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

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

FORM 10-K

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

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

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

Pennsylvania	23-6216339
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

The Bellevue 200 South Broad Street Philadelphia, Pennsylvania	19102
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2017
TABLE OF CONTENTS

		Page
Forward Looking Statements		1
PART I		
Item 1.	Business	2
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	32
Item 3.	Legal Proceedings	40
Item 4.	Mine Safety Disclosures	41
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	42
Item 6.	Selected Financial Data	44
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	45
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	69
Item 8.	Financial Statements and Supplementary Data	70
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	70
Item 9A.	Controls and Procedures	70
Item 9B.	Other Information	70
PART III		
Item 10.	Trustees, Executive Officers and Corporate Governance	71
Item 11.	Executive Compensation	71
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	71

Item 13.	Certain Relationships and Related Transactions, and Trustee Independence	71
Item 14.	Principal Accountant Fees and Services	71
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	72
	Signatures	78
	Financial Statements	F-1

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2017, together with other statements and information publicly disseminated by us, contain certain “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans, strategies, anticipated events, trends and other matters that are not historical facts. When used, the words “anticipate,” “believe,” “estimate,” “target,” “goal,” ”expect,” “intend.” “may,” “plan,” “project,” “result,” “should,” “will,” and similar expressions, w relate solely to historical matters, are intended to identify forward looking statements. These forward-looking statements reflect our current views about future events, achievements or results and are subject to risks, uncertainties and changes in circumstances that might cause future events, achievements or results to differ materially from those expressed or implied by the forward-looking statements. In particular, our business might be materially and adversely affected by uncertainties affecting real estate businesses generally as well as the following, among other factors:

- changes in the retail industry, including consolidation and store closings, particularly among anchor tenants;
- our ability to maintain and increase property occupancy, sales and rental rates, in light of the relatively high number of leases that have expired or are expiring in the next two years;
- increases in operating costs that cannot be passed on to tenants;
- current economic conditions and the state of employment growth and consumer confidence and spending, and the corresponding effects on tenant business performance, prospects, solvency and leasing decisions and on our cash flows, and the value and potential impairment of our properties;
- the effects of online shopping and other uses of technology on our retail tenants;
- risks related to our development and redevelopment activities;
- acts of violence at malls, including our properties, or at other similar spaces, and the potential effect on traffic and sales;
- our ability to identify and execute on suitable acquisition opportunities and to integrate acquired properties into our portfolio;
- our partnerships and joint ventures with third parties to acquire or develop properties;
- concentration of our properties in the Mid-Atlantic region;
- changes in local market conditions, such as the supply of or demand for retail space, or other competitive factors;
- changes to our corporate management team and any resulting modifications to our business strategies;
- our ability to sell properties that we seek to dispose of or our ability to obtain prices we seek;
- our substantial debt and the liquidation preference value of our preferred shares and our high leverage ratio;
- constraining leverage, unencumbered debt yield, interest and tangible net worth covenants under our principal credit agreements;
- potential losses on impairment of certain long-lived assets, such as real estate, or of intangible assets, such as goodwill, including such losses that we might be required to record in connection with any dispositions of assets;
- our ability to refinance our existing indebtedness when it matures, on favorable terms or at all;
- our ability to raise capital, including through joint ventures or other partnerships, through sales of properties or interests in properties, through the issuance of equity or equity-related securities if market conditions are favorable, or through other actions;
- our short- and long-term liquidity position;
- potential dilution from any capital raising transactions or other equity issuances; and
- general economic, financial and political conditions, including credit and capital market conditions, changes in interest rates or unemployment.

Additional factors that might cause future events, achievements or results to differ materially from those expressed or implied by our forward-looking statements include those discussed in the section entitled “Item 1A. Risk Factors.” We do not intend to update or revise any forward-looking statements to reflect new information, future events or otherwise.

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

partnership, PREIT Associates, L.P.

1

PART I

ITEM 1. BUSINESS.

OVERVIEW

Pennsylvania Real Estate Investment Trust, a Pennsylvania business trust founded in 1960 and one of the first equity real estate investment trusts ("REITs") in the United States, has a primary investment focus on retail shopping malls located in the eastern half of the United States, primarily in the Mid-Atlantic region.

