PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-Q
April 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 1-6300

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

Common shares of beneficial interest, $1.00 par value per share, outstanding at April 22, 2016: 69,470,731

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

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

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Item 1. FINANCIAL STATEMENTS
PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)	March 31, 2016 (unaudited)	December 31, 2015
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	$3,305,542	$3,297,520
Construction in progress	66,497	64,019
Land held for development	5,906	6,350
Total investments in real estate	3,377,945	3,367,889
Accumulated depreciation	(1,046,632)	(1,015,647)
Net investments in real estate	2,331,313	2,352,242
INVESTMENTS IN PARTNERSHIPS, at equity:	157,995	161,029
OTHER ASSETS:		
Cash and cash equivalents	30,453	22,855
Tenant and other receivables (net of allowance for doubtful accounts of $7,216 and $6,417 at March 31, 2016 and December 31, 2015, respectively)	32,562	40,324
Intangible assets (net of accumulated amortization of $13,972 and $13,441 at March 31, 2016 and December 31, 2015, respectively)	21,717	22,248
Deferred costs and other assets, net	89,974	75,450
Assets held for sale	23,371	126,244
Total assets	$2,687,385	$2,800,392
LIABILITIES:		
Mortgage loans payable	$1,247,173	$1,321,331
Term Loans	398,160	398,040
Revolving Facility	115,000	65,000
Tenants’ deposits and deferred rent	17,741	14,631
Distributions in excess of partnership investments	64,712	65,547
Fair value of derivative liabilities	7,248	2,756
Liabilities related to assets held for sale	—	69,918
Accrued expenses and other liabilities	76,679	78,539
Total liabilities	1,926,713	2,015,762
COMMITMENTS AND CONTINGENCIES (Note 6):		
EQUITY:		
Series A Preferred Shares, $.01 par value per share; 25,000 preferred shares authorized; 4,600 shares of Series A Preferred Shares issued and outstanding at each of March 31, 2016 and December 31, 2015; liquidation preference of $115,000	46	46
Series B Preferred Shares, $.01 par value per share; 25,000 preferred shares authorized; 3,450 shares of Series B Preferred Shares issued and outstanding at each of March 31, 2016 and December 31, 2015; liquidation preference of $86,250	35	35
Shares of beneficial interest, $1.00 par value per share; 200,000 shares authorized; issued and outstanding 69,459 shares at March 31, 2016 and 69,197 shares at December 31, 2015	69,459	69,197
Capital contributed in excess of par	1,475,992	1,476,397
Accumulated other comprehensive loss	(9,052)	(4,193)
Distributions in excess of net income	(929,046)	(912,221)
Total equity—Pennsylvania Real Estate Investment Trust	607,434	629,261
Noncontrolling interest	153,238	155,369

Total equity	760,672	784,630
Total liabilities and equity	$2,687,385	$2,800,392

See accompanying notes to the unaudited consolidated financial statements.
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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
(in thousands of dollars)	2016	2015
REVENUE:		
Real estate revenue:		
Base rent	$66,993	$64,273
Expense reimbursements	31,134	31,510
Percentage rent	451	524
Lease termination revenue	235	441
Other real estate revenue	2,643	2,035
Total real estate revenue	101,456	98,783
Other income	516	1,274
Total revenue	101,972	100,057
EXPENSES:		
Operating expenses:		
Property operating expenses:		
CAM and real estate taxes	(34,189)	(33,807)
Utilities	(4,326)	(5,149)
Other property operating expenses	(4,596)	(4,196)
Total property operating expenses	(43,111)	(43,152)
Depreciation and amortization	(33,735)	(33,189)
General and administrative expenses	(8,586)	(8,943)
Provision for employee separation expenses	(535)	—
Acquisition costs and other expenses	(51)	(4,451)
Total operating expenses	(86,018)	(89,735)
Interest expense, net	(19,346)	(20,145)
Impairment of assets	(606)	(6,240)
Total expenses	(105,970)	(116,120)
Loss before equity in income of partnerships, gains on sales of interests in non operating real estate and gains on sales of real estate	(3,998)	(16,063)
Equity in income of partnerships	3,883	2,083
Gains on sales of interests in non operating real estate	9	43
Gain on sale of interests in real estate	2,035	—
Net income (loss)	1,929	(13,937)
Less: net (income) loss attributable to noncontrolling interest	(208)	429
Net income (loss) attributable to PREIT	1,721	(13,508)
Less: preferred share dividends	(3,962)	(3,962)
Net loss attributable to PREIT common shareholders	$(2,241)	$(17,470)

