

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form S-3
January 11, 2005

As filed with the Securities and Exchange Commission on January 11, 2005
Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
(Exact Name of Registrant as Specified in Its Charter)

PENNSYLVANIA
(State or Other Jurisdiction of
Incorporation or Organization)

23-6216339
(I.R.S. Employer Identification Number)

THE BELLEVUE, 200 SOUTH BROAD STREET
PHILADELPHIA, PENNSYLVANIA 19102
(215) 875-0700
(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

BRU
EXECUTIVE VICE PRE
AND ASSIS
THE BELLEVUE, 2
PHILADELPHIA,
(21
(Name, Address, Includ
Number, Including Area

COPY TO:
HOWARD A. BLUM, ESQUIRE
ROBERT C. JUELKE, ESQUIRE
DRINKER BIDDLE & REATH LLP
ONE LOGAN SQUARE, 18TH & CHERRY STREETS
PHILADELPHIA, PENNSYLVANIA 19103-6996
(215) 988-2700

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From
time to time after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box.

If any of the securities being registered on this form are to be
offered on a delayed or continuous basis pursuant to Rule 415 under the
Securities Act of 1933, other than securities offered only in connection with
dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the following box
and list the Securities Act registration statement number of the earlier
effective registration statement for the same offering. _____

If this form is a post-effective amendment filed pursuant to Rule
462(c) under the Securities Act, check the following box and list the Securities

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Act registration statement number of the earlier effective registration statement for the same offering. |_| _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. |_|

CALCULATION OF REGISTRATION FEE

Title of Shares to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price
Shares of Beneficial Interest, par value \$1.00 per share (and associated rights)	895,511	\$39.81	\$35,650,292

(1) In the event of a share split, share dividend or similar transaction involving the Registrant's shares, in order to prevent dilution, the number of shares registered automatically shall be increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act of 1933.
 (2) Estimated pursuant to Rule 457(c) solely for the purpose of calculating the registration fee. The price and fee are based on the average of the highest and lowest selling prices of the Registrant's shares of beneficial interest on January 6, 2005 on the New York Stock Exchange.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED JANUARY 11, 2005

PROSPECTUS

PREIT
 [GRAPHIC OMITTED]

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

895,511 SHARES OF BENEFICIAL INTEREST

We are registering the reoffer and resale from time to time of up to 895,511 shares of beneficial interest, including:

- o 286,200 shares that we may issue in the future to the holders of units of limited partnership interest in PREIT Associates, L.P., of which we are the sole general partner, that PREIT Associates issued on December 29, 2003 and March 25, 2004 as consideration for its acquisition of the interests of certain affiliates of

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

PREIT-RUBIN, Inc. (formerly known as The Rubin Organization, Inc.); and

- o 609,311 shares that we may issue in the future to the holders of units of limited partnership interest in PREIT Associates that PREIT Associates issued on June 2, 2004 as consideration for its exercise of its option to acquire all of the interests in New Castle Associates not then owned by it.

These units are redeemable by their holders for cash or, at our option, for a like number of our shares.

The reoffer and resale of the shares will be made by the holders of those shares or by the holders' pledgees, donees, transferees, partners or other successors in interest in public or private transactions, on or off of the New York Stock Exchange, at prevailing market prices or at privately negotiated prices. They may sell the offered shares directly or through broker-dealers acting as principal or agent, or in a distribution by underwriters. We will not receive any of the proceeds from the sale of any shares by the selling shareholders, but we have agreed to bear certain expenses of registering the sale of the shares under federal and state securities laws.

Our shares are traded on the New York Stock Exchange under the symbol "PEI."

CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 2 BEFORE DECIDING TO INVEST IN OUR SHARES.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _____, 2005.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

TABLE OF CONTENTS

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST.....

RISK FACTORS.....

USE OF PROCEEDS.....

SELLING SHAREHOLDERS.....

DESCRIPTION OF SHARES OF BENEFICIAL INTEREST.....

FEDERAL INCOME TAX CONSIDERATIONS.....

PLAN OF DISTRIBUTION.....

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

LEGAL MATTERS.....	
EXPERTS.....	
WHERE YOU CAN FIND MORE INFORMATION.....	
FORWARD LOOKING STATEMENTS.....	
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME.....	

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

PREIT, which is organized as a business trust under Pennsylvania law, is a fully integrated, self-administered and self-managed real estate investment trust, founded in 1960, that acquires, develops, redevelops and operates retail properties. We conduct substantially all of our operations through PREIT Associates, L.P., and we have elected, and conduct our operations in a manner intended, to comply with the requirements for qualification as a real estate investment trust (a "REIT") under the Real Estate Investment Trust Act of 1960, Sections 856-60 of the Internal Revenue Code of 1986, as amended.

Our principal executive offices are located at The Bellevue, 200 South Broad Street, Philadelphia, Pennsylvania 19102, and our telephone number is (215) 875-0700.

RISK FACTORS

RISKS RELATED TO OUR PROPERTIES AND OUR BUSINESS

OUR RETAIL PROPERTIES ARE CONCENTRATED IN THE MID-ATLANTIC REGION OF THE UNITED STATES AND ADVERSE MARKET CONDITIONS IN THAT REGION MAY IMPACT THE ABILITY OF OUR TENANTS TO MAKE LEASE PAYMENTS AND TO RENEW LEASES, WHICH MAY REDUCE THE AMOUNT OF INCOME GENERATED BY OUR PROPERTIES.

Our retail properties currently are concentrated in the Mid-Atlantic region of the United States. To the extent adverse conditions affecting retail properties - such as population trends and changing demographics, income, sales and property tax laws, availability and costs of financing, construction costs and weather conditions that may increase energy costs - are particularly adverse in Pennsylvania or in the Mid-Atlantic region, our results of operations will be more notably affected. If the sales of stores operating at our properties were to decline significantly due to economic conditions, the risk that our tenants will be unable to fulfill the terms of their leases or will enter into bankruptcy may increase. In particular, economic and market conditions in the Mid-Atlantic region have a substantial impact on the performance of our anchor and other tenants and may impact the ability of our tenants to make lease payments and to renew their leases. If, as a result of such tenant difficulties, our properties do not generate sufficient income to meet our operating expenses, including debt service, our results of operations would be adversely affected.

OUR SUBSTANTIAL DEBT AND THE DIVIDENDS PAYABLE ON OUR PREFERRED SHARES MAY ADVERSELY AFFECT OUR OPERATING RESULTS AND PUT US AT A COMPETITIVE DISADVANTAGE.

As a result of our substantial debt obligations, we may not have sufficient cash flow from operations to meet required payments of principal and

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

interest on our debt or to pay distributions on our securities at historical rates, which could affect our ability to qualify as a REIT or to make necessary investments in new business initiatives. In addition, increases in interest rates on our existing indebtedness, which includes a significant amount of variable rate debt, would increase our interest expense, which could harm our cash flow and our ability to pay distributions. We also are obligated to pay a quarterly dividend of \$1.375 per share to the holders of the 2,475,000 11% preferred shares that we issued in connection with our merger with Crown American Realty Trust.

Our existing indebtedness and the dividends payable on our preferred shares could have negative consequences to our shareholders, including:

- o requiring us to use a significant portion of our cash flow from operations to make interest and principal payments on our debt and dividend payments on our preferred shares rather than for other purposes such as working capital, capital expenditures or dividends on our common shares;

-2-

- o harming our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development activities or other general corporate purposes;
- o limiting our flexibility to plan for or react to changes in business and economic conditions; and
- o making us more vulnerable to a downturn in our business or the economy generally.

OUR FINANCIAL COVENANTS MAY RESTRICT OUR OPERATING OR ACQUISITION ACTIVITIES, WHICH MAY HARM OUR FINANCIAL CONDITION AND OPERATING RESULTS.

Our existing \$500 million credit facility currently requires our operating partnership, PREIT Associates, L.P., to satisfy numerous financial covenants. These covenants could reduce our flexibility in conducting our operations by limiting our ability to borrow money and may create a risk of default on our debt if we cannot continue to satisfy these covenants. If we default under this credit facility, the lenders could require us to repay the debt immediately. We rely on borrowings under this credit facility to finance acquisitions, construction of our development properties, renovations and capital improvements to our properties and for working capital. If we are unable to borrow under our credit facility or to arrange for alternative financing, our financial condition and results of operations would be adversely impacted.

WE MAY BE UNABLE TO MANAGE EFFECTIVELY OUR RAPID GROWTH AND EXPANSION IN THE RETAIL SECTOR, WHICH MAY RESULT IN DISRUPTIONS TO OUR BUSINESS.

In 2003, we completed the acquisition of six shopping malls from The Rouse Company and the acquisition of 26 retail properties through our merger with Crown. The merger requires the integration of two large and complex real estate businesses that formerly operated independently. Following the merger and the related transactions, the gross leasable area of our owned, managed or leased retail properties is significantly higher than it was before the merger and the Rouse shopping mall acquisition. We also completed the sale of all 19 properties in our multifamily portfolio in 2003.

The integration efforts required in connection with the Crown merger and the Rouse shopping mall acquisition, together with our continuing efforts to

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

transform our strategic focus to ownership of retail properties, are substantial and may cause disruptions in our operations and divert management's attention away from day-to-day operations, which could impair our relationships with our current tenants and employees. In addition, the Rouse shopping mall acquisition and the Crown merger pose specific risks for our ongoing operations, including that:

- o we may not achieve the expected operating efficiencies, value-creation potential, economies of scale or other benefits of those transactions;
- o we may not have adequate personnel and financial and other resources to successfully handle our substantially increased operations;

-3-

- o we may not be successful in leasing space in properties acquired from Rouse or Crown;
- o the combined portfolio may not perform at the level we anticipate;
- o we may experience difficulties and incur unforeseen expenses in connection with assimilating and retaining Crown employees, assimilating Crown's business and assimilating the properties acquired from Rouse and Crown; and
- o we may experience problems and incur unforeseen expenses in connection with upgrading and expanding our systems and processes as a result of the Rouse shopping mall acquisition and the Crown merger.

In addition, we expect to make future acquisitions or investments in real properties, other assets and other companies. If we fail to successfully integrate these properties and/or fail to realize the intended benefits of these transactions, our financial condition and results of operations may be materially harmed.

COMPETITION MAY IMPEDE OUR ABILITY TO RENEW LEASES OR RE-LET SPACE AS LEASES EXPIRE AND REQUIRE US TO UNDERTAKE UNBUDGETED CAPITAL IMPROVEMENTS, WHICH COULD HARM OUR OPERATING RESULTS.

We face competition from similar retail centers that are near our retail properties with respect to the renewal of leases and re-letting of space as leases expire. Any new competitive properties that are developed close to our existing properties also may impact our ability to lease space to creditworthy tenants. Increased competition for tenants may require us to make capital improvements to properties that we would not have otherwise planned to make. Any unbudgeted capital improvements could adversely affect our results of operations. Also, to the extent we are unable to renew leases or re-let space as leases expire, it would result in decreased cash flow from tenants and adversely affect our results of operations.

RISING OPERATING EXPENSES COULD REDUCE OUR CASH FLOW AND FUNDS AVAILABLE FOR FUTURE DISTRIBUTIONS.

Our properties and any properties we acquire in the future are and will be subject to operating risks common to real estate in general, any or all of which may negatively affect us. If any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, we could be required to expend funds for that property's operating

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

expenses. The properties will be subject to increases in real estate and other tax rates, utility costs, operating expenses, insurance costs, repair and maintenance costs and administrative expenses. Although some of our properties are leased on terms that require tenants to pay a portion of the expenses associated with the property, renewals of leases or future leases may not be negotiated on that basis, in which event we will have to pay those costs. If we are unable to lease properties on a basis requiring the tenants to pay all or some of the expenses associated with the property, or if tenants fail to pay required tax, utility and other impositions, we could be required to pay those costs, which could adversely affect our results of operations.

ANY TENANT BANKRUPTCIES OR LEASING DELAYS WE ENCOUNTER, PARTICULARLY WITH RESPECT TO OUR ANCHOR TENANTS, COULD ADVERSELY AFFECT OUR OPERATING RESULTS AND FINANCIAL CONDITION.

We receive a substantial portion of our income as rent under long-term leases. At any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. Our tenants may delay lease commencement, fail to make rental payments when due, or declare bankruptcy. Any leasing delays, tenant failures to make rental payments when due or tenant bankruptcies could result in the termination of the tenant's lease and, particularly in the case of a key anchor tenant, material losses to us and harm to our results of operations. Some of our tenants occupy stores at multiple locations in our portfolio, and so the impact of any bankruptcy of those tenants may be more significant on us than others. If tenants are unable to comply with the terms of our leases, we may modify lease terms in ways that are unfavorable to us. In addition, under many of our leases, our tenants pay rent based on a percentage of their sales or other operating results. Accordingly, declines in these tenants' performance directly impacts our results of operations.

-4-

In addition to the loss of rental payments from an anchor tenant, a lease termination by an anchor tenant or a failure by that anchor tenant to occupy the premises could result in lease terminations or reductions in rent by other tenants of the same retail center whose leases permit cancellation or rent reduction if an anchor tenant's lease is terminated. In that event, we may be unable to re-lease the vacated space. In addition, the leases of some anchor tenants may permit the anchor tenant to transfer its lease to another retailer. The transfer to a new anchor tenant could cause customer traffic in the retail center to decrease, which could reduce the income generated by that retail center. A transfer of a lease to a new anchor tenant also could allow other tenants to make reduced rental payments or to terminate their leases at the retail center, which could adversely affect our results of operations.

PREIT-RUBIN MANAGES PROPERTIES OWNED BY THIRD PARTIES, AND THE LOSS, INTERRUPTION OR TERMINATION OF ONE OR MORE MANAGEMENT CONTRACTS COULD HARM OUR OPERATING RESULTS.

Risks associated with PREIT-RUBIN's management of properties owned by third parties include:

- o the property owner's termination of the management contract;
- o loss of the management contract in connection with a property sale;
- o non-renewal of the management contract after expiration;
- o renewal of the management contract on terms less favorable than current terms;

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

- o decline in management fees as a result of general real estate market conditions or local market factors; and
- o claims of losses due to allegations of mismanagement.

-5-

The occurrence of one or more of these events could adversely affect our results of operations.

WE MAY NOT BE SUCCESSFUL IN IDENTIFYING SUITABLE ACQUISITIONS THAT MEET OUR CRITERIA, WHICH MAY IMPEDE OUR GROWTH.

Integral to our business strategy have been our strategic acquisitions of retail properties. Our ability to expand through acquisitions requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We analyze potential acquisitions on a property-by-property and market-by-market basis. We may not be successful in identifying suitable real estate properties or other assets in our existing geographic markets or that otherwise meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms. Failures in identifying or consummating acquisitions could reduce the number of acquisitions we complete and slow our growth, which could adversely affect our results of operations.

WE FACE INCREASING COMPETITION FOR THE ACQUISITION OF REAL ESTATE PROPERTIES AND OTHER ASSETS, WHICH MAY IMPEDE OUR ABILITY TO MAKE FUTURE ACQUISITIONS OR MAY INCREASE THE COST OF THESE ACQUISITIONS.

We compete with many other entities engaged in real estate investment activities for acquisitions of retail shopping centers, including institutional pension funds, other REITs and other owner-operators of retail properties. These competitors may drive up the price we must pay for real estate properties, other assets or other companies we seek to acquire or may themselves succeed in acquiring those properties, assets or companies. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more, or may have more compatible operating philosophy. In particular, larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties, our profitability will be reduced, and shareholders may experience a lower return on their investment.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS COULD SIGNIFICANTLY IMPEDE OUR ABILITY TO RESPOND TO ADVERSE CHANGES IN THE PERFORMANCE OF OUR PROPERTIES AND HARM OUR FINANCIAL CONDITION.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

-6-

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements, and if we cannot do so, we may not be able to sell the property, or may be required to sell the property on unfavorable terms. In acquiring a property, we may agree to provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as limitations on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could significantly harm our financial condition and results of operations.

WE HAVE ENTERED INTO TAX PROTECTION AGREEMENTS FOR THE BENEFIT OF SOME LIMITED PARTNERS OF PREIT ASSOCIATES, L.P. THAT MAY LIMIT OUR ABILITY TO SELL SOME OF OUR PROPERTIES THAT WE MAY OTHERWISE WANT TO SELL, WHICH COULD HARM OUR FINANCIAL CONDITION.

As the general partner of PREIT Associates, L.P., we have agreed to indemnify certain former property owners who have become limited partners of PREIT Associates, L.P. against tax liability that they may incur if we sell these properties within a certain number of years in a taxable transaction. For example, in connection with our November 2003 merger with Crown American Realty Trust, we agreed with Mark E. Pasquerilla and entities affiliated with him not to dispose of certain protected properties that we acquired in the merger in a taxable transaction until November 20, 2011 or until Mr. Pasquerilla and his affiliates own less than 25% of the aggregate of the shares and units of limited partnership interest in PREIT Associates, L.P. that they acquired in the merger. If we violate this agreement during the first five years of the protection period, we would owe as damages the sum of the hypothetical tax owed by Mr. Pasquerilla and/or his applicable affiliate, plus an amount intended to make him or his affiliate whole for taxes that may be due upon receipt of those damages. From the end of the first five years through the end of the tax protection period, damages are intended to compensate the affected parties for interest expense incurred on amounts borrowed to pay the taxes incurred on the prohibited sale. If we were to sell properties in violation of this agreement, the amounts that we would be required to pay to Mr. Pasquerilla and his affiliates could be substantial. In some cases, these agreements may make it uneconomical for us to sell these properties, even in circumstances in which it otherwise would be advantageous to do so, which could harm our ability to address liquidity needs in the future or otherwise harm our financial condition.

OUR INVESTMENTS IN DEVELOPMENT AND REDEVELOPMENT PROPERTIES MAY NOT YIELD ANTICIPATED RETURNS, WHICH WOULD HARM OUR OPERATING RESULTS AND REDUCE THE AMOUNT OF FUNDS AVAILABLE FOR DISTRIBUTIONS.

Our development and redevelopment properties comprise a component of our growth strategy. To the extent we continue current development projects or enter into new development projects, they will be subject to a number of risks, including, among others:

- o inability to obtain required zoning, occupancy and other governmental approvals;
 - o expenditure of money and time on projects that may never be completed;
- 7-
- o higher than estimated construction costs; cost overruns and timing delays due to lack of availability of materials and labor, delays in receipt of zoning and other regulatory

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

approvals, weather conditions and other factors outside our control; and

- o inability to obtain permanent financing upon completion of development activities.

