

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 8-K
September 17, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) September 2, 2003

Pennsylvania Real Estate Investment Trust

(Exact Name of Registrant as Specified in Charter)

Pennsylvania	1-6300	23-6216339
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

The Bellevue, 200 S. Broad Street, Philadelphia, Pennsylvania	19102
(Address of Principal Executive Offices)	(Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

Item 2. Acquisition or Disposition of Assets.

On September 2, 2003, Pennsylvania Real Estate Investment Trust (together with its affiliated entities, "PREIT") acquired the remaining limited partnership interest in WG Holdings, L.P., a holding company which controls W.G. Park L.P., the entity that in turn owns Willow Grove Park, a retail mall in Willow Grove, Pennsylvania. PREIT purchased the remaining interest in WG Holdings, L.P. from its joint venture partner Pennsylvania State Employee Retirement System ("PaSERS"). On the same day, PREIT acquired a general partnership interest in WG Holdings, L.P. from LMRES Real Estate Advisers, Inc., an affiliate of PaSERS, and thus obtained 100% of the ownership interest in WG

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Holdings, L.P. PREIT entered into the joint venture with PaSERS to acquire Willow Grove Park in February, 2000, and PREIT owned a 30% economic interest in WG Holdings, L.P. prior to the acquisition of PaSERS's interest. The purchase price of the remaining partnership interests in WG Holdings, L.P. was \$45.5 million in cash, which was financed from a portion of the net proceeds of PREIT's recent equity offering. WG Holdings, L.P. has \$109.7 million in debt at an interest rate of 8.39% maturing in 2006. As a result of PREIT's acquisition of the remaining interest in WG Holdings, L.P. this debt will be reflected on PREIT's balance sheet in future periods.

PREIT had an option to acquire PaSERS's interest in the partnership that was to become exercisable for a thirty day period beginning November 7, 2003. Although the option exercise period had not yet commenced, PREIT acquired PaSERS's interest in WG Holdings, L.P. upon terms similar to those in the option. The purchase price was equal to a 12% internal rate of return on PaSERS's investment in WG Holdings, L.P. assuming a projected payment date in the fourth quarter of 2003, which was when the option would have been exercisable. If PREIT's option to acquire PaSERS's interest in WG Holdings, L.P. had lapsed, PaSERS would have been entitled to exercise an option to exchange its interest in WG Holdings, L.P. for PREIT's interest in Paxton Towne Centre, a shopping center located in Harrisburg, Pennsylvania, subject to certain cash adjustments based on the relative values of the exchanged assets.

Willow Grove Park is a 1.2 million square foot regional mall and is located 12 miles north of Philadelphia in Willow Grove, Pennsylvania. The three-level mall is anchored by Bloomingdale's, Macy's, Sears and Strawbridge's and currently has 127 in-line tenants, including specialty stores such as Abercrombie & Fitch, Cache, Coach and Williams-Sonoma. Willow Grove Park has been operated as a retail mall and PREIT intends to continue to operate it as a retail mall.

Copies of the principal agreements relating to the transaction described in this report are attached hereto and incorporated herein by reference. The description contained herein of these agreements does not purport to be complete and is qualified in its entirety by reference to the provisions of these agreements.

This report contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and other matters that are not historical facts. These forward-looking statements reflect PREIT's current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause future events, achievements or results to differ materially from those expressed by the forward-looking statements. PREIT's business is subject to uncertainties regarding the revenues, operating expenses, leasing activities, occupancy rates, and other competitive factors relating to PREIT's portfolio, and changes in local market conditions as well as general economic, financial and political conditions, including the possibility of outbreak or escalation of war or terrorist attacks, any of which may cause future events, achievements or results to differ materially from those expressed by the forward-looking statements. PREIT does not intend to and disclaims any duty or obligation to update or revise any forward-looking statements or industry information set forth in this report to reflect new information, future events or otherwise.

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Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

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(a) Financial Statement of Business Acquired:

The following financial statements are attached hereto:

Statements of Revenue and Certain Expenses of Willow Grove Park for the year ended December 31, 2002 (audited) and for the six-month period ended June 30, 2003 (unaudited).