We currently own interests in 29 retail properties, of which 25 are operating properties and four are development or redevelopment properties. The 25 operating properties include 21 shopping malls and four other retail properties, have a total of 20.2 million square feet and are located in nine states. We and partnerships in which we hold an interest own 15.5 million square feet at these properties (excluding space owned by anchors or third parties). In 2017, we sold three of our wholly owned mall properties.

There are 19 operating retail properties in our portfolio that we consolidate for financial reporting purposes. These consolidated properties have a total of 16.0 million square feet, of which we own 12.6 million square feet. The six operating retail properties that are owned by unconsolidated partnerships with third parties have a total of 4.1 million square feet, of which 2.8 million square feet are owned by such partnerships.

We have one property under redevelopment classified as "retail" (redevelopment of The Gallery at Market East into Fashion District Philadelphia, formerly referred to as Fashion Outlets of Philadelphia). This redevelopment is expected to open in 2018 and stabilize in 2020. We have three properties in our portfolio that are classified as under development, however we do not currently have any activity occurring at these properties.

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

PREIT'S BUSINESS

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

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

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

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

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

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

BUSINESS STRATEGY

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

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

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

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

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

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

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

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

Moorestown Mall Moorestown, NJ	$41-$42	$41-$42	$10.1	9-10%	2018	2019	2020

-Sierra Trading Post, HomeSense, grocer, and other tenants to replace former Macy's.

Valley Mall Hagerstown, MD	$26-$27	$26-$27	$7.5	7-8%	2018	2019	2020

-Belk, Onelife Fitness, and Tilt Studio replacing former Macy's and BonTon.

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

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

In January 2018, we along with Macerich, entered into a $250.0 million term loan (the “FDP Term Loan”). The initial term of the FDP Term Loan is five years and bears interest at a variable rate of 2.00% over LIBOR. PREIT and Macerich have secured the FDP Term Loan by pledging their respective equity interests of 50% each in the entities that own Fashion District

Philadelphia. The initial draw on the FDP Term Loan was $150.0 million, and we received $73.0 million as a distribution of our share of the draw in January 2018. The project intends to draw the remaining $100.0 million available under the FDP Term Loan during 2018 in connection with further development of the project.
An important aspect of any redevelopment project, including the redevelopment of the Fashion District Philadelphia, is its effect on the property and on the tenants and customers during the time that a redevelopment is taking place. While we might undertake a redevelopment to maximize the long term performance of the property, in the short term, the operations and performance of the property, as measured by sales, occupancy and NOI, will often be negatively affected. Tenants might be dislodged as space for the redevelopment is aggregated, which affects tenant sales and rental rates. As the Fashion District Philadelphia is redeveloped, it is expected that occupancy, sales and NOI will continue to decrease until the newly constructed space is completed, leased and occupied. As of December 31, 2017, the portion of the Fashion District Philadelphia that was formerly known as Gallery I and the rest of the inline space at the Fashion District Philadelphia was closed, and most of the space was closed for the majority of 2016 and all of 2017. Through December 31, 2017, we had incurred costs of $132.8 million relating to our share of the redevelopment costs of the project.

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

	Former/Existing Anchors				Replacement Tenant(s)		
Property	Name	GLA '000's	Date Store Closed/Closing	Date De-commissioned	Name	GLA '000's	Actual/Targeted Occupancy Date
Completed:							
Cumberland Mall	JC Penney	51	Q3 15	Q3 15	Dick's Sporting Goods	50	Q4 16
Exton Square Mall	JC Penney	118	Q2 15	n/a	Round 1	58	Q4 16
Viewmont Mall	Sears	193	Q3 16	Q2 17	Dick's Sporting Goods/Field & Stream/HomeGoods	113	Q3 17
Capital City Mall	Sears	101	Q1 17	Q2 17	Dick's Sporting Goods	88	Q3 17
					Sears Appliance; Fine Wine and Spirits		Q4 17
Magnolia Mall	Sears	91	Q1 17	Q2 17	Burlington	46	Q3 17
Valley View Mall	Macy's	100	Q1 17	Q2 17	Herberger's	100	Q3 17
Exton Square Mall	K-mart	96	Q1 16	Q2 16	Whole Foods	58	Q1 18
In process:							
Woodland Mall	Sears	313	Q2 17	Q2 17	Von Maur	86	Q4 19
					Restaurants and small shop space	TBD	Q4 19
Magnolia Mall	Sears	See Above			HomeGoods	22	Q2 18
					Five Below	8	Q2 18
Moorestown Mall	Macy's	200	Q1 17	n/a	Sierra Trading Post	19	Q1 19
					HomeSense	28	Q4 18
					Grocer and other tenant	32	Q4 18
Valley Mall	Macy's	120	Q1 16	n/a	Onelife Fitness	70	Q3 18
					Tilt	48	Q3 18
	Bon Ton	123	Q1 18	n/a	Belk	123	Q4 18
Willow Grove Park	JC Penney	125	Q3 17	n/a	Movie theater and entertainment	93	Q3 19
Pending:							
Plymouth Meeting Mall	Macy's[1]	215	Q1 17	n/a	Various large format tenants	153	Q4 19

