PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-Q
October 31, 2014
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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 September 30, 2014
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 (State or other jurisdiction of incorporation or organization)	23-6216339 (I.R.S. Employer Identification No.)
200 South Broad Street Philadelphia, PA (Address of principal executive offices)	19102 (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 October 27, 2014: 68,793,240

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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)	September 30, 2014 (unaudited)	December 31, 2013
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	$3,173,334	$3,450,317
Construction in progress	73,410	68,835
Land held for development	8,721	8,716
Total investments in real estate	3,255,465	3,527,868
Accumulated depreciation	(1,028,846)	(1,012,746)
Net investments in real estate	2,226,619	2,515,122
INVESTMENTS IN PARTNERSHIPS, at equity:	129,202	15,963
OTHER ASSETS:		
Cash and cash equivalents	51,413	34,230
Tenant and other receivables (net of allowance for doubtful accounts of $13,049 and $13,123 at September 30, 2014 and December 31, 2013, respectively)	35,416	46,439
Intangible assets (net of accumulated amortization of $12,042 and $14,506 at September 30, 2014 and December 31, 2013, respectively)	6,622	9,075
Deferred costs and other assets	89,907	97,752
Total assets	$2,539,179	$2,718,581
LIABILITIES:		
Mortgage loans payable	$1,414,054	$1,502,650
Term loans	130,000	—
Revolving Facility	—	130,000
Tenants' deposits and deferred rent	16,062	17,896
Distributions in excess of partnership investments	64,360	64,491
Fair value of derivative liabilities	1,738	844
Accrued expenses and other liabilities	70,209	76,248
Total liabilities	1,696,423	1,792,129
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 September 30, 2014 and December 31, 2013; 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 September 30, 2014 and December 31, 2013; liquidation preference of $86,250	35	35
Shares of beneficial interest, $1.00 par value per share; 200,000 shares authorized; issued and outstanding 68,787 shares at September 30, 2014 and 68,293 shares at December 31, 2013	68,787	68,293
Capital contributed in excess of par	1,472,366	1,467,460
Accumulated other comprehensive loss	(5,428)	(6,637)
Distributions in excess of net income	(722,338)	(636,939)
Total equity—Pennsylvania Real Estate Investment Trust	813,468	892,258
Noncontrolling interest	29,288	34,194
Total equity	842,756	926,452

Total liabilities and equity	$2,539,179	$2,718,581

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)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
REVENUE:				
Real estate revenue:				
Base rent	$66,908	$69,851	$209,896	$207,560
Expense reimbursements	31,057	33,275	96,287	95,067
Percentage rent	542	593	1,455	2,159
Lease termination revenue	644	336	898	567
Other real estate revenue	2,638	3,011	8,005	8,438
Total real estate revenue	101,789	107,066	316,541	313,791
Other income	3,348	3,208	4,807	5,491
Total revenue	105,137	110,274	321,348	319,282
EXPENSES:				
Operating expenses:				
CAM and real estate taxes	(33,092)	(36,416)	(107,723)	(105,957)
Utilities	(5,520)	(6,859)	(19,571)	(16,986)
Other operating expenses	(4,315)	(4,609)	(11,713)	(12,255)
Total operating expenses	(42,927)	(47,884)	(139,007)	(135,198)
Depreciation and amortization	(34,240)	(35,770)	(107,610)	(104,474)
Other expenses:				
General and administrative expenses	(8,373)	(8,116)	(26,224)	(26,578)
Impairment of assets	(2,297)	(6,304)	(19,695)	(6,304)
Provision for employee separation expense	(85)	—	(4,961)	(2,314)
Acquisition costs and other expenses	(723)	(462)	(3,329)	(862)
Total other expenses	(11,478)	(14,882)	(54,209)	(36,058)
Interest expense, net	(20,071)	(23,477)	(61,792)	(78,503)
Total expenses	(108,716)	(122,013)	(362,618)	(354,233)
Loss before equity in income of partnerships, net loss on sales of interests in real estate, discontinued operations and gains on sales of discontinued operations	(3,579)	(11,739)	(41,270)	(34,951)
Equity in income of partnerships	3,206	2,345	8,392	7,081
Net loss on sales of interests in real estate	(513)	—	(414)	—
Loss from continuing operations	(886)	(9,394)	(33,292)	(27,870)
Discontinued operations:				
Operating results from discontinued operations	—	543	—	2,563
Impairment of assets of discontinued operations	—	(23,662)	—	(23,662)
Gains on sales of discontinued operations	—	45,097	—	78,351
Income from discontinued operations	—	21,978	—	57,252
Net (loss) income	(886)	12,584	(33,292)	29,382
Less: net loss (income) attributable to noncontrolling interest	27	(382)	1,004	(1,073)
Net (loss) income attributable to PREIT	(859)	12,202	(32,288)	28,309
Less: preferred share dividends	(3,962)	(3,962)	(11,886)	(11,886)
	$(4,821)	$8,240	$(44,174)	$16,423