Material factors considered in assessing the acquisition of Willow Grove Park included but were not limited to the opportunity to strengthen PREIT's retail presence in the metropolitan Philadelphia area, the opportunity for increased operational efficiencies, historical and prospective financial performance of the mall, local and regional demographics, competition, sources of revenues and expenses of the mall, the nature of the tenants and terms of leases in place, opportunities for alternative and new tenancies, historical and expected cash flows, occupancy rates, current operating costs of the mall and anticipated changes therein under PREIT's full ownership, the physical condition and location of the mall and the anticipated effect on PREIT's financial results. In addition, PREIT considered the desirability of acquiring PaSERS's interest in Willow Grove Park in order to end the preferred return PaSERS received on its investment and to ensure that there would be no risk that PaSERS would be able to exercise its option to exchange its interest in Willow Grove Park for PREIT's interest in Paxton Towne Centre.

The historical financial statements are presented in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission and have been audited only for the property's most recent fiscal year as the transaction relating to the acquired property is not with related parties and PREIT, after reasonable inquiry, is not aware of any material factors related to the property not otherwise disclosed that would cause the reported financial information not to be necessarily indicative of future operating results except as to interest expense related to certain debt assumed and as related to depreciation and amortization.

(b) Pro Forma Financial Information:

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
PRO FORMA BALANCE SHEET AND
STATEMENTS OF INCOME

The following pro forma financial information is presented in accordance with Article 11 of Regulation S-X of the Securities and Exchange Commission. Because the interests in the property will be directly or indirectly owned by entities that intend to be treated as REITs for Federal income tax purpose, a presentation of estimated taxable operating results is not applicable.

This pro forma information should be read in conjunction with the historical financial statements and notes of PREIT included in its Current Report on Form 8-K filed on August 12, 2003 and its Quarterly Report on Form 10-Q for the six months ended June 30, 2003.

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The following unaudited pro forma information sets forth the pro forma balance sheet of PREIT as of June 30, 2003 and the pro forma statements of income for the year ended December 31, 2002 and the six months ended June 30, 2003 to give effect to the acquisition of the remaining joint venture interest in Willow Grove Park described in Item 2.

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The following unaudited pro forma balance sheet presents information as if the acquisition had taken place on June 30, 2003. The following unaudited pro forma statements of income for the year ended December 31, 2002 and for the six months ended June 30, 2003 present combined financial information as if the acquisition had taken place on January 1, 2002.

The pro forma combining financial information is unaudited and prepared for informational purposes only and is not necessarily indicative of future results or of actual results that would have been achieved had the acquisition been consummated as of the dates noted in the prior paragraph.

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Pennsylvania Real Estate Investment Trust
Pro Forma Combining Balance Sheet
As of June 30, 2003

(Unaudited)

(In thousands, except per share amounts)

	Company Historical	Pro Forma Adjustments (
Assets		
Investments in real estate, at cost:		
Retail properties	\$ 953,825	\$ 167,4
Industrial properties	2,504	
Construction in Progress	11,601	
	967,930	167,4
Total investments in real estate	967,930	167,4
Less: Accumulated depreciation	48,988	4,2
	918,942	163,2
Investments in and advances to partnerships and joint ventures, at equity	29,695	(14,7
	948,637	148,4
Other assets:		
Assets held for sale	50,360	
Cash and cash equivalents	8,712	(42,0
Rents and sundry receivables (net of allowance for doubtful accounts of \$1,591)	13,900	5
Intangible Assets, net	45,494	8,5
Deferred costs, prepaid real estate taxes and expenses, net	38,910	1,3

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	\$ 1,106,013	\$ 116,8
	=====	=====
Liabilities and Shareholders' Equity		
Mortgage notes payable	\$ 509,588	\$ 114,8
Bank loans payable	138,150	
Liabilities related to assets held for sale	35,008	
Tenants' deposits and deferred rents	4,760	1,1
Accrued expenses and other liabilities	32,020	7
	-----	-----
	719,526	116,8
	-----	-----
Minority interest	61,828	
	-----	-----
Shareholders' equity:		
Shares of beneficial interest, \$1 par; authorized 100,000; issued and outstanding 16,837 shares	16,837	
Capital contributed in excess of par	220,081	
Deferred compensation	(3,121)	
Accumulated other comprehensive loss	(3,239)	
Distributions in excess of net income	94,101	
	-----	-----
Total shareholders' equity	324,659	
	-----	-----
	\$ 1,106,013	\$ 116,8
	-----	-----

The accompanying notes are an integral part of the pro forma combining financial statements.

