PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-Q
August 11, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2008

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 Number: 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)	**(I.R.S. Employer Identification No.)**

200 South Broad Street

Philadelphia, PA	**19102**
(Address of principal executive offices)	**(Zip Code)**

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

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 for 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 x No ¨

Indicated by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common shares of beneficial interest, $1.00 par value per share, outstanding at July 31, 2008: 39,781,840

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

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Except as the context otherwise requires, references in this Quarterly Report on Form 10-Q 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. References in this Quarterly Report on Form 10-Q to PREIT Associates or the Operating Partnership refer to PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to PRI refer to PREIT-RUBIN, Inc.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of dollars, except share and per share amounts)	**June 30, 2008**	**December 31, 2007**
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	$ 3,148,280	$ 3,074,562
Construction in progress	387,960	287,116
Land held for development	5,616	5,616
Total investments in real estate	3,541,856	3,367,294
Accumulated depreciation	(456,530)	(401,502)
Net investments in real estate	3,085,326	2,965,792
INVESTMENTS IN PARTNERSHIPS, at equity	36,451	36,424
OTHER ASSETS:		
Cash and cash equivalents	23,409	27,925
Tenant and other receivables (net of allowance for doubtful accounts of $12,788 and $11,424 at June 30, 2008 and December 31, 2007, respectively)	44,910	49,094
Intangible assets (net of accumulated amortization of $154,040 and $137,809 at June 30, 2008 and December 31, 2007, respectively)	88,570	104,136
Deferred costs and other assets	80,657	80,703
Total assets	$ 3,359,323	$ 3,264,074
LIABILITIES:		
Mortgage notes payable	$ 1,758,981	$ 1,643,122
Debt premium on mortgage notes payable	7,639	13,820
Exchangeable senior notes	287,500	287,500
Credit Facility	355,000	330,000
Tenants deposits and deferred rent	17,520	16,213
Distributions in excess of partnership investments	46,787	49,166
Accrued expenses and other liabilities	118,669	111,378
Total liabilities	2,592,096	2,451,199
MINORITY INTEREST (redemption value $51,795 at June 30, 2008)	56,106	55,256
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS EQUITY:		
Shares of beneficial interest, $1.00 par value per share; 100,000,000 shares authorized; issued and outstanding 39,367,204 shares at June 30, 2008 and 39,134,109 shares at December 31, 2007	39,367	39,134
Capital contributed in excess of par	824,273	818,966
Accumulated other comprehensive loss	(9,164)	(6,968)
Distributions in excess of net income	(143,355)	(93,513)
Total shareholders equity	711,121	757,619
Total liabilities, minority interest and shareholders equity	$ 3,359,323	$ 3,264,074

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands of dollars)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
REVENUE:				
Real estate revenue:				
Base rent	$ 73,025	$ 70,854	$ 146,842	$ 141,753
Expense reimbursements	33,512	32,885	67,940	67,659
Percentage rent	978	1,542	2,466	3,633
Lease termination revenue	1,413	243	2,298	718
Other real estate revenue	3,641	3,996	7,232	7,653
Total real estate revenue	112,569	109,520	226,778	221,416
Management company revenue	917	533	1,811	973
Interest and other income	135	484	382	1,788
Total revenue	113,621	110,537	228,971	224,177
EXPENSES:				
Property operating expenses:				
CAM and real estate tax	(32,397)	(30,992)	(65,269)	(63,496)
Utilities	(6,312)	(5,910)	(12,289)	(12,169)
Other operating expenses	(6,275)	(5,679)	(11,854)	(11,295)
Total property operating expenses	(44,984)	(42,581)	(89,412)	(86,960)
Depreciation and amortization	(37,205)	(32,453)	(73,020)	(64,227)
Other expenses:				
General and administrative expenses	(10,907)	(10,682)	(21,414)	(21,168)
Abandoned project costs, income taxes and other expenses	(235)	(98)	(1,503)	(669)
Total other expenses	(11,142)	(10,780)	(22,917)	(21,837)
Interest expense, net	(25,375)	(23,661)	(52,366)	(47,472)
Total expenses	(118,706)	(109,475)	(237,715)	(220,496)
(Loss) income before equity in income of partnerships, minority interest and discontinued operations	(5,085)	1,062	(8,744)	3,681
Equity in income of partnerships	2,107	1,169	3,569	2,124
Gains on sales of interests in real estate		579		579
Gains on sales of non-operating real estate		1,484		1,484
(Loss) income before minority interest and discontinued operations	(2,978)	4,294	(5,175)	7,868
Minority interest	80	(405)	149	(780)
(Loss) income from continuing operations	(2,898)	3,889	(5,026)	7,088
(Loss) income from discontinued operations:				
Operating results from discontinued operations		(16)		(137)
Gain on sale of discontinued operations				6,699
Minority interest		2		(690)

(Loss) income from discontinued operations				(14)				5,872
Net (loss) income		(2,898)		3,875		(5,026)		12,960
Dividends on preferred shares				(3,403)				(6,806)
Net (loss allocable) income available to common shareholders	$	(2,898)	$	472	$	(5,026)	$	6,154

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME (continued)

EARNINGS PER SHARE

(Unaudited)

(in thousands of dollars, except per share amounts)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
(Loss) income from continuing operations	$ (2,898)	$ 3,889	$ (5,026)	$ 7,088
Dividends on preferred shares		(3,403)		(6,806)
Net (loss allocable) income available from continuing operations available to common shareholders	(2,898)	486	(5,026)	282
Dividends on unvested restricted shares	(305)	(272)	(614)	(543)
(Loss) income from continuing operations used to calculate earnings per share basic and diluted	$ (3,203)	$ 214	$ (5,640)	$ (261)
(Loss) income from discontinued operations used to calculate earnings per share basic and diluted	$	$ (14)	$	$ 5,872
Basic (loss) income per share:				
(Loss) income from continuing operations	$ (0.08)	$ 0.01	$ (0.15)	$ (0.01)
Income from discontinued operations				0.16
	$ (0.08)	$ 0.01	$ (0.15)	$ 0.15
Diluted (loss) income per share:				
(Loss) income from continuing operations	$ (0.08)	$ 0.01	$ (0.15)	$ (0.01)
Income from discontinued operations				0.16
	$ (0.08)	$ 0.01	$ (0.15)	$ 0.15
(in thousands of shares)				
Weighted average shares outstanding basic	38,790	37,070	38,752	36,818
Effect of dilutive common share equivalents [1]		437		
Weighted average shares outstanding diluted	38,790	37,507	38,752	36,818

(1) For the three and six month periods ended June 30, 2008 and six month period ended June 30, 2007, respectively, there are net losses allocable to common shareholders from continuing operations, so the effect of common share equivalents of 36 for the three months ended June 30, 2008, and 22 and 445 for the six months ended June 30, 2008 and 2007, respectively, is excluded from the calculation of diluted loss per share for these periods because it would be antidilutive.

See accompanying notes to the unaudited financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands of dollars)	**Six Months Ended June 30, 2008**	**2007**
Cash flows from operating activities:		
Net (loss) income	$ (5,026)	$ 12,960
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	56,191	48,744
Amortization	12,839	10,286
Straight-line rent adjustments	(1,726)	(927)
Provision for doubtful accounts	2,130	1,412
Amortization of deferred compensation	4,243	3,331
Amortization of Outperformance Program	409	409
Minority interest	(149)	1,470
Net gain on forward starting swap activities	(1,956)	
Gain on sale of interests in real estate		(8,762)
Change in assets and liabilities:		
Net change in other assets	5,694	7,552
Net change in other liabilities	(5,567)	(6,587)
Net cash provided by operating activities	67,082	69,888
Cash flows from investing activities:		
Investments in real estate acquisitions, net of cash acquired	(4,526)	(10,687)
Investments in real estate improvements	(8,168)	(6,088)
Additions to construction in progress	(136,877)	(85,571)
Investments in partnerships	(2,589)	(4,526)
(Increase) decrease in cash escrows	(1,413)	708
Capitalized leasing costs	(2,806)	(2,492)
Additions to leasehold improvements	(525)	(524)
Cash distributions from partnerships in excess of equity in income	183	1,898
Cash proceeds from sales of consolidated real estate investments		29,390
Net cash used in investing activities	(156,721)	(77,892)
Cash flows from financing activities:		
Principal installments on mortgage notes payable	(12,141)	(11,517)
Proceeds from mortgage notes payable	120,000	150,000
Repayment of mortgage notes payable		(56,663)
Proceeds from sale of exchangeable senior notes		281,031
Net borrowing (repayment) from Credit Facility	25,000	(297,000)
Net (payment) proceeds from settlement of forward-starting interest swap agreements	(571)	4,069
Purchase of capped call		(12,578)
Payment of deferred financing costs	(1,661)	(3,427)
Shares of beneficial interest issued	2,397	3,228
Shares of beneficial interest repurchased	(618)	(1,227)
Operating partnership units purchased or redeemed		(78)
Dividends paid to common shareholders	(44,816)	(42,281)
Dividends paid to preferred shareholders		(6,806)
Distributions paid to operating partnership unit holders and minority partners	(2,467)	(4,726)