Unanticipated delays or expenses associated with our development properties could adversely affect the investment returns from these projects and adversely affect our financial condition and results of operations.

SOME OF OUR PROPERTIES ARE IN NEED OF MAINTENANCE AND/OR RENOVATION, WHICH COULD HARM OUR OPERATING RESULTS.

Some of our retail properties, including some of those acquired as part of the Rouse shopping mall acquisition and our merger with Crown, were constructed or last renovated more than 10 years ago. Older properties may generate lower rentals or may require significant expense for maintenance and/or renovations, which could harm our results of operations.

OUR BUSINESS AND, IN PARTICULAR, OUR ACQUISITION INTEGRATION EFFORTS COULD BE HARMED IF RONALD RUBIN, OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AND OTHER MEMBERS OF OUR SENIOR MANAGEMENT TEAM TERMINATE THEIR EMPLOYMENT WITH US.

Our future success depends, to a significant extent, upon the continued services of Ronald Rubin - our chairman and chief executive officer - and of our corporate management team (including the five-person Office of the Chairman that, in addition to Ronald Rubin, consists of Jonathan Weller, George Rubin, Edward Glickman and Joseph Coradino). We are critically dependent upon our corporate management team and other key employees to lead our integration efforts for acquisitions. Although we have entered into employment agreements with Ronald Rubin and certain other members of our corporate management team, they could elect to terminate those agreements at any time. In addition, although we have purchased a key man life insurance policy in the amount of \$5 million to cover Ronald Rubin, we cannot assure you that this would compensate us for the loss of his services. The loss of services of one or more members of our corporate management team could harm our business and our prospects.

WE HOLD SUBSTANTIAL INVESTMENTS IN UNCONSOLIDATED PARTNERSHIPS AND JOINT VENTURES, WHICH WE MAY NOT BE ABLE TO SUCCESSFULLY MANAGE.

Some of our retail properties are owned by partnerships in which we are a general partner or by joint ventures in which we have substantially the same powers as a general partner. Under the terms of the partnership and joint venture agreements, major decisions, such as a sale, lease, refinancing, expansion or rehabilitation of a property, or a change of property manager, require the consent of all partners or co-venturers. Accordingly, necessary actions may be delayed significantly because decisions must be unanimous and it may be difficult or even impossible to remove a partner or co-venturer that is serving as the property manager.

-8-

Business disagreements with partners may arise. We may incur substantial expenses in resolving these disputes. To preserve our investment, we may be required to make commitments to or on behalf of a partnership or joint venture during a dispute. Moreover, we cannot assure you that our resolution of a dispute with a partner will be on terms that are favorable to us.

Other risks of investments in partnerships and joint ventures include:

- o partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions;

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

- o partners or co-venturers might have business interests or goals that are inconsistent with our business interests or goals;
- o partners or co-venturers may be in a position to take action contrary to our policies or objectives;
- o we may incur liability for the actions of our partners or co-venturers; and
- o third-party managers may not be sensitive to REIT tax compliance matters.

WE MAY BE UNABLE TO OBTAIN LONG-TERM FINANCING REQUIRED TO FINANCE OUR PARTNERSHIPS AND JOINT VENTURES, WHICH COULD HARM OUR OPERATING RESULTS.

The profitability of each partnership or joint venture in which we are a partner or co-venturer that has short-term financing or debt requiring a balloon payment is dependent on the availability of long-term financing on satisfactory terms. If satisfactory long-term financing is not available, we may have to rely on other sources of short-term financing, equity contributions or the proceeds of refinancing other properties to satisfy debt obligations which may not be as favorable to us. Although we do not own the entire interest in connection with the properties held by these partnerships and joint ventures, we may be required to pay the full amount of any obligation of the partnership or joint venture that we have guaranteed in whole or in part or we may elect to pay a partnership's or joint venture's obligation to protect our equity interest in its properties and assets, which could cause us to use a substantial portion of our funds from operations, reducing amounts available for distribution.

THE COSTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS MAY HARM OUR OPERATING RESULTS.

Under various federal, state and local laws, ordinances and regulations, an owner, former owner or operator of real estate may be liable for the costs of removal or remediation of hazardous or toxic substances present at, on, under, in or released from its property. They also may be liable to the government or to third parties for substantial property damage, investigation costs or clean up costs. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. Contamination may affect adversely the owner's ability to sell or lease real estate or borrow with real estate as collateral.

-9-

From time to time, we respond to inquiries from environmental authorities with respect to properties both currently and formerly owned by us. We are aware of certain environmental matters at some of our properties, including ground water contamination, and the presence of asbestos containing materials. We have, in the past, performed remediation of such environmental matters, but we may be required in the future to perform testing relating to these matters and further remediation may be required. As of the date of this prospectus, we have reserved \$0.4 million for future remediation of these matters, but we may incur costs associated with such remediation that exceed such amount.

In addition, at five of the properties in which we currently have an interest, and at two properties in which we formerly had an interest, environmental conditions have been or continue to be investigated and have not been fully remediated. Groundwater contamination has been found at five of these properties. While the former owners of two of the properties with groundwater

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

contamination presently are remediating such contamination, any failure of such former owners to properly remediate such contamination could result in liability to us for such contamination. Dry cleaning operations were performed at three of the properties. Soil contamination has been identified at two of the properties having dry cleaning operations and groundwater contamination was found at the third property having dry cleaning operations. Although these properties may be eligible under state law for remediation with state funds, we cannot assure you that sufficient funds will be available under state legislation to pay the full costs of any such remediation and we may incur costs in connection with such remediation.

Asbestos-containing materials are present in a number of our properties, primarily in the form of floor tiles and adhesives. Fire-proofing material containing asbestos is present at some of our properties in limited concentrations or in limited areas. We have taken certain actions to remediate or to comply with disclosure requirements, as necessary or appropriate, in connection with the foregoing, but we may be required to take additional actions or to make additional expenditures.

We are aware of environmental concerns at Christiana Power Center Phase II, one of our development properties. The final costs and necessary remediation are not known and may cause us to decide not to develop the property, which would result in us having incurred unnecessary development costs and could have an adverse impact on our operating results. We also are a party to a number of agreements for the purchase of property for development in which initial environmental investigations have revealed environmental risk factors that might require remediation by the owner or prior owners of the property. Such environmental risks may cause us to decide not to purchase such properties, which would result in us having incurred unnecessary development expenses and could adversely affect our results of operations.

In addition, the malls that we acquired as part of our merger with Crown have some environmental issues. Many of these malls contain, or at one time contained, underground and/or above ground storage tanks used to store waste oils or other petroleum products primarily related to the operation of auto service center establishments at those malls. In some cases, the underground storage tanks have been abandoned in place, filled in with inert materials or removed and replaced with above ground tanks. Historical records indicate that soil and groundwater contamination from underground tanks and, in one case, a hydraulic lift, requiring remediation has occurred at five of the malls, and subsurface investigations (Phase II assessments) and remediation work either are ongoing or are scheduled to be conducted at three of those malls. In addition, three of the Crown malls were constructed on sites a portion of which previously had been used as landfills, two were constructed on former strip mines and dry cleaning operations formerly were conducted at two of the malls. There also are minor amounts of asbestos-containing materials in most of the Crown malls, primarily in the form of floor tiles, mastics and roofing materials. Fireproofing and insulation containing asbestos also are present in some of the malls in non-public areas, such as mechanical rooms. Two of the Crown malls also contain wastewater treatment facilities that treat wastewater at the malls before discharge into local streams. Operation of these facilities is subject to federal and state regulation.

-10-

Our environmental liability coverage for the types of environmental liabilities described above, which currently covers liability for pollution and on-site remediation of up to \$5 million in any single claim and \$5 million in the aggregate, may be inadequate, which could result in our being obligated to fund those liabilities.

In addition to the costs of remediation described above, we may incur

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

additional costs to comply with federal, state and local laws, ordinances and regulations relating to environmental protection and human health and safety generally. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of our tenants, by the existing condition of the land, by operations in the vicinity of the properties - such as the presence of underground storage tanks - or by the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that may be applicable to our operations, and that may subject us to liability in the form of fines or damages for noncompliance.

IF WE SUFFER LOSSES THAT ARE NOT COVERED BY INSURANCE OR THAT ARE IN EXCESS OF OUR INSURANCE COVERAGE LIMITS, WE COULD LOSE INVESTED CAPITAL AND ANTICIPATED PROFITS.

Catastrophic losses - such as losses due to wars, earthquakes, floods, hurricanes, pollution and environmental matters - generally either are uninsurable or are not economically insurable, or may be subject to insurance coverage limitations, such as large deductibles or co-payments. If one of these events occurred to, or caused the destruction of, one or more of our properties, we could lose both our invested capital and anticipated profits from that property. In addition, if we are unable to obtain insurance in the future at acceptable levels and at a reasonable cost, the possibility of losses in excess of our insurance coverage may increase and we may not be able to comply with covenants under our debt agreements, which could adversely affect our financial condition.

SOME OF OUR PROPERTIES ARE HELD BY SPECIAL PURPOSE ENTITIES AND ARE NOT GENERALLY AVAILABLE TO SATISFY CREDITORS' CLAIMS IN BANKRUPTCY, WHICH COULD IMPAIR OUR ABILITY TO BORROW.

Some of our properties are owned or ground-leased by subsidiaries that we created solely to own or ground-lease those properties. The mortgaged properties and related assets are restricted solely for the payment of the related loans and are not available to pay our other debts, which could impair our ability to borrow, which in turn could harm our business.

-11-

OUR OPERATING PERFORMANCE MAY BE ADVERSELY AFFECTED IF WE ARE UNABLE TO, OR CHOOSE NOT TO, SELL SOME OF THE ASSETS THAT WE ACQUIRED IN THE CROWN MERGER.

As a result of the Crown merger, we acquired six properties that have occupancy rates and sales volume substantially lower than that of the remainder of the former Crown properties. We have completed the sale of five of the six properties. The sixth property will continue to be held for sale. Although we intend to sell this property within the next twelve months, we cannot predict the length of time needed to find a willing purchaser of the sixth property for the price or on the terms we set. In addition, whether or not we ultimately sell this property, we may not recover our investment in this property, which could harm our financial condition and results of operations. The sale of this property may require lender consents that we may not be able to obtain.

RISKS RELATED TO OUR ORGANIZATION AND STRUCTURE

SOME OF OUR OFFICERS HAVE INTERESTS IN PROPERTIES THAT WE MANAGE AND THEREFORE MAY HAVE CONFLICTS OF INTEREST THAT COULD ADVERSELY AFFECT OUR BUSINESS.

We provide management, leasing and development services for partnerships and other ventures in which some of our officers and trustees, including Ronald Rubin, our chairman, chief executive officer and one of our

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

trustees, have indirect ownership interests. In addition, we lease substantial office space from Bellevue Associates, an entity in which some of our officers have an interest. Our officers who have interests in both sides of these transactions face a conflict of interest in deciding to enter into these agreements and in negotiating their terms, which could result in our obtaining terms that are less favorable than we might otherwise obtain, which could adversely affect our business.

LIMITED PARTNERS OF PREIT ASSOCIATES, L.P. MAY VOTE ON CERTAIN FUNDAMENTAL CHANGES WE PROPOSE, WHICH COULD INHIBIT A CHANGE IN CONTROL THAT MIGHT RESULT IN A PREMIUM TO OUR SHAREHOLDERS.

Our assets generally are held through PREIT Associates, L.P., a Delaware limited partnership of which we are the sole general partner. We currently hold a majority of the outstanding units of limited partnership interest in PREIT Associates. However, PREIT Associates may from time to time issue additional units to third parties in exchange for contributions of property to PREIT Associates. These issuances will dilute our percentage ownership of PREIT Associates. Units generally do not carry a right to vote on any matter voted on by our shareholders, although limited partner interests may, under certain circumstances, be redeemed for our shares. However, before the date on which at least half of the units issued on September 30, 1997 in connection with our acquisition of The Rubin Organization have been redeemed, the holders of units issued on September 30, 1997 are entitled to vote such units and additional units received or to be received pursuant to the transactions that were the subject of the September 30, 1997 issuance, along with our shareholders as a single class, on any proposal to merge, consolidate or sell substantially all of our assets. Our partnership interest in PREIT Associates is not included for purposes of determining when half of the partnership interests issued on September 30, 1997 have been redeemed, nor are they counted as votes. These existing rights could inhibit a change in control that might otherwise result in a premium to our shareholders. In addition, we cannot assure you that we will not agree to extend comparable rights to other limited partners in PREIT Associates.

-12-

MARK E. PASQUERILLA MAY HAVE THE ABILITY TO EXERCISE INFLUENCE OVER US AND MAY DELAY, DEFER OR PREVENT US FROM TAKING ACTIONS THAT WOULD BE BENEFICIAL TO OUR SHAREHOLDERS.

As of the date of this prospectus, Mark E. Pasquerilla and his affiliates own approximately 6.3% of our outstanding common shares assuming the redemption of their units of limited partnership interest in PREIT Associates, L.P. for our common shares. Mr. Pasquerilla also is a member of our board of trustees. Accordingly, Mr. Pasquerilla may be able to exercise influence over the outcome of certain matters such as decisions relating to the election of the board of trustees and the determination of our day-to-day corporate and management policies, and possibly over the outcome of any proposed merger or consolidation that we consider. Mr. Pasquerilla's ownership interest in us may discourage third parties from seeking to acquire control of us, which may adversely affect the market price of our common shares. As a condition to the Crown merger, Mr. Pasquerilla and certain of his affiliates entered into a standstill agreement limiting their rights in connection with, among other things, a proposed change in control of us. However, we cannot assure you that Mr. Pasquerilla and his affiliates will abide by the terms of the standstill agreement, and the standstill agreement will not prevent Mr. Pasquerilla from voting his shares or taking other actions with respect to matters not covered by the standstill agreement.

OUR ORGANIZATIONAL DOCUMENTS CONTAIN PROVISIONS THAT MAY DISCOURAGE A TAKEOVER OF US AND DEPRESS OUR SHARE PRICE.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Our organizational documents contain provisions that may have an anti-takeover effect and inhibit a change in our management. These provisions include:

- (1) There are ownership limits and restrictions on transferability in our trust agreement. In order to protect our status as a REIT, no more than 50% of the value of our outstanding shares (after taking into account options to acquire shares) may be owned, directly or constructively, by five or fewer individuals, and the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To assist us in satisfying these tests, subject to some exceptions, our trust agreement prohibits any shareholder from owning more than 9.9% of our outstanding shares of beneficial interest (exclusive of preferred shares) or more than 9.9% of any class or series of preferred shares. The trust agreement also prohibits transfers of shares that would cause a shareholder to exceed the 9.9% limit or cause us to be beneficially owned by fewer than 100 persons. Our board of trustees may exempt a person from the 9.9% ownership limit if they receive a ruling from the Internal Revenue Service or an opinion of counsel or tax accountants that exceeding the 9.9% ownership limit as to that person would not jeopardize our tax status as a REIT. Absent an exemption, this restriction may:
 - o discourage a tender offer or other transactions or a change in management or control that might involve a premium price for our shares or otherwise be in the best interests of our shareholders; or
 - o compel a shareholder who had acquired more than 9.9% of our shares to transfer the additional shares to a trust and, as a result, to forfeit the benefits of owning the additional shares.
- (2) Our trust agreement permits our board of trustees to issue preferred shares with terms that may discourage a third party from acquiring our company. Our trust agreement permits our board of trustees to create and issue multiple classes and series of preferred shares and classes and series of preferred shares having preferences to the existing shares on any matter, including rights in liquidation or to dividends and option rights, and other securities having conversion or option rights and may authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of our shares. Our trust agreement further provides that the terms of such rights or other securities may provide for disparate treatment of certain holders or groups of holders of such rights or other securities. The issuance of such rights or other securities could have the effect of delaying or preventing a change in control over us, even if a change in control were in our shareholders' interest.
- (3) Our staggered board of trustees may affect the ability of a shareholder to take control of our company. Our board of trustees has three classes of trustees. The term of office of

-13-

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

one class expires each year. Trustees for each class are elected for three year terms upon the expiration of the term of the respective class. The staggered terms for trustees may affect the ability of a shareholder to take control of us, even if a change in control were in the best interests of our shareholders.

In addition, we have adopted a shareholder rights plan that may discourage a tender offer or other transaction that might involve a premium price for our shares or otherwise be in the best interests of our shareholders.

RISKS RELATED TO THE REAL ESTATE INDUSTRY

NEGATIVE PERCEPTIONS OF THE RETAIL SECTOR GENERALLY MAY RESULT IN A DECLINE IN OUR SHARE PRICE.

Our portfolio of properties consists almost entirely of retail shopping centers and we expect to continue to focus on acquiring retail centers in the future. To the extent that the investing public has a negative perception of the retail sector, the value of our shares could be negatively impacted, which could result in our shares trading at a discount below the inherent value of our assets as a whole.

-14-

COSTS ASSOCIATED WITH COMPLYING WITH THE AMERICANS WITH DISABILITIES ACT MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Our properties are subject to the Americans with Disabilities Act of 1990. Under the Americans with Disabilities Act, all places of public accommodation are required to comply with rules related to access and use by disabled persons. The Americans with Disabilities Act's requirements could require costly modifications to our properties and could result in imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. Future legislation also may impose additional requirements that we cannot predict.

LEGISLATIVE ACTIONS, HIGHER INSURANCE AND NEW ACCOUNTING PRONOUNCEMENTS COULD INCREASE OUR OPERATING EXPENSES AND IMPACT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In order to comply with the Sarbanes-Oxley Act of 2002 as well as changes to listing standards adopted by the New York Stock Exchange, we have been and continue to be incurring certain costs and expenses, including hiring additional personnel and utilizing additional outside legal, accounting and advisory services. These activities increase our operating expenses. In addition, insurers may increase premiums as a result of our increased size, so our costs for our insurance policies, including our directors' and officers' insurance policies, may increase.

We cannot predict the impact that new accounting pronouncements may have on our results of operations. Any such accounting pronouncements also could result in the incurrence of additional professional fees.

