

# Section 1: 10-Q (10-Q)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark one)

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

For the quarterly period ended: June 30, 2018  
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: 001-11954 (Vornado Realty Trust)  
Commission File Number: 001-34482 (Vornado Realty L.P.)

**Vornado Realty Trust**  
**Vornado Realty L.P.**

(Exact name of registrants as specified in its charter)

Vornado Realty Trust Maryland 22-1657560  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

Vornado Realty L.P. Delaware 13-3925979  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

888 Seventh Avenue, New York, New York 10019  
(Address of principal executive offices) (Zip Code)

(212) 894-7000  
(Registrants' telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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.

Vornado Realty Trust: Yes  No  Vornado Realty L.P.: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Vornado Realty Trust: Yes  No  Vornado Realty L.P.: Yes  No

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

Vornado Realty Trust:

- Large Accelerated Filer  
 Non-Accelerated Filer (Do not check if smaller reporting company)

- Accelerated Filer  
 Smaller Reporting Company  
 Emerging Growth Company

Vornado Realty L.P.:

- Large Accelerated Filer  
 Non-Accelerated Filer (Do not check if smaller reporting company)

- Accelerated Filer  
 Smaller Reporting Company  
 Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Vornado Realty Trust: Yes  No  Vornado Realty L.P.: Yes  No

As of June 30, 2018, 190,237,957 of Vornado Realty Trust's common shares of beneficial interest are outstanding.

---

## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018 of Vornado Realty Trust and Vornado Realty L.P. Unless stated otherwise or the context otherwise requires, references to “Vornado” refer to Vornado Realty Trust, a Maryland real estate investment trust (“REIT”), and references to the “Operating Partnership” refer to Vornado Realty L.P., a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively Vornado, the Operating Partnership and those subsidiaries consolidated by Vornado.

The Operating Partnership is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. Vornado is the sole general partner and also a 93.5% limited partner of the Operating Partnership. As the sole general partner of the Operating Partnership, Vornado has exclusive control of the Operating Partnership’s day-to-day management.

Under the limited partnership agreement of the Operating Partnership, unitholders may present their Class A units for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time). Class A units may be tendered for redemption to the Operating Partnership for cash; Vornado, at its option, may assume that obligation and pay the holder either cash or Vornado common shares on a one-for-one basis. Because the number of Vornado common shares outstanding at all times equals the number of Class A units owned by Vornado, the redemption value of each Class A unit is equivalent to the market value of one Vornado common share, and the quarterly distribution to a Class A unitholder is equal to the quarterly dividend paid to a Vornado common shareholder. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. Vornado generally expects that it will elect to issue its common shares in connection with each such presentation for redemption rather than having the Operating Partnership pay cash. With each such exchange or redemption, Vornado’s percentage ownership in the Operating Partnership will increase. In addition, whenever Vornado issues common shares other than to acquire Class A units of the Operating Partnership, Vornado must contribute any net proceeds it receives to the Operating Partnership and the Operating Partnership must issue to Vornado an equivalent number of Class A units of the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes that combining the quarterly reports on Form 10-Q of Vornado and the Operating Partnership into this single report provides the following benefits:

- enhances investors’ understanding of Vornado and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation because a substantial portion of the disclosure applies to both Vornado and the Operating Partnership; and
- creates time and cost efficiencies in the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between Vornado and the Operating Partnership in the context of how Vornado and the Operating Partnership operate as a consolidated company. The financial results of the Operating Partnership are consolidated into the financial statements of Vornado. Vornado does not have any significant assets, liabilities or operations, other than its investment in the Operating Partnership. The Operating Partnership, not Vornado, generally executes all significant business relationships other than transactions involving the securities of Vornado. The Operating Partnership holds substantially all of the assets of Vornado. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by Vornado, which are contributed to the capital of the Operating Partnership in exchange for units of limited partnership in the Operating Partnership, as applicable, the Operating Partnership generates all remaining capital required by the Company’s business. These sources may include working capital, net cash provided by operating activities, borrowings under the revolving credit facility, the issuance of secured and unsecured debt and equity securities, and proceeds received from the disposition of certain properties.

To help investors better understand the key differences between Vornado and the Operating Partnership, certain information for Vornado and the Operating Partnership in this report has been separated, as set forth below:

- Item 1. Financial Statements (unaudited), which includes the following specific disclosures for Vornado Realty Trust and Vornado Realty L.P.:
  - Note 12. Redeemable Noncontrolling Interests/Redeemable Partnership Units
  - Note 13. Shareholders' Equity/Partners' Capital
  - Note 20. Income Per Share/Income Per Class A Unit
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Vornado and the Operating Partnership in order to establish that the requisite certifications have been made and that Vornado and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

| <b>PART I.</b>       | <b>Financial Information:</b>   | <b>Page<br/>Number</b> |
|----------------------|---|------------------------|
| Item 1.              | <b>Financial Statements of Vornado Realty Trust:</b>  |                        |
|                      | Consolidated Balance Sheets (Unaudited) as of June 30, 2018 and December 31, 2017                                     | 5                      |
|                      | Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2018 and 2017               | 6                      |
|                      | Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2018 and 2017 | 7                      |
|                      | Consolidated Statements of Changes in Equity (Unaudited) for the Six Months Ended June 30, 2018 and 2017              | 8                      |
|                      | Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2018 and 2017                     | 10                     |
|                      | <b>Financial Statements of Vornado Realty L.P.:</b>   |                        |
|                      | Consolidated Balance Sheets (Unaudited) as of June 30, 2018 and December 31, 2017                                     | 12                     |
|                      | Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2018 and 2017               | 13                     |
|                      | Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2018 and 2017 | 14                     |
|                      | Consolidated Statements of Changes in Equity (Unaudited) for the Six Months Ended June 30, 2018 and 2017              | 15                     |
|                      | Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2018 and 2017                     | 17                     |
|                      | <b>Vornado Realty Trust and Vornado Realty L.P.:</b>  |                        |
|                      | Notes to Consolidated Financial Statements (Unaudited)  | 19                     |
|                      | Reports of Independent Registered Public Accounting Firm  | 46                     |
| Item 2.              | Management's Discussion and Analysis of Financial Condition and Results of Operations                                 | 48                     |
| Item 3.              | Quantitative and Qualitative Disclosures About Market Risk  | 88                     |
| Item 4.              | Controls and Procedures   | 89                     |
| <b>PART II.</b>      | <b>Other Information:</b>   |                        |
| Item 1.              | Legal Proceedings   | 90                     |
| Item 1A.             | Risk Factors  | 90                     |
| Item 2.              | Unregistered Sales of Equity Securities and Use of Proceeds   | 90                     |
| Item 3.              | Defaults Upon Senior Securities   | 90                     |
| Item 4.              | Mine Safety Disclosures   | 90                     |
| Item 5.              | Other Information   | 90                     |
| Item 6.              | Exhibits  | 90                     |
| <b>EXHIBIT INDEX</b> |   | 91                     |
| <b>SIGNATURES</b>    |   | 92                     |



**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**VORNADO REALTY TRUST  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)**

(Amounts in thousands, except unit, share, and per share amounts)

|  | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|--|----------------------|--------------------------|
| <b>ASSETS</b>  |                      |                          |
| Real estate, at cost:  |                      |                          |
| Land   | \$ 3,175,830         | \$ 3,143,648             |
| Buildings and improvements   | 9,969,190            | 9,898,605                |
| Development costs and construction in progress   | 1,797,301            | 1,615,101                |
| Leasehold improvements and equipment   | 105,625              | 98,941                   |
| Total  | <u>15,047,946</u>    | <u>14,756,295</u>        |
| Less accumulated depreciation and amortization   | <u>(3,035,523)</u>   | <u>(2,885,283)</u>       |
| Real estate, net   | 12,012,423           | 11,871,012               |
| Cash and cash equivalents  | 1,090,791            | 1,817,655                |
| Restricted cash  | 121,168              | 97,157                   |
| Marketable securities  | 165,650              | 182,752                  |
| Tenant and other receivables, net of allowance for doubtful accounts of \$3,891 and \$5,526  | 65,773               | 58,700                   |
| Investments in partially owned entities  | 959,801              | 1,056,829                |
| Real estate fund investments   | 373,039              | 354,804                  |
| Receivable arising from the straight-lining of rents, net of allowance of \$1,798 and \$954  | 936,614              | 926,711                  |
| Deferred leasing costs, net of accumulated amortization of \$198,100 and \$191,827   | 443,859              | 403,492                  |
| Identified intangible assets, net of accumulated amortization of \$163,406 and \$150,837   | 146,370              | 159,260                  |
| Assets related to discontinued operations  | 52                   | 1,357                    |
| Other assets   | 550,543              | 468,205                  |
|  | <u>\$ 16,866,083</u> | <u>\$ 17,397,934</u>     |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>   |                      |                          |
| Mortgages payable, net   | \$ 8,108,618         | \$ 8,137,139             |
| Senior unsecured notes, net  | 843,417              | 843,614                  |
| Unsecured term loan, net   | 749,494              | 748,734                  |
| Unsecured revolving credit facilities  | 80,000               | —                        |
| Accounts payable and accrued expenses  | 394,079              | 415,794                  |
| Deferred revenue   | 187,934              | 227,069                  |
| Deferred compensation plan   | 100,368              | 109,177                  |
| Liabilities related to discontinued operations   | 214                  | 3,620                    |
| Preferred shares redeemed on January 4 and 11, 2018  | —                    | 455,514                  |
| Other liabilities  | 520,331              | 464,635                  |
| Total liabilities  | <u>10,984,455</u>    | <u>11,405,296</u>        |
| Commitments and contingencies  |                      |                          |
| Redeemable noncontrolling interests:   |                      |                          |
| Class A units - 12,616,515 and 12,528,899 units outstanding  | 932,613              | 979,509                  |
| Series D cumulative redeemable preferred units - 177,101 units outstanding   | 5,428                | 5,428                    |
| Total redeemable noncontrolling interests  | <u>938,041</u>       | <u>984,937</u>           |
| Vornado's shareholders' equity:  |                      |                          |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 36,799,573 shares                   | 891,325              | 891,988                  |
| Common shares of beneficial interest: \$0.04 par value per share; authorized 250,000,000 shares; issued and outstanding 190,237,957 and 189,983,858 shares | 7,587                | 7,577                    |
| Additional capital   | 7,555,993            | 7,492,658                |
| Earnings less than distributions   | (4,206,381)          | (4,183,253)              |
| Accumulated other comprehensive income   | 33,351               | 128,682                  |
| Total Vornado shareholders' equity   | <u>4,281,875</u>     | <u>4,337,652</u>         |
| Noncontrolling interests in consolidated subsidiaries  | 661,712              | 670,049                  |

Total equity

4,943,587

5,007,701

\$ 16,866,083

\$ 17,397,934

See notes to consolidated financial statements (unaudited).



**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(Amounts in thousands, except per share amounts)

|   | For the Three Months Ended<br>June 30, |                   | For the Six Months Ended<br>June 30, |                   |
|---|--|-------------------|--------------------------------------|-------------------|
|   | 2018                                   | 2017              | 2018                                 | 2017              |
| <b>REVENUES:</b>  |  |                   |                                      |                   |
| Property rentals  | \$ 444,595                             | \$ 428,643        | \$ 884,705                           | \$ 843,535        |
| Tenant expense reimbursements                                       | 58,312                                 | 51,657            | 118,622                              | 110,690           |
| Fee and other income  | 38,911                                 | 30,787            | 74,928                               | 64,920            |
| Total revenues  | <u>541,818</u>                         | <u>511,087</u>    | <u>1,078,255</u>                     | <u>1,019,145</u>  |
| <b>EXPENSES:</b>  |  |                   |                                      |                   |
| Operating   | 235,981                                | 215,700           | 473,583                              | 436,359           |
| Depreciation and amortization                                       | 111,846                                | 105,123           | 220,532                              | 210,251           |
| General and administrative  | 34,427                                 | 35,405            | 76,960                               | 81,580            |
| Expense from deferred compensation plan liability                   | 2,077                                  | 789               | 1,673                                | 3,258             |
| Transaction related costs and other                                 | 1,017                                  | 260               | 14,173                               | 1,012             |
| Total expenses  | <u>385,348</u>                         | <u>357,277</u>    | <u>786,921</u>                       | <u>732,460</u>    |
| Operating income  | 156,470                                | 153,810           | 291,334                              | 286,685           |
| Income (loss) from partially owned entities                         | 8,757                                  | 46,021            | (1,147)                              | 47,379            |
| (Loss) income from real estate fund investments                     | (28,976)                               | 4,391             | (37,783)                             | 4,659             |
| Interest and other investment income, net                           | 30,892                                 | 8,541             | 6,508                                | 15,236            |
| Income from deferred compensation plan assets                       | 2,077                                  | 789               | 1,673                                | 3,258             |
| Interest and debt expense   | (87,657)                               | (84,789)          | (175,823)                            | (167,513)         |
| Net gains on disposition of wholly owned and partially owned assets | 23,559                                 | —                 | 23,559                               | 501               |
| Income before income taxes  | 105,122                                | 128,763           | 108,321                              | 190,205           |
| Income tax (expense) benefit  | (467)                                  | 610               | (3,021)                              | (2,303)           |
| Income from continuing operations                                   | 104,655                                | 129,373           | 105,300                              | 187,902           |
| Income from discontinued operations                                 | 683                                    | 18,111            | 320                                  | 33,429            |
| Net income  | <u>105,338</u>                         | <u>147,484</u>    | <u>105,620</u>                       | <u>221,331</u>    |
| Less net loss (income) attributable to noncontrolling interests in: |  |                   |                                      |                   |
| Consolidated subsidiaries   | 26,175                                 | (7,677)           | 34,449                               | (14,414)          |
| Operating Partnership   | (7,445)                                | (7,706)           | (6,321)                              | (10,935)          |
| Net income attributable to Vornado                                  | 124,068                                | 132,101           | 133,748                              | 195,982           |
| Preferred share dividends   | (12,534)                               | (16,129)          | (25,569)                             | (32,258)          |
| Preferred share issuance costs                                      | —                                      | —                 | (14,486)                             | —                 |
| <b>NET INCOME attributable to common shareholders</b>               | <u>\$ 111,534</u>                      | <u>\$ 115,972</u> | <u>\$ 93,693</u>                     | <u>\$ 163,724</u> |
| <b>INCOME PER COMMON SHARE – BASIC:</b>                             |  |                   |                                      |                   |
| Income from continuing operations, net                              | \$ 0.59                                | \$ 0.52           | \$ 0.49                              | \$ 0.70           |
| Income from discontinued operations, net                            | —                                      | 0.09              | —                                    | 0.16              |
| Net income per common share   | <u>\$ 0.59</u>                         | <u>\$ 0.61</u>    | <u>\$ 0.49</u>                       | <u>\$ 0.86</u>    |
| Weighted average shares outstanding                                 | <u>190,200</u>                         | <u>189,395</u>    | <u>190,141</u>                       | <u>189,304</u>    |
| <b>INCOME PER COMMON SHARE – DILUTED:</b>                           |  |                   |                                      |                   |
| Income from continuing operations, net                              | \$ 0.58                                | \$ 0.52           | \$ 0.49                              | \$ 0.70           |
| Income from discontinued operations, net                            | —                                      | 0.09              | —                                    | 0.16              |
| Net income per common share   | <u>\$ 0.58</u>                         | <u>\$ 0.61</u>    | <u>\$ 0.49</u>                       | <u>\$ 0.86</u>    |
| Weighted average shares outstanding                                 | <u>191,168</u>                         | <u>190,444</u>    | <u>191,190</u>                       | <u>190,674</u>    |
| <b>DIVIDENDS PER COMMON SHARE</b>                                   | <u>\$ 0.63</u>                         | <u>\$ 0.71</u>    | <u>\$ 1.26</u>                       | <u>\$ 1.42</u>    |

See notes to consolidated financial statements (unaudited).