Net cash provided by financing activities	85,123	2,025
Net change in cash and cash equivalents	(4,516)	(5,979)
Cash and cash equivalents, beginning of period	27,925	15,808
Cash and cash equivalents, end of period	$ 23,409	$ 9,829

See accompanying notes to the unaudited consolidated financial statements.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited)

1. BASIS OF PRESENTATION

Pennsylvania Real Estate Investment Trust (PREIT or the Company) prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading. The unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in PREIT s Annual Report on Form 10-K for the year ended December 31, 2007. In management s opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company and its subsidiaries and the consolidated results of its operations and its cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

PREIT, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts (REITs) in the United States, has a primary investment focus on retail shopping malls and strip and power centers located in the eastern half of the United States, primarily in the Mid-Atlantic region. As of June 30, 2008, the Company s portfolio consisted of a total of 55 properties. The Company s operating portfolio contains 51 retail properties in 13 states and includes 38 shopping malls and 13 strip and power centers. The remaining four properties in the Company s portfolio are held for ground-up development.

The Company holds its interest in its portfolio of properties through its operating partnership, PREIT Associates, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership and, as of June 30, 2008, the Company held a 94.6% interest in the Operating Partnership, and consolidates it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem such partner s units of limited partnership interest in the Operating Partnership (OP Units) for cash or, at the election of the Company, the Company may acquire such OP Units for common shares of the Company on a one-for-one basis. In some cases, the right to tender OP Units for redemption begins one year following the respective issue date of the OP Units and in other cases immediately. In the event of the redemption for cash of all of the outstanding OP Units held by limited partners and not owned by the Company, the total amount that would have been distributed as of June 30, 2008 would have been $51.8 million, which is calculated using the Company s June 30, 2008 share price multiplied by the outstanding OP Units held by limited partners, other than the Company.

The Company provides its management, leasing and real estate development services through two companies: PREIT Services, LLC (PREIT Services), which generally develops and manages properties that the Company consolidates for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally develops and manages properties that the Company does not consolidate for financial reporting purposes, including properties owned by partnerships in which the Company owns an interest and properties that are owned by third parties in which the Company does not have an interest. PREIT Services and PRI are consolidated. Because PRI is a taxable REIT subsidiary as defined by federal tax laws, it is capable of offering a broad range of services to tenants without jeopardizing the Company s continued qualification as a real estate investment trust under federal tax law.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (FSP 14-1). FSP 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. The value assigned to the debt component is the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The resulting debt discount would be amortized over the period during which the debt is expected to be outstanding as additional non-cash interest expense. The Company s $287.5 million exchangeable senior notes are within the scope of FSP 14-1; therefore, the Company will be required to record debt components of the notes at fair value as of the date of issuance, and amortize the discount as an increase to interest expense over the expected life of the debt. The implementation of this standard will result in a decrease to net income and earnings per share for all periods presented; however, there is no effect on the Company s cash interest payments. FSP 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and shall be applied retrospectively to all periods presented. Early adoption of FSP 14-1 is not permitted. The Company anticipates that as a result of the application of this standard, its annual diluted earnings per common share will decrease by approximately $1.4 million, or $0.04 per diluted share. Additionally, the Company anticipates that the application of this standard will decrease its debt balance as of December 31, 2008 by approximately $7.0 million, with a corresponding increase to shareholders equity.

SFAS No. 161

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. The Company will adopt the provisions of SFAS No. 161 beginning on January 1, 2009 and will make the required disclosures in accordance with the pronouncement.

SFAS No. 141 R

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (rev. 2007), Business Combinations (a revision of Statement No. 141) (SFAS No. 141 R). This statement applies to all transactions or other events in which an entity obtains control of one or more businesses, including those combinations achieved without the transfer of consideration. SFAS No. 141 R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. SFAS No. 141 R expands the scope to include all business combinations and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. Additionally, SFAS No. 141 R changes the way entities account for business combinations achieved in stages by requiring the identifiable assets and liabilities to be measured at fair value at the acquisition date. SFAS No. 141 R requires entities to directly expense transaction costs. The Company will adopt the provisions of this statement beginning on January 1, 2009, prospectively. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 141 R will have on the Company s consolidated financial statements.

SFAS No. 160

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 will be effective for the Company beginning on January 1, 2009. The Company has not determined whether the adoption of SFAS No. 160 will have a material effect on the Company s financial statements.

SFAS No. 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 became effective for the Company beginning on January 1, 2008. The adoption of SFAS No. 159 did not have a material effect on the Company s financial statements because the Company did not elect to measure any financial assets or liabilities at fair value.

3. REAL ESTATE ACTIVITIES

Investments in real estate as of June 30, 2008 and December 31, 2007 were comprised of the following:

(in thousands of dollars)	As of June 30, 2008	As of December 31, 2007
Buildings, improvements and construction in progress	$ 2,985,235	$ 2,819,210
Land, including land held for development	556,621	548,084
Total investments in real estate	3,541,856	3,367,294
Accumulated depreciation	(456,530)	(401,502)

Net investments in real estate	$ 3,085,326	$ 2,965,792

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Capitalization of Costs

Costs incurred in relation to development and redevelopment projects for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Such costs, as well as tenant inducement amounts and internal and external commissions, are recorded in construction in progress. Costs incurred for such items after the property is substantially complete and ready for its intended use are charged to expense as incurred. The Company capitalizes a portion of development department employees compensation and benefits related to time spent involved in development and redevelopment projects.

The Company capitalizes payments made to obtain options to acquire real property. All other related costs that are incurred before acquisition are capitalized if the acquisition of the property or of an option to acquire the property is probable. If the property is acquired, such costs are included in the amount recorded as the initial value of the asset. Capitalized pre-acquisition costs are charged to abandoned project costs, income taxes and other expenses when it is probable that the property will not be acquired. The Company recorded abandoned project costs of $0.1 million and $13,000 for the three months ended June 30, 2008 and 2007, respectively, and $1.3 million and $0.3 million in the six months ended June 30, 2008 and 2007, respectively.

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

The following table summarizes the Company s capitalized salaries and benefits, real estate taxes and interest for the three and six months ended June 30, 2008 and June 30, 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of dollars)	**2008**	**2007**	**2008**	**2007**
Development/Redevelopment Activities:				
Salaries and benefits	$ 915	$ 578	$ 1,677	$ 987
Real estate taxes	$ 314	$ 340	$ 1,080	$ 1,298
Interest	$ 3,583	$ 3,884	$ 7,439	$ 7,429
Leasing Activities:				
Salaries and benefits	$ 1,521	$ 1,188	$ 2,806	$ 2,492

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4. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in the Company s unconsolidated partnerships as of June 30, 2008 and December 31, 2007:

(in thousands of dollars)	As of June 30, 2008	As of December 31, 2007
ASSETS:		
Investments in real estate, at cost:		
Retail properties	$ 387,842	$ 386,050
Construction in progress	4,679	4,632
Total investments in real estate	392,521	390,682
Accumulated depreciation	(94,573)	(87,961)
Net investments in real estate	297,948	302,721
Cash and cash equivalents	10,078	10,604
Deferred costs and other assets, net	23,917	25,608
Total assets	331,943	338,933
LIABILITIES AND PARTNERS DEFICIT:		
Mortgage notes payable	376,346	378,317
Other liabilities	19,194	27,668
Total liabilities	395,540	405,985
Net deficit	(63,597)	(67,052)
Partners share	(31,377)	(33,025)
Company s share	(32,220)	(34,027)
Excess investment [(1)]	16,098	15,151
Advances	5,786	6,134
Net investments and advances	$ (10,336)	$ (12,742)
Investment in partnerships, at equity	$ 36,451	$ 36,424
Distributions in excess of partnership investments	(46,787)	(49,166)
Net investments and advances	$ (10,336)	$ (12,742)

