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Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended: December 31, 2003

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 Number: 1-11954

VORNADO REALTY TRUST

(Exact name of Registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**22-1657560** (I.R.S. Employer Identification Number)
888 Seventh Avenue, New York, New York (Address of Principal Executive Offices)	**10019** (Zip Code)

Registrant's telephone number including area code: **(212) 894-7000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of beneficial interest, $.04 par value per share	New York Stock Exchange
Series A Convertible Preferred Shares of beneficial interest, no par value	New York Stock Exchange
8.5% Series B Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange
8.5% Series C Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

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 ☒ 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 definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ☒ NO ☐

Aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust as reflected in the table in Item 12 of this Form 10-K at June 30, 2003 was $3,549,034,000.

As of February 16, 2004, there were 119,254,006 of the registrant's common shares of beneficial interest outstanding.

Documents Incorporated by Reference

Part III: Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 27, 2004.

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(1) The Registrant will file a definitive Proxy Statement pursuant to Regulation 14A involving the election of trustees with the Securities and Exchange Commission not later than 120 days after December 31, 2003, portions of which are incorporated by reference herein. Information relating to Executive Officers of the Registrant appears on page 61 of this Annual Report on Form 10-K.

FORWARD LOOKING STATEMENTS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "plans," "intends," "estimates," "anticipates," "expects," "believes" or similar expressions in this annual report on Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see "Item 1. Business – Certain Factors That May Adversely Affect Our Business and Operations" in this annual report on Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this annual report on Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

PART I

ITEM 1. BUSINESS

THE COMPANY

Vornado Realty Trust is a fully-integrated real estate investment trust ("REIT"). Vornado conducts its business through Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Vornado is the sole general partner of, and owned approximately 82% of the limited partnership interest in, the Operating Partnership at February 16, 2004. All references to "We," "Us," "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

The Company currently owns directly or indirectly:

Office Properties ("Office"):

(i) all or portions of 83 office properties aggregating approximately 27.3 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia area;

Retail Properties ("Retail"):

(ii) 60 retail properties in six states and Puerto Rico aggregating approximately 12.9 million square feet, including 2.7 million square feet built by tenants on land leased from the Company;

Merchandise Mart Properties:

(iii) 8.6 million square feet of showroom and office space, including the 3.4 million square foot Merchandise Mart in Chicago;

Temperature Controlled Logistics:

(iv) a 60% interest in the Vornado Crescent Portland Partnership that owns 87 cold storage warehouses nationwide with an aggregate of approximately 440.7 million cubic feet of refrigerated space leased to AmeriCold Logistics;

Other Real Estate Investments:

(v) 33.1% of the outstanding common stock of Alexander's, Inc. ("Alexander's");

(vi) the Hotel Pennsylvania in New York City consisting of a hotel portion containing 1.0 million square feet with 1,700 rooms and a commercial portion containing .4 million square feet of retail and office space;

(vii) a 22.6% interest in The Newkirk Master Limited Partnership ("Newkirk MLP") which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;

(viii) eight dry warehouse/industrial properties in New Jersey containing approximately 2.0 million square feet; and

(ix) other investments, including interests in other real estate, loans and notes receivable and marketable securities.

OBJECTIVES AND STRATEGY

Our business objective is to maximize shareholder value. We intend to achieve this objective by continuing to pursue our investment philosophy and executing our operating strategies through:

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;
- Investing in properties in select markets, such as New York City and Washington, D.C., where we believe there is high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area;
- Investing in fully integrated operating companies that have a significant real estate component with qualified, experienced operating management and strong growth potential which can benefit from our access to efficient capital;
- Developing/redeveloping our existing properties to increase returns and maximize value; and
- On occasion, providing specialty financing to real estate companies.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets.

ACQUISITIONS

Building Maintenance Service Company ("BMS")

On January 1, 2003, the Company acquired for $13,000,000 in cash BMS, which provides cleaning, security and engineering services principally to the Company's Manhattan office properties. This company was previously owned by the estate of Bernard Mendik and certain other individuals including David R. Greenbaum, one of the Company's executive officers.

Kaempfer Company ("Kaempfer")

On April 9, 2003, the Company acquired Kaempfer which owns partial interests in six Class "A" office properties in Washington D.C. containing 1.8 million square feet, manages and leases these properties and four others for which it receives customary fees and has options to acquire certain other real estate interests, including the Waterfront project discussed below. Kaempfer's equity interest in the properties approximates 5.0%. The aggregate purchase price for the equity interests and the management and leasing business was $32,200,000 (consisting of $28,600,000 in cash and approximately 99,300 Operating Partnership units valued at $3,600,000) and may be increased by up to $9,000,000 based on the performance of the management company.

On October 7, 2003, the Company acquired a 2.5% interest in the planned redevelopment of Waterfront, located at 401 M Street, a mixed-use project in Washington D.C. (the "Waterfront Interest") for $2,171,000, of which the Company paid $1,545,000 in cash and issued 12,500 Operating Partnership units valued at $626,000. The partnership units were issued to Mitchell N. Schear, one of the partners in the Waterfront interest, who became the President of the Company's CESCR division.

20 Broad Street

On May 2, 2003, the Company acquired the remaining 40% of a 78-year leasehold interest in 20 Broad Street it did not already own. The purchase price was approximately $30,000,000 in cash. 20 Broad Street contains 466,000 square feet of office space, of which 348,000 square feet is leased to the New York Stock Exchange.

2101 L Street

On August 4, 2003, the Company completed the acquisition of 2101 L Street, a 370,000 square foot office building located in Washington D.C. The consideration for the acquisition consisted of approximately 1.1 million newly issued Operating Partnership units (valued at approximately $49,517,000) and the assumption of existing mortgage debt and transaction costs totaling approximately $32,000,000. Robert H. Smith and Robert P. Kogod, trustees of Vornado, together with family members owned approximately 24 percent of the limited partnership that sold the building and Mr. Smith was a general partner. On August 5, 2003, the Company repaid the mortgage of $29,056,000.

General Motors Building Mezzanine Loans

On October 20, 2003, the Company made a $200,000,000 mezzanine loan secured by partnership interests in the General Motors Building. The General Motors Building was acquired by Macklowe Properties in September 2003 for approximately $1.4 billion. Vornado's loan is subordinate to $900,000,000 of other debt. The loan is based on a rate of LIBOR plus 8.685% (with a LIBOR floor of 1.5%) and currently yields 10.185%. Further, on October 30, 2003, the Company made an additional $25,000,000 loan, as part of a $50,000,000 loan, the balance of which was funded by an affiliate of Soros Fund Management LLC. This loan, which is junior to the $1.1 billion of loans noted above, is based on a rate of LIBOR plus 12.81% (with a LIBOR floor of 1.5%) and currently yields 14.31%. These loans mature in October 2005, with three one-year extensions.

Bergen Mall

On December 12, 2003, the Company acquired the Bergen Mall for approximately $145,000,000. This purchase was funded as part of a Section 1031 tax-free “like-kind” exchange with a portion of the proceeds from the sale of the Company’s Two Park Avenue property. The Bergen Mall is a 903,000 square foot shopping center located on Route 4 East in Paramus, New Jersey. The center is anchored by Macy’s, Value City, Marshalls and Off Saks Fifth Avenue. The Company intends to expand, re-tenant and redevelop the asset.

Further details of the Company’s acquisition activities are disclosed in Part II. Management’s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this annual report on Form 10-K.

DISPOSITIONS

On June 13, 2003, the Company received its $5,000,000 share of a settlement with affiliates of Primestone Investment Partners of the amounts due under the guarantees of the Primestone loans. In connection therewith, the Company recognized a $1,388,000 loss on settlement of the guarantees.

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square foot office building, for $292,000,000 to SEB Immobilien-Investment GMBH, a German capital investment company, which resulted in a net gain on the sale after closing costs of $156,433,000.

In addition, the Company sold two strip shopping centers in 2003, for an aggregate of $7,852,000, which resulted in net gains of $4,589,000.

On February 2, 2004, the Palisades Venture in which the Company owns a 75% interest entered into an agreement to sell its only asset, a 538 unit high-rise residential apartment tower in Fort Lee, New Jersey, for $222,500,000. On February 27, 2004, in order to permit a potential “like kind exchange,” the Company acquired the remaining 25% interest it did not previously own for its partner’s share of the net sales price (approximately $17,000,000). The Company’s gain on sale after closing costs will be approximately $70,000,000. The sale, which is subject to customary closing conditions, is expected to be completed by the third quarter of 2004.

Further details of the Company’s dispositions are disclosed in Part II. Management’s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this annual report on Form 10-K.

DEVELOPMENT AND REDEVELOPMENT PROJECTS

The Company is currently engaged in various development/redevelopment projects for which it has budgeted approximately $561.7 million. Of this amount $111.1 million was expended in 2003 and $169 million is estimated to be expended in 2004. Below is a description of these projects.

		The Company's Share of		
($in millions)	Estimated Completion Date	Estimated Project Cost	Costs Expended in Year Ended December 31, 2003	Estimated Costs to Complete
Office:				
New York City:				
640 Fifth Avenue – construction of additional 47,000 square feet of office space and redevelopment of existing building	Summer 2004	$ 62.5	$ 29.4	$ 14.1
CESCR:				
Crystal City Office space to be vacated by the U.S. Government Patent Office ("PTO"):				
(i) Renovation of buildings (see next page)	2005-2007	90.0(1)	—	90.0
(ii) Cost to retenant	2005-2007	60.0	—	60.0
Crystal Drive Retail – construction of additional 57,000 square feet of retail space and improvements to the infrastructure including streets, signals and signs as part of "way finding" program	Fall 2004	43.0	12.5	28.7
Retail:				
4 Union Square South - redevelopment of 198,000 square feet, of which 193,000 square feet has been leased to Whole Foods, Forever 21, DSW Shoe Warehouse and Filenes	Spring 2005	54.3	14.0	34.8
Green Acres Mall – interior renovation, construction of an additional 70,000 square feet of free-standing retail space, parking decks and site-work and tenant improvements for B.J.'s Wholesale who will construct its own store (2)	2006	63.3	1.0	62.3
Strip shopping centers:				
(i) site work and/or demolition of existing buildings as part of the redevelopment of 7 properties released to Wal-Mart and Lowes, who will construct their own stores at these sites (six of these locations were previously leased to Bradlees).	2004-2005	21.3	6.4	14.9
(ii) expansion of shopping centers in Bensalem, Kearny and Marlton aggregating 120,000 square feet (2)	2004-2005	9.5	—	9.5
715 Lexington Avenue - demolition of existing building and construction of 24,000 square feet of retail space on four floors	Summer 2005	18.1	1.6	16.5
968 Third Avenue (50% interest) – demolition of existing building and construction of 8,300 square feet of retail space on three floors	Fall 2004	5.7	—	5.7
Merchandise Mart:				
350 North Orleans, Chicago – addition of 40,000 square feet at street level and new lobby	Fall 2004	18.2	1.6	16.6
Other:				
400 North LaSalle, Chicago (85% interest) – construction of 381,000 square foot high rise rental apartment complex containing 452 apartments	Spring 2004	78.9	35.7	5.6
Penn Plaza Signage District - construction of approximately 21 signs at various locations in the Penn Plaza District, of which 7 have been completed as of December 31, 2003	Fall 2006	36.9	8.9	24.8
		$ 561.7	$ 111.1	$ 383.5

(1) In January 2002, when the Company acquired the remaining 66% of CESCR it did not already own, it

estimated that these costs would be approximately $75.0.
(2) Subject to governmental approvals.

The Company is also in the pre-development phase of a number of other projects including (i) retail space in the Penn Plaza area, (ii) repositioning of the Hotel Pennsylvania, (iii) expansion and redevelopment of the Bergen Mall, (iv) expansion of Monmouth Mall and (v) renovation of the 2101 L Street office building.

There can be no assurance that any of the above projects will commence or be completed on schedule or on budget.

The Company plans to renovate the buildings occupied by the PTO as their leases expire over the next three years as follows:

	Square Feet Expiring (in thousands)						
	Total	2004	2005				2006
		Q4	Q1	Q2	Q3	Q4	Q1
Crystal Plaza Two	181	—	—	—	181	—	—
Crystal Plaza Three	263	263	—	—	—	—	—
Crystal Plaza Four	234	234	—	—	—	—	—
Crystal Park One	224	13	109	64	—	38	—
Crystal Park Two	406	39	103	77	—	98	89
Crystal Park Three	107	67	—	24	—	—	16
Crystal Park Five	194	—	—	—	194	—	—
Crystal Mall One	180	180	—	—	—	—	—
Other Buildings	150	141	—	—	7	—	2
	1,939	937	212	165	382	136	107

Renovations to Crystal Mall One, Crystal Park One, and Crystal Plaza Three and Four totaling 901,000 square feet will include new restrooms, lobbies, corridors and elevator modernization. In Crystal Plaza Three and Four, the renovations will also include new mechanical systems. The portions of these buildings vacated by the PTO will be taken out of service during redevelopment which is expected to be completed over a 12 to 18 month period. Renovations to the remaining buildings will consist of common area and exterior renovations to upgrade the buildings that will not require the buildings to be taken out of service.

OTHER INVESTMENTS

The Company's other investments are comprised of:
(Amounts in thousands except per share/unit amounts and square feet)

		As of December 31, 2003
Other Real Estate Investments:		
Consolidated:		
The Palisades Joint Venture (1)	$	143,875
400 North LaSalle Venture (2)		59,414
Student Housing (3)		25,069
Carried at Equity:		
Monmouth Mall Joint Venture (4)		30,612
Starwood Ceruzzi Joint Venture (5)		23,821
	$	282,791
Marketable Securities, including $29,259 of Capital Trust, Inc. ("Capital Trust") preferred securities (6)	$	81,491
Notes and Mortgage Loans Receivable:		
General Motors Building Mezzanine Loans (7)	$	223,075
Commonwealth Atlantic Properties, an affiliate of Lazard Freres Real Estate Investors L.L.C. ("CAPI") (8)		38,500
Vornado Operating Company (see page 14 for further details)		21,989
Other		2,401
	$	285,965

(1) **The Palisades Joint Venture**
The Palisades Joint Venture was formed in 1999 to develop an 855,000 square foot high-rise residential tower in Fort Lee, New Jersey, containing 538 apartments. The joint venture agreement provides for the Company to contribute 95% of the equity and receive 75% of the net profit after a 10% preferred return. The Company placed the property into service on March 1, 2002. On February 2, 2004, the Palisades Venture entered into an agreement to sell the asset for $222,500. On February 27, 2004, in order to permit a potential "like kind exchange," the Company acquired the remaining 25% interest it did not previously own for its partner's share of the net sales price (approximately $17,000). The Company's gain on sale after closing costs will be approximately $70,000. The sale, which is subject to customary closing conditions, is expected to be completed by the third quarter of 2004.

(2) **400 North LaSalle Venture**
The 400 North LaSalle joint venture was formed in July 2001, to develop a 381,000 square foot, high-rise residential tower with an attached parking garage in Chicago Illinois, containing 452 apartments. Under the venture agreement the Company contributed 92% of the equity and is entitled to 85% of the profits. The development of the residential tower and garage was substantially completed and fully placed into service as of January 2004. As of December 31, 2003, the tower is 22.5% occupied.

(3) **Student Housing**
In January 2000, the Company and its joint venture partner acquired a 252-unit student housing complex in Gainesville, Florida, for approximately $27,000. The Company has a 90% interest in the joint venture.

(4) **Monmouth Mall Joint Venture**

On October 10, 2002, a joint venture in which the Company has a 50% interest acquired the Monmouth Mall, an enclosed super regional shopping center located in Eatontown, New Jersey containing approximately 1.5 million square feet, including four department stores, three of which aggregating 719,000 square feet are owned by the tenants. The Company made a $7,000 common equity investment in the venture and provided it with $23,500 of preferred equity yielding 14%. The venture financed the purchase of the Mall with $135,000 of floating rate debt at LIBOR plus 2.05% (with a LIBOR floor of 2.50% on $35,000), a three-year term and two one-year extension options.

(5) **Starwood Ceruzzi Joint Venture**

The Starwood Ceruzzi Joint Venture in which the Company is an 80% non-managing partner and Starwood Ceruzzi is the 20% managing partner, was formed in 2000 to acquire a group of retail fee and leasehold interests in properties formerly occupied by Hechinger, a home improvement retailer which was liquidated. The venture currently owns one fee interest and four leasehold interests aggregating 500,000 square feet. The properties are located in Pennsylvania, Virginia and Maryland. In 2001, the venture sold one of the fee interests acquired resulting in a gain of $1,744 (of which the Company's share was $1,395). One of the leasehold interests was net leased to Home Depot in 2002, and the other four sites are currently vacant.

(6) **Capital Trust Preferred Securities**

At December 31, 2003, the Company owns $30,000 of 8.25% step-up convertible junior subordinated debentures which are convertible into shares of Class A common stock of Capital Trust (NYSE:CT) at a conversion price of $7.00 per share. The securities are redeemable by Capital Trust, in whole or in part, on or after September 30, 2004. Steven Roth, the Chairman and Chief Executive Officer of Vornado Realty Trust, is a member of the Board of Directors of Capital Trust, nominated by the Company.

(7) **General Motors Building Mezzanine Loans**

On October 20, 2003 the Company made a $200,000 mezzanine loan secured by partnership interests in the General Motors Building. The General Motors Building was acquired by Macklowe Properties in September 2003 for approximately $1.4 billion. Vornado's loan is subordinate to $900,000 of other debt. The loan is based on a rate of LIBOR plus 8.685% (with a LIBOR floor of 1.5%) and currently yields 10.185%. Further, on October 30, 2003, the Company made an additional $25,000 loan, as part of a $50,000 loan, the balance of which was funded by an affiliate of Soros Fund Management LLC. This loan, which is junior to the $1.1 billion of loans noted above, is based on a rate of LIBOR plus 12.81% (with a LIBOR floor of 1.5%) and currently yields 14.31%. These loans mature in October 2005, with three one-year extensions.

(8) **CAPI**

In March 1999, in connection with the Company's acquisition of land under certain of the CESCR office properties from CAPI, the Company made a $41,200 recourse loan to CAPI with interest at 8.5%, which matures in June 2004. The loan is secured by approximately 1,100,000 of the Company's Series E-1 convertible preferred units issued to CAPI. Each Series E-1 convertible preferred unit is convertible into 1.1364 shares of the Company's common shares. At December 31, 2003, the balance of the loan was $38,500. In February 2004, CAPI converted all of its Series E-1 units into 5,679,727 Vornado common shares. Subsequent to the conversion the loan is secured by 1,250,000 Vornado common shares.

FINANCING ACTIVITIES

On July 3, 2003, the Company entered into a new $600,000,000 unsecured revolving credit facility, which has replaced its $1,000,000,000 unsecured revolving credit facility, which was to mature in July 2003. The new facility has a three-year term, a one-year extension option and bears interest at LIBOR plus .65%. The Company also has the ability under the new facility to seek up to $800 million of commitments during the facility's term. The new facility contains financial covenants similar to the prior facility.

On November 11, 2003, the Company redeemed all of its 8.5% Series D-1 Cumulative Redeemable Preferred Units issued in 1998 at a redemption price equal to the par value of $25.00 per unit or an aggregate of $87,500,000 plus accrued distributions of $849,000. This amount exceeded the carrying amount by $2,100,000, representing the original issuance costs. Upon the redemption, these issuance costs were recorded as a reduction to earnings in arriving at net income applicable to common shares in accordance with the July 2003 EITF clarification of Topic-D-42.

On November 17, 2003, the Company sold $40,000,000 of 7.00% Series D-10 Cumulative Redeemable Preferred Shares to an institutional investor in a registered offering. Immediately prior to that sale, Vornado Realty L.P. sold $80,000,000 of 7.00% Series D-10 Cumulative Redeemable Preferred Units to an institutional investor in a separate private offering. Both the perpetual Preferred Units and perpetual Preferred Shares may be called without penalty at the option of the Company commencing in November 2008.

On November 25, 2003, the Company completed an offering of $200,000,000 aggregate principal amount of 4.75% senior unsecured notes due December 1, 2010. Interest on the notes is payable semi-annually on June 1st and December 1st, commencing in 2004. The notes were priced at 99.869% of their face amount to yield 4.772%. The notes contain the same financial covenants that are in the Company's notes issued in June 2002, except the maximum ratio of secured debt to total assets is now 50% (previously 55%). The net proceeds of approximately $198,500,000 were used primarily to repay existing mortgage debt.

Further details of the Company's financing activities are disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II of this annual report on Form 10-K.

At December 31, 2003, the ratio of debt-to-enterprise value (market equity value plus debt less cash) was 35% based on debt of $5.115 billion, including the Company's proportionate share of debt of partially-owned non-consolidated entities. In the future, in connection with the Company's strategy for growth, this percentage may change. The Company's policy concerning the incurrence of debt may be reviewed and modified from time to time without the vote of shareholders.

The Company may seek to obtain funds through equity offerings, debt financings or asset sales, although there is no express policy with respect thereto. The Company may offer its shares or Operating Partnership units in exchange for property and may repurchase or otherwise re-acquire its shares or any other securities in the future.

EBITDA BY SEGMENT AND REGION

The following table sets forth the percentage of the Company's EBITDA(1) by segment and region for the years ended December 31, 2003, 2002, and 2001. EBITDA for the year ended December 31, 2003, includes gains on sale of real estate of $161,789,000, of which $157,200,000 and $4,589,000 relate to New York Office and Retail segments, respectively. The pro forma column gives effect to the January 1, 2002 acquisition by the Company of the remaining 66% interest in CESCR described previously, as if it had occurred on January 1, 2001.

	Percentage of EBITDA(1) Years Ended December 31,			
	2003	2002	2001 Pro forma	2001
Segment				
Office:				
New York	47%	39%	36%	44%
CESCR	28%	35%	28%	13%
Total	75%	74%	64%	57%
Retail	14%	14%	14%	17%
Merchandise Mart Properties	11%	13%	13%	16%
Temperature Controlled Logistics	8%	8%	9%	11%
Other Investments	(8)%	(9)%	—%	(1)%
	100%	100%	100%	100%
Region				
New York City metropolitan area	49%	41%	42%	52%
Washington, D.C./Northern Virginia metropolitan area	24%	30%	26%	11%
Chicago	10%	11%	9%	11%
Philadelphia metropolitan area	2%	1%	—%	1%
Puerto Rico	1%	1%	1%	2%
Other regions (2)	14%	16%	22%	23%
	100%	100%	100%	100%

(1) EBITDA represents "Earnings before Interest, Taxes, Depreciation and Amortization." EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies. See "Item 7. Management's Discussion and Analysis of Financial Condition Results of Operations –Summary of Net Income and EBITDA" for a reconciliation of EBITDA to net income.

(2) Other regions include the Temperature Controlled Logistics segment which has cold storage warehouses in 32 states. See page 49 for details.

VORNADO OPERATING COMPANY ("Vornado Operating")

In October 1998, Vornado Operating was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct. The Company and Vornado Operating are parties to certain agreements described below.

Agreement with Vornado Operating

The Company and Vornado Operating are parties to an agreement pursuant to which, among other things, (i) the Company will under certain circumstances offer Vornado Operating an opportunity to become the lessee of certain real property owned now or in the future by the Company (under mutually satisfactory lease terms) and (ii) Vornado Operating will not make any real estate investment or other REIT-qualified investment unless it first offers the Company the opportunity to make such investment and the Company has rejected that opportunity.

Under the agreement, the Company provides Vornado Operating with certain administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating compensates the Company in an amount determined in good faith by the Company as the amount an unaffiliated third party would charge Vornado Operating for comparable services and reimburses the Company for certain costs incurred and paid to third parties on behalf of Vornado Operating. Pursuant to the agreement, compensation for such services was approximately $330,000 for each of the years ended December 31, 2003 and 2002, and $371,000 for the year ended December 31, 2001.

Vornado Operating and the Company each have the right to terminate the agreement if the other party is in material default of the agreement or upon 90 days written notice to the other party at any time. In addition, the Company has the right to terminate the agreement upon a change in control of Vornado Operating.

Vornado Operating's Management

Steven Roth, Michael Fascitelli, Richard West and Russell Wight are directors of Vornado Operating. Steven Roth is also Chairman of the Board and Chief Executive Officer of Vornado Operating, Michael Fascitelli is also President of Vornado Operating, and certain other members of the Company's senior management hold corresponding positions with Vornado Operating.