Net (loss) income attributable to PREIT common shareholders

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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Loss from continuing operations	$(886)	$(9,394)	$(33,292)	$(27,870)
Noncontrolling interest	27	277	1,004	954
Dividends on preferred shares	(3,962)	(3,962)	(11,886)	(11,886)
Dividends on unvested restricted shares	(87)	(108)	(293)	(319)
Loss from continuing operations used to calculate loss per share—basic and diluted	$(4,908)	$(13,187)	$(44,467)	$(39,121)
Income from discontinued operations	$—	$21,978	$—	$57,252
Noncontrolling interest	—	(659)	—	(2,027)
Income from discontinued operations used to calculate earnings per share—basic and diluted	$—	$21,319	$—	$55,225
Basic and diluted (loss) earnings per share:				
Loss from continuing operations	$(0.07)	$(0.20)	$(0.65)	$(0.63)
Income from discontinued operations	—	0.32	—	0.89
	$(0.07)	$0.12	$(0.65)	$0.26
(in thousands of shares)				
Weighted average shares outstanding—basic	68,331	67,579	68,172	62,330
Effect of common share equivalents [1]	—	—	—	—
Weighted average shares outstanding—diluted	68,331	67,579	68,172	62,330

(1) The Company had net losses from continuing operations used to calculate earnings per share for all periods presented. Therefore, the effects of common share equivalents of 672 and 825 for the three months ended September 30, 2014 and 2013, respectively, and 596 and 851 for the nine months ended September 30, 2014 and 2013, 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)

(in thousands of dollars)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Comprehensive (loss) income:				
Net (loss) income	$(886)	$12,584	$(33,292)	$29,382
Unrealized gain (loss) on derivatives	2,127	651	(975)	8,747
Amortization of losses of settled swaps, net of gains	383	984	2,221	4,766
Total comprehensive income (loss)	1,624	14,219	(32,046)	42,895
Less: comprehensive (income) loss attributable to noncontrolling interest	(85)	(402)	967	(1,523)
Comprehensive income (loss) attributable to PREIT	$1,539	$13,817	$(31,079)	$41,372

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF EQUITY
Nine Months Ended
September 30, 2014
(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, 2013	$926,452	$46	$35	$68,293	$1,467,460	$ (6,637)	$ (636,939)	$34,194
Net loss	(33,292)	—	—	—	—	—	(32,288)	(1,004)
Other comprehensive income	1,246	—	—	—	—	1,209	—	37
Shares issued under employee compensation plans, net of shares retired	(1,571)	—	—	494	(2,065)	—	—	—
Amortization of deferred compensation	6,971	—	—	—	6,971	—	—	—
Distributions paid to common shareholders ($0.60 per share)	(41,225)	—	—	—	—	—	(41,225)	—
Distributions paid to Series A preferred shareholders ($1.5498 per share)	(7,116)	—	—	—	—	—	(7,116)	—
Distributions paid to Series B preferred shareholders ($1.3827 per share)	(4,770)	—	—	—	—	—	(4,770)	—
Noncontrolling interests:								
Distributions paid to	(1,278)	—	—	—	—	—	—	(1,278)

Operating Partnership unit holders ($0.60 per unit)								
Amortization of historic tax credit	(581)	—	—	—	—	—	—	(581)
Other distributions to noncontrolling interests, net	(2,080)	—	—	—	—	—	—	(2,080)
Balance September 30, 2014	$842,756	$46	$35	$68,787	$1,472,366	$(5,428)	$(722,338)	$29,288

