occupancy and traffic at our properties and lower rental revenue, net operating income, cash flows and funds available for distributions.
The current conditions in the economy, including rising interest rates and changes in the means and patterns of consumer behavior, may affect employment growth and cause fluctuations and variations in retail sales, consumer confidence and consumer spending on retail goods. The weaker operating performance of certain retailers in recent years has resulted in store closings and in delays or deferred decisions regarding the openings of new retail stores at some of our properties and affected renewals of both anchor and non-anchor leases. In recent years, partially because of the economic environment, we frequently renewed leases with terms of one year, two years or three years, rather than the more typical five years or ten years. These shorter term leases enabled both the tenant and us, before entering into a longer term lease, to evaluate the advantages and disadvantages of a longer term lease at a later time in the economic cycle, at least in part with the expectation that there will be greater visibility into future conditions in the economy and future trends. As a result, we have a substantial number of such leases that are in holdover status or will expire in the next few years, including some leases with our top 20 tenants, and including both anchor and non-anchor leases. See “Item 2. Properties—Retail Lease Expiration Schedule” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Leasing Activity.” We might not be successful in renewing the leases for, or re-leasing, the space covered by leases that are in holdover status or that are expiring in 2018 and 2019, or obtaining positive rent renewal spreads, or even renewing the leases on terms comparable to those of the expiring leases. If we are not successful, we will be likely to experience reduced occupancy, traffic, rental revenue and net operating income, which could have a material adverse effect on our financial condition, results of operations and ability to make distributions to shareholders.

The investments we have made in redeveloping older properties and developing new properties could be subject to delays or other risks and might not yield the returns we anticipate, which would harm our financial condition and operating results.

Currently, we are planning or engaged in redevelopment projects at a number of our properties, including our 50/50 joint venture to redevelop the Fashion District Philadelphia, which is a significant project. To the extent we continue current redevelopment projects or enter into new redevelopment or development projects in the longer term, they will be subject to a number of risks that could negatively affect our return on investment, financial condition, results of operations and our ability to make distributions to shareholders, including, among others:

- higher than anticipated construction costs, including labor and material costs;
- delayed ability or inability to reach projected occupancy, rental rates, profitability, and investment return;
- timing delays due to weather, labor disruptions, zoning or other regulatory approvals, tenant decision delays, delays in anchor approvals of redevelopment plans, where required, acts of God (such as fires, significant storms, earthquakes or floods) and other factors outside our control, which might make a project less profitable or unprofitable, or delay profitability; and
- expenditure of money and time on projects that might be significantly delayed before stabilization.

Some of our retail properties were constructed or last renovated more than 10 years ago. Older, unrenovated properties tend to generate lower rent and might require significant expense for maintenance or renovations to maintain competitiveness, which, if incurred, could harm our results of operations. Subject to the terms and conditions of our Credit Agreements, as a key component of our growth strategy, we plan to continue to redevelop existing properties, and we might develop or redevelop other projects as opportunities arise. These plans are subject to then-prevailing economic, capital market and retail industry conditions.

We might elect not to proceed with certain development projects after they have begun. In general, when we elect not to proceed with a project that has commenced, development costs for such a project will be expensed in the then-current period.

The accelerated recognition of these expenses could have a material adverse effect on our results of operations for the period in which the expenses are recognized.

We might be unable to effectively manage any redevelopment and development projects involving a mix of uses, or other unique aspects, such as a project located in a city rather than a suburb, which could affect our financial condition and results of operations.

The complex nature of redevelopment and development projects calls for substantial management time, attention and skill. Some of our redevelopment and development projects currently, and in the future, might involve mixed uses of the properties, including residential, office and other uses. We might not have all of the necessary or desirable skill sets to manage such projects. If a development or redevelopment project includes a non-retail use, we might seek to sell the rights to that component to a third-party developer with experience in that use, or we might seek to partner with such a developer. If we are not able to sell the rights to, or partner with, such a developer, or if we choose to develop the other component ourselves, we would be exposed not only to those risks typically associated with the development of commercial real estate generally, and of retail real estate, but also to specific risks associated with the development, ownership and property management of non-retail real estate, such as the demand for residential or office space of the types to be developed and the effects of general economic conditions on such property types, as opposed to the effects on retail real estate, with which we are more familiar. Also, if we pursue a redevelopment or development project with a different or unique aspect, such as a project in a dense city location like the redevelopment of the Fashion District Philadelphia, either in a partnership with another developer (like with Macerich for the Fashion District Philadelphia) or ourselves, we would be, and are, exposed to the particular risks associated with the unique aspect such as, in the case of dense city projects, differences in the entitlements process, different types of responses by particular stakeholders and different involvement and priorities of local, state and federal government entities. In addition, even if we sell the rights to develop a specific component or elect to participate in the development through a partnership, we might be exposed to the risks associated with the failure of the other party to complete the development as expected. These include the risk that the other party would default on its obligations, necessitating that we complete the component ourselves (including providing any necessary financing). The lack of sufficient management resources, or of the necessary skill sets to execute our plans, or the failure of a partner in connection with a joint, mixed-use or other unique development, could delay or prevent us from realizing our expectations with respect to any such projects and could adversely affect our results of operations and financial condition.

Expense reimbursements are relatively low and might continue to be relatively low. Also, operating expense amounts have increased and, in the future, are likely to continue to increase, reducing our cash flow and funds available for future distributions.

Our leases have historically provided that the tenant is liable for a portion of common area maintenance ("CAM") costs, real estate taxes and other operating expenses. If these expenses increase, then under such provisions, the tenant's portion of such expenses also increases. Our new leases are continuing to incorporate terms providing for fixed CAM reimbursement or caps on the rate of annual increases in CAM reimbursement. In these cases, a tenant will pay a set or capped expense reimbursement amount, regardless of the actual amount of operating expenses. The tenant's payment remains the same even if operating expenses increase, causing us to be responsible for the excess amount. To the extent that existing leases, new leases or renewals of leases do not require a pro rata contribution from tenants, and to the extent that any new fixed CAM reimbursement provision sets an amount below actual expense levels, we are liable for the cost of such expenses in excess of the portion paid by tenants, if any. This has affected and could, in the future, adversely affect our net effective rent, our results of operations and our ability to make distributions to shareholders. Further, if a property is not fully occupied, as it typically is not, we are required to pay the portion of the expenses allocable to the vacant space that is otherwise typically paid by tenants, which would adversely affect our results of operations and our ability to make distributions to shareholders.

Our properties are also subject to the risk of increases in CAM costs and other operating expenses, which typically include real estate taxes, energy and other utility costs, repairs, maintenance on and capital improvements to common areas, security, housekeeping, property and liability insurance and administrative costs. A significant portion of our operating expenses are managed through contracts with third-party vendors. Vendor consolidation could result in increased expense for such services. In addition, in recent years, municipalities have sought to raise real estate taxes paid by our property in their jurisdiction because of their strained budgets, our recent redevelopment of such property or for other reasons. In some cases, our mall might be the largest single taxpayer in a jurisdiction, which could make real estate tax increases significant to us. If operating expenses increase, the availability of other comparable retail space in the specific geographic markets where our properties are located might limit our ability to pass these increases through to tenants, or, if we do pass all or a part of these increases on, might lead tenants to seek retail space elsewhere, which, in either case, could adversely affect our results of operations and limit our ability to make distributions to shareholders.

The valuation and accounting treatment of certain long-lived assets, such as real estate, or of intangible assets, such as goodwill, could result in future asset impairments, which would be recorded as operating losses.

Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances, such as a decrease in net operating income, the loss of an anchor tenant or an agreement of sale at a price below book value, indicate that the carrying amount of the property might not be recoverable. An operating property to be held and used is considered impaired under applicable accounting authority only if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, is less than the carrying value of the property. 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. This estimate takes into consideration factors such as expected future net operating income, trends and prospects, and upcoming lease maturities, as well as the effects of demand, competition and other factors. The current conditions in the economy have negatively affected retail sales, employment growth and consumer spending on retail goods. We have set our estimates of future cash flows to be generated by our properties taking into account these factors, which might cause changes in our estimates in the future. If we find that the carrying value of real estate investments and related intangible assets has been impaired, as we did in 2017, 2016 and 2015, we will recognize impairment with respect to such assets. Applicable accounting principles require that goodwill and certain intangible assets be tested for impairment annually or earlier upon the occurrence of certain events or substantive changes in circumstances. If we find that the carrying value of goodwill or certain intangible assets exceeds estimated fair value, we will reduce the carrying value of the real estate investment or goodwill or intangible asset to the estimated fair value, and we will recognize impairment with respect to such investments or goodwill or intangible assets.

Impairment of long-lived assets is required to be recorded as a noncash operating expense. Our 2017, 2016 and 2015 impairment analyses resulted in noncash impairment charges on long-lived assets of $55.8 million, $62.6 million and $140.3 million, respectively, and, as a result, the carrying values of our impaired assets were reset to their estimated fair values as of the respective dates on which the impairments were recognized. Any further decline in the estimated fair values of these assets could result in additional impairment charges. It is possible that such impairments, if required, could be material. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Asset Impairment."

Conditions in the U.S. economy might adversely affect our cash flows from operations.

The U.S. economy has continued to experience relatively slow income growth, and reduced or fluctuating business and consumer confidence and retail sales. Changes in the patterns of consumer spending have led to decreased operating performance of and bankruptcy or similar filings by several retailer tenants, which has led to store closings, delays or deferred decisions regarding lease renewals and the openings of new retail stores at our properties, and has in some cases affected the ability of our current tenants to meet their obligations to us. This could adversely affect our ability to generate cash flows, meet our debt service requirements, comply with the covenants under our Credit Agreements, make capital expenditures and make distributions to shareholders. These conditions could also have a material adverse effect on our financial condition and results of operations.

Our retail properties are concentrated in the Eastern United States, particularly in the Mid-Atlantic region, and adverse market conditions in that region might affect the ability of our tenants to make lease payments and the interest of prospective tenants to enter into leases, which might reduce the amount of revenue generated by our properties.

Our retail properties are concentrated in the Eastern United States, particularly in the Mid-Atlantic region, including a number of properties in the Philadelphia, and to a lesser extent, the Washington, D.C metropolitan areas. To the extent adverse conditions affecting retail properties, such as economic conditions, population trends, changing demographics and urbanization, availability and costs of financing, construction costs, income, sales and property tax laws, and weather conditions, are particularly adverse in these areas, our results of operations will be affected to a greater degree than companies that do not have concentrations in these regions. If the sales of stores operating at our properties were to decline significantly due to adverse regional conditions, the risk that our tenants, including anchors, will be unable to fulfill the terms of their leases to pay rent or will enter into bankruptcy might increase. Furthermore, such adverse regional conditions might affect the likelihood or timing of lease commitments by new tenants or lease renewals by existing tenants as such parties delay their leasing decisions in order to obtain the most current information about trends in their businesses or industries. If, as a result of prolonged adverse regional conditions, occupancy at our properties decreases or our properties do not generate sufficient revenue to meet our operating and other expenses, including debt service, our financial position, results of operations, cash flow and ability to make distributions to shareholders would be adversely affected.