POSSIBLE TERRORIST ACTIVITY OR OTHER ACTS OF VIOLENCE OR WAR COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, may result in declining economic activity, which could harm the demand for and the value of our properties and may adversely affect the

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

value of an investment in our securities. A decrease in retail demand could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction or loss, and the availability of insurance for such acts may be lower, or cost more, which could adversely affect our financial condition and results of operations. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts may erode business and consumer confidence and spending, and may result in increased volatility in national and international financial markets and economies. Any one of these events may decrease demand for real estate, decrease or delay the occupancy of our new or renovated properties, increase our operating expenses due to increased physical security for our properties and limit our access to capital or increase our cost of raising capital.

-15-

TAX RISKS

IF WE WERE TO FAIL TO QUALIFY AS A REIT OUR SHAREHOLDERS WOULD BE ADVERSELY AFFECTED.

We believe that we have qualified as a REIT since our inception and intend to continue to qualify as a REIT. To qualify as a REIT, however, we must comply with certain highly technical and complex requirements under the Internal Revenue Code. We cannot be certain we have complied with these requirements because there are very limited judicial and administrative interpretations of these provisions, and even a technical or inadvertent mistake could jeopardize our REIT status. In addition, facts and circumstances that may be beyond our control may affect our ability to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the federal income tax consequences of qualification.

If we were to fail to qualify as a REIT, we would be subject to federal income tax on our taxable income at regular corporate rates. Also, unless the Internal Revenue Service granted us relief under statutory provisions, we would remain disqualified from treatment as a REIT for the four taxable years following the year during which we first failed to qualify. The additional tax incurred at regular corporate rates would reduce significantly the cash flow available for distribution to shareholders and for debt service. In addition, we would no longer be required to make any distributions to shareholders.

WE MAY BE UNABLE TO COMPLY WITH THE STRICT INCOME DISTRIBUTION REQUIREMENTS APPLICABLE TO REITS OR COMPLIANCE WITH SUCH REQUIREMENTS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

To obtain the favorable tax treatment associated with qualifying as a REIT, we are required each year to distribute to our shareholders at least 90% of our net taxable income. In addition, we are subject to a tax on any undistributed portion of our income at regular corporate rates and may also be subject to a 4% excise tax on this undistributed income. We could be required to seek to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT, even if conditions are not favorable for borrowing, which could adversely affect our financial condition.

-16-

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares by the selling shareholders, nor will any of the proceeds be available for our use or otherwise for our benefit.

SELLING SHAREHOLDERS

The following table provides the names of the selling shareholders as of the date of this prospectus, any position held with the Company and the number of shares beneficially owned by each such holder on that date. Because the selling shareholders may sell all, some or none of their shares, we cannot estimate the aggregate number of shares that will be owned by each selling shareholder after completion of the offering to which this prospectus relates.

The shares offered by this prospectus may be offered from time to time by the selling shareholders named below or by their pledgees, donees, transferees, partners or other successors in interest.

Name -----	Position with Company -----	Number of Share Beneficially Own Prior to Offering -----
Ronald Rubin	Chairman, Chief Executive Officer and Trustee of PREIT	1,346,275
George Rubin	Trustee; Vice Chairman of PREIT since June 2004; President of PREIT Services, LLC and PREIT-RUBIN from September 1997 to June 2004	685,800
Leonard Shore	Executive Vice President - Special Projects of PREIT and Executive Vice President of PREIT Services, LLC	198,369
Joseph Coradino	President of PREIT Services, LLC and PREIT-RUBIN since June 2004; Executive Vice President - Retail Division of PREIT from December 2001 to June 2004; Executive Vice President - Retail Division and Treasurer of PREIT-RUBIN from November 1998 to June 2004	144,176
Lewis Stone	None	110,272
Gerald Broker	None	38,478
Patricia Berns	None	46,466
Edward Glickman	President, Chief Operating Officer and Trustee of PREIT since June 2004; Executive Vice President and Chief Financial Officer of PREIT from September 1997 to June 2004	237,128

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

- (2) Includes 131,050 shares that Ronald Rubin owns directly, 574,135 Class A units of limited partnership interest in PREIT Associates, L.P. (49,006 of which are held by the Non-QTIP Marital Trust U/W Richard I. Rubin (the "Marital Trust") of which Ronald Rubin and George Rubin are beneficiaries and 2,776 of which are owned by a corporation of which Ronald Rubin is the sole shareholder) that are redeemable for cash or, at PREIT's option for a like number of shares, 150,000 shares subject to exercisable options, 7,835 shares held by a trust of which Ronald Rubin is a trustee, 104,282 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005 and 378,973 Class A units that are not redeemable until June 2, 2005 (172,074 of which are held by the Marital Trust of which Ronald Rubin and George Rubin are beneficiaries). Excludes 5,226 Class A units held by Pan American Office Investments, L.P. Ronald Rubin controls and holds substantial ownership interests in Pan American Office Investments, L.P.
- (3) Includes 73,835 shares that George Rubin owns directly, 278,593 Class A units of limited partnership interest in PREIT Associates, L.P. (49,006 of which are held by the Marital Trust of which Ronald Rubin and George Rubin are beneficiaries) that are redeemable for cash or, at PREIT's option, for a like number of shares, 75,000 shares subject to exercisable options, and 7,835 shares held by a trust of which Mr. Rubin is a trustee. Also includes 900 shares held by a trust, the beneficiary of which is Mr. Rubin's daughter, 500 shares held by Mr. Rubin's spouse, as to both of which Mr. Rubin disclaims beneficial ownership, 46,336 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005 and 202,801 Class A units that are not redeemable until June 2, 2005 (172,074 of which are held by the Marital Trust of which Ronald Rubin and George Rubin are beneficiaries). Excludes 5,226 Class A units held by Pan American Office Investments, L.P. George Rubin holds limited partnership interests in Pan American Office Investments, L.P.
- (4) Includes 112,715 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares, 29,763 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005 and 53,885 Class A units that are not redeemable until June 2, 2005.
- (5) Includes 85,756 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 19,133 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
- (6) Includes 43,871 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares, 12,517 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005 and 53,884 Class A units that are not redeemable until June 2, 2005.
- (7) Includes 22,795 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 15,683 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.

-18-

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

- (8) Includes 33,843 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 12,623 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (9) Includes 26,260 shares that Mr. Glickman owns directly, 45,436 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares, 134,260 shares subject to exercisable options and 11,272 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (10) Includes 23,394 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 6,336 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (11) Includes 12,973 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 4,214 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (12) Includes 18,388 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 5,529 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
- 19-
- (13) Includes 13,181 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 4,225 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (14) Includes 9,941 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 3,177 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (15) Includes 8,969 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 2,503 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (16) Includes 4,744 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 1,277 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until March 25, 2005.
 - (17) Includes 3,156 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash or, at PREIT's option, for a like number of shares and 1,040 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

until March 25, 2005.

- (18) Ronald Rubin and George Rubin are beneficiaries of the Marital Trust. Ronald Rubin and George Rubin disclaim beneficial ownership of the securities held by the Marital Trust except to the extent of their respective pecuniary interests therein.
- (19) Includes 49,006 Class A units of limited partnership interest in PREIT Associates, L.P. that are redeemable for cash, or at PREIT's option, for a like number of shares and 172,074 Class A units that are not redeemable until June 2, 2005.
- (20) Ronald Rubin controls and holds substantial ownership interests in Pan American Office Investments, L.P. George Rubin holds limited partnership interests in Pan American Office Investments, L.P.
- (21) Includes 5,226 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until June 2, 2005.
- (22) Includes 86,618 Class A units of limited partnership interest in PREIT Associates, L.P. that are not redeemable until June 2, 2005.

-20-

DESCRIPTION OF SHARES OF BENEFICIAL INTEREST

The following summary of the material terms of our shares of beneficial interest does not include all of the terms of the shares and should be read together with our trust agreement and by-laws and with applicable Pennsylvania law. In addition, this summary includes a description of our 11% Non-Convertible, Senior Preferred Shares, par value \$0.01 per share, liquidation preference \$50.00 per share (the "11% preferred shares"). Accordingly, you should read the form of the designating amendment to our trust agreement for those preferred shares. Our trust agreement and by-laws and the form of designating amendment are incorporated by reference into the registration statement of which this prospectus is a part.

AUTHORIZED CAPITAL STOCK

Under our trust agreement, we have the authority to issue up to 100,000,000 shares of beneficial interest, \$1.00 par value per share, and up to 25,000,000 preferred shares.

SHARES OF BENEFICIAL INTEREST

VOTING, DIVIDEND AND OTHER RIGHTS. Subject to the provisions of our trust agreement regarding "Excess Shares" (See "--REIT Ownership Limitations and Transfer Restrictions Applicable to Shares of Beneficial Interest and 11% Preferred Shares"), (1) the holders of our shares are entitled to one vote per share on all matters voted on by shareholders, including elections of trustees, and (2) subject to the rights of holders of any preferred shares, including the 11% preferred shares, the holders of our shares are entitled to a pro rata portion of any distributions declared from time to time by our board of trustees from funds available for those distributions, and upon liquidation are entitled to receive pro rata all of the assets available for distribution to those holders. See "-- 11% Preferred Shares--Dividends and --Liquidation." The majority of shares voting on a matter at a meeting at which at least a majority of the outstanding shares are present in person or by proxy constitutes the act of the shareholders, except with respect to the election of trustees (see below). Our trust agreement permits the holders of securities of our affiliates to vote with our shareholders on specified matters, and our trustees have

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

granted that right to certain holders of currently outstanding PREIT Partnership Units with respect to fundamental changes in us (i.e., mergers, consolidations and sales of substantially all of our assets). See "- Summary of the Operating Partnership Agreement and PREIT Partnership Units - Authorization of PREIT Partnership Units and Voting Rights." Shareholders do not have any pre-emptive rights to purchase our securities.

Our trust agreement provides that our board of trustees may authorize the issuance of multiple classes and series of shares of beneficial interest and, subject to the rights of the holders of the 11% preferred shares, classes and series of preferred shares having preferences to the existing shares in any matter, including rights in liquidation or to dividends and option rights (including shareholder rights plans), and other securities having conversion or option rights, and may authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of shares. Accordingly, the rights of holders of existing shares of beneficial interest are subject and junior to preferred rights, including the rights of holders of the 11% preferred shares, as to dividends and in liquidation (and other such matters) and to the extent set forth in any subsequently authorized preferred shares or class of preferred shares.

-21-

BOARD OF TRUSTEES. Our board of trustees is divided into three classes serving staggered three-year terms. Our trust agreement does not provide for cumulative voting in the election of trustees, and the candidates receiving the highest number of votes are elected to the office of trustee.

TRUSTEE NOMINATION PROCESS. Our trust agreement provides that nominations for election to the office of trustee at any annual or special meeting of shareholders shall be made by the trustees, or by petition in writing delivered to the secretary not fewer than 35 days before the meeting signed by the holders of at least two percent of the shares outstanding on the date of the petition. Nominations not made in accordance with these procedures will not be considered unless the number of persons nominated is fewer than the number of persons to be elected to the office of trustee at the meeting. In this latter event, any person entitled to vote in the election of trustees may make nominations at the meeting for the trustee positions that would not otherwise be filled.

11% PREFERRED SHARES

In connection with our merger with Crown American Realty Trust, we issued 2,475,000 preferred shares to the former holders of Crown's 11% preferred shares that are identical in all material respects to the former Crown 11% preferred shares. The number of 11% preferred shares may be decreased by our board from time to time, though not below the number of 11% preferred shares then outstanding.

RANK. With respect to dividend rights and rights upon liquidation, dissolution or winding up, the 11% preferred shares rank senior to all classes or series of our equity securities, except that the 11% preferred shares will rank on a parity with additional preferred shares that we may issue with terms specifically providing that the new preferred shares rank on a parity with the 11% preferred shares with respect to dividend rights or rights upon our liquidation, dissolution or winding up, if the aggregate liquidation preference of the additional preferred shares and the 11% preferred shares together do not exceed \$123,750,000.

DIVIDENDS. Holders of the 11% preferred shares will be entitled to receive, when, as and if declared by our board of trustees, out of funds legally

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

available for the payment of dividends, cumulative, preferential cash dividends in an amount per share equal to \$5.50 per annum. Each dividend will be payable to holders of record as they appear on our transfer books on the record date as provided below.

In addition, holders of the 11% preferred shares may be eligible to receive additional dividends ("Additional Dividends") from time to time if our "Total Debt" (as defined in the designating amendment) exceeds the product of 6.5 times "EBITDA" (as defined in the designating amendment) (the "Leverage Ratio") without the consent of the holders of at least 50% of the 11% preferred shares outstanding at that time. Holders who consent to a waiver of this restriction will be paid a consent fee. If required to be paid, Additional Dividends will be for an amount per share equal to 0.25% of the Preferred Liquidation Preference Amount (as defined below) on an annualized basis for the first quarter with respect to which an Additional Dividend is due. For each quarter after that initial due date that we continue to exceed the permitted Leverage Ratio, the Additional Dividend will increase by an amount per share equal to an additional 0.25% of the Preferred Liquidation Preference Amount on an annualized basis. However, the maximum total dividend on the 11% preferred shares, including any Additional Dividends, will not at any time exceed 13% of the Preferred Liquidation Preference Amount per annum.

-22-

If any 11% preferred shares are outstanding, we will not declare, pay, or set apart for payment dividends on our common shares or any other series ranking, as to dividends, on a parity with or junior to the 11% preferred shares for any period unless we contemporaneously declare and pay, or declare and set apart funds sufficient to pay, full cumulative dividends (including any Additional Dividends) on the 11% preferred shares for all past dividend periods and the then current dividend period. If we do not pay dividends in full or set apart a sum sufficient for full payment on the 11% preferred shares and the shares of any series of preferred shares ranking on a parity as to dividends with the 11% preferred shares, we will declare, pro rata, all dividends on the 11% preferred shares and any series of preferred shares ranking on a parity as to dividends with the 11% preferred shares so that the amount of dividends that we declare per share on the 11% preferred shares and such other series of preferred shares will in all cases bear to each other the same ratio that accrued and unpaid dividends per 11% preferred share and such other series of preferred shares bear to each other. We will not pay any interest, or sum of money in lieu of interest, in respect of any dividend payment or payments on the 11% preferred shares that may be in arrears.

Except as provided in the immediately preceding paragraph, unless we contemporaneously have declared and paid, or declared and set apart funds sufficient to pay, full cumulative dividends (including any Additional Dividends) on the 11% preferred shares for all past dividend periods and the then current dividend period, we will not declare and pay, or declare and set apart for payment, any dividends on our capital shares ranking junior to or on a parity with the 11% preferred shares as to dividends, other than distributions payable in our common shares or other capital shares ranking junior to the 11% preferred shares as to dividends and upon our liquidation, dissolution or winding up. In that event, we also will not redeem, purchase, or otherwise acquire for any consideration any of our common shares or any other capital shares ranking junior to or on a parity with the 11% preferred shares as to dividends or upon our liquidation, dissolution or winding up, nor will we pay any moneys to or make moneys available for a sinking fund for the redemption of any such shares, except by conversion into or exchange for other of our capital shares ranking junior to the 11% preferred shares as to dividends and upon our liquidation, dissolution and winding up.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Any dividend that we pay on the 11% preferred shares will first be credited against the earliest accrued but unpaid dividend due with respect to the 11% preferred shares that remains payable.

LIQUIDATION RIGHTS. If we are liquidated or dissolved, or if our operations are wound up, the holders of the 11% preferred shares will be entitled to be paid out of our assets legally available for distribution to our shareholders a liquidation preference equal to the sum of \$50.00 per share plus an amount equal to any accrued and unpaid dividends on the 11% preferred shares - whether or not earned or declared - to the date of payment (the "Preferred Liquidation Preference Amount"), before we distribute any assets to holders of our common shares or any other capital shares that rank junior to the 11% preferred shares as to liquidation rights. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the 11% preferred shares will have no right or claim to any of our remaining assets.

-23-

If we have made liquidating distributions in full to all holders of the 11% preferred shares, our remaining assets will be distributed among the holders of any other classes or series of capital shares ranking junior to the 11% preferred shares upon our liquidation, dissolution or winding up according to their respective rights and preferences and in each case according to their respective number of shares.

Our consolidation or merger with or into any other corporation, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up for purposes of liquidation rights.

REDEMPTION. We may not redeem the 11% preferred shares before July 31, 2007, except under certain limited circumstances to preserve our status as a REIT. See "--REIT Ownership Limitations and Transfer Restrictions Applicable to Shares of Beneficial Interest and 11% Preferred Shares." On and after July 31, 2007, we, at our option - to the extent we have legally available funds - and upon not less than 30 nor more than 60 days written notice, may redeem the 11% preferred shares, in whole or in part, at any time or from time to time, during the periods and at the redemption prices shown below plus any accrued and unpaid dividends to the date of redemption:

Redemption Period	Redemption Price Per 11% Preferred Share
-----	-----
July 31, 2007 through July 30, 2009	\$52.50
July 31, 2009 through July 30, 2010	\$51.50
On or after July 31, 2010	\$50.00

Notwithstanding the foregoing, unless we contemporaneously have declared and paid, or declared and set aside a sum sufficient for the payment of, full cumulative dividends on all outstanding 11% preferred shares for all past dividend periods and the then current dividend period, (1) we will not redeem any 11% preferred shares unless we redeem all outstanding 11% preferred shares simultaneously and (2) we will not purchase or otherwise acquire directly or indirectly through a subsidiary or otherwise, any 11% preferred shares; except that we may purchase or otherwise acquire 11% preferred shares through a purchase or exchange offer made on the same terms to holders of all outstanding 11% preferred shares.

If we redeem fewer than all of the outstanding 11% preferred shares, then we will determine the number of shares to be redeemed and those shares may be redeemed pro rata from their record holders either in proportion to the

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

number of shares held by those holders - as nearly as may be practicable without creating fractional 11% preferred shares - or under any other equitable method that we determine to use.

-24-

We will retire and restore to the status of authorized and unissued preferred shares, without designation as to series, all 11% preferred shares that we redeem. After doing so, we may reissue them as any series of preferred shares.

The 11% preferred shares have no stated maturity and will not be subject to any sinking fund.

VOTING RIGHTS. Holders of the 11% preferred shares do not have any voting rights, except as described below or as otherwise required by law. Subject to the provisions of our trust agreement regarding Excess Shares (see "--REIT Ownership Limitations and Transfer Restrictions Applicable to Shares of Beneficial Interest and 11% Preferred Shares"), in any matter in which the holders of the 11% preferred shares may vote, including any action by written consent, each holder will be entitled to one vote per share. The holders of each share may separately designate a proxy for the vote to which that share is entitled.