Temperature Controlled Logistics Business

On March 11, 1999, the Vornado Crescent Portland Partnership ("the Landlord") in which the Company has a 60% general partnership interest and Crescent Real Estate Equities has a 40% general partnership interest, sold all of the non-real estate assets of Temperature Controlled Logistics encompassing the operations of the temperature controlled business to a new partnership ("AmeriCold Logistics") owned 60% by Vornado Operating and 40% by Crescent Operating Inc. AmeriCold Logistics leases the underlying temperature controlled warehouses used in this business from the Landlord which continues to own the real estate through its ownership of AmeriCold Realty Trust. The leases, as amended, generally have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on revenue AmeriCold Logistics receives from its customers. The contractual rent for 2003 was $155,450,000. The Landlord's share of annual maintenance capital expenditures was $9,500,000. In accordance with the leases, AmeriCold Logistics deferred payment of $41,811,000 of 2003 rent due to the Landlord, of which the Company's share was $25,087,000. Based on the joint venture's policy of recognizing rental income when earned and collection is assured or cash is received, the joint venture did not recognize the amount of the rent deferred by AmeriCold Logistics in the year ended December 31, 2003. At December 31, 2003, the Company's share of the joint venture's total deferred rent receivable from the tenant was $49,436,000.

On February 5, 2004, AmeriCold Realty Trust completed a $254,400,000 mortgage financing for 21 of its owned and 7 of its leased temperature-controlled warehouses. The loan bears interest at LIBOR plus 2.95% (with a LIBOR floor of 1.5% with respect to $54,400,000 of the loan) and requires principal payments of $5,000,000 annually. The loan matures in April 2009 and is pre-payable without penalty after February 5, 2006. The net proceeds were approximately $225,000,000 after providing for usual escrows, closing costs and the repayment of $12,900,000 of existing mortgages on two of the warehouses, of which $135,000,000 was distributed to the Company and the remainder was distributed to its partner.

Revolving Credit Agreement

Vornado Operating was granted a $75,000,000 unsecured revolving credit facility from the Company which expires on December 31, 2004. Borrowings under the revolving credit facility bear interest at LIBOR plus 3%. The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the revolving credit facility during its term. The revolving credit facility prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 2003, 2002 and 2001, amounts outstanding under the credit facility were $21,989,000, $21,989,000 and $31,424,000.

Vornado Operating has disclosed that there is substantial doubt as to its ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. Vornado Operating has incurred losses since its inception and in the aggregate its investments do not, and for the foreseeable future are not expected to, generate sufficient cash flow to pay all of its debts and expenses. Vornado Operating estimates that it has adequate borrowing capacity under its credit facility with the Company to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. Further, Vornado Operating states that its only investee, AmeriCold Logistics (“Tenant”), anticipates that its Landlord, a partnership 60% owned by the Company and 40% owned by Crescent Real Estate Equities, will need to restructure the leases between the Landlord and the Tenant to provide additional cash flow to the Tenant (the Landlord has previously restructured the leases to provide additional cash flow to the Tenant). Management anticipates a further lease restructuring in 2004, although it is under no obligation to do so and there can be no assurance that it will do so. Vornado Operating is expected to have a source to repay the debt under this facility from the lease restructuring or other options, although not by its original due date. Since January 1, 2002, the Company has not recognized interest income on the debt under this facility.

On February 23, 2004, AmeriCold Logistics announced that Alec Covington resigned as President and Chief Executive Officer effective March 31, 2004, to take an opportunity in an unrelated industry. A search to identify a successor is currently underway.

ALEXANDER’S

The Company owns 33.1% of the outstanding shares of common stock of Alexander’s. See “Interstate Properties” below for a description of Interstate’s ownership of the Company and Alexander’s.

Alexander’s has six properties (see Item 2. Properties—Alexander’s).

At December 31, 2003, the Company had loans receivable from Alexander’s of $124,000,000, including $29,000,000 drawn under a $50,000,000 line of credit. The maturity date of the loans is the earlier of January 3, 2006, or the date the Alexander’s Lexington Avenue construction loan is finally repaid. The Company accrues interest at 12.48% on the loans, which resets quarterly using a 9.48% spread to one-year treasuries with a 3% floor for treasuries.

The Company manages, develops and leases the Alexander’s properties under a management and development agreement and a leasing agreement pursuant to which the Company receives annual fees from Alexander’s. Further, the Company has agreed to guarantee to the construction lender, the lien free, timely completion of the construction of Alexander’s Lexington Avenue development project and funding of project costs in excess of a stated budget, if not funded by Alexander’s. These agreements are described in Note 5 to the Company’s consolidated financial statements. See Item 2 - “Properties” for a description of Alexander’s properties and development and redevelopment projects.

Messrs. Roth, Fascitelli, Mandelbaum, West and Wight, directors of the Company, are also directors of Alexander’s. Mr. Roth is also Chief Executive Officer of Alexander’s and Mr. Fascitelli is also President of Alexander’s. Joseph Macnow, Executive Vice President - Finance and Administration and Chief Financial Officer of the Company, is also Chief Financial Officer of Alexander’s.

Alexander’s common stock is listed on the New York Stock Exchange under the symbol “ALX”.

INTERSTATE PROPERTIES

As of December 31, 2003, Interstate Properties and its partners owned approximately 11.7% of the common shares of beneficial interest of the Company, 27.5% of Alexander's common stock and beneficial ownership of 7.9% of Vornado Operating (17.0% assuming redemption of 447,017 units of Vornado Operating that are redeemable for cash, or at Vornado Operating's election, common stock of Vornado Operating). Interstate Properties is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the partners. Mr. Roth is the Chairman of the Board and Chief Executive Officer of the Company, the Managing General Partner of Interstate Properties, and the Chief Executive Officer and a director of both Alexander's and Vornado Operating. Mr. Wight is a trustee of the Company and is also a director of both Alexander's and Vornado Operating. Mr. Mandelbaum is a trustee of the Company and is also a director of Alexander's.

COMPETITION

The Company's business segments – Office, Retail, Merchandise Mart Properties, Temperature Controlled Logistics, and Other operate in highly competitive environments. The Company has a large concentration of properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. The Company competes with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location, the quality of the property and breadth and quality of services provided. The Company's success depends upon, among other factors, trends of the national and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

TENANTS WHICH ACCOUNTED FOR OVER 10% OF REVENUES

In 2003, the Company had 124 separate leases with the U.S. Government, the rent from which accounted for 12.7% of the Company's total revenues. The loss of this tenant would have a material adverse effect on the Company's finances as a whole.

ENVIRONMENTAL REGULATIONS

The Company's operations and properties are subject to various federal, state and local laws and regulations concerning the protection of the environment including air and water quality, hazardous or toxic substances and health and safety. Under certain of these environmental laws a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property. The owner or operator may also be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by those parties because of the contamination. These laws often impose liability without regard to whether the owner or operator knew of the release of the substances or caused the release. The presence of contamination or the failure to remediate contamination may impair the Company's ability to sell or lease real estate or to borrow using the real estate as collateral. Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) and underground storage tanks are also regulated by federal and state laws. The Company could incur fines for environmental compliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or tanks or related claims arising out of environmental contamination or exposure at or from the Company's properties.

Each of the Company's properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any environmental condition material to the Company's business. However, identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, discovery of additional sites, human exposure to the contamination or changes in cleanup or compliance requirements could result in significant costs to the Company.

CERTAIN ACTIVITIES

Acquisitions and investments are not required to be based on specific allocation by type of property. The Company has historically held its properties for long-term investment; however, it is possible that properties in the portfolio may be sold in whole or in part, as circumstances warrant, from time to time. Further, the Company has not adopted a policy that limits the amount or percentage of assets which would be invested in a specific property. While the Company may seek the vote of its shareholders in connection with any particular material transaction, generally the Company's activities are reviewed and may be modified from time to time by its Board of Trustees without the vote of shareholders.

EMPLOYEES

As of December 31, 2003, the Company had approximately 2,700 employees consisting of 1,511 in the Office Properties segment, 61 in the Retail Properties segment, 470 in the Merchandise Mart Properties segment, 440 at the Hotel Pennsylvania and 218 corporate staff. This does not include employees of partially-owned entities.

INSURANCE

The Company carries comprehensive liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) "acts of terrorism" as defined in the Terrorism Risk Insurance Act of 2002 which expires in 2004 with a possible extension through 2005 and (v) rental loss insurance) with respect to its assets. Below is a summary of the all risk property insurance and terrorism risk insurance for each of the Company's business segments:

	Coverage Per Occurrence	
	All Risk(1)	**Sub-limits for Acts of Terrorism**
New York Office	$ 1,000,000,000	$ 300,000,000
CESCR Office	$ 1,000,000,000	$ 300,000,000
Retail	$ 500,000,000	$ 500,000,000
Merchandise Mart	$ 1,000,000,000	$ 300,000,000
Temperature Controlled Logistics	$ 225,000,000	$ 225,000,000

(1) Limited as to terrorism insurance by the sub-limit shown in the adjacent column.

In addition to the coverage above, the Company carries lesser amounts of coverage for terrorist acts not covered by the Terrorism Risk Insurance Act of 2002.

The Company's debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to the Company), its senior unsecured notes due 2007 and 2010 and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. Although the Company believes that it has adequate insurance coverage under these agreements, the Company may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than the Company is able to obtain, it could adversely affect the Company's ability to finance and/or refinance its properties and expand its portfolio.

SEGMENT DATA

The Company operates in four business segments: Office Properties, Retail Properties, Merchandise Mart Properties and Temperature Controlled Logistics. The Company engages in no foreign operations. Information related to the Company's business segments for the years 2003, 2002 and 2001 is set forth in Note 18 to the Company's consolidated financial statements in this annual report on Form 10-K.

The Company's principal executive offices are located at 888 Seventh Avenue, New York, New York 10019; telephone (212) 894-7000.

MATERIALS AVAILABLE ON OUR WEBSITE

Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as Reports on Forms 3, 4 and 5 regarding Officers, Trustees or 10% Beneficial Owners of the Company, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934 are available free of charge through our website (www.vno.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission. We also have made available on our website copies of our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website.

CERTAIN FACTORS THAT MAY ADVERSELY AFFECT OUR BUSINESS AND OPERATIONS

Set forth below are certain factors that may adversely affect our business and operations.

Real Estate Investments' Value and Income Fluctuate Due to Various Factors.

The value of real estate fluctuates depending on conditions in the general economy and the real estate business. These conditions may also limit our revenues and available cash.

The factors that affect the value of the our real estate include, among other things, national, regional and local economic conditions; consequences of any armed conflict involving, or terrorist attack against, the United States; our ability to secure adequate insurance; local conditions such as an oversupply of space or a reduction in demand for real estate in the area; competition from other available space; whether tenants consider a property attractive; the financial condition of our tenants, including the extent of tenant bankruptcies or defaults; whether we are able to pass some or all of any increased operating costs through to tenants; how well we manage our properties; fluctuations in interest rates; changes in real estate taxes and other expenses; changes in market rental rates; the timing and costs associated with property improvements and rentals; changes in taxation or zoning laws; government regulation; availability of financing on acceptable terms or at all; potential liability under environmental or other laws or regulations; and general competitive factors.

The rents we receive and the occupancy levels at our properties may decline as a result of adverse changes in any of these factors. If our rental revenues decline, we generally would expect to have less cash available to pay our indebtedness and distribute to our shareholders. In addition, some of our major expenses, including mortgage payments, real estate taxes and maintenance costs, generally do not decline when the related rents decline.

We depend on leasing space to tenants on economically favorable terms and collecting rent from our tenants, who may not be able to pay.

Our financial results depend on leasing space in our properties to tenants on economically favorable terms. In addition, because substantially all of our income comes from renting of real property, our income, funds available to pay indebtedness and funds available for distribution to our shareholders will decrease if a significant number of our tenants cannot pay their rent. If a tenant does not pay its rent, we might not be able to enforce our rights as landlord without delays and might incur substantial legal costs. For information regarding the bankruptcy of our tenants, see "—Bankruptcy of tenants may decrease our revenues and available cash" below.

Bankruptcy or insolvency of tenants may decrease our revenues and available cash.

A number of companies, including some of our tenants, have declared bankruptcy in recent years, and other tenants may declare bankruptcy or become insolvent in the future. If a major tenant declares bankruptcy or becomes insolvent, the rental property where it leases space may have lower revenues and operational difficulties, and, in the case of our shopping centers, we may have difficulty leasing the remainder of the affected property. Our leases generally do not contain restrictions designed to ensure the creditworthiness of its tenants. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of funds from operations available for distribution to our shareholders or the payment of our indebtedness.

In February 2003, KoninKlijke Ahold NV, parent of Stop & Shop, announced that it overstated its 2002 and 2001 earnings by at least $500 million and is under investigation by the U.S. Justice Department and Securities and Exchange Commission. See Item 2. Properties - Retail Segment - Former Bradlees locations for information about former Bradlees leases guaranteed by Stop & Shop. We cannot predict what effect, if any, this situation may have on Stop & Shop's ability to satisfy its obligation under the Bradlees guarantees and rent for existing Stop & Shop leases aggregating approximately $10.5 million per annum.

The risk that some of our tenants may declare bankruptcy has been higher because of the September 11, 2001 terrorist attacks and the resulting decline in the economy. If there is not a sustained recovery of the economy, this risk may increase.

All of Our Temperature Controlled Logistics Warehouses Are Leased to One Tenant, and That Tenant Is Experiencing Operating Difficulties.

The Operating Partnership owns a 60% general partnership interest in a partnership, which we refer to as the "Vornado Crescent Portland Partnership," that owns 87 cold storage warehouses nationwide with an aggregate of approximately 440.7 million cubic feet of refrigerated, frozen and dry storage space. In 1998, the Vornado Crescent Portland Partnership sold all of the non-real estate assets encompassing the operations of the temperature controlled business to a new partnership named AmeriCold Logistics, owned 60% by Vornado Operating Company, an independent, public company, which we refer to as "Vornado Operating," and 40% by Crescent Operating Inc. AmeriCold Logistics leases the underlying temperature controlled warehouses used in this business from the Vornado Crescent Portland Partnership ("the Landlord") which continues to own the real estate. During 2003, AmeriCold Logistics generated approximately 9% of our EBITDA. The leases, as amended, generally have a 15-year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on revenue AmeriCold Logistics receives from its customers. The contractual rent for 2003 was $155,450,000. The Landlord's share of annual maintenance capital expenditures is $9,500,000. In accordance with the leases, AmeriCold Logistics deferred payment of $41,811,000 of 2003 rent due to the Landlord, of which our share was $25,087,000. Based on the joint venture's policy of recognizing rental income when earned and collection is assured or cash is received, the joint venture did not recognize the amount of the rent deferred by AmeriCold Logistics in the year ended December 31, 2003. At December 31, 2003, our share of the joint venture's total deferred rent receivable from the tenant is $49,436,000.

To the extent that the operations of AmeriCold Logistics may affect its ability to pay rent, including percentage rent due under the leases, we indirectly bear the risks associated with AmeriCold Logistics' cold storage business. The cold storage business is extremely competitive. Factors affecting AmeriCold Logistics' ability to compete include, among others, (a) general economic conditions, (b) customer policies about outsourcing warehouse and logistic services (c) warehouse locations, (d) customer mix and (e) availability, quality and price of additional services.

Real estate is a competitive business.

For a discussion of risks related to competition in the real estate business, see "Item 1. Business – Competition."

We may incur costs to comply with environmental laws.

For a discussion of risks related to the Company's compliance with environmental laws, see "Item 1. Business – Environmental Regulations."

Some of our potential losses may not be covered by insurance.

For a discussion of risks related to our insurance coverage, see "Item 1. Business – Insurance."

Our Investments Are Concentrated in the New York City/New Jersey and Washington, D.C. Metropolitan Areas. Circumstances Affecting These Areas Generally Could Adversely Affect Our Business.

A significant proportion of our properties are in the New York City/New Jersey and Washington, D.C. metropolitan areas and are affected by the economic cycles and risks inherent to those regions.

During 2003, 73% of our EBITDA came from properties located in New Jersey and the New York City and Washington, D.C. metropolitan areas. In addition, we may continue to concentrate a significant portion of our future acquisitions in New Jersey and the New York City and Washington, D.C. metropolitan areas. Like other real estate markets, the real estate markets in these areas have experienced economic downturns in the past, and we cannot predict how the current economic conditions will impact these markets in both the short and long term. Further declines in the economy or a decline in the real estate markets in these areas could hurt our financial performance and the value of our properties. The factors affecting economic conditions in these regions include: space needs of the United States Government, business layoffs or downsizing; industry slowdowns; relocations of businesses; changing demographics; increased telecommuting and use of alternative work places; financial performance and productivity of the publishing, advertising, financial, technology, retail, insurance and real estate industries; infrastructure quality; and any oversupply of or reduced demand for real estate.

It is impossible for us to assess the future effects of the current uncertain trends in the economic and investment climates of the New York City/New Jersey and Washington, D.C. regions, and more generally of the United States, or the real estate markets in these areas. If these conditions persist or if any local, national or global economic recovery is of a short term, businesses and future profitability may be adversely affected.

Terrorist Attacks such as those of September 11, 2001 in New York City and the Washington, D.C. Area May Adversely Affect the Value of Our Properties and Our Ability to Generate Cash Flow.

We have significant investments in large metropolitan areas, including the New York/New Jersey, Washington, D.C. and Chicago metropolitan areas. In the aftermath of the terrorist attacks, tenants in these areas may choose to relocate their business to less populated, lower-profile areas of the United States that may be percieved to be less likely targets of future terrorist activity. This in turn would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease our properties on less favorable terms. As a result, the value of our properties and the level of our revenues could decline materially.

We May Acquire or Sell Additional Assets or Develop Additional Properties. Our Failure or Inability to Consummate These Transactions or Manage the Results of These Transactions Could Adversely Affect Our Operations and Financial Results.

We have grown rapidly through acquisitions. We may not be able to maintain this rapid growth and our failure to do so could adversely affect our stock price.

We have experienced rapid growth in recent years, increasing our total assets from approximately $565 million at December 31, 1996 to approximately $9.5 billion at December 31, 2003. We may not be able to maintain a similar rate of growth in the future or manage our growth effectively. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to pay dividends to our shareholders.

We may acquire or develop new properties and this may create risks.

We may acquire or develop properties or acquire other real estate companies when we believe that an acquisition or development is consistent with our business strategies. We may not, however, succeed in consummating desired acquisitions or in completing developments on time or within budget. We also may not succeed in leasing newly developed or acquired properties at rents sufficient to cover their costs of acquisition or development and operations. Difficulties in integrating acquisitions may prove costly or time-consuming and could divert management’s attention.

It may be difficult to buy and sell real estate quickly.

Real estate investments are relatively difficult to buy and sell quickly. Consequently, we may have limited ability to vary our portfolio promptly in response to changes in economic or other conditions.

We may not be permitted to dispose of certain properties or pay down the debt associated with those properties when we might otherwise desire to do so without incurring additional costs.

As part of an acquisition of a property, including our January 1, 2002, acquisition of CESCR’s 13.0 million square foot portfolio, we may agree, and in the case of CESCR did agree, with the seller that we will not dispose of the acquired properties or reduce the mortgage indebtedness on them for significant periods of time unless we pay certain of the resulting tax costs of the seller. These agreements could result in our holding on to properties that we would otherwise sell and not pay down or refinance indebtedness that we would otherwise pay down or refinance.

On January 1, 2002, we completed the acquisition of the 66% interest in CESCR that we did not previously own. The terms of the merger restrict our ability to sell or otherwise dispose of, or to finance or refinance, the properties formerly owned by Charles E. Smith Commercial Realty L.P., which could result in our inability to sell these properties at an opportune time and increased costs to us.

Subject to limited exceptions, we are restricted from selling or otherwise transferring or disposing of certain properties located in the Crystal City area of Arlington, Virginia or an interest in our division that manages the majority of our office properties in the Washington, D.C. metropolitan area, which we refer to as the CESCR Division, for a period of 12 years with respect to certain properties located in the Crystal City area of Arlington, Virginia or six years with respect to an interest in the CESCR Division. These restrictions, which currently cover approximately 13.0 million square feet of space, could result in our inability to sell these properties or an interest in the CESCR Division at an opportune time and increase costs to us.

Our Organizational and Financial Structure Gives Rise to Operational and Financial Risks.

We May Not Be Able to Obtain Capital to Make Investments.

We depend primarily on external financing to fund the growth of our business. This is because one of the requirements of the Internal Revenue Code of 1986, as amended, for a REIT is that it distribute 90% of its net taxable income, excluding net capital gains, to its shareholders (there is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu). Our access to debt or equity financing depends on the willingness of third parties to lend or make equity investments and on conditions in the capital markets generally. We and other companies in the real estate industry have experienced limited availability of financing from time to time. Although we believe that we will be able to finance any investments we may wish to make in the foreseeable future, new financing may not be available on acceptable terms.

For information about our available sources of funds, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” and the notes to the consolidated financial statements in this annual report on Form 10-K.

Vornado Realty Trust depends on its direct and indirect subsidiaries’ dividends and distributions, and these subsidiaries’ creditors and preferred security holders are entitled to payment of amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or distributions to Vornado Realty Trust.

Substantially all of Vornado Realty Trust’s assets are held through its Operating Partnership which holds substantially all of its properties and assets through subsidiaries. The Operating Partnership therefore depends for substantially all of its cash flow on cash distributions to it by its subsidiaries, and Vornado Realty Trust in turn depends for substantially all of its cash flow on cash distributions to it by the Operating Partnership. The creditors of each of the Vornado Realty Trust’s direct and indirect subsidiaries are entitled to payment of that subsidiary’s obligations to them, when due and payable, before distributions may be made by that subsidiary to its equity holders. Thus, the Operating Partnership’s ability to make distributions to holders of units depends on its subsidiaries’ ability first to satisfy their obligations to their creditors and then to make distributions to the Operating Partnership. Likewise, Vornado Realty Trust’s ability to pay dividends to holders of common and preferred shares depends on the Operating Partnership’s ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to Vornado Realty Trust.

Furthermore, the holders of preferred units of the Operating Partnership are entitled to receive preferred distributions before payment of distributions to holders of common units of the Operating Partnership, including Vornado Realty Trust. Thus, Vornado Realty Trust ability to pay dividends to holders of its common shares and satisfy its debt obligations depends on the Operating Partnership’s ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to Vornado Realty Trust. There are currently 17 series of preferred units of the Operating Partnership not held by Vornado Realty Trust that have preference over Vornado Realty Trust common shares. The total liquidation value of these 17 series of preferred units is approximately $1,417,950,000.

In addition, Vornado Realty Trust participation in any distribution of the assets of any of its direct or indirect subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary, is only after the claims of the creditors, including trade creditors, and preferred security holders, if any, of the subsidiary are satisfied.

We have indebtedness, and this indebtedness may increase.

As of December 31, 2003, we had approximately $5.115 billion in total debt outstanding. Our ratio of total debt to total enterprise value was 35%. When we say "enterprise value" in the preceding sentence, we mean market equity value of Vornado Realty Trust plus debt less cash. In the future, we may incur additional debt, and thus increase its ratio of total debt to total enterprise value, to finance acquisitions or property developments.

Vornado Realty Trust might fail to qualify or remain qualified as a REIT.

Although we believe that we will remain organized and will continue to operate so as to qualify as a REIT for federal income tax purposes, we might fail to remain qualified in this way. Qualification as a REIT for federal income tax purposes is governed by highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations. Our qualification as a REIT also depends on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions might significantly change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT.

If, with respect to any taxable year, Vornado Realty Trust fails to maintain its qualification as a REIT, it could not deduct distributions to shareholders in computing its taxable income and would have to pay federal income tax on its taxable income at regular corporate rates. The federal income tax payable would include any applicable alternative minimum tax. If Vornado Realty Trust had to pay federal income tax, the amount of money available to distribute to shareholders and pay its indebtedness would be reduced for the year or years involved, and Vornado Realty Trust would no longer be required to distribute money to shareholders. In addition, Vornado Realty Trust would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, unless it was entitled to relief under the relevant statutory provisions. Although Vornado Realty Trust currently intends to operate in a manner designed to allow it to qualify as a REIT, future economic, market, legal, tax or other considerations may cause it to revoke the REIT election.

Loss of the Company's key personnel could harm our operations and adversely affect the value of our common shares.

We are dependent on the efforts of Steven Roth, the Chairman of the Board of Trustees and Chief Executive Officer of Vornado Realty Trust, and Michael D. Fascitelli, the President of Vornado Realty Trust. While we believe that we could find replacements for these key personnel, the loss of their services could harm our operations and adversely affect the value or our common shares.

Vornado Realty Trust's charter documents and applicable law may hinder any attempt to acquire us.