Our redevelopment of The Gallery at Market East into the Fashion District Philadelphia could be harmed by delays in the project's completion.

Portions of the land comprising the Fashion District Philadelphia project are subject to ground leases with the Philadelphia Redevelopment Authority (the "PRA"). Under the terms of the ground leases, we and our joint venture partner, The Macerich Company, committed to completing the entire redevelopment of the Fashion District Philadelphia within forty-eight months of the PRA's issuance of a notice to proceed. This notice to proceed was issued on March 14, 2016. If the joint venture fails to complete the project within the forty-eight month timeframe, the PRA, subject to the expiration of applicable notice and cure periods, has the right to terminate the ground leases. In the event of such a termination, we would be unable to recognize the anticipated returns on our investment in the Fashion District Philadelphia project. Additionally, delays in the project's completion could prevent us from opening the Fashion District Philadelphia in 2018, as previously announced, increase the overall project cost, and/or delay our ability to collect revenue from the project.

We have invested and expect to invest in the future in partnerships with third parties to acquire, develop or redevelop properties, and we might not control the management, redevelopment or disposition of these properties, or we might be exposed to other risks.

We have invested and expect to invest in the future as a partner with third parties in the acquisition or ownership of existing properties or the development of new properties, in contrast to acquiring or owning properties or developing projects by ourselves. Entering into partnerships with third parties involves risks not present where we act alone, in that we might not have primary control over the acquisition, disposition, development, redevelopment, financing, leasing, management, budgeting and other aspects of the property or project. These limitations might adversely affect our ability to develop, redevelop or sell these properties at the most advantageous time for us, if at all. Also, there might be restrictive provisions and rights that apply to sales or transfers of interests in our partnership properties, which might require us to make decisions about buying or selling interests at a disadvantageous time.

In July 2014, we entered into a 50/50 joint venture with Macerich to redevelop the Fashion District Philadelphia. In connection therewith, we contributed and sold real estate assets to the venture, and Macerich acquired its interest in the venture and real estate from us for $106.8 million in cash. We retained a 50% interest in Fashion District Philadelphia, which we account for using the equity method of accounting. In January 2018, we along with Macerich, entered into a $250 million term loan (the "FDP Term Loan"), with an initial borrowing of $150.0 million; the remaining $100.0 million is available via a delayed draw feature. We expect to borrow the remainder in the first half of 2018. The initial term of the FDP Term Loan is 5 years. It is expected that both parties will make additional investments in the project. The development of Fashion District Philadelphia is expected to open in 2018 and stabilize in 2020.

Some of our retail properties are owned by partnerships for which major decisions, such as a sale, lease, refinancing, redevelopment, expansion or rehabilitation of a property, or a change of property manager, require the consent of all partners. Accordingly, because decisions must be unanimous, necessary actions might be delayed significantly and it might be difficult or even impossible to remove a partner that is serving as the property manager. We might not be able to resolve favorably any conflicts which arise with respect to such decisions, or we might be required to provide financial or other inducements to our partners to obtain a resolution. In cases where we are not the controlling partner or where we are only one of the general partners, there are many decisions that do not relate to fundamental matters that do not require our approval and that we do not control. Also, in cases in which we serve as managing general partner of the partnership that owns the property, we might have certain fiduciary responsibilities to the other partners in those partnerships.

Business disagreements with our third-party partners might arise. We might incur substantial expenses in resolving these disputes. Moreover, we cannot assure you that our resolution of a dispute with a third-party partner will be on terms that are favorable to us.

The profitability of each partnership we enter into with a third party that has short-term financing or debt requiring a balloon payment is dependent on the subsequent availability of long-term financing on satisfactory terms. If satisfactory long-term financing is not available, we might have to rely on other sources of short-term financing or equity contributions. Although these partnerships are not wholly-owned by us, if any obligations were recourse, we might be required to pay the full amount of any obligation of the partnership, or we might elect to pay all of the obligations of such a partnership to protect our equity interest in its properties and assets. This could cause us to utilize a substantial portion of our liquidity sources or operating funds and could have a material adverse effect on our operating results and reduce amounts available for distribution to shareholders.

Other risks of investments in partnerships with third parties include:

- partners might become bankrupt or fail to fund their share of required capital contributions, which might inhibit our ability to make important decisions in a timely fashion or necessitate our funding their share to preserve our investment, which might be at a disadvantageous time or in a significant amount;
- partners might undergo a change of control or a substantial change in management, which could similarly inhibit our ability to make important decisions in a timely fashion or otherwise affect our intentions with respect to a project.
- partners might have business interests or goals that are inconsistent with our business interests or goals;
- partners might be in a position to take action contrary to our policies or objectives;
- we might incur liability for the actions of our partners; and
- third-party managers might not be sensitive to publicly-traded company or REIT tax compliance matters.

We face competition for the acquisition of properties, development sites and other assets, which might impede our ability to make future acquisitions or might increase the cost of these acquisitions.

We compete with many other entities engaged in real estate investment activities for acquisitions of malls, other retail properties and other prime development sites or sites adjacent to our properties, including institutional pension funds, other REITs and other owner-operators of retail properties. Our efforts to compete for acquisitions are also subject to the terms and conditions of our Credit Agreements. 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, 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 or site, or generate lower cash flow from an acquired property or site than we expect, our investment returns will be reduced, which will adversely affect the value of our securities.

We might not be successful in identifying suitable acquisitions that meet the criteria we apply, given economic, market or other circumstances, which might impede our growth.

Acquisitions of retail properties have historically been an important component of our growth strategy. Expanding by acquisitions requires us to identify suitable acquisition candidates or investment opportunities that meet the criteria we apply, given economic, market or other circumstances, and that are compatible with our growth strategy We must also typically obtain financing on terms that are acceptable to us. We analyze potential acquisitions on a property-by-property and market-by-market basis. We might not be successful in identifying suitable properties or other assets in our existing geographic markets or in markets new to us that meet the acquisition criteria we apply, given economic, market or other circumstances, in financing such properties or other assets or in consummating acquisitions or investments on satisfactory terms. In connection with prospective acquisitions, we generally conduct a due diligence review of the target property, portfolio or investment. While the process of due diligence is intended to provide us with an independent basis to evaluate a prospective acquisition, in some cases we might be given limited time or be given limited materials to review, or pertinent facts might not be adequately uncovered. In such cases, the decision of whether to pursue acquiring the property or portfolio might be based on insufficient, incomplete or inaccurate information, which might lead us to make acquisitions that might have additional or larger issues than we anticipated. If so, these issues might reduce the returns on our investment and affect our financial condition and results of operations. An inability to successfully identify, consummate or finance acquisitions could reduce the number of acquisitions we complete and impede our growth, which could adversely affect our results of operations.

We might be unable to integrate effectively any additional properties we might acquire, which might result in disruptions to our business and additional expense.

Subject to the terms and conditions of our Credit Agreements, to the extent that we pursue acquisitions of additional properties or portfolios of properties that meet the investment criteria we apply, given economic, market and other circumstances, we might not be able to adapt our management and operational systems to effectively manage any such

acquired properties or portfolios.
Specific risks for our ongoing operations posed by acquisitions we have completed or that we might complete in the future, include:

- we might not achieve the expected value-creation potential, operating efficiencies, economies of scale or other benefits of such transactions, including effective execution on acquired development rights;

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- we might not have adequate personnel, personnel with necessary skill sets or financial and other resources to successfully handle our increased operations;
- we might not be successful in leasing space in acquired properties or renewing leases of existing tenants after our acquisition of the property;
- the combined portfolio might not perform at the level we anticipate;
- the additional property or portfolio might require excessive time and financial resources to make necessary improvements or renovations and might divert the attention of management away from our other operations;
- we might experience difficulties and incur unforeseen expenses in connection with assimilating and retaining employees working at acquired properties, and in assimilating any acquired properties;
- we might experience problems and incur unforeseen expenses in connection with upgrading and expanding our systems and processes to incorporate any such acquisitions; and
- we might incur unexpected liabilities in connection with the properties and businesses we acquire.

If we fail to successfully integrate any properties, portfolios, assets or companies we acquire, or fail to effectively handle our increased operations or to realize the intended benefits of any such transactions, our financial condition and results of operations, and our ability to make distributions to shareholders, might be adversely affected.

Our business could be harmed if members of our corporate management team terminate their employment with us or otherwise are unable to continue in their current capacity or we are unable to attract and retain talented employees.

Our future success depends, to a meaningful extent, upon the continued services of Joseph F. Coradino, our Chairman and Chief Executive Officer, and the services of our corporate management team and, more broadly, our employees generally. Our executives have substantial experience in managing, developing and acquiring retail real estate. Although we have entered into employment agreements with Joseph F. Coradino and one other member of our corporate management team, they could elect to terminate those agreements at any time. The loss of services of one or more members of our corporate management team, or our failure to attract and retain talented employees generally, could harm our business and our prospects.

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

There are some types of losses, including those of a catastrophic nature, such as losses due to wars, earthquakes, floods, hurricanes, pollution, environmental matters, information technology system failures and lease and contract claims, that are generally uninsurable or not economically insurable, or might be subject to insurance coverage limitations, including large deductibles or co-payments or caps on coverage amounts. Under federal terrorism risk insurance legislation, the United States government provides reinsurance coverage to insurance companies following a declared terrorism event. The legislation's intent is to reinsure declared events of terrorism that cause more than $100.0 million in damages or losses. There is a generally similar program relating to flood insurance. If either or both of these programs were no longer in effect, it might become prohibitively expensive, or impossible, to obtain insurance that covers damages or losses from those types of events. Tenants might also encounter difficulty obtaining coverage.

If one of these events occurred to, or caused the destruction of, one or more of our properties, we could lose both our invested capital and anticipated profits from that property. We also might remain obligated for any mortgage loan or other financial obligation related to the property. In addition, if we are unable to obtain insurance in the future at acceptable levels and at a reasonable cost, the possibility of losses in excess of our insurance coverage might increase and we might not be able to comply with covenants under our debt agreements, which could adversely affect our financial condition. If any of our properties were to experience a significant, uninsured loss, it could seriously disrupt our operations, delay our receipt of revenue and result in large expense to repair or rebuild the property. These types of events could adversely affect our cash flow, results of operations and ability to make distributions to shareholders.

We might incur costs to comply with environmental laws, which could have an adverse effect on our results of operations.

Under various federal, state and local laws, ordinances, regulations and case law, an owner, former owner or operator of real estate might be liable for the costs of removal or remediation of hazardous or toxic substances present at, on, under, in or released from its property, regardless of whether the owner, operator or other responsible party knew of or was at fault for the release or presence of hazardous or toxic substances. The responsible party also might be liable to the government or to third parties for substantial property damage and investigation and cleanup costs. Even if more than one person might have been responsible for the contamination, each person covered by the environmental laws might be held responsible for all of the clean-up costs incurred. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. Contamination might adversely affect the owner's ability to sell or lease real estate or borrow with that real estate as collateral. In connection with our ownership, operation, management, development and redevelopment of properties, or any other properties we acquire in the future, we might be liable under these laws and might incur costs in responding to these liabilities.