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

The following table summarizes the Company s share of equity in income of partnerships for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,	Six Months Ended June 30,

(in thousands of dollars)	**2008**	**2007**	**2008**	**2007**
Real estate revenue	$ 19,961	$ 16,921	$ 37,292	$ 33,565
Expenses:				
Property operating expenses	(5,669)	(4,943)	(10,881)	(10,128)
Interest expense	(5,830)	(6,213)	(11,172)	(12,353)
Depreciation and amortization	(4,096)	(3,297)	(7,824)	(6,578)
Total expenses	(15,595)	(14,453)	(29,877)	(29,059)
Net income	4,366	2,468	7,415	4,506
Less: Partners share	(2,196)	(1,234)	(3,720)	(2,253)
Company s share	2,170	1,234	3,695	2,253
Amortization of excess investment	(63)	(65)	(126)	(129)
Equity in income of partnerships	$ 2,107	$ 1,169	$ 3,569	$ 2,124

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In July 2006, the unconsolidated partnership that owns Lehigh Valley Mall in Whitehall, Pennsylvania entered into a $150.0 million mortgage loan that is secured by Lehigh Valley Mall. The Company owns an indirect 50% ownership interest in this entity. The mortgage loan had an initial term of 12 months, during which monthly payments of interest only were required. The loan bears interest at the one month LIBOR rate, reset monthly, plus a spread of 56 basis points. There are three one-year extension options, provided that there is no event of default and that the borrower buys an interest rate cap for the term of any applicable extension. In August 2007, the partnership that owns the mall exercised the first one-year extension option. In June 2008, the partnership that owns the mall exercised the second one-year extension option.

5. FINANCING ACTIVITY

Credit Facility

In May 2008, the Company amended its Credit Facility. Under the amended terms, in the determination of the Company s Gross Asset Value, the calculation of the amounts to be included in respect of recently completed redevelopment or development projects has been modified. When the Company completes the redevelopment or development of a property and it is Placed in Service, the amount of Construction in Progress of such property included in Gross Asset Value is gradually reduced over a four quarter period.

The amendment introduced a category entitled Projects Under Development that more broadly encompasses all of the Company s redevelopment and development projects. There is a covenant that this category may not, on a fully budgeted basis (net of portions Placed In Service), comprise more than 20.0% of Gross Asset Value for periods ending on or before June 30, 2009, and not more than 15.0% thereafter.

The amendment also modified other financial and business covenants of the Company contained in the Credit Facility so that certain of the requirements that the Company must maintain are now stated as follows: (1) a minimum Tangible Net Worth of not less than 75% of the Tangible Net Worth of the Company on December 31, 2007 plus 75% of the Net Proceeds of all Equity Issuances effected at any time after December 31, 2007 (previously, the covenant required a minimum Tangible Net Worth of 80% of the Tangible Net Worth of the Company as of December 31, 2003 plus 75% of the Net Proceeds of all Equity Issuances effected at any time after December 31, 2003); (2) a maximum ratio of Total Liabilities to Gross Asset Value of 0.65:1, provided that such ratio may now exceed 0.65:1 for one period of two consecutive fiscal quarters but may not exceed 0.70:1; (3) a minimum ratio of EBITDA to Indebtedness of 0.0975:1 (previously, the required ratio increased to 0.1025:1 for all periods ending after December 31, 2008), provided that such ratio may now be less than 0.0975:1 for one period of two consecutive fiscal quarters but may not be less than 0.0925:1; (4) maximum Investments in unimproved real estate and predevelopment not in excess of 5.0% of Gross Asset Value; (5) maximum Investments in Persons other than Subsidiaries and Unconsolidated Affiliates not in excess of 5.0% of Gross Asset Value (from 10.0% previously); (6) maximum aggregate Investments in unimproved real estate, predevelopment costs, Persons other than Subsidiaries and Unconsolidated Affiliates and mortgages in favor of the Company and its Subsidiaries not in excess of 10.0% of Gross Asset Value (from 15.0% previously).

The amendment added a new interest rate pricing level with an Applicable Margin of 2.00% over LIBOR, and a new Facility Fee level of 0.25%, if the ratio of Total Liabilities to Gross Asset Value is greater than 0.65:1 and/or if the ratio of EBITDA to Indebtedness is less than 0.0975:1.

The amounts borrowed under the Company s Credit Facility bear interest at a rate between 0.95% and 2.00% per annum over LIBOR based on the Company s leverage. In determining the Company s leverage, the capitalization rate used to calculate Gross Asset Value is 7.50%. The Credit Facility has a term that expires in January 2009, and the Company has an option to extend the term for an additional 14 months, provided that there is no event of default at that time.

As of June 30, 2008, $355.0 million was outstanding under the Credit Facility. The Company had pledged $17.8 million under the Credit Facility as collateral for letters of credit, and the unused portion of the Credit Facility that was available to the Company was $127.2 million at June 30, 2008. The weighted average effective interest rate based on amounts borrowed was 4.28% and 4.76% for the three and six months ended June 30, 2008, respectively. The weighted average interest rate on outstanding Credit Facility borrowings at June 30, 2008 was 3.68%.

The Credit Facility contains affirmative and negative covenants and requirements customarily found in facilities of this type. As of June 30, 2008, the Company was in compliance with all of these debt covenants.

Mortgage Activity

In June 2008, the Company entered into a $45.0 million mortgage loan that is secured by Christiana Center in Christiana, Delaware. The mortgage loan has a variable interest rate of 185 basis points over one-month LIBOR with a term of three years and two one-year extension options. Repayment is interest only during the initial term of the loan. The variable interest rate was swapped

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to a fixed rate of 5.865% for the initial term of the loan. The proceeds of this mortgage loan were used to repay a portion of the amount outstanding under the Company s Credit Facility and for general corporate purposes.

In May 2008, the Company entered into a $20.0 million mortgage loan that is secured by Creekview Center in Warrington, Pennsylvania. The mortgage loan has a variable interest rate of 215 basis points over one-month LIBOR with a term of two years and three one-year extension options. The variable interest rate was swapped to a fixed rate of 5.56% for the initial term of the loan. The proceeds of this mortgage loan were used to repay a portion of the amount outstanding under the Company s Credit Facility and for general corporate purposes.

In January 2008, the Company completed a $55.0 million supplemental financing of Cherry Hill Mall in Cherry Hill, New Jersey. The loan has a fixed interest rate of 5.51% and will mature in October 2012. The maturity date coincides with that of the existing first mortgage on the property, which was put in place in September 2005. The first 24 payments of the new loan will be interest only, followed by principal and interest payments calculated based on a 360-month amortization schedule. The proceeds were used to pay down a portion of the Credit Facility and for general corporate purposes.

6. COMPREHENSIVE INCOME (LOSS)

The following table sets forth the computation of comprehensive income (loss) for the three and six months ended June 30, 2008 and 2007, respectively.

(in thousands of dollars)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net (loss) income	$ (2,898)	$ 3,875	$ (5,026)	$ 12,960
Unrealized gain on derivatives	15,387	14,243	2,011	14,923
Other comprehensive loss	(92)	(41)	(184)	(32)
Total comprehensive income (loss)	$ 12,397	$ 18,077	$ (3,199)	$ 27,851

7. CASH FLOW INFORMATION

Cash paid for interest was $52.3 million (net of capitalized interest of $7.4 million) and $53.5 million (net of capitalized interest of $7.4 million) for the six months ended June 30, 2008 and 2007, respectively. In connection with the acquisition of partnership interests in Bala Cynwyd Associates in the first quarter of 2008, the Company consolidated an $8.0 million mortgage loan.

8. RELATED PARTY TRANSACTIONS

PRI provides management, leasing and development services for 11 properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have direct or indirect ownership interests. Total revenue earned by PRI for such services was $0.3 million and $0.2 million for each of the three months ended June 30, 2008 and 2007, respectively, and $0.4 million for each of the six months ended June 30, 2008, and 2007.

The Company leases its principal executive offices from Bellevue Associates (the Landlord). Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest in the Landlord. The office lease has a 10 year term that commenced on November 1, 2004. The Company s base rent is $1.4 million per year during the first five years of the office lease and $1.5 million during the second five years. Total rent expense under this lease was $0.4 million for each of the three months ended June 30, 2008 and 2007 and $0.8 million for each of the six months ended June 30, 2008 and 2007.