Whenever dividends on any 11% preferred shares have been in arrears for six or more quarterly dividend periods - regardless of whether the periods are consecutive - the holders of 11% preferred shares (voting separately as a class with all other series of preferred shares upon which rights to vote on such matter with the 11% preferred shares have been conferred and are then exercisable) will be entitled to vote for the election of two additional members of our board of trustees. This vote may occur at a special meeting called by the holders of record of at least 10% of the 11% preferred shares and any other preferred shares, if any (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders). In addition, this vote may occur at the next annual meeting of shareholders, and at each annual meeting after that annual meeting. These voting rights expire when we have paid, or declared and set aside a sum sufficient for the payment of, all dividends accumulated on the 11% preferred shares for past dividend periods and the then current dividend period. In this event, the entire board will be increased by two trustees, each of whom will be elected to serve until the earlier of (1) the election and qualification of the trustee's successor or (2) payment of the dividend arrearage for the 11% preferred shares.

If any trustee elected by the holders of the 11% preferred shares ceases to serve as a trustee before the trustee's term expires, the holders of the 11% preferred shares - and any other series of preferred shares, if any, entitled to vote on such matter, as described above - then outstanding may, at a special meeting of the holders called as provided above, elect a successor to hold office for the unexpired term of the trustee whose place is vacant.

While any 11% preferred shares remain outstanding, we will not (1) without the affirmative vote of, or consent of the holders of all of, the 11% preferred shares outstanding at the time (such series voting separately as a class), authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital shares ranking senior to the 11% preferred shares with respect to the payment of dividends or the distribution of assets upon our liquidation, dissolution or winding up, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (2) without the affirmative vote of, or consent of the holders of at least two-thirds of, the 11% preferred shares outstanding at the time (such series voting separately as a class), amend, alter or repeal the provisions of our trust agreement, whether by merger, consolidation or

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the 11% preferred shares or the holders thereof. Any increase in the amount of the authorized preferred shares, or the creation or issuance of any other series of preferred shares, or any increase in the amount of authorized shares of preferred shares or any other series of preferred shares, in each case ranking on a parity with or junior to the 11% preferred shares with respect to payment of dividends or the distribution of assets upon our liquidation, dissolution or winding up, will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of the 11% preferred shares.

-25-

The foregoing voting provisions will not apply if, at or before the time when the act with respect to which such vote would otherwise be required is effected, we have redeemed or called for redemption upon proper notice all outstanding 11% preferred shares and we have deposited in trust an amount of funds sufficient to effect the redemption.

SHAREHOLDER RIGHTS PLAN

The following summary of the Rights Agreement, dated as of April 30, 1999, as the same may be amended from time to time (the "Rights Agreement"), between us and American Stock Transfer and Trust Company, as rights agent (the "Rights Agent") does not include all of the terms of the Rights Agreement. You should read this summary together with the Rights Agreement, which is incorporated by reference into the registration statement of which this prospectus is a part.

The description and terms of the rights issuable under our shareholder rights plan are set forth in the Rights Agreement. Each right entitles its registered holder to purchase from us one share at a price of \$70.00 (the "Exercise Price"), subject to certain adjustments.

The rights, unless earlier redeemed or exchanged by our board of trustees, become exercisable upon the close of business on the day (the "Distribution Date") that is the earlier of (i) the tenth day following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person"), with certain exceptions set forth below, has acquired beneficial ownership or voting control of 15% or more of our outstanding voting shares, and (ii) the tenth business day (or such later date as may be determined by our board of trustees before any person or group of affiliated or associated persons becomes an Acquiring Person) after the date of the commencement or public announcement of a person's or group's intention to commence a tender or exchange offer the consummation of which would result in the acquisition of beneficial ownership or voting control of 15% or more of our outstanding voting shares (even if no shares actually are acquired as part of that offer). The rights will expire at the close of business on March 31, 2009, unless we redeem or exchange them earlier as described below.

Unless we redeem or exchange the rights, if a person or group of affiliated or associated persons becomes an Acquiring Person, each holder of record of a right, other than the Acquiring Person (whose rights will become null and void), will have the right to pay the Exercise Price in return for shares having a market value equal to double the Exercise Price. In addition, after a person or group becomes an Acquiring Person, if we were to undergo a change of control, each holder of record of a right, other than the Acquiring Person (whose rights will become null and void), will have the right to pay the Exercise Price in return for shares of the acquiring entity having a market value equal to double the Exercise Price.

At any time after any person or group of affiliated or associated persons becomes an Acquiring Person and before the Acquiring Person acquires 50% or more of our outstanding voting shares, our board of trustees may exchange the rights (other than rights owned by the Acquiring Person, which will have become null and void), in whole or in part, at an exchange ratio of one share per right (subject to adjustment).

The rights have anti-takeover effects in that they will cause substantial dilution to a person or group of affiliated or associated persons that attempts to acquire our shares on terms not approved by our board of trustees. The rights should not interfere with any merger or other business combination approved by our board of trustees because we may redeem the rights at \$0.001 per right at any time until the close of business on the tenth day (or such later date as described above) after a person or group has obtained beneficial ownership or voting control of 15% or more of our voting shares.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our shares of beneficial interest and for the 11% preferred shares is American Stock Transfer & Trust Co.

LIMITED LIABILITY OF SHAREHOLDERS

Our trust agreement provides that shareholders, to the fullest extent permitted by applicable law, are not liable for any act, omission or liability of a trustee and that the trustees have no power to bind shareholders personally. Nevertheless, there may be liability in some jurisdictions that may decline to recognize a business trust as a valid organization. With respect to all types of claims in any such jurisdiction, and with respect to tort claims, certain contract claims and possible tax claims in jurisdictions where the business trust is treated as a partnership for certain purposes, shareholders may be personally liable for such obligations to the extent that we do not satisfy those claims. We conduct substantially all of our business that is in jurisdictions other than the Commonwealth of Pennsylvania in entities recognized in the relevant jurisdiction to limit the liability of equity owners. We carry insurance in amounts that we deem adequate to cover foreseeable tort claims.

SUMMARY OF THE OPERATING PARTNERSHIP AGREEMENT AND PREIT PARTNERSHIP UNITS

The following summary of the First Amended and Restated Agreement of Limited Partnership of PREIT Associates, L.P., as amended (the "Operating Partnership Agreement"), and PREIT Partnership Units does not include all of the terms of the Operating Partnership Agreement or the PREIT Partnership Units, so you should read the summary together with the Operating Partnership Agreement, which is incorporated by reference into the registration statement of which this prospectus is a part.

GENERAL. We are the sole general partner of PREIT Associates. When PREIT Associates initially was organized on September 30, 1997, we contributed to PREIT Associates, or to entities wholly owned by PREIT Associates, the real estate interests that we owned, directly or indirectly, or the economic benefits of those real estate interests, in exchange for a general partnership interest in PREIT Associates and a number of Class A PREIT Partnership Units that equaled, in the aggregate, the number of our shares of beneficial interest

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

issued and outstanding on September 30, 1997. In addition, as part of our merger with Crown American Realty Trust, PREIT Associates issued to us a number of 11% Senior Preferred PREIT Partnership Units, representing another class of PREIT Partnership Units, equal to the number of 11% preferred shares that we issued in the merger. The number of 11% PREIT Partnership Units issued will at any time always equal the number of 11% preferred shares outstanding at that time.

MANAGEMENT. Under the Operating Partnership Agreement, we, as the sole general partner of PREIT Associates, have the authority, to the exclusion of the limited partners, to make all management decisions on behalf of PREIT Associates. In addition, we, as general partner, may cause PREIT Associates to create and issue additional classes of limited or preferred partner interests with terms different from the limited partner and general partner interests currently outstanding. We have agreed in the Operating Partnership Agreement to conduct substantially all of our business activities through PREIT Associates unless a majority in interest of the PREIT Partnership Units (exclusive of PREIT Partnership Units that we own) consent to the conduct of business activities outside PREIT Associates.

AUTHORIZATION OF PREIT PARTNERSHIP UNITS AND VOTING RIGHTS. The Operating Partnership Agreement authorizes the issuance of an unlimited number of PREIT Partnership Units in one or more classes. Holders of PREIT Partnership Units are entitled to distributions from PREIT Associates as and when made by us as the general partner. Because we are required to make distributions on the Class A PREIT Partnership Units that we hold directly or indirectly at the times and in the amounts required to allow us to make distributions to our shareholders necessary to preserve our status as a REIT for federal income tax purposes, we anticipate that the other holders of PREIT Partnership Units will receive those distributions at the approximate time, and in the same amounts, as we declare and pay dividends to our shareholders.

Holders of PREIT Partnership Units generally have no right to vote on any matter voted on by holders of our shares except that, before the date on which at least half of the PREIT Partnership Units issued on September 30, 1997 in connection with the organization of PREIT Associates have been redeemed, the holders of PREIT Partnership Units issued and outstanding on September 30, 1997 are entitled to vote those PREIT Partnership Units and additional PREIT Partnership Units that they may have received and may receive in the future in transactions that were the subject of the September 30, 1997 issuance, along with our shareholders as a single class, on any proposal to merge, consolidate, or sell substantially all of our assets. Our PREIT Partnership Units are not included for purposes of determining when half of the PREIT Partnership Units issued and outstanding on September 30, 1997 have been redeemed, nor are they counted as votes. If the holders of our shares vote on such a transaction, and holders of PREIT Partnership Units are entitled to vote on the transaction, then each covered PREIT Partnership Unit will be entitled to one vote for each share issuable by us upon the redemption of such PREIT Partnership Unit and the necessary vote to effect such action shall be the sum of an absolute majority of the outstanding PREIT Partnership Units entitled to vote on such matter and the applicable vote of the holders of our outstanding shares. The required aggregate vote may be met by any combination of holders of PREIT Partnership Units or shares.

-28-

The Operating Partnership Agreement also provides that we may not engage in a fundamental transaction (e.g., a merger) unless, by the terms of the fundamental transaction, the PREIT Partnership Units are treated in the same manner as that number of shares for which they are exchangeable upon notice of redemption are treated. Holders of PREIT Partnership Units also have the right to vote on certain amendments to the Operating Partnership Agreement. In

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

addition, so long as any 11% PREIT Partnership Units remain outstanding, PREIT Associates will not (1) without the affirmative vote of, or consent of the holders of all of, the 11% PREIT Partnership Units outstanding at the time, authorize, create or issue, or increase the authorized or issued amount of, any class or series of capital shares ranking senior to the 11% PREIT Partnership Units with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (2) without the affirmative vote of, or consent of the holders of at least two-thirds of, the 11% PREIT Partnership Units outstanding at the time (such series voting separately as a class), amend, alter or repeal the provisions of the Operating Partnership Agreement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the 11% PREIT Partnership Units or of the holders of the 11% PREIT Partnership Units. Any increase in the amount of the authorized preferred units, or the creation or issuance of any other series of preferred units, or any increase in the amount of authorized shares of preferred units or any other series of preferred units, in each case ranking on a parity with or junior to the 11% PREIT Partnership Units with respect to payment of dividends or the distribution of assets upon PREIT Associates' liquidation, dissolution or winding up, will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of the 11% PREIT Partnership Units.

REDEMPTION RIGHTS. Class A and Class B PREIT Partnership Units are redeemable by PREIT Associates at the election of a limited partner holding the units, at such time, and for such consideration, as provided in the Operating Partnership Agreement. In general, and subject to certain exceptions and limitations, holders of Class A PREIT Partnership Units (other than us and our subsidiaries) may, beginning one year following the respective issue dates, give one or more notices of redemption with respect to all or any part of the Class A PREIT Partnership Units so received and then held by such party. Class B PREIT Partnership Units are redeemable at the option of the holder at any time after issuance. The 11% PREIT Partnership Units will be redeemable in the same amounts and during the same time periods as the 11% preferred shares. See "--11% Preferred Shares--Redemption."

If a notice of redemption is given, we may elect to acquire the PREIT Partnership Units tendered for redemption for our own account, either in exchange for the issuance of a like number of shares (subject to adjustments for stock splits, recapitalizations, and like events) or a cash payment equal to the average closing price of the shares over the ten consecutive trading days immediately before we receive, in our capacity as general partner of PREIT Associates, the notice of redemption. If we decline to exercise such right, then on the tenth day following tender for redemption, PREIT Associates will pay a cash amount equal to the number of Class A or Class B PREIT Partnership Units so tendered multiplied by such average closing price. PREIT Associates is required to distribute to us such additional amounts as we may need at any time to pay the redemption price of the 11% preferred shares, and that payment also will be treated as payment of the redemption price of the same number of 11% PREIT Partnership Units, which also will be redeemed.

-29-

RANKING; LIQUIDATION. The 11% PREIT Partnership Units will, with respect to distribution rights and rights upon liquidation, rank senior to the other PREIT Partnership Units. Upon liquidation of PREIT Associates, each holder of an 11% PREIT Partnership Unit will be entitled to receive a liquidation preference equal to \$50.00 per unit, plus any accrued and unpaid dividends on the 11% PREIT Partnership Unit before payment or distribution of any amounts to holders of other PREIT Partnership Units.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

REIT OWNERSHIP LIMITATIONS AND TRANSFER RESTRICTIONS APPLICABLE TO SHARES OF BENEFICIAL INTEREST AND 11% PREFERRED SHARES

Among the requirements for qualification as a REIT under the Internal Revenue Code are (1) not more than 50% in value of our outstanding shares, including our shares of beneficial interest and the 11% preferred shares (after taking into account options to acquire shares), may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year, (2) our shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year, and (3) certain percentages of our gross income must be from particular activities. In order to continue to qualify as a REIT under the Internal Revenue Code, our trustees have adopted, and our shareholders have approved, provisions of our trust agreement that restrict the ownership and transfer of shares (the "Ownership Limit Provisions").

The Ownership Limit Provisions provide that no person may beneficially own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.9% of any separate class of our shares. For this purpose, our shares of beneficial interest and the 11% preferred shares are treated as separate classes. Our trustees may exempt a person from the Ownership Limit Provisions after obtaining a ruling from the Internal Revenue Service or an opinion of counsel or our tax accountants to the effect that such ownership will not jeopardize our status as a REIT.

Issuance or transfers of shares in violation of the Ownership Limit Provisions, or that would cause us to be beneficially owned by fewer than 100 persons, are void ab initio and the intended transferee acquires no rights to the shares.

If a purported transfer or other event occurs that would, if effective, result in the ownership of shares in violation of the Ownership Limit Provisions, our trust agreement provides that such transfer or other event with respect to that number of shares that would be owned by the transferee in excess of the Ownership Limit Provisions, automatically are exchanged for an equal number of Excess Shares (as defined in our trust agreement), to the extent necessary to ensure that the purported transfer or other event does not result in the ownership of shares in violation of the Ownership Limit Provisions. Any purported transferee or other purported holder of Excess Shares is required to give us written notice of a purported transfer or other event that would result in the issuance of Excess Shares.

-30-

Excess Shares are not treasury shares but rather continue as issued and outstanding shares of beneficial interest. While outstanding, Excess Shares will be held in trust. We will serve as the trustee of that trust. The purported holder of the Excess Shares will be entitled to designate the beneficiary of the Trust. A holder of Excess Shares is not entitled to any dividends or distributions. If, after the purported transfer or other event resulting in an exchange of shares of beneficial interest for Excess Shares, and before our discovery of that exchange, we pay any dividends or distributions on the shares that were exchanged for Excess Shares, then the holder of the Excess Shares will be required to repay those dividends or distributions to us upon demand. Holders of Excess Shares will participate ratably (based on the total number of shares and Excess Shares) if we undergo any liquidation, dissolution or winding up. Except as required by law, holders of Excess Shares are not entitled to vote

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

such shares on any matter. While Excess Shares are held in trust, any interest in that trust may be transferred by the trustee only to a person whose ownership of shares will not violate the Ownership Limit Provisions, at which time the Excess Shares automatically will be exchanged for the same number of shares of the same type and class as the shares for which the Excess Shares were originally exchanged. Before any transfer of any interest in the Excess Shares held in trust, the purported transferee or other purported holder, as the case may be, must give us advance notice of the intended transfer and we must waive in writing our purchase rights, described below. Our trust agreement contains provisions designed to ensure that the purported transferee or other purported holder of Excess Shares does not receive in return for such a transfer an amount that reflects any appreciation in the shares for which Excess Shares were exchanged during the period that such Excess Shares were outstanding. Any amount received by a purported transferee or other purported holder in excess of the amount permitted to be received must be paid to us. If the foregoing restrictions are determined to be invalid by any court of competent jurisdiction then the intended transferee or holder of any Excess Shares may be deemed, at our option, to have acted as an agent on our behalf in acquiring the Excess Shares and to hold the Excess Shares on our behalf.

Our trust agreement further provides that a purported transfer of Excess Shares shall be deemed to be offered for sale to us at the lesser of (1) the price paid for the shares by the purported transferee or, in the case of a gift, devise or other transaction, the market price for such shares at the time of such gift, devise or other transaction or (2) the market price for the shares on the date we or our designee exercise our or its option to purchase the Excess Shares. We may purchase such Excess Shares during a 90-day period, beginning on the date of the violative transfer if the original transferee-shareholder gives notice to us of the transfer or, if no notice is given, the date our board of trustees determines that a violative transfer or other event resulting in an exchange of shares for the Excess Shares has occurred.

Each shareholder, upon demand, is required to disclose to us in writing such information with respect to the direct, indirect and constructive ownership of shares as our board of trustees deems necessary to comply with the provisions of our trust agreement or the Internal Revenue Code applicable to a REIT or to comply with the requirements of any taxing authority or governmental agency. Certificates representing shares of any class or series issued after September 29, 1997 will bear a legend referring to the restrictions described above.

-31-

CERTAIN PROVISIONS AFFECTING A CHANGE IN CONTROL

In addition to our shareholder rights plan, the following may deter a potential acquiror from acquiring our shares:

OWNERSHIP LIMITS AND RESTRICTIONS ON TRANSFERABILITY. In order to protect our status as a REIT, no more than 50% of the value of our outstanding shares (after taking into account options to acquire shares) may be owned, directly or constructively, by five or fewer individuals and the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To assist us in satisfying these tests, subject to some exceptions, our trust agreement prohibits any shareholder from owning more than 9.9% of our outstanding shares of beneficial interest (exclusive of preferred shares) or more than 9.9% of any class or series of preferred shares. Our trust agreement also prohibits transfers of shares that would cause a shareholder to exceed the 9.9% limit or cause us to be beneficially owned by fewer than 100 persons. Our

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

board of trustees may exempt a person from the 9.9% ownership limit if our board receives a ruling from the Internal Revenue Service or an opinion of counsel or tax accountants that exceeding the 9.9% ownership limit as to that person would not jeopardize our status as a REIT. Absent an exemption, this restriction may discourage a tender offer or other transaction or change in management or control that might involve a premium price for our shares or otherwise be in the best interests of our shareholders.