We are aware of certain environmental matters at some of our properties. We have, in the past, investigated and, where appropriate, performed remediation of such environmental matters, but we might be required in the future to perform testing relating to these matters and further remediation might be required, or we might incur liability as a result of such environmental matters. Environmental matters at our properties include the following:

Asbestos. Asbestos-containing materials are present at a number of our properties, primarily in the form of floor tiles, mastics, roofing materials and adhesives. Fire-proofing material containing asbestos is present at some of our properties in limited concentrations or in limited areas. Under applicable laws and practices, asbestos-containing material in good, non-friable condition are allowed to be present, although removal might be required in certain circumstances. In particular, in the course of any redevelopment, renovation, construction or build out of tenant space, asbestos-containing materials are generally removed.

Underground and Above Ground Storage Tanks. Underground and above ground storage tanks are or were present at some of our properties. These tanks were used to store waste oils or other petroleum products primarily related to the operation of automobile service center establishments at those properties. In some cases, the underground storage tanks have been abandoned in place, filled in with inert materials or removed and replaced with above ground tanks. Some of these tanks might have leaked into the soil, leading to ground water and soil contamination. Where leakage has occurred, we might incur investigation, remediation and monitoring costs if responsible current or former tenants, or other responsible parties, are unavailable to pay such costs.

Ground Water and Soil Contamination. Ground water contamination has been found at some properties in which we currently or formerly had an interest. At some properties, dry cleaning operations, which might have used solvents, contributed to ground water and soil contamination.

Each of our retail properties has been subjected to a Phase I or similar environmental audit (which involves a visual property inspection and a review of records, but not soil sampling or ground water analysis) by environmental consultants. These audits have not revealed, and we are not aware of, any environmental liability that we believe would have a material adverse effect on our results of operations. It is possible, however, that there are material environmental liabilities of which we are unaware. Also, we cannot assure you that future laws will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of our tenants, by the existing condition of the land, by operations in the vicinity of the properties (such as the presence of underground storage tanks) or by the activities of unrelated third parties.

We have environmental liability insurance coverage for the types of environmental liabilities described above, which currently covers liability for pollution and on-site remediation of up to $25.0 million per occurrence and $25.0 million in the aggregate. We cannot assure you that this coverage will be adequate to cover future environmental liabilities. If this environmental coverage were inadequate, we would be obligated to fund those liabilities. We might be unable to continue to obtain insurance for environmental matters, at a reasonable cost or at all, in the future.

In addition to the costs of remediation, we might incur additional costs to comply with federal, state and local laws relating to environmental protection and human health and safety generally. There are also various federal, state and local fire, health, life-safety and similar regulations that might be applicable to our operations and that might subject us to liability in the form of fines or damages for noncompliance. The cost described above, individually or in the aggregate, could adversely affect our results of operations.

Inflation may adversely affect our financial condition and results of operations.

Inflationary price increases could have an adverse effect on consumer spending, which could impact our tenants' sales and, in turn, our tenants' business operations. This could affect the amount of rent these tenants pay, including if their leases provide for percentage rent or percentage of sales rent, and their ability to pay rent. Also, inflation could cause increases in operating expenses, which could increase occupancy costs for tenants and, to the extent that we are unable to recover operating expenses from tenants, could increase operating expenses for us. In addition, if the rate of inflation exceeds the scheduled rent increases included in our leases, then our net operating income and our profitability would decrease. Inflation could also result in increases in market interest rates, which could not only negatively impact consumer spending and tenant investment decisions, but would also increase the borrowing costs associated with our existing or any future variable rate debt, to the extent such rates are not effectively hedged or fixed, or any future debt that we incur.

RISKS RELATED TO THE REAL ESTATE INDUSTRY

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Online shopping and other uses of technology could affect the business models and viability of retailers, which could, in turn, affect their demand for retail real estate.

Online retailing and shopping and the use of technology to aid purchase decisions have increased in recent years, and are expected to continue to increase in the future. Small local and regional businesses and specialty retailers, who have previously been limited to marketing and selling their products within their immediate geographical area, may not have effectively leveraged this technology and may therefore be at a competitive disadvantage, or are now able to reach a broader group of consumers and compete with a broader group of retailers, including the retailers at our properties. In certain categories, such as books, music, apparel and electronics, online retailing has become a significant proportion of total sales, and has affected retailers and consumers significantly. The information available online empowers consumers with knowledge about products and information about prices and other offers in a different way than is available in a single physical store with sales associates. Consumers are able to purchase products anytime and anywhere, and are able to compare more products than are typically found in a single retail location, and they are able to read product reviews and to compare product features and pricing. In addition, customers of certain of our retailers use technology including smartphones to check competitors' product offerings and prices while in stores evaluating merchandise. Some tenants utilize our shopping centers as showrooms or as part of an omni-channel strategy (allowing for customers to shop online or in stores and for order fulfillment and returns to take place in stores or via shipping). In this model, customers may make purchases during or immediately after visiting our malls, with such sales not currently being captured in our tenant sales figures or monetized in our minimum or percentage rents.

Online shopping and technology, such as smartphone applications, might affect the business models, sales and profitability of retailers, which might, in turn, affect the demand for retail real estate, occupancy at our properties and the amount of rent that we receive. Any resulting decreases in rental revenue could have a material adverse effect on our financial condition, results of operations and ability to make distributions to shareholders.

We are subject to risks that affect the retail real estate environment generally.

Our business focuses on retail real estate, predominantly malls. As such, we are subject to certain risks that can affect the ability of our retail properties to generate sufficient revenue to meet our operating and other expenses, including debt service, to make capital expenditures and to make distributions to our shareholders. We face continuing challenges because of changing consumer preferences and because the conditions in the economy affect employment growth and cause fluctuations and variations in retail sales and in business and consumer confidence and consumer spending on retail goods. In general, a number of factors can negatively affect the income generated by a retail property or the value of a property, including: a downturn in the national, regional or local economy; a decrease in employment or consumer confidence or spending; increases in operating costs, such as common area maintenance, real estate taxes, utility rates and insurance premiums; higher energy or fuel costs resulting from adverse weather conditions, natural disasters, geopolitical concerns, terrorist activities and other factors; changes in interest rate levels and the cost and availability of financing; a weakening of local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants; trends in the retail industry; seasonality; changes in perceptions by retailers or shoppers of the safety, convenience and attractiveness of a retail property; perceived changes in the convenience and quality of competing retail properties and other retailing options such as internet shopping or other strategies, such as using smartphones or other technologies to determine where to make and to assist in making purchases; and changes in laws and regulations applicable to real property, including tax and zoning laws. Changes in one or more of these factors can lead to a decrease in the revenue or income generated by our properties and can have a material adverse effect on our financial condition and results of operations. Many of these factors could also specifically or disproportionately affect one or more of our tenants, which could lead to decreased operating performance, reduce property revenue and affect our results of operations. If the estimated future cash flows related to a particular property are significantly reduced, we may be required to reduce the carrying value of the property.

The retail real estate industry is highly competitive, and this competition could harm our ability to operate profitably. Competition in the retail real estate industry 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, non-anchor and other tenants. We also compete to acquire land for new site development or to add to our existing properties. Our 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 retailers with a significant online presence. 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 our 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 affect the 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.

Acts of violence or war or other terrorist activity, including at our properties, could adversely affect our financial condition and results of operations.

Violent activities or terrorist or other attacks could directly affect the value of our properties as a result of casualties or through property damage, destruction or loss, or by making shoppers afraid to patronize such properties. The availability of insurance for such acts, or of insurance generally, might decrease, or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. Future acts of violence or terrorist attacks in the United States might result in declining economic activity, which could harm the demand for goods and services offered by our tenants and the value of our properties, and might adversely affect the value of an investment in our securities. Such a decrease in retail demand could make it difficult for us to renew leases or enter into new leases at our properties at lease rates equal to or above historical rates. To the extent that our tenants are directly or indirectly affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. Customers of the tenants at an affected property, and at other properties, might be less inclined to shop at an affected location or at a retail property generally. Such acts might erode business and consumer confidence and spending, and might result in increased volatility in national and international financial markets and economies. Any such acts could decrease demand for retail goods or real estate, decrease or delay the occupancy of our properties, and limit our access to capital or increase our cost of raising capital.

A significant privacy breach or IT system disruption could adversely affect our business and we might be required to increase our spending on data and system security.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. In addition, our business relationships with our tenants and vendors involve the storage and transmission of proprietary information and sensitive or confidential data. Like many businesses today, we have experienced an increase in cyber-threats and attempted intrusions. Breaches in security could expose us, our tenants or our employees to a risk of loss or misuse of proprietary information and of sensitive or confidential data. In addition, our information technology systems, some of which are managed or hosted by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events, failures during the process of upgrading or replacing software, databases or components thereof, power outages or hardware failures. Any of these occurrences could result in disruptions in our operations, the loss of existing or potential tenants or shoppers, damage to our brand and reputation, and litigation and potential liability. Although we make efforts to maintain the security of our networks and related systems, there can be no assurance that our security efforts will be effective or that attempted security breaches would not be successful or damaging. In addition, the cost and operational consequences of implementing further data or system protection measures could be significant.

Our retailer tenants' businesses require the collection, transmission and retention of large volumes of shopper and employee data, including credit and debit card numbers and other personally identifiable information, in various information technology systems. The integrity and protection of that shopper and employee data is critical. The information, security and privacy requirements imposed by governmental regulation are increasingly demanding. Retailers' systems may not be able to satisfy these changing requirements and shopper and employee expectations, or may require significant additional investments or time in order to do so. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error or inadvertent releases of data all threaten retailers' information systems and records. A breach in the security of retailers' information technology systems could lead to an interruption in the operation of such systems, resulting in operational inefficiencies and a loss of profits. Shoppers could further lose confidence in a retailer's ability to protect their information, which could cause them to shop at such retailers' stores less frequently, or to stop shopping with them altogether. Additionally, a significant theft, loss or misappropriation of, or access to, shoppers' or other proprietary data or other breach of retailers' information technology systems could result in fines, legal claims or proceedings, including regulatory investigations and actions, or liability for failure to comply with privacy and information security laws, which could disrupt retailers' operations, damage their reputations and expose them to claims from shoppers and employees, any of which could have a material adverse effect on their financial condition and results of operations. If our retailer tenants experience any of these events, the business of such retailers might be adversely affected. This could, in turn, have an adverse effect on our financial condition or results of operations.

The illiquidity of real estate investments might delay or prevent us from selling properties that we determine no longer meet the strategic and financial criteria we apply and could significantly affect our ability to respond in a timely manner to adverse changes in the performance of our properties and harm our financial condition.