Generally, for Vornado Realty Trust to maintain its qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the outstanding shares of beneficial interest of Vornado Realty Trust may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of Vornado Realty Trust's taxable year. The Internal Revenue Code defines "individuals" for purposes of the requirement described in the preceding sentence to include some types of entities. Under Vornado Realty Trust's Amended and Restated Declaration of Trust, as amended, no person may own more than 6.7% of the outstanding common shares or 9.9% of the outstanding preferred shares, with some exceptions for persons who held common shares in excess of the 6.7% limit before Vornado Realty Trust adopted the limit and other persons approved by Vornado Realty Trust's Board of Trustees. These restrictions on transferability and ownership may delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. We refer to Vornado Realty Trust's Amended and Restated Declaration of Trust, as amended, as the "declaration of trust."

Vornado Realty Trust's Board of Trustees is divided into three classes of trustees. Trustees of each class are chosen for three-year staggered terms. Staggered terms of trustees may reduce the possibility of a tender offer or an attempt to change control of the Company, even though a tender offer or change in control might be in the best interest of Vornado Realty Trust's shareholders.

The declaration of trust authorizes the Board of Trustees to, cause Vornado Realty Trust to issue additional authorized but unissued common shares or preferred shares; classify or reclassify, in one or more series, any unissued preferred shares; set the preferences, rights and other terms of any classified or reclassified shares that Vornado Realty Trust issues; and increase, without shareholder approval, the number of shares of beneficial interest that Vornado Realty Trust may issue.

The Board of Trustees could establish a series of preferred shares whose terms could delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of Vornado Realty Trust's shareholders, although the Board of Trustees does not now intend to establish a series of preferred shares of this kind. Vornado Realty Trust's declaration of trust and bylaws contain other provisions that may delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders.

Under the Maryland General Corporation Law, as amended, which we refer to as the "MGCL," as applicable to real estate investment trusts, certain "business combinations," including certain mergers, consolidations, share exchanges and asset transfers and certain issuances and reclassifications of equity securities, between a Maryland real estate investment trust and any person who beneficially owns ten percent or more of the voting power of the trust's shares or an affiliate or an associate, as defined in the MGCL, of the trust who, at any time within the two-year period before the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting shares of beneficial interest of the trust, which we refer to as an "interested shareholder," or an affiliate of the interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. After that five-year period, any business combination of these kinds must be recommended by the board of trustees of the trust and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of beneficial interest of the trust and (b) two-thirds of the votes entitled to be cast by holders of voting shares of the trust other than shares held by the interested shareholder with whom, or with whose affiliate, the business combination is to be effected, unless, among other conditions, the trust's common shareholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. The provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of trustees of the applicable trust before the interested shareholder becomes an interested shareholder, and a person is not an interested shareholder if the board of trustees approved in advance the transaction by which the person otherwise would have become an interested shareholder. In approving a transaction, the board may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board. Vornado Realty Trust's board has adopted a resolution exempting any business combination between any trustee or officer of the Company, or their affiliates, and the Company. As a result, the trustees and officers of the Company and their affiliates may be able to enter into business combinations with the Company which may not be in the best interest of shareholders. With respect to business combinations with other persons, the business combination provisions of the MGCL may have the effect of delaying, deferring or preventing a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. The business combination statute may discourage others from trying to acquire control of the Company and increase the difficulty of consummating any offer.

Our Ownership Structure and Related-Party Transactions May Give Rise to Conflicts of Interest.

Steven Roth and Interstate Properties may exercise substantial influence over the Company. They and some of the Company's other trustees and officers have interests or positions in other entities that may compete with the Company.

As of December 31, 2003, Interstate Properties, a New Jersey general partnership, and its partners owned approximately 11.7% of the common shares of Vornado Realty Trust and approximately 27.5% of the common stock of Alexander's, Inc. and beneficially owned approximately 7.9% of the common stock of Vornado Operating (approximately 17.0% assuming redemption of 447,017 units of Vornado Operating L.P., the operating subsidiary of Vornado Operating, that are beneficially owned by Interstate Properties and redeemable for common stock of Vornado Operating). Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the three partners of Interstate Properties. Mr. Roth is the Chairman of the Board and Chief Executive Officer of Vornado Realty Trust, the managing general partner of Interstate Properties, the Chief Executive Officer and a director of Alexander's and the Chairman of the Board and Chief Executive Officer of Vornado Operating. Mr. Wight is a trustee of Vornado Realty Trust and is also a director of both Alexander's and Vornado Operating. Mr. Mandelbaum is a trustee of Vornado Realty Trust and is also a director of Alexander's.

As of December 31, 2003, we owned 33.1% of the outstanding common stock of Alexander's. Alexander's is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander's has six properties, which are located in the New York City metropolitan area. Mr. Roth and Mr. Fascitelli, the President and a trustee of Vornado Realty Trust, are

directors of Alexander’s. Messrs. Mandelbaum, West and Wight are trustees of Vornado Realty Trust and are also directors of Alexander’s.

Because of these overlapping interests, Mr. Roth and Interstate Properties and its partners may have substantial influence over Vornado Realty Trust, Alexander’s and Vornado Operating and on the outcome of any matters submitted to Vornado Realty Trust, Alexander’s or Vornado Operating’s shareholders for approval. In addition, certain decisions concerning the Company’s operations or financial structure may present conflicts of interest among Messrs. Roth, Mandelbaum and Wight and Interstate Properties and the Company’s other equity or debt holders. In addition, Mr. Roth and Interstate Properties and its partners currently and may in the future engage in a wide variety of activities in the real estate business which may result in conflicts of interest with respect to matters affecting the Company, Alexander’s or Vornado Operating, such as which of these entities or persons, if any, may take advantage of potential business opportunities, the business focus of these entities, the types of properties and geographic locations in which these entities make investments, potential competition between business activities conducted, or sought to be conducted, by the Company, Interstate Properties, Alexander’s and Vornado Operating, competition for properties and tenants, possible corporate transactions such as acquisitions and other strategic decisions affecting the future of these entities.

The Company currently manages and leases the real estate assets of Interstate Properties under a management agreement for which the Company receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on 60 days’ notice at the end of the term. The Company earned $703,000, $747,000 and $1,133,000 of management fees under the management agreement for the years ended December 31, 2003, 2002 and 2001. In addition, during fiscal years 2003, 2002 and 2001, as a result of a previously existing leasing arrangement with Alexander’s, Alexander’s paid to Interstate $587,000, $703,000 and $522,000, respectively, for the leasing an other services actually rendered by the Company. Upon receipt of these payments, Interstate promptly paid them over to the Company without retaining any interest therein. This arrangement was terminated in 2003 and all payments by Alexander’s for these leasing and other services are made directly to the Company. Because the Company and Interstate Properties are controlled by the same persons, as described above, the terms of the management agreement and any future agreements between the Company and Interstate Properties may not be comparable to those the Company could have negotiated with an unaffiliated third party.

We engage in transactions with Vornado Operating on terms that may or may not be comparable to those it could negotiate with unaffiliated third parties.

In October 1998, Vornado Operating was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct. In addition to being trustees of Vornado Realty Trust, Messrs. Roth, Fascitelli, West and Wight are directors of Vornado Operating. Mr. Roth is also Chairman of the Board and Chief Executive Officer of Vornado Operating, Mr. Fascitelli is also President of Vornado Operating, and certain other members of the Company’s senior management hold corresponding positions with Vornado Operating.

The Company entered into a $75,000,000 unsecured revolving credit facility with Vornado Operating that expires on December 31, 2004. Borrowings under the revolving credit agreement bear interest at LIBOR plus 3%. The Company receives an annual commitment fee equal to 1% on the average daily unused portion of the facility. Vornado Operating is not required to pay any amortization under the revolving credit agreement during its term. The revolving credit agreement prohibits Vornado Operating from incurring indebtedness to third parties, other than certain purchase money debt and certain other exceptions, and prohibits Vornado Operating from paying dividends. As of December 31, 2003, $21,989,000 was the carrying balance on our books for the amount outstanding under the revolving credit agreement.

The Company and Vornado Operating are parties to an agreement under which, among other things, (a) we will offer Vornado Operating, under certain circumstances, an opportunity to become the lessee of certain real property owned now or in the future by us under mutually satisfactory lease terms and (b) Vornado Operating will not make any real estate investment or other investments known as REIT-qualified investments unless it first offers us the opportunity to make the investment and we have rejected that opportunity. Under this agreement, we provide Vornado Operating with administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating compensates us in an amount determined in good faith by us as the amount an unaffiliated third party would charge Vornado Operating for comparable services and reimburses us for certain costs incurred and paid to third parties on behalf of Vornado Operating. Under this agreement, compensation for these services was approximately $330,000, for each of the years ended December 31, 2003, and 2002 and $371,000 for the year ended December 31, 2001. Vornado Operating and the Company each have the right to terminate this agreement if the other party is in material default of the agreement or upon 90 days’ written notice to the other party at any time. In addition, we have the right to terminate this agreement upon a change in control of Vornado Operating.

Vornado Operating's restated certificate of incorporation specifies that one of its corporate purposes is to perform this agreement and, for so long as the agreement remains in effect, prohibits Vornado Operating from making any real estate investment or other REIT-qualified investment without first offering the opportunity to the Company in the manner specified in the agreement.

The Company and Vornado Operating may enter into additional transactions in the future. Because the Company and Vornado Operating share common senior management and because four of the Company's trustees also constitute the majority of the directors of Vornado Operating, the terms of the foregoing agreements and any future agreements between us and Vornado Operating may not be comparable to those we could have negotiated with an unaffiliated third party.

There may be conflicts of interest between Alexander's and Us

As of December 31, 2003, the Operating Partnership owned 33.1% of the outstanding common stock of Alexander's. Alexander's is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander's has six properties. Interstate Properties, which is further described above, owned an additional 27.5% of the outstanding common stock of Alexander's as of December 31, 2003. Mr. Roth, Chairman of the Board and Chief Executive Officer of Vornado Realty Trust, is Chief Executive Officer and a director of Alexander's, and Mr. Fascitelli, President and a trustee of Vornado Realty Trust, is President and a director of Alexander's. Messrs. Mandelbaum, West and Wight, trustees of the Company, are also directors of Alexander's. Alexander's common stock is listed on the New York Stock Exchange under the symbol "ALX."

At December 31, 2003, the Company had loans receivable from Alexander's of $124,000,000 at an interest rate of 12.48%, including $29,000,000 drawn under a $50,000,000 line of credit. The maturity date of the loans is the earlier of January 3, 2006 or the date that Alexander's Lexington Avenue construction loan is repaid fully. The Operating Partnership manages, develops and leases the Alexander's properties under management and development agreements and leasing agreements under which the Operating Partnership receives annual fees from Alexander's. These agreements have a one-year term expiring in March of each year, except that the Lexington Avenue management and development agreements have a term lasting until substantial completion of development of the Lexington Avenue property, and are all automatically renewable. Because the Company and Alexander's share common senior management and because a majority of the trustees of Vornado Realty Trust also constitute the majority of the directors of Alexander's, the terms of the foregoing agreements and any future agreements between us and Alexander's may not be comparable to those we could have negotiated with an unaffiliated third party.

For a description of Interstate Properties' ownership of Vornado Realty Trust, Vornado Operating and Alexander's, see "Steven Roth and Interstate Properties may exercise substantial influence over the Company. They and some of the Company's other trustees and officers have interests or positions in other entities that may compete with the Company" above.

The Number of Shares of the Company and the Market for Those Shares Give Rise to Various Risks.

Vornado Realty Trust has many shares available for future sale, which could hurt the market price of its shares.

As of February 16, 2004, we had authorized but unissued, 81,752,000 common shares of beneficial interest, $.04 par value, and 60,039,000 preferred shares of beneficial interest, no par value. We may issue these additional shares from time to time in public or private offerings or in connection with acquisitions.

In addition, as of February 16, 2004, 26,430,943 Vornado Realty Trust common shares were reserved for issuance upon redemption of Operating Partnership units. Some of these shares may be sold in the public market after registration under the Securities Act under registration rights agreements between the Company and some holders of units of the Operating Partnership. These shares may also be sold in the public market under Rule 144 under the Securities Act or other available exemptions from registration. In addition, Vornado Realty Trust has reserved a number of common shares for issuance under its employee benefit plans, and these common shares will be available for sale from time to time. Vornado Realty Trust has awarded shares of restricted stock and granted options to purchase additional common shares to some of its executive officers and employees.

We cannot predict the effect that future sales of our common shares, preferred shares or Operating Partnership Units, or the perception that sales of common shares, preferred or Operating Partnership Units could occur, will have on the market prices for Vornado Realty Trust's shares.

Changes in market conditions could hurt the market price of Vornado Realty Trust's shares.

The value of the Vornado Realty Trust's shares depends on various market conditions, which may change from time to time. Among the market conditions that may affect the value of the Vornado Realty Trust's shares are the following: the extent of institutional investor interest in the Company; the reputation of REITs generally and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities; our financial condition and performance; and general financial market conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies.

Increased market interest rates may hurt the value of Vornado Realty Trust's shares.

We believe that investors consider the distribution rate on REIT shares, expressed as a percentage of the price of the shares, relative to market interest rates as an important factor in deciding whether to buy or sell the shares. If market interest rates go up, prospective purchasers of REIT shares may expect a higher distribution rate. Higher interest rates would likely increase our borrowing costs and might decrease funds available for distribution. Thus, higher market interest rates could cause the market price of Vornado Realty Trust's shares to decline.

ITEM 2. PROPERTIES

The Company currently owns, directly or indirectly, Office properties, Retail properties, Merchandise Mart properties and Temperature Controlled Logistics refrigerated warehouses. The Company also owns or has investments in Alexander's, Hotel Pennsylvania, The Newkirk Master Limited Partnership, and dry warehouses and industrial buildings.

Office Segment

The Company currently owns all or a portion of 83 office properties containing approximately 27.3 million square feet. Of these properties, 20, containing 13.3 million square feet, are located in the New York City metropolitan area (primarily Manhattan) (the "New York City Office Properties") and 63, containing 14.0 million square feet, are located in the Washington, D.C. and Northern Virginia area (the "CESCR Office Properties").

New York City Office Properties:

The New York City Office Properties contain: 12,456,000 square feet of office space and 797,000 square feet of retail space. In addition, the New York City Office properties contain five garages totaling 332,000 square feet (1,600 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section.

On May 2, 2003, the Company acquired the remaining 40% of a 78-year leasehold interest in 20 Broad Street it did not already own. The purchase price was approximately $30,000,000 in cash. 20 Broad Street contains 466,000 square feet of office space, of which 348,000 square feet is leased to the New York Stock Exchange.

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square foot office building, for $292,000,000 to SEB Immobilien-Investment GMBH, a German capital investment company. The Company's net gain on the sale after closing costs was approximately $156,433,000.

The following table sets forth the percentage of the New York City Office Properties 2003 revenue by tenants' industry:

Industry	Percentage
Retail	12%
Publishing	10%
Government	8%
Legal	8%
Communication	7%
Technology	6%
Finance	6%
Pharmaceuticals	5%
Not-for-Profit	4%
Apparel	4%
Insurance	4%
Real Estate	3%
Health Services	3%
Service Contractors	3%
Engineering	3%
Bank Branches	3%
Other	11%
	100%

The Company's New York City Office property lease terms generally range from five to seven years for smaller tenant spaces to as long as 15 years for major tenants, and may include extension options at market rates. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenant's share of increases in real estate taxes and operating expenses over a base year. Electricity is provided to tenants on a sub-metered basis or included in rent based on surveys and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction costs of its premises.

No tenant in the New York City office segment accounted for more than 10% of the Company's 2003 total revenue. Below is a listing of tenants that accounted for 2% or more of the New York City Office Properties revenues in 2003:

Tenant	Square Feet Leased	2003 Revenues	Percentage of New York City Office Revenues	Percentage of Company Revenues
The McGraw-Hill Companies, Inc.	518,000	$ 20,031,000	3.5%	1.3%
Sterling Winthrop, Inc.	429,000	18,932,000	3.3%	1.3%
VNU Inc.	515,000	18,644,000	3.2%	1.2%
Cablevision/Madison Square Garden L.P./ Rainbow Media Holdings, Inc.	285,000	13,877,000	2.4%	0.9%
New York Stock Exchange, Inc.	348,000	13,723,000	2.4%	0.9%
U.S. Government	646,737	13,350,000	2.3%	0.9%
Federated Department Stores	299,000	11,548,000	2.0%	0.8%

The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the New York City Office properties, excluding garage space, at the end of each of the past five years.

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot (excluding retail space)
2003	13,253,000	95.2%	$ 39.21
2002	13,957,000	95.8%	37.36
2001	13,953,000	97.3%	35.53
2000	14,049,000	96.2%	32.18
1999	13,681,000	94.9%	30.16

During 2003, 1,017,000 square feet of New York City office space was leased at a weighted average initial rent per square foot of \$44.28. The Company's ownership interest in the leased square footage is 925,000 square feet at a weighted average initial rent per square foot of \$44.60, a 15% increase over the weighted average escalated rent per square foot of \$38.51 for the expiring leases. Following is the detail by building:

Location	2003 Leasing Activity	
	Square Feet	Average Initial Rent Per Square Foot(1)
888 Seventh Avenue	216,000	$ 52.41
90 Park Avenue	188,000	47.18
One Penn Plaza	159,000	40.75
330 Madison Avenue (25% interest)	120,000	41.28
150 East 58th Street	69,000	43.81
595 Madison	55,000	46.88
866 U.N. Plaza	32,000	42.62
40 Fulton Street	29,000	29.38
909 Third Avenue	29,000	48.68
Eleven Penn Plaza	28,000	32.56
Two Park Avenue	27,000	36.37
330 West 34th Street	26,000	27.00
Two Penn Plaza	17,000	38.89
689 Fifth Avenue	14,000	44.00
Paramus	5,000	20.01
20 Broad Street	3,000	33.01
Total	1,017,000	44.28
Vornado's Ownership Interest	925,000	44.60

(1) Most leases include periodic step-ups in rent, which are not reflected in the initial rent per square foot leased.

In addition to the office space noted above, the Company leased 66,000 square feet of retail space at a weighted average initial rent of $220.97 per square foot.

The following tables set forth lease expirations for the office and retail portions of the New York City Office Properties as of December 31, 2003, for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Office Space:

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of New York City Office Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
2004	142	753,000	6.4%	$ 22,802,000	$ 30.28
2005	100	529,000	4.5%	23,233,000	43.92
2006	82	877,000	7.5%	33,298,000	37.97
2007	76	808,000	6.9%	34,089,000	42.19
2008	62	1,198,000(1)	10.2%	49,119,000	41.00
2009	58	544,000	4.6%	21,865,000	40.19
2010	42	1,046,000	8.9%	43,676,000	41.76
2011	23	799,000	6.8%	38,584,000	48.29
2012	17	816,000	7.0%	27,090,000	33.20
2013	16	597,000	5.1%	23,043,000	38.60

(1) Excludes 492,000 square feet at 909 Third Avenue leased to the U.S. Post Office for which the annual escalated rent is $4,412,000 or $8.96 per square foot. The U.S. Post Office has 6 five-year renewal options remaining.

Retail Space (contained in office buildings):

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Retail Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
2004	15	41,000	5.5%	$ 3,012,000	$ 73.46
2005	4	16,000	2.1%	1,740,000	108.75
2006	11	60,000	7.9%	2,902,000	48.37
2007	2	2,000	0.3%	465,000	232.50
2008	9	29,000	3.8%	1,601,000	55.21
2009	6	26,000	3.4%	2,705,000	104.04
2010	4	6,000	0.9%	526,000	87.67
2011	3	9,000	1.2%	628,000	69.78
2012	4	69,000	9.0%	2,446,000	35.45
2013	10	36,000	4.8%	3,519,000	97.75

The following table sets forth the New York City Office Properties owned by the Company as of December 31, 2003:

Location	Approximate Leasable Building Square Feet	Percent Leased	Encumbrances (in thousands)
NEW YORK (Manhattan)			
One Penn Plaza (1)	2,365,000	96.3%	$ 275,000
Two Penn Plaza	1,529,000	95.6%	151,420
909 Third Avenue (1)	1,307,000	90.6%	125,000
770 Broadway	1,046,000	99.6%	170,000
Eleven Penn Plaza	1,022,000	95.8%	49,304
90 Park Avenue	890,000	98.6%	—
888 Seventh Avenue (1)	822,000	95.9%	105,000
330 West 34th Street (1)	637,000	99.9%	—
1740 Broadway	566,000	98.7%	—
150 East 58th Street (1)	521,000	87.9%	—
866 United Nations Plaza	350,000	91.5%	33,000
595 Madison (Fuller Building)	305,000	91.3%	—
640 Fifth Avenue	269,000	99.4%(2)	—
40 Fulton Street	238,000	86.6%	—
689 Fifth Avenue	89,000	87.6%	—
7 West 34th Street	424,000	100.0%	—
330 Madison Avenue (25% interest)	783,000	91.0%	60,000
20 Broad Street (1)	467,000	87.1%	—
825 Seventh Avenue (50% interest)	165,000	86.5%	23,060
NEW JERSEY			
Paramus	128,000	93.5%	—
Total Office Buildings	**13,923,000**	**94.9%**	**$ 991,784**
Vornado's Ownership Interest	**13,253,000**	**95.2%**	**$ 935,254**

(1) These properties are 100% ground leased with the exception of 150 East 58th Street where less than 10% is ground leased.

(2) Excludes 114,119 square feet under development.

Charles E. Smith Commercial Realty ("CESCR") Office Properties:

CESCR owns 63 office buildings in the Washington D.C. and Northern Virginia area containing 14.0 million square feet and manages an additional 8.5 million square feet of office and other commercial properties. In addition, CESCR's buildings contain 19 garages totaling approximately 7.4 million square feet (25,000 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section. As of December 31, 2003, 44 percent of CESCR's property portfolio is leased to various agencies of the U.S. government.

On April 9, 2003, the Company acquired Kaempfer which owns partial interests in six Class "A" office properties in Washington D.C. containing 1.8 million square feet, manages and leases these properties and four others for which it receives customary fees and has options to acquire certain other real estate interests, including the Waterfront project discussed below. Kaempfer's equity interest in the properties approximates 5.0%. The aggregate purchase price for the equity interests and the management and leasing business was $32,200,000 consisting of $28,600,000 in cash, approximately 99,300 Operating Partnership units valued at $3,600,000 and may be increased by up to $9,000,000 based on the performance of the management company.

On October 7, 2003, the Company acquired a 2.5% interest in the planned redevelopment of Waterfront, located at 401 M Street, a mixed-use project in Washington D.C. ("the Waterfront interest") for $2,171,000, of which the Company paid $1,545,000 in cash and issued 12,500 Operating Partnership units valued at $626,000. The partnership units were issued to Mitchell N. Schear, one of the partners in the Waterfront interest, who became the President of the Company's CESCR division.

On August 4, 2003, the Company completed the acquisition of 2101 L Street, a 370,000 square foot office building located in Washington D.C. The consideration for the acquisition consisted of approximately 1.1 million newly issued Operating Partnership units (valued at approximately $49,517,000) and the assumption of existing mortgage debt and transaction costs totaling approximately $32,000,000. Robert H. Smith and Robert P. Kogod, trustees of Vornado, together with family members owned approximately 24 percent of the limited partnership that sold the building and Mr. Smith was a general partner. On August 5, 2003, the Company repaid the mortgage of $29,056,000.

The following table sets forth the percentage of CESCR's Office properties 2003 revenue by tenants' industry:

Industry	Percentage
U.S. Government	47%
Government Contractors	29%
Business Services	4%
Communication	4%
Retail	3%
Transportation	3%
Health Services	2%
Real Estate	2%
Trade Associations	2%
Legal	1%
Other	3%
	100%

CESCR office leases are typically for four to seven year terms, and may provide for extension options at either pre-negotiated or market rates. Most leases provide for annual rental escalations throughout the lease term, plus recovery of increases in real estate taxes and certain property operating expenses over a base year. Annual rental escalations are typically based upon either fixed percentage increases or the consumer price index. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction costs of its premises.