The Company uses an airplane in which Ronald Rubin owns a fractional interest. The Company paid $40,000 and $13,000 in the three months ended June 30, 2008 and 2007, respectively, and $94,000 and $27,000 in the six months ended June 30, 2008 and 2007, respectively, for flight time used by employees on company-related business.

9. COMMITMENTS AND CONTINGENCIES

Development and Redevelopment Activities

In connection with its current ground-up development and its redevelopment projects, the Company has made contractual commitments on some of these projects in the form of tenant allowances, lease termination fees and contracts with general

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contractors and other professional service providers. As of June 30, 2008, the remainder to be paid against such contractual and other commitments was $102.7 million, which is expected to be financed through the Credit Facility or through various other capital sources.

Tax Protection Agreements

The Company has entered into tax protection agreements in connection with certain completed property acquisitions. Under these agreements, the Company has agreed not to dispose of certain protected properties in a taxable transaction until certain dates. In some cases, members of the Company s senior management and/or board of trustees are the beneficiaries of these agreements.

Other

In the normal course of business, the Company has become and may, in the future, become involved in legal actions relating to the ownership and operations of its properties and the properties it manages for third parties. In management s opinion, the resolution of any such pending legal actions is not expected to have a material adverse effect on the Company s consolidated financial position or results of operations.

10. DERIVATIVES

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; the standard does not require any new fair value measurements of reported balances.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2008,

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the Company has assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Forward Starting Interest Rate Swaps:

As of June 30, 2008, the Company had 10 forward starting interest rate swap agreements that have a blended 10-year swap rate of 5.15% on a notional amount of $238.0 million becoming effective on September 10, 2008 and cash settling no later than December 10, 2008.

The Company entered into these forward starting interest rate swap agreements in order to hedge the expected interest payments associated with a portion of the Company s anticipated future issuances of long-term debt. The Company assessed the effectiveness of these swaps as hedges at inception and on June 30, 2008 and considered these swaps to be highly effective cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

The Company s forward starting interest rate swaps will be settled in cash for the present value of the difference between the locked swap rate and the then-prevailing rate on or before the cash settlement dates corresponding to the dates of issuance of new long-term debt obligations. If the prevailing market interest rate exceeds the rate in the swap agreement, then the counterparty will make a payment to the Company. If it is lower, the Company will pay the counterparty. The settlement amounts will be amortized over the life of the debt using the effective interest method. The counterparties to these swap agreements are all major financial institutions and participants in the Credit Facility.

As of June 30, 2008, the aggregate estimated unrealized net loss attributed to forward starting cash flow hedges was $8.3 million. The carrying amount of the derivatives and the associated unrealized loss are reflected in accrued expenses and other liabilities and accumulated other comprehensive loss, respectively, in the accompanying balance sheets. Accumulated other comprehensive loss also includes a net gain of $1.6 million related to forward starting swaps that the Company has cash settled that are being amortized over 10 year periods commencing on the closing dates of the debt instruments that are associated with these settled swaps.

During the three months ended June 30, 2008, the Company revised its estimates regarding the expected terms of its anticipated issuances of long term debt. This change in estimates resulted in hedge ineffectiveness for a portion of the forward starting swaps that were outstanding on the date that the estimates changed. During the three months ended June 30, 2008, the Company recorded a net loss due to hedge ineffectiveness of $0.4 million. Also, for several of these swaps, the result of this change in estimates was that the swaps were no longer designated as cash flow hedges pursuant to SFAS No. 133 since they no longer met the SFAS No. 133 requirements for hedge accounting. The Company recorded a net gain of $2.4 million in connection with these swaps. The net gain represents the change in the fair market value of the swaps from the date of de-designation to the date when the swaps were either settled or redesignated. The swap net gain and the hedge ineffectiveness net loss are recorded in interest expense in the accompanying statements of income.

Interest Rate Swaps:

As of June 30, 2008, the Company had entered into (i) one interest rate swap agreement that has a rate of 3.41% on a notional amount of $20.0 million maturing in June 2010, and (ii) one interest rate swap agreement that has a rate of 4.015% on a notional amount of $45.0 million maturing in June 2011.

The Company entered into these interest rate swap agreements in order to hedge the interest payments associated with the Company s 2008 issuances of floating rate long-term debt. The Company assessed the effectiveness of these swaps as hedges at inception and on June 30, 2008 and considered these swaps to be highly effective cash flow hedges under SFAS No. 133.

The Company s interest rate swaps will be settled in cash.

As of June 30, 2008, the aggregate estimated unrealized net loss attributed to these interest rate swaps was $0.5 million. The carrying amount of the derivatives and the associated unrealized loss are reflected in accrued expenses and other liabilities and accumulated other comprehensive loss, respectively, in the accompanying balance sheets.

The following table summarizes the terms and fair values of the Company s forward starting interest rate swap derivative financial instruments and interest rate swap derivative instruments at June 30, 2008. The notional amounts at June 30, 2008 provide an indication of the extent of the Company s involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks.

Notional Value	Fair Value at June 30, 2008[1]	Interest Rate	Effective Date
Forward Starting Interest Rate Swaps			
$10 million	$(0.1) million	4.84%	September 10, 2008[2]
$50 million	(0.4) million	4.79%	September 10, 2008[2]
$25 million	(0.2) million	4.82%	September 10, 2008[2]
$3 million	(0.0) million	4.81%	September 10, 2008[2]
$50 million	(2.5) million	5.34%	September 10, 2008[2]
$25 million	(1.3) million	5.35%	September 10, 2008[2]
$25 million	(1.2) million	5.36%	September 10, 2008[2]
$20 million	(1.0) million	5.38%	September 10, 2008[2]
$15 million	(0.8) million	5.38%	September 10, 2008[2]
$15 million	(0.8) million	5.38%	September 10, 2008[2]
Interest Rate Swaps			
$20 million	(0.1) million	3.41%	June 1, 2010
$45 million	(0.4) million	4.02%	June 19, 2011

(1) As of June 30, 2008, derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. As of June 30, 2008, the Company does not have any significant fair value measurements using significant unobservable inputs (Level 3).

(2) The latest cash settlement data for these instruments is December 10, 2008.

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11. SHARE REPURCHASE PROGRAM

In December 2007, the Company s Board of Trustees authorized a program to repurchase up to $100.0 million of the Company s common shares. Under the program, the Company may repurchase shares from time to time through solicited or unsolicited transactions in the open market or in privately negotiated or other transactions. The program will be in effect from January 1, 2008 until December 31, 2009, subject to the Company s authority to terminate the program earlier. Repurchased shares are treated as authorized but unissued shares. In accordance with Accounting Principles Board Opinion No. 6, Status of Accounting Research Bulletins, the Company accounts for the purchase price of the shares repurchased as a reduction of shareholder s equity and allocates the purchase price between retained earnings, shares of beneficial interest and capital contributed in excess of par as required. The Company did not repurchase any shares in the six months ended June 30, 2008.

12. SUBSEQUENT EVENT

In July 2008, the Company entered into a $54.0 million interest only mortgage loan that is secured by Paxton Towne Centre in Harrisburg, Pennsylvania. The mortgage loan has an initial variable interest rate of 200 basis points over one-month LIBOR with a term of three years and two one year extension options. The variable interest rate was swapped to a fixed rate of 5.837% for the initial term of the loan. The proceeds of this mortgage loan were used to repay a portion of the amount outstanding under the Company s Credit Facility and for general corporate purposes.

Item 2. 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 unaudited 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 REITs in the United States, has a primary investment focus on retail shopping malls and strip and power centers located in the eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 55 properties. Our operating portfolio contains 51 retail properties in 13 states and includes 38 shopping malls and 13 strip and power centers. The retail properties have a total of approximately 34.1 million square feet. The retail properties we consolidate for financial reporting purposes have a total of approximately 29.6 million square feet, of which we own approximately 23.2 million square feet. The retail properties that are owned by unconsolidated partnerships with third parties have a total of approximately 4.5 million square feet, of which 2.9 million square feet are owned by such partnerships. The ground-up development portion of our portfolio contains four properties in two states, with two classified as mixed use (a combination of retail and other uses), one classified as retail and one classified as other.