Substantially all of our assets consist of investments in real properties. We review all of the assets in our portfolio regularly and we make determinations about which assets have growth potential and which properties do not meet the strategic or financial criteria we apply and should thus be divested. Because real estate investments are relatively illiquid, our ability to quickly sell one or more properties in our portfolio in response to our evaluation or to changing economic and financial conditions is limited. The real estate market is affected by many factors that are beyond our control, such as general economic conditions, the availability of financing, interest rates, and the supply and demand for space. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. The number of prospective buyers interested in purchasing malls is limited. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. In addition, prospective buyers might experience increased costs of debt financing or other difficulties in obtaining debt financing, which might make it more difficult for us to sell properties or might adversely affect the price we receive for properties that we do sell. There are also limitations under federal income tax laws applicable to REITs that could limit our ability to sell assets. Therefore, if we want to sell one or more of our properties, we might not be able to make such dispositions in the desired time period, or at all, and might receive less consideration than we seek or than we originally invested in the property.

Before a property can be sold, we might be required to make expenditures to correct defects or to make improvements. We cannot assure you that we will have funds available to correct those defects or to make those improvements, and if we cannot do so, we might not be able to sell the property, or might be required to sell the property on unfavorable terms. In acquiring a property, we might agree with the sellers or others to provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as limitations on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could significantly harm our financial condition and results of operations. In addition, failure to sell the properties that we intend to sell could delay or negatively affect our strategy to obtain higher rental rates from retailers with multiple stores in our portfolios, including at these properties.

RISKS RELATED TO OUR INDEBTEDNESS AND OUR FINANCING

We have substantial debt and stated value of preferred shares outstanding, which could adversely affect our overall financial health and our operating flexibility. We require significant cash flows to satisfy our debt service and dividends on our preferred shares outstanding. These obligations may prevent us from using our cash flows for other purposes. If we are unable to satisfy these obligations, we might default on our debt or reduce, defer or suspend our dividend payments on preferred shares.

We use a substantial amount of debt and preferred shares outstanding to finance our business. As of December 31, 2017, we had an aggregate consolidated indebtedness of $1,656.8 million, the majority of which consisted of mortgage loans secured by our properties. These aggregate debt amounts do not include our proportionate share of indebtedness of our partnership properties, which was $235.7 million as of December 31, 2017. We also had outstanding as of December 31, 2017, in the aggregate, $86.3 million of 7.375% Series B Preferred Shares, $172.5 million of 7.20% Series C Preferred Shares and $120.0 million of 6.875% Series D Preferred Shares.

Our substantial indebtedness and preferred shares outstanding involve significant obligations for the payment of interest, principal and dividends. If we do not have sufficient cash flow from operations to meet these obligations, we might be forced to sell assets to generate cash, which might be on unfavorable terms, if at all, or we might not be able to make all required payments of principal and interest on our debt, which could result in a default or have a material adverse effect on our financial condition and results of operations, and which might adversely affect the value of our preferred shares or our common shares, or our ability to make distributions to shareholders.

Our substantial obligations arising from our indebtedness and preferred shares could also have other negative consequences to our shareholders, including the acceleration of a significant amount of our debt if we are not in compliance with the terms of such debt or, if such debt contains cross-default or cross-acceleration provisions (as our Credit Agreements do), other debt. If we fail to meet our obligations under our debt and our preferred shares, we could lose assets due to foreclosure or sale on

unfavorable terms, which could create taxable income without accompanying cash proceeds, or such failure could harm our ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions, redevelopment and development activities, execution of our business strategy or other general corporate purposes. Also, our indebtedness and mandated debt service might limit our ability to refinance existing debt or to do so at a reasonable cost, might make us more vulnerable to adverse economic and market conditions, might limit our ability to respond to competition or to take advantage of opportunities, and might discourage business partners from working with us or counterparties from entering into hedging transactions with us.
In addition to our current debt, we might incur additional debt in the future in the form of mortgage loans, unsecured borrowings, additional borrowing under our existing Credit Agreements, other term loan borrowings or other financing vehicles, or by issuing additional preferred shares. We might do so in order to finance acquisitions, to develop or redevelop properties or for other general corporate purposes, subject to the terms and conditions of our Credit Agreements, which could exacerbate the risks set forth above.
If we are unable to comply with the covenants in our Credit Agreements, we might be adversely affected.
The Credit Agreements require us to satisfy certain customary affirmative and negative covenants and to meet numerous financial tests, including tests relating to our leverage, unencumbered debt yield, interest coverage, fixed charge coverage, tangible net worth, corporate debt yield and facility debt yield. These covenants could restrict our ability to pursue acquisitions,
redevelopment and development projects or limit our ability to respond to changes and competition, and reduce our flexibility in conducting our operations by limiting our ability to borrow money, sell or place liens on assets, manage our
cash flows, repurchase securities, make capital expenditures or make distributions to shareholders. We expect the current conditions in the economy and the retail industry to continue to affect our operating results. The leverage covenant in the Credit Agreements generally takes our net operating income and applies capitalization rates to calculate Gross Asset Value, and consequently, deterioration or improvement to our operating performance also affects the calculation of our leverage. In addition, a material decline in future operating results could affect our ability to comply with other financial ratio covenants contained in our Credit Agreements, which are calculated on a trailing four quarter basis. Also, we might be restricted in the amount we can borrow based on the Unencumbered Debt Yield covenant under the Credit Agreements. Following recent property sales, the NOI from our remaining unencumbered properties is at a level such that the maximum amount that was available to be borrowed by us under the 2013 Revolving Facility was $144.5 million as of December 31, 2017.
As of December 31, 2017, we were in compliance with all the financial covenants in our Credit Agreements, but our inability to comply with these covenants in the future would require us to seek waivers or amendments. There is no assurance that we could obtain such waivers or amendments, and even if obtained, we would likely incur additional costs. Our inability to obtain any such waiver or amendment could result in a breach and a possible event of default under our Credit Agreements, which could allow the lenders to discontinue lending or issuing letters of credit, terminate any commitments they have made to provide us with additional funds, and/or declare amounts outstanding to be immediately due and payable. If a default were to occur, we might have to refinance the debt through secured or unsecured debt financing or private or public offerings of debt or equity securities. If we are unable to do so, we might have to liquidate assets, potentially on unfavorable terms. Any of such consequences could negatively affect our financial position, results of operations, cash flow and ability to make capital expenditures and distributions to shareholders.
We might not be able to refinance our existing obligations or obtain the capital required to finance our activities.
The REIT provisions of the Internal Revenue Code of 1986, as amended, generally require the distribution to shareholders of 90% of a REIT’s net taxable income, excluding net capital gains, which generally leaves insufficient funds to finance major initiatives internally. Due to these requirements, and subject to the terms of the Credit Agreements, we generally fund certain capital requirements, such as the capital for renovations, expansions, redevelopments, other non-recurring capital improvements, scheduled debt maturities, and acquisitions of properties or other assets, through secured and unsecured indebtedness and, when available and market conditions are favorable, the issuance of additional equity securities.

As of December 31, 2017, we had one consolidated mortgage loan with an outstanding balance of $68.5 million with an initial maturity in 2018 at our consolidated properties. In January, 2018, we extended the maturity date on this mortgage loan to January 2022. Also, subject to the terms and conditions of our Credit Agreements, we estimate that we will need approximately$300.0 million of additional capital to complete our current active development and redevelopment projects, including the redevelopment of the Fashion District Philadelphia. Our ability to finance growth from financing sources depends, in part, on our creditworthiness, the availability of credit to us from financing sources, or the market for our debt, equity or equity-related securities when we need capital, and on conditions in the capital markets generally. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for information about our available sources of funds. There can be no assurances that we will continue to be able to obtain the financing we need for future growth or to meet our debt service as obligations mature, or that the financing will be available to us on acceptable terms, or at all. A lack of acceptable financing could delay or hinder our growth initiatives, or prevent us from implementing our initiatives on satisfactory terms.

Much of our indebtedness does not require significant principal payments prior to maturity, and we might enter into agreements on similar terms in future transactions. If our mortgage loans and other debts cannot be repaid in full, refinanced or extended at maturity on acceptable terms, or at all, a lender could foreclose upon the mortgaged property and receive an assignment of rent and leases or pursue other remedies, or we might be forced to dispose of one or more of our properties on unfavorable terms, which could have a material adverse effect on our financial condition and results of operations and which might adversely affect our cash flow and our ability to make distributions to shareholders.

Payments by our direct and indirect subsidiaries of dividends and distributions to us might be adversely affected by their obligations to make prior payments to the creditors of these subsidiaries.

We own substantially all of our assets through our interest in PREIT Associates. PREIT Associates holds substantially all of its properties and assets through subsidiaries, including subsidiary partnerships and limited liability companies, and derives substantially all of its cash flow from cash distributions to it by its subsidiaries. We, in turn, derive substantially all of our cash flow from cash distributions to us by PREIT Associates. Our direct and indirect subsidiaries must make payments on their obligations to their creditors when due and payable before they may make distributions to us. Thus, PREIT Associates' ability to make distributions to its partners, including us, depends on its subsidiaries' ability first to satisfy their obligations to their creditors. Similarly, our ability to pay dividends to holders of our shares depends on PREIT Associates' ability first to satisfy its obligations to its creditors before making distributions to us. If the subsidiaries were unable to make payments to their creditors when due and payable, or if the subsidiaries had insufficient funds both to make payments to creditors and distribute funds to PREIT Associates, we might not have sufficient cash to satisfy our obligations and/or make distributions to our shareholders.

In addition, we will only have the right to participate in any distribution of the assets of any of our direct or indirect subsidiaries upon the liquidation, reorganization or insolvency of such subsidiary after the claims of the creditors, including mortgage lenders and trade creditors, of that subsidiary are satisfied. Our shareholders, in turn, will have the right to participate in any distribution of our assets upon our liquidation, reorganization or insolvency only after the claims of our creditors, including trade creditors, are satisfied.

Some of our properties are owned or ground-leased by subsidiaries that we created solely to own or ground-lease those properties. The mortgaged properties and related assets are restricted solely for the payment of the related loans and are not available to pay our other debts, which could impair our ability to borrow, which in turn could have a material adverse effect on our operating results and reduce amounts available for distribution to shareholders.

Our hedging arrangements might not be successful in limiting our risk exposure, and we might incur expenses in connection with these arrangements or their termination that could harm our results of operations or financial condition.

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest-bearing liabilities. We use interest rate hedging arrangements to manage our exposure to interest rate volatility, but these arrangements might expose us to additional risks, such as requiring that we fund our contractual payment obligations under such arrangements in relatively large amounts or on short notice. We are also subject to credit risk with respect to the counterparties to derivative contracts. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, we may experience delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy or other analogous proceeding. As of December 31, 2017, the aggregate fair value of our derivative instruments was an unrealized gain of $9.7 million, which is expected to be subsequently reclassified into earnings in the periods that the hedged forecasted transactions affect earnings. Developing an effective interest rate risk strategy is complex, and no strategy can completely insulate us from risks associated with interest rate fluctuations. We might enter into interest rate swaps as hedges in connection with forecasted debt transactions or payments, and if we repay such debt earlier than expected and are no longer obligated to make such payments, then we might determine that the swaps no longer meet the criteria for effective hedges, and we might incur gain or loss on such ineffectiveness. We cannot assure you that our hedging activities will have a positive impact, and it is possible that our strategies could adversely affect our financial condition or results of operations. We might be subject to additional costs, such as transaction fees or breakage costs, if we terminate these arrangements.