STAGGERED BOARD. Our board of trustees has three classes of trustees. The term of office of one class expires each year. Trustees for each class are elected for three year terms upon the expiration of the term of the respective class. The staggered terms for trustees may affect a shareholder's ability to take control of us, even if a change in control were in the best interests of our shareholders.

MULTIPLE CLASSES AND SERIES OF SHARES OF BENEFICIAL INTEREST. Our trust agreement permits our board of trustees to create and issue multiple classes and series of preferred shares and classes and series of preferred shares having preferences to the existing shares on any matter, including rights in liquidation or to dividends and option rights (including shareholder rights plans), and other securities having conversion or option rights and may authorize the creation and issuance by our subsidiaries and affiliates of securities having conversion and option rights in respect of our shares. Our trust agreement further provides that the terms of such rights or other securities may provide for disparate treatment of certain holders or groups of holders of such rights or other securities. Our issuance of such rights or preferred shares could delay or prevent someone from acquiring control of us, even if a change in control were in the best interests of our shareholders.

-32-

FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the federal income tax considerations that may be material to an owner of shares of PREIT. The discussion, which is not exhaustive of all possible tax considerations, does not include a detailed discussion of any state, local or foreign tax considerations; nor does it cover all aspects of federal income taxation that may be relevant to a prospective shareholder in light of his or her particular circumstances or to certain types of shareholders who are subject to special treatment under the federal income tax laws (including, but not limited to, (1) insurance companies, (2) tax-exempt entities, (3) financial institutions, (4) broker-dealers, (5) foreign corporations, (6) persons who are not citizens or residents of the United States, (7) trusts, estates, regulated investment companies, other REITs, or S corporations, (8) persons subject to the alternative minimum tax, (9) persons holding their shares as part of a hedge, straddle, conversion or other risk-reduction or constructive sale transaction, (10) persons holding the shares through a partnership or similar pass-through entity, (11) persons with a "functional currency" other than the U.S. dollar, (12) U.S. expatriates and (13) persons who do not hold the shares as a capital asset).

THIS DISCUSSION IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED TO BE, TAX ADVICE. YOU ARE ADVISED TO CONSULT WITH YOUR OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE OWNERSHIP OF SHARES IN AN ENTITY ELECTING TO BE TAXED AS A REIT, INCLUDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES AND POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

TAXATION OF PREIT

GENERAL. If PREIT qualifies for taxation as a REIT, it generally will not be subject to federal corporate income taxes on net income that it currently

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

distributes to shareholders but PREIT's shareholders will generally be taxed at ordinary income rates on dividends that they receive other than dividends designated by PREIT as capital gain dividends or qualified dividend income. This differs from non-REIT C corporations, which generally are subject to federal corporate income taxes but whose individual stockholders are currently taxed on dividends they receive at capital gains rates. In general, income earned by a REIT and distributed to its shareholders will be subject to less overall federal income taxation than if such income were earned by a non-REIT C corporation, subjected to corporate income tax, and then distributed to shareholders and subjected to tax at capital gain rates.

While PREIT is generally not subject to corporate income taxes on income that PREIT distributes currently to shareholders, PREIT will be subject to federal tax as follows:

1. PREIT will be taxed at regular corporate rates on any "REIT taxable income." REIT taxable income is the taxable income of a REIT subject to specified adjustments, including a deduction for dividends paid.

-33-

2. Under some circumstances, PREIT may be subject to the "alternative minimum tax" due to PREIT's undistributed items of tax preference and alternative minimum tax adjustments, if any.

3. If PREIT has net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business, or other nonqualifying income from foreclosure property, PREIT will be subject to tax at the highest corporate rate on this income.

4. PREIT's net income from "prohibited transactions" will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.

5. If PREIT fails to satisfy either the 75% or the 95% gross income test discussed below, but nonetheless maintains its qualification as a REIT because other requirements are met, PREIT will be subject to a tax equal to the gross income attributable to the greater of (1) the amount by which 75% of PREIT's gross income exceeds the amount qualifying under the 75% test for the taxable year or (2) the amount by which 90% (or, in the case of taxable years beginning on or after October 22, 2004, 95%) of PREIT's gross income exceeds the amount of PREIT's income qualifying under the 95% test for the taxable year, multiplied in either case by a fraction reflecting the ratio of PREIT's net income to its gross income.

6. PREIT generally will be subject to a 4% excise tax on any shortfall to the extent PREIT fails to distribute during each calendar year (or pay income taxes on) at least the sum of:

- o 85% of PREIT's ordinary income for the year;
- o 95% of PREIT's capital gain net income for the year; and
- o any undistributed taxable income from prior calendar years.

7. PREIT will be subject to a 100% penalty tax on amounts received by PREIT (or on certain expenses deducted by a taxable REIT subsidiary) if certain arrangements among PREIT, its tenants and/or a taxable REIT subsidiary of PREIT, as further described below, are not comparable to similar arrangements among

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

unrelated parties.

8. If PREIT acquires any assets from a taxable C corporation in a carry-over basis transaction, PREIT could be liable for specified tax liabilities inherited from that C corporation with respect to that corporation's "built-in gain" in its assets. Built-in gain is the amount by which an asset's fair market value exceeds its adjusted tax basis at the time PREIT acquired the asset. Applicable Treasury regulations, however, allow PREIT to avoid the recognition of gain and the imposition of corporate-level tax with respect to a built-in gain asset acquired in a carry-over basis transaction from a C corporation unless and until PREIT disposes of that built-in gain asset during the 10-year period following its acquisition, at which time PREIT would recognize, and would be subject to tax at the highest regular corporate rate on, the built-in gain.

If PREIT is subject to taxation on its REIT taxable income or is subject to tax due to the sale of a built-in gain asset that was acquired in a carry-over basis transaction from a C corporation, some of the dividends PREIT pays to its shareholders may be subject to tax at the reduced capital gains rates, rather than ordinary income rates.

-34-

In addition, notwithstanding PREIT's status as a REIT, PREIT may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for federal income tax purposes. Moreover, each of PREIT's taxable REIT subsidiaries (as further described below) is subject to federal corporate income tax on its net income.

REQUIREMENTS FOR REIT QUALIFICATION. The Internal Revenue Code generally defines a REIT as a corporation, trust or association (1) that is managed by one or more trustees or directors; (2) the beneficial ownership of which is evidenced by transferable shares of stock, or by transferable certificates of beneficial interest; (3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code; (4) that is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code; (5) the beneficial ownership of which is held by 100 or more persons; (6) not more than 50% in value of the outstanding shares of which are owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of each taxable year; (7) that makes an election to be a REIT for the current taxable year or previously has made such an election which has not been terminated or revoked; and (8) that meets certain other tests, described below, regarding the nature of its income and assets. The Internal Revenue Code provides that conditions (1) through (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. PREIT's trust agreement contains certain restrictions regarding the transfers of its shares and provides certain disclosure requirements for 1% or greater shareholders that are intended to assist PREIT in continuing to satisfy the share ownership requirements described in (5) and (6) above. These restrictions, however, may not ensure that PREIT will be able to satisfy these share ownership requirements. If PREIT fails to satisfy these ownership requirements, PREIT will fail to qualify as a REIT.

In addition, PREIT must satisfy all relevant filing and other administrative requirements established by the Internal Revenue Service that must be met to maintain REIT status, use a calendar year for federal income tax purposes, and comply with the record keeping requirements of the Internal Revenue Code and regulations promulgated thereunder. To qualify for REIT tax treatment with respect to any taxable year, PREIT cannot have at the end of that

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year.

A REIT is permitted to have wholly owned subsidiaries. Such a subsidiary will constitute a "qualified REIT subsidiary" unless the REIT elects to have it treated instead as a "taxable REIT subsidiary." A qualified REIT subsidiary is not treated as a separate entity for federal income tax purposes. Rather, all the assets, liabilities and items of income, deductions and credit of a qualified REIT subsidiary are treated as if they were those of the REIT. A qualified REIT subsidiary is not subject to federal corporate income taxation, although it may be subject to state and local taxation in some states.

-35-

A REIT is also generally permitted to own any percentage of the stock of a "taxable REIT subsidiary," provided that the aggregate value of the REIT's interests in taxable REIT subsidiaries does not exceed 20% of the value of the REIT's gross assets and the aggregate value of the REIT's interests in its taxable REIT subsidiaries and the securities of other issuers does not exceed 25% of the value of the REIT's gross assets. Provided that certain limitations on operating activities are satisfied, an entity that is taxable as a corporation and is wholly or partially owned by a REIT will qualify as a "taxable REIT subsidiary" if both the REIT and the subsidiary so elect. A taxable REIT subsidiary is subject to federal income tax, and state and local income tax where applicable, as a regular C corporation. If a REIT receives dividends from a taxable REIT subsidiary, then dividends from the REIT to its noncorporate shareholders, to the extent attributable to the taxable REIT subsidiary dividends, generally will be eligible to be subject to tax at reduced capital gains rates, rather than taxed at ordinary income rates.

A REIT is deemed to own its proportionate share of the assets of a partnership in which it is a partner and is deemed to receive its proportionate share of the income of the partnership. Thus, PREIT's proportionate share of the assets, liabilities and items of income of PREIT Associates, L.P. and each of the real estate partnerships and other pass-through entities in which PREIT Associates holds an interest (the "Subsidiary Partnerships") will be treated as assets, liabilities and items of income of PREIT for purposes of applying the requirements described herein, provided that PREIT Associates and the Subsidiary Partnerships are treated as partnerships for federal income tax purposes.

INCOME TESTS. To maintain its qualification as a REIT, a REIT must satisfy two gross income requirements each year. First, at least 75% of a REIT's gross income each year (other than gross income from prohibited transactions) must be derived directly or indirectly from investments in real property or mortgages on real property (including "rents from real property" and, in certain circumstances, interest) or from certain types of temporary investments. Second, at least 95% of a REIT's gross income each year (other than gross income from prohibited transactions) must be derived from the same items that qualify under the 75% income test, and/or from dividends, interest and gain from the sale or disposition of stock or securities.

Rents will qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above only if several conditions are met. These conditions relate to the identity of the tenant, the computation of the rent payable and the nature of the property leased. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, rents received from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a taxable REIT

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

subsidiary, at least 90% of the particular property is leased to unrelated tenants and the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant. Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

-36-

PREIT does not anticipate receiving rents that fail to meet these conditions in amounts that, together with other types of nonqualifying income earned by PREIT, would cause PREIT to fail to satisfy the gross income tests.

In addition, for rents to qualify as "rents from real property," PREIT generally must not furnish or render more than a de minimis amount of services to tenants, other than through an "independent contractor" from whom PREIT derives no revenue or through a taxable REIT subsidiary. The "independent contractor" requirement, however, does not apply to the extent the services provided by PREIT are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered "rendered to the occupant." If the impermissible tenant service income (which is the greater of the amount actually received from an impermissible service to tenants or 150% of the cost of such service) that PREIT receives with respect to a property exceeds 1% of PREIT's total income from that property, then all of the income from that property will fail to qualify as rents from real property. Although PREIT-RUBIN, which, together with PREIT Services, LLC, comprise PREIT's commercial property development and management business, renders services with respect to rental properties of PREIT Associates and the Subsidiary Partnerships, and PREIT-RUBIN does not constitute an "independent contractor" for this purpose, PREIT believes that the services being provided by PREIT-RUBIN with respect to these properties in past years have been usual or customary and should not otherwise be considered "rendered to the occupant." Moreover, for years beginning after December 31, 2000, PREIT and PREIT-RUBIN have elected for PREIT-RUBIN to be treated as a taxable REIT subsidiary. PREIT believes that the aggregate amount of any nonqualifying income in any taxable year earned by PREIT Associates and the Subsidiary Partnerships has not caused, and will not cause, PREIT to exceed the limits on nonqualifying income under the 75% and 95% gross income tests.

PREIT Associates owns all of the outstanding shares of PREIT-RUBIN. As a taxable REIT subsidiary, PREIT-RUBIN is taxable as a regular corporation. PREIT-RUBIN performs management, development and leasing services for PREIT Associates and other real estate owned in whole or in part by third parties. The third-party income earned by and taxed to PREIT-RUBIN would be nonqualifying income if earned directly by PREIT. As a result of the corporate structure, all third-party and other services income will be earned by and taxed to PREIT-RUBIN at applicable federal and state corporate income tax rates and will be received by PREIT only indirectly as dividends, after reduction by these taxes. Any such dividends will be qualifying income under the 95% test but will not be qualifying income for purposes of the 75% test.

If PREIT fails to satisfy one or both of the 75% and 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for that year if it is entitled to relief under the Internal Revenue Code. It is not possible, however, to state whether in all circumstances PREIT would be entitled to the benefit of these relief provisions. Even if these relief provisions were to apply, however, a tax would be imposed with respect to the "excess net income" attributable to the failure to satisfy the 75% and 95% gross income tests.

ASSET TESTS. PREIT, at the close of each quarter of its taxable year, must satisfy several tests relating to the nature of its assets: (1) at least 75% of the value of PREIT's total assets must be represented by "real estate assets," cash, cash items and government securities; (2) not more than 25% of PREIT's total assets may be represented by securities other than those in the 75% asset class; (3) of the investments included in the 25% asset class (other than shares of a taxable REIT subsidiary or a qualified REIT subsidiary), the value of any one issuer's securities owned by PREIT may not exceed 5% of the value of PREIT's total assets (the "5% test"), and PREIT may not own more than 10% of the vote or value of any one issuer's outstanding securities aside from certain kinds of debt instruments (the "10% test"); and (4) not more than 20% of PREIT's total assets may be represented by the securities of one or more taxable REIT subsidiaries.

PREIT believes that it has complied, and anticipates that it will continue to comply, with these asset tests. PREIT is deemed to hold directly its proportionate share of all real estate and other assets of PREIT Associates and all assets deemed owned by PREIT Associates through its ownership of partnership interests in other partnerships. As a result, PREIT believes that more than 75% of its assets are real estate assets. In addition, PREIT does not plan to hold any securities other than securities in a qualified REIT subsidiary or taxable REIT subsidiary of PREIT representing more than 10% of the vote or value of any one issuer's common stock, or securities of any one issuer the value of which exceeds 5% of the value of PREIT's gross assets. Further, PREIT does not plan to hold securities of taxable REIT subsidiaries that, in the aggregate, exceed 20% of the total value of PREIT's assets. As previously discussed, PREIT is deemed to own its proportionate share of the assets of a partnership in which it is a partner so that the partnership interest, itself, is not a security for purposes of this asset test.

After initially meeting the asset tests at the close of any quarter, PREIT will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. PREIT intends to maintain adequate records of the value of its assets to ensure compliance with the asset tests, and to take any other action within 30 days after the close of any quarter as may be required to cure any noncompliance. No assurance can be given, however, that this other action will always be successful.

For taxable years beginning after October 22, 2004, a REIT that fails the 5% or 10% tests at the close of any quarter without curing such failure within 30 days after the close of such quarter is excused if (a) the value of the assets causing the failure does not exceed the lesser of 1% of the total value of the REIT's assets at the end of the relevant quarter or \$10,000,000 and (b) within six months after the last day of the quarter in which the REIT identifies the failure, the REIT either disposes of the assets causing the failure or otherwise satisfies the 5% and 10% tests. In addition, a REIT that fails the 5% or 10% tests in a taxable year may nevertheless qualify as a REIT if (a) the REIT provides the IRS with a description of each asset causing the failure, (b) the failure was due to reasonable cause and not willful neglect, (c) the REIT pays a tax equal to the greater of (i) \$50,000 or (ii) the highest rate of corporate tax imposed (currently 35%) on the net income generated by the assets causing the failure during the period of the failure and (d) within six months after the last day of the quarter in which the REIT identifies the failure, the REIT either disposes of the assets causing the failure or otherwise

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

satisfies the 5% and 10% tests.

-38-

ANNUAL DISTRIBUTION REQUIREMENTS. To qualify as a REIT, PREIT generally must distribute to its shareholders each year at least 90% of its REIT taxable income (computed without the dividends paid deduction and excluding net capital gains) and 90% of PREIT's net income after tax, if any, from foreclosure property, minus the sum of certain items of noncash income. Distributions must generally be made during the taxable year to which they relate. Distributions may be made in the following year in two circumstances. First, if PREIT declares a dividend in October, November, or December of any year with a record date in one of these months and pays the dividend on or before January 31 of the following year, PREIT will be treated as having paid the dividend on December 31 of the year in which the dividend was declared. Second, distributions may be made in the following year if the dividends are declared before PREIT timely files its tax return for the year and if made before the first regular dividend payment made after such declaration. To the extent that PREIT does not distribute all of its net capital gain or distributes at least 90%, but less than 100% of its REIT taxable income, as adjusted, PREIT will be subject to tax on the undistributed amounts at regular corporate tax rates. In addition, PREIT may be subject to a 4% nondeductible excise tax on the excess of the required distribution over the sum of the amounts actually distributed and amounts retained for which federal income tax was paid if PREIT fails to distribute during a calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such calendar year) at least the sum of (1) 85% of PREIT's REIT ordinary income for such year, (2) 95% of PREIT's REIT capital gain net income for such year, and (3) any undistributed taxable income from prior periods.

PREIT may elect to retain rather than distribute all or a portion of its net capital gains and pay the tax on the gains. In that case, PREIT may elect to have its shareholders include their proportionate share of the undistributed net capital gains in income as long-term capital gains and receive a credit for their share of the tax paid by PREIT. For purposes of the 4% excise tax described above, any retained amounts would be treated as having been distributed.

PREIT believes that it has made, and expects to continue to make, timely distributions sufficient to satisfy the annual 90% distribution requirement. It is possible, however, that PREIT, from time to time, may not have sufficient cash or other liquid assets to meet the 90% distribution requirement and to avoid all corporate-level taxes. In that event, PREIT may arrange for short-term, or possibly long-term, borrowing (by itself or by PREIT Associates) to meet the 90% distribution requirement and avoid the corporate-level taxes.

