STIFEL

August 26, 2016

Pennsylvania REIT
PEI – NYSE
Buy
Retail REITs

Company Update

Management Meetings Highlight Improved Portfolio and Further Portfolio/Balance Sheet Improvements Ahead

We recently hosted a series of management meetings with PREIT CEO Joe Coradino and Head of Investor Relations, Heather Crowell. PEI's transformed portfolio is well-positioned to thrive in the uncertain retail environment, in our view. The disposition of 14 lower productivity malls has been the biggest component PEI's transformation. The dispositions along with occupancy gains and significant re-tenanting activity have improved PEI's portfolio metrics and strengthened PEI's long-term growth profile. PEI has used the disposition proceeds to reduce leverage and grow its unencumbered asset pool. PEI is focused on reducing leverage further through additional asset sales and growing cash flow through the stabilization of Springfield Town Center and redevelopment completions. We maintain our Buy rating and $27 target price based on a 7% discount to our $29 NAV estimate at a 6.25% cap rate.

- Portfolio fundamentals are healthy and PEI sees a clear path to achieving its goal of sales psf above $500. Sales increased to $460 psf from $458 psf at quarter-end following the sale of Washington Crown Center in 3Q. Further asset sales (Beaver Valley Mall) and the stabilization of Springfield Town Center and Fashion Outlets of Philadelphia (estimated sales psf $600+) should allow PEI to achieve its sales psf goal.
- PEI expects a mix of outlet, traditional retail, and entertainment at The Fashion Outlets of Philadelphia. Nearly 50% of the GLA is in various stages of lease documentation and PEI is seeing healthy retailer demand for space. The large-scale redevelopment is a 50/50 JV with Macerich (MAC, $82.65, Hold). PEI estimates redevelopment cost of $160-$190 million (at share) and has received $128.5 million of public financing and could receive an additional $30 million that will help determine the scope of the redevelopment. PEI could have a response by Labor Day on the additional $30 million. The project will open in the spring of 2018 with projected stabilization in 2020. The project entails significant execution risk and we expect PEI will provide numerous updates as the project moves forward to allay investor concerns.
- PEI has used disposition proceeds to reduce debt, but debt-to-EBITDA is 7.8x, above the mall REIT average. PEI is targeting a debt-to-EBITDA below 7.0x and plans to get there through a combination of asset sales and higher cash flow from improved operations and redevelopment completions, but it will take time for PEI to achieve its leverage goals. PEI has six redevelopments in-process for roughly $250 million with a shadow pipeline of identified potential projects.

Changes	Previous	Current
Rating	—	Buy
Target Price	—	$27.00
FY16E FFO	—	$1.85
FY17E FFO	—	$1.97
FY16E FAD	—	1.18
FY17E FAD	—	1.37

Price (08/25/16):	$24.49
52-Week Range:	$26 – $16
Market Cap.(mm):	1,905.3
Shr.O/S-Diluted (mm):	77.8
Enterprise Val. (mm):	3,991.9
Avg Daily Vol (3 Mo):	720,976
Dividend($ / %)	$0.84 / 3.4%
S&P Index	2,172.47

FFO	2015A	2016E	2017E
Q1	$0.34	$0.42A	$0.42
Q2	0.38	0.42A	0.44
Q3	0.49	0.46	0.50
Q4	0.58	0.56	0.61
FY Dec	$1.79A	$1.85	$1.97
P/FFO	13.7x	13.2x	12.4x

FAD	2015A	2016E	2017E
Q1	0.25	0.31A	0.35
Q2	0.23	0.25A	0.30
Q3	0.30	0.26	0.30
Q4	0.35	0.36	0.41
FY Dec	1.14A	1.18	1.37
P/FAD	21.5x	20.8x	17.9x

Nathan Isbee nisbee@stifel.com (443) 224-1346
Jennifer Hummert hummertj@stifel.com (443) 224-1288
Stifel Equity Trading Desk (800) 424-8870

- PEI is marketing Beaver Valley Mall for sale, its 50% interest in one power center under LOI, and is under contract to sell the office space at Voorhees Town Center. PEI is marketing its 50% interest in two remaining power centers. PEI expects to complete the sales in late 4Q and/or early 2017.