We are subject to risks associated with increases in interest rates, including in connection with our variable interest rate debt.

As of December 31, 2017, we had $855.7 million of indebtedness with variable interest rates, although we have fixed the interest rates on an aggregate of $749.6 million of this variable rate debt by using derivative instruments. We might incur additional variable rate debt in the future, and, if we do so, the proportion of our debt with variable interest rates might increase. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

An increase in market interest rates applicable to the variable portion of the debt portfolio would increase the interest incurred and cash flows necessary to service such debt, subject to our hedging arrangements on such debt. This has and could, in the future, adversely affect our results of operations and our ability to make distributions to shareholders. Also, in coming years, as our current mortgage loans mature, if these mortgage loans are refinanced at higher interest rates than the rates in effect at the time of the prior loans, our interest expense in connection with debt secured by our properties will increase, and could adversely affect our results of operations and ability to make distributions to shareholders.

RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE

Our organizational documents contain provisions that might discourage a takeover of us and depress our share price.

Our organizational documents contain, or might contain in the future, provisions that might have an anti-takeover effect and might inhibit a change in our management and the opportunity to realize a premium over the then-prevailing market price of our securities. These provisions currently include:

(1) There are ownership limits and restrictions on transferability in our trust agreement. In order to protect our status as a REIT, no more than 50% of the value of our outstanding shares (after taking into account options to acquire shares) may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code of 1986, as amended), and the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To assist us in satisfying these tests, subject to some exceptions, our trust agreement prohibits any shareholder from owning more than 9.9% of our outstanding shares of beneficial interest (exclusive of preferred shares) or more than 9.9% of any class or series of preferred shares. The trust agreement also prohibits transfers of shares that would cause a shareholder to exceed the 9.9% limit or cause our shares to be beneficially owned by fewer than 100 persons. Our Board of Trustees may exempt a person from the 9.9% ownership limit if it receives a ruling from the Internal Revenue Service or an opinion of counsel or tax accountants that exceeding the 9.9% ownership limit as to that person would not jeopardize our tax status as a REIT. Our Board has granted such exemptions to Cohen & Steers Capital Management, Inc., Blackrock, Inc., CBRE Clarion Securities, Heitman Real Estate Securities and Security Capital Research and Management. Absent an exemption, this restriction might:

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

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

(2) Our trust agreement permits our Board of Trustees to issue preferred shares with terms that might discourage a third party from acquiring the Company. Our trust agreement permits our Board of Trustees to create and issue multiple classes and series of preferred shares, and classes and series of preferred shares having preferences to the existing shares on any matter, without a vote of shareholders, including preferences in rights in liquidation or to dividends and option rights, and other securities having conversion or option rights. Also, the Board might authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of our shares. Our trust agreement further provides that the terms of such rights or other securities might provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or other securities could have the effect of discouraging, delaying or preventing a change in control of us, even if a change in control were in our shareholders’ interest or would give the shareholders the

opportunity to realize a premium over the then-prevailing market price of our securities.

(3) Advance Notice Requirements for Shareholder Nominations of Trustees. The Company's advance notice procedures with regard to shareholder proposals relating to the nomination of candidates for election as trustees, as provided in our amended and restated Trust Agreement, require, among other things, that advance written notice of any such proposals, containing prescribed information, be given to our Secretary at our principal executive offices not less than 90 days nor more than 120 days prior to the anniversary date of the prior year's meeting (or within 10 business days of the day

notice is given of the annual meeting date, if the annual meeting date is not within 30 days of the anniversary date of the immediately preceding annual meeting).

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

Our assets generally are held through our interests in PREIT Associates. We currently hold a majority of the outstanding OP Units. However, PREIT Associates might, from time to time, issue additional OP Units to third parties in exchange for contributions of property to PREIT Associates in amounts that could, individually or in the aggregate, be substantial. These issuances will dilute our percentage ownership of PREIT Associates. OP Units generally do not carry a right to vote on any matter voted on by our shareholders, although OP Units might, under certain circumstances, be redeemed for our shares. However, before the date on which at least half of the units issued on September 30, 1997 in connection with our acquisition of The Rubin Organization have been redeemed, the holders of units issued on September 30, 1997 are entitled to vote such units together with our shareholders, as a single class, on any proposal to merge, consolidate or sell substantially all of our assets. Ronald Rubin, one of our trustees, and Joseph F. Coradino, our Chairman and Chief Executive Officer, are among the holders of these units.

These existing rights could inhibit a change in control that might otherwise result in a premium to our shareholders. In addition, we cannot assure you that we will not agree to extend comparable rights to other limited partners in PREIT Associates.

We have, in the past, and might again, in the future, enter into tax protection agreements for the benefit of certain former property owners, including some limited partners of PREIT Associates, that might affect our ability to sell or refinance some of our properties that we might otherwise want to sell or refinance, which could harm our financial condition.

As the general partner of PREIT Associates, we have agreed to indemnify certain former property owners against tax liabilities that they might incur if we sell a property in a taxable transaction or significantly reduce the debt secured by a property acquired from them within a certain number of years after we acquired it, and we might do so again in the future. In some cases, these agreements might make it uneconomical for us to sell or refinance these properties, even in circumstances in which it otherwise would be advantageous to do so, which could interfere with our ability to execute strategic dispositions, harm our ability to address liquidity needs in the future or otherwise harm our financial condition.

RISKS RELATING TO OUR SECURITIES

Individual taxpayers might perceive REIT securities as less desirable relative to the securities of other corporations because of the lower tax rate on certain dividends from such corporations, which might have an adverse effect on the market value of our securities.

Currently, the maximum federal income tax rate on dividends from most publicly traded corporations is 20%, while dividends from REITs do not qualify for this favorable tax treatment, so that the maximum federal income tax rate on dividends from REITs is 29.6%. It is possible also that tax legislation enacted in 2018 or subsequent years might increase this rate differential. The differing treatment of dividends received from REITs and other corporations might cause individual investors to view an investment in REITs as less attractive relative to other corporations, which might negatively affect the value of our shares.

We could face adverse consequences as a result of the actions of activist shareholders.

In recent years, proxy contests and other forms of shareholder activism have been directed against numerous public companies, including us. Shareholders may engage in proxy solicitations, advance shareholder proposals, or otherwise attempt to effect changes in or acquire control over us. Campaigns by shareholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term shareholder value through actions such as financial restructuring, increased debt, special dividends, share repurchases, or sales of assets or the entire company. Shareholder activists may also seek to involve themselves in the governance, strategic direction and

operations of the company.
If a shareholder, by itself or in conjunction with other shareholders or as part of a group, engages in activist activities with respect to us, our business could be adversely affected because responding to proxy contests and other actions by activist shareholders can be costly and time-consuming, potentially disrupting operations and diverting the attention of our Board of Trustees, senior management and employees from the execution of business strategies. In addition, perceived uncertainties as to our future direction might result in the loss of potential business opportunities and harm our ability to attract new tenants, customers and investors. If individuals are elected to our Board of Trustees with a specific agenda, it might adversely affect

our ability to effectively and timely implement our strategies and initiatives and to retain and attract experienced executives and employees. Finally, we might experience a significant increase in legal fees and administrative and associated costs incurred in connection with responding to a proxy contest or related action. These actions could also negatively affect our share price.

A few significant shareholders may influence or control the direction of our business, and, if the ownership of our common shares continues to be concentrated, or becomes more concentrated in the future, it could prevent our other shareholders from influencing significant corporate decisions.

As of December 31, 2017, a small number of institutional shareholders together own or control more than 50% of our outstanding common shares. In addition, affiliates of Vornado Realty Trust own OP Units issued in connection with our acquisition of Springfield Town Center that are convertible into cash or common shares at our election that would represent approximately 8.0% of our outstanding common shares if we elected to redeem the OP Units for common shares. Although these investors do not act as a group, they may be able to exercise influence over matters requiring shareholder approval, including approval of significant corporate transactions that might affect the price of our shares. The concentration of ownership of our shares held by these investors may make some transactions more difficult or impossible without their support.

The interests of these investors may conflict with our interests or the interests of our other shareholders. For example, the concentration of ownership with these investors could allow them to influence our policies and strategies and could delay, defer or prevent a transaction or business combination from occurring that might otherwise be favorable to us and our other shareholders.

Holders of our common shares might have their interest in us diluted by actions we take in the future.

We continue to contemplate ways to reduce our leverage through a variety of means available to us, subject to the terms of the Credit Agreements. These means might include obtaining equity capital, including through the issuance of common or preferred equity or equity-related securities if market conditions are favorable. In addition, we might contemplate acquisitions of properties or portfolios, and we might issue equity, in the form of common shares, OP Units or other equity securities in consideration for such acquisitions, potentially in substantial amounts, as was the case with the acquisition of Springfield Town Center in 2015. Any issuance of equity securities might result in substantial dilution in the percentage of our common shares held by our then existing shareholders, and the interest of our shareholders might be materially adversely affected. The market price of our common shares could decline as a result of sales of a large number of shares in the market or the perception that such sales could occur. Additionally, future sales or issuances of substantial amounts of our common shares might be at prices below the then-current market price of our common shares and might adversely affect the market price of our common shares.

Many factors, including changes in interest rates and the negative perceptions of the retail sector generally, can have an adverse effect on the market value of our securities.

As is the case with other publicly traded companies, a number of factors might adversely affect the price of our securities, many of which are beyond our control. These factors include:

- Increases in market interest rates, relative to the dividend yield on our shares. If market interest rates increase, prospective purchasers of our securities might require a higher yield. Higher market interest rates would not, however, result in more funds being available for us to distribute to shareholders and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for distribution to our shareholders. Thus, higher market interest rates could cause the market price of our shares to decrease;
- Possible future issuances of equity, equity-related or convertible securities, including securities senior as to distributions or liquidation rights;
- A decline in the anticipated benefits of an investment in our securities as compared to an investment in securities of companies in other industries (including benefits associated with the tax treatment of dividends and distributions);
- Perception, by market professionals and participants, of REITs generally and REITs in the retail sector, and malls in particular. Our portfolio of properties consists almost entirely of retail properties and we expect to continue to focus

primarily on retail properties in the future;
- Perception by market participants of our potential for payment of cash distributions and for growth;
- Levels and concentrations of institutional investor and research analyst interest in our securities;
- Relatively low trading volumes in securities of REITs;
- Our results of operations and financial condition; and
- Investor confidence in the stock market or the real estate sector generally.

Any additional issuances of preferred shares in the future might adversely affect the earnings per share available to common shareholders and amounts available to common shareholders for payments of dividends.
The market value of our common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings, net operating income, funds from operations, our liquidity and capital resources, and cash distributions. Consequently, our common shares might trade at prices that are higher or lower than our net asset value per common share. If our future earnings, net operating income, funds from operations or cash distributions are less than expected, it is likely that the market price of our common shares will decrease. These metrics might be adversely affected by the existence of preferred shares, including our existing preferred shares and additional preferred shares that we might issue. We are not restricted by our organizational documents, contractual arrangements or otherwise from issuing additional preferred shares, including any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, preferred shares or any substantially similar securities in the future.