Our primary business is owning and operating shopping malls and strip and power centers. 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. No individual property constitutes more than 10% of our consolidated revenue or assets, and thus the individual properties have been aggregated into one reportable segment based upon their similarities with regard to the nature of our properties and the nature of our tenants and operational processes, as well as long-term financial performance. 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 interests in our portfolio of properties through our operating partnership, PREIT Associates, L.P. (PREIT Associates). We are the sole general partner of PREIT Associates and, as of June 30, 2008, held a 94.6% controlling interest in PREIT Associates. We consolidate PREIT Associates for financial reporting purposes. We hold our investments in seven of the 51 retail properties and one of the four ground-up development properties in our portfolio through unconsolidated partnerships with third parties in which we own a 40%-50% interest. We hold a non-controlling interest in each unconsolidated partnership, and account for such partnerships using the equity method of accounting. We do not control any of these equity method investees for the following reasons:

Except for two properties that we co-manage with our partner, all of the other entities are managed on a day-to-day basis by one of our partners as the managing general partner in each of the respective partnerships. In the case of the co-managed properties, all decisions in the ordinary course of business are made jointly.

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

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

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

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

For further information regarding our unconsolidated partnerships, see Note 4 to our unaudited consolidated financial statements.

We provide our management, leasing and development services through PREIT Services, LLC, which generally manages and develops properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (PRI), which generally manages and develops properties that we own interests in through partnerships with third parties and properties that are owned by third parties in which we do not have an interest. One of our long-term objectives is to obtain managerial control of as many of our assets as possible. Due to the nature of our existing partnership arrangements, we cannot anticipate when this objective will be achieved, if at all.

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 retail properties. We also receive income from our real estate partnership investments and from the management and leasing services PRI provides.

Our net loss allocable to common shareholders was $2.9 million for the three months ended June 30, 2008, compared to net income available to common shareholders of $0.5 million for the three months ended June 30, 2007. For the three months ended June 30, 2008, net loss allocable to common shareholders was affected by $2.0 million of net gains on forward starting swap activities, higher depreciation and amortization as a result of development and redevelopment assets having been placed in service and higher interest expense as a result of a higher aggregate debt balance compared to the three months ended June 30, 2007. For the three months ended June 30, 2007, net income available to common shareholders was affected by a $1.5 million gain on the sale of a non-operating real estate parcel and a gain on the sale of an operating retail parcel of $0.6 million, and was reduced by $3.4 million of dividends on our then-outstanding preferred shares.

Our net loss allocable to common shareholders was $5.0 million for the six months ended June 30, 2008, compared to net income available to common shareholders of $6.2 million for the six months ended June 30, 2007. For the six months ended June 30, 2008, net loss allocable to common shareholders was affected by $2.0 million of net gains on forward starting swap activities, offset by higher depreciation and amortization as a result of development and redevelopment assets having been placed in service, higher interest expense as a result of a higher aggregate debt balance and increased abandoned project costs compared to the six months ended June 30, 2007. For the six months ended June 30, 2007, net income available to common shareholders was affected by a $6.7 million gain on the sale of Schuylkill Mall, a $1.5 million of gain on the sale of a non-operating real estate parcel, a $0.6 million gain on the sale of an operating retail parcel, $0.8 million of condemnation proceeds associated with highway improvements at Capital City Mall in Harrisburg, Pennsylvania, and was reduced by $6.8 million of dividends on our then-outstanding preferred shares.

ACQUISITIONS, DISPOSITIONS, REDEVELOPMENT, AND DEVELOPMENT ACTIVITIES

We record our acquisitions based on estimates of fair value, as determined by management, based on information available and on assumptions about future performance. These allocations are subject to revisions, in accordance with GAAP, during the twelve month periods following the closings of the respective acquisitions.

We are actively involved in evaluating a number of additional acquisition opportunities. Our evaluation includes an analysis of whether the properties meet the investment criteria we apply, given economic, market and other circumstances.

2008 Acquisition

In February 2008, we acquired a 49.9% ownership interest in Bala Cynwyd Associates L.P., which owns One Cherry Hill Plaza, an office building located within the boundaries of Cherry Hill Mall in Cherry Hill, New Jersey. See Related Party Transactions for further information about this transaction.

Development and Redevelopment

We are engaged in the redevelopment of nine of our consolidated properties. We might undertake redevelopment projects at additional properties in the future. These projects may include the introduction of residential, office or other uses to our properties. As of June 30, 2008, we had incurred $298.7 million of costs related to our redevelopment properties. The costs identified to date to complete these projects are expected to be $193.3 million in the aggregate.

The following table sets forth the amount of our estimated total investment and the amounts invested as of June 30, 2008 in each redevelopment project:

Redevelopment Project	Estimated Project Cost	Invested as of June 30, 2008
Cherry Hill Mall	$ 202.2 million	$ 102.1 million
Plymouth Meeting Mall	96.6 million	69.2 million
Voorhees Town Center	79.3 million	42.9 million
Willow Grove Park	40.2 million	35.9 million
North Hanover Mall	35.1 million	23.8 million
Moorestown Mall	13.7 million	10.0 million
Wiregrass Commons Mall	12.1 million	8.0 million
Jacksonville Mall	7.7 million	4.9 million
Gadsden Mall	5.1 million	1.9 million
		$ 298.7 million

We are engaged in the ground-up development of four retail and other mixed use projects that we believe meet the financial hurdles that we apply, given economic, market and other circumstances. We also own and manage one property that is now operating while some remaining development takes place. As of June 30, 2008, we had incurred $134.8 million of costs related to these ground-up projects. The costs identified to date to complete these ground-up projects are expected to be $79.8 million in the aggregate, excluding the Springhills (Gainesville, Florida) and Pavilion at Market East (Philadelphia, Pennsylvania) projects, because details of those projects and the related costs have not been determined. In each case, we will evaluate the financing opportunities available to us at the time a project requires funding. In cases where the project is undertaken with a partner, our flexibility in funding the project might be restricted by the partnership agreement or the covenants contained in our Credit Facility, which limit our involvement or flexibility in such projects.

We generally seek to develop these projects in areas that we believe evidence the likelihood of supporting additional retail development and have desirable population or income trends, and where we believe the projects have the potential for strong competitive positions. We will consider other uses of a property that would have synergies with our retail development and redevelopment based on several factors, including local demographics, market demand for other uses such as residential and office, and applicable land use regulations. We generally have several development projects under way at one time. These projects are typically in various stages of the development process. We manage all aspects of these undertakings, including market and trade area research, site selection, acquisition, preliminary development work, construction and leasing. We monitor our developments closely, including costs and tenant interest.

The following table sets forth the amount of our estimated total investment and the amounts invested as of June 30, 2008 in each ground-up development project:

Development Project	Estimated Project Cost	Invested as of June 30, 2008	Actual/Expected Initial Occupancy Date
Operating Property with Development Activity:			
Sunrise Plaza (previously identified as Lacey Retail Center)	$ 39.8 million	$ 34.7 million	2007
Development Properties:			
Monroe Marketplace	73.3 million	28.0 million	2008
White Clay Point (previously identified as New Garden Town Center)	69.9 million	40.5 million	2010

Springhills	To be determined	30.1 million	To be determined
Pavilion at Market East[1]	To be determined	1.5 million	To be determined
		$ 134.8 million	

(1) The property is unconsolidated. The amount shown represents our share.

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In connection with the ground-up development and redevelopment projects listed above and other projects ongoing at our other properties, we have made contractual and other commitments in the form of tenant allowances, lease termination amounts and contracts with general contractors and other professional service providers. As of June 30, 2008, the remainder to be paid against such contractual and other commitments was $102.7 million, which is expected to be financed through our Credit Facility or through various other capital sources. The development and redevelopment projects listed in this report on which these commitments have been made have total expected remaining costs of $273.1 million.

OFF BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet items other than the partnerships described in Note 4 to the unaudited consolidated financial statements and in the Overview section above.

RELATED PARTY TRANSACTIONS

PRI provides management, leasing and development services for 11 properties owned by partnerships and other entities in which certain officers or trustees of the Company and of PRI or members of their immediate families and affiliated entities have indirect ownership interests. Total revenue earned by PRI for such services were $0.3 million and $0.2 million for the three months ended June 30, 2008 and 2007, respectively and were $0.4 million for each of the six months ended June 30, 2008 and 2007.

We lease our principal executive offices from Bellevue Associates (the Landlord). Ronald Rubin and George F. Rubin, collectively with members of their immediate families and affiliated entities, own approximately a 50% interest. The office lease has a 10 year term that commenced on November 1, 2004. Our base rent is $1.4 million per year during the first five years of the office lease and $1.5 million per year during the second five years. Total rent expense under this lease was $0.4 million for each of the three months ended June 30, 2008 and 2007 and $0.8 million for each of the six months ended June 30, 2008 and 2007.