Below is a listing of tenants which accounted for 2% or more of the CESCR Office properties revenues during 2003:

Tenant	Square Feet Leased	2003 Revenues	Percentage of CESCR Revenues	Percentage of Company Revenues
U.S. Government (113 separate leases)	5,879,000	$166,618,000	47.4%	11.1%
Science Applications International Corp	456,000	10,487,000	3.0%	0.7%
US Airways, Inc.	214,000	8,415,000	2.4%	0.6%
The Boeing Company	248,000	7,234,000	2.2%	0.5%

The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the CESCR properties at the end of each of the past five years:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2003	13,963,000	93.9%	$ 29.64
2002	13,395,000	93.6%	29.38
2001	12,899,000	94.8%	28.59
2000	12,495,000	97.9%	27.38
1999	10,657,000	98.6%	26.46

During 2003, 2,848,000 square feet of CESCR office space was leased at a weighted average initial rent per square foot of $30.26, a 2.6% increase over the weighted average escalated rent per square foot of $29.86 for the expiring leases. Following is the detail by building and/or complex:

Location	Square Feet	Average Initial Rent Per Square Foot (1)
Crystal Gateway	577,000	$ 32.30
Skylines	583,000	24.65
Crystal Mall	430,000	33.86
Crystal Square	394,000	32.80
Crystal Park	253,000	32.42
Crystal Plaza	113,000	30.72
Tysons Dulles	115,000	22.68
1730 M Street	58,000	30.52
1140 Connecticut Avenue	59,000	33.70
Courthouse Plaza	42,000	31.71
Democracy Plaza	43,000	33.96
Reston Executive	34,000	21.84
1101 17th Street	41,000	33.87
1150 17th Street	25,000	32.61
Commerce Executive	64,000	22.23
Arlington Plaza	8,000	27.16
Fairfax Square (20% interest)	8,000	28.04
1919 South Eads Street	1,000	33.50
	2,848,000	30.26

(1) Most leases include periodic step-ups in rent which are not reflected in the initial rent per square foot leased.

The following table sets forth lease expirations for the CESCR Office Properties as of December 31, 2003 for each of the next 10 years, assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of CESCR Square Feet	Annual Escalated Rent of Expiring Leases Total	Annual Escalated Rent of Expiring Leases Per Square Foot
2004	391	3,320,000	25.5%	$ 95,220,000	$ 28.68
2005	207	2,091,000	16.0%	60,714,000	29.03
2006	171	2,225,000	17.1%	68,990,000	31.01
2007	124	888,000	6.8%	27,002,000	30.39
2008	123	1,130,000	8.7%	33,641,000	29.76
2009	56	683,000	5.2%	18,443,000	27.00
2010	45	426,000	3.3%	13,930,000	32.72
2011	59	906,000	6.9%	26,394,000	29.14
2012	26	556,000	4.3%	18,125,000	32.61
2013	25	348,000	2.7%	11,282,000	32.46

Included in the above table is 1,939,000 square feet leased to the U.S. Patent and Trademark Office (“PTO”) in the Crystal City submarket. The PTO lease expirations are as follows:

	Square Feet of Expiring PTO Leases
2004	937,000
2005	895,000
2006	107,000
Total	1,939,000

The average annual escalated rent per square foot of the PTO space is $26.61. The average escalated rent per square foot of CESCR space expiring in 2004 in the Crystal City submarket is $28.56. The Company plans substantial renovations to this space as outlined in Item 1-Business “Development and Redevelopment Projects”.

The following table sets forth the CESCR Office Properties owned by the Company as of December 31, 2003:

Location/Complex	Number of Buildings	Approximate Leasable Building Square Feet	Percent Leased	Encumbrances (in thousands)
Crystal Mall	4	1,064,000	99.9%	$ 53,210
Crystal Plaza	7	1,220,000	98.2%	68,598
Crystal Square	4	1,414,000	99.4%	187,102
Crystal Gateway	5	1,457,000	97.5%	203,006
Crystal Park	5	2,166,000	90.4%	257,971
1919 S. Eads Street	1	96,000	87.5%	12,942
Total Crystal City	26	7,417,000	96.1%	782,829
Arlington Plaza	1	176,000	84.7%	17,256
Skyline	8	2,507,000	91.4%	198,801
Courthouse Plaza (1)	2	618,000	98.1%	78,483
1101 17th Street	1	206,000	91.8%	25,783
1730 M Street (1)	1	190,000	89.7%	16,097
1140 Connecticut Avenue	1	179,000	96.0%	19,070
1150 17th Street	1	226,000	95.7%	31,134
1750 Pennsylvania Avenue	1	259,000	97.9%	49,346
2101 L Street	1	354,000	99.9%	—
Democracy Plaza I (1)	1	218,000	95.5%	26,551
Tysons Dulles	3	482,000	87.3%	—
Commerce Executive	3	416,000	73.7%	52,582
Reston Executive	3	487,000	95.3%	71,874
Fairfax Square (20% interest)	3	104,000	72.1%	13,639
Kaempfer equity interests (.1% to 10% interests)	7	124,000	98.8%	13,830
Total Office buildings (Vornado's Interest)	**63**	**13,963,000**	**93.9%**	**$ 1,397,246**

(1) These properties are 100% ground leased.

Retail Segment

The Company owns 60 retail properties, of which 48 are strip shopping centers primarily located in the Northeast and Mid-Atlantic states; five are regional malls located in New York, New Jersey and San Juan, Puerto Rico; and seven are retail properties located in Manhattan. The Company's strip shopping centers and malls are generally located on major regional highways in mature, densely populated areas. The Company believes these properties attract consumers from a regional, rather than a neighborhood market place because of their location on regional highways.

The Company's strip shopping centers contain an aggregate of 8.8 million square feet and are substantially (over 80%) leased to large stores (over 20,000 square feet). Tenants include destination retailers such as discount department stores, supermarkets, home improvement stores, discount apparel stores, membership warehouse clubs and "category killers." Category killers are large stores that offer a complete selection of a category of items (e.g., toys, office supplies, etc.) at low prices, often in a warehouse format. Tenants typically offer basic consumer necessities such as food, health and beauty aids, moderately priced clothing, building materials and home improvement supplies, and compete primarily on the basis of price and location.

The Company's five regional malls are as follows:

The Green Acres Mall in Long Island, New York contains 1.6 million square feet, and is anchored by four major department stores: Sears, Roebuck and Co., J.C. Penney Company, Inc., Federated Department Stores, Inc. ("Federated") doing business as Macy's, and Federated doing business as Stern's, that is currently dark. In February 2004, the Company entered into an agreement with Federated to take back 63,000 square feet of the former Stern's store. The remainder of the Stern's space will be operated as a Macy's Men's Store and a Macy's Home Store. Federated will continue to pay the same rent (exclusive of real estate taxes for the space taken back by the Company). The complex also includes The Plaza at Green Acres, a 172,000 square foot strip shopping center which is anchored by Wal-Mart and National Wholesale Liquidators. The Company plans to renovate the interior of the mall. In addition, the Company will construct 70,000 square feet of free-standing retail space and parking decks in the complex, subject to governmental approvals. Further, the Company has entered into a ground lease with B.J.'s Wholesale Club who will construct its own free-standing store in the complex. The expansion and renovation are expected to be completed by 2006.

The Monmouth Mall, located in Eatontown, New Jersey was acquired on October 10, 2002, by a joint venture in which the Company has a 50% interest. The mall contains 1.5 million square feet and is anchored by four department store tenants (Macy's, Lord & Taylor, J.C. Penney's and Boscovs), three of which own their stores aggregating 719,000 square feet.

The Bergen Mall in Paramus, New Jersey, contains 903,000 square feet and is anchored by Macy's, Value City, Marshalls and Off Saks Fifth Avenue. The Bergen Mall was acquired on December 12, 2003, for approximately $145,000,000.

The Montehiedra Mall in San Juan, Puerto Rico, contains 554,000 square feet and is anchored by Home Depot, Kmart, and Marshalls.

The Las Catalinas Mall in San Juan, Puerto Rico, contains 493,000 square feet and is anchored by Kmart and Sears, which owns its store.

The following table sets forth the percentage of the Retail Properties 2003 revenues by type of retailer:

Industry	Percentage
Family Apparel	16%
Department Stores	14%
Supermarkets	10%
Home Improvement	8%
Restaurants	7%
Home Entertainment and Electronics Stores	6%
Membership Warehouse Clubs	5%
Other	34%
	100%

The Company's shopping center lease terms range from five years or less in some instances for smaller tenant spaces to as long as 25 years for major tenants. Leases generally provide for additional rents based on a percentage of tenants' sales and pass through to tenants of the tenants' share of all common area charges (including roof and structure in strip shopping centers, unless it is the tenant's direct responsibility), real estate taxes and insurance costs and certain capital expenditures. Percentage rent accounted for less than 1% of total shopping center revenues in 2003. None of the tenants in the Retail Segment accounted for more than 10% of the Company's 2003 total revenues.

Below is a listing of tenants which accounted for 2% or more of the Retail properties revenues in 2003:

Tenant	Square Feet Leased	2003 Revenues	Percentage of Retail Revenues	Percentage of Company Revenues
The Home Depot, Inc	630,000	$ 8,481,000	5.8%	0.6%
Stop & Shop Companies, Inc, (Stop & Shop).	339,000	8,058,000	5.5%	0.5%
Hennes & Mauritz	43,000	6,218,000	4.3%	0.4%
Wal-Mart/Sam's Wholesale	1,557,000	5,211,000	3.6%	0.3%
Kohl's	698,000	3,643,000	2.5%	0.2%
The TJX Companies, Inc.	369,000	3,633,000	2.5%	0.2%
Shop Rite	364,000	3,501,000	2.4%	0.2%
Staples, Inc.	206,000	3,461,000	2.4%	0.2%
Kmart	346,000	2,851,000	2.0%	0.2%

The aggregate occupancy rate for the 12,889,000 square feet of retail properties at December 31, 2003 is 93.0%. The occupancy rate includes leases for 691,000 square feet (6%) at four locations, which have not commenced at December 31, 2003. The following sets forth the occupancy rate and the average annual base rent per square foot for the Strip Shopping Centers and Regional Malls at the end of each of the past five years.

Strip Shopping Centers:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Base Rent Per Square Foot
2003	8,798,000	92.3%	$ 11.91
2002	9,295,000	85.7%	11.11
2001	9,008,000	89.0%	10.60
2000	9,000,000	91.1%	10.72
1999	8,212,000	91.0%	10.20

Regional Malls:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Base Rent Per Square Foot	
			Mall Tenants	Total
2003	3,766,000	94.1%	$ 31.08	$ 16.41
2002	2,875,000	95.4%	27.79	17.15
2001	2,293,000	98.7%	34.04	15.31
2000	2,293,000	95.5%	32.05	14.84
1999	2,293,000	95.5%	31.66	14.50

Manhattan Retail and Other:

The Manhattan retail is comprised of seven properties containing 325,000 square feet, including 4 Union Square South, containing 198,000 square feet, which is currently under development.

The Company has two strip shopping centers aggregating 327,000 square feet which are classified as held for sale as of December 31, 2003.

During 2003, approximately 803,000 square feet of retail space was leased at a weighted average rent per square foot of $17.40, an 11.6% increase over the weighted average rent per square foot of $15.59 for the expiring leases and 243,000 square feet of land was ground leased to retailers at a weighted average rent per square foot of $10.60. Following is the detail by property:

	2003 Leasing Activity	
Location	**Square Feet**	**Average Initial Rent Per Square Foot (1)**
Space Leases:		
Manalapan	109,000	$ 10.73
Henrietta	88,000	3.00
Valley Stream	83,000	24.45
Allentown	83,000	12.44
Marlton	75,000	12.34
Monmouth Mall	54,000	31.28
Waterbury	48,000	13.39
East Brunswick	34,000	14.12
Bricktown	22,000	18.89
Philadelphia	22,000	16.00
Glenburnie	21,000	5.75
Totowa	21,000	24.13
Middletown	18,000	24.14
Union	16,000	31.71
Freeport	15,000	20.00
Bensalem	14,000	15.12
424 6th Ave	10,000	109.59
Dundalk	9,000	11.90
Cherry Hill	8,000	24.00
Hanover Conrans	8,000	13.58
Bethlehem	7,000	8.52
Glenolden	7,000	28.04
Jersey City	7,000	27.35
East Hanover	6,000	27.91
Hackensack	6,000	23.09
North Plainfield	6,000	15.42
Morris Plains	3,000	29.87
Watchung	3,000	17.40
	803,000	17.40
Land Leases:		
Woodbridge	136,000	10.16
Glenolden	92,000	10.86
Waterbury	5,000	14.70
Chicopee	4,000	10.26
Allentown	3,000	13.44
Kearny	3,000	13.27
	243,000	10.60

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(1) Most leases include periodic step-ups in rent, which are not reflected in the initial rent per square foot leased.

Former Bradlees locations:

Property rentals for the year ended December 31, 2003, include $5,000,000 of additional rent which, effective December 31, 2002, was re-allocated to the former Bradlees locations in Marlton, Turnersville, Bensalem and Broomall and is payable by Stop & Shop, pursuant to the Master Agreement and Guaranty, dated May 1, 1992. This amount is in addition to all other rent guaranteed by Stop & Shop for the former Bradlees locations. On January 8, 2003, Stop & Shop filed a complaint with the United States District Court claiming the Company has no right to reallocate and therefore continue to collect the $5,000,000 of annual rent from Stop & Shop because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the $5,000,000 of additional rent was previously allocated. The Company believes the additional rent provision of the guaranty expires at the earliest in 2012 and is vigorously contesting Stop & Shop's position.

In February 2003, Koninklijke Ahold NV, parent of Stop & Shop, announced that it overstated its 2002 and 2001 earnings by at least $500 million and is under investigation by the U.S. Justice Department and Securities and Exchange Commission. The Company cannot predict what effect, if any, this situation may have on Stop & Shop's ability to satisfy its obligation under the Bradlees guarantees and rent for existing Stop & Shop leases aggregating approximately $10.5 million per annum.

The following table sets forth the lease expirations for the Retail Properties as of December 31, 2003 for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Retail Square Feet	Annual Rent of Expiring Leases	
				Total	Per Square Foot
2004	115	679,000	5.6%	$ 10,315,000	$ 15.19
2005	117	549,000	4.5%	10,800,000	19.67
2006	84	817,000	6.8%	8,511,000	10.42
2007	117	744,000	6.2%	10,791,000	14.50
2008	98	733,000	6.1%	10,228,000	13.95
2009	66	556,000	4.6%	8,502,000	15.29
2010	40	440,000	3.6%	6,646,000	15.10
2011	37	724,000	6.0%	8,763,000	12.10
2012	45	743,000	6.1%	8,320,000	11.20
2013	47	603,000	5.0%	9,689,000	16.07

The following table sets forth the Retail Properties owned by the Company as of December 31, 2003:

Location	Approximate Leasable Building Square Footage: Owned/ Leased by Company	Approximate Leasable Building Square Footage: Owned by Tenant on Land Leased from Company	Percent Leased	Encumbrances (in thousands)
REGIONAL MALLS:				
Green Acres Mall, Valley Stream, NY (1)	1,535,000	61,000	95.6%	155,307
Monmouth Mall, Monmouth, NJ (50% ownership)	717,000	—	94.9%	135,000
Montehiedra, Puerto Rico	554,000	—	90.8%	58,855
Las Catalinas, Puerto Rico	354,000	—	94.5%	66,729
Bergen Mall, Paramus, NJ (Acquired 12/12/03)	893,000	10,000	93.0%	—
Total Regional Malls	4,053,000	71,000	94.2%	415,891
Vornado's ownership interest	3,694,000	71,000	94.1%	348,391
STRIP SHOPPING CENTERS:				
NEW JERSEY				
Bordentown	179,000	—	95.0%	7,990(2)
Bricktown	260,000	3,000	96.0%	16,147(2)
Cherry Hill	58,000	206,000	91.1%	14,850(2)
Delran	169,000	3,000	95.5%	6,365(2)
Dover	173,000	—	98.8%	7,278(2)
East Brunswick	221,000	10,000	100.0%	22,546(2)
East Hanover I and II	348,000	—	87.0%	27,031(2)
Hackensack	209,000	60,000	98.2%	24,770(2)
Jersey City	47,000	173,000	100.0%	18,963(2)
Kearny	40,000	66,000	98.2%	3,702(2)
Lawnside	142,000	3,000	78.8%	10,493(2)
Lodi	171,000	—	100.0%	9,299(2)
Manalapan	196,000	2,000	100.0%	12,410(2)
Marlton	174,000	7,000	96.1%	12,067(2)
Middletown	180,000	52,000	93.0%	16,289(2)
Morris Plains	176,000	1,000	100.0%	11,924(2)
North Bergen	7,000	55,000	100.0%	3,926(2)
North Plainfield (1)	219,000	—	88.1%	10,779(2)
Totowa	178,000	139,000	100.0%	29,252(2)
Turnersville	89,000	7,000	100.0%	4,047(2)
Union	120,000	159,000	95.6%	33,220(2)
Watchung	50,000	116,000	96.5%	13,404(2)
Woodbridge	88,000	140,000	85.7%	21,897(2)
Total New Jersey	3,494,000	1,202,000	95.0%	338,649
NEW YORK				
Albany (Menands)	140,000	—	74.0%	6,158(2)
Buffalo (Amherst) (1)	185,000	112,000	81.1%	6,939(2)
Freeport	167,000	—	100.0%	14,658(2)
New Hyde Park (1)	101,000	—	100.0%	7,398(2)
North Syracuse (1)	98,000	—	100.0%	—
Rochester (Henrietta) (1)	148,000	—	58.6%	—
Rochester	—	205,000	100.0%	—
Total New York	839,000	317,000	86.7%	35,153

Location	Approximate Leasable Building Square Footage: Owned/ Leased by Company	Owned by Tenant on Land Leased from Company	Percent Leased	Encumbrances (in thousands)
PENNSYLVANIA				
Allentown	269,000	354,000	97.3%	23,019(2)
Bensalem	122,000	8,000	97.6%	6,361(2)
Bethlehem	159,000	—	74.4%	4,026(2)
Broomall	147,000	22,000	86.5%	9,680(2)
Glenolden	10,000	92,000	100.0%	7,260(2)
Lancaster	58,000	170,000	93.6%	—
Levittown	105,000	—	100.0%	3,253(2)
10th and Market Streets, Philadelphia	271,000	—	76.2%	8,867(2)
Upper Moreland	122,000	—	100.0%	6,883(2)
York	111,000	—	24.6%	4,070(2)
Total Pennsylvania	1,374,000	646,000	87.8%	73,419
MARYLAND				
Baltimore (Towson)	152,000	—	79.3%	11,280(2)
Glen Burnie	65,000	56,000	100.0%	5,805(2)
Total Maryland	217,000	56,000	88.5%	17,085
CONNECTICUT				
Newington	43,000	140,000	100.0%	6,483(2)
Waterbury	146,000	—	92.2%	—
Total Connecticut	189,000	140,000	96.5%	6,483
MASSACHUSETTS				
Chicopee	—	116,000	100.0%	—
Milford (1)	83,000	—	100.0%	—
Springfield	8,000	117,000	100.0%	3,095
Total Massachusetts	91,000	233,000	100.0%	3,095
Total Strip Shopping Centers	**6,204,000**	**2,594,000**	**92.3%**	**473,884**
OTHER RETAIL:				
NEW YORK (Manhattan)				
1135 Third Avenue	25,000	—	100.0%	—
4 Union Square South (in development)	198,000	—	97.5%	—
424 Sixth Avenue	10,000	—	100.0%	—
435 Seventh Avenue	43,000	—	100.0%	—
484 Eighth Avenue	14,000	—	100.0%	—
715 Lexington Avenue	32,000	—	—	—
825 Seventh Avenue	3,000	—	100.0%	—
Total Other Retail	**325,000**	**—**	**98.3%**	**—**
Total Retail Space	**10,582,000**	**2,665,000**	**93.0%**	**889,775**
Vornado's Ownership Interest	**10,223,000**	**2,665,000**	**93.0%**	**822,275**
ASSETS HELD FOR SALE:				
Vineland, New Jersey	143,000	—	5.6%	—
Baltimore (Dundalk), Maryland	181,000	3,000	83.4%	—
Total Assets Held for Sale	324,000	3,000	49.4%	—

(1) 100% ground and/or building leasehold interest; other than Green Acres, where approximately 10% of the ground is leased.

(2) These encumbrances are cross collateralized under a blanket mortgage in the amount of $481,902 at December 31, 2003.

Merchandise Mart Segment

The Merchandise Mart Properties are a portfolio of 9 properties containing an aggregate of 8.6 million square feet.

Below is a breakdown of square feet by location and use as of December 31, 2003.

			Showroom			
	Total	Office	Total	Permanent	Temporary Trade Show	Retail
Chicago, Illinois						
Merchandise Mart	3,463,000	1,134,000	2,237,000	1,950,000	287,000	92,000
350 N. Orleans	1,150,000	861,000	289,000	289,000	—	—
33 N. Dearborn	328,000	316,000	—	—	—	12,000
Total Chicago, Illinois	4,941,000	2,311,000	2,526,000	2,239,000	287,000	104,000
HighPoint, North Carolina						
Market Square Complex	1,751,000	—	1,751,000	1,181,000	570,000	—
National Furniture Mart	259,000	—	259,000	259,000	—	—
Total HighPoint, North Carolina	2,010,000	—	2,010,000	1,440,000	570,000	—
L.A. Mart	774,000	—	774,000	720,000	54,000	—
Washington, D.C.						
Washington Office Center	396,000	360,000	—	—	—	36,000
Washington Design Center	390,000	60,000	330,000	330,000	—	—
South Capitol	94,000	94,000	—	—	—	—
Total Washington, D.C.	880,000	514,000	330,000	330,000	—	36,000
Total Merchandise Mart Properties	8,605,000	2,825,000	5,640,000	4,729,000	911,000	140,000
Occupancy rate	94.2%	92.6%	95.1%			88.8%

In addition to the Office, Showroom and Retail space, the Merchandise Mart Properties contains eight parking garages totaling 1,200,000 square feet (3,600 spaces). The garage space is excluded from the statistics provided in this section.

Office Space

The following table sets forth the percentage of the Merchandise Mart Properties 2003 office revenues by tenants' industry during 2003:

Industry	Percentage
Government	31%
Service	24%
Banking	16%
Telecommunications	13%
Insurance	8%
Pharmaceutical	4%
Other	4%
	100%

The Company's Merchandise Mart properties lease terms generally range from three to seven years for smaller tenants to as long as 15 years for large tenants. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenants' share of increases in real estate taxes and operating expenses for a building over a base year. Electricity is provided to tenants on a sub-metered basis or included in rent and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction of its premises.

No tenant in the Merchandise Mart properties segment accounted for more than 10% of the Company's 2003 total revenue. Below is a listing of the Merchandise Mart Properties office tenants which accounted for 2% or more of the Merchandise Mart Properties' revenues in 2003:

Tenant	Square Feet Leased	2003 Revenues	Percentage of Segment Revenues	Percentage of Company Revenues
U.S. Government	344,000	$11,266,000	4.9%	0.7%
SBC	234,000	6,970,000	3.1%	0.5%
Bankers Life and Casualty	229,000	5,563,000	2.4%	0.4%
Bank of America	206,000	4,962,000	2.2%	0.3%

The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the Merchandise Mart Properties' office space at the end of each of the past five years.

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2003	2,825,000	92.6%	$ 25.23
2002	2,838,000	91.7%	24.00
2001	2,841,000	89.2%	23.84
2000	2,869,000	90.2%	23.52
1999	2,414,000	93.3%	20.12

During 2003, 270,000 square feet of Merchandise Mart Properties office space was leased at a weighted average initial rent per square foot of $21.24, a decrease of 5.3% over the weighted average escalated rent per square foot of $22.44 for the leases expiring. Following is the detail by building:

	2003 Leasing Activity	
	Square Feet	Average Initial Rent Per Square Foot (1)
Merchandise Mart	216,000	$ 19.73
33 North Dearborn Street	54,000	27.28
Total	270,000	21.24

(1) Most leases include periodic step-ups in rent, which are not reflected in the initial rent per square foot leased.

The following table sets forth lease expirations for the Merchandise Mart Properties office space as of December 31, 2003 for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Merchandise Mart Office Square Feet	Annual Escalated Rent of Expiring Leases Total	Annual Escalated Rent of Expiring Leases Per Square Foot
2004	22	385,000	14.8%	$ 8,073,000	$ 21.00
2005	15	170,000	6.5%	4,468,000	26.32
2006	17	130,000	5.0%	3,108,000	23.98
2007	16	269,000	10.3%	6,297,000	23.42
2008	21	277,000	10.7%	7,206,000	26.00
2009	8	285,000	11.0%	8,611,000	30.23
2010	3	359,000	13.8%	12,022,000	33.53
2011	1	193,000	7.4%	5,925,000	30.65
2012	9	70,000	2.7%	1,843,000	26.32
2013	11	94,000	3.6%	2,641,000	28.16

Showroom Space

The showrooms provide manufacturers and wholesalers with permanent and temporary space in which to display products for buyers, specifiers and end users. The showrooms are also used for hosting trade shows for the contract furniture, casual furniture, gifts, carpet, residential furnishings, building products, crafts, apparel and design industries. Merchandise Mart Properties own and operate five of the leading furniture and gifts trade shows including the contract furniture industry's largest annual trade show, NeoCon, which attracts over 40,000 attendees each June and is hosted at the Merchandise Mart building in Chicago. The Market Square Complex co-hosts the home furniture industry's semi-annual (April and October) market weeks which occupy over 11,500,000 square feet in the High Point, North Carolina region.