We might change the dividend policy for our common shares in the future.
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, the terms and conditions of our Credit Agreements and other factors that our Board of Trustees deems relevant. Any change in our dividend policy could have a material adverse effect on the market price of our common shares.
In addition, the Credit Agreements provide generally that dividends may not exceed 110% of REIT Taxable Income (as defined in the Credit Agreements) for a fiscal year, or 95% of funds from operations (unless necessary for us to maintain our status as a REIT). We must maintain our status as a REIT at all times.
Some of the distributions we make might be classified as a return of capital. In general, if the distributions are in excess of our current and accumulated earnings and profits (determined under the Internal Revenue Code of 1986, as amended), then such distributions would be considered a return of capital for federal income tax purposes to the extent of a holder's adjusted basis in its shares. A return of capital is not taxable, but has the effect of reducing the holder's adjusted tax basis in the investment. To the extent that distributions exceed the adjusted tax basis of a holder's shares, the distributions will be treated as gain from the sale or exchange of such shares.
TAX RISKS
If we were to fail to qualify as a REIT, our shareholders would be adversely affected.
We believe that we have qualified as a REIT since our inception and intend to continue to qualify as a REIT. To qualify as a REIT, however, we must comply with certain highly technical and complex requirements under the Internal Revenue Code, which is complicated in the case of a REIT such as ours that holds its assets primarily in partnership form. We cannot be certain we have complied with these requirements because there are very limited judicial and administrative interpretations of these provisions, and even a technical or inadvertent mistake could jeopardize our REIT status. In addition, facts and circumstances that might be beyond our control might affect our ability to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the federal income tax consequences of qualification. Indeed, the Protecting Americans from Tax Hikes Act of 2015 contained a number of changes to the Internal Revenue Code provisions applicable to REITs, including, among others, (1) a reduction from 25% to 20% of the maximum permitted value of a REIT's assets that can consist of stock or securities of one or more taxable REIT subsidiaries (such as our subsidiary PREIT-RUBIN, Inc.) and (2) a new 100% excise tax that applies to the extent it is determined that a REIT has been undercharged for certain services provided by a taxable REIT subsidiary.
If we were to fail to qualify as a REIT, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under statutory provisions, we would remain disqualified from treatment as a REIT for the four taxable years following the year during which we first failed to qualify. The additional tax incurred at regular corporate rates would

significantly reduce the cash flow available for distribution to shareholders and for debt service. In addition, we would no longer be required to make any distributions to shareholders and our securities could be delisted from the exchange on which they are listed. If there were a determination that we do not qualify as a REIT, there would be a material adverse effect on our results of operations and there could be a material reduction in the value of our common shares. Furthermore, as a REIT, we might be subject to a 100% "prohibited transactions" tax on the gain from dispositions of property if we are deemed to hold the property primarily for sale to customers in the ordinary course of business, unless the disposition qualifies under a safe harbor exception for properties that have been held for at least two years and with respect to which certain other requirements are met. The potential application of the prohibited transactions tax could cause us to forego or delay potential dispositions of property or other opportunities that might otherwise be attractive to us, or to undertake such dispositions or other opportunities through a taxable REIT subsidiary, which would generally result in income taxes being incurred.

We might be unable to comply with the strict income distribution requirements applicable to REITs, or compliance with such requirements could adversely affect our financial condition or cause us to forego otherwise attractive opportunities.
To obtain the favorable tax treatment associated with qualifying as a REIT, in general, we are required each year to distribute to our shareholders at least 90% of our net taxable income. In addition, we are subject to a tax on any undistributed portion of our income at regular corporate rates and might also be subject to a 4% excise tax on this undistributed income. We could be required to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT, even if conditions are not favorable for borrowing, which could adversely affect our financial condition and results of operations. In addition, compliance with these REIT requirements might cause us to forgo opportunities we would otherwise pursue.

There is a risk of changes in the tax law applicable to REITs, or our tenants.

Congress, the United States Treasury Department and the IRS frequently revise federal tax laws, regulations and other guidance. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted.

The federal tax legislation that was signed into law on December 22, 2017 (the ‘‘Act’’) makes a large quantity of changes to the Internal Revenue Code of 1986 (the “Code”). Among those changes are a significant reduction in the generally applicable corporate income tax rate (from a top corporate rate of 35% to a flat 21% rate), and a reduction in the rates of taxation on most ordinary REIT dividends (from a top individual rate of 39.6% to a top individual rate of 29.6%) and certain business income derived by non-corporate taxpayers in comparison to other ordinary income recognized by such taxpayers. The Act also imposes certain additional limitations on the deduction of net operating losses, which may in the future require us to make distributions that will be taxable to our stockholders to the extent of our current or accumulated earnings and profits in order to comply with the annual REIT distribution requirements. The effect of these, and the many other, changes made in the Act is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their indirect effect on the value of our assets or market conditions generally. Furthermore, many of the provisions of the Act will require guidance through the issuance of Treasury regulations in order to assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. It is also possible that there will be technical corrections legislation proposed with respect to the Act this year, the effect of which cannot be predicted.

We also cannot predict the impact that any future federal tax legislation may have on REITs or our tenants. Any such legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our shareholders. Any legislative action might also negatively affect our tenants and, in turn, affect their ability to pay rent, which could adversely affect our financial condition and results of operations.

We could face possible adverse changes in state and local tax laws, which might result in an increase in our tax liability.
From time to time, changes in state and local tax laws or regulations are enacted, which might result in an increase in our tax liability including potentially increases in the real estate taxes due on the properties we own. The shortfall in tax revenue for many states and municipalities in recent years might lead to an increase in the frequency and size of such changes. If such changes occur, we might be required to pay additional taxes on our assets, including our

properties, or income. We might be unable to effectively pass these increased costs onto our existing tenants and such increased costs may make our properties less appealing to renewing tenants and potential new tenants, which could negatively affect our occupancy rates. These increased tax costs could adversely affect our financial condition and results of operations and our ability to make distributions to shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

RETAIL PROPERTIES

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.

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.

In general, we own the land underlying our properties in fee or, in the case of our properties held by partnerships with others, ownership by the partnership entity is in fee. At certain properties, however, the underlying land is owned by third parties and leased to us or the partnership in which we hold an interest pursuant to long-term ground leases. In a ground lease, the building owner pays rent for the use of the land and is responsible for all costs and expenses related to the building and improvements.

See financial statement Schedule III for financial statement information regarding the consolidated properties.

The following tables present information regarding our retail properties. We refer to the total retail space of these properties, including anchors and non-anchor stores, as “total square feet,” and the portion that we own as “owned square feet.”

Consolidated Retail Properties

Property/Location[1]	Ownership Interest	Total Square Feet[2]	Owned Square Feet[3]	Year Built / Last Renovated	Occupancy%[4]	Anchors/Major Tenants[5]
MALLS						
Capital City Mall, Camp Hill, PA	100%	605,006	485,006	1974/2005	99.6%	JC Penney, Field & Stream, Macy’s and Dicks Sporting Goods
Cherry Hill Mall, Cherry Hill, NJ	100%	1,313,937	835,052	1961/2009	96.4%	Apple, The Container Store, Crate and Barrel, JC Penney, Macy’s and Nordstrom
Cumberland Mall, Vineland, NJ	100%	950,986	677,756	1973/2003	97.4%	Best Buy, BJ’s Wholesale Club, Boscov’s, Burlington, Dick’s Sporting Goods, Home Depot, and Marshalls
Dartmouth Mall, Dartmouth, MA	100%	672,298	532,298	1971/2000	98.2%	JC Penney, Macy’s, Sears and AMC
Exton Square Mall, Exton, PA[7]	100%	1,046,490	865,290	1973/2000	86.5%	Boscov’s, Macy’s, Whole Foods, Sears and Round 1
Francis Scott Key Mall, Frederick, MD	100%	754,259	614,926	1978/1991	95.0%	Barnes & Noble, JC Penney, Macy’s, Sears and Value City Furniture
Jacksonville Mall,	100%	494,854	494,854	1981/2008	99.9%	

Jacksonville, NC	Barnes & Noble, Belk, JC Penney and Sears

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Property/Location[(1)]	Ownership Interest	Total Square Feet[(2)]	Owned Square Feet[(3)]	Year Built / Last Renovated	Occupancy%[(4)]	Anchors/Major Tenants[(5)]
Magnolia Mall, Florence, SC	100%	574,303	574,303	1979/2007	98.8%	Barnes & Noble, Belk, Best Buy, Dick's Sporting Goods, JC Penney and Burlington
Moorestown Mall, Moorestown, NJ	100%	872,530	751,330	1963/2008	92.5%	Boscov's, Lord & Taylor, Regal Cinema RPX and Sears
Patrick Henry Mall, Newport News, VA	100%	717,662	433,505	1988/2005	97.5%	Dick's Sporting Goods, Dillard's, JC Penney and Macy's
Plymouth Meeting Mall, Plymouth Meeting, PA	100%	737,316	737,316	1966/2009	95.8%	AMC Theater, Boscov's, Legoland Discovery Center and Whole Foods
The Mall at Prince Georges, Hyattsville, MD	100%	919,502	919,502	1959/2004	95.1%	JC Penney, Macy's, Marshalls, Ross Dress for Less, TJ Maxx and Target
Springfield Town Center, Springfield, VA[(6)]	100%	1,374,172	984,187	1974/2015	92.7%	Dick's Sporting Goods, JC Penney, Macy's, Nordstrom Rack, Regal Cinemas and Target
Valley Mall, Hagerstown, MD	100%	793,404	670,004	1974/1999	99.1%	Bon-Ton and JC Penney
Valley View Mall, La Crosse, WI	100%	628,093	473,497	1980/2001	97.9%	Barnes & Noble, Herberger's, JC Penney and Sears
Viewmont Mall, Scranton, PA	100%	689,225	549,424	1968/2006	99.2%	JC Penney, Dick's Sporting Goods/ Field and Stream, Homegoods and Macy's
Willow Grove Park, Willow Grove, PA	100%	1,175,631	762,510	1982/2001	97.3%	Apple, Bloomingdale's, Macy's, Nordstrom Rack and Sears
Woodland Mall, Grand Rapids, MI	100%	850,396	438,174	1968/1998	99.1%	Apple, Barnes & Noble, JC Penney, Kohl's and Macy's
Wyoming Valley Mall, Wilkes-Barre, PA	100%	832,253	832,253	1971/2006	98.8%	Bon-Ton, JC Penney, Macy's and Sears
Total consolidated mall properties		16,002,317	12,631,187			
OTHER RETAIL						
Wyoming Valley Center, Wilkes-Barre, PA	100%	77,280	77,280	1976/2006	36.7%	Office Max

(1) The location stated is the major city or town nearest to the property and is not necessarily the local jurisdiction in which the property is located.

(2) Total square feet includes space owned by us and space owned by tenants or other lessors.

(3) Owned square feet includes only space owned by us and excludes space owned by tenants or other lessors.
(4) Occupancy is calculated based on space owned by us, excludes space owned by tenants or other lessors and includes space occupied by both anchor and non-anchor tenants, irrespective of the term of their agreements.
(5) Includes anchors/major tenants that own their space or lease from lessors other than us and do not pay rent to us.
(6) A portion of the underlying land at this property is subject to a ground lease.