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Pennsylvania Real Estate Investment Trust
Pro Forma Combining Statements of Income
For the Twelve Months Ended December 31, 2002

(Unaudited)
(In thousands, except per share amounts)

	Company Historical	Historical Willow Grove (
	-----	-----
Revenues		
Real estate revenue		
Base rent	\$ 46,022	\$ 12,2
Expense reimbursements	12,959	9,5
Percentage rent	1,948	1
Lease termination revenue	754	
Other real estate revenue	1,658	2,3

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Total real estate revenue	63,341	24,3
Management company revenue	11,003	
Interest and other income	711	
	-----	-----
Total revenues	75,055	24,3
	-----	-----
Expenses		
Property operating expenses	(16,265)	(8,5
Depreciation and amortization	(12,969)	
General and administrative expenses:		
Corporate payroll and benefits	(14,138)	
Other general and administrative expenses	(10,609)	
	-----	-----
Total general and administrative expenses	(24,747)	
	-----	-----
	(53,981)	(8,5
Interest expense	(15,378)	(9,1
Equity in income of partnerships and joint ventures	7,449	
	-----	-----
Income before minority interest and discontinued operations	13,145	6,6
Minority interest in operating partnership	(1,307)	
	-----	-----
Income from continuing operations	\$ 11,838	\$ 6,6
	-----	-----
Basic income from continuing operations per share	\$ 0.73	
	-----	-----
Diluted income from continuing operations per share	\$ 0.72	
	-----	-----
Weighted average number of shares outstanding:		
Basic	16,162	
	-----	-----
Diluted	16,388	
	-----	-----

The accompanying notes are an integral part of the pro forma combining financial statements.

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Pennsylvania Real Estate Investment Trust
Pro Forma Combining Statements of Income
For The Six Months ended June 30, 2003

(Unaudited)

(In thousands, except per share amounts)

Company Historical	Historical Willow Grove (C)	Profo Adjust
-----	-----	-----

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Revenues

Real estate revenue				
Base rent	\$	33,493	\$	6,145
Expense reimbursements		12,835		4,790
Percentage rent		478		25
Lease termination revenue		259		-
Other real estate revenue		1,121		907
		-----		-----
Total real estate revenue		48,186		11,867
Management company revenue		5,973		-
Interest and other income		335		-
		-----		-----
Total revenues		54,494		11,867
		-----		-----

Expenses

Property operating expenses		(15,431)		(3,956)
Depreciation and amortization		(10,507)		-
General and administrative expenses:				
Corporate payroll and benefits		(7,584)		-
Other general and administrative expenses		(6,259)		-
		-----		-----
Total general and administrative expenses		(13,843)		-
		-----		-----
		(39,781)		(3,956)
Interest expense		(13,143)		(4,731)
Equity in income of partnerships and joint ventures		3,800		-
Gains on sales of interests in real estate		5,513		-
		-----		-----
Income before minority interest and discontinued operations		10,883		3,180
Minority interest in operating partnership		(1,110)		-
		-----		-----
Income from continuing operations	\$	9,773	\$	3,180
		-----		-----
Basic income from continuing operations per share	\$	0.59		

Diluted income from continuing operations per share	\$	0.58		

Weighted average number of shares outstanding:				
Basic		16,545		

Diluted		16,818		

The accompanying notes are an integral part of the pro forma combining financial statements.

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1. Basis of Presentation

Pennsylvania Real Estate Investment Trust, (collectively with its subsidiaries, the "Company") is a fully integrated, self-administered and self-managed real estate investment trust, founded in 1960, that acquires, develops, redevelops and operates retail properties. The Company's interest in its properties is held through PREIT Associates, L.P.