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
(in thousands of dollars)	2014	2013
Cash flows from operating activities:		
Net (loss) income	$(33,292)	$29,382
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	100,584	99,163
Amortization	7,083	9,932
Straight-line rent adjustments	(1,164)	(1,032)
Provision for doubtful accounts	1,779	1,872
Amortization of deferred compensation	6,971	6,246
Loss on hedge ineffectiveness	1,354	3,409
Net losses (gains) on sales of interests in real estate	414	(78,351)
Equity in income of partnerships, net of distributions	(1,976)	(2,496)
Amortization of historic tax credits	(2,508)	(2,494)
Impairment of assets and expensed project costs	20,125	30,416
Change in assets and liabilities:		
Net change in other assets	4,014	(5,051)
Net change in other liabilities	(4,872)	(6,470)
Net cash provided by operating activities	98,512	84,526
Cash flows from investing activities:		
Investments in consolidated real estate acquisitions	(20,000)	(60,879)
Additions to construction in progress	(30,745)	(24,524)
Investments in real estate improvements	(40,649)	(25,191)
Cash proceeds from sales of real estate	165,632	173,280
Additions to leasehold improvements	(953)	(212)
Investments in partnerships	(5,158)	(207)
Capitalized leasing costs	(4,223)	(3,902)
(Increase) decrease in cash escrows	(318)	1,600
Cash distributions from partnerships in excess of equity in income	1,537	1,257
Net cash provided by investing activities	65,123	61,222
Cash flows from financing activities:		
Net proceeds from issuance of common shares	—	220,300
Borrowings from (repayments of) term loans	130,000	(182,000)
Net (repayments of) borrowings from revolving facility	(130,000)	90,000
Proceeds from mortgage loans	—	76,692
Principal installments on mortgage loans	(11,812)	(12,698)
Repayments of mortgage loans	(76,784)	(294,514)
Payment of deferred financing costs	(1,896)	(3,764)
Dividends paid to common shareholders	(41,225)	(34,674)
Dividends paid to preferred shareholders	(11,886)	(11,886)
Distributions paid to Operating Partnership unit holders	(1,278)	(1,198)
Value of shares of beneficial interest issued	3,062	1,315
Value of shares retired under equity incentive plans, net of shares issued	(4,633)	(2,418)
Net cash used in financing activities	(146,452)	(154,845)
Net change in cash and cash equivalents	17,183	(9,097)

Cash and cash equivalents, beginning of period	34,230	33,990
Cash and cash equivalents, end of period	$51,413	$24,893

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014

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, 2013. 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. As of September 30, 2014, our portfolio consisted of a total of 43 properties in 12 states, including 32 shopping malls, seven other retail properties and four development properties, with two of the development properties classified as "mixed use" (a combination of retail and other uses), one of the properties classified as "other retail" (outlet) and one of the development properties classified as "other."

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 September 30, 2014, we held a 97.0% 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 September 30, 2014, the total amount that would have been distributed would have been $42.5 million, which is calculated using our September 30, 2014 closing price on the New York Stock Exchange of $19.94 per share multiplied by the number of outstanding OP Units held by limited partners, which was 2,129,202 as of September 30, 2014.

We provide management, leasing and real estate development services through two companies: 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 May 2014, the Financial Accounting Standards Board issued “Revenue from Contracts with Customers.” The objective of this new standard is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of this new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt this standard. We are currently evaluating the new guidance and have not determined the impact this standard may have on our financial statements nor have we decided upon the method of adoption.

In April 2014, we adopted new accounting requirements pertaining to the reporting of discontinued operations. Under these new accounting requirements, only disposals representing a strategic shift in operations will be presented as discontinued operations. Previously, under U.S. GAAP, companies that sold a single investment property were generally required to report the sale as a discontinued operation, which required the companies to reclassify earnings from continuing operations for all periods presented. These new accounting requirements require expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations.

In 2014, we sold South Mall in Allentown, Pennsylvania, Nittany Mall in State College, Pennsylvania and North Hanover Mall in Hanover, Pennsylvania. We applied these new accounting requirements by reporting the results of operations of these sold properties in the continuing operations section of our unaudited consolidated statements of operations.

Correction of Prior Period Presentation

Certain prior period amounts have been reclassified to conform with the current year presentation.

Our previously reported results of operations for the three and nine months ended September 30, 2013 have been corrected to eliminate certain immaterial intercompany revenues and expenses. These immaterial corrections had no effect on net income (loss), basic or diluted earnings (loss) per share amounts, comprehensive income (loss), shareholders' equity or cash flows. The immaterial corrections reduced both other real estate revenue and other operating expenses by approximately $0.1 million and $0.4 million for the three and nine months ended September 30, 2013, respectively.