See accompanying notes to the unaudited consolidated financial statements.
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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands of dollars, except per share amounts)	Three Months Ended March 31, 2016	2015
Net income (loss)	$1,929	$(13,937)
Noncontrolling interest	(208)	429
Dividends on preferred shares	(3,962)	(3,962)
Dividends on unvested restricted shares	(84)	(86)
Net loss used to calculate loss per share—basic and diluted	$(2,325)	$(17,556)
Basic and diluted loss per share:	$(0.03)	$(0.26)
(in thousands of shares)		
Weighted average shares outstanding—basic	68,973	68,566
Effect of common share equivalents [1]	—	—
Weighted average shares outstanding—diluted	68,973	68,566

(1) The Company had net losses used to calculate earnings per share for all periods presented. Therefore, the effects of common share equivalents of 298 and 432 for the three months ended March 31, 2016 and 2015, respectively, are excluded from the calculation of diluted loss per share for these periods because they would be antidilutive.

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31,	
(in thousands of dollars)	2016	2015
Comprehensive loss:		
Net income (loss)	$1,929	$(13,937)
Unrealized loss on derivatives	(5,572)	(2,011)
Amortization of losses on settled swaps, net of gains	126	772
Total comprehensive loss	(3,517)	(15,176)
Less: comprehensive loss attributable to noncontrolling interest	379	466
Comprehensive loss attributable to PREIT	$(3,138)	$(14,710)

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF EQUITY
Three Months Ended
March 31, 2016
(Unaudited)

		PREIT Shareholders						
(in thousands of dollars, except per share amounts)	Total Equity	Series A Preferred Shares, $.01 par	Series B Preferred Shares, $.01 par	Shares of Beneficial Interest, $1.00 Par	Capital Contributed in Excess of Par	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non-controlling interest
Balance December 31, 2015	$784,630	$46	$ 35	$69,197	$1,476,397	$ (4,193)	$(912,221)	$155,369
Net income	1,929	—	—	—	—	—	1,721	208
Other comprehensive loss	(5,446)	—	—	—	—	(4,859)	—	(587)
Shares issued under employee compensation plans, net of shares retired	(1,716)	—	—	262	(1,978)	—	—	—
Amortization of deferred compensation	1,573	—	—	—	1,573	—	—	—
Distributions paid to common shareholders ($0.21 per share)	(14,584)	—	—	—	—	—	(14,584)	—
Distributions paid to Series A preferred shareholders ($0.5156 per share)	(2,372)	—	—	—	—	—	(2,372)	—
Distributions paid to Series B preferred shareholders ($0.4609 per share)	(1,590)	—	—	—	—	—	(1,590)	—
Noncontrolling interests: Distributions paid to Operating Partnership unit holders ($0.21 per unit)	(1,752)	—	—	—	—	—	—	(1,752)
Balance March 31, 2016	$760,672	$46	$ 35	$69,459	$1,475,992	$ (9,052)	$(929,046)	$153,238

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
(in thousands of dollars)	2016	2015
Cash flows from operating activities:		
Net income (loss)	$1,929	$(13,937)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	31,400	31,364
Amortization	2,991	2,450
Straight-line rent adjustments	(618)	(272)
Provision for doubtful accounts	918	1,259
Amortization of deferred compensation	1,573	1,803
Loss on hedge ineffectiveness	143	512
Gains on sales of interests in real estate and non operating real estate, net	(2,044)	(43)
Equity in income of partnerships in excess of distributions	(1,346)	(748)
Impairment of assets and expensed project costs	631	6,332
Change in assets and liabilities:		
Net change in other assets	9,938	4,530
Net change in other liabilities	(1,032)	(6,332)
Net cash provided by operating activities	44,483	26,918
Cash flows from investing activities:		
Investments in consolidated real estate acquisitions	—	(319,986)
Additions to construction in progress	(11,839)	(3,211)
Investments in real estate improvements	(5,921)	(6,426)
Cash proceeds from sales of real estate	84,765	—
Additions to leasehold improvements	(141)	(288)
Investments in partnerships	(919)	(7,708)
Capitalized leasing costs	(1,737)	(1,655)
Decrease in cash escrows	2,085	981
Cash distributions from partnerships in excess of equity in income	4,463	1,323
Net cash provided by (used in) investing activities	70,756	(336,970)
Cash flows from financing activities:		
Borrowings from term loans	—	120,000
Net borrowings from revolving facility	50,000	210,000
Proceeds from mortgage loans	9,000	5,844
Principal installments on mortgage loans	(4,263)	(4,742)
Repayments of mortgage loans	(139,843)	—
Payment of deferred financing costs	(521)	(130)
Dividends paid to common shareholders	(14,584)	(14,510)
Dividends paid to preferred shareholders	(3,962)	(3,962)
Distributions paid to Operating Partnership unit holders and non controlling interest	(1,752)	(446)
Value of shares of beneficial interest issued	324	337
Value of shares retired under equity incentive plans, net of shares issued	(2,040)	(5,292)
Net cash (used in) provided by financing activities	(107,641)	307,099
Net change in cash and cash equivalents	7,598	(2,953)
Cash and cash equivalents, beginning of period	22,855	40,433
Cash and cash equivalents, end of period	$30,453	$37,480