2. Adjustments to Pro Forma Combining Balance Sheet and Pro Forma Combining Statements of Income

A. Reflects pro forma adjustments to consolidate PREIT's historical 30% economic interest in Willow Grove Park along with its newly acquired 70% economic interest. Prior to the acquisition on September 2, 2003, PREIT accounted for Willow Grove Park under the equity method of accounting. PaSERS owned the remaining 70% economic interest in Willow Grove Park. After the acquisition, PREIT owns a 100% interest in Willow Grove Park, and it will be consolidated for financial reporting purposes. PREIT will retain its historical carryover basis in 30% of the assets and liabilities of Willow Grove Park. PREIT's basis in 70% of the assets and liabilities of Willow Grove Park that PREIT acquired from PaSERS was stepped-up to fair value. The effect of consolidating PREIT's historical share of its investment in Willow Grove Park and the interest it acquired from PaSERS is as follows:

	Historical 30%	Remaining 70%(B)	Pro Forma Adjustment
Land	8,272	23,298	31,570
Building	42,667	93,189	135,856
	-----	-----	-----
Investment in real estate	50,939	116,487	167,426
Accumulated depreciation	(4,217)	-	(4,217)
Equity in joint ventures and partnerships	(14,727)		(14,727)
Cash	735	(42,832)	(42,097)
Accounts receivable	171	399	570
Lease origination value		1,961	1,961
Acquired above market leases		227	227
In place leases		6,324	6,324
	-----	-----	-----
Intangible assets	-	8,512	8,512
Deferred costs, prepaid real estate and expenses, net	576	770	1,346
	-----	-----	-----
Total assets	33,477	83,336	116,813
	=====	=====	=====
Mortgages assumed	32,917	76,807	109,724
Debt premium		5,152	5,152
	-----	-----	-----
	32,917	81,959	114,876
Tenants deposits and deferred rents	350	817	1,167

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Accrued expenses and other liabilities	210	560	770
	-----	-----	-----
Total liabilities	33,477	83,336	116,813
	-----	-----	-----

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Pennsylvania Real Estate Investment Trust
Notes to Management's Assumptions to
Unaudited Pro Forma Combining Financial Information

B. The Company has allocated the purchase price to the estimated fair value of net assets acquired and liabilities assumed as follows:

Investments in land	\$23,298
Investments in building	93,189
Lease origination value	1,961
Acquired above market leases	227
In place leases	6,324
Cash	2,668
Accounts receivable	399
Deferred costs, prepaid real estate and expenses, net	770

Total assets	128,836
Debt premium	(5,152)
Tenant deposits and deferred rents	(817)
Accrued expenses and other liabilities	(560)

Total purchase price	\$122,307
	=====
Cash paid	45,500
Mortgage debt assumed	76,807

Total acquisition consideration	\$122,307
	=====

C. To record the revenue and certain expenses associated with the operations of the Willow Grove Park.

D. To adjust straight-line rent and record amortization of market value of acquired leases over the remaining terms of the leases.

(in thousands)	Year Ended December 31, 2002	Six Months Ended June 30, 2003
	-----	-----

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Straight-line rent	\$136	\$ (1)
Amortization of market value of acquired leases	(58)	(20)
	-----	-----
	\$ 78	\$ (21)

E. To record the reduction in management fee income because PREIT-Rubin, Inc. will no longer receive a management fee for the management of Willow Grove Park.

F. To record depreciation expense and amortization of acquired lease costs based on the historical expense for the 30% of the property formerly accounted for under the equity method of accounting and to record depreciation and amortization expense of acquired lease costs based on a real estate depreciable base of \$93.2 million and an estimated useful life of 30 years for the remaining 70% acquired.

(in thousands)	Year Ended December 31, 2002	Six Months Ended June 30, 2003
	-----	-----
Historical depreciation and amortization expense	\$1,604	\$798
Pro Forma depreciation	3,106	1,553
Pro Forma amortization	1,030	500
	-----	-----
	\$5,740	\$2,851
	=====	=====

G. To record a reduction of interest expense based on the amortization of debt premium associated with the mortgage debt assumed. The debt premium of \$5,152,000 is being amortized over a 30 month period.