- PEI is also continuing to evaluate whether to sell ownership stakes (20%-40%) in a few centers. The JV sales will help PEI reduce leverage while providing some price discovery for their improved portfolio. While there has been sales of "C" and lower tier "B" malls, there has not been any recent sales of high quality "B"/lower productivity "A" malls. PEI believes the sale of an ownership stake in a few malls, a lower-end Premier Mall and one or two higher-end Core Growth malls could provide a positive valuation for the portfolio, demonstrating the value created by the portfolio transformation.

- PEI generated same store NOI of 4% in 2Q as growth was positively affected by 200-250 bps by the inclusion of Springfield Town Center. PEI will continue to receive an outsized benefit from Springfield Town Center in 2016 and into 2017 as signed leases come online and growth annualizes. Physical occupancy is 82.3%, but will increase throughout 2H16 and 2017. A new Saks Fifth Avenue Off 5th will open in a few weeks.

- PEI did not have any closures in its portfolio from Aeropostale or Pacific Sunwear. The 300 bp gap between its leased (94.3%) and physical occupancy (91.3%) should close in 2H16 with the opening of six new H&M stores. Retailer demand and PEI's leasing leverage have improved as the portfolio has transformed. PEI expects to generate 3%+ same store NOI growth following the transformation. PEI's 2016 same store NOI guidance is 2.8%-3.2%, but quarterly same store NOI guidance which includes Springfield Town Center is 4%-4.4%.

- The REIT does expect a handful of Macy's to close in its portfolio following Macy's announcement to close 100 full-line stores (out of 675). PEI has 21 Macy's locations in its portfolio and views the closures as a positive. The REIT has redevelopment plans "on the shelf" for a couple of the locations they expect to be on the closure list. The closures are also a positive for the remaining Macy's locations in PEI's portfolio since Macy's plans to invest in its full-line locations to improve the shopping experience, strengthening their malls. These malls will also take market share from lower productivity malls in the market where Macy's closes. PEI has one vacant anchor in its portfolio.

- The Macy's store closure announcement will not be the last among the traditional department store anchors, in our view. The department store model is struggling in the competitive retail environment as changing shopping habits and large store footprints are weighing on growth and creating some uncertainty. In the last 10 years, PEI has converted 10 former department store anchors into new uses, including large format retailers, small shops, a grocer, and office space. PEI currently has four anchor redevelopments in-process. PEI is re-tenanting the former JC Penney at Cumberland Mall with Dick's Sporting Goods, the JC Penney and K-Mart at Exton Square with Round 1 and Whole Foods, and the former Sears at Viewmont Mall with Dick's Sporting Goods and Field & Stream. These redevelopments begin to come online in 4Q16 and continue throughout 2017.

- The execution on the redevelopment of the former Gallery in Philadelphia into Fashion Outlets of Philadelphia, anchor redevelopments, and other redevelopment projects are significant for PEI. Successful execution on the pipeline will continue to move PEI's productivity toward its higher productivity mall REIT peers by enhancing PEI's long-term internal growth profile and improving sales productivity.

- PEI has been reducing its exposure to struggling anchors through asset sales and the proactively recapturing space when possible. PEI’s Sears exposure is down to 16 from 29 four years ago and PEI sees the number falling into the single digits over the next few years through asset sales and proactively recapturing locations when a new user is identified and a lease is signed.

Target Price Methodology/Risks

Our $27 target price is based on a 7% discount to our $29 NAV estimate at a 6.25% cap rate. Risks to our target price include a broad-based economic downturn or recession, interest rate movements, and general market risk. Company-specific risks include a weakening of commercial real estate fundamentals and balance sheet risk.

Company Description

Pennsylvania Real Estate Investment Trust is an equity REIT engaged in owning, developing, and acquiring malls and shopping centers, primarily in the eastern U.S. The company owns and operates 25 million of square feet of space in the eastern half of the U.S. with a concentration in the Mid-Atlantic region.