**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

(Amounts in thousands)

|  | <b>For the Three Months Ended<br/>June 30,</b> |                   | <b>For the Six Months Ended June<br/>30,</b> |                   |
|--|--|-------------------|--|-------------------|
|  | <b>2018</b>                                    | <b>2017</b>       | <b>2018</b>                                  | <b>2017</b>       |
| Net income   | \$ 105,338                                     | \$ 147,484        | \$ 105,620                                   | \$ 221,331        |
| Other comprehensive income (loss):   |  |                   |  |                   |
| Increase (reduction) in value of interest rate swaps and other   | 2,908  | (1,204)           | 13,166                                       | 4,638             |
| Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries                                | 390  | (980)             | 736  | (1,031)           |
| Reduction in unrealized net gain on available-for-sale securities  | —  | (1,206)           | —  | (16,215)          |
| Pro rata share of amounts reclassified from accumulated other comprehensive income of a nonconsolidated subsidiary | —  | —                 | —  | 9,268             |
| Comprehensive income   | 108,636  | 144,094           | 119,522                                      | 217,991           |
| Less comprehensive loss (income) attributable to noncontrolling interests  | 18,525   | (15,173)          | 27,269                                       | (25,142)          |
| Comprehensive income attributable to Vornado   | <u>\$ 127,161</u>                              | <u>\$ 128,921</u> | <u>\$ 146,791</u>                            | <u>\$ 192,849</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**

(Amounts in thousands)

|  | Preferred Shares |                   | Common Shares  |                 | Additional Capital  | Earnings Less Than Distributions | Accumulated Other Comprehensive Income | Non-controlling Interests in Consolidated Subsidiaries | Total Equity        |
|--|------------------|-------------------|----------------|-----------------|---------------------|----------------------------------|--|--|---------------------|
|  | Shares           | Amount            | Shares         | Amount          |                     |                                  |  |  |                     |
| <b>Balance, December 31, 2017</b>  | 36,800           | \$ 891,988        | 189,984        | \$ 7,577        | \$ 7,492,658        | \$ (4,183,253)                   | \$ 128,682                             | \$ 670,049   | \$ 5,007,701        |
| Cumulative effect of accounting change (see Note 3)                            | —                | —                 | —              | —               | —                   | 122,893                          | (108,374)                              | —  | 14,519              |
| Net income attributable to Vornado   | —                | —                 | —              | —               | —                   | 133,748                          | —                                      | —  | 133,748             |
| Net loss attributable to noncontrolling interests in consolidated subsidiaries | —                | —                 | —              | —               | —                   | —                                | —                                      | (34,449)   | (34,449)            |
| Dividends on common shares   | —                | —                 | —              | —               | —                   | (239,594)                        | —                                      | —  | (239,594)           |
| Dividends on preferred shares  | —                | —                 | —              | —               | —                   | (25,569)                         | —                                      | —  | (25,569)            |
| Preferred share issuance costs   | —                | —                 | —              | —               | —                   | (14,486)                         | —                                      | —  | (14,486)            |
| Common shares issued:  |                  |                   |                |                 |                     |                                  |  |  |                     |
| Upon redemption of Class A units, at redemption value                          | —                | —                 | 176            | 7               | 12,239              | —                                | —                                      | —  | 12,246              |
| Under employees' share option plan   | —                | —                 | 61             | 3               | 3,783               | —                                | —                                      | —  | 3,786               |
| Under dividend reinvestment plan   | —                | —                 | 10             | —               | 685                 | —                                | —                                      | —  | 685                 |
| Contributions:   |                  |                   |                |                 |                     |                                  |  |  |                     |
| Real estate fund investments   | —                | —                 | —              | —               | —                   | —                                | —                                      | 45,347   | 45,347              |
| Other  | —                | —                 | —              | —               | —                   | —                                | —                                      | 14,211   | 14,211              |
| Distributions:   |                  |                   |                |                 |                     |                                  |  |  |                     |
| Real estate fund investments   | —                | —                 | —              | —               | —                   | —                                | —                                      | (10,246)   | (10,246)            |
| Other  | —                | —                 | —              | —               | —                   | —                                | —                                      | (23,201)   | (23,201)            |
| Preferred share issuance   | —                | (663)             | —              | —               | —                   | —                                | —                                      | —  | (663)               |
| Deferred compensation shares and options                                       | —                | —                 | 7              | —               | 585                 | (121)                            | —                                      | —  | 464                 |
| Pro rata share of other comprehensive income of nonconsolidated subsidiaries   | —                | —                 | —              | —               | —                   | —                                | 736                                    | —  | 736                 |
| Increase in value of interest rate swaps                                       | —                | —                 | —              | —               | —                   | —                                | 13,166                                 | —  | 13,166              |
| Unearned 2015 Out-Performance Plan awards acceleration                         | —                | —                 | —              | —               | 9,046               | —                                | —                                      | —  | 9,046               |
| Adjustments to carry redeemable Class A units at redemption value              | —                | —                 | —              | —               | 36,450              | —                                | —                                      | —  | 36,450              |
| Redeemable noncontrolling interests' share of above adjustments                | —                | —                 | —              | —               | —                   | —                                | (859)                                  | —  | (859)               |
| Other  | —                | —                 | —              | —               | 547                 | 1                                | —                                      | 1  | 549                 |
| <b>Balance, June 30, 2018</b>  | <u>36,800</u>    | <u>\$ 891,325</u> | <u>190,238</u> | <u>\$ 7,587</u> | <u>\$ 7,555,993</u> | <u>\$ (4,206,381)</u>            | <u>\$ 33,351</u>                       | <u>\$ 661,712</u>                                      | <u>\$ 4,943,587</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED**  
**(UNAUDITED)**

(Amounts in thousands)

|  | Preferred Shares |                     | Common Shares  |                 | Additional Capital  | Earnings Less Than Distributions | Accumulated Other Comprehensive Income | Non-controlling Interests in Consolidated Subsidiaries | Total Equity        |
|--|------------------|---------------------|----------------|-----------------|---------------------|----------------------------------|--|--|---------------------|
|  | Shares           | Amount              | Shares         | Amount          |                     |                                  |  |  |                     |
| <b>Balance, December 31, 2016</b>  | 42,825           | \$ 1,038,055        | 189,101        | \$ 7,542        | \$ 7,153,332        | \$ (1,419,382)                   | \$ 118,972                             | \$ 719,977   | \$ 7,618,496        |
| Net income attributable to Vornado   | —                | —                   | —              | —               | —                   | 195,982                          | —                                      | —  | 195,982             |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | —                | —                   | —              | —               | —                   | —                                | —                                      | 14,414   | 14,414              |
| Dividends on common shares   | —                | —                   | —              | —               | —                   | (268,817)                        | —                                      | —  | (268,817)           |
| Dividends on preferred shares  | —                | —                   | —              | —               | —                   | (32,258)                         | —                                      | —  | (32,258)            |
| Common shares issued:  |                  |                     |                |                 |                     |                                  |  |  |                     |
| Upon redemption of Class A units, at redemption value                            | —                | —                   | 249            | 10              | 25,552              | —                                | —                                      | —  | 25,562              |
| Under employees' share option plan   | —                | —                   | 103            | 4               | 8,842               | —                                | —                                      | —  | 8,846               |
| Under dividend reinvestment plan   | —                | —                   | 8              | —               | 780                 | —                                | —                                      | —  | 780                 |
| Contributions  | —                | —                   | —              | —               | —                   | —                                | —                                      | 991  | 991                 |
| Distributions:   |                  |                     |                |                 |                     |                                  |  |  |                     |
| Real estate fund investments   | —                | —                   | —              | —               | —                   | —                                | —                                      | (6,200)  | (6,200)             |
| Other  | —                | —                   | —              | —               | —                   | —                                | —                                      | (1,339)  | (1,339)             |
| Conversion of Series A preferred shares to common shares                         | (2)              | (44)                | 2              | —               | 44                  | —                                | —                                      | —  | —                   |
| Deferred compensation shares and options   | —                | —                   | 2              | —               | 1,076               | (285)                            | —                                      | —  | 791                 |
| Reduction in unrealized net gain on available-for-sale securities                | —                | —                   | —              | —               | —                   | —                                | (16,215)                               | —  | (16,215)            |
| Pro rata share of amounts reclassified related to a nonconsolidated subsidiary   | —                | —                   | —              | —               | —                   | —                                | 9,268                                  | —  | 9,268               |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries       | —                | —                   | —              | —               | —                   | —                                | (1,031)                                | —  | (1,031)             |
| Increase in value of interest rate swaps   | —                | —                   | —              | —               | —                   | —                                | 4,636                                  | —  | 4,636               |
| Adjustments to carry redeemable Class A units at redemption value                | —                | —                   | —              | —               | 90,208              | —                                | —                                      | —  | 90,208              |
| Redeemable noncontrolling interests' share of above adjustments                  | —                | —                   | —              | —               | —                   | —                                | 207                                    | —  | 207                 |
| Other  | —                | —                   | —              | —               | —                   | (46)                             | 2                                      | (47)   | (91)                |
| <b>Balance, June 30, 2017</b>  | <u>42,823</u>    | <u>\$ 1,038,011</u> | <u>189,465</u> | <u>\$ 7,556</u> | <u>\$ 7,279,834</u> | <u>\$ (1,524,806)</u>            | <u>\$ 115,839</u>                      | <u>\$ 727,796</u>                                      | <u>\$ 7,644,230</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(Amounts in thousands)

|  | <b>For the Six Months Ended June 30,</b> |                  |
|--|--|------------------|
|  | <b>2018</b>                              | <b>2017</b>      |
| <b>Cash Flows from Operating Activities:</b>                                       |  |                  |
| Net income   | \$ 105,620                               | \$ 221,331       |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |                  |
| Depreciation and amortization (including amortization of deferred financing costs) | 233,748                                  | 289,898          |
| Distributions of income from partially owned entities                              | 45,999                                   | 44,778           |
| Net realized and unrealized losses on real estate fund investments                 | 30,426                                   | 6,201            |
| Other non-cash adjustments   | 24,320                                   | 30,070           |
| Net gains on disposition of wholly owned and partially owned assets                | (23,559)                                 | (501)            |
| Amortization of below-market leases, net   | (21,107)                                 | (24,391)         |
| Return of capital from real estate fund investments                                | 20,291                                   | —                |
| Decrease in fair value of marketable securities                                    | 17,102                                   | —                |
| Straight-lining of rents   | (10,122)                                 | (28,581)         |
| Equity in net loss (income) of partially owned entities                            | 1,147                                    | (47,721)         |
| Net gains on sale of real estate and other   | —  | (2,267)          |
| Changes in operating assets and liabilities:                                       |  |                  |
| Real estate fund investments   | (68,950)                                 | —                |
| Tenant and other receivables, net  | (7,511)                                  | 3,974            |
| Prepaid assets   | (19,092)                                 | (146,770)        |
| Other assets   | (114,881)                                | (5,606)          |
| Accounts payable and accrued expenses  | (11,036)                                 | (6,029)          |
| Other liabilities  | 38,865                                   | (18,169)         |
| Net cash provided by operating activities  | <u>241,260</u>                           | <u>316,217</u>   |
| <b>Cash Flows from Investing Activities:</b>                                       |  |                  |
| Development costs and construction in progress                                     | (185,039)                                | (191,073)        |
| Additions to real estate   | (113,300)                                | (139,611)        |
| Distributions of capital from partially owned entities                             | 81,997                                   | 113,507          |
| Acquisitions of real estate and other  | (56,500)                                 | (11,841)         |
| Proceeds from sales of real estate and related investments                         | 44,599                                   | 5,180            |
| Investments in partially owned entities  | (26,663)                                 | (27,720)         |
| Proceeds from repayments of mortgage loans receivable                              | —  | 29               |
| Net cash used in investing activities  | <u>(254,906)</u>                         | <u>(251,529)</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
(UNAUDITED)

(Amounts in thousands)

|  | <b>For the Six Months Ended June 30,</b> |                     |
|--|--|---------------------|
|  | <b>2018</b>                              | <b>2017</b>         |
| <b>Cash Flows from Financing Activities:</b>   |  |                     |
| Redemption of preferred shares   | \$ (470,000)                             | \$ —                |
| Dividends paid on common shares  | (239,594)                                | (268,817)           |
| Proceeds from borrowings   | 189,042                                  | 226,929             |
| Repayments of borrowings   | (148,408)                                | (13,971)            |
| Contributions from noncontrolling interests  | 59,558                                   | 991                 |
| Distributions to noncontrolling interests  | (49,338)                                 | (25,617)            |
| Dividends paid on preferred shares   | (30,047)                                 | (32,258)            |
| Proceeds received from exercise of employee share options and other                                  | 4,471                                    | 9,626               |
| Debt issuance costs  | (3,289)                                  | (2,919)             |
| Debt prepayment and extinguishment costs   | (818)                                    | —                   |
| Repurchase of shares related to stock compensation agreements and related tax withholdings and other | (784)                                    | (285)               |
| Net cash used in financing activities  | (689,207)                                | (106,321)           |
| Net decrease in cash and cash equivalents and restricted cash  | (702,853)                                | (41,633)            |
| Cash and cash equivalents and restricted cash at beginning of period                                 | 1,914,812                                | 1,599,322           |
| Cash and cash equivalents and restricted cash at end of period                                       | <u>\$ 1,211,959</u>                      | <u>\$ 1,557,689</u> |