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016

1. BASIS OF PRESENTATION

Nature of Operations

Pennsylvania Real Estate Investment Trust ("PREIT" or the "Company") prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. Our unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in PREIT's Annual Report on Form 10-K for the year ended December 31, 2015. In our opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, the consolidated results of our operations, consolidated statements of other comprehensive income (loss), consolidated statements of equity and our consolidated statements of cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

PREIT, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts ("REITs") in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region. Our portfolio currently consists of a total of 33 properties in 11 states, including 25 operating shopping malls, four other retail properties and four development or redevelopment properties. Two of the development and redevelopment properties are classified as "mixed use" (a combination of retail and other uses), one is classified as "retail" (redevelopment of The Gallery at Market East (the "Gallery") into the Fashion Outlets of Philadelphia), and one is classified as "other." The above property counts do not include two street retail properties in Philadelphia, Pennsylvania, because these properties have been classified as "held for sale" as of March 31, 2016.

We hold our interest in our portfolio of properties through our operating partnership, PREIT Associates, L.P. ("PREIT Associates" or the "Operating Partnership"). We are the sole general partner of the Operating Partnership and, as of March 31, 2016, we held an 89.3% controlling interest in the Operating Partnership, and consolidated it for reporting purposes. The presentation of consolidated financial statements does not itself imply that the assets of any consolidated entity (including any special-purpose entity formed for a particular project) are available to pay the liabilities of any other consolidated entity, or that the liabilities of any consolidated entity (including any special-purpose entity formed for a particular project) are obligations of any other consolidated entity.

Pursuant to the terms of the partnership agreement of the Operating Partnership, each of the limited partners has the right to redeem such partner's units of limited partnership interest in the Operating Partnership ("OP Units") for cash or, at our election, we may acquire such OP Units in exchange for our common shares on a one-for-one basis, in some cases beginning one year following the respective issue dates of the OP Units and in other cases immediately. If all of the outstanding OP Units held by limited partners had been redeemed for cash as of March 31, 2016, the total amount that would have been distributed would have been $182.2 million, which is calculated using our March 31, 2016 closing price on the New York Stock Exchange of $21.85 per share multiplied by the number of outstanding OP Units held by limited partners, which was 8,338,299 as of March 31, 2016.

We provide management, leasing and real estate development services through two of our subsidiaries: PREIT Services, LLC ("PREIT Services"), which generally develops and manages properties that we consolidate for financial reporting purposes, and PREIT-RUBIN, Inc. (“PRI”), which generally develops and manages properties that we do not consolidate for financial reporting purposes, including properties owned by partnerships in which we own an interest and properties that are owned by third parties in which we do not have an interest. PREIT Services and PRI are consolidated. PRI is a taxable REIT subsidiary, as defined by federal tax laws, which means that it is able to offer an expanded menu of services to tenants without jeopardizing our continuing qualification as a REIT under federal tax law.

We evaluate operating results and allocate resources on a property-by-property basis, and do not distinguish or evaluate our consolidated operations on a geographic basis. Due to the nature of our operating properties, which involve retail shopping, we have concluded that our individual properties have similar economic characteristics and meet all other aggregation criteria. Accordingly, we have aggregated our individual properties into one reportable segment. In addition, no single tenant accounts for 10% or more of consolidated revenue, and none of our properties are located outside the United States.