The following table sets forth the percentage of the Merchandise Mart Properties 2003 showroom revenues by tenants' industry:

Industry	Percentage
Residential Design	25%
Gift	20%
Residential Furnishings	18%
Contract Furnishings	14%
Market Suites	13%
Casual Furniture	4%
Apparel	3%
Building Products	3%
	100%

The following table sets forth the occupancy rate and the average escalated rent per square foot for this space at the end of each of the past five years.

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2003	5,640,000	95.1%	$ 22.35
2002	5,528,000	95.2%	21.46
2001	5,532,000	95.5%	22.26
2000	5,044,000	97.6%	22.85
1999	4,174,000	98.1%	21.29

During 2003, 1,157,000 square feet of Merchandise Mart Properties showroom space was leased at a weighted average initial rent per square foot of $23.43, a 0.6% increase over the weighted average escalated rent per square foot of $23.28 for the leases expiring. Following is the detail by building:

	2003 Leasing Activity	
	Square Feet	Average Initial Rent Per Square Foot(1)
Merchandise Mart	464,000	$ 31.02
Market Square Complex	389,000	16.91
L.A. Mart	193,000	17.37
350 North Orleans	74,000	24.47
Washington Design Center	37,000	28.47
Total	1,157,000	23.43

(1) Most leases include periodic step-ups in rent which are not reflected in the initial rent per square foot leased.

The following table sets forth lease expirations for the Merchandise Mart Properties showroom space as of December 31, 2003 for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Merchandise Mart Showroom Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
2004	364	779,000	14.6%	$ 17,636,000	$ 22.65
2005	251	677,000	12.7%	15,750,000	23.26
2006	250	914,000	17.1%	23,770,000	26.00
2007	170	891,000	16.7%	19,359,000	21.72
2008	129	487,000	9.1%	12,884,000	26.47
2009	50	279,000	5.2%	6,389,000	22.94
2010	46	214,000	4.0%	6,380,000	29.77
2011	18	118,000	2.2%	3,252,000	27.59
2012	12	44,000	0.8%	1,268,000	28.86
2013	41	265,000	5.0%	7,256,000	27.36

Retail Space

The Merchandise Mart Properties portfolio also contains approximately 140,000 square feet of retail space which was 88.8% occupied at December 31, 2003.

The following table sets forth the Merchandise Mart Properties owned by the Company as of December 31, 2003:

Location	Approximate Leasable Building Square Feet	Percent Leased	Encumbrances (in thousands)
ILLINOIS			
Merchandise Mart, Chicago	3,444,000	98.0%	$ —
350 North Orleans, Chicago	1,150,000	80.9%	—
33 North Dearborn Street, Chicago	328,000	94.6%	—
Other	19,000	21.3%	25,405
Total Illinois	4,941,000	93.5%	25,405
WASHINGTON, D.C.			
Washington Office Center	396,000	96.6%	43,166
Washington Design Center	390,000	92.3%	48,012
South Capitol	94,000	62.0%	—
Total Washington, D.C.	880,000	91.0%	91,178
HIGH POINT, NORTH CAROLINA			
Market Square Complex	2,010,000	98.2%	111,025
CALIFORNIA			
L.A. Mart	774,000	91.6%	—
Total Merchandise Mart Properties	**8,605,000**	**94.2%**	**$ 227,608**

Temperature Controlled Logistics Segment

The Company has a 60% interest in Vornado Crescent Portland Partnership ("the Landlord") that owns 87 temperature controlled warehouses, through a wholly-owned subsidiary (AmeriCold Realty Trust), with an aggregate of approximately 440.7 million cubic feet. AmeriCold Logistics leases all of the partnerships' facilities. The Temperature Controlled Logistics segment is headquartered in Atlanta, Georgia.

AmeriCold Logistics provides the food industry with refrigerated warehousing and transportation management services. Refrigerated warehouses are comprised of production, distribution and public facilities. Production facilities typically serve one or a small number of customers, generally food processors that are located nearby. These customers store large quantities of processed or partially processed products in the facilities until they are shipped to the next stage of production or distribution. Distribution facilities primarily warehouse a wide variety of customers' finished products until future shipment to end-users. Each distribution facility generally services the surrounding regional market. Public facilities generally serve the needs of local and regional customers under short-term agreements. Food manufacturers and processors use these facilities to store capacity overflow from their production facilities or warehouses. AmeriCold Logistics' transportation management services include freight routing, dispatching, freight rate negotiation, backhaul coordination, freight bill auditing, network flow management, order consolidation and distribution channel assessment. AmeriCold Logistics' temperature controlled logistics expertise and access to both frozen food warehouses and distribution channels enable its customers to respond quickly and efficiently to time-sensitive orders from distributors and retailers.

AmeriCold Logistics' customers consist primarily of national, regional and local frozen food manufacturers, distributors, retailers and food service organizations. Below is a listing of customers which accounted for 2% or more of AmeriCold Logistics' revenue in 2003:

	% of 2003 Revenue
H.J. Heinz & Co.	15%
Con-Agra Foods, Inc.	13%
Philip Morris Companies, Inc.	8%
Sara Lee Corp.	5%
General Mills	4%
Tyson Foods, Inc.	4%
McCain Foods, Inc.	4%
Schwan Corporation	4%
J.R. Simplot	2%
Nippon Suisan.	2%
Other	39%
	100%

On February 5, 2004, AmeriCold Realty Trust completed a $254,400,000 mortgage financing for 21 of its owned and 7 of its leased temperature-controlled warehouses. The loan bears interest at LIBOR plus 2.95% (with a LIBOR floor of 1.5% with respect to $54,400,000 of the loan) and requires principal payments of $5,000,000 annually. The loan matures in April 2009 and is pre-payable without penalty after February 5, 2006. The net proceeds were approximately $225,000,000 after providing for usual escrows, closing costs and the repayment of $12,900,000 of existing mortgages on two of the warehouses, of which $135,000,000 was distributed to the Company and the remainder was distributed to its partner.

On February 23, 2004, AmeriCold Logistics announced that Alec Covington resigned as President and Chief Executive Officer effective March 31, 2004, to take an opportunity in an unrelated industry. A search to identify a successor is currently underway.

The following table sets forth certain information for the Temperature Controlled Logistics properties as of December 31, 2003:

Property	Cubic Feet (in millions)	Square Feet (in thousands)
ALABAMA		
Birmingham	2.0	85.6
Montgomery	2.5	142.0
Gadsden (1)	4.0	119.0
Albertville	2.2	64.5
	10.7	411.1
ARIZONA		
Phoenix	2.9	111.5
ARKANSAS		
Fort Smith	1.4	78.2
West Memphis	5.3	166.4
Texarkana	4.7	137.3
Russellville	5.6	164.7
Russellville	9.5	279.4
Springdale	6.6	194.1
	33.1	1,020.1
CALIFORNIA		
Ontario (1)	8.1	279.6
Fullerton (1)	2.8	107.7
Pajaro (1)	1.4	53.8
Turlock	2.5	108.4
Watsonville (1)	5.4	186.0
Turlock	3.0	138.9
Ontario	1.9	55.9
	25.1	930.3
COLORADO		
Denver	2.8	116.3
FLORIDA		
Tampa	0.4	22.2
Plant City	0.8	30.8
Bartow	1.4	56.8
Tampa	2.9	106.0
Tampa (1)	1.0	38.5
	6.5	254.3
GEORGIA		
Atlanta	11.1	476.7
Atlanta	2.9	157.1
Augusta	1.1	48.3
Atlanta	11.4	334.7
Atlanta	5.0	125.7
Montezuma	4.2	175.8
Atlanta	6.9	201.6
Thomasville	6.9	202.9
	49.5	1,722.8
IDAHO		
Burley	10.7	407.2
Nampa	8.0	364.0
	18.7	771.2
ILLINOIS		
Rochelle	6.0	179.7
East Dubuque	5.6	215.4
INDIANA		
Indianapolis	9.1	311.7
IOWA		
Fort Dodge	3.7	155.8
Bettendorf	8.8	336.0
	12.5	491.8
KANSAS		
Wichita	2.8	126.3
Garden City	2.2	84.6
	5.0	210.9
KENTUCKY		
Sebree	2.7	79.4
MAINE		
Portland	1.8	151.6
MASSACHUSETTS		
Gloucester	1.9	95.5
Gloucester	0.3	13.6
Gloucester	2.8	95.2
Gloucester	2.4	126.4
Boston	3.1	218.0
	10.5	548.7
MISSOURI		
Marshall	4.8	160.8
Carthage	42.0	2,564.7
	46.8	2,725.5
MISSISSIPPI		
West Point	4.7	180.8
NEBRASKA		
Fremont	2.2	84.6
Grand Island	2.2	105.0
	4.4	189.6
NEW YORK		
Syracuse	11.8	447.2
NORTH CAROLINA		
Charlotte	1.0	58.9
Charlotte	4.1	164.8
Tarboro	4.9	147.4
	10.0	371.1
OHIO		
Massillon	5.5	163.2
OKLAHOMA		
Oklahoma City	0.7	64.1
Oklahoma City	1.4	74.1
	2.1	138.2

11.6	395.1

Property	Cubic Feet (in millions)	Square Feet (in thousands)
OREGON		
Hermiston	4.0	283.2
Milwaukee	4.7	196.6
Salem	12.5	498.4
Woodburn	6.3	277.4
Brooks	4.8	184.6
Ontario	8.1	238.2
	40.4	1,678.4
PENNSYLVANIA		
Leesport	5.8	168.9
Fogelsville	21.6	683.9
	27.4	852.8
SOUTH CAROLINA		
Columbia	1.6	83.7
SOUTH DAKOTA		
Sioux Falls	2.9	111.5
TENNESSEE		
Memphis	5.6	246.2
Memphis	0.5	36.8
Murfreesboro	4.5	106.4
	10.6	389.4
TEXAS		
Amarillo	3.2	123.1
Ft. Worth	3.4	102.0
	6.6	225.1
UTAH		
Clearfield	8.6	358.4
VIRGINIA		
Norfolk	1.9	83.0
Strasburg	6.8	200.0
	8.7	283.0
WASHINGTON		
Burlington	4.7	194.0
Moses Lake	7.3	302.4
Walla Walla	3.1	140.0
Connell	5.7	235.2
Wallula	1.2	40.0
Pasco	6.7	209.0
	28.7	1,120.6
WISCONSIN		
Tomah	4.6	161.0
Babcock	3.4	111.1
Plover	9.4	358.4
	17.4	630.5
Total Temperature Controlled Logistics Properties	**440.7**	**17,475.8**

(1) Leasehold interest

Alexander's

The Company owns 33.1% of Alexander's outstanding common shares. The following table shows the location, approximate size and leasing status of each of the properties owned by Alexander's as of December 31, 2003.

Location	Approximate Land Area in Square Feet or Acreage	Approximate Building Leasable Square Footage/Number of Floors	Percent Leased
Operating Properties			
New York:			
Kings Plaza Regional Shopping Center-Brooklyn	24.3 acres	(1) 759,000/2 and 4(2)	98%
Rego Park I—Queens	4.8 acres	351,000/3(1)	100%
Flushing—Queens (3)		177,000/4(1)	0%
New Jersey:			
Paramus—New Jersey	30.3 acres	—(4)	100%
		1,287,000	
Development Properties			
Lexington Avenue-Manhattan (see below)	84,420 SF	1,304,000/55	
Rego Park II—Queens	6.6 acres	—	

(1) Excludes parking garages.
(2) Excludes 339,000 square foot Macy's store, owned and operated by Federated Department Stores, Inc.
(3) Leased by Alexander's through January 2027.
(4) Ground leased to IKEA.

The development at Lexington Avenue consists of an approximately 1.3 million square foot multi-use building. The building will contain approximately 885,000 net rentable square feet of office space, approximately 171,000 net rentable square feet of retail space and approximately 248,000 net saleable square feet of residential space consisting of condominium units (through a taxable REIT subsidiary ("TRS")). Of the construction budget of $630,000,000 (which excludes $29,000,000 for development and guarantee fees to the Company), $402,000,000 has been expended through December 31, 2003 and an additional $62,200,000 has been committed to at December 31, 2003. Construction is expected to be completed in 2005.

Bloomberg L.P. has leased 695,000 square feet of the office space (the "Bloomberg Space"). On November 15, 2003 Alexander's delivered approximately 87% of that space. As of February 9, 2004, the remainder of the Bloomberg space has been delivered. At December 31, 2003, 115,000 square feet of retail space has been leased, of which the Home Depot and Hennes & Mauritz have leased 83,000 and 27,000 square feet, respectively. The residential space is comprised of 105 condominium units. The offering plan filed for these units, as amended for price increases through December 31, 2003, would produce (inclusive of the value of existing contracts) an aggregate sale price of $457,000,000. As of December 31, 2003, Alexander's has received deposits of $10,425,000 on sales of the condominium units.

On February 13, 2004, Alexander's completed a $400,000,000 mortgage financing on the Office Space of its Lexington Avenue development project placed by German American Capital Corporation, an affiliate of Deutsche Bank. The loan bears interest at 5.33%, matures in February 2014 and beginning in the third year, provides for principal payments based on a 25-year amortization schedule such that over the remaining eight years of the loan, ten years of amortization will be paid. Of the loan proceeds, $253,529,000 was used to repay the entire amount outstanding under the Construction Loan with HVB Real Estate Capital (Hypo). The Construction Loan was modified so that the remaining availability is $237,000,000, which is approximately the amount estimated to complete the Lexington Avenue development project. The interest rate on the Construction Loan is LIBOR plus 2.5% (currently 3.64%) and matures in January 2006, with two one-year extensions. The collateral for the Construction Loan is the same, except that the Office Space has been removed from the lien. Further, the Construction Loan permits the release of the retail space for $15,000,000 and requires all proceeds from the sale of the residential condominiums units to be applied to the Construction Loan balance until it is finally repaid. In connection with reducing the principal amount of the Construction loan Alexander's will write-off $3,050,000 of unamortized deferred financing costs in the first quarter of 2004, of which the Company's share is $1,010,000.

The Company has agreed to guarantee to the construction lender, the lien free, timely completion of the construction of the project and funding of project costs in excess of a stated loan budget, if not funded by Alexander's (the "Completion Guarantee"). The $6,300,000 estimated fee payable by Alexander's to the Company for the Completion Guarantee is 1% of construction costs (as defined). Based upon the current status of construction, Management does not anticipate the need to fund pursuant to the Completion Guarantee.

The Newkirk Master Limited Partnership

In 1998, the Company and affiliates of Apollo Real Estate Investment Fund III, L.P. ("Apollo") formed a joint venture (30% owned by the Company and 70% owned by Apollo) ("Newkirk JV") to acquire general and limited partnership interests in a portfolio of 104 partnerships, which own triple net leased properties. Since its formation, Newkirk JV has acquired equity interests in the above partnerships, which own approximately 19.6 million square feet of real estate and acquired certain first and second mortgages ("Contract Rights") secured by a portion of these properties. On January 1, 2002, Newkirk JV completed a merger of 91 of the partnerships as well as the other assets it owned relating to the other 13 partnerships into The Newkirk Master Limited Partnership ("MLP"). The partnerships were merged into MLP to create a vehicle to enable the partners to have greater access to capital and future investment opportunities. In connection with the merger, the Company received limited partner interests in the MLP equal to an approximate 21.1% interest and Apollo received limited partner interests in the MLP equal to an approximate 54.5% interest. At December 31, 2003, the Company has a 22.6% interest in the MLP and Apollo has a 54.1% interest. Newkirk JV is the general partner of the MLP.

Simultaneously with the merger on January 1, 2002, the MLP completed a $225,000,000 secured financing collateralized by its interests in the entities that own the properties, subject to the existing first and certain second mortgages on those properties. The loan bears interest at LIBOR plus 5.5% with a LIBOR floor of 3% (8.5% at December 31, 2003) and matures on January 31, 2005, with two one-year extension options. As a result of the financing, on February 6, 2002 the MLP repaid approximately $28,200,000 of existing joint venture debt and distributed approximately $37,000,000 to the Company.

On November 24, 2003, Newkirk JV and the MLP obtained new financing in the amount of $525,000,000. Of this amount $316,527,000 is secured by the Contract Rights and guaranteed by the MLP and $208,473,000 is secured by the assets of the MLP. The loan bears interest at a rate equal to the lesser of (i) LIBOR plus 4.5% or (ii) Prime plus 2.5%. The loan matures on November 24, 2006 and has two one-year extensions. The proceeds of the loan were used primarily to repay the MLP's outstanding balance of the existing $225,000,000 credit facility and to distribute funds to its partners, of which the Company's share was $74,106,000.

The Company's share of the MLP and the joint venture debt was approximately $266,024,000 at December 31, 2003.

The following table sets forth a summary of the real estate owned by the MLP:

	Number of Properties	Square Feet
Office	34	6,558,000
Retail	170	6,206,000
Other	21	5,225,000
	225	17,989,000

As of December 31, 2003, the occupancy rate of the properties is 99.4%.

The primary lease terms range from 20 to 25 years from their original commencement dates with rents, typically above market, which fully amortize the first mortgage debt on the properties. In addition, tenants generally have multiple renewal options, with rents, on average, below market.

Below is a listing of tenants which accounted for 2% or more of the MLP's revenues in 2003:

Tenant	Square Feet Leased	2003 Revenues	Percentage
Raytheon	2,007,000	$ 40,421,000	13.9%
Albertson's Inc.	2,610,000	29,857,000	10.3%
The Saint Paul Co.	530,000	25,532,000	8.8%
Honeywell	728,000	19,799,000	6.8%
Federal Express	592,000	14,812,000	5.1%
Cummins Engine Company, Inc.	390,000	13,557,000	4.7%
Owens-Illinois	707,000	13,363,000	4.6%
Entergy Gulf States	453,000	11,395,000	3.9%

Stater Bros Markets	1,434,000	9,319,000	3.2%
Safeway Inc.	736,000	8,543,000	2.9%
Hibernia Bank	403,000	8,196,000	2.8%
Nevada Power Company	282,000	7,189,000	2.5%
The Kroger Company	474,000	6,920,000	2.4%

The following table sets forth lease expirations for each of the next 10 years, as of December 31, 2003, assuming that none of the tenants exercise their renewal options.

	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of MLP Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
2004	6	280,000	2.7%	$ 6,873,000	$ 24.53
2005	23	1,003,000	2.6%	6,639,000	6.62
2006	28	2,102,000	9.9%	25,455,000	12.11
2007	32	2,943,000	14.4%	37,266,000	12.66
2008	86	6,730,000	37.0%	95,660,000	14.21
2009	29	2,678,000	27.0%	69,880,000	26.01
2010	1	821,000	1.1%	2,780,000	3.39
2011	2	155,000	0.8%	2,177,000	14.07
2012	9	395,000	1.2%	3,187,000	8.07
2013	1	40,000	0.3%	789,000	19.92

The following table sets forth The Newkirk Master Limited Partnership Properties as of December 31, 2003:

Location	Approximate Leasable Building Square Footage
Office:	
ARKANSAS	
Little Rock	36,000
Pine Bluff	27,000
	63,000
CALIFORNIA	
El Segundo (1)	185,000
El Segundo (1)	185,000
Long Beach	478,000
Walnut Creek (1)	55,000
	903,000
COLORADO	
Colorado Springs	71,000
FLORIDA	
Orlando (1)	184,000
Orlando (1)	357,000
	541,000
INDIANA	
Columbus (1)	390,000
MARYLAND	
Baltimore (1)	530,000
MISSOURI	
Bridgeton (1)	54,000
NEW JERSEY	
Carteret	96,000
Elizabeth (1)	30,000
Morris Township (1)	225,000
Morris Township (1)	50,000
Morris Township (1)	137,000
Morris Township	221,000
Morristown (1)	316,000
Plainsboro (1)	2,000
	1,077,000
NEVADA	
Las Vegas	282,000
OHIO	
Miamisburg (1)	61,000
Miamisburg (1)	86,000
Toledo (1)	707,000
	854,000
PENNSYLVANIA	
Allentown	71,000
TENNESSEE	
Johnson City	64,000
Kingport	43,000
Memphis (1)	75,000
Memphis (1)	521,000
	703,000
TEXAS	

Location	Approximate Leasable Building Square Footage
Retail:	
ALABAMA	
Dothan (1)	54,000
Florence	42,000
Hunstville (1)	60,000
Huntsville (1)	58,000
Montgomery (1)	54,000
Montgomery	66,000
Tuscaloosa (1)	53,000
	387,000
ARIZONA	
Bisbee (1)	30,000
Tucson (1)	37,000
	67,000
CALIFORNIA	
Anaheim (1)	26,000
Barstow	30,000
Beaumont	29,000
Calimesa	29,000
Colton	73,000
Colton	26,000
Corona (1)	33,000
Corona (1)	9,000
Costa Mesa (1)	18,000
Costa Mesa (1)	17,000
Desert Hot Springs (1)	29,000
Downey	39,000
Fontana	26,000
Garden Grove (1)	26,000
Glen Avon Heights (1)	42,000
Huntington Beach	44,000
Indio (1)	10,000
Lancaster	42,000
Livermore (1)	53,000
Lomita (1)	33,000
Mammoth Lakes (1)	44,000
Mojave (1)	34,000
Ontario (1)	24,000
Orange (1)	26,000
Pinole (1)	58,000
Pleasanton	175,000
Rancho Cucamonga	24,000
Rialto	29,000
Rubidoux	39,000
San Bernadino	30,000
San Bernadino	40,000
San Diego (1)	226,000
Santa Ana (1)	26,000
Santa Monica	150,000
Santa Rosa (1)	22,000
Simi Valley (1)	40,000
Sunnymead	30,000
Ventura (1)	40,000
Westminster	26,000
Yucaipa	31,000

Beaumont (1)	426,000		1,748,000
Beaumont (1)	50,000	COLORADO	
Bedford (1)	207,000	Aurora (1)	41,000
Dallas (1)	185,000	Aurora	29,000
Dallas	151,000	Aurora	42,000
	1,019,000	Aurora	24,000
		Littleton	29,000
Total Office	6,558,000	Littleton	39,000
			204,000

Location	Approximate Leasable Building Square Footage
Retail-continued	
FLORIDA	
Bradenton (1)	60,000
Cape Coral	30,000
Casselberry (1)	68,000
Gainsville	41,000
Largo	54,000
Largo	40,000
Largo	30,000
Orlando (1)	58,000
Pinellas Park	60,000
Port Richey (1)	54,000
Stuart (1)	54,000
Tallahassee (1)	54,000
Venice (1)	42,000
	645,000
GEORGIA	
Atlanta (1)	6,000
Atlanta (1)	4,000
Chamblee (1)	5,000
Cumming (1)	14,000
Duluth (1)	9,000
Forest Park (1)	15,000
Jonesboro (1)	5,000
Stone Mountain (1)	6,000
	64,000
IDAHO	
Boise (1)	37,000
Boise (1)	43,000
	80,000
ILLINOIS	
Champaign	31,000
Freeport	30,000
Rock Falls	28,000
	89,000
INDIANA	
Carmel (1)	39,000
Lawrence (1)	29,000
	68,000
KENTUCKY	
Louisville	10,000
Louisville	40,000
	50,000
LOUISIANA	
Baton Rouge	58,000
Minden	35,000
	93,000
MONTANA	
Billings (1)	41,000
Bozeman (1)	21,000
	62,000
NORTH CAROLINA	
Charlotte	34,000
Concord	32,000
Jacksonville	23,000

Location	Approximate Leasable Building Square Footage
Retail-continued	
NEBRASKA	
Omaha	73,000
Omaha	66,000
Omaha	67,000
	206,000
NEW JERSEY	
Garwood (1)	52,000
NEW YORK	
Portchester (1)	59,000
NEW MEXICO	
Albuquerque (1)	35,000
Las Cruces (1)	30,000
	65,000
NEVADA	
Las Vegas	38,000
Las Vegas	60,000
Las Vegas	38,000
Reno	42,000
	178,000
OHIO	
Cincinnati	26,000
Columbus	34,000
Franklin	29,000
	89,000
OKLAHOMA	
Lawton	31,000
OREGON	
Beaverton	42,000
Grants Pass (1)	34,000
Portland	42,000
Salem	52,000
	170,000
PENNSYLVANIA	
Doylestown	4,000
Lansdale	4,000
Lima	4,000
Philadelphia	50,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Philadelphia	4,000
Richboro	4,000
Wayne	4,000
	106,000
SOUTH CAROLINA	
Moncks Corner	23,000

Jefferson (1)	23,000		
Lexington (1)	23,000	TENNESSEE	
Mint Hill	23,000	Chattanooga	42,000
Thomasville(1)	21,000	Paris	31,000
	179,000		73,000

Location	Approximate Leasable Building Square Footage
Retail-continued	
TEXAS	
Carrolton (1)	61,000
Dallas (1)	68,000
Fort Worth (1)	44,000
Garland (1)	40,000
Granbury (1)	35,000
Grand Prairie (1)	49,000
Greenville (1)	48,000
Hillsboro (1)	35,000
Houston (1)	52,000
Lubbock (1)	54,000
Midland	60,000
Rockdale	44,000
Taylor	62,000
Texarkana	46,000
Woodville	44,000
	742,000
UTAH	
Bountiful (1)	50,000
Sandy (1)	42,000
	92,000
VIRGINIA	
Staunton (1)	23,000
WASHINGTON	
Bothell	28,000
Edmonds	35,000
Everett	35,000
Federal Way	42,000
Graham	45,000
Kent	42,000
Milton	45,000
Port Orchard	28,000
Redmond	45,000
Spokane	42,000
Spokane	39,000
Woodinville	30,000
	456,000
WYOMING	
Cheyenne	12,000
Cheyenne	31,000
Douglas	12,000
Evanston	28,000
Evanston	10,000
Torrington	12,000
	105,000
Total Retail	6,206,000

Location	Approximate Leasable Building Square Footage
Other	
ARIZONA	
Flagstaff (1)	10,000
Sun City (1)	10,000
	20,000
CALIFORNIA	
Colton	668,000
El Segundo	959,000
Long Beach (1)	201,000
Palo Alto (1)	123,000
	1,951,000
COLORADO	
Ft. Collins (1)	10,000
FLORIDA	
Orlando (1)	205,000
MAINE	
North Berwick	821,000
NEW MEXICO	
Carlsbad (1)	10,000
PENNSYLVANIA	
New Kingston (1)	430,000
SOUTH CAROLINA	
N. Myrtle Beach (1)	37,000
TENNESSEE	
Franklin (1)	289,000
Memphis (1)	780,000
	1,069,000
TEXAS	
Lewisville	256,000
Corpus Christi (1)	10,000
El Paso (1)	10,000
Euless (1)	10,000
Lewisville (1)	10,000
McAllen (1)	10,000
Victoria (1)	10,000
	316,000
WISCONSIN	
Windsor (1)	356,000
Total Other	5,225,000
GRAND TOTAL	**17,989,000**

(1) leasehold interest.