**Reconciliation of Cash and Cash Equivalents and Restricted Cash:**

|  |                     |                     |
|--|---------------------|---------------------|
| Cash and cash equivalents at beginning of period                           | \$ 1,817,655        | \$ 1,501,027        |
| Restricted cash at beginning of period                                     | 97,157              | 95,032              |
| Restricted cash included in discontinued operations at beginning of period | —                   | 3,263               |
| Cash and cash equivalents and restricted cash at beginning of period       | <u>\$ 1,914,812</u> | <u>\$ 1,599,322</u> |
| Cash and cash equivalents at end of period                                 | \$ 1,090,791        | \$ 1,471,303        |
| Restricted cash at end of period   | 121,168             | 82,651              |
| Restricted cash included in discontinued operations at end of period       | —                   | 3,735               |
| Cash and cash equivalents and restricted cash at end of period             | <u>\$ 1,211,959</u> | <u>\$ 1,557,689</u> |

**Supplemental Disclosure of Cash Flow Information:**

|   |                   |                   |
|---|-------------------|-------------------|
| Cash payments for interest, excluding capitalized interest of \$28,558 and \$20,050 | <u>\$ 155,875</u> | <u>\$ 175,718</u> |
| Cash payments for income taxes  | <u>\$ 4,365</u>   | <u>\$ 3,151</u>   |

**Non-Cash Investing and Financing Activities:**

|  |           |           |
|--|-----------|-----------|
| Accrued capital expenditures included in accounts payable and accrued expenses | \$ 54,176 | \$ 59,733 |
| Write-off of fully depreciated assets  | (38,117)  | (35,727)  |
| Adjustments to carry redeemable Class A units at redemption value              | 36,450    | 90,208    |
| Reduction in unrealized net gain on available-for-sale securities              | —         | (16,215)  |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

(Amounts in thousands, except unit amounts)

|   | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|---|----------------------|--------------------------|
| <b>ASSETS</b>   |                      |                          |
| Real estate, at cost:   |                      |                          |
| Land  | \$ 3,175,830         | \$ 3,143,648             |
| Buildings and improvements  | 9,969,190            | 9,898,605                |
| Development costs and construction in progress  | 1,797,301            | 1,615,101                |
| Leasehold improvements and equipment  | 105,625              | 98,941                   |
| Total   | <u>15,047,946</u>    | <u>14,756,295</u>        |
| Less accumulated depreciation and amortization  | <u>(3,035,523)</u>   | <u>(2,885,283)</u>       |
| Real estate, net  | 12,012,423           | 11,871,012               |
| Cash and cash equivalents   | 1,090,791            | 1,817,655                |
| Restricted cash   | 121,168              | 97,157                   |
| Marketable securities   | 165,650              | 182,752                  |
| Tenant and other receivables, net of allowance for doubtful accounts of \$3,891 and \$5,526 | 65,773               | 58,700                   |
| Investments in partially owned entities   | 959,801              | 1,056,829                |
| Real estate fund investments  | 373,039              | 354,804                  |
| Receivable arising from the straight-lining of rents, net of allowance of \$1,798 and \$954 | 936,614              | 926,711                  |
| Deferred leasing costs, net of accumulated amortization of \$198,100 and \$191,827          | 443,859              | 403,492                  |
| Identified intangible assets, net of accumulated amortization of \$163,406 and \$150,837    | 146,370              | 159,260                  |
| Assets related to discontinued operations   | 52                   | 1,357                    |
| Other assets  | 550,543              | 468,205                  |
|   | <u>\$ 16,866,083</u> | <u>\$ 17,397,934</u>     |
| <b>LIABILITIES, REDEEMABLE PARTNERSHIP UNITS AND EQUITY</b>                                 |                      |                          |
| Mortgages payable, net  | \$ 8,108,618         | \$ 8,137,139             |
| Senior unsecured notes, net   | 843,417              | 843,614                  |
| Unsecured term loan, net  | 749,494              | 748,734                  |
| Unsecured revolving credit facilities   | 80,000               | —                        |
| Accounts payable and accrued expenses   | 394,079              | 415,794                  |
| Deferred revenue  | 187,934              | 227,069                  |
| Deferred compensation plan  | 100,368              | 109,177                  |
| Liabilities related to discontinued operations  | 214                  | 3,620                    |
| Preferred units redeemed on January 4 and 11, 2018  | —                    | 455,514                  |
| Other liabilities   | 520,331              | 464,635                  |
| Total liabilities   | <u>10,984,455</u>    | <u>11,405,296</u>        |
| Commitments and contingencies   |                      |                          |
| Redeemable partnership units:   |                      |                          |
| Class A units - 12,616,515 and 12,528,899 units outstanding                                 | 932,613              | 979,509                  |
| Series D cumulative redeemable preferred units - 177,101 units outstanding                  | <u>5,428</u>         | <u>5,428</u>             |
| Total redeemable partnership units  | <u>938,041</u>       | <u>984,937</u>           |
| Equity:   |                      |                          |
| Partners' capital   | 8,454,905            | 8,392,223                |
| Earnings less than distributions  | (4,206,381)          | (4,183,253)              |
| Accumulated other comprehensive income  | 33,351               | 128,682                  |
| Total Vornado Realty L.P. equity  | <u>4,281,875</u>     | <u>4,337,652</u>         |
| Noncontrolling interests in consolidated subsidiaries                                       | <u>661,712</u>       | <u>670,049</u>           |
| Total equity  | <u>\$ 4,943,587</u>  | <u>\$ 5,007,701</u>      |
|   | <u>\$ 16,866,083</u> | <u>\$ 17,397,934</u>     |

See notes to consolidated financial statements (unaudited).





**VORNADO REALTY L.P.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(Amounts in thousands, except per unit amounts)

|  | For the Three Months Ended<br>June 30, |                   | For the Six Months Ended<br>June 30, |                   |
|--|--|-------------------|--------------------------------------|-------------------|
|  | 2018                                   | 2017              | 2018                                 | 2017              |
| <b>REVENUES:</b>   |  |                   |                                      |                   |
| Property rentals   | \$ 444,595                             | \$ 428,643        | \$ 884,705                           | \$ 843,535        |
| Tenant expense reimbursements  | 58,312                                 | 51,657            | 118,622                              | 110,690           |
| Fee and other income   | 38,911                                 | 30,787            | 74,928                               | 64,920            |
| Total revenues   | <u>541,818</u>                         | <u>511,087</u>    | <u>1,078,255</u>                     | <u>1,019,145</u>  |
| <b>EXPENSES:</b>   |  |                   |                                      |                   |
| Operating  | 235,981                                | 215,700           | 473,583                              | 436,359           |
| Depreciation and amortization  | 111,846                                | 105,123           | 220,532                              | 210,251           |
| General and administrative   | 34,427                                 | 35,405            | 76,960                               | 81,580            |
| Expense from deferred compensation plan liability  | 2,077                                  | 789               | 1,673                                | 3,258             |
| Transaction related costs and other  | 1,017                                  | 260               | 14,173                               | 1,012             |
| Total expenses   | <u>385,348</u>                         | <u>357,277</u>    | <u>786,921</u>                       | <u>732,460</u>    |
| Operating income   | 156,470                                | 153,810           | 291,334                              | 286,685           |
| Income (loss) from partially owned entities  | 8,757                                  | 46,021            | (1,147)                              | 47,379            |
| (Loss) income from real estate fund investments  | (28,976)                               | 4,391             | (37,783)                             | 4,659             |
| Interest and other investment income, net  | 30,892                                 | 8,541             | 6,508                                | 15,236            |
| Income from deferred compensation plan assets  | 2,077                                  | 789               | 1,673                                | 3,258             |
| Interest and debt expense  | (87,657)                               | (84,789)          | (175,823)                            | (167,513)         |
| Net gains on disposition of wholly owned and partially owned assets                          | 23,559                                 | —                 | 23,559                               | 501               |
| Income before income taxes   | 105,122                                | 128,763           | 108,321                              | 190,205           |
| Income tax (expense) benefit   | (467)                                  | 610               | (3,021)                              | (2,303)           |
| Income from continuing operations  | 104,655                                | 129,373           | 105,300                              | 187,902           |
| Income from discontinued operations  | 683                                    | 18,111            | 320                                  | 33,429            |
| Net income   | 105,338                                | 147,484           | 105,620                              | 221,331           |
| Less net loss (income) attributable to noncontrolling interests in consolidated subsidiaries | 26,175                                 | (7,677)           | 34,449                               | (14,414)          |
| Net income attributable to Vornado Realty L.P.   | 131,513                                | 139,807           | 140,069                              | 206,917           |
| Preferred unit distributions   | (12,582)                               | (16,177)          | (25,666)                             | (32,355)          |
| Preferred unit issuance costs  | —                                      | —                 | (14,486)                             | —                 |
| <b>NET INCOME attributable to Class A unitholders</b>  | <u>\$ 118,931</u>                      | <u>\$ 123,630</u> | <u>\$ 99,917</u>                     | <u>\$ 174,562</u> |
| <b>INCOME PER CLASS A UNIT – BASIC:</b>  |  |                   |                                      |                   |
| Income from continuing operations, net   | \$ 0.58                                | \$ 0.52           | \$ 0.49                              | \$ 0.69           |
| Income from discontinued operations, net   | —                                      | 0.09              | —                                    | 0.17              |
| Net income per Class A unit  | <u>\$ 0.58</u>                         | <u>\$ 0.61</u>    | <u>\$ 0.49</u>                       | <u>\$ 0.86</u>    |
| Weighted average units outstanding   | <u>202,064</u>                         | <u>201,127</u>    | <u>201,997</u>                       | <u>200,987</u>    |
| <b>INCOME PER CLASS A UNIT – DILUTED:</b>  |  |                   |                                      |                   |
| Income from continuing operations, net   | \$ 0.58                                | \$ 0.52           | \$ 0.48                              | \$ 0.69           |
| Income from discontinued operations, net   | —                                      | 0.09              | —                                    | 0.16              |
| Net income per Class A unit  | <u>\$ 0.58</u>                         | <u>\$ 0.61</u>    | <u>\$ 0.48</u>                       | <u>\$ 0.85</u>    |
| Weighted average units outstanding   | <u>203,354</u>                         | <u>202,623</u>    | <u>203,266</u>                       | <u>202,617</u>    |
| <b>DISTRIBUTIONS PER CLASS A UNIT</b>  | <u>\$ 0.63</u>                         | <u>\$ 0.71</u>    | <u>\$ 1.26</u>                       | <u>\$ 1.42</u>    |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

(Amounts in thousands)

|  | For the Three Months Ended<br>June 30, |                   | For the Six Months Ended June<br>30, |                   |
|--|--|-------------------|--------------------------------------|-------------------|
|  | 2018                                   | 2017              | 2018                                 | 2017              |
| Net income   | \$ 105,338                             | \$ 147,484        | \$ 105,620                           | \$ 221,331        |
| Other comprehensive income (loss):   |  |                   |                                      |                   |
| Increase (reduction) in value of interest rate swaps and other   | 2,908                                  | (1,204)           | 13,166                               | 4,638             |
| Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries                                | 390                                    | (980)             | 736                                  | (1,031)           |
| Reduction in unrealized net gain on available-for-sale securities  | —                                      | (1,206)           | —                                    | (16,215)          |
| Pro rata share of amounts reclassified from accumulated other comprehensive income of a nonconsolidated subsidiary | —                                      | —                 | —                                    | 9,268             |
| Comprehensive income   | 108,636                                | 144,094           | 119,522                              | 217,991           |
| Less comprehensive loss (income) attributable to noncontrolling interests in consolidated subsidiaries             | 26,175                                 | (7,677)           | 34,449                               | (14,414)          |
| Comprehensive income attributable to Vornado Realty L.P.   | <u>\$ 134,811</u>                      | <u>\$ 136,417</u> | <u>\$ 153,971</u>                    | <u>\$ 203,577</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**

(Amounts in thousands)

|  | Preferred Units |                   | Class A Units<br>Owned by Vornado |                     | Earnings<br>Less Than<br>Distributions | Accumulated<br>Other<br>Comprehensive<br>Income | Non-<br>controlling<br>Interests in<br>Consolidated<br>Subsidiaries | Total Equity        |
|--|-----------------|-------------------|-----------------------------------|---------------------|--|---|---|---------------------|
|  | Units           | Amount            | Units                             | Amount              |  |   |   |                     |
| <b>Balance, December 31, 2017</b>  | 36,800          | \$ 891,988        | 189,984                           | \$ 7,500,235        | \$ (4,183,253)                         | \$ 128,682                                      | \$ 670,049  | \$ 5,007,701        |
| Cumulative effect of accounting change<br>(see Note 3)                             | —               | —                 | —                                 | —                   | 122,893                                | (108,374)                                       | —   | 14,519              |
| Net income attributable to Vornado<br>Realty L.P.                                  | —               | —                 | —                                 | —                   | 140,069                                | —   | —   | 140,069             |
| Net income attributable to redeemable<br>partnership units                         | —               | —                 | —                                 | —                   | (6,321)                                | —   | —   | (6,321)             |
| Net loss attributable to noncontrolling<br>interests in consolidated subsidiaries  | —               | —                 | —                                 | —                   | —                                      | —   | (34,449)  | (34,449)            |
| Distributions to Vornado   | —               | —                 | —                                 | —                   | (239,594)                              | —   | —   | (239,594)           |
| Distributions to preferred unitholders   | —               | —                 | —                                 | —                   | (25,569)                               | —   | —   | (25,569)            |
| Preferred unit issuance costs  | —               | —                 | —                                 | —                   | (14,486)                               | —   | —   | (14,486)            |
| Class A Units issued to Vornado:   |                 |                   |                                   |                     |  |   |   |                     |
| Upon redemption of redeemable<br>Class A units, at redemption<br>value             | —               | —                 | 176                               | 12,246              | —                                      | —   | —   | 12,246              |
| Under Vornado's employees' share<br>option plan                                    | —               | —                 | 61                                | 3,786               | —                                      | —   | —   | 3,786               |
| Under Vornado's dividend<br>reinvestment plan                                      | —               | —                 | 10                                | 685                 | —                                      | —   | —   | 685                 |
| Contributions:   |                 |                   |                                   |                     |  |   |   |                     |
| Real estate fund investments   | —               | —                 | —                                 | —                   | —                                      | —   | 45,347  | 45,347              |
| Other  | —               | —                 | —                                 | —                   | —                                      | —   | 14,211  | 14,211              |
| Distributions:   |                 |                   |                                   |                     |  |   |   |                     |
| Real estate fund investments   | —               | —                 | —                                 | —                   | —                                      | —   | (10,246)  | (10,246)            |
| Other  | —               | —                 | —                                 | —                   | —                                      | —   | (23,201)  | (23,201)            |
| Preferred unit issuance  | —               | (663)             | —                                 | —                   | —                                      | —   | —   | (663)               |
| Deferred compensation units and options  | —               | —                 | 7                                 | 585                 | (121)                                  | —   | —   | 464                 |
| Pro rata share of other comprehensive<br>income of nonconsolidated<br>subsidiaries | —               | —                 | —                                 | —                   | —                                      | 736   | —   | 736                 |
| Increase in value of interest rate swaps   | —               | —                 | —                                 | —                   | —                                      | 13,166  | —   | 13,166              |
| Unearned 2015 Out-Performance Plan<br>awards acceleration                          | —               | —                 | —                                 | 9,046               | —                                      | —   | —   | 9,046               |
| Adjustments to carry redeemable Class A<br>units at redemption value               | —               | —                 | —                                 | 36,450              | —                                      | —   | —   | 36,450              |
| Redeemable partnership units' share of<br>above adjustments                        | —               | —                 | —                                 | —                   | —                                      | (859)   | —   | (859)               |
| Other  | —               | —                 | —                                 | 547                 | 1                                      | —   | 1   | 549                 |
| <b>Balance, June 30, 2018</b>  | <b>36,800</b>   | <b>\$ 891,325</b> | <b>190,238</b>                    | <b>\$ 7,563,580</b> | <b>\$ (4,206,381)</b>                  | <b>\$ 33,351</b>                                | <b>\$ 661,712</b>   | <b>\$ 4,943,587</b> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED**  
**(UNAUDITED)**