We use an airplane in which Ronald Rubin owns a fractional interest. We paid $40,000 and $13,000 in the three months ended June 30, 2008 and 2007 and $94,000 and $27,000 in the six months ended June 30, 2008 and 2007, respectively, for flight time used by employees on Company-related business.

In the first quarter of 2008, we entered into an agreement under which we acquired a 0.1% general partnership interest and a 49.8% limited partnership interest in Bala Cynwyd Associates, L.P. (BCA), and an option to purchase the remaining partnership interests in BCA in two closings that are anticipated to take place in February 2009 and February 2010. BCA is the owner of One Cherry Hill Plaza, an office building located within the boundaries of our Cherry Hill Mall in Cherry Hill, New Jersey. We acquired our interests in BCA for $4.0 million in cash paid at the first closing in February 2008. We have the ability to exercise an option to acquire the remaining interests for a combination of cash and OP Units. The aggregate consideration to be exchanged for all of the partnership interests in BCA is $15.3 million.

Three of our officers/trustees are partners in the entities that own the remaining general partnership and limited partnership interests in BCA that we do not own. In accordance with our Related Party Transactions Policy, a Special Committee consisting exclusively of independent members of our Board of Trustees considered and approved the terms of the transaction, subject to final approval by our Board of Trustees. The disinterested members of our Board of Trustees approved the transaction.

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 may 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 financial statements, and the reported amounts of revenue and expenses during the reporting periods. In preparing the 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. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses.

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Our management makes complex or subjective assumptions and judgments with respect to applying its critical accounting policies. In making these judgments and assumptions, management considers, among other factors:

- events and changes in property, market and economic conditions;
- estimated future cash flows from property operations; and
- the risk of loss on specific accounts or amounts.

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2008 and 2007, 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. See our Annual Report on Form 10-K for the year ended December 31, 2007, for a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements.

RESULTS OF OPERATIONS

Comparison of Three and Six Months Ended June 30, 2008 and 2007

Overview

Our results for the three and six months ended June 30, 2008 and 2007 were significantly affected by ongoing redevelopment initiatives that were in various stages at several of our consolidated mall properties and, to a lesser extent, by new properties which we developed and are now operating. While we might undertake a redevelopment project to maximize the long-term performance of the property, in the short term, the operations and performance of the property, as measured by occupancy and net operating income, can be negatively affected by the project. For the three months ended June 30, 2008, net loss allocable to common shareholders was affected by $2.0 million of net gains on forward starting swap activities, higher depreciation and amortization as a result of development and redevelopment assets having been placed in service and higher interest expense as a result of a higher aggregate debt balance compared to the three months ended June 30, 2007. For the three months ended June 30, 2007, net income available to common shareholders was affected by a $1.5 million gain on the sale of a non-operating parcel, a $0.6 million gain on the sale of an operating retail parcel and $3.4 million of dividends on our then-outstanding preferred shares. For the six months ended June 30, 2008, net loss allocable to common shareholders was affected by $2.0 million of net gains on forward starting swap activities, offset by higher depreciation and amortization as a result of development and redevelopment assets having been placed in service, increased interest expense and increased abandoned project costs compared to the six months ended June 30, 2007. For the six months ended June 30, 2007, net income available to common shareholders included a $6.7 million gain on the sale of Schuylkill Mall in Frackville, Pennsylvania, $0.8 million of condemnation proceeds associated with highway improvements at Capital City Mall in Harrisburg, Pennsylvania, and was reduced by $6.8 million of dividends on our then-outstanding preferred shares.

The table below sets forth certain occupancy statistics (including properties owned by partnerships in which we own a 50% interest) as of June 30, 2008 and 2007:

	Occupancy As of June 30,	
	2008	2007
Enclosed malls weighted average:		
Total excluding anchors	86.6%	86.5%
Total including anchors	87.8%	89.5%
Retail portfolio weighted average:		
Total excluding anchors	88.0%	87.6%
Total including anchors	89.1%	90.3%
Strip and power centers weighted average	97.1%	96.0%

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The following information sets forth our results of operations for the three and six months ended June 30, 2008 and 2007:

(in thousands of dollars)	Three Months Ended June 30, 2008	2007	% Change 2007 to 2008
Real estate revenue	$ 112,569	$ 109,520	3%
Property operating expenses	(44,984)	(42,581)	6%
Management company revenue	917	533	72%
Interest and other income	135	484	(72)%
General and administrative expenses, abandoned project costs, income taxes and other expenses	(11,142)	(10,780)	3%
Interest expense, net	(25,375)	(23,661)	7%
Depreciation and amortization	(37,205)	(32,453)	15%
Equity in income of partnerships	2,107	1,169	80%
Gains on sales of interests in real estate		579	N/A
Gains on sales of non-operating real estate		1,484	N/A
Minority interest	80	(405)	N/A
(Loss) income from continuing operations	(2,898)	3,889	N/A
Loss from discontinued operations		(14)	N/A
Net (loss) income	$ (2,898)	$ 3,875	N/A

(in thousands of dollars)	Six Months Ended June 30, 2008	2007	% Change 2007 to 2008
Real estate revenue	$ 226,778	$ 221,416	2%
Property operating expenses	(89,412)	(86,960)	3%
Management company revenue	1,811	973	86%
Interest and other income	382	1,788	(79)%
General and administrative expenses, abandoned project costs, income taxes and other expenses	(22,917)	(21,837)	5%
Interest expense, net	(52,366)	(47,472)	10%
Depreciation and amortization	(73,020)	(64,227)	14%
Equity in income of partnerships	3,569	2,124	68%
Gains on sales of interests in real estate		579	N/A
Gains on sales of non-operating real estate		1,484	N/A
Minority interest	149	(780)	N/A
(Loss) income from continuing operations	(5,026)	7,088	N/A
Income from discontinued operations		5,872	N/A
Net (loss) income	$ (5,026)	$ 12,960	N/A

The amounts reflected as income from continuing operations in the table above reflect our consolidated properties, with the exception of properties that are classified as discontinued operations. Our unconsolidated partnerships are presented under the equity method of accounting in the line item Equity in income of partnerships.

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Real Estate Revenue

Real estate revenue increased by $3.0 million, or 3%, for the three months ended June 30, 2008 compared to the three months ended June 30, 2007, including an increase of $0.9 million from properties that were under development during 2007 that are now placed in service, and an increase of $0.5 million from One Cherry Hill Plaza (acquired in February 2008). Real estate revenue from properties that were owned by us prior to April 1, 2007 increased by $1.6 million, primarily due to increases of $1.2 million in lease termination revenue, $0.9 million in base rent, which is comprised of minimum rent, straight line rent and rent from tenants that pay a percentage of sales in lieu of minimum rent, and $0.6 million in expense reimbursements, partially offset by decreases of $0.6 million in percentage rent and $0.4 million in other revenue.

Lease termination revenue increased by $1.2 million primarily due to amounts received from one tenant in the three months ended June 30, 2008. Base rent increased primarily due to an increase in rental rates and increased occupancy at recently completed redevelopment projects, including a $0.3 million increase at redevelopment projects completed in 2007. Another factor affecting base rent was the closure of five department stores during the three months ended June 30, 2008. Leases have been executed with replacement tenants at all five locations, with expected openings in the second half of 2008 or the first half of 2009. Expense reimbursements increased by $0.6 million, primarily due to increases in common area maintenance expense, utility expense and real estate tax expense as discussed below under Property Operating Expenses. Percentage rent decreased by $0.6 million due to a decrease in tenant sales compared to the three months ended June 30, 2007. Percentage rent also decreased in connection with a small trend among certain tenants toward slightly higher minimum rent and higher thresholds at which percentage rent begins. Other revenue decreased by $0.4 million primarily due to a $0.2 million decrease in seasonal photo revenue. The seasonal photo revenue decrease was due to the Easter Holiday occurring in the three months ended March 31, 2008 compared to the three months ended June 30, 2007.

Real estate revenue increased by $5.4 million, or 2%, in the six months ended June 30, 2008 compared to the six months ended June 30, 2007, including an increase of $1.9 million from properties that were under development during 2007 that are now placed in service and an increase of $0.7 million from One Cherry Hill Plaza (acquired in February 2008). Real estate revenue from properties that were owned by us prior to January 1, 2007 increased by $2.8 million, primarily due to increases of $2.7 million in base rent, $1.6 million in lease termination revenue and $0.1 million in expense reimbursements, partially offset by decreases of $1.2 million in percentage rents and $0.4 million in other revenue.