Unconsolidated Operating Properties

Property/Location[(1)]	Ownership Interest	Total Square Feet[(2)]	Owned Square Feet[(3)]	Year Built / Last Renovated	Occupancy%[(4)]	Anchors/Major Tenants[(5)]
MALLS						
Lehigh Valley Mall, Allentown, PA	50%	1,169,519	962,227	1960/2008	92.7%	Apple, Barnes & Noble, Boscov’s, JC Penney and Macy’s
Springfield Mall, Springfield, PA	50%	610,544	222,645	1974/1997	96.1%	Macy’s and Target
OTHER RETAIL						
Gloucester Premium Outlets, Blackwood, NJ	25%	369,911	369,911	2015	85.3%	Nike Factory Store, Old Navy
Metroplex Shopping Center, Plymouth Meeting, PA	50%	778,190	477,461	2001	100.0%	Barnes & Noble, Giant Food Store, Lowe’s, Ross Dress for Less, Saks off Fifth and Target
The Court at Oxford Valley, Langhorne, PA	50%	704,526	456,903	1996	97.6%	Best Buy, BJ’s Wholesale Club, Dick’s Sporting Goods and Home Depot
Red Rose Commons, Lancaster, PA	50%	462,883	263,293	1998	87.7%	Barnes & Noble, Burlington, Home Depot, HomeGoods and Weis Markets
Total unconsolidated retail properties		4,095,573	2,752,440			

(1) The location stated is the major city or town nearest to the property and is not necessarily the local jurisdiction in which the property is located.
(2) Total square feet includes space owned by the unconsolidated partnership and space owned by tenants or other lessors.
(3) Owned square feet includes only space owned by the unconsolidated partnership and excludes space owned by tenants or other lessors.
(4) Occupancy is calculated based on space owned by the unconsolidated partnership that is occupied, includes space occupied by both anchor and non-anchor tenants and includes all tenants irrespective of the term of their agreements.
(5) Includes anchors that own their space or lease from lessors other than us and do not pay rent to us.

The following table sets forth our gross rent per square foot (for consolidated and unconsolidated properties) for the five years ended December 31, 2017:

Year	Anchor Stores	non-anchor Stores
2013	$5.36	$31.78
2014	5.69	34.64
2015	5.71	36.95
2016	5.87	39.73
2017	5.80	40.72

LARGE FORMAT RETAILERS AND ANCHORS

Historically, large format retailers and anchors have been an important element of attracting customers to a mall, and they have generally been department stores whose merchandise appeals to a broad range of customers, although in recent years we have attracted some non-traditional large format retailers. These large format retailers and anchors either own their stores, the land under them and adjacent parking areas, or enter into long-term leases at rent that is generally lower than the rent charged to in-line tenants. Well-known, large format retailers and anchors continue to play an important role in generating customer traffic and making malls desirable locations for in-line store tenants, even though the market share of traditional department store anchors has been declining and such companies have experienced significant changes. See “Item 1A. Risk Factors—Risks Related to Our Business and Our Properties.” The following table indicates the parent company of each of our large format retailers and anchors and sets forth the number of stores and square feet owned or leased by each at our retail properties, including consolidated and unconsolidated, as of December 31, 2017:

Tenant Name(1)	Number of Stores(2)	GLA(2)	Percent of Total GLA(3)	
AMC Entertainment Holdings, Inc.				
AMC	2	92,988		
Carmike 16	1	60,124		
Total AMC Entertainment Holdings, Inc.	3	153,112	0.8	%
Barnes & Noble, Inc.	9	267,831	1.3	%
Belk, Inc.	2	188,303	0.9	%
Best Buy Co., Inc.	5	157,857	0.8	%
BJ’s Wholesale Club, Inc.	2	234,761	1.2	%
The Bon-Ton Stores, Inc.				
Bon-Ton	2	278,486		
Herberger’s	1	100,000		
Total The Bon-Ton Stores, Inc.	3	378,486	1.9	%
Boscov’s Department Store	5	889,229	4.4	%
Burlington Stores, Inc.	3	169,764	0.8	%
Dave & Buster’s, Inc.	2	75,215	0.4	%
Dick’s Sporting Goods, Inc.				
Dick’s Sporting Goods, Inc	10	536,942		
Field & Stream	1	50,302		
Total Dick’s Sporting Goods, Inc.	11	587,244	2.9	%
Dillard’s, Inc.	1	144,157	0.7	%
Forever 21 Retail, Inc.	9	157,186	0.8	%
Giant Food Stores, LLC	1	67,185	0.3	%
H&M Hennes & Mauritz L.P.	14	276,734	1.4	%
The Home Depot, Inc.	3	397,322	2.0	%
J.C. Penney Company, Inc.	17	2,284,117	11.3	%
Toys “R” Us, Inc.				
Babies “R” Us	2	81,515		
Toys “R” Us	2	64,956		

Total Toys "R" Us, Inc.	4	146,471	0.7	%
Lord & Taylor	1	121,200	0.6	%
Lowes, Inc.	1	163,215	0.8	%
Macy's, Inc.				
Macy's	14	2,555,000		
Bloomingdales	1	237,537		

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Tenant Name[1]	Number of Stores[2]	GLA[2]	Percent of Total GLA[3]	
Total Macy's, Inc.	15	2,792,537	13.8	%
Nordstrom, Inc.				
Nordstrom	1	138,000		
Nordstrom Rack	2	73,439		
Total Nordstrom, Inc.	3	211,439	1.0	%
Office Depot, Inc. (OfficeMax)	3	79,909	0.4	%
PetsMart, Inc	3	78,678	0.4	%
Regal Cinemas	4	205,135	1.0	%
Round One Entertainment, Inc.	1	58,371	0.3	%
Ross Stores	2	60,320	0.3	%
Saks Fifth Avenue LLC	2	54,118	0.3	%
Sears Holdings Corporation (Sears)	9	1,226,721	6.1	%
The TJX Companies, Inc.				
HomeGoods	2	62,450		
Marshalls	2	65,004		
TJ Maxx	1	27,597		
Total The TJX Companies, Inc.	5	155,051	0.8	%
Target Corporation	4	649,440	3.2	%
Weis Markets, Inc.	1	65,032	0.3	%
Whole Foods, Inc.	2	120,155	0.6	%
	150	12,616,295	62.5	%

(1) To qualify as a large format retailer or an anchor for inclusion in this table, a tenant must occupy at least 50,000 square feet or be part of a chain that has stores in our portfolio occupying an aggregate of at least 50,000 square feet.

(2) Number of stores and gross leasable area ("GLA") include anchors that own their own space or lease from lessors other than us and do not pay rent to us. Includes stores that have closed that are still obligated to make rental or expense contribution payments.

(3) Percent of Total GLA is calculated based on the total GLA of all properties.

MAJOR TENANTS

The following table presents information regarding the top 20 tenants at our retail properties, including consolidated and unconsolidated properties, by gross rent as of December 31, 2017:

Primary Tenant(1)(2)	Brands	Total Stores	Percent of PREIT's Annual Gross Rent (3)	
Foot Locker, Inc.	Champs, Foot Locker, Footaction, Footaction Flight 23, House of Hoops by Foot Locker, Kids Foot Locker, Lady Foot Locker, Nike Yardline	51	4.1	%
L Brands, Inc.	Bath & Body Works, Henri Bendel, Pink, Victoria's Secret	45	3.9	%
Signet Jewelers Limited	Kay Jewelers, Piercing Pagoda, Piercing Pagoda Plus, Plumb Gold, Totally Pagoda, Zale's Jewelers	68	2.9	%
Dick's Sporting Goods, Inc.	Dick's Sporting Goods, Field & Stream	11	2.5	%
Gap, Inc.	Banana Republic, Gap/Gap Kids/Gap Outlet/Baby Gap, Old Navy	26	2.4	%
American Eagle Outfitters, Inc.	Aerie, American Eagle Outfitters	21	2.3	%
J.C. Penney Company, Inc. (3)	JC Penney	17	2.0	%
Express, Inc.	Express, Express Factory Outlet, Express Men	17	2.0	%
Genesco, Inc.	Hat Shack, Hat World, Johnston & Murphy, Journey's, Journey's Kidz, Lids, Lids Locker Room, Shi by Journey's, Underground by Journey's	56	1.8	%
Ascena Realty Group, Inc.	Ann Taylor, Dress Barn, Justice, Lane Bryant, Loft, Maurices	34	1.7	%
Macy's Inc.	Bloomingdale's, Macy's	17	1.6	%
Forever 21, Inc.	Forever 21	9	1.5	%
Regal Entertainment Group	Regal Cinemas	4	1.4	%
Luxottica Group S.p.A.	Lenscrafters, Pearle Vision, Sunglass Hut	34	1.4	%
Advent CR Holdings, Inc.	Charlotte Russe	15	1.4	%
H&M Hennes & Mauritz L.P.	H & M	14	1.3	%
The Children's Place Retail Stores, Inc.	The Children's Place	17	1.1	%
Darden Concepts, Inc.	Bahama Breeze, Capital Grille, Olive Garden, Seasons 52, Yard House	8	1.0	%
Best Buy Co., Inc	Best Buy, Best Buy Mobile	19	1.0	%
Dave & Buster's, Inc.	Dave & Buster's	2	0.9	%
Total		485	38.1	%

(1) Tenant includes all brands and concepts of the tenant.

(2) Excludes tenants from Fashion District Philadelphia which is under redevelopment.

(3) Includes our proportionate share of tenant rent from partnership properties that are not consolidated by us, based on our ownership percentage in the respective partnerships. Annualized gross rent is calculated based on gross monthly rent as of December 31, 2017.

RETAIL LEASE EXPIRATION SCHEDULE—NON-ANCHORS

The following table presents scheduled lease expirations of non-anchor tenants as of December 31, 2017:

(in thousands of dollars, except per square foot amounts)	All Tenants [1]					Tenants in Bankruptcy[2]			
For the Year Ended December 31,	Number of Leases Expiring	GLA of Expiring Leases	PREIT's Share of Gross Rent in Expiring Year(3)	Average Expiring Gross Rent psf	Percent of PREIT's Total Gross Rent	GLA of Expiring Leases	PREIT's Share of Gross Rent in Expiring Year	Average Expiring Gross Rent psf	Percent of PREIT's Share of Gross Rent in Expiring Year
2017 and Prior[4]	104	316,051	$13,106	$41.47	4.0 %	—	$—	$—	— %
2018	240	745,508	29,746	39.90	9.0 %	50,076	719	20.77	2.4 %
2019	272	1,036,470	38,393	37.04	11.6 %	68,724	514	11.63	1.3 %
2020	228	1,110,983	34,779	31.30	10.5 %	34,200	295	8.64	0.8 %
2021	181	889,586	29,891	33.60	9.0 %	12,639	192	21.62	0.6 %
2022	158	479,209	24,205	50.51	7.3 %	—	—	—	— %
2023	124	738,327	27,749	37.58	8.4 %	11,826	187	15.81	0.7 %
2024	126	513,159	28,708	55.94	8.7 %	2,400	267	111.33	0.9 %
2025	162	725,290	32,853	45.30	9.9 %	—	—	—	— %
2026	119	581,535	24,973	42.94	7.5 %	—	—	—	— %
2027	107	672,632	24,192	35.97	7.3 %	—	—	—	— %
Thereafter	52	714,139	22,710	31.80	6.9 %	—	—	—	— %
Total/Average	1,873	8,522,889	$331,305	$38.87	100.0 %	179,865	$2,174	$15.91	6.7 %

(1) Does not include tenants occupying space under license agreements with initial terms of less than one year. The GLA of these tenants is 583,921 square feet.