(Amounts in thousands)

|  | Preferred Units |                     | Class A Units<br>Owned by Vornado |                     | Earnings<br>Less Than<br>Distributions | Accumulated<br>Other<br>Comprehensive<br>Income | Non-<br>controlling<br>Interests in<br>Consolidated<br>Subsidiaries | Total<br>Equity     |
|--|-----------------|---------------------|-----------------------------------|---------------------|--|---|---|---------------------|
|  | Units           | Amount              | Units                             | Amount              |  |   |   |                     |
| <b>Balance, December 31, 2016</b>  | 42,825          | \$ 1,038,055        | 189,101                           | \$ 7,160,874        | \$ (1,419,382)                         | \$ 118,972                                      | \$ 719,977  | \$ 7,618,496        |
| Net income attributable to Vornado Realty L.P.                                   | —               | —                   | —                                 | —                   | 206,917                                | —   | —   | 206,917             |
| Net income attributable to redeemable partnership units                          | —               | —                   | —                                 | —                   | (10,935)                               | —   | —   | (10,935)            |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | —               | —                   | —                                 | —                   | —                                      | —   | 14,414  | 14,414              |
| Distributions to Vornado   | —               | —                   | —                                 | —                   | (268,817)                              | —   | —   | (268,817)           |
| Distributions to preferred unitholders   | —               | —                   | —                                 | —                   | (32,258)                               | —   | —   | (32,258)            |
| Class A Units issued to Vornado:   |                 |                     |                                   |                     |  |   |   |                     |
| Upon redemption of redeemable Class A units, at redemption value                 | —               | —                   | 249                               | 25,562              | —                                      | —   | —   | 25,562              |
| Under Vornado's employees' share option plan                                     | —               | —                   | 103                               | 8,846               | —                                      | —   | —   | 8,846               |
| Under Vornado's dividend reinvestment plan                                       | —               | —                   | 8                                 | 780                 | —                                      | —   | —   | 780                 |
| Contributions  | —               | —                   | —                                 | —                   | —                                      | —   | 991   | 991                 |
| Distributions:   |                 |                     |                                   |                     |  |   |   |                     |
| Real estate fund investments   | —               | —                   | —                                 | —                   | —                                      | —   | (6,200)   | (6,200)             |
| Other  | —               | —                   | —                                 | —                   | —                                      | —   | (1,339)   | (1,339)             |
| Conversion of Series A preferred units to Class A units                          | (2)             | (44)                | 2                                 | 44                  | —                                      | —   | —   | —                   |
| Deferred compensation units and options  | —               | —                   | 2                                 | 1,076               | (285)                                  | —   | —   | 791                 |
| Reduction in unrealized net gain on available-for-sale securities                | —               | —                   | —                                 | —                   | —                                      | (16,215)  | —   | (16,215)            |
| Pro rata share of amounts reclassified related to a nonconsolidated subsidiary   | —               | —                   | —                                 | —                   | —                                      | 9,268   | —   | 9,268               |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries       | —               | —                   | —                                 | —                   | —                                      | (1,031)   | —   | (1,031)             |
| Increase in value of interest rate swaps   | —               | —                   | —                                 | —                   | —                                      | 4,636   | —   | 4,636               |
| Adjustments to carry redeemable Class A units at redemption value                | —               | —                   | —                                 | 90,208              | —                                      | —   | —   | 90,208              |
| Redeemable partnership units' share of above adjustments                         | —               | —                   | —                                 | —                   | —                                      | 207   | —   | 207                 |
| Other  | —               | —                   | —                                 | —                   | (46)                                   | 2   | (47)  | (91)                |
| <b>Balance, June 30, 2017</b>  | <u>42,823</u>   | <u>\$ 1,038,011</u> | <u>189,465</u>                    | <u>\$ 7,287,390</u> | <u>\$ (1,524,806)</u>                  | <u>\$ 115,839</u>                               | <u>\$ 727,796</u>   | <u>\$ 7,644,230</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(Amounts in thousands)

|  | <b>For the Six Months Ended June 30,</b> |                  |
|--|--|------------------|
|  | <b>2018</b>                              | <b>2017</b>      |
| <b>Cash Flows from Operating Activities:</b>                                       |  |                  |
| Net income   | \$ 105,620                               | \$ 221,331       |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |                  |
| Depreciation and amortization (including amortization of deferred financing costs) | 233,748                                  | 289,898          |
| Distributions of income from partially owned entities                              | 45,999                                   | 44,778           |
| Net realized and unrealized losses on real estate fund investments                 | 30,426                                   | 6,201            |
| Other non-cash adjustments   | 24,320                                   | 30,070           |
| Net gains on disposition of wholly owned and partially owned assets                | (23,559)                                 | (501)            |
| Amortization of below-market leases, net   | (21,107)                                 | (24,391)         |
| Return of capital from real estate fund investments                                | 20,291                                   | —                |
| Decrease in fair value of marketable securities                                    | 17,102                                   | —                |
| Straight-lining of rents   | (10,122)                                 | (28,581)         |
| Equity in net loss (income) of partially owned entities                            | 1,147                                    | (47,721)         |
| Net gains on sale of real estate and other   | —  | (2,267)          |
| Changes in operating assets and liabilities:                                       |  |                  |
| Real estate fund investments   | (68,950)                                 | —                |
| Tenant and other receivables, net  | (7,511)                                  | 3,974            |
| Prepaid assets   | (19,092)                                 | (146,770)        |
| Other assets   | (114,881)                                | (5,606)          |
| Accounts payable and accrued expenses  | (11,036)                                 | (6,029)          |
| Other liabilities  | 38,865                                   | (18,169)         |
| Net cash provided by operating activities  | <u>241,260</u>                           | <u>316,217</u>   |
| <b>Cash Flows from Investing Activities:</b>                                       |  |                  |
| Development costs and construction in progress                                     | (185,039)                                | (191,073)        |
| Additions to real estate   | (113,300)                                | (139,611)        |
| Distributions of capital from partially owned entities                             | 81,997                                   | 113,507          |
| Acquisitions of real estate and other  | (56,500)                                 | (11,841)         |
| Proceeds from sales of real estate and related investments                         | 44,599                                   | 5,180            |
| Investments in partially owned entities  | (26,663)                                 | (27,720)         |
| Proceeds from repayments of mortgage loans receivable                              | —  | 29               |
| Net cash used in investing activities  | <u>(254,906)</u>                         | <u>(251,529)</u> |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
**(UNAUDITED)**

(Amounts in thousands)

|   | <b>For the Six Months Ended June 30,</b> |                     |
|---|--|---------------------|
|   | <b>2018</b>                              | <b>2017</b>         |
| <b>Cash Flows from Financing Activities:</b>  |  |                     |
| Redemption of preferred units   | \$ (470,000)                             | \$ —                |
| Distributions to Vornado  | (239,594)                                | (268,817)           |
| Proceeds from borrowings  | 189,042                                  | 226,929             |
| Repayments of borrowings  | (148,408)                                | (13,971)            |
| Contributions from noncontrolling interests in consolidated subsidiaries                                    | 59,558                                   | 991                 |
| Distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries      | (49,338)                                 | (25,617)            |
| Distributions to preferred unitholders  | (30,047)                                 | (32,258)            |
| Proceeds received from exercise of Vornado stock options and other  | 4,471                                    | 9,626               |
| Debt issuance costs   | (3,289)                                  | (2,919)             |
| Debt prepayment and extinguishment costs  | (818)                                    | —                   |
| Repurchase of Class A units related to stock compensation agreements and related tax withholdings and other | (784)                                    | (285)               |
| Net cash used in financing activities   | (689,207)                                | (106,321)           |
| Net decrease in cash and cash equivalents and restricted cash   | (702,853)                                | (41,633)            |
| Cash and cash equivalents and restricted cash at beginning of period  | 1,914,812                                | 1,599,322           |
| Cash and cash equivalents and restricted cash at end of period  | <u>\$ 1,211,959</u>                      | <u>\$ 1,557,689</u> |
| <b>Reconciliation of Cash and Cash Equivalents and Restricted Cash:</b>                                     |  |                     |
| Cash and cash equivalents at beginning of period  | \$ 1,817,655                             | \$ 1,501,027        |
| Restricted cash at beginning of period  | 97,157                                   | 95,032              |
| Restricted cash included in discontinued operations at beginning of period                                  | —  | 3,263               |
| Cash and cash equivalents and restricted cash at beginning of period  | <u>\$ 1,914,812</u>                      | <u>\$ 1,599,322</u> |
| Cash and cash equivalents at end of period  | \$ 1,090,791                             | \$ 1,471,303        |
| Restricted cash at end of period  | 121,168                                  | 82,651              |
| Restricted cash included in discontinued operations at end of period  | —  | 3,735               |
| Cash and cash equivalents and restricted cash at end of period  | <u>\$ 1,211,959</u>                      | <u>\$ 1,557,689</u> |
| <b>Supplemental Disclosure of Cash Flow Information:</b>  |  |                     |
| Cash payments for interest, excluding capitalized interest of \$28,558 and \$20,050                         | \$ 155,875                               | \$ 175,718          |
| Cash payments for income taxes  | \$ 4,365                                 | \$ 3,151            |
| <b>Non-Cash Investing and Financing Activities:</b>   |  |                     |
| Accrued capital expenditures included in accounts payable and accrued expenses                              | \$ 54,176                                | \$ 59,733           |
| Write-off of fully depreciated assets   | (38,117)                                 | (35,727)            |
| Adjustments to carry redeemable Class A units at redemption value   | 36,450                                   | 90,208              |
| Reduction in unrealized net gain on available-for-sale securities   | —  | (16,215)            |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Organization**

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 93.5% of the common limited partnership interest in, the Operating Partnership as of June 30, 2018. All references to the “Company,” “we,” “us,” and “our” mean collectively Vornado, the Operating Partnership and those entities/subsidiaries consolidated by Vornado.

**2. Basis of Presentation**

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and the Operating Partnership and their consolidated subsidiaries. All inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results for the full year.

Certain prior year balances have been reclassified in order to conform to the current period presentation. For the three and six months ended June 30, 2017, an expense of \$789,000 and \$3,258,000, respectively, related to the mark-to-market of our deferred compensation plan liability was reclassified from “general and administrative expenses” to “expense from deferred compensation plan liability” and income of \$789,000 and \$3,258,000, respectively, related to the mark-to-market of our deferred compensation plan assets was reclassified from “interest and other investment income, net” to “income from deferred compensation plan assets” on our consolidated statements of income. In addition, for the six months ended June 30, 2017, an expense of \$1,062,000 related to New York City Unincorporated Business Tax was reclassified from “general and administrative expenses” to “income tax (expense) benefit” on our consolidated statements of income.

**3. Recently Issued Accounting Literature**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-09”) establishing Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. We adopted this standard effective January 1, 2018 using the modified retrospective method applied to all existing contracts not yet completed as of January 1, 2018 and recorded a \$14,519,000 cumulative-effect adjustment to beginning accumulated deficit. The adoption of ASC 606 did not have a material impact on our financial statements (see Note 4 - *Revenue Recognition*).



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**3. Recently Issued Accounting Literature - continued**

In January 2016, the FASB issued an update ("ASU 2016-01") *Recognition and Measurement of Financial Assets and Financial Liabilities* to ASC Topic 825, *Financial Instruments*. ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We adopted this update effective January 1, 2018 using the modified retrospective approach. While the adoption of this update requires us to continue to measure "marketable securities" at fair value on each reporting date, the changes in fair value will be recognized in current period earnings as opposed to "other comprehensive income (loss)." As a result, on January 1, 2018 we recorded a decrease to beginning accumulated deficit of \$111,225,000 to recognize the unrealized gains previously recorded in "accumulated other comprehensive income" on our consolidated balance sheets. Subsequent changes in the fair value of our marketable securities will be recorded to "interest and other investment income, net" on our consolidated statements of income. For the three and six months ended June 30, 2018, we recorded a \$15,884,000 increase and \$17,102,000 decrease, respectively, in the fair value of our marketable securities which is included in "interest and other investment income, net" on our consolidated statements of income.

In February 2016, the FASB issued an update ("ASU 2016-02") establishing ASC Topic 842, *Leases*, as amended by subsequent ASUs on the topic, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. The accounting applied by the lessor is largely unchanged from that applied under the existing lease standard. We are currently evaluating the overall impact of the adoption of ASU 2016-02 on our consolidated financial statements and believe that the standard will more significantly impact the accounting for leases in which we are a lessee. We have a number of ground leases for which we will be required to record a right-of-use asset and lease liability equal to the present value of the remaining minimum lease payments, and will continue to recognize expense on a straight-line basis upon adoption of this standard. Under ASU 2016-02, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, we will no longer be able to capitalize internal leasing costs and instead will be required to expense these costs as incurred. During the three and six months ended June 30, 2018 and 2017, we capitalized internal leasing costs of \$1,358,000 and \$2,706,000, and \$1,241,000 and \$2,214,000 respectively, excluding our former Washington, DC segment which was spun-off on July 17, 2017. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We will adopt this standard effective January 1, 2019 using the modified retrospective approach and will elect to use the practical expedients provided by this standard.