H. To eliminate the equity in income of partnerships and joint ventures related to Willow Grove Park.

I. To record the additional minority interest associated with the 70% increase in the interest of Willow Grove Park.

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(c) Exhibits:

- 2.1 Assignment of Limited Partnership Interests as of September 2, 2003 by Commonwealth of Pennsylvania State Employees' Retirement System to PREIT Associates, L.P.
- 2.2 Assignment of General Partnership Interests as of

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September 2, 2003 by LMRES Real Estate Advisers, Inc. to
PRWGP General, LLC.

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Consent of KPMG LLP.

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: September 17, 2003

By: Jonathan B. Weller

Jonathan B. Weller
President and Chief Operating Officer

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Exhibit Index

Number	Description
2.1	Assignment of Limited Partnership Interests as of September 2, 2003 by Commonwealth of Pennsylvania State Employees' Retirement System to PREIT Associates, L.P.
2.2	Assignment of General Partnership Interests as of

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September 2, 2003 by LMRES Real Estate Advisers, Inc. to
PRWGP General, LLC.

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Consent of KPMG LLP.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Audited Financial Statements for WG Park, L.P.

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Statements of Revenue and Certain Expenses of WG Park, L.P. for the Year Ended December 31, 2002 (audited) and for the Six-Month Period Ended June 30, 2003 (unaudited)	F-3
Notes to Statements of Revenue and Certain Expenses of WG Park, L.P.	F-4

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Independent Auditors' Report

The Board of Trustees of
Pennsylvania Real Estate Investment Trust:

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We have audited the accompanying statement of revenue and certain expenses of WG Park, L.P. (a Pennsylvania limited partnership) for the year ended December 31, 2002. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As described in note 2, the accompanying statement of revenue and certain expenses for the year ended December 31, 2002 excludes certain expenses that would not be comparable with those resulting from the proposed future operations of WG Park, L.P. The accompanying statement of revenue and certain expenses for the year ended December 31, 2002 was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and is not intended to be a complete presentation of the WG Park, L.P. revenue and expenses.

In our opinion, the statement referred to above presents fairly, in all material respects, the revenue and certain expenses (described in note 2) of WG Park, L.P. for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG
September 12, 2003

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WG Park, L.P.

Statements of Revenue and Certain Expenses

Year ended December 31, 2002 and
Six-Month Period Ended June 30, 2003 (unaudited)

	Year ended December 31, 2002	Six-month period ended June 30, 2003
	-----	-----
		(unaudited)
		(In thousands)
Revenue:		
Base rent	\$ 12,281	\$ 6,145
Expense reimbursements	9,585	4,790
Percentage rent	100	25
Other real estate revenue	2,386	907

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	-----	-----
Total revenue	24,352	11,867
	-----	-----
Property operating expenses:		
Payroll and benefits	1,498	683
Real estate and other taxes	1,774	851
Utilities	2,231	1,046
Other operating expenses	3,014	1,376
	-----	-----
Total property operating expenses	8,517	3,956
	-----	-----
Interest expense	15,835	7,911
	9,189	4,731
	-----	-----
Excess of revenue over certain expenses	\$ 6,646	\$ 3,180
	=====	=====

See accompanying notes to financial statements.

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WG Park, L.P.

Notes to

Statements of Revenue and Certain Expenses

Year ended December 31, 2002 and
Six-Month Period Ended June 30, 2003 (unaudited)

(1) Background

In September 2003, Pennsylvania Real Estate Investment Trust (PREIT) acquired the remaining limited partnership interest that represented a 70% economic interest in WG Holdings, L.P. which controls WG Park, L.P., a Pennsylvania limited partnership (the Partnership), from its joint venture partner Pennsylvania State Employee Retirement System (PaSERS). PREIT also acquired a general partnership interest in the Partnership from LMRES Real Estate Advisers, Inc., an affiliate of PaSERS. Prior to this acquisition, PREIT owned a 30% economic interest in WG Holdings, L.P. The Partnership commenced operations on February 28, 2000, for the purpose of acquiring, holding, and operating Willow Grove Park (the Mall), a regional shopping mall, located in Willow Grove, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying statements of revenue and certain expenses have been prepared for the purpose of complying with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the financial results are not representative of the actual operations for the periods presented as certain expenses,

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which may not be comparable to the expenses expected to be incurred by PREIT in the proposed future operations of the Partnership have been excluded such as management fees and depreciation and amortization expenses.