Hotel Pennsylvania

The Hotel Pennsylvania is located in New York City on Seventh Avenue opposite Madison Square Garden and consists of a hotel portion containing 1,000,000 square feet of hotel space with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space.

The Hotel is dependent on tourism and was severely impacted by the events of September 11, 2001, accelerating a trend that began in the first quarter of 2001. The following table presents rental information for the Hotel:

	Year Ended December 31,				
	2003	2002	2001	2000	1999
Hotel:					
Average occupancy rate	64%	65%	63%	76%	80%
Average daily rate	$ 90.00	$ 89.00	$ 110.00	$ 114.00	$ 105.00
Revenue per available room	$ 58.00	$ 58.00	$ 70.00	$ 87.00	$ 84.00
Commercial:					
Office space:					
Average occupancy rate	40%	53%	61%	63%	55%
Annual rent per square feet	$ 13.00	$ 12.00	$ 21.00	$ 17.00	$ 16.00
Retail space:					
Average occupancy rate	90%	47%	56%	85%	85%
Annual rent per square feet	$ 34.00	$ 40.00	$ 50.00	$ 45.00	$ 44.00

Dry Warehouse/Industrial Properties

The Company's dry warehouse/industrial properties consist of eight buildings in New Jersey containing approximately 2.0 million square feet. The average term of a tenant's lease is three to five years.

The following table sets forth the occupancy rate and average annual rent per square foot at the end of each of the past five years.

As of December 31,	Occupancy Rate	Average Annual Rent Per Square Foot
2003	88%(1)	$ 3.86
2002	95%	3.81
2001	100%	3.67
2000	90%	3.52
1999	92%	3.37

(1) Excludes East Brunswick warehouse currently under development.

In November 2002, the Company entered into an agreement to ground lease its East Brunswick industrial property to Lowe's. The Company will demolish the existing warehouse containing 326,000 square feet and Lowe's will construct its own retail store. This lease is expected to commence in approximately 12 to 18 months.

400 North LaSalle

The 400 North LaSalle venture was formed in July 2001, to develop a 381,000 square foot, high-rise residential tower with an attached parking garage in Chicago Illinois, containing 452 apartments. Under the agreement the Company contributed 92% of the equity and is entitled to receive 85% of the profits. The development of the residential tower and garage was substantially completed and phased into service as of January 2004. As of December 31, 2003, the tower is 22.5% occupied.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in legal actions arising in the ordinary course of its business. In the opinion of management, after consultation with legal counsel, the outcome of such matters, including in respect of the matter referred to below, is not expected to have a material adverse effect on the Company's financial position or results of operation.

Stop & Shop

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey ("USDC-NJ") claiming the Company has no right to reallocate and therefore continue to collect the $5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty, because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the $5,000,000 of additional rent was previously allocated. Stop & Shop asserted that a prior order of the Bankruptcy Court for the Southern District of New York dated February 6, 2001, as modified on appeal to the District Court for the Southern District of New York on February 13, 2001, terminated the Company's right to reallocate. On March 3, 2003, after the Company moved to dismiss for lack of jurisdiction, Stop & Shop voluntarily withdrew its complaint.

On March 26, 2003, Stop & Shop filed a new complaint in New York Supreme Court, asserting substantially the same claims as in its USDC-NJ complaint. On April 9, 2003, the Company moved the New York Supreme Court action to the United States District Court for the Southern District of New York. On June 30, 2003, the District Court ordered that the case be placed in suspension and ordered the parties to proceed in a related case that the Company commenced in the United States Bankruptcy Court for the Southern District of New York. On July 24, 2003, the Bankruptcy Court referred the related case to mediation. The Company believes that the additional rent provision of the guaranty expires at the earliest in 2012 and will vigorously oppose Stop & Shop's complaint.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2003.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list of the names, ages, principal occupations and positions with Vornado of the executive officers of Vornado and the positions held by such officers during the past five years. All executive officers of Vornado have terms of office that run until the next succeeding meeting of the Board of Trustees of Vornado following the Annual Meeting of Shareholders unless they are removed sooner by the Board.

Name	Age	PRINCIPAL OCCUPATION, POSITION AND OFFICE (current and during past five years with Vornado unless otherwise stated)
Steven Roth	62	Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee of the Board; the Managing General Partner of Interstate Properties, an owner of shopping centers and an investor in securities and partnerships; Chief Executive Officer of Alexander’s, Inc. since March 1995 and a Director since 1989; Chairman and CEO of Vornado Operating since 1998.
Michael D. Fascitelli	47	President and a Trustee since December 1996; President of Alexander’s Inc. since August 2000 and Director since December 1996; Director of Vornado Operating since 1998; Partner at Goldman, Sachs & Co. in charge of its real estate practice from December 1992 to December 1996; and Vice President at Goldman, Sachs & Co., prior to December 1992.
Melvyn H. Blum	57	Executive Vice President—Development since January 2000; Senior Managing Director at Tishman Speyer Properties in charge of its development activities in the United States from July 1998 to January 2000; and Managing Director of Development and Acquisitions at Tishman Speyer Properties prior to July 1998.
Michelle Felman	41	Executive Vice President—Acquisitions since September 2000; Independent Consultant to Vornado from October 1997 to September 2000; Managing Director-Global Acquisitions and Business Development of GE Capital from 1991 to July 1997.
David R. Greenbaum	52	President of the New York City Office Division since April 1997 (date of the Company’s acquisition); President of Mendik Realty (the predecessor to the New York City Office Properties Division) from 1990 until April 1997.
Christopher Kennedy	40	President of the Merchandise Mart Division since September 2000; Executive Vice President of the Merchandise Mart Division from April 1998 to September 2000; Executive Vice President of Merchandise Mart Properties, Inc. from 1994 to April 1998.
Joseph Macnow	58	Executive Vice President—Finance and Administration since January 1998 and Chief Financial Officer since March 2001; Executive Vice President — Finance and Administration of Vornado Operating since 1998; Vice President-Chief Financial Officer of the Company from 1985 to January 1998; Executive Vice President and Chief Financial Officer of Alexander’s, Inc. since August 1995.
Sandeep Mathrani	41	Executive Vice President—Retail Real Estate since March 2002; Executive Vice President, Forest City Ratner from 1994 to February 2002.
Mitchell N. Schear	45	President of Charles E. Smith Commercial Realty since April 2003; President of Kaempfer Company from 1998 to April 2003 (date acquired by the Company).
Wendy Silverstein	43	Executive Vice President—Capital Markets since April 1998; Senior Credit Officer of Citicorp Real Estate and Citibank, N.A. from 1986 to 1998.
Robert H. Smith	75	Chairman of Charles E. Smith Commercial Realty since January 2002 (date acquired by the Company); Co-Chief Executive Officer and Co-Chairman of the Board of Charles E. Smith Commercial Realty L.P. (the predecessor to Charles E. Smith Commercial Realty) prior to January 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Vornado's common shares are traded on the New York Stock Exchange under the symbol "VNO".

Quarterly closing price ranges of the common shares and dividends paid per share for the years ended December 31, 2003 and 2002 were as follows:

Quarter	Year Ended December 31, 2003			Year Ended December 31, 2002		
	High	Low	Dividends	High	Low	Dividends
1st	$ 38.35	$ 33.30	$ .68	$ 44.90	$ 41.78	$ .66
2nd	45.15	36.17	.68	47.10	43.02	.66
3rd	48.25	43.37	.68	45.38	37.65	.66
4th	55.84	48.05	.87(1)	39.21	34.41	.68

(1) Comprised of a regular quarterly dividend of $.71 per share and a special capital gain cash dividend of $.16 per share.

On March 1, 2004, there were 1,707 holders of record of the Company's common shares.

Recent Sales of Unregistered Securities

During 2003, 2002, and 2001 the Company issued 737,212, 176,848, and 6,002 common shares, respectively, upon the redemption of Class A units of the Operating Partnership held by persons who received units in private placements in earlier periods in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4(2) of that Act.

Information relating to compensation plans under which equity securities of the Company are authorized for issuance is set forth under Part III, Item 12 of this annual report on Form 10-K and such information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except share and per share amounts)	Year Ended December 31, 2003	2002(2)	2001(2)	2000	1999
Operating Data					
Revenues:					
Rentals	$ 1,261,042	$ 1,209,755	$ 813,089	$ 666,248	$ 565,462
Expense reimbursements	179,214	154,766	129,013	116,422	94,353
Other income	62,799	27,718	10,059	9,753	7,707
Total Revenues	1,503,055	1,392,239	952,161	792,423	667,522
Expenses:					
Operating	583,660	519,345	385,449	305,141	269,892
Depreciation and amortization	215,032	198,601	120,614	96,116	80,340
General and administrative	122,405	100,050	71,716	47,093	39,359
Amortization of officer's deferred compensation expense	—	27,500	—	—	—
Costs of acquisitions and development not consummated	—	6,874	5,223	—	—
Total Expenses	921,097	852,370	583,002	448,350	389,591
Operating Income	581,958	539,869	369,159	344,073	277,931
Income applicable to Alexander's	15,574	29,653	25,718	17,363	11,772
Income from partially-owned entities	67,901	44,458	80,612	86,654	78,560
Interest and other investment income	25,402	31,685	54,385	32,809	18,110
Interest and debt expense	(229,662)	(234,113)	(167,430)	(164,325)	(137,086)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	2,343	(17,471)	(8,070)	—	—
Minority interest:					
Perpetual preferred unit distributions	(72,716)	(72,500)	(70,705)	(62,089)	(19,254)
Minority limited partnership earnings	(105,132)	(64,899)	(39,138)	(38,320)	(33,904)
Partially-owned entities	(827)	(3,534)	(2,520)	(1,965)	(1,840)
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	284,841	253,148	242,011	214,200	194,289
Discontinued operations	14,073	9,884	10,342	8,826	8,230
Gains on sale of real estate (discontinued operations in 2003)	161,789	—	15,495	10,965	—
Cumulative effect of change in accounting principle	—	(30,129)	(4,110)	—	—
Net income	460,703	232,903	263,738	233,991	202,519
Preferred share dividends	(20,815)	(23,167)	(36,505)	(38,690)	(33,438)
Net income applicable to common shares	$ 439,888	$ 209,736	$ 227,233	$ 195,301	$ 169,081
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle per share - basic	$ 2.35	$ 2.17	$ 2.31	$ 2.03	$ 1.88
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle per share - diluted	$ 2.29	$ 2.09	$ 2.23	$ 1.98	$ 1.85
Income per share—basic	$ 3.92	$ 1.98	$ 2.55	$ 2.26	$ 1.97
Income per share—diluted	$ 3.80	$ 1.91	$ 2.47	$ 2.20	$ 1.94
Cash dividends declared for common shares	$ 2.91	$ 2.66	$ 2.63	$ 1.97	$ 1.80
Balance Sheet Data					
Total assets	$ 9,518,928	$ 9,018,179	$ 6,777,343	$ 6,403,210	$ 5,479,218

Real estate, at cost	7,748,452	7,282,651	4,426,560	4,220,307	3,790,857
Accumulated depreciation	869,849	702,686	485,447	375,730	293,497
Debt	4,184,385	4,071,320	2,477,173	2,688,308	2,048,804
Shareholders' equity	3,077,573	2,627,356	2,570,372	2,078,720	2,055,368

(in thousands)	Year Ended December 31, 2003	2002(2)	2001(2)	2000	1999
Other Data					
Funds From Operations (“FFO”) (1):					
Net income applicable to common shares	$ 439,888	$ 209,736	$ 227,233	$ 195,301	$ 169,081
Cumulative effect of change in accounting principle	—	30,129	4,110	—	—
Depreciation and amortization of real property	208,624	195,808	119,568	97,744	82,216
Net gain on sale of real estate	(161,789)	—	(12,445)	(10,965)	—
Net gain from insurance settlement and condemnation proceedings	—	—	(3,050)	—	—
Proportionate share of adjustments to equity in income of partially-owned entities to arrive at funds from operations:					
Depreciation and amortization of real property	54,762	51,881	65,588	68,743	57,127
Net gains on sale of real estate	(6,733)	(3,431)	(6,298)	—	—
Minority interest’s share of above adjustments	(20,080)	(50,498)	(19,679)	(19,159)	(10,702)
Dilutive effect of Series A Preferred Share dividends	3,570	6,150	19,505	21,689	16,268
FFO applicable to common shares (1)	$ 518,242	$ 439,775	$ 394,532	$ 353,353	$ 313,990

(1) Funds From Operations (“FFO”) does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States of America and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. FFO should not be considered as an alternative to net income as an indicator of the Company’s operating performance or as an alternative to cash flows as a measure of liquidity. Management considers FFO a relevant supplemental measure of operating performance because it provides a basis for comparison among REITs. FFO is computed in accordance with NAREIT’s definition, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with NAREIT’s definition.

(2) Operating results for the year ended December 31, 2002, reflect the Company’s January 1, 2002 acquisition of the remaining 66% of Charles E. Smith Commercial Realty L.P. (“CESCR”) and the resulting consolidation of CESCR’s operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Overview

The Company owns and operates office, retail and showroom properties with large concentrations of office and retail properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. In addition, the Company has a 60% interest in a partnership that owns cold storage warehouses nationwide.

The Company's business objective is to maximize shareholder value. The Company's measures its success in meeting this objective by the total return to its shareholders. Below is a table comparing the Company's performance to the Morgan Stanley REIT Index ("RMS") for the following periods ending December 31, 2003:

	Total Return	
	Vornado	RMS
One-year	57.7%	36.7%
Three-years	74.8%	59.9%
Five-years	119.6%	93.6%
Ten-years	481.1%	181.7%(1)

(1) From inception on July 25, 1995

The Company intends to continue to achieve its business objective by pursuing its investment philosophy and executing its operating strategies through:

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit.
- Investing in properties in select markets, such as New York City and Washington, D.C., where we believe there is high likelihood of capital appreciation.
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents.
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area.
- Developing/redeveloping the Company's existing properties to increase returns and maximize value.

The Company competes with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location and quality and breadth of services provided. The Company's success depends upon, among other factors, trends of the national and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends. The current economic recovery is fostered, in part, by low interest rates, Federal tax cuts, and increases in government spending. To the extent this recovery stalls, the Company may experience lower occupancy rates which may lead to lower initial rental rates, higher leasing costs and a corresponding decrease in net income, funds from operations and cash flow. Alternatively, if the recovery continues, the Company may experience higher occupancy rates leading to higher initial rents and higher interest rates causing an increase in the Company's weighted average cost of capital and a corresponding effect on net income, funds from operations and cash flow.

Overview – Leasing Activity

The following table summarizes, by business segment, the leasing statistics which the Company views as key performance indicators.

(Square feet and cubic feet in thousands)	Office		Retail	Merchandise Mart		Temperature Controlled Logistics
	New York City	CESCR		Office	Showroom	
As of December 31, 2003:						
Square feet/cubic feet	13,253	13,963	12,888	2,808	5,624	17,476/440,700
Number of properties	20	63	60	9	9	87
Occupancy rate	95.2%	93.9%	93.0%	92.6%	95.1%	76.2%
Leasing Activity:						
Year Ended December 31, 2003:						
Square feet	925	2,848	1,046	270	1,157	—
Initial rent (1)	$ 44.60	$ 30.26	$ 15.56	$ 21.24	$ 23.43	—
Weighted average lease terms (years)	9.1	4.8	12.8	9.8	5.2	
Increase (decrease) in occupancy from December 31, 2002	(0.6)%	0.3%	4.7%	0.9%	(0.1)%	(2.3)%
Rent per square foot on relet space:						
Square feet	677	2,510	1,046	270	1,157	—
Initial Rent (1)	$ 44.41	$ 30.62	$ 15.56	$ 21.24	$ 23.43	—
Prior escalated rent	$ 38.51	$ 29.86	$ 13.75	$ 22.44	$ 23.28	—
Percentage increase	15.3%	2.5%	13.2%	(5.3)%	0.6%	—
Rent per square foot on space previously vacant:						
Square feet	248	338	—	—	—	—
Initial rent (1)	$ 45.09	$ 27.58	—	—	—	—
Tenant improvements per square foot	$ 26.41	$ 10.89	$ 3.71	$ 29.74	$ 7.58	—
Leasing commissions per square foot	$ 11.59	$ 2.65	$ 0.75	$ 10.61	$ 0.24	—
Quarter ended December 31, 2003:						—
Square feet	305	490	168	89	234	—
Initial rent (1)	$ 42.12	$ 29.28	$ 15.87	$ 19.04	$ 25.95	—
Weighted average lease terms (years)	8.4	4.8	8.4	9.1	4.9	—
Increase (decrease) in occupancy from September 30, 2003	(0.6)%	0.6%	2.0%	—	0.4%	(0.5)%
Rent per square foot on relet space:						
Square feet	264	388	168	89	234	—
Initial rent (1)	$ 42.02	$ 29.99	$ 15.87	$ 19.04	$ 25.95	—
Prior escalated rent	$ 36.50	$ 29.31	$ 14.07	$ 24.59	$ 26.25	—
Percentage						

increase (decrease)	15.1%	2.3%	12.8%	(22.6)%	(1.1)%	—
Rent per square foot on space previously vacant:						
Square feet	41	102	—	—	—	—
Initial rent (1)	$ 42.69	$ 26.58	—	—	—	—
Tenant improvements per square foot	$ 20.18	$ 12.98	$ 0.68	$ 14.13	$ 6.62	—
Leasing commissions per square foot	$ 8.13	$ 3.32	$ 0.45	$ 8.62	$ 0.41	—

In addition to the leasing activity in the table above, in the year ended December 31, 2003, 66,000 square feet of retail space included in the New York City Office segment was leased at an initial rent of $220.97 per square foot and in the three months ended December 31, 2003, 21,000 square feet of retail space was leased at an initial rent of $278.27.

Overview – Leasing Activity

(Square feet and cubic feet in thousands)	Office: New York City	Office: CESCR	Retail	Merchandise Mart: Office	Merchandise Mart: Showroom	Temperature Controlled Logistics
As of December 31, 2002:						
Square feet/cubic feet	13,957	13,395	12,528	2,838	5,528	17,509/441,500
Number of properties	21	53	62	9	9	88
Occupancy rate	95.8%	93.6%	88.3%	91.7%	95.2%	78.5%
Leasing Activity:						
Year Ended December 31, 2002:						
Square feet	579	2,342	1,960	164	911	—
Initial rent (1)	$ 44.82	$ 31.01	$ 9.73	$ 26.97	$ 18.99	—
Rent per square foot on relet space:						
Square feet	457	2,025	1,339	164	911	—
Initial Rent (1)	$ 44.34	$ 31.29	$ 12.17	$ 26.97	$ 18.99	—
Prior escalated rent	$ 34.11	$ 29.66	$ 9.19	$ 26.66	$ 18.63	—
Percentage increase	30.0%	5.5%	32.4%	1.2%	2.0%	—
Rent per square foot on space previously vacant:						
Square feet	122	317	621	—	—	—
Initial rent (1)	$ 46.80	$ 29.21	$ 4.48	—	—	—
Tenant improvements per square foot	$ 12.18	$ 14.23	$ 1.18	$ 5.03	$ 1.38	—
Leasing commissions per square foot	$ 7.48	$ 3.39	$ 0.18	$ 4.04	—	—

(1) Most leases include periodic step-ups in rent, which are not reflected in the initial rent per square foot leased.

Critical Accounting Policies

In preparing the consolidated financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Company's accounting policies included in Note 2 to the consolidated financial statements in this annual report on Form 10-K.

Real Estate

Real estate is carried at cost, net of accumulated depreciation and amortization. As of December 31, 2003, the Company's carrying amount of its real estate, net of accumulated depreciation is $6.9 billion. Maintenance and repairs are charged to operations as incurred. Depreciation requires an estimate by management of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. If the Company does not allocate these costs appropriately or incorrectly estimates the useful lives of its real estate, depreciation expense may be misstated.

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings, tenant improvements and beginning in 2002, identified intangibles such as acquired above and below market leases and the value of acquired in-place leases in accordance with Statements of Financial Accounting Standards ("SFAS") No. 141 and 142) and acquired liabilities, and allocates purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. The Company's properties are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If the Company incorrectly estimates the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different. The impact of the Company's estimates in connection with acquisitions and future impairment analysis could be material to the Company's consolidated financial statements.

Identified Intangible Assets and Goodwill

Upon an acquisition of a business the Company records intangible assets acquired at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible assets that are determined to have finite lives which are based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss for an asset group is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, unless the fair value of specific components of the reporting group are determinable without undue cost and effort.

As of December 31, 2003 and 2002, the carrying amounts of the Company's identified intangible assets are $106,281,000 and $50,487,000 and the carrying amount of goodwill is $4,345,000 (arising from the 2003 acquisition of Building Maintenance Services) and $0, respectively. Such amounts are included in other assets on the Company's consolidated balance sheet. In addition, the Company has $47,266,000 and $48,430,000, of deferred credits as of December 31, 2003 and 2002, which are included as liabilities on the Company's consolidated balance sheet. If the Company incorrectly estimates the fair value of these assets at acquisition or in connection with impairment testing, or incorrectly estimates the useful lives of finite-life intangible assets, the impact to the Company's consolidated financial statements could be material.

Notes and Mortgage Loans Receivable

The Company's policy is to record mortgages and notes receivable at the stated principal amount net of any discount or premiums. As of December 31, 2003, the carrying amount of Notes and Mortgage Loans receivable was $285,965,000. The Company accretes or amortizes any discounts or premiums over the life of the related loan receivable utilizing the effective interest method. The Company evaluates the collectibility of both interest and principal of each of its loans, if circumstances warrant, to determine whether it is impaired. A loan is considered to be impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis.