In February 2017, the FASB issued an update ("ASU 2017-05") *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* to ASC Subtopic 610-20, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 clarifies the scope of recently established guidance on nonfinancial asset derecognition, as well as the accounting for partial sales of nonfinancial assets. This update conforms the derecognition guidance on nonfinancial assets with the model for transactions in ASC 606. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We adopted this update on January 1, 2018 using the modified retrospective approach applied to all contracts not yet completed. The adoption of this update did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued an update ("ASU 2017-09") *Scope of Modification Accounting* to ASC Topic 718, *Compensation - Stock Compensation* ("ASC 718"). ASU 2017-09 provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. ASU 2017-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The adoption of this update on January 1, 2018 did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued an update ("ASU 2017-12") *Targeted Improvements to Accounting for Hedging Activities* to ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815. The update is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting and increase transparency as to the scope and results of hedge programs. ASU 2017-12 requires subsequent changes in fair value of a hedging instrument that has been designated and qualifies as a cash flow hedge to be recognized as a component of "other comprehensive income (loss)." ASU 2017-12 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018, with early adoption permitted. We early adopted ASU 2017-12 on January 1, 2018 using the modified retrospective approach. The adoption of this update did not have a material impact on our consolidated financial statements.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**4. Revenue Recognition**

On January 1, 2018, we adopted ASC 606 which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard requires us to recognize for certain of our revenue sources the transfer of promised goods or services to customers in an amount that reflects the consideration we are entitled to in exchange for those goods or services. We adopted this standard effective January 1, 2018 using the modified retrospective method applied to all existing contracts not yet completed as of January 1, 2018 and recorded a \$14,519,000 cumulative-effect adjustment to beginning accumulated deficit. The adoption of ASC 606 did not have a material impact on our consolidated financial statements.

Our revenues primarily consist of property rentals, tenant expense reimbursements, and fee and other income. We operate in two reportable segments: New York and Other, with a significant portion of our revenues included in the "New York" segment. We have the following revenue sources and revenue recognition policies:

- Base rent is revenue 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. We commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances where we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease.
- Hotel revenue arising from the operation of Hotel Pennsylvania consists of rooms revenue, food and beverage revenue, and banquet revenue. Room revenue is recognized when rooms are occupied. Food and beverage and banquet revenue are recognized when the services have been transferred.
- Trade shows revenue arising from the operation of trade shows is primarily booth rentals. This revenue is recognized upon the occurrence of the trade shows.
- Operating expense reimbursements is 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 common areas of our properties. Revenue is recognized in the same period as the related expenses are incurred.
- Tenant services is revenue arising from sub-metered electric, elevator, trash removal and other services provided to tenants at their request. This revenue is recognized as the services are transferred.
- Fee and other income includes management, leasing and other revenue arising from contractual agreements with third parties or with partially owned entities, and includes Building Maintenance Service ("BMS") cleaning, engineering and security services. This revenue is recognized as the services are transferred. Fee and other income also includes lease termination fee income which is recognized immediately if a tenant vacates or is recognized on a straight-line basis over the shortened remaining lease term.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**4. Revenue Recognition - continued**

Below is a summary of our revenues by segment. Base rent, operating expense reimbursements and lease terminations represent revenues from leases and are recognized in accordance with ASC Topic 840, *Leases*. Revenues from Hotel Pennsylvania, trade shows, tenant services, BMS cleaning fees, management and leasing fees and other income represent revenues recognized in accordance with ASC 606. Additional financial information related to these reportable segments for the three and six months ended June 30, 2018 and 2017 is set forth in Note 22 - *Segment Information*.

| (Amounts in thousands)             | For the Three Months Ended June 30, 2018 |                   |                  | For the Three Months Ended June 30, 2017 |                   |                  |
|------------------------------------|--|-------------------|------------------|--|-------------------|------------------|
|                                    | Total                                    | New York          | Other            | Total                                    | New York          | Other            |
| Base rent                          | \$ 405,927                               | \$ 343,084        | \$ 62,843        | \$ 393,116                               | \$ 334,476        | \$ 58,640        |
| Hotel Pennsylvania                 | 27,082                                   | 27,082            | —                | 24,986                                   | 24,986            | —                |
| Trade shows                        | 11,586                                   | —                 | 11,586           | 10,541                                   | —                 | 10,541           |
| Property rentals                   | 444,595                                  | 370,166           | 74,429           | 428,643                                  | 359,462           | 69,181           |
| Operating expense reimbursements   | 44,784                                   | 40,356            | 4,428            | 39,014                                   | 35,510            | 3,504            |
| Tenant services                    | 13,528                                   | 10,394            | 3,134            | 12,643                                   | 10,031            | 2,612            |
| Tenant expense reimbursements      | 58,312                                   | 50,750            | 7,562            | 51,657                                   | 45,541            | 6,116            |
| BMS cleaning fees                  | 30,867                                   | 33,407            | (2,540)          | 24,425                                   | 26,617            | (2,192)          |
| Management and leasing fees        | 2,707                                    | 2,464             | 243              | 2,777                                    | 2,465             | 312              |
| Lease termination fees             | 804                                      | 400               | 404              | 1,106                                    | 1,062             | 44               |
| Other income                       | 4,533                                    | 1,365             | 3,168            | 2,479                                    | 1,715             | 764              |
| Fee and other income               | 38,911                                   | 37,636            | 1,275            | 30,787                                   | 31,859            | (1,072)          |
| <b>Total consolidated revenues</b> | <b>\$ 541,818</b>                        | <b>\$ 458,552</b> | <b>\$ 83,266</b> | <b>\$ 511,087</b>                        | <b>\$ 436,862</b> | <b>\$ 74,225</b> |

| (Amounts in thousands)             | For the Six Months Ended June 30, 2018 |                   |                   | For the Six Months Ended June 30, 2017 |                   |                   |
|------------------------------------|--|-------------------|-------------------|--|-------------------|-------------------|
|                                    | Total                                  | New York          | Other             | Total                                  | New York          | Other             |
| Base rent                          | \$ 812,490                             | \$ 687,758        | \$ 124,732        | \$ 776,956                             | \$ 660,157        | \$ 116,799        |
| Hotel Pennsylvania                 | 41,754                                 | 41,754            | —                 | 37,627                                 | 37,627            | —                 |
| Trade shows                        | 30,461                                 | —                 | 30,461            | 28,952                                 | —                 | 28,952            |
| Property rentals                   | 884,705                                | 729,512           | 155,193           | 843,535                                | 697,784           | 145,751           |
| Operating expense reimbursements   | 92,652                                 | 85,082            | 7,570             | 85,389                                 | 78,466            | 6,923             |
| Tenant services                    | 25,970                                 | 20,158            | 5,812             | 25,301                                 | 20,614            | 4,687             |
| Tenant expense reimbursements      | 118,622                                | 105,240           | 13,382            | 110,690                                | 99,080            | 11,610            |
| BMS cleaning fees                  | 59,222                                 | 63,560            | (4,338)           | 49,496                                 | 52,740            | (3,244)           |
| Management and leasing fees        | 5,471                                  | 4,945             | 526               | 5,052                                  | 4,492             | 560               |
| Lease termination fees             | 1,149                                  | 708               | 441               | 4,956                                  | 4,789             | 167               |
| Other income                       | 9,086                                  | 3,071             | 6,015             | 5,416                                  | 4,216             | 1,200             |
| Fee and other income               | 74,928                                 | 72,284            | 2,644             | 64,920                                 | 66,237            | (1,317)           |
| <b>Total consolidated revenues</b> | <b>\$ 1,078,255</b>                    | <b>\$ 907,036</b> | <b>\$ 171,219</b> | <b>\$ 1,019,145</b>                    | <b>\$ 863,101</b> | <b>\$ 156,044</b> |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**5. Acquisition**

On February 9, 2018, we acquired 537 West 26th Street, a 14,000 square foot commercial property adjacent to our 260 Eleventh Avenue office property and 55,000 square feet of additional zoning air rights, for \$44,000,000.

**6. Real Estate Fund Investments**

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the "Fund") and own a 25.0% interest in the Fund, which had an initial eight-year term ending February 2019. On January 29, 2018, the Fund's term was extended to February 2023. The Fund's three-year investment period ended in July 2013. The Fund is accounted for under ASC Topic 946, *Financial Services – Investment Companies* ("ASC 946") and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

We are also the general partner and investment manager of the Crowne Plaza Times Square Hotel Joint Venture (the "Crowne Plaza Joint Venture") and own a 57.1% interest in the joint venture which owns the 24.7% interest in the Crowne Plaza Times Square Hotel not owned by the Fund. The Crowne Plaza Joint Venture is also accounted for under ASC 946 and we consolidate the accounts of the joint venture into our consolidated financial statements, retaining the fair value basis of accounting.

On January 17, 2018, the Fund completed the sale of the retail condominium at 11 East 68th Street, a property located on Madison Avenue and 68th Street, for \$82,000,000. From the inception of this investment through its disposition, the Fund realized a \$46,259,000 net gain.

In March 2011, a joint venture (the "Joint Venture") owned 64.7% by the Fund, 30.3% by Vornado and 5.0% by a third party, acquired One Park Avenue for \$394,000,000. In connection with the acquisition, the Joint Venture paid \$3,000,000 of New York City real property transfer tax (the "Transfer Tax") and filed a Real Property Tax Return ("RPTR") with the New York City Department of Finance (the "Department of Finance"). The RPTR was audited by the Department of Finance in 2014 and an increased Transfer Tax was assessed. The Joint Venture appealed the increased Transfer Tax assessment and the Joint Venture's appeal was upheld by a New York City Administrative Law Judge ("ALJ") in January 2017. The Department of Finance appealed the ALJ's decision and on February 16, 2018 the New York City Tax Appeals Tribunal (the "Tax Tribunal") reversed the ALJ's decision and assessed \$9,491,000 of additional Transfer Tax and \$6,764,000 of interest. As a result of the Tax Tribunal's decision, we recorded an expense of \$15,608,000, before noncontrolling interests, during the first quarter of 2018, which was subsequently paid on April 5, 2018, in order to permit us to appeal the Tax Tribunal's decision and stop the accrual of interest, of which \$10,630,000 is included in "(loss) income from real estate fund investments" and \$4,978,000 is included in "income (loss) from partially owned entities" (see Note 8 - *Investments in Partially Owned Entities*) on our consolidated statements of income. We are appealing the Tax Tribunal's decision.

On April 19, 2018, the joint venture between the Fund and the Crowne Plaza Joint Venture completed a \$255,000,000 refinancing of the Crowne Plaza Times Square Hotel. The interest-only loan is at LIBOR plus 3.51% (5.56% at June 30, 2018) and matures in May 2020 with three one-year extension options. In connection therewith, the joint venture purchased an interest rate cap that caps LIBOR at a rate of 4.00%. The Crowne Plaza Times Square Hotel was previously encumbered by a \$310,000,000 interest-only mortgage at LIBOR plus 2.80%, which was scheduled to mature in December 2018.

As of June 30, 2018, we had four real estate fund investments through the Fund and the Crowne Plaza Joint Venture with an aggregate fair value of \$373,039,000, or \$47,475,000 in excess of cost, and had remaining unfunded commitments of \$50,494,000, of which our share was \$16,119,000. At December 31, 2017, we had five real estate fund investments with an aggregate fair value of \$354,804,000.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**6. Real Estate Fund Investments - continued**

Below is a summary of income (loss) from the Fund and the Crowne Plaza Joint Venture for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|   | <b>For the Three Months Ended<br/>June 30,</b> |                 | <b>For the Six Months Ended<br/>June 30,</b> |                   |
|---|--|-----------------|--|-------------------|
|   | <b>2018</b>                                    | <b>2017</b>     | <b>2018</b>                                  | <b>2017</b>       |
| Net investment income   | \$ 539   | \$ 3,646        | \$ 3,273                                     | \$ 10,860         |
| Net unrealized (loss) gain on held investments  | (29,513)                                       | 745             | (29,513)                                     | (6,442)           |
| Net realized (loss) gain on exited investments  | (2)  | —               | (913)  | 241               |
| Transfer Tax  | —  | —               | (10,630)                                     | —                 |
| (Loss) income from real estate fund investments   | (28,976)                                       | 4,391           | (37,783)                                     | 4,659             |
| Less loss (income) attributable to noncontrolling interests in consolidated subsidiaries  | 29,527   | (4,695)         | 34,896                                       | (8,198)           |
| Income (loss) from real estate fund investments attributable to the Operating Partnership (six months ended June 30, 2018 includes \$4,252 of loss related to One Park Avenue potential additional transfer taxes and reduction in carried interest) <sup>(1)</sup> | 551  | (304)           | (2,887)                                      | (3,539)           |
| Less (income) loss attributable to noncontrolling interests in the Operating Partnership  | (34)   | 19              | 178  | 221               |
| Income (loss) from real estate fund investments attributable to Vornado   | <u>\$ 517</u>                                  | <u>\$ (285)</u> | <u>\$ (2,709)</u>                            | <u>\$ (3,318)</u> |

(1) Excludes management and leasing fees of \$1,104 and \$1,381 for the three months ended June 30, 2018 and 2017, respectively, and \$1,906 and \$2,381 for the six months ended June 30, 2018 and 2017, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**7. Marketable Securities**

Our portfolio of marketable securities is comprised of equity securities that are presented on our consolidated balance sheets at fair value. On January 1, 2018, we adopted ASU 2016-01, which requires changes in the fair value of our marketable securities to be recorded in current period earnings. Previously, changes in the fair value of marketable securities were recognized in "accumulated other comprehensive income" on our consolidated balance sheets. As a result, on January 1, 2018 we recorded a decrease to beginning accumulated deficit of \$111,225,000 to recognize the unrealized gains previously recorded in "accumulated other comprehensive income" on our consolidated balance sheets. Subsequent changes in the fair value of our marketable securities will be recorded to "interest and other investment income, net" on our consolidated statements of income.

Below is a summary of our marketable securities portfolio as of June 30, 2018 and December 31, 2017.

(Amounts in thousands)

|                        | <b>Fair Value at</b> |                          | <b>Decrease in<br/>Fair Value<sup>(1)</sup></b> |
|------------------------|----------------------|--------------------------|---|
|                        | <b>June 30, 2018</b> | <b>December 31, 2017</b> |   |
| Equity securities:     |                      |                          |   |
| Lexington Realty Trust | \$ 161,234           | \$ 178,226               | \$ (16,992)                                     |
| Other                  | 4,416                | 4,526                    | (110)   |
|                        | <u>\$ 165,650</u>    | <u>\$ 182,752</u>        | <u>\$ (17,102)</u>                              |

(1) The decrease in fair value of our marketable securities for the six months ended June 30, 2018 is included in "interest and other investment income, net" on our consolidated statements of income (see Note 18 - *Interest and Other Investment Income, Net*).

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**8. Investments in Partially Owned Entities**

*Alexander's, Inc. ("Alexander's") (NYSE: ALX)*

As of June 30, 2018, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable.

As of June 30, 2018, the market value ("fair value" pursuant to ASC Topic 820, *Fair Value Measurements* ("ASC 820")) of our investment in Alexander's, based on Alexander's June 29, 2018 quarter ended closing share price of \$382.63, was \$632,896,000, or \$518,128,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2018, the carrying amount of our investment in Alexander's, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander's by approximately \$39,140,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander's common stock acquired over the book value of Alexander's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander's assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander's net income. The basis difference related to the land will be recognized upon disposition of our investment.