Pennsylvania Real Estate Investment Trust
Quarterly Earnings Model
(in thousands, except per share data)

Nathan Isbee
Stifel

Assumptions:	2015 A	1Q16 A	2Q16A	3Q16 E	4Q16 E	2016 E	1Q17 E	2Q17 E	3Q17 E	4Q17 E	2017 E	2018 E
Acquisitions during quarter (1)	428,600	($110,350)	($45,000)	($32,000)	$0	(187,350)	$0	$0	$0	$0	-	-
Rate of return on acquisitions (annually)	10%	17.0%	3.9%	9.0%	15.0%	11%	10.0%	7.0%	7.0%	7.0%	8%	8%
Development put in service during the quarter (1)	60,000	20,000	20,000	25,000	35,000	100,000	25,000	25,000	25,000	25,000	100,000	100,000
Rate of return on development (annually)	5.3%	0.0%	0.0%	3.0%	5.0%	2.0%	0.0%	3.0%	5.0%	7.0%	3.8%	3.3%
Revenue growth - existing properties (quarterly)	(2.5%)	(6.8%)	(8.6%)	0.8%	1.5%	(5.7%)	0.1%	0.5%	0.8%	1.0%	2.3%	4.7%
Tenant reimbursements as a percent of operating expenses	73.8%	72.2%	76.9%	75.0%	75.5%	74.8%	73.0%	75.0%	75.0%	76.0%	74.8%	74.8%
Operating exps. & real estate taxes as % of rental revenues	62.5%	64.4%	61.3%	62.0%	60.0%	61.9%	63.5%	61.0%	61.0%	60.0%	61.3%	61.3%
NOI growth on acquired properties (quarterly)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
G&A as % of net operating income	14.0%	14.7%	16.1%	14.5%	12.7%	14.4%	15.8%	15.9%	14.0%	12.2%	14.3%	13.8%
# Average interest rate on average debt outstanding (annually)	4.4%	4.3%	3.9%	4.1%	4.1%	4.2%	4.1%	4.1%	4.1%	4.0%	4.0%	4.0%
Additional debt issued (retired) during quarter	180,520	(101,384)	(31,576)	(9,297)	31,885	(110,371)	14,164	(4,084)	19,459	19,369	48,909	56,584
Additional common equity issued during quarter	125,000	-	-	-	-	-	-	-	-	-	-	-
Additional common shares/op units issued during quarter	6,250	-	-	-	-	-	-	-	-	-	-	-
Additional preferred shares	-	-	-	-	-		-	-	-	-	-	-
FFO/stock price multiple	10.3	12.1	12.8	13.1	13.4	13.5	12.9	13.2	13.4	13.7	13.7	13.8
Ending common stock price	$19.00	$22.66	$24.01	$24.50	$24.99	$25.00	$25.50	$26.00	$26.50	$27.03	$27.00	$29.00
NOI from existing properties: (2)												
Existing property rental income	$271,956	66,993	61,243	62,768	65,343	$256,347	62,859	64,325	66,205	68,735	$262,125	$274,443
Percentage Rents	$5,724	451	385	875	4,052	$5,763	456	389	883	4,093	$5,820	$5,879
Tenant reimbursements	125,506	31,134	28,870	29,187	29,600	118,791	29,138	29,429	30,289	31,343	120,199	125,849
Other property related revenue	16,249	2,878	2,241	3,786	6,517	15,422	2,878	2,241	3,786	6,680	15,585	15,752
Less operating expenses, real estate taxes & land sale costs	(170,047)	(43,111)	(37,532)	(38,916)	(39,206)	(158,765)	(39,915)	(39,239)	(40,385)	(41,241)	(160,780)	(168,342)
NOI from existing properties (2)	249,388	58,345	55,207	57,699	66,306	237,558	55,415	57,146	60,778	69,610	242,949	253,581
NOI from acquired property - cumulative (2)	-	-	-	(582)	(951)	(1,533)	(970)	(989)	(1,009)	(1,029)	(3,998)	(4,328)