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Fair Value

Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, these accounting requirements establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, and are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. We utilize the fair value hierarchy in our accounting for derivatives (Level 2) and financial instruments (Level 2) and in our reviews for impairment of real estate assets (Level 3) and goodwill (Level 3).

New Accounting Developments

In March 2016, the Financial Accounting Standards Board (the "FASB") issued guidance intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees' maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not initial direct leasing costs. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

In 2016, the Company adopted Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The Company evaluated the application of ASU No. 2015-02 and concluded that no change was required to its accounting of its interests in less than wholly owned joint ventures, however, the Operating Partnership now meets the criteria as a variable interest entity. The Company's significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company's debt is also an obligation of the Operating Partnership.

In March 2015, the FASB issued "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" and "Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which intend to simplify the presentation of debt issuance costs. This guidance provides an amendment to the accounting guidance related to the presentation of debt issuance costs and is effective for fiscal years beginning after December 15, 2015, and we have adopted this guidance as of January 1, 2016. This

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guidance is applied retrospectively to all prior periods. Under the new guidance, debt issuance costs related to a note shall be reported in the Consolidated Balance Sheets as a direct deduction from the face amount of that note. In this regard, debt issuance costs shall not be classified separately from related debt obligations as a deferred charge. Therefore, as a result of adopting this guidance, the Company reclassified in its Consolidated Balance Sheets $4.2 million of debt issuance costs, net of accumulated amortization, at December 31, 2015, from “Deferred costs and other assets, net” to “Mortgage loans payable,” and $2.0 million of debt issuance costs at December 31, 2015, from “Deferred costs and other assets, net” to “Term loans,” thereby decreasing the carrying value of our recognized debt obligations for presentational purposes.

2. REAL ESTATE ACTIVITIES

Investments in real estate as of March 31, 2016 and December 31, 2015 were comprised of the following:

(in thousands of dollars)	As of March 31, 2016	As of December 31, 2015
Buildings, improvements and construction in progress	$2,855,977	$2,847,986
Land, including land held for development	521,968	519,903
Total investments in real estate	3,377,945	3,367,889
Accumulated depreciation	(1,046,632)	(1,015,647)
Net investments in real estate	$2,331,313	$2,352,242

Capitalization of Costs

The following table summarizes our capitalized salaries, commissions, benefits, real estate taxes and interest for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(in thousands of dollars)	2016	2015
Development/Redevelopment Activities:		
Salaries and benefits	$274	$154
Real estate taxes	19	—
Interest	703	35
Leasing Activities:		
Salaries, commissions and benefits	1,737	1,655

Dispositions

The following table presents our dispositions for the three months ended March 31, 2016:

Sale Date	Property and Location	Description of Real Estate Sold	Capitalization Rate	Sale Price (in millions)	Gain
2016 Activity:					
March 2016	Lycoming Mall	Mall	18.0%	$26.4	$0.3

	Pennsdale, Pennsylvania					
March 2016	Gadsden Mall, Gadsden, Alabama, New River Valley Mall, Christiansburg, Virginia, and Wiregrass Commons Mall, Dothan, Alabama [1]	Three Malls (single combined transaction)	17.4	%	66.0	1.6
February 2016	Palmer Park Mall, Easton, Pennsylvania	Mall	13.6	%	18.0	0.1

[1] In connection with this transaction, we issued a mortgage loan to the buyer for $17.0 million, which is recorded in “Deferred

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costs and other assets, net” on our consolidated balance sheet. The mortgage loan is secured by Wiregrass Commons Mall, bears interest at the rate of 6.00% per annum and has a maturity date of April 2026.

Impairment of Assets

In March 2016 we recorded a loss on impairment of assets on an office building located in Voorhees, New Jersey of $0.6 million in connection with negotiations with a prospective buyer of the property. In connection with these negotiations, we determined that the holding period of the property was less than previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible impairment at this property. Based upon the negotiations, we determined that the estimated undiscounted cash flows, net of capital expenditures for the property, were less than the carrying value of the property, and recorded a loss on impairment of assets.