Alexander's paid \$3,971,000 of Transfer Tax upon the November 2012 sale of its Kings Plaza Regional Shopping Center located in Brooklyn, New York. Alexander's accrued \$23,797,000 of potential additional Transfer Tax and related interest based on the precedent established by the Tax Tribunal's decision regarding One Park Avenue (see Note 6 - *Real Estate Fund Investments* for details) during the first quarter of 2018 which was subsequently paid on April 5, 2018 in order to preserve Alexander's rights to continue litigation and stop accrual of interest, of which our 32.4% share is \$7,708,000 and is included in "income (loss) from partially owned entities" on our consolidated statements of income.

*Urban Edge Properties ("UE") (NYSE: UE)*

As of June 30, 2018, we own 5,717,184 UE operating partnership units, representing a 4.5% ownership interest in UE. We account for our investment in UE under the equity method and record our share of UE's net income or loss on a one-quarter lag basis. In 2018 and 2017, we provided UE with information technology support. UE is providing us with leasing and property management services for (i) certain small retail properties that we plan to sell, and (ii) our affiliate, Alexander's, Rego Park retail assets. As of June 30, 2018, the fair value of our investment in UE, based on UE's June 29, 2018 quarter ended closing share price of \$22.87, was \$130,752,000, or \$86,792,000 in excess of the carrying amount on our consolidated balance sheet.

*Pennsylvania Real Estate Investment Trust ("PREIT") (NYSE: PEI)*

As of June 30, 2018, we own 6,250,000 PREIT operating partnership units, representing an 8.0% interest in PREIT. We account for our investment in PREIT under the equity method and record our share of PREIT's net income or loss on a one-quarter lag basis.

As of June 30, 2018, the fair value of our investment in PREIT, based on PREIT's June 29, 2018 quarter ended closing share price of \$10.99, was \$68,688,000 or \$5,448,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2018, the carrying amount of our investment in PREIT exceeds our share of the equity in the net assets of PREIT by approximately \$33,782,000. The majority of this basis difference resulted from the excess of the fair value of the PREIT operating units received over our share of the book value of PREIT's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of PREIT's assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in PREIT's net loss. The basis difference related to the land will be recognized upon disposition of our investment.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**8. Investments in Partially Owned Entities - continued**

*Independence Plaza*

We have a 50.1% economic interest in a joint venture that owns Independence Plaza, a three-building 1,327 unit residential complex in the Tribeca submarket of Manhattan. The joint venture paid \$1,730,000 of Transfer Tax upon its acquisition of the property in December 2012. The joint venture accrued \$13,103,000 of potential additional Transfer Tax and related interest based on the precedent established by the Tax Tribunal's decision regarding One Park Avenue (see Note 6 - *Real Estate Fund Investments* for details) during the first quarter of 2018, which was subsequently paid on April 5, 2018, in order to preserve the joint venture's rights to continue litigation and stop accrual of interest. Because we consolidate the entity that incurred the potential additional Transfer Tax, \$13,103,000 of expense is included in "transaction related costs and other" and \$6,538,000 is allocated to "noncontrolling interests in consolidated subsidiaries" on our consolidated statements of income.

On June 11, 2018, the joint venture completed a \$675,000,000 refinancing of Independence Plaza. The seven-year interest-only loan matures in July 2025 and has a fixed rate of 4.25%. Our share of net proceeds, after repayment of the existing 3.48% \$550,000,000 mortgage and closing costs, was \$55,618,000.

*Toys "R" Us, Inc. ("Toys")*

We own 32.5% of Toys. On September 18, 2017, Toys filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. In the second quarter of 2018, Toys liquidated the inventory of its U.S. stores and ceased operations. We carry our Toys investment at zero. Further, we do not hold any debt of Toys and do not guarantee any of Toys' obligations. For income tax purposes, we carry our investment in Toys as of June 30, 2018 at approximately \$420,000,000, which could result in a tax deduction in future periods.

*666 Fifth Avenue Office Condominium*

On May 29, 2018, we entered into an agreement to sell our 49.5% interest in the 666 Fifth Avenue Office Condominium to our joint venture partner, the Kushner Companies. We will receive net proceeds of approximately \$120,000,000 and the financial statement gain is estimated to be \$134,000,000. The net tax gain will be approximately \$244,000,000. We will continue to own all of 666 Fifth Avenue Retail Condominium encompassing the Uniqlo, Tissot and Hollister stores with 125 linear feet of frontage on Fifth Avenue between 52nd and 53rd Street.

Concurrently with the sale of our 49.5% interest, the existing \$1.4 billion mortgage loan on the property will be repaid and we will receive net proceeds of approximately \$58,000,000 for the participation we hold in the mortgage loan.

The contract of sale is conditional, is subject to customary closing conditions and is scheduled to close in the third quarter of 2018. There can be no assurance that this transaction will be completed.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**8. Investments in Partially Owned Entities - continued**

Below is a schedule summarizing our investments in partially owned entities.

(Amounts in thousands)

|  | Percentage<br>Ownership at<br>June 30, 2018 | Balance as of       |                     |
|--|---|---------------------|---------------------|
|  |   | June 30, 2018       | December 31, 2017   |
| <b>Investments:</b>                                  |   |                     |                     |
| Partially owned office buildings/land <sup>(1)</sup> | Various                                     | \$ 503,240          | \$ 504,393          |
| Alexander's  | 32.4%                                       | 114,768             | 126,400             |
| PREIT  | 8.0%  | 63,240              | 66,572              |
| UE   | 4.5%  | 43,960              | 46,152              |
| Other investments <sup>(2)</sup>                     | Various                                     | 234,593             | 313,312             |
|  |   | <u>\$ 959,801</u>   | <u>\$ 1,056,829</u> |
| 330 Madison Avenue <sup>(3)</sup>                    | 25.0%                                       | \$ (56,463)         | \$ (53,999)         |
| 7 West 34th Street <sup>(4)</sup>                    | 53.0%                                       | (49,363)            | (47,369)            |
|  |   | <u>\$ (105,826)</u> | <u>\$ (101,368)</u> |

- (1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 512 West 22nd Street, 85 Tenth Avenue, 61 Ninth Avenue and others.  
(2) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, Moynihan Office Building, 666 Fifth Avenue Office Condominium and others.  
(3) Our negative basis resulted from a refinancing distribution and is included in "other liabilities" on our consolidated balance sheets.  
(4) Our negative basis resulted from a deferred gain from the sale of a 47.0% ownership interest in the property on May 27, 2016 and is included in "other liabilities" on our consolidated balance sheets.

Below is a schedule of net income (loss) from partially owned entities.

(Amounts in thousands)

|   | Percentage<br>Ownership at<br>June 30, 2018 | For the Three Months Ended<br>June 30, |                  | For the Six Months Ended<br>June 30, |                  |
|---|---|--|------------------|--------------------------------------|------------------|
|   |   | 2018                                   | 2017             | 2018                                 | 2017             |
| <b>Our share of net income (loss):</b>          |   |  |                  |                                      |                  |
| Alexander's (see page 25 for details):          |   |  |                  |                                      |                  |
| Equity in net income <sup>(1)</sup>             | 32.4%                                       | \$ 6,146                               | \$ 6,690         | \$ 2,937                             | \$ 13,582        |
| Management, leasing and development fees        |   | 1,021                                  | 1,507            | 2,229                                | 3,016            |
|   |   | <u>7,167</u>                           | <u>8,197</u>     | <u>5,166</u>                         | <u>16,598</u>    |
| Partially owned office buildings <sup>(2)</sup> | Various                                     | 2,002                                  | 236              | (2,281)                              | 1,046            |
| UE (see page 25 for details):                   |   |  |                  |                                      |                  |
| Equity in net income <sup>(3)</sup>             | 4.5%  | 1,038                                  | 18,794           | 321                                  | 19,885           |
| Management, leasing and development fees        |   | 74                                     | 209              | 150                                  | 418              |
|   |   | <u>1,112</u>                           | <u>19,003</u>    | <u>471</u>                           | <u>20,303</u>    |
| PREIT (see page 25 for details):                | 8.0%  | (1,068)                                | (902)            | (1,497)                              | (3,732)          |
| Other investments <sup>(4)</sup>                | Various                                     | (456)                                  | 19,487           | (3,006)                              | 13,164           |
|   |   | <u>\$ 8,757</u>                        | <u>\$ 46,021</u> | <u>\$ (1,147)</u>                    | <u>\$ 47,379</u> |

- (1) The six month period ended June 30, 2018 includes our \$7,708 share of Alexander's potential additional Transfer Tax.  
(2) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others. The six month period ended June 30, 2018 includes our \$4,978 share of potential additional Transfer Tax related to the March 2011 acquisition of One Park Avenue (see Note 6 - Real Estate Fund Investments).  
(3) 2017 includes a \$15,900 net gain resulting from UE operating partnership unit issuances.  
(4) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, 666 Fifth Avenue Office Condominium and others. In the second quarter of 2017, we recognized \$26,687 of net gains, comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV.





**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**9. Dispositions**

*New York*

On June 21, 2018, we completed the \$45,000,000 sale of 27 Washington Square North, which resulted in a net gain of \$23,559,000 which is included in "net gains on disposition of wholly owned and partially owned assets" on our consolidated statements of income. We acquired the property in December 2015 for \$20,000,000.

*Discontinued Operations*

We have reclassified the revenues and expenses of our former Washington, DC segment which was spun off on July 17, 2017 and other related retail assets that were sold or are currently held for sale to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all periods presented in the accompanying financial statements. The tables below set forth the assets and liabilities related to discontinued operations as of June 30, 2018 and December 31, 2017, and their combined results of operations and cash flows for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|  | <b>Balance as of</b> |                          |
|--|----------------------|--------------------------|
|  | <b>June 30, 2018</b> | <b>December 31, 2017</b> |
| <b>Assets related to discontinued operations:</b>      |                      |                          |
| Other assets   | \$ 52                | \$ 1,357                 |
| <b>Liabilities related to discontinued operations:</b> |                      |                          |
| Other liabilities                                      | \$ 214               | \$ 3,620                 |

(Amounts in thousands)

|   | <b>For the Three Months Ended June 30,</b> |             | <b>For the Six Months Ended June 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2018</b>                                | <b>2017</b> | <b>2018</b>                              | <b>2017</b> |
| <b>Income from discontinued operations:</b>     |  |             |  |             |
| Total revenues                                  | \$ 339                                     | \$ 118,939  | \$ 693                                   | \$ 235,222  |
| Total expenses                                  | 274  | 94,510      | 991                                      | 190,222     |
|   | 65   | 24,429      | (298)                                    | 45,000      |
| Additional net gains on sale of real estate     | 618  | —           | 618                                      | 2,267       |
| JBG SMITH Properties spin-off transaction costs | —  | (6,211)     | —  | (13,464)    |
| Income from partially-owned entities            | —  | 255         | —  | 342         |
| Pretax income from discontinued operations      | 683  | 18,473      | 320                                      | 34,145      |
| Income tax expense                              | —  | (362)       | —  | (716)       |
| Income from discontinued operations             | \$ 683                                     | \$ 18,111   | \$ 320                                   | \$ 33,429   |

(Amounts in thousands)

|   | <b>For the Six Months Ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2018</b>                              | <b>2017</b> |
| <b>Cash flows related to discontinued operations:</b> |  |             |
| Cash flows from operating activities                  | \$ (1,781)                               | \$ 83,705   |
| Cash flows from investing activities                  | —  | (52,740)    |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**10. Identified Intangible Assets and Liabilities**

The following summarizes our identified intangible assets (primarily above-market leases) and liabilities (primarily acquired below-market leases) as of June 30, 2018 and December 31, 2017.

(Amounts in thousands)

|  | <b>Balance as of</b> |                          |
|--|----------------------|--------------------------|
|  | <b>June 30, 2018</b> | <b>December 31, 2017</b> |
| <b>Identified intangible assets:</b>                                     |                      |                          |
| Gross amount   | \$ 309,776           | \$ 310,097               |
| Accumulated amortization   | (163,406)            | (150,837)                |
| <b>Total, net</b>  | <b>\$ 146,370</b>    | <b>\$ 159,260</b>        |
| <b>Identified intangible liabilities (included in deferred revenue):</b> |                      |                          |
| Gross amount   | \$ 527,766           | \$ 530,497               |
| Accumulated amortization   | (346,474)            | (324,897)                |
| <b>Total, net</b>  | <b>\$ 181,292</b>    | <b>\$ 205,600</b>        |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$10,526,000 and \$12,588,000 for the three months ended June 30, 2018 and 2017, respectively, and \$21,107,000 and \$23,704,000 for the six months ended June 30, 2018 and 2017, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2019 is as follows:

(Amounts in thousands)

|      |           |
|------|-----------|
| 2019 | \$ 29,871 |
| 2020 | 22,213    |
| 2021 | 17,478    |
| 2022 | 14,339    |
| 2023 | 11,661    |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$4,876,000 and \$6,846,000 for the three months ended June 30, 2018 and 2017, respectively, and \$9,735,000 and \$13,827,000 for the six months ended June 30, 2018 and 2017, respectively. Estimated annual amortization of all other identified intangible assets including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years commencing January 1, 2019 is as follows:

(Amounts in thousands)

|      |           |
|------|-----------|
| 2019 | \$ 14,994 |
| 2020 | 12,008    |
| 2021 | 11,030    |
| 2022 | 9,477     |
| 2023 | 9,349     |

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases, net of above-market leases, resulted in an increase to rent expense (a component of operating expense) of \$437,000 and \$437,000 for the three months ended June 30, 2018, and 2017, respectively, and \$874,000 and \$874,000 for the six months ended June 30, 2018 and 2017, respectively. Estimated annual amortization of these below-market leases, net of above-market leases, for each of the five succeeding years commencing January 1, 2019 is as follows:

(Amounts in thousands)

|      |          |
|------|----------|
| 2019 | \$ 1,747 |
| 2020 | 1,747    |
| 2021 | 1,747    |
| 2022 | 1,747    |
| 2023 | 1,747    |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**11. Debt**

On January 5, 2018, we completed a \$100,000,000 refinancing of 33-00 Northern Boulevard (Center Building), a 471,000 square foot office building in Long Island City, New York. The seven-year loan is at LIBOR plus 1.80%, which was swapped to a fixed rate of 4.14%. We realized net proceeds of approximately \$37,200,000 after repayment of the existing 4.43% \$59,800,000 mortgage and closing costs.