Under some circumstances, PREIT may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to shareholders in a later year, which may be included in PREIT's deduction for dividends paid for the earlier year. Thus, PREIT may be able to avoid being taxed on amounts distributed as deficiency dividends. However, PREIT will be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

FAILURE TO QUALIFY. For taxable years beginning after October 22, 2004, if PREIT would otherwise fail to qualify as a REIT because of a violation of one of the requirements described above, its qualification as a REIT will not be terminated if the violation is due to reasonable cause and not willful neglect and PREIT pays a tax of \$50,000 for the violation. The immediately preceding

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

sentence does not apply, however, to violations of the income tests or the 5% and 10% tests described above, each of which has other specific relief provisions that are described above. PREIT has also taken certain other steps to attempt to ensure its continued compliance with the tests applicable to REITs.

-39-

If PREIT fails to qualify for taxation as a REIT in any taxable year, PREIT will be subject to tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. If PREIT fails to qualify as a REIT, it will not be required to make any distributions to its shareholders and any distributions that are made will not be deductible by PREIT. As a result, PREIT's failure to qualify as a REIT would significantly reduce both the cash available for distributions by PREIT to its shareholders and its earnings. In addition, if PREIT fails to qualify as a REIT, all distributions to shareholders, to the extent of PREIT's current and accumulated earnings and profits, will be taxable as regular corporate dividends, which means that shareholders taxed as individuals currently would be taxed on those dividends at capital gains rates and corporate shareholders generally would be entitled to a dividends received deduction with respect to such dividends. Unless entitled to relief under specific statutory provisions, PREIT also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances PREIT would be entitled to this statutory relief.

LIMITATIONS APPLICABLE TO TAXABLE REIT SUBSIDIARIES. Certain provisions of the Internal Revenue Code are designed to curtail a REIT's ability to minimize the taxable income of any taxable REIT subsidiary, such as PREIT-RUBIN. A 100% tax will apply to any excessive interest expense or other deductions paid by a taxable REIT subsidiary to the REIT and to any amounts by which the taxable REIT subsidiary undercharges tenants of the REIT. Also, there are limitations on the deductibility of interest by highly leveraged taxable REIT subsidiaries.

INCOME TAXATION OF PREIT ASSOCIATES, THE SUBSIDIARY PARTNERSHIPS AND THEIR PARTNERS

The following discussion summarizes certain federal income tax considerations applicable to PREIT's investment in PREIT Associates and the Subsidiary Partnerships:

CLASSIFICATION OF PREIT ASSOCIATES AND SUBSIDIARY PARTNERSHIPS AS PARTNERSHIPS. PREIT will be entitled to include in its income its distributive share of the income and to deduct its distributive share of the losses of PREIT Associates (including PREIT Associates' share of the income or losses of the Subsidiary Partnerships) only if PREIT Associates and the Subsidiary Partnerships (collectively, the "Partnerships") are classified for federal income tax purposes as partnerships rather than as associations taxable as corporations. The Partnerships have not elected, and do not intend to elect, to be taxable for federal income tax purposes as corporations. Accordingly, under applicable "check-the-box" regulations, they should be classified as partnerships for federal income tax purposes.

PARTNERSHIP ALLOCATIONS. Although a partnership agreement generally will determine the allocation of income and losses among partners, the allocations will be disregarded for tax purposes under Section 704(b) of the Internal Revenue Code if they do not comply with the provisions of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder as to substantial economic effect and other requirements.

-40-

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to the item. PREIT Associates' allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the Treasury Regulations promulgated thereunder.

TAX ALLOCATIONS WITH RESPECT TO CONTRIBUTED PROPERTIES. The properties contributed directly or indirectly to PREIT Associates have generally been appreciated as of the time of contribution, and it is likely that properties contributed in the future will also be appreciated. Under Section 704(c) of the Internal Revenue Code, items of income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for federal income tax purposes in a manner so that the contributor is charged with or benefits from the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of the property at the time of contribution. The partnership agreements of the Partnerships require allocations of income, gain, loss and deduction attributable to the contributed property to be made in a manner that is consistent with Section 704(c) of the Internal Revenue Code. If the Partnerships sell contributed property at a gain or loss, the gain or loss will be allocated to the contributing partner(s) generally to the extent of the precontribution unrealized gain or loss.

DEPRECIATION. The Partnerships' assets other than cash consist in substantial part of appreciated property contributed by partners in PREIT Associates. Assets contributed to a partnership in a tax-free transaction carry over their depreciation schedules. Accordingly, the Partnerships' depreciation deductions for their real property are based in substantial part on the historic depreciation schedules for the properties. The properties are being depreciated over a range of 15 to 40 years using various methods of depreciation which were determined at the time that each item of depreciable property was placed in service. Any real property purchased by the Partnerships will be depreciated over at least 39 years, and land is nondepreciable. In certain instances where a partnership interest rather than real estate is contributed to the Partnership, the real estate may not carry over its depreciation schedule but rather may, similarly, be subject to the lengthier depreciation period.

Section 704(c) of the Internal Revenue Code requires that depreciation as well as gain and loss be allocated in a manner so as to take into account the variation between the fair market value and tax basis of the property contributed. Depreciation with respect to any property purchased by PREIT Associates or its Subsidiary Partnerships subsequent to the admission of its partners, however, will be allocated among the partners in accordance with their respective percentage interests in the Partnerships.

-41-

SALE OF PARTNERSHIP PROPERTY. Generally, any gain realized by a partnership on the sale of property held by the partnership for more than one year will be long-term capital gain, except for any portion of the gain that is treated as depreciation or cost recovery recapture. However, under the REIT requirements, PREIT's share as a partner of any gain realized by the Partnerships on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. The prohibited transaction income could also have an

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

adverse effect upon PREIT's ability to satisfy the income tests for REIT status. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances with respect to the particular transaction. A safe harbor to avoid classification as a prohibited transaction exists as to real estate assets held for the production of rental income by a REIT for at least four years where in any taxable year the REIT has made no more than seven sales of property or, in the alternative, the aggregate of the adjusted bases of all properties sold does not exceed 10% of the adjusted bases of all of the REIT's properties during the year and the expenditures includable in a property's net sales price. The Partnerships intend to hold properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing, owning, and operating and leasing properties and to make occasional sales of the properties as are consistent with PREIT's and PREIT Associates' investment objectives. No assurance can be given, however, that no property sale by the Partnerships will constitute a sale of inventory or other property held primarily for sale to customers.

TAXATION OF SHAREHOLDERS

TAXATION OF TAXABLE DOMESTIC SHAREHOLDERS. As long as PREIT qualifies as a REIT, distributions made to PREIT's taxable domestic shareholders (or "U.S. shareholders") out of current or accumulated earnings and profits (and not designated as capital gain dividends or qualified dividend income) will be taken into account by them as ordinary income (at graduated federal income tax rates up to 35%). In determining the extent to which a distribution constitutes a dividend for tax purposes, PREIT's earnings and profits will be allocated first to distributions with respect to its preferred shares and then to its common shares. Corporate shareholders will not be eligible for the dividends-received deduction as to such amounts. Dividends paid by a REIT will generally not constitute qualified dividends that are taxed at the federal capital gain tax rates (up to only 15%) that are generally applicable to dividend income earned by individuals from non-REIT C corporations, except to the extent the REIT dividends are attributable to dividend income earned by the REIT or are attributable to other REIT income on which certain income taxes have been paid by the REIT. PREIT does not anticipate that any substantial amount of its dividends will constitute qualified dividends.

Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that the distributions do not exceed the adjusted basis of the shareholder's shares. Rather, such distributions will reduce the adjusted basis of such shares. To the extent that distributions exceed the adjusted basis of a U.S. shareholder's shares, the distributions will be taxable as capital gains, assuming the shares are a capital asset in the hands of the U.S. shareholder.

-42-

Distributions will generally be taxable, if at all, in the year of the distribution. However, if PREIT declares a dividend in October, November, or December of any year with a record date in one of these months and pays the dividend on or before January 31 of the following year, PREIT will be treated as having paid the dividend, and the shareholder will be treated as having received the dividend, on December 31 of the year in which the dividend was declared.

PREIT may elect to designate distributions of its net capital gain as "capital gain dividends." Capital gain dividends are taxed to PREIT's U.S. shareholders as gain from the sale or exchange of a capital asset held for more than one year. This tax treatment applies regardless of the period during which the shareholders have held their shares. If PREIT designates any portion of a dividend as a capital gain dividend, the amount that will be taxable to the

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

shareholder as capital gain will be detailed to U.S. shareholders on Internal Revenue Service Form 1099-DIV. Corporate shareholders, however, may be required to treat up to 20% of capital gain dividends as ordinary income.

Instead of paying capital gain dividends, PREIT may elect to require shareholders to include PREIT's undistributed net capital gains in their income. If PREIT makes such an election, U.S. shareholders (1) will include in their income as long-term capital gains their proportionate share of such undistributed capital gains and (2) will be deemed to have paid their proportionate share of the tax paid by PREIT on such undistributed capital gains and thereby receive a credit or refund for such amount. A U.S. shareholder of PREIT's shares will increase the basis in its shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. PREIT's earnings and profits will be adjusted appropriately.

PREIT must classify portions of its designated capital gain dividend into the following categories:

1. a 15% gain distribution, which will be taxable to non-corporate U.S. shareholders at a maximum rate of 15%; or

2. an unrecaptured Section 1250 gain distribution, which will be taxable to non-corporate U.S. shareholders at a maximum rate of 25%.

Distributions made by PREIT and gain arising from the sale or exchange by a U.S. shareholder of PREIT's shares will not be treated as passive activity income, and as a result, U.S. shareholders of PREIT's shares generally will not be able to apply any "passive losses" against this income or gain. In addition, taxable distributions from PREIT generally will be treated as investment income for purposes of the investment interest limitations. A U.S. shareholder of PREIT's shares may elect to treat capital gain dividends, capital gains from the disposition of shares and income designated as qualified dividend income as investment income for purposes of the investment interest limitation, in which case the applicable gain or income will be taxed at ordinary income tax rates. U.S. shareholders of PREIT's shares may not include in their individual income tax returns any of PREIT's net operating losses or capital losses. PREIT's operating or capital losses would be carried over by PREIT for potential offset against future income, subject to applicable limitations. PREIT will notify shareholders regarding the portions of distributions for each year that constitute ordinary income, return of capital and capital gain. In general, a domestic shareholder will realize capital gain or loss on the disposition of shares equal to the difference between (1) the amount of cash and the fair market value of any property received on the disposition and (2) the shareholder's adjusted basis of the shares. The gain or loss generally will constitute long-term capital gain or loss if the shareholder has held the shares for more than one year. For an individual shareholder, a long-term capital gain will generally be taxable at a maximum rate of 15%.

-43-

Loss upon a sale or exchange of shares by a shareholder who has held the shares for six months or less (after applying certain holding period rules) will be treated as a long-term capital loss to the extent of distributions from PREIT required to be treated by the shareholder as long-term capital gain (including both 15%- and 25%-rate gain).

TAXATION OF TAX-EXEMPT SHAREHOLDERS. PREIT does not expect that distributions by PREIT to a shareholder that is a tax-exempt entity will constitute "unrelated business taxable income" ("UBTI"), provided that the tax-exempt entity has not financed the acquisition of its shares with "acquisition indebtedness" within the meaning of the Internal Revenue Code and

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

the shares are not otherwise used in an unrelated trade or business of the tax-exempt entity. However, for a tax-exempt shareholder that is a social club, voluntary employee benefit association, supplemental unemployment benefit trust, or qualified group legal services plan exempt from federal income taxation under Internal Revenue Code Sections 501(c)(7), (c)(9), (c)(17) and (c)(20), respectively, or a single parent title-holding corporation exempt under Section 501(c)(2) the income of which is payable to any of the aforementioned tax-exempt organizations, income from an investment in PREIT's shares will constitute UBTI unless the organization properly sets aside or reserves such amounts for purposes specified in the Internal Revenue Code. These tax exempt shareholders should consult their own tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a "pension held REIT" are treated as UBTI as to any trust which is described in Section 401(a) of the Internal Revenue Code, is tax-exempt under Section 501(a) of the Internal Revenue Code, and holds more than 10%, by value, of the interests in the REIT. Tax-exempt pension funds that are described in Section 401(a) of the Internal Revenue Code are referred to below as "pension trusts."

A REIT is a "pension held REIT" if it meets the following two tests:

1. it would not have qualified as a REIT but for Section 856(h)(3) of the Internal Revenue Code, which provides that shares owned by pension trusts will be treated, for purposes of determining whether the REIT is closely held, as owned by the beneficiaries of the trust rather than by the trust itself; and
2. either (a) at least one pension trust holds more than 25% of the value of the interests in the REIT, or (b) a group of pension trusts, each individually holding more than 10% of the value of the REIT's shares, collectively owns more than 50% of the value of the REIT's shares.

-44-

The percentage of any REIT dividend from a "pension held REIT" that is treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year, in which case none of the dividends would be treated as UBTI.

Based on the current estimated ownership of PREIT's common and preferred shares and as a result of certain limitations on transfer and ownership of common and preferred shares contained in PREIT's trust agreement, PREIT does not expect to be classified as a "pension held REIT."

TAXATION OF NON-U.S. SHAREHOLDERS. The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign shareholders (collectively, "Non-U.S. Shareholders") are complex, and no attempt will be made herein to provide more than a limited summary of these rules. Prospective Non-U.S. Shareholders should consult with their own tax advisor to determine the impact of U.S. federal, state and local income tax laws with regard to an investment in shares, including any reporting requirements. In particular, Non-U.S. Shareholders who are engaged in a trade or business in the United States, and Non-U.S. Shareholders who are individuals and who were present in the United States for 183 days or more during the tax year and have a "tax home" in the United States, may be subject to tax rules different from those described below.

Distributions that are not attributable to gain from sales or exchanges by PREIT of U.S. real property interests and not designated by PREIT as capital gain dividends or qualified dividend income will be treated as dividends of

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

ordinary income to the extent that they are made out of current or accumulated earnings and profits of PREIT. These distributions, ordinarily, will be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces that tax or the dividends are treated as effectively connected with the conduct by the Non-U.S. Shareholder of a U.S. trade or business. Under some treaties, however, lower rates generally applicable to dividends do not apply to dividends from REITs. Dividends that are effectively connected with a trade or business will be subject to tax on a net basis, that is, after allowance for deductions, at graduated rates, in the same manner as U.S. shareholders are taxed with respect to these dividends, and are generally not subject to withholding. Applicable certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exception. Any dividends received by a corporate Non-U.S. Shareholder that is engaged in a U.S. trade or business also may be subject to an additional branch profits tax at a 30% rate, or lower applicable treaty rate. PREIT expects to withhold U.S. income tax at the rate of 30% on any dividend distributions, not designated as (or deemed to be) capital gain dividends, made to a Non-U.S. Shareholder unless:

- o a lower treaty rate applies and the Non-U.S. Shareholder furnishes an Internal Revenue Service Form W-8BEN to PREIT evidencing eligibility for that reduced rate; or
- o the Non-U.S. Shareholder furnishes an Internal Revenue Service Form W-8ECI to PREIT claiming that the distribution is effectively connected income.

-45-

Distributions in excess of current and accumulated earnings and profits of PREIT will not be taxable to a Non-U.S. Shareholder to the extent that they do not exceed the adjusted basis of the shareholder's shares, but rather will reduce the adjusted basis of the shares. To the extent that these distributions exceed the adjusted basis of a Non-U.S. Shareholder's shares, they will give rise to tax liability if the Non-U.S. Shareholder would otherwise be subject to tax on any gain from the sale or disposition of shares as described below (in which case they also may be subject to a 30% branch profits tax if the shareholder is a foreign corporation). If it cannot be determined at the time a distribution is made whether or not the distribution will be in excess of current or accumulated earnings and profits, the entire distribution will be subject to withholding at the rate applicable to dividends. However, the Non-U.S. Shareholder may seek a refund of the amounts from the Internal Revenue Service if it is subsequently determined that the distribution was, in fact, in excess of current or accumulated earnings and profits of PREIT.

PREIT may be required to withhold at least 10% of any distribution in excess of its current and accumulated earnings and profits, even if a lower treaty rate applies or the Non-U.S. Shareholder is not liable for tax on the receipt of that distribution. However, a Non-U.S. Shareholder may seek a refund of these amounts from the Internal Revenue Service if the Non-U.S. Shareholder's U.S. tax liability with respect to the distribution is less than the amount withheld.

PREIT generally will be required to withhold and remit to the Internal Revenue Service 35% of all distributions, if any, to Non-U.S. Shareholders that are, or could be, designated as capital gain dividends. Distributions can be designated as capital gains to the extent of PREIT's net capital gain for the taxable year of the distribution. The amount withheld is creditable against the Non-U.S. Shareholder's United States federal income tax liability.

Although the law is not entirely clear on the matter, it appears that

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

amounts of undistributed capital gain that are designated by PREIT as deemed distributions (as discussed under "Taxation of Taxable Domestic Shareholders" above) would be treated with respect to Non-U.S. Shareholders in the manner outlined in the preceding paragraph for actual distributions by PREIT of capital gain dividends. Under that approach, the Non-U.S. Shareholders would be able to offset as a credit against their United States federal income tax liability resulting therefrom their proportionate share of the tax paid by PREIT on the undistributed capital gains (and to receive from the Internal Revenue Service a refund to the extent their proportionate share of the tax paid by PREIT were to exceed their actual United States federal income tax liability). Under the Foreign Investment in Real Property Tax Act, which is referred to as "FIRPTA," distributions to a Non-U.S. Shareholder that are attributable to gain from sales or exchanges by PREIT of U.S. real property interests, whether or not designated as a capital gain dividend, will cause the Non-U.S. Shareholder to be treated as recognizing gain that is income effectively connected with a U.S. trade or business. Non-U.S. Shareholders will be taxed on this gain at the same rates applicable to U.S. shareholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, this gain may be subject to a 30% (or lower applicable treaty rate) branch profits tax in the hands of a Non-U.S. Shareholder that is a corporation.