NOI from development put in service - cumulative (2)	-	-	-	94	407	500	629	725	980	1,360	3,694	7,747
Total NOI (2)	249,388	58,345	55,207	57,212	65,762	236,526	55,074	56,882	60,749	69,941	242,645	257,000
Other income and expenses:												
Management fee income	-	-	-	-	-	-	-	-	-	-	-	-
Interest and other income	5,975	516	1,514	2,058	1,358	5,446	1,358	1,358	2,058	1,358	6,132	6,132
Equity in income of partnerships and joint ventures	9,541	3,883	4,192	4,234	4,276	16,585	4,276	4,319	4,362	4,406	17,363	17,889
General and administrative expenses	(34,835)	(8,586)	(8,883)	(8,296)	(8,352)	(34,116)	(8,702)	(9,044)	(8,505)	(8,533)	(34,783)	(35,514)
Other revenues & (expenses)	(148,469)	(1,192)	(15,019)	(250)	(250)	(16,711)	(250)	(250)	(250)	(250)	(1,000)	(1,000)
EBITDA	81,600	52,966	37,011	54,958	62,795	207,729	51,756	53,265	58,414	66,922	230,357	244,507
Reconciliation of EBITDA to funds from operations (FFO):												
Less: Interest expense	(81,096)	(19,346)	(17,067)	(17,515)	(17,630)	(71,558)	(17,866)	(17,918)	(17,777)	(17,752)	(71,314)	(73,783)
Less: Non-real estate depreciation and amortization	(1,504)	(369)	(365)	(375)	(375)	(1,484)	(375)	(375)	(375)	(375)	(1,500)	(1,500)
Less: Minority interest - net of FFO adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Add: Income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Less: Preferred Dividends	(15,848)	(3,962)	(3,962)	(3,962)	(3,962)	(15,848)	(3,962)	(3,962)	(3,962)	(3,962)	(15,848)	(15,848)
Add: Real estate depr. & amort. of unconsolidated invstmnts.	12,564	2,434	2,584	2,500	2,500	10,018	2,750	2,750	2,750	2,750	11,000	11,000
Less: Other nonrecurring (revenues) & expenses	140,533	615	14,118	-	-	14,733	-	-	-	-	-	-
Funds from operations (FFO)	**$136,249**	**32,338**	**32,319**	**$35,606**	**$43,327**	**$143,590**	**32,303**	**33,760**	**$39,050**	**$47,583**	**$152,695**	**$164,376**
Normalized Funds from operations (FFO)	**143,389**	**33,015**	**32,977**	**$35,606**	**$43,327**	**144,925**	**$32,303**	**$33,760**	**$39,050**	**$47,583**	**152,695**	**164,376**
Add (Less): Non-real estate depreciation & amortization	1,504	369	365	375	375	1,484	375	375	375	375	1,500	1,500
Less: Straight-line rents	(2,491)	(716)	(798)	(600)	(600)	(2,714)	(550)	(550)	(750)	(750)	(2,600)	(2,600)
Less: Non-revenue capx & 2nd-generation leasing costs	(48,404)	(8,031)	(12,385)	(15,000)	(15,000)	(50,416)	(5,000)	(10,000)	(15,000)	(15,000)	(45,000)	(45,000)
Less: Other non-cash items	79	(269)	(88)	(150)	(150)	(657)	(150)	(150)	(150)	(150)	(600)	(600)
Funds available for distribution (FAD)	**$86,937**	**$23,691**	**$19,413**	**$20,231**	**$27,952**	**$91,287**	**$26,978**	**$23,435**	**$23,525**	**$32,058**	**$105,995**	**$117,676**
FFO per common share equivalent - diluted	**$1.79**	**$0.42**	**$0.42**	**$0.46**	**$0.56**	**$1.85**	**$0.42**	**$0.44**	**$0.50**	**$0.61**	**$1.97**	**$2.12**