Base rent increased primarily due to an increase in rental rates and increased occupancy at recently completed redevelopment projects, including a $0.8 million increase at redevelopment projects completed in 2006 and a $0.8 million increase at redevelopment projects completed in 2007. Lease termination revenue increased by $1.6 million, primarily due to amounts received from two tenants in the six months ended June 30, 2008. Percentage rent decreased by $1.2 million due to a decrease in tenant sales compared to the six months ended June 30, 2007. Percentage rent also decreased in connection with a small trend among certain tenants toward slightly higher minimum rent and higher thresholds at which percentage rent begins.

As described in Property Operating Expenses, three tenants filed for bankruptcy during the three months ended June 30, 2008. In addition, in August 2008, Boscov s Inc., a department store retailer, filed for bankruptcy protection and announced that it would close several of its store locations. Boscov s is a tenant at eight of our malls and has plans to open stores at Willow Grove Park and North Hanover Mall. While Boscov s has not announced that it intends to close stores at any of our malls or that it does not intend to open the two previously announced new stores, if circumstances change and stores are closed or are not opened, such events could adversely affect our results of operations.

Property Operating Expenses

Property operating expenses increased by $2.4 million, or 6%, in the three months ended June 30, 2008 compared to the three months ended June 30, 2007. Property operating expenses from properties that were owned by us prior to April 1, 2007 increased by $2.1 million, primarily due to a $0.8 million increase in common area maintenance expense, a $0.6 million increase in other property operating expenses, a $0.4 million increase in utility expense and a $0.3 million increase in real estate tax expense. Property operating expenses also included an increase of $0.1 million from properties that were under

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development during 2007 that are now placed in service and an increase of $0.2 million from One Cherry Hill Plaza (acquired in February 2008).

Common area maintenance expenses increased by $0.8 million in the three months ended June 30, 2008 primarily due to increases of $0.3 million in repairs and maintenance expense, $0.2 million in security expense, $0.2 million in on-site management office expense and $0.1 million in insurance expense. Other property operating expenses increased by $0.6 million, including increases of $0.5 million in bad debt expense and $0.1 million in non-reimbursable tenant expense. The increase in bad debt expense was partially due to a $0.2 million increase associated with three tenant bankruptcy filings. Utility expense increased by $0.4 million in the three months ended June 30, 2008 primarily due to higher electric rates at two of our New Jersey properties. Real estate tax expense increased by $0.3 million in the three months ended June 30, 2008 primarily due to higher tax rates in the jurisdictions where properties are located.

Property operating expenses increased by $2.5 million, or 3%, in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. Property operating expenses from properties that were owned by us prior to January 1, 2007 increased by $1.9 million, primarily due to a $0.8 million increase in real estate tax expense, a $0.5 million increase in common area maintenance expense, a $0.5 million increase in other property operating expenses and a $0.1 million increase in utility expense. Property operating expenses also included an increase of $0.2 million from properties that were under development during 2007 that are now placed in service and an increase of $0.4 million from One Cherry Hill Plaza (acquired in February 2008).

Real estate tax expense increased by $0.8 million in the six months ended June 30, 2008 primarily due to higher tax rates in the jurisdictions where properties are located. Common area maintenance expenses increased by $0.5 million, primarily due to increases of $0.8 million in repairs and maintenance expense, $0.4 million in security expense, $0.3 million in on-site management office expense and $0.1 million in insurance expense, partially offset by a $1.2 million decrease in snow removal expense. Other property operating expenses increased by $0.5 million, including an increase of $0.6 million in bad debt expense. The increase in bad debt expense was primarily due to a $0.4 million increase associated with four tenant bankruptcy filings.

The proportion of property operating expenses recovered from tenants during the three and six months ended June 30, 2008 was lower than the level of recovery in prior years, primarily because of a trend toward gross leases and percentage of sales leases. While not representing a majority, there has nevertheless been an increase in the number of tenants that are not required to pay their proportionate share of common area maintenance costs. We have entered into some gross leases and percentage of sales leases in relation to or with tenants affected by redevelopment projects, and we believe that the proportion of property operating expenses recovered is likely to improve as the redevelopment projects are completed and tenants at such properties enter into longer term leases.

General and Administrative Expenses, Abandoned Project Costs, Income Taxes and Other Expenses

General and administrative expenses, abandoned project costs, income taxes and other expenses increased by $0.4 million, or 3%, in the three months ended June 30, 2008 compared to the three months ended June 30, 2007. This increase was due to a $0.1 million increase in professional fees and a $0.3 million increase in other miscellaneous expenses. Abandoned project costs, income taxes and other expenses increased by $0.1 million in the three months ended June 30, 2008 compared to the three months ended June 30, 2007. These increases were offset by a $0.2 million decrease in corporate payroll expense related to salaries and incentive compensation.

General and administrative expenses, abandoned project costs, income taxes and other expenses increased by $1.1 million, or 5%, in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The increase was due to a $1.0 million increase in abandoned project costs and a $0.3 million increase in other miscellaneous expenses, offset by a $0.2 million decrease in income taxes.

Interest Expense

Interest expense increased $1.7 million, or 7%, in the three months ended June 30, 2008 compared to the three months ended June 30, 2007. The increase was attributable to a $1.0 million increase related to the refinancing of The Mall at Prince Georges, a $0.8 million increase related to the supplemental financing on Cherry Hill Mall completed in January 2008, a $0.3 million increase in other new mortgage financings in 2008, and a $1.8 million increase due to increased average borrowings under the Credit Facility and the issuance of exchangeable senior notes in May 2007 (an aggregate weighted average balance of $642.0 million in the three months ended June 30, 2008 as compared to $372.1 million in the three months ended June 30, 2007). The weighted average interest rate of the Credit Facility and exchangeable senior notes was 3.91% in the three months ended June 30, 2008, compared to 5.29% in the three months ended June 30, 2007. These increases were partially offset by a net gain of $2.0 million on forward starting swap activities (see Note 10 to the unaudited consolidated financial statements) and a $0.2 million decrease in interest paid on mortgage loans outstanding during the three months ended June 30, 2008 due to principal amortization.

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Interest expense increased $4.9 million, or 10%, in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The increase was attributable to a $2.8 million increase related to the refinancing of The Mall at Prince Georges, a $1.3 million increase related to the supplemental financing on Cherry Hill Mall completed in January 2008, a $0.3 million increase in other new mortgage financings in 2008, and $2.8 million due to increased average borrowings under the Credit Facility and the issuance of exchangeable senior notes in May 2007 (an aggregate weighted average balance of $618.8 million in the six months ended June 30, 2008 as compared to $369.9 million in the six months ended June 30, 2007). The weighted average interest rate of the Credit Facility and exchangeable senior notes was 4.19% for the six months ended June 30, 2008, compared to 5.83% for the six months ended June 30, 2007. These increases were partially offset by a net gain of $2.0 million on forward starting swap activities and a $0.4 million decrease in interest paid on mortgage loans outstanding during the six months ended June 30, 2008 due to principal amortization.

Depreciation and Amortization

Depreciation and amortization expense increased by $4.7 million, or 15%, in the three months ended June 30, 2008 compared to the three months ended June 30, 2007. Depreciation and amortization expense from properties that we owned prior to April 1, 2007 increased by $3.7 million, primarily due to a higher asset base resulting from capital improvements at our properties, particularly at current and recently completed redevelopment properties. Depreciation and amortization increased $0.5 million from properties under development during 2007 that are now placed in service and $0.5 million from One Cherry Hill Plaza.

Depreciation and amortization expense increased by $8.8 million, or 14%, in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. Depreciation and amortization expense from properties that we owned prior to January 1, 2007 increased by $7.2 million, primarily due to a higher asset base resulting from capital improvements at our properties, particularly at current and recently completed redevelopment properties. Depreciation and amortization increased $1.0 million from properties under development during 2007 that are now placed in service and $0.6 million from One Cherry Hill Plaza. Also contributing to the increase was a $0.5 million in-place lease amortization expense resulting from the early closure of three department stores.

Discontinued Operations

We have presented the operating results of Schuylkill Mall, which was sold in March 2007, as discontinued operations.