3. INVESTMENTS IN PARTNERSHIPS

The following table presents summarized financial information of the equity investments in our unconsolidated partnerships as of March 31, 2016 and December 31, 2015:

(in thousands of dollars)	As of March 31, 2016	As of December 31, 2015
ASSETS:		
Investments in real estate, at cost:		
Operating properties	$639,874	$ 636,774
Construction in progress	128,479	126,199
Total investments in real estate	768,353	762,973
Accumulated depreciation	(191,450)	(186,580)
Net investments in real estate	576,903	576,393
Cash and cash equivalents	29,711	37,362
Deferred costs and other assets, net	37,999	39,890
Total assets	644,613	653,645
LIABILITIES AND PARTNERS’ INVESTMENT:		
Mortgage loans payable	444,599	440,450
Other liabilities	22,853	30,425
Total liabilities	467,452	470,875
Net investment	177,161	182,770
Partners’ share	91,516	95,165
PREIT’s share	85,645	87,605
Excess investment [1]	7,638	7,877
Net investments and advances	$93,283	$ 95,482
Investment in partnerships, at equity	$157,995	$ 161,029
Distributions in excess of partnership investments	(64,712)	(65,547)
Net investments and advances	$93,283	$ 95,482

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

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

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The following table summarizes our share of equity in income of partnerships for the three months ended March 31, 2016 and 2015:

(in thousands of dollars)	Three Months Ended March 31, 2016	2015
Real estate revenue	$29,191	$26,497
Operating expenses:		
Property operating expenses	(10,212)	(10,706)
Interest expense	(5,392)	(5,350)
Depreciation and amortization	(5,722)	(6,370)
Total expenses	(21,326)	(22,426)
Net income	7,865	4,071
Less: Partners’ share	(4,216)	(2,036)
PREIT’s share	3,649	2,035
Amortization of excess investment	234	48
Equity in income of partnerships	$3,883	$2,083

Significant Unconsolidated Subsidiaries

Two of our unconsolidated subsidiaries, in each of which we have a 50% partnership interest, (i) Lehigh Valley Associates LP, the owner of the substantial majority of Lehigh Valley Mall, and (ii) Metroplex West Associates, LP, the owner of the substantial majority of Metroplex Shopping Center, met the conditions of significant unconsolidated subsidiaries as of March 31, 2016. The financial information of these entities are included in the amounts above. Summarized balance sheet information as of March 31, 2016 and December 31, 2015 and summarized statement of operations information for the three months ended March 31, 2016 and 2015 for these entities, which are accounted for using the equity method, are as follows:

(in thousands of dollars)	Lehigh Valley Associates LP As of March 31, 2016	December 31, 2015	Metroplex West Associates, LP As of March 31, 2016	December 31, 2015
Summarized balance sheet information				
Total assets	$47,580	$ 48,352	$36,230	$ 36,164
Mortgage loan payable	128,305	128,883	81,121	81,505

(in thousands of dollars)	Three Months Ended March 31, 2016	2015	Three Months Ended March 31, 2016	2015
Summarized statement of operations information				
Revenue	$9,048	$8,944	$2,868	$2,884
Property operating expenses	(2,226)	(2,480)	(748)	(637)
Interest expense	(1,906)	(1,940)	(1,024)	(1,044)
Net income	4,083	3,461	763	358
PREIT’s share of equity in income of partnership	2,042	1,730	381	179

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4. FINANCING ACTIVITY

Credit Agreements

We have entered into four credit agreements (collectively, the “Credit Agreements”), as further discussed in our Annual Report on Form 10-K for the year ended December 31, 2015: (1) the 2013 Revolving Facility, (2) the 2014 7-Year Term Loan, (3) the 2014 5-Year Term Loan, and (4) the 2015 5-Year Term Loan. The 2014 7-Year Term Loan, the 2014 5-Year Term Loan and the 2015 5-Year Term Loan are collectively referred to as the “Term Loans.”

As of March 31, 2016, we had borrowed $400.0 million under the Term Loans and $115.0 million under the 2013 Revolving Facility (with $15.3 million pledged as collateral for a letter of credit at March 31, 2016.
Interest expense and the deferred financing fee amortization related to the Credit Agreements for the three months ended March 31, 2016 and 2015 was as follows:

	Three Months Ended March 31,	
(in thousands of dollars)	2016	2015
2013 Revolving Facility		
Interest expense	$690.1	$380.9
Deferred financing amortization	198.7	358.0
Term Loans		
Interest expense	2,991.9	1,257.2
Deferred financing amortization	119.9	76.4