Normalized FFO per common share equivalent - diluted	**$1.89**	**$0.43**	**$0.43**	**$0.46**	**$0.56**	**$1.87**	**$0.42**	**$0.44**	**$0.50**	**$0.61**	**$1.97**	**$2.12**
FAD per common share equivalent	**$1.14**	**$0.31**	**$0.25**	**$0.26**	**$0.36**	**$1.18**	**$0.35**	**$0.30**	**$0.30**	**$0.41**	**$1.37**	**$1.52**
Dividends per share	$0.84	$0.22	$0.22	$0.22	$0.22	$0.88	$0.23	$0.23	$0.23	$0.23	$0.92	$0.92
Weighted average common shares and OP units:												
Common shares and units outstanding at end of period	77,535	77,797	77,800	77,800	77,800	77,800	77,800	77,800	77,800	77,800	77,800	77,800
Weighted avg. shares and units outstanding - basic	68,217	68,973	69,091	69,091	69,091	69,062	69,062	69,062	69,062	69,062	69,062	69,062
Converted warrants, options, pref., debs. (treasury method)	-	-	-	-	-	-	-	-	-	-	-	-
Weighted avg. shares and units outstanding - diluted	75,963	77,609	77,486	77,486	77,486	77,517	77,486	77,486	77,486	77,486	77,486	77,486
Capitalization Analysis												
Average debt outstanding	1,851,925	1,805,957	1,736,865	1,708,749	1,720,042	1,720,042	1,743,067	1,748,107	1,755,795	1,775,209	1,775,209	1,833,115
Ending debt outstanding	1,851,580	1,760,333	1,713,397	1,704,100	1,735,985	1,735,985	1,750,149	1,746,065	1,765,524	1,784,894	1,784,894	1,841,477
Share of joint venture debt outstanding	202,074	201,918	202,003	202,003	202,003	202,003	202,003	202,003	202,003	202,003	202,003	202,003
Ending common shares and OP units outstanding	77,535	77,797	77,800	77,800	77,800	77,800	77,800	77,800	77,800	77,800	77,800	77,800
Preferred Stock	201,250	201,250	201,250	201,250	201,250	201,250	201,250	201,250	201,250	201,250	201,250	201,250
Equity market capitalization	1,436,724	1,762,880	1,867,978	1,906,100	1,944,222	1,944,222	1,983,900	2,022,800	2,061,700	2,102,934	2,102,934	2,285,764
Total market capitalization	3,490,378	3,725,131	3,783,378	3,812,203	3,882,210	3,882,210	3,936,052	3,970,868	4,029,227	4,089,831	4,089,831	4,329,244
Debt/total market cap	58.8%	52.7%	50.6%	50.0%	49.9%	49.9%	49.6%	49.1%	48.8%	48.6%	48.6%	47.2%
Ratios:												
Interest coverage	1.01	2.74	2.17	3.14	3.56	2.90	2.90	2.97	3.29	3.77	3.23	3.31
Fixed charges coverage	1.01	2.74	2.17	3.14	3.56	2.90	2.90	2.97	3.29	3.77	3.23	3.31
Adjusted EBITDA/EV (3)	2.3%	6.5%	6.5%	6.5%	6.5%	5.3%	6.5%	6.5%	6.5%	6.5%	5.6%	5.6%
EV/Adjusted EBITDA (3)	44.1	15.3	15.3	15.3	15.3	18.9	15.3	15.3	15.3	15.3	18.0	17.9
Dividend yield (div/stock price)	4.5%	3.9%	3.7%	3.6%	3.5%	3.5%	3.6%	3.5%	3.5%	3.4%	3.4%	3.1%
FFO growth (per share)	0.0%	(27.6%)	0.0%	9.5%	21.7%	0.0%	(25.0%)	4.8%	13.6%	22.0%	0.0%	0.0%
FFO payout ratio - diluted (div/FFO per share)	46.8%	52.4%	52.4%	47.8%	39.3%	47.5%	54.8%	52.3%	46.0%	37.7%	46.7%	43.4%
FAD payout ratio - diluted (div/FAD per share)	73.4%	71.0%	88.0%	84.6%	61.1%	74.7%	65.7%	76.7%	76.7%	56.1%	67.3%	60.6%