[1] Property is third-party owned and is subject to a ground lease dated June 23, 2017.

Improving the Operating Results of Our Properties

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

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

Key Tenants; Mall Leasing. We continue to recruit, and expand our relationships with, certain high profile retailers, and to initiate and expand our relationships with other quality and first-to-market retailers or concepts. We coordinate closely with tenants on new store locations in an effort to position our properties for our tenants' latest concept or store prototype, in order to drive traffic to our malls and stimulate customer spending. We believe that increasing our occupancy in ways that are tailored to particular properties will be helpful to our leasing efforts and will help increase rental rates and tenant sales. We have also

diversified the mix of tenants within our portfolio, with approximately 20% of space committed to non traditional tenants offering services such as dining and entertainment, health and wellness, off price retail and fast fashion.

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

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

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

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

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

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

Taking Steps to Position the Company for Future Growth Opportunities

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

External Opportunities. We seek to acquire, in an opportunistic, selective and disciplined manner, properties that are well-located, that are in trade areas with growing or stable demographics, that have operating metrics that are better than or equal to our existing portfolio averages, and that we believe have strong potential for increased cash flows and appreciation in value if we call upon our relationships with retailers and apply our skills in asset management and redevelopment. We also seek to acquire additional parcels or properties that are included within, or adjacent to, the

properties already in our portfolio, in order to gain greater control over the merchandising and tenant mix of a property. Taking advantage of any acquisition opportunities will likely involve some use of debt or equity capital. In March 2015, we completed the acquisition of Springfield Town Center, in Springfield, Virginia. The redeveloped property re-opened in October 2014, its facilities are currently being leased, and we expect operations at the property to stabilize in 2018.

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

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

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

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

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

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

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

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

RECENT DEVELOPMENTS

Dispositions

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

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

Operating Performance

Our net loss increased by $20.1 million to a net loss of $32.8 million for the year ended December 31, 2017 from a net loss of $12.7 million for the year ended December 31, 2016. The change in our 2017 results of operations was primarily due to gains from real estate sales of $23.0 million in 2016, as well as a $18.2 million decrease in non same store net operating income due to property sales in 2016 and 2017. These factors were partially offset by a $12.3 million decrease in interest expense and a $6.8 million decrease in impairment of assets.

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

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

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

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

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

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

Financing Activity

We have entered into four credit agreements (collectively, the “Credit Agreements”), as further discussed and defined below: (1) the 2013 Revolving Facility, (2) the 2014 7-Year Term Loan, (3) the 2014 5-Year Term Loan, and (4) the 2015 5-Year Term Loan. The 2014 7-Year Term Loan, the 2014 5-Year Term Loan and the 2015 5-Year Term Loan are collectively referred to as the “Term Loans.”

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

Mortgage Loan Activity. In January 2018, we amended and extended a $68.5 million mortgage loan secured by Francis Scott Key Mall in Frederick, Maryland. The mortgage loan has a four year term with one 1-year extension option and bears interest at LIBOR Plus 2.60%.
In March 2017, we repaid a $150.6 million mortgage loan plus accrued interest secured by The Mall at Prince Georges in Hyattsville, Maryland using $110.0 million