The statement of revenue and certain expenses for the six-month period ended June 30, 2003 is unaudited; however, in the opinion of management of the Partnership, all adjustments (consisting solely of normal recurring adjustments) necessary for the fair presentation of the statement of revenue and certain expenses for the interim period have been included. The results of the interim period are not necessarily indicative of the results for the full year.

(b) Minimum Rents

The straight-line basis is used to recognize minimum rent revenue under leases, which provide for varying rents over their terms.

(c) Percentage Rents

Percentage rents are considered earned when a tenant's sales volume exceeds the minimum annual sales volume required for percentage rent to be paid under the terms of the lease agreement.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

(3) Tenant Leases

Space in the Partnership is leased to tenants under operating leases with expiration dates extending to the year 2052. In addition to minimum rents, many of the leases provide for percentage rents when the tenants' sales volumes exceed stated amounts as well as other rents, which reimburse the Partnership for certain operating expenses.

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The total minimum rents to be received from tenants under noncancelable operating leases in effect at December 31, 2002 are as follows (in thousands):

2003	\$	11,636
2004		11,385
2005		9,664
2006		8,606
2007		7,677
Subsequent to 2007		29,376

Total	\$	78,344
		=====

No tenants have minimum rental payments greater than 10% of total minimum

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rent in 2002.

(4) Mortgage Notes Payable

In February 2000, the Partnership obtained two mortgage notes payable in the amount of \$55 million each from the Equitable Life Assurance Society of the United States and Connecticut General Life Insurance Company. An initial advance of \$50 million per each mortgage note payable (collectively, the Notes) was received upon the signing of the Notes. The initial advance of \$100 million bears interest at an annual fixed rate of 8.39% and has a term of six years, with the final installment due March 1, 2006. Interest-only payments on each of the Notes were payable monthly through March 2003. In April 2003 monthly principal and interest payments on each of the Notes are due through the maturity date upon which a balloon payment of approximately \$48 million on each of the Notes is due.

Additional advances in the amount of \$5 million on each of the Notes were received in accordance with the terms set forth in the loan and escrow agreement. These additional advances bear interest equal to the higher of 8.39% or the sum of the U.S. Treasury Yield plus a market spread as defined in each mortgage note agreement (8.39% at December 31, 2002). Interest-only payments for the additional advances on each of the Notes were payable monthly through March 2003. Monthly principal and interest payments beginning in April 2003 on the additional advances are payable in equal installments through the maturity date of each of the Notes. The proceeds from the financing were used to acquire the Mall and fund completion of additional mall renovations and other tenant improvements. During 2002, the Partnership received the final advance of \$5 million on the Notes.

The Partnership has the right to prepay in whole (but not in part) the principle sum of the Notes with 30 days prior written notice. A prepayment penalty will be charged to the borrower in accordance with each note agreement if the notes are prepaid anytime prior to 90 days of the maturity date.

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(5) Transactions with Affiliates

The Partnership pays leasing commission fees to PREIT-RUBIN, Inc., an affiliate of the Partnership for leasing services provided to the Mall. Total leasing commission fees paid to affiliates for the periods ending December 31, 2002 and June 30, 2003 were approximately \$317,000 and \$7,000, respectively.

An affiliate of the Partnership has entered into a development agreement with the Partnership to supervise construction of certain improvements at the Mall. For the periods ending December 31 2002 and June 30, 2003, \$2,000 and \$0, respectively of development fees were paid to this affiliate.

Portfolio Marketing Group (Portfolio), an affiliate of PREIT-RUBIN, Inc., provides marketing services for the tenants of the Mall. Total fees paid to Portfolio were approximately \$443,000 and \$56,000 for the periods ending December 31, 2002 and June 30, 2003, respectively.