The following is a summary of our debt:

(Amounts in thousands)

|   | <b>Interest Rate at<br/>June 30, 2018</b> | <b>Balance as of</b> |                          |
|---|---|----------------------|--------------------------|
|   |   | <b>June 30, 2018</b> | <b>December 31, 2017</b> |
| <b>Mortgages Payable:</b>               |   |                      |                          |
| Fixed rate                              | 3.53%                                     | \$ 5,009,211         | \$ 5,461,706             |
| Variable rate                           | 3.89%                                     | 3,155,262            | 2,742,133                |
| Total                                   | 3.67%                                     | 8,164,473            | 8,203,839                |
| Deferred financing costs, net and other |   | (55,855)             | (66,700)                 |
| Total, net                              |   | <u>\$ 8,108,618</u>  | <u>\$ 8,137,139</u>      |
| <b>Unsecured Debt:</b>                  |   |                      |                          |
| Senior unsecured notes                  | 4.21%                                     | \$ 850,000           | \$ 850,000               |
| Deferred financing costs, net and other |   | (6,583)              | (6,386)                  |
| Senior unsecured notes, net             |   | <u>843,417</u>       | <u>843,614</u>           |
| Unsecured term loan                     | 3.24%                                     | 750,000              | 750,000                  |
| Deferred financing costs, net and other |   | (506)                | (1,266)                  |
| Unsecured term loan, net                |   | <u>749,494</u>       | <u>748,734</u>           |
| Unsecured revolving credit facilities   | 3.05%                                     | 80,000               | —                        |
| Total, net                              |   | <u>\$ 1,672,911</u>  | <u>\$ 1,592,348</u>      |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**12. Redeemable Noncontrolling Interests/Redeemable Partnership Units**

Redeemable noncontrolling interests on Vornado's consolidated balance sheets and redeemable partnership units on the consolidated balance sheets of the Operating Partnership are primarily comprised of Class A Operating Partnership units held by third parties and are recorded at the greater of their carrying amount or redemption value at the end of each reporting period. Changes in the value from period to period are charged to "additional capital" in Vornado's consolidated statements of changes in equity and to "partners' capital" on the consolidated balance sheets of the Operating Partnership.

(Amounts in thousands)

|  |           |                  |
|--|-----------|------------------|
| <b>Balance, December 31, 2016</b>  | \$        | 1,278,446        |
| Net income   |           | 10,935           |
| Other comprehensive loss   |           | (207)            |
| Distributions  |           | (18,078)         |
| Redemption of Class A units for Vornado common shares, at redemption value |           | (25,562)         |
| Adjustments to carry redeemable Class A units at redemption value          |           | (90,208)         |
| Other, net   |           | 21,758           |
| <b>Balance, June 30, 2017</b>  | <b>\$</b> | <b>1,177,084</b> |

|  |           |                |
|--|-----------|----------------|
| <b>Balance, December 31, 2017</b>  | \$        | 984,937        |
| Net income   |           | 6,321          |
| Other comprehensive income   |           | 859            |
| Distributions  |           | (15,891)       |
| Redemption of Class A units for Vornado common shares, at redemption value |           | (12,246)       |
| Adjustments to carry redeemable Class A units at redemption value          |           | (36,450)       |
| Other, net   |           | 10,511         |
| <b>Balance, June 30, 2018</b>  | <b>\$</b> | <b>938,041</b> |

As of June 30, 2018 and December 31, 2017, the aggregate redemption value of redeemable Class A units of the Operating Partnership, which are those units held by third parties, was \$932,613,000 and \$979,509,000, respectively.

Redeemable noncontrolling interests/redeemable partnership units exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC Topic 480, *Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of "other liabilities" on our consolidated balance sheets and aggregated \$50,561,000 as of June 30, 2018 and December 31, 2017. Changes in the value from period to period, if any, are charged to "interest and debt expense" on our consolidated statements of income.

**13. Shareholders' Equity/Partners' Capital**

On January 4 and 11, 2018, we redeemed all of the outstanding 6.625% Series G and Series I cumulative redeemable preferred shares/units at their redemption price of \$25.00 per share/unit, or \$470,000,000 in the aggregate, plus accrued and unpaid dividends/distributions through the date of redemption, and expensed \$14,486,000 of previously capitalized issuance costs.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**14. Accumulated Other Comprehensive Income ("AOCI")**

The following tables set forth the changes in accumulated other comprehensive income by component.

(Amounts in thousands)

|   | <u>Total</u>      | <u>Marketable securities</u> | <u>Pro rata share of nonconsolidated subsidiaries' OCI</u> | <u>Interest rate swaps</u> | <u>Other</u>      |
|---|-------------------|------------------------------|--|----------------------------|-------------------|
| <b>For the Three Months Ended June 30, 2018</b>     |                   |                              |  |                            |                   |
| Balance as of March 31, 2018                        | \$ 30,258         | \$ —                         | \$ 2,444   | \$ 36,651                  | \$ (8,837)        |
| Net current period OCI:                             |                   |                              |  |                            |                   |
| OCI before reclassifications                        | 3,093             | —                            | 390  | 2,908                      | (205)             |
| Amounts reclassified from AOCI                      | —                 | —                            | —  | —                          | —                 |
|   | <u>3,093</u>      | <u>—</u>                     | <u>390</u>   | <u>2,908</u>               | <u>(205)</u>      |
| Balance as of June 30, 2018                         | <u>\$ 33,351</u>  | <u>\$ —</u>                  | <u>\$ 2,834</u>  | <u>\$ 39,559</u>           | <u>\$ (9,042)</u> |
| <b>For the Three Months Ended June 30, 2017</b>     |                   |                              |  |                            |                   |
| Balance as of March 31, 2017                        | \$ 119,019        | \$ 115,496                   | \$ (2,841)   | \$ 13,908                  | \$ (7,544)        |
| Net current period OCI:                             |                   |                              |  |                            |                   |
| OCI before reclassifications                        | (3,180)           | (1,206)                      | (980)  | (1,206)                    | 212               |
| Amounts reclassified from AOCI                      | —                 | —                            | —  | —                          | —                 |
|   | <u>(3,180)</u>    | <u>(1,206)</u>               | <u>(980)</u>   | <u>(1,206)</u>             | <u>212</u>        |
| Balance as of June 30, 2017                         | <u>\$ 115,839</u> | <u>\$ 114,290</u>            | <u>\$ (3,821)</u>  | <u>\$ 12,702</u>           | <u>\$ (7,332)</u> |
| <b>For the Six Months Ended June 30, 2018</b>       |                   |                              |  |                            |                   |
| Balance as of December 31, 2017                     | \$ 128,682        | \$ 109,554                   | \$ 3,769   | \$ 23,542                  | \$ (8,183)        |
| Cumulative effect of accounting change (see Note 3) | (108,374)         | (109,554)                    | (1,671)  | 2,851                      | —                 |
| Net current period OCI:                             |                   |                              |  |                            |                   |
| OCI before reclassifications                        | 13,043            | —                            | 736  | 13,166                     | (859)             |
| Amounts reclassified from AOCI                      | —                 | —                            | —  | —                          | —                 |
|   | <u>13,043</u>     | <u>—</u>                     | <u>736</u>   | <u>13,166</u>              | <u>(859)</u>      |
| Balance as of June 30, 2018                         | <u>\$ 33,351</u>  | <u>\$ —</u>                  | <u>\$ 2,834</u>  | <u>\$ 39,559</u>           | <u>\$ (9,042)</u> |
| <b>For the Six Months Ended June 30, 2017</b>       |                   |                              |  |                            |                   |
| Balance as of December 31, 2016                     | \$ 118,972        | \$ 130,505                   | \$ (12,058)  | \$ 8,066                   | \$ (7,541)        |
| Net current period OCI:                             |                   |                              |  |                            |                   |
| OCI before reclassifications                        | (12,401)          | (16,215)                     | (1,031)  | 4,636                      | 209               |
| Amounts reclassified from AOCI                      | 9,268             | —                            | 9,268 <sup>(1)</sup>                                       | —                          | —                 |
|   | <u>(3,133)</u>    | <u>(16,215)</u>              | <u>8,237</u>   | <u>4,636</u>               | <u>209</u>        |
| Balance as of June 30, 2017                         | <u>\$ 115,839</u> | <u>\$ 114,290</u>            | <u>\$ (3,821)</u>  | <u>\$ 12,702</u>           | <u>\$ (7,332)</u> |

(1) Reclassified upon receipt of proceeds related to the sale of an investment by a nonconsolidated subsidiary.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**15. Variable Interest Entities ("VIEs")**

*Unconsolidated VIEs*

As of June 30, 2018 and December 31, 2017, we have several unconsolidated VIEs. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities' economic performance. We account for our investment in these entities under the equity method (see Note 8 – *Investments in Partially Owned Entities*). As of June 30, 2018 and December 31, 2017, the net carrying amount of our investments in these entities was \$304,859,000 and \$352,925,000, respectively, and our maximum exposure to loss in these entities is limited to our investments.

*Consolidated VIEs*

Our most significant consolidated VIEs are the Operating Partnership (for Vornado), real estate fund investments, and certain properties that have noncontrolling interests. These entities are VIEs because the noncontrolling interests do not have substantive kick-out or participating rights. We consolidate these entities because we control all of their significant business activities.

As of June 30, 2018, the total assets and liabilities of our consolidated VIEs, excluding the Operating Partnership, were \$3,578,768,000 and \$1,811,269,000, respectively. As of December 31, 2017, the total assets and liabilities of our consolidated VIEs, excluding the Operating Partnership, were \$3,561,062,000 and \$1,753,798,000, respectively.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**16. Fair Value Measurements**

ASC 820 defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value. Considerable judgment is necessary to interpret Level 2 and 3 inputs in determining the fair value of our financial and non-financial assets and liabilities. Accordingly, our fair value estimates, which are made at the end of each reporting period, may be different than the amounts that may ultimately be realized upon sale or disposition of these assets.

*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of (i) marketable securities, (ii) real estate fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheets), (iv) interest rate swaps and (v) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units, Series D-13 cumulative redeemable preferred units, and 6.625% Series G and Series I cumulative redeemable preferred shares/units which were redeemed on January 4 and 11, 2018 (see Note 13 - *Shareholders' Equity/Partners' Capital*)). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy as of June 30, 2018 and December 31, 2017, respectively.

(Amounts in thousands)

|  | <b>As of June 30, 2018</b> |                   |                  |                   |
|--|----------------------------|-------------------|------------------|-------------------|
|  | <b>Total</b>               | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b>    |
| Marketable securities  | \$ 165,650                 | \$ 165,650        | \$ —             | \$ —              |
| Real estate fund investments   | 373,039                    | —                 | —                | 373,039           |
| Deferred compensation plan assets (\$4,375 included in restricted cash and \$95,993 in other assets) | 100,368                    | 60,498            | —                | 39,870            |
| Interest rate swaps (included in other assets)   | 39,584                     | —                 | 39,584           | —                 |
| <b>Total assets</b>  | <b>\$ 678,641</b>          | <b>\$ 226,148</b> | <b>\$ 39,584</b> | <b>\$ 412,909</b> |
| Mandatorily redeemable instruments (included in other liabilities)                                   | \$ 50,561                  | \$ 50,561         | \$ —             | \$ —              |

(Amounts in thousands)

|   | <b>As of December 31, 2017</b> |                   |                  |                   |
|---|--------------------------------|-------------------|------------------|-------------------|
|   | <b>Total</b>                   | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b>    |
| Marketable securities   | \$ 182,752                     | \$ 182,752        | \$ —             | \$ —              |
| Real estate fund investments  | 354,804                        | —                 | —                | 354,804           |
| Deferred compensation plan assets (\$11,545 included in restricted cash and \$97,632 in other assets) | 109,177                        | 69,049            | —                | 40,128            |
| Interest rate swaps (included in other assets)  | 27,472                         | —                 | 27,472           | —                 |
| <b>Total assets</b>   | <b>\$ 674,205</b>              | <b>\$ 251,801</b> | <b>\$ 27,472</b> | <b>\$ 394,932</b> |
| Mandatorily redeemable instruments (included in other liabilities)                                    | \$ 520,561                     | \$ 520,561        | \$ —             | \$ —              |
| Interest rate swaps (included in other liabilities)   | 1,052                          | —                 | 1,052            | —                 |
| <b>Total liabilities</b>  | <b>\$ 521,613</b>              | <b>\$ 520,561</b> | <b>\$ 1,052</b>  | <b>\$ —</b>       |



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**16. Fair Value Measurements - continued**

*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued*

Real Estate Fund Investments

As of June 30, 2018, we had four real estate fund investments with an aggregate fair value of \$373,039,000, or \$47,475,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 0.5 to 4.5 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, current and anticipated market conditions, industry publications and from the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these real estate fund investments as of June 30, 2018 and December 31, 2017.

| Unobservable Quantitative Input | Range          |                   | Weighted Average<br>(based on fair value of investments) |                   |
|---------------------------------|----------------|-------------------|--|-------------------|
|                                 | June 30, 2018  | December 31, 2017 | June 30, 2018  | December 31, 2017 |
| Discount rates                  | 10.0% to 15.0% | 2.0% to 14.9%     | 13.1%  | 11.9%             |
| Terminal capitalization rates   | 5.1% to 6.4%   | 4.7% to 6.7%      | 5.7%   | 5.5%              |

The above inputs are subject to change based on changes in economic and market conditions and/or changes in use or timing of exit. Changes in discount rates and terminal capitalization rates result in increases or decreases in the fair values of these investments. The discount rates encompass, among other things, uncertainties in the valuation models with respect to terminal capitalization rates and the amount and timing of cash flows. Therefore, a change in the fair value of these investments resulting from a change in the terminal capitalization rate may be partially offset by a change in the discount rate. It is not possible for us to predict the effect of future economic or market conditions on our estimated fair values.

The table below summarizes the changes in the fair value of real estate fund investments that are classified as Level 3, for the three and six months ended June 30, 2018 and 2017.

| (Amounts in thousands)                         | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |            |
|--|--|------------|--------------------------------------|------------|
|  | 2018                                   | 2017       | 2018                                 | 2017       |
| Beginning balance                              | \$ 336,552                             | \$ 454,946 | \$ 354,804                           | \$ 462,132 |
| Purchases                                      | 66,000                                 | —          | 68,950                               | —          |
| Net unrealized (loss) gain on held investments | (29,513)                               | 745        | (29,513)                             | (6,442)    |
| Dispositions                                   | —                                      | —          | (20,291)                             | —          |
| Net realized (loss) gain on exited investments | (2)                                    | —          | (913)                                | 241        |
| Other, net                                     | 2                                      | 1          | 2                                    | (239)      |
| Ending balance                                 | \$ 373,039                             | \$ 455,692 | \$ 373,039                           | \$ 455,692 |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**16. Fair Value Measurements - continued**

*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued*

Deferred Compensation Plan Assets

Deferred compensation plan assets that are classified as Level 3 consist of investments in limited partnerships and investment funds, which are managed by third parties. We receive quarterly financial reports from a third-party administrator, which are compiled from the quarterly reports provided to them from each limited partnership and investment fund. The quarterly reports provide net asset values on a fair value basis which are audited by independent public accounting firms on an annual basis. The third party administrator does not adjust these values in determining our share of the net assets and we do not adjust these values when reported in our consolidated financial statements.