(2) As described above under "Item 1A. Risk Factors," if a tenant files for bankruptcy, the tenant might have the right to reject and terminate its leases, and we cannot be sure that it will affirm its leases and continue to make rental payments in a timely manner. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages in connection with such balances.

(3) Excludes Fashion District Philadelphia and includes our proportionate share of tenant rent from partnership properties that are not consolidated by us, based on our ownership percentage in the respective partnerships. Annualized gross rent is calculated based only on gross monthly rent as of December 31, 2017.

(4) Includes all tenant leases that had expired and were on a month to month basis as of December 31, 2017.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Leasing Activity" for information regarding rent for leases signed in 2017.

RETAIL LEASE EXPIRATION SCHEDULE—ANCHORS

The following table presents scheduled lease expirations of anchor tenants as of December 31, 2017 (includes leases with tenants that have filed for bankruptcy protection, depending on the current status of the lease):

(in thousands of dollars, except per square foot amounts)	All Tenants [(1)]						Tenants in Bankruptcy[(2)]				
For the Year Ending December 31,	Number of Leases Expiring	GLA of Expiring Leases	PREIT's Share of Gross Rent in Expiring Year(1)(2)	Average Expiring Gross Rent psf	Percent of PREIT's Total Gross Rent		GLA of Expiring Leases	PREIT's Share of Gross Rent in Expiring Year	Average Expiring Gross Rent psf	Percent of PREIT's Share of Gross Rent in Expiring Year	
2018	3	365,231	$ 2,095	$ 5.74	7.2	%	123,094	$ 609	$ 4.95	29.1	%
2019	6	792,772	2,516	3.17	8.7	%	—	—	—	—	%
2020	6	675,699	3,149	4.66	10.8	%	—	—	—	—	%
2021	8	791,412	3,847	4.86	13.2	%	—	—	—	—	%
2022	8	1,174,834	4,059	3.45	14.0	%	—	—	—	—	%
2023	3	348,592	1,816	5.21	6.2	%	—	—	—	—	%
2024	1	135,186	800	5.92	2.8	%	—	—	—	—	%
2025	2	390,245	1,180	—	4.1	%	—	—	—	—	%
2026	1	58,371	861	14.75	3.0	%	—	—	—	—	%
2027	1	155,392	465	2.99	1.6	%	155,392	465	2.99	100.0	%
Thereafter	7	758,026	8,296	10.94	28.4	%	100,000	605	6.05	7.3	%
Total/Average	46	5,645,760	$ 29,084	$ 5.15	100.0	%	378,486	1,679	$ 4.43	5.8	%

(1) In thousands of dollars. Excludes Fashion District Philadelphia and includes our proportionate share of tenant rent from partnership properties that are not consolidated by us, based on our ownership percentage in the respective partnerships. Annualized gross rent is calculated based only on gross monthly rent as of December 31, 2017.

(2) As described above under "Item 1A. Risk Factors," if a tenant files for bankruptcy, the tenant might have the right to reject and terminate its leases, and we cannot be sure that it will affirm its leases and continue to make rental payments in a timely manner. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages in connection with such balances.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Leasing Activity" for information regarding rent in leases signed in 2017.

DEVELOPMENT AND REDEVELOPMENT PROPERTIES

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.

OFFICE SPACE

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.

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ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business, we have become, and might in the future 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 condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Common Shares
Our common shares of beneficial interest are listed on the New York Stock Exchange under the symbol "PEI."
The following table presents the high and low sales prices for our common shares of beneficial interest, as reported by the New York Stock Exchange, and cash distributions paid per share for the periods indicated:

	High	Low	Distribution Paid
Quarter ended March 31, 2017	$19.92	$13.76	$0.21
Quarter ended June 30, 2017	$15.34	$10.00	$0.21
Quarter ended September 30, 2017	$13.02	$9.75	$0.21
Quarter ended December 31, 2017	$12.11	$9.32	$0.21
			$0.84

	High	Low	Distribution Paid
Quarter ended March 31, 2016	$21.95	$16.42	$0.21
Quarter ended June 30, 2016	$23.99	$20.36	$0.21
Quarter ended September 30, 2016	$25.67	$21.32	$0.21
Quarter ended December 31, 2016	$22.86	$18.12	$0.21
			$0.84

As of December 31, 2017, there were approximately 2,000 holders of record of our common shares and approximately 20,000 beneficial holders of our common shares.
We currently anticipate that cash distributions will continue to be paid in March, June, September and December. 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 upon numerous factors, including our cash flow, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code, the terms and conditions of our Credit Agreements, and other factors that our Board of Trustees deems relevant.
The Credit Agreements provide generally that dividends may not exceed 110% of REIT Taxable Income for a fiscal year, or 95% of FFO (unless necessary for us to maintain our status as a REIT). All capitalized terms used in this section and not otherwise defined have the meanings ascribed to such terms in the Credit Agreements. We must maintain our status as a REIT at all times.
Units
Class A and Class B Units of PREIT Associates ("OP Units") are redeemable by PREIT Associates at the election of the limited partner holding the OP Units at the time and for the consideration set forth in PREIT Associates' partnership agreement. In general, and subject to exceptions and limitations, beginning one year following the respective issue dates, "qualifying parties" may give one or more notices of redemption with respect to all or any part of the Class A Units then held by that party. Class A and Class B Units are redeemable at the option of the holder at any time after issuance.
If a notice of redemption is given, we have the right to elect to acquire the OP Units tendered for redemption for our own account, either in exchange for the issuance of a like number of our common shares, subject to adjustments for stock splits, recapitalizations and like events, or a cash payment equal to the average of the closing prices of our shares on the ten consecutive trading days immediately before our receipt, in our capacity as general partner of PREIT

Associates, of the notice of redemption. If we decline to exercise this right, then PREIT Associates will pay a cash amount equal to the number of OP Units tendered multiplied by such average closing price.

Issuer Purchases of Equity Securities

The following table shows the total number of shares that we acquired in the three months ended December 31, 2017 and the average price paid per share.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1—October 31, 2017	—	$ —	—	$ —
November 1—November 30, 2017	—	—	—	—
December 1—December 31, 2017	13,429	11.08	—	—
Total	13,429	$ 11.08	—	$ —

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth Selected Financial Data for the Company as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013. The information set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	For the Year Ended December 31,				
(in thousands, except per share amounts)	2017	2016	2015	2014	2013
Operating results:					
Total revenue	$367,490	$399,946	$425,411	$432,703	$438,678
Impairment of assets	$(55,793)	$(62,603)	$(140,318)	$(19,695)	$(6,304)
(Losses) gains on sales of interests in real estate, net	$(361)	$23,022	$12,362	$12,699	$—
Loss from continuing operations	$(32,848)	$(12,713)	$(129,567)	$(14,262)	$(20,449)
Gains on sales of discontinued operations	$—	$—	$—	$—	$78,512
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)
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)
Basic and diluted (loss) earnings per share	$(0.89)	$(0.40)	$(1.93)	$(0.44)	$0.31
Impairment of assets of discontinued operations	$—	$—	$—	$—	$(23,662)
Weighted average shares outstanding – basic and diluted	69,364	69,086	68,740	68,217	63,662

	As of December 31,				
(in thousands)	2017	2016	2015	2014	2013
Consolidated balance sheet data:					
Total investments in real estate	$3,299,702	$3,300,014	$3,367,889	$3,285,404	$3,527,868
Intangible assets, net	$17,693	$19,746	$22,248	$6,452	$9,075
Total assets	$2,588,771	$2,616,832	$2,800,392	$2,539,703	$2,718,581
Total debt, including debt premium and discount	$1,656,842	$1,766,902	$1,784,371	$1,537,947	$1,632,650
Noncontrolling interest	$136,952	$147,152	$155,369	$29,279	$34,194
Total equity - PREIT	$624,039	$555,254	$629,261	$815,458	$892,258

	For the Year Ended December 31,				
(in thousands, except per share amounts)	2017	2016	2015	2014	2013
Cash flow data:					
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 per common share	$0.84	$0.84	$0.84	$0.80	$0.74

ITEM 7. 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):

	Pre-bankruptcy				Units Closed		
Year	Number of Tenants [1]	Number of locations impacted	GLA[2]	PREIT's Share of Annualized Gross Rent[3] (in thousands)	Number of locations closed	GLA[2]	PREIT's Share of Annualized Gross Rent [3](in thousands)
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

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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:

	Former/Existing Anchors				Replacement Tenant(s)		
Property	Name	GLA '000's	Date Store Closed/Closing	Date De-commissioned	Name	GLA '000's	Actual/Targeted Occupancy Date
Completed:							
Cumberland Mall	JC Penney	51	Q3 15	Q3 15	Dick's Sporting Goods	50	Q4 16
Exton Square Mall	JC Penney	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
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	86	Q4 19
					Restaurants and small shop space	TBD	Q4 19
Magnolia Mall	Sears	See Above			HomeGoods	22	Q2 18
					Five Below	8	Q2 18
Moorestown Mall	Macy's	200	Q1 17	n/a	Sierra Trading Post	19	Q1 19
					HomeSense	28	Q4 18
					Grocer and other tenant	32	Q4 18
Valley Mall	Macy's	120	Q1 16	n/a	Onelife Fitness	70	Q3 18
					Tilt	48	Q3 18
	Bon Ton	123	Q1 18	n/a	Belk	123	Q4 18
Willow Grove Park	JC Penney	125	Q3 17	n/a	Movie theater and entertainment	93	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).

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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.

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%	91.1%	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).

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 10,0000 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 10,0000 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 "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 expense	(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 breakpoints 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
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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:

	For the Year Ended December 31,		
(in thousands of dollars)	2017	2016	2015
Logan Valley Mall	$38,720	$—	$—
Valley View Mall	15,521	—	—
Gainesville land	1,275	—	—
Sunrise 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

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- 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.

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The managing general partner is responsible for establishing the operating and capital decisions of the partnership, including budgets, in the ordinary course of business.

- All major decisions of each partnership, such as the sale, refinancing, expansion or rehabilitation of the property, require the approval of all partners.

- Voting rights and the sharing of profits and losses are generally in proportion to the ownership percentages of each partner.

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

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

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

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

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

	For the Year Ended December 31,		
(in thousands of dollars)	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:

	For the Year Ended December 31,		
(in thousands of dollars)	2017	2016	2015
Equity in income of partnerships	$14,367	$18,477	