Property operating results, gain on sale of discontinued operations and related minority interest for Schuylkill Mall for the period presented were as follows:

(in thousands of dollars)	**Three Months Ended June 30, 2007**	**Six Months Ended June 30, 2007**
Property operating results of Schuylkill Mall	$ (16)	$ (137)
Gain on sale of Schuylkill Mall		6,699
Minority interest	2	(690)
(Loss) income from discontinued operations	$ (14)	$ 5,872

NET OPERATING INCOME

Net operating income (a non-GAAP measure) is derived from real estate revenue (determined in accordance with GAAP) minus property operating expenses (determined in accordance with GAAP). It 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 our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity; nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. We believe that net income is the most directly comparable GAAP measurement to net operating income. We believe that net operating income 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. Net operating income excludes management company revenue, interest

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income, general and administrative expenses, abandoned project costs, income taxes and other expenses, interest expense, depreciation and amortization, gains on sales of interests in real estate and gains on sales of non-operating real estate.

The following table presents net operating income results for the three and six months ended June 30, 2008 and 2007. The results are presented using the proportionate-consolidation method (a non-GAAP measure), which presents our share of the results of our partnership investments. Under GAAP, we account for our non-controlling partnership investments under the equity method of accounting. Property operating results for retail properties that we owned for the full periods presented (Same Store) exclude properties acquired or disposed of during the periods presented:

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
(in thousands of dollars)	Real Estate Revenue	Property Operating Expenses	Net Operating Income	Real Estate Revenue	Property Operating Expenses	Net Operating Income
Same Store	$ 120,513	$ (47,294)	$ 73,219	$ 117,929	$ (45,043)	$ 72,886
Non Same Store	1,919	(709)	1,210	67	(43)	24
Total	$ 122,432	(48,003)	$ 74,429	$ 117,996	$ (45,086)	$ 72,910

	% Change 2008 vs. 2007	
	Same Store	Total
Real estate revenue	2.2%	3.8%
Property operating expenses	5.0%	6.5%
Net operating income	0.5%	2.1%

Total net operating income increased by $1.5 million in the three months ended June 30, 2008 compared to three months ended June 30, 2007. Same Store net operating income increased by $0.3 million in three months ended June 30, 2008 compared to three months ended June 30, 2007. Non Same Store net operating income increased by $1.2 million. See Results of Operations Real Estate Revenue and Property Operating Expenses for further discussion of these variances.

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
(in thousands of dollars)	Real Estate Revenue	Property Operating Expenses	Net Operating Income	Real Estate Revenue	Property Operating Expenses	Net Operating Income
Same Store	$ 242,119	$ (94,006)	$ 148,113	$ 238,093	$ (92,003)	$ 146,090
Non Same Store	3,187	(1,031)	2,156	1,167	(870)	297
Total	$ 245,306	$ (95,037)	$ 150,269	$ 239,260	$ (92,873)	$ 146,387

	% Change 2008 vs. 2007	
	Same Store	Total
Real estate revenue	1.7%	2.5%
Property operating expenses	2.2%	2.3%
Net operating income	1.4%	2.7%

Total net operating income increased by $3.9 million in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. Same Store net operating income increased by $2.0 million in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. Non Same Store net operating income increased by $1.9 million. See Results of Operations Real Estate Revenue and Property Operating Expenses for further discussion of these variances.

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The following information is provided to reconcile net income to net operating income:

(in thousands of dollars)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net (loss) income	$ (2,898)	$ 3,875	$ (5,026)	$ 12,960
Adjustments:				
Depreciation and amortization				
Wholly owned and consolidated partnerships	37,205	32,453	73,020	64,227
Unconsolidated partnerships	2,091	1,711	4,017	3,413
Discontinued operations				215
Interest expense, net				
Wholly owned and consolidated partnerships	25,375	23,661	52,366	47,472
Unconsolidated partnerships	2,646	3,107	5,317	6,180
Discontinued operations				136
Minority interest	(80)	403	(149)	1,470
General and administrative expenses, abandoned project costs, income taxes and other expenses	11,142	10,780	22,917	21,837
Gain on sale of discontinued operations				(6,699)
Gains on sales of interests in real estate		(579)		(579)
Gains on sales of non-operating real estate		(1,484)		(1,484)
Management company revenue	(917)	(533)	(1,811)	(973)
Interest and other income	(135)	(484)	(382)	(1,788)
Property net operating income	$ 74,429	$ 72,910	$ 150,269	$ 146,387

FUNDS FROM OPERATIONS

The National Association of Real Estate Investment Trusts (NAREIT) defines Funds From Operations, which is a non-GAAP measure, as income before gains and losses on sales of operating properties and extraordinary items (computed in accordance with GAAP); plus real estate depreciation; plus or minus adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. We compute Funds From Operations by taking the amount determined pursuant to the NAREIT definition and subtracting dividends on preferred shares (FFO) (for periods during which we had preferred shares outstanding).

Funds From Operations is a commonly used measure of operating performance and profitability in the real estate industry, and we use FFO and FFO per diluted share and OP Unit as supplemental non-GAAP measures to compare our Company s performance to that of our industry peers. Similarly, FFO per diluted share and OP Unit is a measure that is useful because it reflects the dilutive impact of outstanding convertible securities. In addition, we use FFO and FFO per diluted share and OP Unit as one of the performance measures for determining bonus amounts earned under certain of our performance-based executive compensation programs. We compute Funds From Operations in accordance with standards established by NAREIT, less dividends on preferred shares (for periods during which we had preferred shares outstanding), which may not be comparable to Funds From Operations reported by other REITs that do not define the term in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do.

FFO does not include gains and losses on sales of operating real estate assets, which are included in the determination of net income in accordance with GAAP. Accordingly, FFO is not a comprehensive measure of our operating cash flows. In addition, since FFO does not include depreciation on real estate assets, FFO may not be a useful performance measure when comparing our operating performance to that of other non-real estate commercial enterprises. We compensate for these limitations by using FFO in conjunction with other GAAP financial performance measures, such as net income and net cash provided by operating activities, and other non-GAAP financial performance measures, such as net operating income. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to be an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available for our cash needs, including our ability to make cash distributions.

We believe that net income is the most directly comparable GAAP measurement to FFO. We believe that FFO is helpful to management and investors as a measure of operating performance because it excludes various items included in net income

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that do not relate to or are not indicative of operating performance, such as various non-recurring items that are considered extraordinary under GAAP, gains on sales of operating real estate and depreciation and amortization of real estate.

FFO was $35.7 million for the three months ended June 30, 2008, an increase of $1.8 million, or 5%, compared to $33.9 million for the three months ended June 30, 2007. FFO per diluted share increased $0.05 per diluted share to $0.87 per diluted share for the three months ended June 30, 2008, compared to $0.82 per diluted share for the three months ended June 30, 2007.

FFO was $70.6 million for the six months ended June 30, 2008, an increase of $3.5 million, or 5%, compared to $67.1 million for the six months ended June 30, 2007. FFO per diluted share increased $0.10 per diluted share to $1.72 per diluted share for the six months ended June 30, 2008, compared to $1.62 per diluted share for the six months ended June 30, 2007.

The shares used to calculate FFO per diluted share include common shares and OP Units not held by us. FFO per diluted share also includes the effect of common share equivalents.

The following information is provided to reconcile net income to FFO, and to show the items included in our FFO for the periods indicated:

(in thousands of dollars)	Three Months Ended June 30, 2008	Per share (including OP Units)	Three Months Ended June 30, 2007	Per share (including OP Units)
Net (loss) income	$ (2,898)	$ (0.07)	$ 3,875	$ 0.09
Adjustments:				
Minority interest	(80)		403	0.01
Dividends on preferred shares			(3,403)	(0.08)
Gain on sale of interests in real estate			(579)	(0.01)
Depreciation and amortization:				
Wholly owned and consolidated partnerships (1)	36,541	0.89	31,881	0.77
Unconsolidated partnerships (1)	2,091	0.05	1,711	0.04
Funds from operations (2)	$ 35,654	$ 0.87	$ 33,888	$ 0.82
Weighted average number of shares outstanding	38,790		37,070	
Weighted average effect of full conversion of OP Units	2,238		3,861	
Effect of common share equivalents	36		437	
Total weighted average shares outstanding, including OP Units	41,064		41,368	

(1) Excludes depreciation of non-real estate assets, amortization of deferred financing costs and discontinued operations.

(2) Includes the non-cash effect of straight-line rent of $1.1 million and $0.4 million for the three months ended June 30, 2008 and 2007, respectively.

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(in thousands of dollars)	Six Months Ended June 30, 2008	Per share (including OP Units)	Six Months Ended June 30, 2007	Per share (including OP Units)
Net (loss) income	$ (5,026)	$ (0.12)	$ 12,960	$ 0.31
Adjustments:				
Minority interest	(149)		1,470	$ 0.03
Dividends on preferred shares				