(1) Assumes midperiod acquisition or development revenue convention.
(2) Net operating income (NOI) is defined as rental revenue plus tenant reimbursements less property-level operating expenses and real estate taxes.
(3) Adjusted EBITDA equals EBITDA less property sale gains and straight line rents
Source: Stifel estimates and company data

Important Disclosures and Certifications

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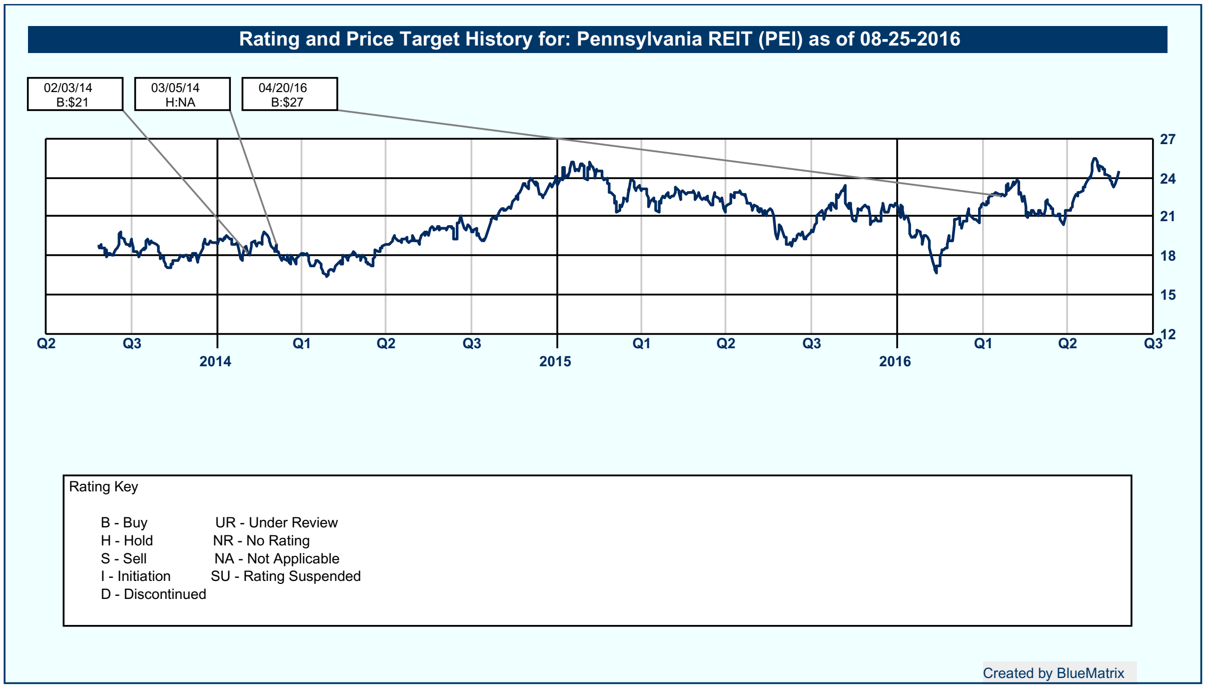

For a price chart with our ratings and any applicable target price changes for PEI go to http://sf.bluematrix.com/bluematrix/Disclosure?ticker=PEI

The rating and target price history for Pennsylvania REIT and its securities prior to February 25, 2015, on the above price chart reflects the research analyst's views under a different rating system than currently utilized at Stifel. For a description of the investment rating system previously utilized go to.www.stifel.com.

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Pennsylvania REIT in the next 3 months.

Stifel or an affiliate is a market maker or liquidity provider in the securities of Pennsylvania REIT.

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

Our investment rating system is three tiered, defined as follows:

BUY -We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

HOLD -We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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Additional Disclosures

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