Partially-Owned Entities

As of December 31, 2003, the carrying amount of investments and advances to partially-owned entities, including Alexander's, was $900,600,000. The Company considers APB 18 – The Equity Method of Accounting for Investments in Common Stock, SOP 78-9 – Accounting for Investments in Real Estate Ventures, EITF 96-16 – Investors Accounting for an Investee When the Investor has the Majority of the Voting Interest but the Minority Partners have Certain Approval or Veto Rights, to determine the method of accounting for each of its partially-owned entities. In determining whether the Company has a controlling interest in a partially-owned entity and the requirement to consolidate the accounts of that entity, it considers factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members. The Company has concluded that it does not control a partially-owned entity, despite an ownership interest of 50% or greater, if the approval of all of the partners/members is contractually required with respect to major decisions, such as operating and capital budgets, the sale, exchange or other disposition of real property, the hiring of a chief executive officer, the commencement, compromise or settlement of any lawsuit, legal proceeding or arbitration or the placement of new or additional financing secured by assets of the venture. This is the case with respect to the Company's 60% interest in Temperature Controlled Logistics, 80% interest in Starwood Ceruzzi Venture, and 50% interests in Monmouth Mall, MartParc Wells, MartParc Orleans, and 825 Seventh Avenue.

If the Company is able to unilaterally make decisions for a partially-owned entity, the Company has concluded that it controls the entity and therefore consolidates the entity. The Company accounts for investments on the equity method when its ownership interest is greater than 20% and less than 50%, and the Company does not have direct or indirect control. When partially-owned entities are in partnership form, the 20% threshold may be reduced. Equity method investments are initially recorded at cost and subsequently adjusted for the Company's share of net income or loss and cash contributions and distributions to and from these entities. All other investments are accounted for on the cost method.

On a periodic basis the Company evaluates whether there are any indicators that the value of the Company's investments in partially-owned entities are impaired. The ultimate realization of the Company's investment in partially-owned entities is dependent on a number of factors including the performance of the investee and market conditions. If the Company determines that a decline in the value of the investee is other than temporary, an impairment charge would be recorded.

Allowance For Doubtful Accounts

The Company periodically evaluates the collectibility of amounts due from tenants and maintains an allowance for doubtful accounts ($15,246,000 as at December 31, 2003) for estimated losses resulting from the inability of tenants to make required payments under the lease agreement. The Company also maintains an allowance for receivables arising from the straight-lining of rents ($2,830,000 as at December 31, 2003). This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. If estimates differ from actual results, this would impact reported results.

Revenue Recognition

The Company has the following revenue sources and revenue recognition policies:

- Base Rents — income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases.
- Percentage Rents — income arising from retail tenant leases which are contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with SAB 104, which states that this income is to be recognized only after the contingency has been removed (i.e. sales thresholds have been achieved).
- Hotel Revenues — income arising from the operation of the Hotel Pennsylvania which consists of rooms revenue, food and beverage revenue, and banquet revenue. Income is recognized when rooms are occupied. Food and beverage and banquet revenue are recognized when the services have been rendered.
- Trade Show Revenues — income arising from the operation of trade shows, including rentals of booths. This revenue is recognized in accordance with the booth rental contracts when the trade shows have occurred.
- Expense Reimbursements — revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Before the Company recognizes revenue, it assesses among other things, its collectibility. If the Company incorrectly determines the collectibility of its revenue, its net income and assets could be misstated.

IncomeTaxes

The Company operates in a manner intended to enable it to continue to qualify as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company intends to distribute to its shareholders 100% of its taxable income. Therefore, no provision for Federal income taxes is required. If the Company fails to distribute the required amount of income to its shareholders, it would fail to qualify as a REIT and substantial adverse tax consequences may result.

Net income and EBITDA for the years ended December 31, 2003, 2002 and 2001.

Below is a summary of Net income and EBITDA(1) by segment for the years ended December 31, 2003, 2002 and 2001. On January 1, 2003, the Company revised its definition of EBITDA to comply with the Securities and Exchange Commission's Regulation G concerning non-GAAP financial measures. The revised definition of EBITDA includes minority interest, gains (losses) on the sale of depreciable real estate and income arising from the straight-lining of rent and the amortization of acquired in-place leases. Accordingly, EBITDA for all periods disclosed represents "Earnings before Interest, Taxes, Depreciation and Amortization." Management considers EBITDA a supplemental measure for making decisions and assessing the unlevered performance of its segments as it is related to the return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, management utilizes this measure to make investment decisions as well as to compare the performance of its assets to that of its peers. EBITDA is not a surrogate for net income because net income is after interest expense and accordingly, is a measure of return on equity as opposed to return on assets.

	December 31, 2003					
(Amounts in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other(3)
Property rentals	$ 1,210,048	$ 823,302	$ 136,490	$ 197,554	$ —	$ 52,702
Straight-line rents:						
Contractual rent increases	34,023	27,031	3,108	3,875	—	9
Amortization of free rent	7,924	292	5,390	2,251	—	(9)
Amortization of acquired below market leases, net	9,047	8,007	1,040	—	—	—
Total rentals	1,261,042	858,632	146,028	203,680	—	52,702
Expense reimbursements	179,214	102,826	56,900	16,402	—	3,086
Fee and other income:						
Tenant cleaning fees	29,062	29,062	—	—	—	—
Management and leasing fees	12,812	11,427	1,290	—	—	95
Other	20,925	8,852	4,694	7,344	—	35
Total revenues	1,503,055	1,010,799	208,912	227,426	—	55,918
Operating expenses	583,660	377,500	70,462	91,033	—	44,665
Depreciation and amortization	215,032	151,994	18,835	30,125	—	14,078
General and administrative	122,405	37,251	9,783	20,215	—	55,156
Total expenses	921,097	566,745	99,080	141,373	—	113,899
Operating income	581,958	444,054	109,832	86,053	—	(57,981)
Income applicable to Alexander's	15,574	—	—	—	—	15,574
Income from partially-owned entities	67,901	2,426	3,752	(108)	18,416	43,415
Interest and other investment income	25,402	2,960	359	93	—	21,990
Interest and debt expense	(229,662)	(134,715)	(59,674)	(14,788)	—	(20,485)
Net gain on disposition of wholly-owned and partially-owned assets other than real estate	2,343	180	—	188	—	1,975
Minority interest	(178,675)	(1,119)	—	—	—	(177,556)
Income before discontinued operations and gains on sale of real estate	284,841	313,786	54,269	71,438	18,416	(173,068)
Discontinued operations	14,073	15,536	261	—	—	(1,724)
Gains on sale of real estate (discontinued operations)	161,789	157,200	4,589	—	—	—
Net income	460,703	486,522	59,119	71,438	18,416	(174,792)
Interest and debt expense(2)	296,059	138,379	62,718	15,700	24,670	54,592
Depreciation and amortization(2)	279,507	155,743	21,642	30,749	34,879	36,494
Income taxes	1,627	45	—	—	—	1,582
EBITDA(1)	$ 1,037,896	$ 780,689	$ 143,479	$ 117,887	$ 77,965	$ (82,124)

Included in EBITDA are gains on sale of real estate of $161,789, of which $157,200 and $4,589 relate to the Office and Retail segments, respectively.

See Notes on page 75.

(Amounts in thousands)	December 31, 2002 Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other(3)
Property rentals	$ 1,159,002	$ 793,990	$ 120,451	$ 191,197	$ —	$ 53,364
Straight-line rents:						
Contractual rent increases	31,323	27,598	1,777	1,772	—	176
Amortization of free rent	6,796	2,374	3,317	1,105	—	—
Amortization of acquired below market leases, net	12,634	12,469	165	—	—	—
Total rentals	1,209,755	836,431	125,710	194,074	—	53,540
Expense reimbursements	154,766	85,420	51,008	14,754	—	3,584
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	14,800	13,317	1,450	33	—	—
Other	12,918	7,783	172	4,743	—	220
Total revenues	1,392,239	942,951	178,340	213,604	—	57,344
Operating expenses	519,345	330,585	61,500	86,022	—	41,238
Depreciation and amortization	198,601	143,021	14,957	26,716	—	13,907
General and administrative	100,050	33,334	7,640	20,382	—	38,694
Costs of acquisitions and development not consummated	6,874	—	—	—	—	6,874
Amortization of officer's deferred compensation expense	27,500	—	—	—	—	27,500
Total expenses	852,370	506,940	84,097	133,120	—	128,213
Operating income	539,869	436,011	94,243	80,484	—	(70,869)
Income applicable to Alexander's	29,653	—	—	—	—	29,653
Income from partially-owned entities	44,458	1,966	(687)	(339)	9,707	33,811
Interest and other investment income	31,685	6,472	323	507	—	24,383
Interest and debt expense	(234,113)	(138,731)	(56,643)	(22,948)	—	(15,791)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	(17,471)	—	—	2,156	—	(19,627)
Minority interest	(140,933)	(3,526)	—	(2,249)	—	(135,158)
Income before discontinued operations and cumulative effect of change in accounting principle	253,148	302,192	37,236	57,611	9,707	(153,598)
Discontinued operations	9,884	15,910	723	—	—	(6,749)
Cumulative effect of change in accounting principle	(30,129)	—	—	—	(15,490)	(14,639)
Net income	232,903	318,102	37,959	57,611	(5,783)	(174,986)
Cumulative effect of change in accounting principle	30,129	—	—	—	15,490	14,639
Interest and debt expense(2)	305,920	143,068	58,409	23,461	25,617	55,365
Depreciation and amortization(2)	257,707	149,361	17,532	27,006	34,474	29,334
EBITDA(1)	$ 826,659	$ 610,531	$ 113,900	$ 108,078	$ 69,798	$ (75,648)

See Notes on page 75.

(Amounts in thousands)	December 31, 2001 Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other(3)
Property rentals	$ 769,780	$ 399,459	$ 116,710	$ 191,909	$ —	$ 61,702
Straight-line rents:						
Contractual rent increases	28,964	24,012	(45)	4,997	—	—
Amortization of free rent	14,345	11,396	2,187	762	—	—
Amortization of acquired below market leases, net	—	—	—	—	—	—
Total rentals	813,089	434,867	118,852	197,668	—	61,702
Expense reimbursements	129,013	64,097	48,708	13,801	—	2,407
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	1,472	1,404	—	68	—	—
Other	8,587	1,848	1,076	3,256	—	2,407
Total revenues	952,161	502,216	168,636	214,793	—	66,516
Operating expenses	385,449	205,408	55,200	83,107	—	41,734
Depreciation and amortization	120,614	68,726	14,218	25,397	—	12,273
General and administrative	71,716	11,569	3,572	18,081	—	38,494
Costs of acquisitions not consummated	5,223	—	—	—	—	5,223
Total expenses	583,002	285,703	72,990	126,585	—	97,724
Operating income	369,159	216,513	95,646	88,208	—	(31,208)
Income applicable to Alexander’s	25,718	—	—	—	—	25,718
Income from partially-owned entities	80,612	32,746	1,914	149	17,447	28,356
Interest and other investment income	54,385	6,866	608	2,045	—	44,866
Interest and debt expense	(167,430)	(49,021)	(55,358)	(33,354)	—	(29,697)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	(8,070)	—	—	160	—	(8,230)
Minority interest	(112,363)	(2,466)	—	—	—	(109,897)
Income before gains on sales of real estate, discontinued operations and cumulative effect of change in accounting principle	242,011	204,638	42,810	57,208	17,447	(80,092)
Gains on sale of real estate	15,495	12,445	3,050	—	—	—
Discontinued operations	10,342	9,265	1,077	—	—	—
Cumulative effect of change in accounting principle	(4,110)	—	—	—	—	(4,110)
Net income	263,738	226,348	46,937	57,208	17,447	(84,202)
Cumulative effect of change in accounting principle	4,110	—	—	—	—	4,110
Interest and debt expense(2)	266,784	92,410	57,915	33,354	26,459	56,646
Depreciation and amortization(2)	188,859	91,085	18,957	25,397	33,815	19,605
EBITDA(1)	$ 723,491	$ 409,843	$ 123,809	$ 115,959	$ 77,721	$ (3,841)

Included in EBITDA are gains on sale of real estate of $15,495, of which and $12,445 and $3,050 relate to the Office and Retail segments, respectively.

See Notes on page 75.

Notes to the preceding tabular information:

(1) EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
(2) Interest and debt expense and depreciation and amortization included in the reconciliation of net income to EBITDA include amounts which are netted in income from partially-owned entities in order to present the income from partially-owned entities on an EBITDA basis.
(3) Other EBITDA is comprised of:

(Amounts in thousands)	For the Year Ended December 31, 2003	2002	2001
Newkirk Master Limited Partnership:			
Equity in income	$ 68,341(A)	$ 60,756	$ 54,695
Interest and other income	8,532	8,795	8,700
Alexander's (B)	23,001	39,436	19,362
Industrial warehouses	6,208	6,223	6,639
Palisades (placed in service on March 1, 2002)	5,006	161	—
Hotel Pennsylvania	4,573	7,636	16,978
Student Housing	2,000	2,340	2,428
400 North LaSalle (phased into service beginning October 2003)	(680)	—	—
	116,981	125,347	108,802
Minority interest expense	(177,556)	(135,158)	(109,897)
Corporate general and administrative expenses	(51,461)	(34,743)	(33,515)
Investment income and other	28,350	22,907	44,222
Net gain on sale of marketable securities	2,950	12,346	—
Primestone loss on settlement of guarantees (2003) and foreclosure and impairment losses (2002)	(1,388)	(35,757)	—
Amortization of Officer's deferred compensation expense	—	(27,500)	—
Write-off of 20 Times Square pre-development costs (2002) and World Trade Center acquisition costs (2001)	—	(6,874)	(5,223)
Gain on transfer of mortgages	—	2,096	—
Net gain on sale of air rights.	—	1,688	—
After-tax net gain on sale of Park Laurel condominium units	—	—	15,657
Write-off of net investment in Russian Tea Room	—	—	(7,374)
Write-off of investments in technology companies	—	—	(16,513)
	$ (82,124)	$ (75,648)	$ (3,841)

(A) Includes net gains of $9,200 on sales of real estate and $1,600 on the early extinguishment of debt, partially offset by a charge of $1,210 for an impairment loss and a litigation settlement.
(B) EBITDA for the year ended December 31, 2003, reflects the Company's share of Alexander's stock appreciation rights compensation expense of $14,868 and the Company's $1,589 share of EBITDA resulting from the commencement of Alexander's lease with Bloomberg (87% of the space) on November 15, 2003 at Alexander's 731 Lexington Avenue property. EBITDA for the year ended December 31, 2002 and 2001 includes $3,524 and $6,298, respectively representing the Company's share of Alexander's gain on the sale of its Third Avenue and Fordham Road properties.

The following table sets forth the percentage of the Company's EBITDA by segment for the years ended December 31, 2003, 2002 and 2001. EBITDA for the year ended December 31, 2003, includes gains on sale of real estate of $161,789,000, of which $157,200,000 and $4,589,000 relate to the New York Office and Retail segments, respectively. The pro forma column gives effect to the January 1, 2002 acquisition by the Company of the remaining 66% interest in CESCR described previously as if it had occurred on January 1, 2001.

	Percentage of EBITDA Year Ended December 31,			
	2003	2002	2001 (Pro forma)	2001
Office:				
New York City	47%	39%	36%	44%
CESCR	28%	35%	28%	13%
Total	75%	74%	64%	57%

Retail	14%	14%	14%	17%
Merchandise Mart Properties	11%	13%	13%	16%
Temperature Controlled Logistics	8%	8%	9%	11%
Other	(8)%	(9)%	0%	(1)%
	100%	100%	100%	100%

Results Of Operations

Years Ended December 31, 2003 and December 31, 2002

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below market leases net of above market leases pursuant to SFAS No. 141 and 142, and fee income, were $1,503,055,000 for the year ended December 31, 2003, compared to $1,392,239,000 in the prior year, an increase of $110,816,000. Below are the details of the increase by segment:

(Amounts in thousands)	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Other
Rentals:						
Acquisitions:						
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	September 2002	$ 8,546	$ —	$ 8,546	$ —	$ —
Crystal Gateway One	July 2002	5,851	5,851	—	—	—
435 Seventh Avenue (placed in service)	August 2002	4,528	—	4,528	—	—
2101 L Street	August 2003	4,958	4,958	—	—	—
Bergen Mall	December 2003	602	—	602	—	—
424 Sixth Avenue	July 2002	557	—	557	—	—
(Decrease) increase in amortization of acquired below market leases, net		(3,587)	(4,462)	875	—	—
Operations:						
Hotel activity		73(1)	—	—	—	73(1)
Trade Shows activity		3,807(2)	—	—	3,807(2)	—
Leasing activity		25,952	15,854(3)	5,210(4)	5,799(5)	(911)
Total increase (decrease) in rentals		51,287	22,201	20,318	9,606	(838)
Tenant expense reimbursements:						
Acquisitions		4,290	238	4,052	—	—
Operations		20,158	17,168(6)	1,840	1,648	(498)
Total increase (decrease) in tenant expense reimbursements		24,448	17,406	5,892	1,648	(498)
Fee and other income						
Acquisitions:						
BMS Tenant cleaning fees		28,968	28,968	—	—	—
Kaempfer management and leasing fees		2,441	2,441	—	—	—
increase (decrease) in:						
Lease cancellation fee income		4,429	514	2,056	1,859	—
Management and leasing fees		(3,844)	(3,667)(7)	(160)	(17)	—
Other		3,087	(15)	2,466	726	(90)
Total increase (decrease) in fee and other income		35,081	28,241	4,362	2,568	(90)
Total increase (decrease) in revenues		$ 110,816	$ 67,848	$ 30,572	$ 13,822	$ (1,426)

See notes on following page.

See Leasing Activity on page 67 for further details and corresponding changes in occupancy.

Notes to preceding tabular information:

(1) Average occupancy and REVPAR for the Hotel Pennsylvania were 64% and $58 for the year ended December 31, 2003 compared to 65% and $58 for the prior year.

(2) Reflects an increase of $2,841 resulting from the rescheduling of two trade shows from the fourth quarter of 2002, in which they were previously held to the first quarter of 2003, and $1,400 relates to a new show held for the first time in 2003, partially offset by lower trade show revenue in 2003 primarily due to a smaller April Market show as a result of a conversion of trade show space to permanent space.

(3) Reflects increases of $12,953 from New York City Office leasing activity and $2,901 from CESCR's leasing activity. These increases resulted primarily from higher rents for space relet in 2003 and 2002 (full year impact in 2003 as compared to a partial year in 2002) and an increase in CESCR occupancy of .3% this year, partially offset by a decrease in NYC office occupancy of .6%. Initial rent for the 677 square feet of space relet in New York City was $44.41 per square foot in 2003, a 15.3% increase over prior escalated rent. Initial rent for the 2,510 square feet of space relet in CESCR portfolio was $30.62 per square foot a 2.5% increase over prior escalated rents. For further details of NYC and CESCR office leasing activity see page 67.

(4) Resulted primarily from (i) an increase in the occupancy rate from 88.3% at December 31, 2002 to 93.0% at December 31, 2003 as a result of leasing space previously vacated by Bradlees and Kmart and (ii) higher rents for space relet in 2003 and 2002 (full year impact in 2003 as compared to a partial year in 2002). Initial rent for the 1,046 square feet of space relet in 2003 was $15.56 per square foot, a 13.2% increase over prior rent. For further details of Retail leasing activity see page 67.

(5) Reflects an increase in occupancy of Merchandise Mart office space of 0.9% from 2002, higher rents for 1,157 square feet of showroom space relet in 2003 and 911 square feet relet in 2002 (full year impact in 2003 as compared to partial year impact in 2002), partially offset by a decrease in Merchandise Mart showroom occupancy of .1% from 2002 and lower rents for 270 square feet of office space relet in 2003. Initial rents for the 1,157 square feet of showroom space relet in 2003 was $23.43, a 0.6% increase over prior escalated rent. Initial rents for the 270 square feet of office space relet in 2003 was $21.24, a 5.3% decrease over prior escalated rent. For further details of Merchandise Mart leasing activity see page 67.

(6) Reflects higher reimbursements from tenants resulting primarily from increases in real estate taxes. The increases in Office and Retail were $19,383 and $3,247, before reductions of $2,215 and $1,407 in the current quarter relating to the true-up of prior year's billings.

(7) Results primarily from a $3,444 decrease in CESCR third party leasing revenue from $7,100 in 2002 to $3,656 in 2003 as a result of the closing of one of the CESCR leasing offices.

Expenses

The Company’s expenses were $921,097,000 for the year ended December 31, 2003, compared to $852,370,000 in the prior year, an increase of $68,727,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions:					
BMS	$ 19,789	$ 19,789	$ —	$ —	$ —
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	3,007	—	3,007	—	—
Crystal Gateway One	1,742	1,742	—	—	—
Bergen Mall	399	—	399	—	—
2101 L Street	1,531	1,531	—	—	—
435 Seventh Avenue	503	—	503	—	—
424 Sixth Avenue	98	—	98	—	—
Hotel activity	2,769	—	—	—	2,769(1)
Trade Shows activity	1,487	—	—	1,487(2)	—
Operations	32,990(3)	23,853(3)	4,955(3)	3,524(3)	658(3)
	64,315	46,915	8,962	5,011	3,427
Depreciation and amortization:					
Acquisitions	5,966	4,026	1,940	—	—
Operations	10,465	4,947(4)	1,938	3,409(4)	171
	16,431	8,973	3,878	3,409	171
General and administrative:					
Acquisitions	4,915	4,274	641	—	—
Operations	17,440(5)	(357)	1,502	(167)	16,462
	22,355	3,917	2,143	(167)	16,462
Costs of acquisitions and development not consummated	(6,874)	—	—	—	(6,874)
Amortization of officer’s deferred compensation expense	(27,500)	—	—	—	(27,500)
Total increase (decrease) in expenses	$ 68,727	$ 59,805	$ 14,983	$ 8,253	$ (14,314)

See notes on following page.

Notes to preceding tabular information:

(1) The increase in Hotel Pennsylvania's operating expenses was primarily due to a $1,700 increase in real estate taxes and a $500 increase in utility costs over the prior year.

(2) Results primarily from the rescheduling of two trade shows from the fourth quarter of 2002, in which they were previously held to the first quarter of 2003, and due to a new trade show held for the first time in 2003.

(3) Below are the details of the increases (decreases) in operating expenses by segment:

	Total	Office	Retail	Merchandise Mart	Other
Real estate taxes	$ 26,935	$ 20,904(a)	$ 1,245	$ 4,724	$ 62
Utilities	(946)	(906)	364	(483)	79
Maintenance	5,286	2,997	2,302	(33)	20
Ground rent	950	1,005	(55)	—	—
Bad debt expense	(29)	(1,541)	1,238	274	—
Other	794	1,394	(139)	(958)	497
	$ 32,990	$ 23,853	$ 4,955	$ 3,524	$ 658

(a) Relates primarily to an increase in New York Office.

(4) Increases in depreciation and amortization for the Office and Merchandise Mart segments are primarily due to additions to buildings and improvements.

(5) The increase in general and administrative expenses results from:

Increase in professional fees in connection with information technology, corporate governance, insurance, and other projects.	$ 4,675
Severance payments in 2003 to two senior executives ($3,211) and the non-cash charge related to the accelerated vesting of their restricted stock ($1,626).	4,837
Other severance.	860
Increase in corporate payroll and fringe benefits of which $755 is due to a decrease in capitalized development payroll and $407 is due to the Company's deferred compensation plan (offset by an equal amount of investment income).	2,872
Costs in connection with the relocation of CESCR's back office operations to the Company's administrative headquarters in New Jersey.	1,123
Stock compensation expense (see below).	1,898
Other	1,175
	$ 17,440

As part of the 2002 annual compensation review, in lieu of stock options, on January 28, 2003 the Company granted 166,990 restricted shares at $34.50 per share (the then closing stock price on the NYSE) to employees of the Company. These awards vest over a 5-year period. Stock-based compensation expense is recognized on a straight-line basis over the vesting period. In the year ended December 31, 2003, the Company recognized stock-based compensation expense of $1,898,000 (excluding severance charges), of which $1,020,000 related to January 2003 restricted stock awards.

Income Applicable to Alexander's

Income applicable to Alexander's (interest income, management, leasing, development and commitment fees, and equity in income) was $15,574,000 for the year ended December 31, 2003, compared to $29,653,000 in the prior year, a decrease of $14,079,000. This decrease resulted primarily from (i) Alexander's stock appreciation rights compensation expense of which the Company's share was $14,868,000 in 2003 compared to zero in 2002, partially offset by (ii) Alexander's gain on the sale of its Third Avenue property of which the Company's share was $3,524,000 in 2002, and (iii) income resulting from the commencement of the lease with Bloomberg (87% of the space) on November 15, 2003 at Alexander's 731 Lexington Avenue property of which the Company's share was $1,589,000.