-46-

For taxable years of PREIT beginning after October 22, 2004, the rules described in the preceding two paragraphs generally do not apply, however, to capital gain dividends paid on any class of PREIT's stock that is regularly traded on an established securities market in the United States if the Non-U.S. Shareholder does not own more than 5% of that class of stock. If such a less-than-5% Non-U.S. Shareholder receives a capital gain dividend on such a class of PREIT stock, the dividend will be treated instead as a dividend of ordinary income. PREIT believes its common shares will be treated as regularly traded on an established securities market in the United States for this purpose.

Gain recognized by a Non-U.S. Shareholder upon a sale or exchange of PREIT's shares generally will not be subject to United States taxation unless:

- o the investment in PREIT's shares is effectively connected with a U.S. trade or business (or, in the case of a Non-U.S. Shareholder that is an eligible resident of a foreign country that has an applicable tax treaty with the U.S., a U.S. permanent establishment of the Non-U.S. Shareholder), in which case the Non-U.S. Shareholder will be subject to the same treatment as a domestic shareholder with respect to any gain or loss;
- o the Non-U.S. Shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's net capital gains for the taxable year; or
- o PREIT's shares constitute a U.S. real property interests within the meaning of FIRPTA, as described below.

PREIT's shares will constitute U.S. real property interests within the meaning of FIRPTA unless PREIT is a "domestically controlled REIT," defined generally as a REIT for which at all times during a defined testing period less than 50% in value of its stock has been held directly or indirectly by foreign persons. PREIT believes that it is a domestically controlled REIT, and, therefore, that its shares do not constitute U.S. real property interests. However, because PREIT's shares are publicly traded, PREIT cannot guarantee that

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

it is or will continue to be a domestically controlled REIT.

Even if PREIT were not to qualify as a domestically controlled REIT at the time a Non-U.S. Shareholder sells PREIT's shares, gain arising from the sale still would not be subject to FIRPTA tax if:

- o the class of shares sold is "regularly traded" on an established securities market, such as the NYSE (which PREIT believes to be the case); and
- o the selling Non-U.S. Shareholder has owned, actually or constructively, no more than 5% of the outstanding class of shares during the five-year period ending on the date of the sale.

-47-

If the gain on the sale of shares were to be subject to tax under FIRPTA, the Non-U.S. Shareholder would be subject to the same treatment as U.S. shareholders with respect to the gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals).

BACKUP WITHHOLDING TAX AND INFORMATION REPORTING

In general, information-reporting requirements will apply to payments of dividends on PREIT's shares to some U.S. shareholders, unless an exception applies.

The payor is required to withhold tax on such payments at the rate of 28% if (1) the payee fails to furnish a taxpayer identification number, or TIN, to the payor or to establish an exemption from backup withholding, or (2) the Internal Revenue Service notifies the payor that the TIN furnished by the payee is incorrect.

In addition, a payor of the dividends on PREIT's shares is required to withhold tax at a rate of 28% if (1) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Internal Revenue Code, or (2) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Internal Revenue Code.

Some shareholders, including corporations, may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a shareholder will be allowed as a credit against the shareholder's United States federal income tax and may entitle the shareholder to a refund, provided that the required information is furnished to the Internal Revenue Service.

The payor will be required to furnish annually to the Internal Revenue Service and to PREIT's shareholders information relating to the amount of dividends paid on PREIT's shares, and that information reporting may also apply to payments of proceeds from the sale of PREIT's shares. Some shareholders, including corporations, financial institutions and certain tax-exempt organizations, are generally not subject to information reporting.

With regard to Non-U.S. Shareholders, information reporting generally will apply to payments of dividends on PREIT's shares, and backup withholding described above for a U.S. shareholder will apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption.

The payment of the proceeds from the disposition of PREIT's shares to

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and backup withholding as described above for U.S. shareholders unless the Non-U.S. Shareholder satisfies the requirements necessary to be an exempt Non-U.S. Shareholder or otherwise qualifies for an exemption. The proceeds of a disposition by a Non-U.S. Shareholder of PREIT's shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. tax purposes, a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership if partners who hold more than 50% of the interest in the partnership are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the U.S., then information reporting generally will apply as though the payment was made through a U.S. office of a U.S. or foreign broker.

-48-

Applicable Treasury regulations provide presumptions regarding the status of a PREIT shareholder when payments to such shareholder cannot be reliably associated with appropriate documentation provided to the payor. Because the application of these Treasury regulations varies depending on the shareholder's particular circumstances, you are advised to consult your tax advisor regarding the information reporting requirements applicable to you.

SUNSET OF TAX PROVISIONS

Several of the tax considerations described herein are subject to a sunset provision. The sunset provision generally provides that for taxable years beginning after December 31, 2008, certain provisions that are currently in the Internal Revenue Code will revert back to a prior version of those provisions. These provisions include those related to the 15% capital gains rate and its application to qualified dividend income and other tax rates described herein.

OTHER TAX CONSIDERATIONS

PREIT and its shareholders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of PREIT and its shareholders may not conform to the federal income tax consequences discussed above. Prospective shareholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in shares of PREIT.

TAX SHELTER REPORTING

Under applicable Treasury regulations, if a taxpayer recognizes a loss of \$2 million or more, in the case of an individual taxpayer, or \$10 million or more, in the case of a corporate taxpayer, the taxpayer may be required to file a disclosure statement with the Internal Revenue Service on Form 8886. Losses on sales of portfolio securities are in many cases exempt from this reporting requirement, but sales of REIT shares currently are not exempt. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

-49-

PLAN OF DISTRIBUTION

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

This prospectus relates to the offer and sale from time to time of up to 895,511 shares that may be issued to the holders of PREIT Partnership Units listed above under the caption "Selling Shareholders," or to their pledgees, donees, transferees, partners or other successors in interest. We will not receive any of the proceeds from the sale of any shares by the selling shareholders. The distribution of the shares may be effected from time to time in one or more underwritten transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. Any such underwritten offering may be on a "best efforts" or a "firm commitment" basis. In connection with any such underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from the selling shareholders or from purchasers of shares for whom they may act as agents. Underwriters may sell shares to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of shares may be entitled to indemnification from us against certain liabilities, including liabilities under the Securities Act, or to contribution with respect to payments that such underwriters, dealers or agents may be required to make in respect thereof.

The selling shareholders and any underwriters, dealers or agents that participate in the distribution of shares may be deemed to be "underwriters" within the meaning of the Securities Act, and any profit on the sale of shares by them and any discounts, commissions or concessions received by any such underwriters, dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act.

At a time a particular offer of shares is made, a prospectus supplement, if required, will be distributed that will set forth the name or names of any underwriters, dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any other required information.

The sale of the shares by the selling shareholders also may be effected from time to time by selling the shares directly to purchasers or to or through broker-dealers. In connection with any such sale, any such broker-dealer may act as agent for the selling shareholders or may purchase from the selling shareholders all or a portion of the shares as principal, and any such sale may be made pursuant to any of the methods described below. Such sales may be made on the NYSE or other exchanges on which the shares are then traded, in the over-the-counter market, in negotiated transactions or otherwise at prices and at terms then prevailing or at prices related to the then-current market prices or at prices otherwise negotiated.

The shares also may be sold in one or more of the following transactions: (a) block transactions (which may involve crosses) in which a broker-dealer may sell all or a portion of such shares as agent but may position and resell all or a portion of the block as principal to facilitate the transaction; (b) purchases by any such broker-dealer as principal and resale by such broker-dealer for its own account; (c) a special offering, an exchange distribution or a secondary distribution in accordance with applicable NYSE or other stock exchange rules; (d) ordinary brokerage transactions and transactions in which any such broker-dealer solicits purchasers; (e) sales "at the market" to or through a market maker or into an existing trading market, on an exchange or otherwise, for such shares; (f) sales in other ways not involving market makers or established trading markets, including direct sales to purchasers; (g) transactions in options, swaps or other derivatives that may not be listed on an

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

exchange; and (h) the creation or settlement of hedging transactions.

-50-

In effecting sales, broker-dealers engaged by the selling shareholders may arrange for other broker-dealers to participate. Broker-dealers will receive commissions or other compensation from the selling shareholders in amounts to be negotiated immediately prior to the sale that will not exceed those customary in the types of transactions involved. Broker-dealers may also receive compensation from purchasers of the shares that is not expected to exceed that amount which is customary in the types of transactions involved. The shares may also be sold pursuant to Rule 144 promulgated under the Securities Act.

We will pay all expenses incident to the offering and sale of the shares, other than commissions, discounts and fees of underwriters, broker-dealers or agents. We have agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

-51-

LEGAL MATTERS

The legality of the shares offered hereby and certain federal income tax matters will be passed upon for us by Drinker Biddle & Reath LLP.

EXPERTS

The consolidated financial statements and schedules of PREIT and subsidiaries as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003 included in PREIT's Annual Report on Form 10-K filed on March 15, 2004 have been incorporated herein by reference in reliance upon the reports of KPMG LLP, independent auditors, and is incorporated herein by reference in reliance upon the authority of such firm as experts in accounting and auditing.

The financial statements of Lehigh Valley Associates for the year ended December 31, 2002 and 2001 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon. Such report is included in PREIT's Annual Report on Form 10-K filed on March 15, 2004 and is incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, which require us to file reports, proxy statements and other information with the SEC. You may read and copy our SEC filings at the SEC's Public Reference Facilities, which are in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and the SEC's following regional offices: 233 Broadway, New York, New York 10279 and 175 W. Jackson Boulevard, Chicago, Illinois 60604. Information on the operation of the Public Reference Room and copies of our filings can be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates, by calling 1-800-SEC-0330. The SEC also maintains an Internet web site at www.sec.gov that contains our SEC filings. In addition, our shares are listed on the New York Stock Exchange and our SEC filings can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. We

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

also maintain an internet website that contains information about us at www.preit.com.

We filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933 with respect to the securities we are offering by this prospectus. This prospectus does not contain all of the information set forth in the registration statement because we have omitted some of the information as permitted by the SEC's rules and regulations. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. In each instance, each statement is qualified, in all respects, by reference to the copy of the applicable contract or document filed as an exhibit to the registration statement. For further information about us and our securities, we refer you to the registration statement and the exhibits and schedules that may be obtained from the SEC at its principal office in Washington, D.C. after payment of the SEC's prescribed fees.

-52-

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" the information in documents we file with them. This means that we can disclose important information by referring you to these documents. The information we incorporate by reference is an important part of this prospectus, and information in documents we file after the date of this prospectus automatically will update and supersede information in this prospectus.

We filed the documents listed below under the Exchange Act with the SEC, and we incorporate each of the documents, and all documents filed after the date of this prospectus under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, into this prospectus by reference:

1. Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.

2. Quarterly Reports on Form 10-Q for the quarter ended March 31, 2004 (filed on May 10, 2004), the quarter ended June 30, 2004 (filed on August 6, 2004), and the quarter ended September 30, 2004 (filed on November 9, 2004).

3. Current Reports on Form 8-K dated January 21, 2004 (filed on January 29, 2004), dated February 6, 2004 (filed on February 6, 2004), dated February 9, 2004 (filed on February 9, 2004), dated June 17, 2004 (filed on June 18, 2004), dated September 22, 2004 (filed on September 24, 2004), dated September 24, 2004 (filed on September 28, 2004), dated October 7, 2004 (filed on October 8, 2004), dated October 8, 2004 (filed on October 12, 2004), dated October 14, 2004 (filed on October 20, 2004), dated October 28, 2004 (filed on November 3, 2004), and dated November 30, 2004 (filed on December 6, 2004).

4. Registration Statement on Form 8-A12B, filed on December 17, 1997, setting forth the description of our common shares, and filed on May 3, 1999, setting forth the description of rights to purchase PREIT common shares, including any amendment or reports filed for the purpose of updating such information.

We will provide without charge to each person to whom a copy of this prospectus is delivered, after their written or oral request, a copy of any or all of the documents we have incorporated in this prospectus by reference. Written requests for copies should be addressed to:

Pennsylvania Real Estate Investment Trust
Attention: Bruce Goldman,

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Executive Vice President and General Counsel
The Bellevue
200 South Broad Street
Philadelphia, Pennsylvania 19102
Telephone: (215) 875-0700

-53-

FORWARD LOOKING STATEMENTS

This prospectus, together with other statements and information publicly disseminated by us, contains certain "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and 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 our current views about future events and are subject to risks, uncertainties and changes in circumstances that may cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business may be affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- o general economic, financial and political conditions, including the possibility of war or terrorist attacks;
- o changes in local market conditions or other competitive factors;
- o existence of complex regulations, including those relating to our status as a REIT, and the adverse consequences if we were to fail to qualify as a REIT;
- o risks relating to construction and development activities;
- o our ability to maintain and increase property occupancy and rental rates;
- o our ability to acquire additional properties and our ability to integrate acquired properties into our existing portfolio;
- o dependence on our tenants' business operations and their financial stability;
- o possible environmental liabilities;
- o our ability to raise capital through public and private offerings of debt and/or equity securities and other financing risks, including the availability of adequate funds at reasonable cost; and
- o our short- and long-term liquidity position.

Additional factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements include those discussed in the section entitled "Risk Factors." We do not intend to and disclaim any duty or obligation to update or revise any forward-looking statements to reflect new information, to reflect future events or otherwise.

-54-

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
INDEX

INTRODUCTORY NOTE

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

Pro Forma Condensed Consolidated Statement of Income for the year ended December 31, 2003.....

Notes to Pro Forma Condensed Consolidated Statement of Income.....

F-1

UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED STATEMENT OF INCOME

On November 20, 2003, Pennsylvania Real Estate Investment Trust ("PREIT") announced the closing of the merger of Crown American Realty Trust ("Crown") with and into PREIT (the "Merger") in accordance with an Agreement and Plan of Merger (the "Merger Agreement") dated as of May 13, 2003, by and among PREIT, PREIT Associates, L.P., a limited partnership of which PREIT is the sole general partner, Crown and Crown American Properties, L.P., a limited partnership of which Crown was the sole general partner before the Merger. Through the Merger and related transactions, PREIT acquired 26 wholly owned regional shopping malls and the remaining 50% interest in Palmer Park Mall in Easton, Pennsylvania.

The following unaudited pro forma condensed consolidated financial information sets forth:

- o the historical financial information for the year ended December 31, 2003 derived from PREIT's audited financial statements and Crown's historical information from January 1, 2003 to November 19, 2003 derived from Crown's unaudited interim financial statements;
- o adjustments to give effect to the acquisition of interests in an aggregate of seven enclosed shopping malls during the second and third quarters of 2003 (collectively, the "Completed Acquisitions"). PREIT acquired six properties from The Rouse Company in the second quarter of 2003, consisting of five wholly-owned properties and a 73% interest in a partnership that owned a sixth property (New Castle Associates that owned Cherry Hill Mall). The purchase price allocation for Cherry Hill Mall is equal to 73% of the fair value of the property acquired (reflecting the Company's 73% ownership interest acquired in 2003) plus the remaining 27% carryover basis, which is based on the historical basis of New Castle Associates. New Castle Associates is consolidated for financial reporting purposes. The Company issued 609,317 PREIT

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Operating Partnership units in 2004 to purchase the remaining 27% minority interest in New Castle Associates. PREIT also acquired the remaining 70% of the economic interest in Willow Grove Park from its venture partner in September 2003;

- o adjustments to give effect to the merger of Crown with and into PREIT, including (i) the acquisition of the assets and liabilities of Crown American, including 12 wholly-owned enclosed shopping malls, an 89% interest in 14 enclosed shopping malls and a 50% partnership interest in a shopping mall, (ii) the issuance of 11,725,175 PREIT shares of beneficial interest, (iii) the issuance of 2,475,000 PREIT preferred shares, and (iv) the issuance of 1,703,214 Operating Partnership units. The Company expects to issue an additional 341,297 PREIT Operating Partnership units in 2006 to purchase the remaining 11% minority interest in the 14 shopping malls; and
- o the pro forma, as adjusted, unaudited condensed consolidated statement of income for the year ended December 31, 2003, as adjusted to give effect to the Completed Acquisitions and the merger of Crown with and into PREIT.

You should read the information below along with all other financial information and analysis presented or incorporated by reference in this prospectus. The unaudited pro forma condensed consolidated financial information is presented for information purposes only, and PREIT's management does not expect that this information will be indicative of PREIT's future results of operations. The unaudited pro forma adjustments are based on available information and upon assumptions that PREIT believes are reasonable. The purchase accounting allocations made by management in connection with the unaudited pro forma financial information are based on the assumptions and estimates of management. The unaudited pro forma condensed consolidated financial information assumes that the Completed Acquisitions and the merger of Crown with and into PREIT were completed as of January 1, 2003 for purposes of the unaudited pro forma condensed consolidated statement of income. The unaudited pro forma financial information has not been adjusted to reflect the effects of PREIT's August 2003 equity offering on periods prior to the date of the offering.

F-2

Pennsylvania Real Estate Investment Trust
Pro Forma Condensed Consolidated Statement of Income
For the Twelve Months Ended December 31, 2003

(Unaudited)

(In thousands, except per share amounts)

	PREIT Historical	Completed (a) Acquisitions	
Revenue			
Real estate revenues:			
Base rent	\$ 112,117	\$ 29,607	(b)
Expense reimbursements	47,970	20,335	(b)
Percentage rent	4,281	488	(b)
Lease termination revenue	985	1,019	(b)

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Other real estate revenues	5,164	2,590	(b)
Total real estate revenues	170,517	54,039	
Management company revenue	11,994	-	
Interest and other income	887	-	
Total revenue	183,398	54,039	
Expenses			
Property operating expenses	(60,339)	(23,120)	(b)
Depreciation and amortization	(37,616)	-	
General and administrative expenses	(40,168)	-	
Interest expense	(35,318)	(6,230)	(b)
Total expenses	(173,441)	(29,350)	
Income before equity in income of partnerships and joint ventures, gains on sales of interests in real estate and minority interest	9,957	24,689	
Equity in income of partnerships and joint ventures	7,231	-	
Gains on sales of interests in real estate	16,199	-	
Income from continuing operations before minority interest	33,387	24,689	
Minority interest in properties	(894)	-	
Minority interest in Operating Partnership	(3,298)	-	
Income from continuing operations	\$ 29,195	\$ 24,689	
Basic income from continuing operations per share	\$ 1.36		
Diluted income from continuing operations per share	\$ 1.33		
Weighted average number of shares outstanding:			
Basic	20,390		
Diluted	20,784		
Revenue			
Real estate revenues:			
Base rent	\$ 118,954		\$ (
Expense reimbursements	52,370		
Percentage rent	5,263		
Lease termination revenue	-		
Other real estate revenues	-		
Total real estate revenues	176,587		(
Management company revenue	6,305		
Interest and other income	-		
Total revenue	182,892		(
Expenses			
Property operating expenses	(75,831)		
Depreciation and amortization	(43,972)		

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

General and administrative expenses	(23,890)	
Interest expense	(44,344)	
Total expenses	(188,037)	
Income before equity in income of partnerships and joint ventures, gains on sales of interests in real estate and minority interest	(5,145)	
Equity in income of partnerships and joint ventures	-	
Gains on sales of interests in real estate	500	
Income from continuing operations before minority interest	(4,645)	
Minority interest in properties	-	
Minority interest in Operating Partnership	684	
Income from continuing operations	\$ (3,961)	\$
Basic income from continuing operations per share		
Diluted income from continuing operations per share		
Weighted average number of shares outstanding:		
Basic		
Diluted		

F-3

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

1. Adjustments to the Pro Forma Condensed Consolidated Statement of Income--Year Ended December 31, 2003.
 - a. Reflects PREIT's historical results of operations for the year ended December 31, 2003.
 - b. In the second quarter of 2003, the Company acquired interests in six properties from The Rouse Company consisting of The Gallery at Market East, Moorestown Mall, Exton Square Mall, Echelon Mall, Plymouth Meeting Mall and a 73% joint venture partnership interest in New Castle Associates. New Castle Associates acquired Cherry Hill Mall in a transaction that immediately preceded the Company's acquisition of the New Castle Associates partnership interest. Such interest is consolidated for accounting purposes. The Gallery at Market East, Moorestown Mall, Exton Square Mall and the interest in New Castle Associates were acquired on April 28, 2003. Echelon Mall and Plymouth Meeting Mall were acquired on June 5, 2003.