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2. REAL ESTATE ACTIVITIES

Investments in real estate as of September 30, 2014 and December 31, 2013 were comprised of the following:

(in thousands of dollars)	As of September 30, 2014	As of December 31, 2013
Buildings, improvements and construction in progress	$2,808,363	$3,049,758
Land, including land held for development	447,102	478,110
Total investments in real estate	3,255,465	3,527,868
Accumulated depreciation	(1,028,846)	(1,012,746)
Net investments in real estate	$2,226,619	$2,515,122

Capitalization of Costs

The following table summarizes our capitalized salaries, commissions and benefits, real estate taxes and interest for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands of dollars)	2014	2013	2014	2013
Development/Redevelopment Activities:				
Salaries and benefits	$201	$272	$1,026	$585
Real estate taxes	4	4	4	4
Interest	201	331	494	620
Leasing Activities:				
Salaries, commissions and benefits	1,394	1,180	4,223	3,902

Dispositions

In September 2014, we sold North Hanover Mall in Hanover, Pennsylvania and Nittany Mall in State College, Pennsylvania in a single transaction for a combined sales price of $32.3 million, representing capitalization rates of 11.0% and 16.2% for North Hanover Mall and Nittany Mall, respectively.

On July 29, 2014, we entered into a 50/50 joint venture with The Macerich Company ("Macerich") to redevelop The Gallery at Market East in Philadelphia, Pennsylvania. 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, representing a capitalization rate of 5.1%. It is expected that both parties will make additional investments in the project. Net proceeds after closing costs from the sale of the interests was $104.0 million. We used $25.8 million of such proceeds to repay a mortgage loan secured by 801 Market Street, Philadelphia, Pennsylvania, a property that is part of The Gallery at Market East, $50.0 million to repay the outstanding balance on our 2013 Revolving Facility, and the remaining proceeds for general corporate purposes. We recorded a loss of $0.6 million from the sale of these interests. We retained a 50% interest in The Gallery at Market East. We account for the retained 50% investment in The Gallery using the equity method of accounting.

In June 2014, we sold South Mall in Allentown, Pennsylvania for $23.6 million, representing a capitalization rate of 10.1%. We recorded a gain of $0.2 million from the sale of this property.

Impairment of Assets

Nittany Mall

In 2014, we recorded an aggregate loss on impairment of assets at Nittany Mall in State College, Pennsylvania of $15.5 million. During the three months ended June 30, 2014, we recorded a loss on impairment of assets of $13.9 million when we entered into negotiations with the buyer of the property. During the third quarter of 2014, we recorded an additional $1.6

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million loss on impairment of assets following further negotiations with the buyer of the property. As a result of these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the purchase and sale agreement with the prospective buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for Nittany Mall were less than the carrying value of the property, and recorded both the initial loss on impairment of assets and the subsequent additional loss on impairment of assets.

North Hanover Mall

In 2014, we recorded an aggregate loss on impairment of assets at North Hanover Mall in Hanover, Pennsylvania of $2.9 million. During the three months ended June 30, 2014, we recorded a loss on impairment of assets of $2.2 million when we entered into negotiations with the buyer of the property. During the third quarter of 2014, we recorded an additional $0.7 million loss on impairment of assets following further negotiations with the buyer of the property. As a result of these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Based upon the purchase and sale agreement with the prospective buyer of the property, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for North Hanover were less than the carrying value of the property, and recorded both the initial loss on impairment of assets and the subsequent additional loss on impairment of assets. We previously recognized losses on impairment of assets on North Hanover of $6.3 million in 2013 and $24.1 million in 2011.

South Mall

In March 2014, we recorded a loss on impairment of assets at South Mall in Allentown, Pennsylvania of $1.3 million. We sold the property in June 2014. During the three months ended March 31, 2014, we entered into negotiations with a potential buyer of the property, and as a result of these negotiations, we determined that the holding period for the property was less than had been previously estimated, which we concluded was a triggering event, leading us to conduct an analysis of possible asset impairment at this property. Using updated assumptions, we determined that the estimated undiscounted cash flows, net of estimated capital expenditures, for South Mall were less than the carrying value of the property, and recorded the loss on impairment of assets.

Discontinued Operations

We have presented as discontinued operations the operating results of Phillipsburg Mall, Orlando Fashion Square, Chambersburg Mall, Paxton Towne Centre, Christiana Center and Commons at Magnolia, which are properties that were sold in 2013. The following table summarizes revenue and expense information for the three and nine months ended September 30, 2013 for these discontinued operations (there were no properties classified in discontinued operations in the three or nine months ended September 30, 2014):

(in thousands of dollars)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Real estate revenue	$2,491	$9,379
Expenses:		
Operating expenses	(1,109)	(3,989)
Depreciation and amortization	(345)	(1,074)

Interest expense	(494	)