Income from Partially-Owned Entities

Below are the condensed statements of operations of the Company's unconsolidated subsidiaries as well as the increase (decrease) in income from these partially-owned entities for the years ended December 31, 2003 and 2002:

(Amounts in thousands) For the year ended:	Total	Newkirk MLP	Temperature Controlled Logistics	Monmouth Mall	Partially-Owned Office Buildings	Starwood Ceruzzi Joint Venture	Las Catalinas Mall	Other
December 31, 2003:								
Revenues	$ 521,210	$ 273,500	$ 119,605	$ 24,121	$ 99,590	$ 4,394		
Expenses:								
Operating, general and administrative	(75,887)	(15,357)	(6,905)	(10,520)	(39,724)	(3,381)		
Depreciation	(132,062)	(51,777)	(56,778)	(4,018)	(18,491)	(998)		
Interest expense	(172,697)	(97,944)	(41,117)	(6,088)	(27,548)	—		
Other, net	47,223	43,083	5,710	(3,220)	2,516	(866)		
Net income (loss)	$ 187,787	$ 151,505	$ 20,515	$ 275	$ 16,343	$ (851)		
Vornado's interest		22.6%	60%	50%	15%	80%		
Equity in net income (loss)	$ 51,057	$ 33,243(1)	$ 12,869(2)	$ 138(3)	$ 2,426	$ (681)		$3,062
Interest and other income	10,292	7,002	—	3,290		—		
Fee income	6,552	—	5,547	1,005	—	—		—
Income (loss) from partially-owned entities	$ 67,901	$ 40,245	$ 18,416	$ 4,433	$ 2,426	$ (681)	N/A(4)	$ 3,062
December 31, 2002:								
Revenues	$ 480,363	$ 295,369	$ 117,663	$ 5,760	$ 50,205	$ 695	$ 10,671	
Expenses:								
Operating, general and administrative	(46,098)	(8,490)	(7,904)	(2,510)	(21,827)	(2,265)	(3,102)	
Depreciation	(106,287)	(34,010)	(59,328)	(943)	(9,094)	(1,430)	(1,482)	
Interest expense	(180,431)	(121,219)	(42,695)	(1,520)	(11,354)	—	(3,643)	
Other, net	(12,505)	(9,790)	(2,150)	48	389	(200)	(802)	
Net income (loss)	$ 135,042	$ 121,860	$ 5,586	$ 835	$ 8,319	$ (3,200)	$ 1,642	
Vornado's interest		21.7%	60%	50%	24%	80%	50%	
Equity in net income (loss)	$ 30,664	$ 26,500	$ 4,144	$ 791(3)	$ 1,966	$ (2,560)	$ 851	$ (1,028)
Interest and other income	8,000	8,000	—	—	—	—	—	—
Fee income	5,794	—	5,563	231	—	—	—	—
Income (loss) from partially-owned entities	$ 44,458	$ 34,500	$ 9,707	$ 1,022	$ 1,966	$ (2,560)	$ 851	$ (1,028)
Increase (decrease) in income from partially-owned entities	$ 23,443	$ 5,745(1)	$ 8,709(2)	$ 3,411(3)	$ 460	$ 1,879	$ (851)(4)	$ 4,090

See notes on following page.

Notes to preceding information:

(1) The increase reflects the Company's share of the following items from the Newkirk MLP in 2003 including (i) $7,200 of net gains on the sale of 11 properties, (ii) a gain of $1,600 on the early extinguishment of debt, partially offset by, (iii) a charge of $538 in connection with a litigation claim, (iv) a charge of $353 for an asset impairment and (v) $930 in Federal and state taxes.

(2) The Company reflects its 60% share of Vornado Crescent Portland Partnership's (the "Landlord") rental income it receives from AmeriCold Logistics, its tenant, which leases the underlying temperature controlled warehouses used in its business. The Company's joint venture does not recognize rental income unless earned and collection is assured or cash is received. The Company did not recognize $25,087 of rent it was due for the year ended December 31, 2003, which together with previously deferred rent is $49,436. The following summarizes the increase in income for the year ended December 31, 2003 over the prior year:

Increase in rent from Tenant	$	1,220
Decrease in general and administrative expenses		544
Gain on sale of real estate in 2003 ($486) as compared to a loss on sale of real estate in 2002 ($2,026)		2,512
Income tax refund received in 2003		1,345
Decrease in depreciation and interest expense and other		3,088
	$	8,709

On February 23, 2004, AmeriCold Logistics announced that Alec Covington resigned as President and Chief Executive Officer effective March 31, 2004, to take an opportunity in an unrelated industry. A search to identify a successor is currently underway.

(3) The Company acquired a 50% interest in the Monmouth Mall on October 10, 2002. Equity in net income of the Monmouth Mall includes the Company's preferred return of $3,290 and $748 for the years ended December 31, 2003 and 2002.

(4) On September 23, 2002, the Company acquired the remaining 50% of the Mall and 25% of the Kmart anchor store it did not previously own. Accordingly, the operations of Las Catalinas are consolidated into the accounts of the Company subsequent to September 23, 2002.

Interest and Other Investment Income

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $25,402,000 for the year ended December 31, 2003, compared to $31,685,000 in the year ended December 31, 2002, a decrease of $6,283,000. This decrease resulted primarily from (i) lower average investments at lower yields, partially offset by (ii) $5,655,000 of contingent interest income recognized in connection with the repayment of the Dearborn Center loan and (iii) $5,028,000 of interest income recognized on the $225,000,000 GM Building mezzanine loans, for the period from October 20, 2003 through December 31, 2003.

Interest and Debt Expense

Interest and debt expense was $229,662,000 for the year ended December 31, 2003, compared to $234,113,000 in the year ended December 31, 2002, a decrease of $4,451,000. This decrease was primarily comprised of a $11,285,000 savings from a 77 basis point reduction in weighted average interest rates of the Company's variable rate debt, partially offset by (i) the consolidation as of September 2002 of the Las Catalinas operations which were previously included in income from partially-owned entities, (ii) a full year of interest expense on the Company's $500,000,000 Senior Unsecured Notes due 2007 which were issued in June 2002 and (iii) a reduction in interest capitalized in connection with development projects.

Net (Loss) Gain on Disposition of Wholly-owned and Partially-owned Assets other than Depreciable Real Estate

The following table sets forth the details of net (loss) gain on disposition of wholly-owned and partially-owned assets other than depreciable real estate for the years ended December 31, 2003 and 2002:

(Amounts in thousands)	For the Year Ended December 31, 2003	2002
Wholly-owned Assets:		
Net gain on sale of marketable securities	$ 2,950	$ 12,346
Loss on settlement of Primestone guarantees (2003) and foreclosure and impairment losses (2002)	(1,388)	(35,757)
Gain on sale of land parcels	499	—
Gain on sale of residential condominiums units	282	2,156
Gain on transfer of mortgages	—	2,096
Net gain on sale of air rights	—	1,688
	$ 2,343	$ (17,471)

Primestone Foreclosure and Impairment Losses

On September 28, 2000, the Company made a $62,000,000 loan to Primestone Investment Partners, L.P. ("Primestone"). The Company received a 1% up-front fee and was entitled to receive certain other fees aggregating approximately 3% upon repayment of the loan. The loan bore interest at 16% per annum. Primestone defaulted on the repayment of this loan on October 25, 2001. The loan was subordinate to $37,957,000 of other debt of the borrower that liened the Company's collateral. On October 31, 2001, the Company purchased the other debt for its face amount. The loans were secured by 7,944,893 partnership units in Prime Group Realty, L.P., the operating partnership of Prime Group Realty Trust (NYSE:PGE) and the partnership units are exchangeable for the same number of common shares of PGE. The loans were also guaranteed by affiliates of Primestone.

On November 19, 2001, the Company sold, pursuant to a participation agreement with a subsidiary of Cadim inc., a Canadian pension fund, a 50% participation in both loans at par for approximately $50,000,000 reducing the Company's net investment in the loans at December 31, 2001 to $56,768,000 including unpaid interest and fees of $6,790,000. The participation did not meet the criteria for "sale accounting" under SFAS 140 because Cadim was not free to pledge or exchange the assets. Accordingly, the Company was required to account for this transaction as a borrowing secured by the loan, rather than as a sale of the loan by classifying the participation as an "Other Liability" and continuing to report the outstanding loan balance at 100% in "Notes and Mortgage Loans Receivable" on the balance sheet.

On April 30, 2002, the Company and Cadim acquired the 7,944,893 partnership units at a foreclosure auction. The price paid for the units by application of a portion of Primestone's indebtedness to the Company and Cadim was $8.35 per unit, the April 30, 2002 closing price of shares of PGE on the New York Stock Exchange. On June 28, 2002, pursuant to the terms of the participation agreement, the Company transferred 3,972,447 of the partnership units to Cadim.

In the second quarter of 2002, in accordance with foreclosure accounting, the Company recorded a loss on the Primestone foreclosure of $17,671,000 calculated based on (i) the acquisition price of the units and (ii) its valuation of the amounts realizable under the guarantees by affiliates of Primestone, as compared with the net carrying amount of the investment at April 30, 2002. In the third quarter of 2002, the Company recorded a $2,229,000 write-down on its investment based on costs expended to realize the value of the guarantees. Further, in the fourth quarter of 2002, the Company recorded a $15,857,000 write-down of its investment in Prime Group consisting of (i) $14,857,000 to adjust the carrying amount of the Prime Group units to $4.61 per unit, the closing price of PGE shares on the New York Stock Exchange at December 31, 2002 and (ii) $1,000,000 for estimated costs to realize the value of the guarantees. The Company considered the decline in the value of the units which are convertible into stock to be other than temporary as of December 31, 2002, based on the fact that the market value of the stock had been less than its cost for more than six months, the severity of the decline, market trends, the financial condition and near-term prospects of Prime Group and other relevant factors.

At December 31, 2002, the Company's carrying amount of the investment was $23,908,000, of which $18,313,000 represents the carrying amount of the 3,972,447 partnership units owned by the Company ($4.61 per unit), $6,100,000 represents the amount expected to be realized under the guarantees, partially offset by $1,005,000 representing the Company's share of Prime Group's net loss through September 30, 2002, as the Company recorded its share of Prime Group's earnings on a one-quarter lag basis.

On June 11, 2003, the Company exercised its right to exchange the 3,972,447 units it owned in Prime Group Realty L.P. for 3,972,447 common shares in Prime Group Realty Trust. Prior to the exchange, the Company accounted for its investment in the partnership on the equity method. Subsequent to the exchange, the Company is accounting for its investment in PGE as a marketable equity security-available for sale, as the Company's shares represent less than a 20% ownership interest in PGE (which is not a partnership), the Company does not have significant influence and the common shares have a readily determinable fair value. Accordingly, the carrying amount previously included in Investments and Advances to Partially-Owned Entities was reclassified to Marketable Securities on the Company's consolidated balance sheet. The Company is also required to mark these securities to market based on the closing price of the PGE shares on the NYSE at the end of each reporting period. For the period from June 11, 2003 through December 31, 2003, the Company recorded a $6,623,000 unrealized gain, which is not included in the Company's net income, but is reflected as a component of Accumulated Other Comprehensive Loss in the Shareholders' Equity section of the consolidated balance sheet. From the date of exchange, income recognition is limited to dividends received on the PGE shares.

On June 13, 2003, the Company received its $5,000,000 share of a settlement with affiliates of Primestone Investment Partners of the amounts due under the guarantees of the Primestone loans. In connection therewith, the Company recognized a $1,388,000 loss on settlement of the guarantees, which has been reflected as a component of "net gains on disposition of wholly-owned and partially-owned assets" in the Company's 2003 consolidated statement of income.

Gain on Transfer of Mortgages

In the year ended December 31, 2002, the Company recorded a net gain of $2,096,000 resulting from payments to the Company by third parties that assumed certain of the Company's mortgages. Under these transactions the Company paid to the third parties that assumed the Company's obligations the outstanding amounts due under the mortgages and the third parties paid the Company for the benefit of assuming the mortgages. The Company has been released by the creditors underlying these loans.

Minority Interest

Minority interest was $178,675,000 for the year ended December 31, 2003, compared to $140,933,000 for the prior year, an increase of $37,742,000. The increase is primarily due to higher income in 2003, primarily as a result of of net gains on sale of real estate of $161,789,000, and an increase in preferred unit distributions of $2,187,000, representing the original issuance costs on the redemption of the Series D-1 preferred units.

Discontinued Operations

Assets related to discontinued operations consist primarily of real estate, net of accumulated depreciation. The following table set forth the balances of the assets related to discontinued operations as of December 31, 2003 and 2002.

	December 31,	
	2003	2002
Palisades	$ 138,629	$ 142,333
Baltimore (Dundalk)	2,167	2,050
Vineland	908	978
Two Park Avenue (sold on October 10, 2003)	—	123,076
Hagerstown (sold on November 3, 2003)	—	1,013
Baltimore (sold on January 9, 2003)	—	2,218
	$ 141,704	$ 271,668

Liabilities related to discontinued operations represent the Palisades mortgage payable of $120,000,000 and $100,000,000 as of December 31, 2003 and 2002 respectively.

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2003 and 2002 are as follows:

	December 31,	
	2003	2002
Total Revenues	$ 42,694	$ 42,831
Total Expenses	28,621	32,947
Income from discontinued operations	$ 14,073	$ 9,884

On February 2, 2004, the Palisades Venture in which the Company owns a 75% interest entered into an agreement to sell its only asset, a 538 unit high-rise residential apartment tower in Fort Lee, New Jersey, for $222,500,000. On February 27, 2004, in order to permit a potential "like kind exchange," the Company acquired the remaining 25% interest it did not previously own for its partner's share of the net sales price (approximately $17,000,000). The Company's gain on sale after closing costs will be approximately $70,000,000. The sale, which is subject to customary closing conditions, is expected to be completed by the third quarter of 2004.

Gains on Sales of Real Estate (Discontinued Operations in 2003)

On January 9, 2003, the Company sold its Baltimore, Maryland shopping center for $4,752,000, which resulted in a net gain after closing costs of $2,644,000.

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square –foot office building, for $292,000,000 to SEB Immobelien-Investment GNBH, a German capital investment company, which resulted in a net gain on the sale after closing costs of $156,433,000.

On November 3, 2003, the Company sold its Hagerstown, Maryland shopping center for $3,100,000, which resulted in a net gain on sale after closing costs of $1,945,000.

Cumulative Effect of Change in Accounting Principle

In September 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets* (effective January 1, 2002). SFAS No. 142 specifies that goodwill and some intangible assets will no longer be amortized but instead be subject to periodic impairment testing. In the first quarter of 2002, the Company wrote-off goodwill of approximately $30,129,000 of which (i) $15,490,000 represents its share of the goodwill arising from the Company's investment in Temperature Controlled Logistics and (ii) $14,639,000 represents goodwill arising from the Company's acquisition of the Hotel Pennsylvania. The write-off was reflected as a cumulative effect of a change in accounting principle in the 2002 consolidated statement income.

EBITDA

Below are the details of the changes by segment in EBITDA.

(Amounts in thousands)	**Total**	**Office**	**Retail**	**Merchandise Mart**	**Temperature Controlled Logistics**	**Other**
Year ended December 31, 2002	$ 826,659	$ 610,531	$ 113,900	$ 108,078	$ 69,798	$ (75,648)
2003 Operations:						
Same store operations(1)		5,670	5,086	4,445	3,517(3)	
Acquisitions, dispositions and non-same store income and expenses		164,488	24,493	5,364	4,650	
Year ended December 31, 2003	$ 1,037,896	$ 780,689	$ 143,479	$ 117,887	$ 77,965	$ (82,124)
% increase in same store operations		1.0%(2)	4.5%	4.1%	4.8%(3)	

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(1) Represents operations which were owned for the same period in each year and excludes non-recurring income and expenses which are included in acquisitions, dispositions and non-same store income and expenses above.

(2) EBITDA and the same store percentage increase (decrease) were $488,419 ($331,886 excluding gains on sale of real estate of $156,533) and 3.3% (excluding such gains) for the New York office portfolio and $292,270 and (1.7%) for the CESCR portfolio. 36% of the same store decrease at CESCR reflects a reduction in third party net leasing fees.

(3) The Company reflects its 60% share of Vornado Crescent Portland Partnership's (the "Landlord") rental income it receives from AmeriCold Logistics, its tenant, which leases the underlying temperature controlled warehouses used in its business. The Company's joint venture does not recognize rental income unless earned and collection is assured or cash is received. The Company did not recognize $25,087 of rent it was due for the year ended December 31, 2003, which together with previously deferred rent is $49,436. The tenant has advised the Landlord that (i) its revenue for the year ended December 31, 2003 from the warehouses it leases from the Landlord, is lower than last year by 1.3%, and (ii) its gross profit before rent at these warehouses for the corresponding period is higher than last year by $607 (a 0.4% increase). In addition, in 2003, the tenant and the Landlord had lower general and administrative expenses and the Landlord received $885 of EBITDA from its investment in the quarries it acquired in December 2002 which was reflected in the gross profit of the tenant in the prior year.

Years Ended December 31, 2002 and December 31, 2001

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of above and below market leases acquired under SFAS No. 141 and 142, and other income, were $1,392,239,000 for the year ended December 31, 2002, compared to $952,161,000 in the year ended December 31, 2001, an increase of $440,078,000 of which $423,128,000 resulted from the acquisition of the remaining 66% of CESCR and the resulting consolidation of its operations. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Other
Property rentals:						
Acquisitions, dispositions and non same store revenue:						
CESCR (acquisition of remaining 66% and consolidation vs. equity method accounting for 34%)	January 2002	$ 393,506	$ 393,506	$ —	$ —	$ —
715 Lexington Avenue	July 2001	976	—	976	—	—
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	September 2002	3,108	—	3,108	—	—
435 Seventh Avenue (placed in service)	August 2002	2,541	—	2,541	—	—
424 Sixth Avenue	July 2002	320	—	320	—	—
Properties taken out of service for redevelopment		(767)	—	(767)	—	—
Operations:						
Hotel activity		(7,645)(1)	—	—	—	(7,645)(1)
Trade Shows activity		(3,908)(2)	—	—	(3,908)(2)	—
Leasing activity		8,535	8,058	680	314	(517)
Total increase (decrease) in property rentals		396,666	401,564	6,858	(3,594)	(8,162)
Tenant expense reimbursements:						
Increase due to acquisitions		15,319	14,398	921	—	—
Operations		10,434	6,925	1,379	953	1,177
Total increase in tenant expense reimbursements		25,753	21,323	2,300	953	1,177
Other Income:						
Increase due to acquisitions		15,235	15,224	11	—	—
Operations		2,424	2,624	535	1,452	(2,187)
Total increase (decrease) in other income		17,659	17,848	546	1,452	(2,187)
Total increase (decrease) in revenues		$ 440,078	$ 440,735	$ 9,704	$ (1,189)	$ (9,172)

(1) Average occupancy and REVPAR for the Hotel Pennsylvania were 65% and $58 for the year ended December 31, 2002 compared to 63% and $70 for the prior year.

(2) Reflects a decrease of $3,580 resulting from the rescheduling of two trade shows from the fourth quarter in which they were previously held to the first quarter of 2003.

See Leasing Activity on page 68, for further details and corresponding changes in occupancy.

Expenses

The Company's expenses were $852,370,000 for the year ended December 31, 2002, compared to $583,002,000 in the year ended December 31, 2001, an increase of $269,368,000 of which $202,852,000 resulted from the acquisition of the remaining 66% of CESCR and the resulting consolidation of its operations. Below are the details of the increase by segment:

(Amounts in thousands)

	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions:					
CESCR (acquisition of remaining 66% and consolidation vs. equity method accounting for 34%)	$ 114,438	$ 114,438	$ —	$ —	$ —
715 Lexington Avenue	588	—	588	—	—
435 Seventh Avenue	198	—	198	—	—
424 Sixth Avenue	50	—	50	—	—
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	1,341	—	1,341	—	—
Hotel activity	503	—	—	—	503
Trade Shows activity	(2,108)	—	—	(2,108)(3)	—
Operations	21,511	10,739(1)	6,748(2)	5,023(4)	(999)
	136,521	125,177	8,925	2,915	(496)
Depreciation and amortization:					
Acquisitions	68,484	67,470	1,014	—	—
Operations	9,503	6,825	(275)	1,319	1,634
	77,987	74,295	739	1,319	1,634
General and administrative:					
Acquisitions	20,944	20,944	—	—	—
Other expenses	4,765	821	1,443	2,301(5)	200
	25,709	21,765	1,443	2,301	200
Amortization of officer's deferred compensation expense	27,500	—	—	—	27,500
Costs of acquisitions and development not consummated	1,651	—	—	—	1,651(6)
Total increase in expenses	$ 269,368	$ 221,237	$ 11,107	$ 6,535	$ 30,489

(1) Results primarily from (i) a $9,725 increase in insurance, security and real estate taxes, largely reimbursed by tenants, and (ii) $2,639 for an allowance for straight-line rent receivables.
(2) Results primarily from (i) increases in insurance costs which are reimbursed by tenants, (ii) a $402 payment of Puerto Rico taxes related to the prior year, (iii) $2,280 in bad debt allowances for accounts receivable and receivables arising from the straight-lining of rents in 2002 and (iv) lease termination fees and real estate tax refunds netted against expenses in 2001, which aggregated $1,500.
(3) Results primarily from the rescheduling of two trade shows from the fourth quarter in which they were previously held to the first quarter of 2003.
(4) Reflects (i) increased insurance costs of $1,366, (ii) a charge of $312 from the settlement of a 1998 utility assessment, and (iii) an increase in real estate taxes of $1,725.
(5) Reflects a charge of $954 in connection with the termination of a contract and the write-off of related deferred costs.
(6) Reflects a charge in 2002 of $6,874 for the write-off of pre-development costs at the 20 Times Square project and a charge in 2001 of $5,223 in connection with the World Trade Center acquisition not consummated.

Income Applicable to Alexander's

Income applicable to Alexander's (interest income, management, leasing, development and commitment fees, and equity in income) was $29,653,000 in the year ended December 31, 2002, compared to $25,718,000 in the year ended December 31, 2001, an increase of $3,935,000. This increase resulted from (i) $6,915,000 of development and commitment

fees in connection with Alexander's Lexington Avenue development project, (ii) the Company's $3,524,000 share of Alexander's gain on sale of its Third Avenue property, partially offset by (iii) the Company's $6,298,000 share of Alexander's gain on the sale of its Fordham Road property in the prior year.

Income from Partially-Owned Entities

Below are the condensed statements of operations of the Company's unconsolidated subsidiaries as well as the increase (decrease) in income from these partially-owned entities for the years ended December 31, 2002 and 2001:

(Amounts in thousands)

	Total	Newkirk Joint Venture	Temperature Controlled Logistics	Las Catalinas Mall(2)	Monmouth Mall (3)	Partially-Owned Office Buildings	Starwood Ceruzzi Joint Venture	CESCR(1)	Other
Year Ended December 31, 2002:									
Revenues	$ 480,363	$ 295,369	$ 117,663	$ 10,671	$ 5,760	$ 50,205	$ 695		
Expenses:									
Operating, general and administrative	(46,098)	(8,490)	(7,904)	(3,102)	(2,510)	(21,827)	(2,265)		
Depreciation	(106,287)	(34,010)	(59,328)	(1,482)	(943)	(9,094)	(1,430)		
Interest expense	(180,431)	(121,219)	(42,695)	(3,643)	(1,520)	(11,354)	—		
Other, net	(12,505)	(9,790)	(2,150)	(802)	48	389	(200)		
Net income/(loss)	$ 135,042	$ 121,860	$ 5,586	$ 1,642	$ 835	$ 8,319	$ (3,200)		
Vornado's interest		21.7%	60%	50%	50%	24%	80%		
Equity in net income/ (loss)	$ 30,664	$ 26,500	$ 4,144	$ 851	$ 791(4)	$ 1,966	$ (2,560)		$ (1,028)
Interest and other income	8,000	8,000	—	—	—	—	—		—
Fee income	5,794	—	5,563	—	231	—	—		—
Income from partially-owned entities	$ 44,458	$ 34,500	$ 9,707	$ 851	$ 1,022	$ 1,966	$ (2,560)	$ —(1)	$ (1,028)
Year Ended December 31, 2001:									