In September 2003, the Company acquired an additional 70% interest in Willow Grove Park, an enclosed mall located in Willow Grove, Pennsylvania. The Company now owns 100% of Willow Grove Park. These acquisitions are collectively referred to as the "Completed Acquisitions."

The Company's policies for the purchase accounting of fixed assets and intangible assets are described below.

A property's purchase price is allocated to the property's

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

assets based on management's estimates of their fair value. The determination of the fair value of intangible assets requires significant estimates by management and considers many factors involving the Company's expectations about the underlying property and the general market conditions in which the property operates. The judgment and subjectivity inherent in assumptions on which estimates are based can have a significant impact on the estimate of the fair value of the intangible assets that the Company records.

The Company's methodology for allocating a portion of the purchase price to intangible assets includes estimating an "as-if vacant" fair value of the physical property, which is allocated to land, building and improvements. The difference between the purchase price and the "as-if vacant" fair value is allocated to intangible assets. There are three categories of intangible assets to be considered: (i) value of in-place leases, (ii) above- and below-market value of in-place leases and (iii) customer relationship value.

The value of in-place leases is estimated based on the value associated with the costs avoided in originating leases comparable to the acquired in-place leases as well as the value associated with lost rental revenue during the assumed lease-up period. The value of in-place leases is amortized as real estate amortization over the estimated weighted-average remaining lease lives. The Company generally uses a weighted-average life of seven years for this purpose.

Above- and below-market in-place lease values for acquired properties are recorded based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimates of fair market lease rates for the comparable in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The value of above-market lease values is amortized as a reduction of rental income over the remaining terms of the respective leases. The value of below-market lease values is amortized as an increase to rental income over the remaining terms of the respective leases including renewal options.

The Company allocates no value to customer relationship intangibles if the Company has pre-existing business relationships with the major retailers in the acquired property because the customer relationships associated with the acquired property provide no incremental value over the Company's existing relationships.

F-4

The adjustments reflect the historical results of operations, prior to acquisition, for properties acquired by PREIT in the Completed Acquisitions for the year ended December 31, 2003.

(\$000'S)	ROUSE ACQUISITIONS	WILLOW GROVE PARK	COMPLETED ACQUISITIONS
-----	-----	-----	-----
REVENUE			
Real estate revenue			

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Base rent.....	\$ 21,385	\$ 8,222	\$ 29,607
Expense reimbursements.....	13,947	6,388	20,335
Percentage rent.....	463	25	488
Lease termination revenue.....	1,019	--	1,019
Other real estate revenue.....	1,433	1,157	2,590
	-----	-----	-----
Total real estate revenue.....	38,247	15,792	54,039
	-----	-----	-----
EXPENSES			
Property operating expenses.....	(17,108)	(6,012)	(23,120)
Interest expense.....	--	(6,230)	(6,230)
	-----	-----	-----
Income from continuing operations.....	\$ 21,139	\$ 3,550	\$ 24,689
	-----	-----	-----

- c. Reflects pro forma adjustments to revenue associated with straight-line rent adjustments and amortization of leases to market as a result of Completed Acquisitions.

	(\$000'S)	

Straight-line rent.....		\$ 958
Amortization of above/below market rents, net....		(186)

		\$ 772
		=====

- d. Reflects the pro forma adjustments resulting from changes in management fees on properties managed by PREIT-RUBIN, Inc. as the result of the Completed Acquisitions. PREIT-RUBIN, Inc. no longer manages Christiana Mall or Willow Grove Park (PREIT Services, LLC now manages Willow Grove Park, but does not receive a management fee). PREIT-RUBIN, Inc. manages Cherry Hill Mall for a management fee equal to 5.25% of Cherry Hill Mall's rents and other revenues. The pro forma adjustment for Cherry Hill Mall reflects only the portion of the management fee that is attributable to the Company's partner's 27% minority interest in the property as the remaining amount will be eliminated in consolidation.

	(\$000'S)	

Pro forma management fees for Cherry Hill Mall...		\$ 160
Historical management fees for Willow Grove Park.....		(528)
Historical management fees for Christiana Mall...		(457)

		\$ (825)
		=====

- e. Reflects depreciation expense related to the Completed Acquisitions and amortization expense on intangible assets acquired in the Completed Acquisitions. Depreciation expense is calculated using a 30-year blended life for buildings and improvements. The value of in-place leases is amortized on a straight-line basis over seven years, which approximates the remaining term of the respective leases.

ASSET INFORMATION
(\$000'S)

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

PROPERTY	DATE ACQUIRED
Moorestown Mall.....	April 28, 2003
The Gallery at Market East.....	April 28, 2003
Exton Square Mall.....	April 28, 2003
Cherry Hill Mall.....	April 28, 2003
Echelon Mall.....	June 5, 2003
Plymouth Meeting Mall.....	June 5, 2003
Willow Grove Park -- historical.....	September 4, 2003 (1)
Willow Grove Park -- stepped-up.....	September 4, 2003

(1) Indicates date that the property was first consolidated by the Company.

F-5

EXPENSE INFORMATION (\$000'S)			
PROPERTY	DEPRECIATION	AMORTIZATION	TOTAL
Moorestown Mall.....	\$884	\$55	\$939
The Gallery at Market East....	417	109	526
Exton Square Mall.....	1,073	468	1,541
Cherry Hill Mall.....	1,485	356	1,841
Echelon Mall.....	470	110	580
Plymouth Meeting Mall.....	918	8	926
Willow Grove Park -- historical.....	1,067	--	1,067
Willow Grove Park -- stepped-up.....	1,688	739	2,427
	-----	-----	-----
	\$8,002	\$1,845	\$9,847
	=====	=====	=====

f. Reflects interest expense, including amortization of financing costs, on indebtedness used to finance the Completed Acquisitions. The balances amortize over varying periods. In May 2003, the Moorestown Mall and Dartmouth Mall mortgages were refinanced at a fixed interest rate of 4.95%. The bank loan interest rate is based on the Company's bridge loan financing, which had an interest rate of LIBOR plus 200 basis points, or 3.12% at the acquisition date. A variance of a 1/8 percent increase or decrease in interest rates would result in an increase or decrease in pro forma interest expense, respectively, of \$176,000 for the year ended December 31, 2003.

(\$000'S)

Mortgage Borrowings:

Moorestown Mall \$64.3 million at 4.95%.....

\$ 1,5

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Exton Square Mall \$100.5 million at 6.95%.....	2,8
Cherry Hill Mall \$73.7 million at 10.6%.....	2,5
Cherry Hill Mall \$60.4 million at 5.0%.....	9
Dartmouth Mall \$70.0 million at 4.95%.....	1,4

Total mortgage expense.....	9,4

Bank loan borrowing of \$140.5 million at 3.12%.....	1,4
Amortization of debt premium.....	(2,1

	\$ 8,7
	=====

- g. Reflects the adjustment made to eliminate the equity in income of four joint ventures owning multifamily properties that were sold in 2003.
- h. Reflects adjustment to minority interest as a result of the preferred return due to the minority interest partners in New Castle Associates. The minority partners received a preferred return of \$1.2 million annually, which is equal to a return of 6.97% per annum on the fair market value of their minority interest, which was \$17.8 million at the acquisition date. The adjustment amount of \$413,000 represents the portion of the preferred return associated with the period from January 1, 2003 to April 28, 2003 (Cherry Hill Mall's acquisition date). PREIT's historical results include the preferred return subsequent to Cherry Hill Mall's acquisition date.

F-6

Also reflects minority interest adjustment for the impact of 585,422 PREIT Operating Partnership Units that were issued in connection with the Completed Acquisitions and the impact of this change in the minority interest percentage. The additional units outstanding increased the minority interest percentage to 10.9% for the year ended December 31, 2003.

(\$000'S)

Income from continuing operations before minority interest.....	\$38,750
Less: minority interest in properties.....	(1,307)

	37,443
Pro forma minority interest percentage for PREIT Adjusted column.....	10.9%

Minority interest in Operating Partnership.	4,081
Less: PREIT historical minority interest...	(3,298)

	\$783
	=====

- i. Reflects Crown historical results of operations for the period from January 1, 2003 to November 19, 2003 (unaudited). Certain amounts were combined to conform to PREIT's income statement presentation. The amounts that are presented for the minority interest in Operating Partnership of approximately \$684,000 represent the portion of minority interest that relates only to Crown's continuing operations based on the historical weighted

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

average minority ownership percentages for the time periods presented.

- j. Reflects the adjustments to eliminate the six properties that were classified as discontinued operations from Crown's historical results of operations for the period from January 1, 2003 to November 19, 2003 (unaudited).

(\$000'S)

Base rent.....	\$18,495	See note l
Expense reimbursements.....	9,223	See note m
Percentage rent.....	737	See note n
Other real estate revenues.....	3,531	See note o

Total real estate revenues.....	31,986	

Property operating expenses.....	(17,316)	See note q
Depreciation and amortization.....	(7,656)	See note r
Interest expense.....	(1,821)	See note t

Total real estate expenses.....	(26,793)	

Income from discontinued operations.....	\$5,193	
	=====	

- k. Reflects the adjustments to eliminate the equity in income of Palmer Park recorded by PREIT and Crown and to consolidate the operations of Palmer Park for the period from January 1, 2003 to November 19, 2003.

(\$000'S)

Base rent.....	\$3,114	See note l
Expense reimbursements.....	1,326	See note m
Percentage rent.....	23	See note n
Other real estate revenues.....	201	See note o

Total real estate revenues.....	4,664	

Property operating expenses.....	(1,869)	See note q
Depreciation and amortization.....	(962)	See note r
Interest expense.....	(1,107)	See note t

Total real estate expenses.....	(3,938)	

Equity in income of Palmer Park.....	\$726	See note u

F-7

- l. Reflects the pro forma adjustments to base rent for properties acquired by us in connection with the Crown merger.

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

(\$000'S)

Straight-line rent adjustment..... \$ 1
 Amortization of above-market and below-market leases
 Elimination of base rent for properties
 classified as discontinued operations (see
 note j)..... (18
 Consolidation of Palmer Park base rent (see
 note k)..... 3

 \$ (14
 ===

- m. Reflects adjustments to expense reimbursements as a result of the merger with Crown.

(\$000'S)

Elimination of expense reimbursements for
 properties classified as discontinued
 operations (see note j)..... \$ (9
 Consolidation of Palmer Park property expense
 reimbursements (see note k)..... 1

 \$ (7
 ===

- n. Reflects adjustments to percentage rent as a result of the merger with Crown.

(\$000'S)

Elimination of percentage rent for properties
 classified as discontinued operations (see
 note j)..... \$
 Consolidation of Palmer Park percentage rent
 (see note k).....

 \$
 =

- o. Reflects adjustments to other real estate revenue as a result of the merger with Crown.

(\$000'S)

Elimination of other real estate revenue for
 properties classified as discontinued
 operations (see note j)..... \$ (3
 Consolidation of Palmer Park other real estate
 revenue (see note k).....

 \$ (3
 ===

F-8

- p. Reflects decrease in management fee income that will result because PREIT-RUBIN, Inc. no longer charges management fees to Palmer Park Mall. Palmer Park Mall was previously owned approximately 50% by PREIT and approximately 50% by Crown, and was previously accounted for under the equity method for financial reporting purposes. Management fees for Palmer Park were \$235,000 for the period from January 1, 2003 to November 19, 2003.
- q. Reflects adjustments to property operating expenses as a result of the merger with Crown.

(\$000'S)

Elimination of property operating expenses for properties classified as discontinued operations (see note j).....	\$ (17
Consolidation of Palmer Park property operating expenses (see note k).....	1
Elimination of Palmer Park management fee (see note p).....	----
	\$ (15
	=====

- r. Reflects adjustments to depreciation expense and amortization expense on intangible assets in connection with the Crown merger. Depreciation expense is calculated using a 30-year blended life for buildings and improvements. The value of in-place leases is amortized on a straight-line basis over the remaining term of the respective leases. The elimination of Crown historical depreciation expense includes \$7,656,000 related to the properties classified as discontinued operations.

(\$000'S)

Depreciation expense:	
Depreciation on Crown investments in real estate at stepped-up basis.....	\$ 28
Consolidation of Palmer Park depreciation expense (see note k).....	
Elimination of Crown historical depreciation expense.....	(43

	(14
Amortization expense:	
Amortization of in-place lease value.....	14

	\$
	=

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

- s. Reflects an adjustment to eliminate costs incurred by Crown in connection with the merger. These costs were incurred by Crown and related to employee severance payments and other costs such as investment banking fees, lender consent fees and professional fees directly attributable to the merger transaction.

F-9

Also reflects an adjustment to decrease general and administrative expenses on a pro forma basis as a result of the merger transaction with Crown. PREIT anticipates that general and administrative expenses will decrease by \$490,000 annually and by \$436,000 for the period from January 1, 2003 to November 19, 2003, as a result of reduction in compensation expense.

(\$000'S)

Elimination of merger-related severance costs	(\$10,308
Elimination of other merger-related expenses.....	(6,332
Reduction in compensation expense.....	(436

	(\$17,076
	=====

- t. Reflects the adjustments to interest expense resulting from the Crown merger. PREIT entered into new borrowings consisting of additional line of credit borrowings of \$155.2 million at a rate of 3.12% that paid off Crown's existing line of credit with a balance of \$154.7 million at November 19, 2003 and reduced mortgage loans payable by \$7.5 million.

The fixed interest rates on the mortgage notes payable that PREIT assumed upon the completion of the merger with Crown are at above-market rates. PREIT recorded a debt premium adjustment of approximately \$61.7 million to reflect the difference between the fixed interest rates and the market interest rates for those borrowings. The debt premium was calculated based on management's estimates of market interest rates on similar completed mortgage transactions. PREIT determined that the market interest rates for these four borrowings were between 5.00% and 5.75%, compared with existing fixed interest rates between 6.15% and 7.61%.

A variance of a 1/8 percent increase or decrease in interest rates would result in an increase or decrease in pro forma interest expense, respectively, of \$194,000 for the year ended December 31, 2003.

(\$000'S)

Crown historical expenses that will not be incurred post-merger:	
Line of credit borrowings.....	\$ (4,381
Elimination of interest expense for properties classified as discontinued operations (see note	

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

j).....	(1,821
Amortization of deferred financing fees.....	(1,640

Pro forma borrowings:

Line of credit borrowings.....	4,305
Amortization of debt premium.....	(9,501
Amortization of deferred financing fees.....	914
Consolidation of Palmer Park interest expense (see note k).....	1,107

Pro forma interest expense adjustment.....	\$ (11,017
	=====

u. Reflects the adjustments to eliminate the equity in income of Palmer Park recorded by PREIT and Crown of \$726,000 for the period from January 1, 2003 to November 19, 2003, respectively (see note k).

F-10

v. In connection with the Crown merger, Crown American Properties, L.P., ("CAP"), a limited partnership of which Crown was the sole general partner before the merger, retained an 11% minority interest in two partnerships that, in the aggregate, owned 15 properties at the time of the merger. This interest is subject to a put-call arrangement involving 341,297 Operating Partnership units. This adjustment reflects additional minority interest as a result of the preferred return due to CAP. CAP receives a preferred return of \$0.7 million annually, which is equal to the anticipated annual operating partnership distribution on the 341,297 Operating Partnership units that the Company expects to issue to purchase the remaining 11% minority interest in 2006. The adjustment for the period from January 1, 2003 to November 19, 2003 is \$654,000.

Also, reflects adjustment to minority interest as a result of the issuance of additional units of the Company's Operating Partnership and the change in net income in connection with Completed Acquisitions and the merger with Crown. As a result of the additional Operating Partnership units issued, pro forma minority interest in the operating partnership would increase from 10.2% to 11.5% for the year ended December 31, 2003. Also reflects elimination of Crown's historical minority interest account.

(\$000'S)

Pro forma income from continuing operations before minority interest.....	\$ 50,901
Dividends on preferred shares.....	(13,613
Minority interest in properties.....	(1,961

	35,327
Minority interest percentage.....	11.5%

Minority interest in Operating Partnership.....	(4,063
PREIT historical minority interest.....	4,081

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form S-3

Crown historical minority interest.....

(684

\$ (666
=====

- w. Reflects adjustment to weighted average shares outstanding
(basic and diluted) and income from continuing operations per
share (basic and diluted).

(\$000'S)

Pro forma income from continuing operations
before minority interest..... \$50,901
Minority interest in properties..... (1,961
Minority interest in Operating Partnership..... (4,063

Pro forma income from continuing operations..... 44,877
Dividends on preferred shares..... (13,613

Pro forma income from continuing operations
available to common shares.....

\$31,264
=====

Weighted average shares outstanding
Historical weighted average shares outstanding
-- basic..... 20,390
Impact of common share exchange..... 10,422