The table below summarizes the changes in the fair value of deferred compensation plan assets that are classified as Level 3, for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|                               | For the Three Months Ended<br>June 30, |                  | For the Six Months Ended<br>June 30, |                  |
|-------------------------------|--|------------------|--------------------------------------|------------------|
|                               | 2018                                   | 2017             | 2018                                 | 2017             |
| Beginning balance             | \$ 39,485                              | \$ 56,910        | \$ 40,128                            | \$ 57,444        |
| Sales                         | (1,874)                                | (9,375)          | (3,509)                              | (12,112)         |
| Purchases                     | 1,619                                  | 1,350            | 1,633                                | 1,813            |
| Realized and unrealized gains | 34                                     | 830              | 712                                  | 1,905            |
| Other, net                    | 606                                    | 134              | 906                                  | 799              |
| Ending balance                | <u>\$ 39,870</u>                       | <u>\$ 49,849</u> | <u>\$ 39,870</u>                     | <u>\$ 49,849</u> |

*Fair Value Measurements on a Nonrecurring Basis*

There were no assets measured at fair value on a nonrecurring basis on our consolidated balance sheets as of June 30, 2018 and December 31, 2017.

*Financial Assets and Liabilities not Measured at Fair Value*

Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair values of cash equivalents and borrowings under our unsecured revolving credit facilities and unsecured term loan are classified as Level 1. The fair values of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of June 30, 2018 and December 31, 2017.

(Amounts in thousands)

|                                       | As of June 30, 2018                |                     | As of December 31, 2017            |                     |
|---------------------------------------|------------------------------------|---------------------|------------------------------------|---------------------|
|                                       | Carrying<br>Amount                 | Fair<br>Value       | Carrying<br>Amount                 | Fair<br>Value       |
| Cash equivalents                      | \$ 851,306                         | \$ 851,000          | \$ 1,500,227                       | \$ 1,500,000        |
| Debt:                                 |                                    |                     |                                    |                     |
| Mortgages payable                     | \$ 8,164,473                       | \$ 8,112,000        | \$ 8,203,839                       | \$ 8,194,000        |
| Senior unsecured notes                | 850,000                            | 847,000             | 850,000                            | 878,000             |
| Unsecured term loan                   | 750,000                            | 750,000             | 750,000                            | 750,000             |
| Unsecured revolving credit facilities | 80,000                             | 80,000              | —                                  | —                   |
| Total                                 | <u>\$ 9,844,473 <sup>(1)</sup></u> | <u>\$ 9,789,000</u> | <u>\$ 9,803,839 <sup>(1)</sup></u> | <u>\$ 9,822,000</u> |

(1) Excludes \$62,944 and \$74,352 of deferred financing costs, net and other as of June 30, 2018 and December 31, 2017, respectively.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**17. Stock-based Compensation**

Vornado's 2010 Omnibus Share Plan (the "Plan") provides the Compensation Committee of our Board of Trustees (the "Committee") the ability to grant incentive and non-qualified Vornado stock options, restricted stock, restricted Operating Partnership units, out-performance plan awards and appreciation-only long-term incentive plan units ("AO LTIP Units") to certain of our employees and officers. We account for all equity-based compensation in accordance with ASC 718. Equity-based compensation expense, a component of "general and administrative" expenses on our consolidated statements of income, was \$6,976,000 and \$6,724,000 for the three months ended June 30, 2018 and 2017, respectively, and \$20,645,000 and \$20,283,000 for the six months ended June 30, 2018 and 2017, respectively.

*AO LTIP Units*

On January 12, 2018, the Committee approved the issuance of AO LTIP Units pursuant to the Plan to certain of our officers and employees. In connection with the approval of AO LTIP Units, Vornado, in its capacity as sole general partner of the Operating Partnership, amended the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the "Partnership Agreement") in order to establish the terms of the new class of partnership interests known as AO LTIP Units.

AO LTIP Units are a class of partnership interests in the Operating Partnership that are intended to qualify as "profits interests" for federal income tax purposes and generally only allow the recipient to realize value to the extent the fair market value of a Vornado common share exceeds the threshold level set at the time the AO LTIP Units are granted, subject to any vesting conditions applicable to the award. The threshold level is intended to be equal to 100% of the then fair market value of a Vornado common share on the date of grant. The value of vested AO LTIP Units is realized through conversion of the AO LTIP Units into Class A Operating Partnership units. The number of Class A Units into which vested AO LTIP Units may be converted is determined based on the quotient of (i) the excess of the conversion value on the conversion date over the threshold value designated at the time the AO LTIP Unit was granted, divided by (ii) the conversion value on the conversion date. The "conversion value" is the value of a Vornado common share on the conversion date multiplied by the Conversion Factor as defined in the Partnership Agreement, which is currently one. AO LTIP Units vest ratably over four years and have a term of ten years from the grant date. The fair value of the AO LTIP Units on the date of grant was \$3,484,000, of which \$622,000 was immediately expensed due to the acceleration of vesting for employees who are retirement eligible (have reached age 65 or age 60 with at least 20 years of service). The remaining \$2,862,000 is being amortized into expense over a four-year period from the date of grant using a graded vesting attribution model.

Each holder will generally receive special income allocations in respect of an AO LTIP Unit equal to 10% (or such other percentage specified in the applicable award agreement) of the income allocated in respect of a Class A Unit. Upon conversion of AO LTIP Units to Class A Units, holders will be entitled to receive in respect of each such AO LTIP Unit, on a per unit basis, a special distribution equal to 10% (or such other percentage specified in the applicable award agreement) of the distributions received by a holder of an equivalent number of Class A Units during the period from the grant date of the AO LTIP Units through the date of conversion.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**17. Stock-based Compensation - continued**

*2018 Outperformance Plan (“2018 OPP”)*

On March 15, 2018, the Committee approved the 2018 OPP, a multi-year, \$35,000,000 performance-based equity compensation plan of which \$27,354,000 was granted to senior executives. The fair value of the 2018 OPP granted was \$10,283,000, of which \$8,040,000 was immediately expensed due to the acceleration of vesting for employees who are retirement eligible (have reached age 65 or age 60 with at least 20 years of service). The remaining \$2,243,000 is being amortized into expense over a five-year period from the date of grant using a graded vesting attribution model.

Under the 2018 OPP, participants have the opportunity to earn compensation payable in the form of equity awards if Vornado outperforms a predetermined total shareholder return (“TSR”) and/or outperforms the market with respect to relative total TSR during the three-year performance period (the “Performance Period”) from March 15, 2018 to March 15, 2021 (the “Measurement Date”). Specifically, awards under the 2018 OPP may potentially be earned if Vornado (i) achieves a TSR above a benchmark weighted index (the “Index”) comprised 70% of the SNL US Office REIT Index and 30% of the SNL US Retail Index over the Performance Period (the “Relative Component”), and/or (ii) achieves a TSR greater than 21% over the Performance Period (the “Absolute Component”). The value of awards under the Relative Component and Absolute Component will be calculated separately and will each be subject to an aggregate \$35,000,000 maximum award cap for all participants. The two components will be added together to determine the aggregate award size, which shall also be subject to the aggregate \$35,000,000 maximum award cap for all participants. In the event awards are earned under the Absolute Component, but Vornado underperforms the Index by more than 200 basis points per annum over the Performance Period (600 basis points over the three years), the amount earned under the Absolute Component will be reduced (and potentially fully negated) based on the degree by which the Index exceeds Vornado’s TSR. In the event awards are earned under the Relative Component, but Vornado fails to achieve a TSR of at least 3% per annum, awards earned under the Relative Component will be reduced on a ratable sliding scale based on Vornado’s absolute TSR performance, with awards earned under the Relative Component being reduced by a maximum of 50% in the event Vornado’s TSR during the Measurement Period is 0% or negative. If the designated performance objectives are achieved, awards under the 2018 OPP will vest ratably on the Measurement Date and the first and second anniversary of the Measurement Date. In addition, all of Vornado’s Named Executive Officers (as defined in Vornado’s Proxy Statement filed on Schedule 14A with the Securities and Exchange Commission on April 6, 2018) are required to hold any earned and vested awards for one year following each such vesting date. Dividends on awards granted under the 2018 OPP accrue during the Performance Period and are paid to participants if awards are ultimately earned based on the achievement of the designated performance objectives.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**18. Interest and Other Investment Income, Net**

The following table sets forth the details of interest and other investment income, net:

| (Amounts in thousands)                                      | For the Three Months Ended<br>June 30, |                 | For the Six Months Ended<br>June 30, |                  |
|---|--|-----------------|--------------------------------------|------------------|
|   | 2018                                   | 2017            | 2018                                 | 2017             |
| Increase (decrease) in fair value of marketable securities: |  |                 |                                      |                  |
| Lexington Realty Trust                                      | \$ 15,883                              | \$ —            | \$ (16,992)                          | \$ —             |
| Other   | 1                                      | —               | (110)                                | —                |
|   | 15,884                                 | —               | (17,102)                             | —                |
| Interest on loans receivable <sup>(1)</sup>                 | 6,205                                  | 2,102           | 6,948                                | 2,845            |
| Dividends on marketable securities                          | 3,353                                  | 3,307           | 6,706                                | 6,614            |
| Other, net  | 5,450                                  | 3,132           | 9,956                                | 5,777            |
|   | <u>\$ 30,892</u>                       | <u>\$ 8,541</u> | <u>\$ 6,508</u>                      | <u>\$ 15,236</u> |

(1) 2018 includes \$5,457 of income from a profit participation on the April 2018 sale of 701 Seventh Avenue. We received this kicker in connection with our 25% participation in an October 2012, \$137,500 mezzanine loan, which was repaid in January 2014.

**19. Interest and Debt Expense**

The following table sets forth the details of interest and debt expense:

| (Amounts in thousands)                   | For the Three Months Ended<br>June 30, |                  | For the Six Months Ended<br>June 30, |                   |
|--|--|------------------|--------------------------------------|-------------------|
|  | 2018                                   | 2017             | 2018                                 | 2017              |
| Interest expense                         | \$ 96,377                              | \$ 88,392        | \$ 191,165                           | \$ 173,362        |
| Amortization of deferred financing costs | 8,034                                  | 7,977            | 16,138                               | 16,546            |
| Capitalized interest and debt expense    | (16,754)                               | (11,580)         | (31,480)                             | (22,395)          |
|  | <u>\$ 87,657</u>                       | <u>\$ 84,789</u> | <u>\$ 175,823</u>                    | <u>\$ 167,513</u> |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**20. Income Per Share/Income Per Class A Unit**

***Vornado Realty Trust***

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share - which includes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted income per common share - which includes the weighted average common shares and dilutive share equivalents. Dilutive share equivalents may include our Series A convertible preferred shares, employee stock options, restricted stock awards and Out-Performance Plan awards.

(Amounts in thousands, except per share amounts)

|   | <b>For the Three Months Ended<br/>June 30,</b> |             | <b>For the Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2018</b>                                    | <b>2017</b> | <b>2018</b>                                  | <b>2017</b> |
| <b>Numerator:</b>   |  |             |  |             |
| Income from continuing operations, net of income attributable to noncontrolling interests   | \$ 123,427                                     | \$ 115,112  | \$ 133,448                                   | \$ 164,631  |
| Income from discontinued operations, net of income attributable to noncontrolling interests | 641  | 16,989      | 300  | 31,351      |
| Net income attributable to Vornado  | 124,068  | 132,101     | 133,748                                      | 195,982     |
| Preferred share dividends   | (12,534)                                       | (16,129)    | (25,569)                                     | (32,258)    |
| Preferred share issuance costs  | —  | —           | (14,486)                                     | —           |
| Net income attributable to common shareholders  | 111,534  | 115,972     | 93,693                                       | 163,724     |
| Earnings allocated to unvested participating securities                                     | (11)   | (13)        | (22)   | (27)        |
| Numerator for basic income per share  | 111,523  | 115,959     | 93,671                                       | 163,697     |
| <b>Impact of assumed conversions:</b>   |  |             |  |             |
| Convertible preferred share dividends   | 16   | 20          | —  | —           |
| Earnings allocated to Out-Performance Plan units  | —  | —           | 37   | 233         |
| Numerator for diluted income per share  | \$ 111,539                                     | \$ 115,979  | \$ 93,708                                    | \$ 163,930  |
| <b>Denominator:</b>   |  |             |  |             |
| Denominator for basic income per share – weighted average shares                            | 190,200  | 189,395     | 190,141                                      | 189,304     |
| Effect of dilutive securities <sup>(1)</sup> :  |  |             |  |             |
| Employee stock options and restricted share awards  | 930  | 1,011       | 934  | 1,089       |
| Convertible preferred shares  | 38   | 38          | —  | —           |
| Out-Performance Plan units  | —  | —           | 115  | 281         |
| Denominator for diluted income per share – weighted average shares and assumed conversions  | 191,168  | 190,444     | 191,190                                      | 190,674     |
| <b>INCOME PER COMMON SHARE – BASIC:</b>   |  |             |  |             |
| Income from continuing operations, net  | \$ 0.59  | \$ 0.52     | \$ 0.49                                      | \$ 0.70     |
| Income from discontinued operations, net  | —  | 0.09        | —  | 0.16        |
| Net income per common share   | \$ 0.59  | \$ 0.61     | \$ 0.49                                      | \$ 0.86     |
| <b>INCOME PER COMMON SHARE – DILUTED:</b>   |  |             |  |             |
| Income from continuing operations, net  | \$ 0.58  | \$ 0.52     | \$ 0.49                                      | \$ 0.70     |
| Income from discontinued operations, net  | —  | 0.09        | —  | 0.16        |
| Net income per common share   | \$ 0.58  | \$ 0.61     | \$ 0.49                                      | \$ 0.86     |

(1) The effect of dilutive securities for the three months ended June 30, 2018 and 2017 excludes an aggregate of 12,299 and 12,268 weighted average common share equivalents, respectively, and 12,252 and 12,125 weighted average common share equivalents for the six months ended June 30, 2018 and 2017, respectively, as their effect was anti-dilutive.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**20. Income Per Share/Income Per Class A Unit - continued**

***Vornado Realty L.P.***

The following table provides a reconciliation of both net income and the number of Class A units used in the computation of (i) basic income per Class A unit - which includes the weighted average number of Class A units outstanding without regard to dilutive potential Class A units, and (ii) diluted income per Class A unit - which includes the weighted average Class A units and dilutive unit equivalents. Dilutive unit equivalents may include our Series A convertible preferred units, Vornado stock options, restricted unit awards and Out-Performance Plan awards.

(Amounts in thousands, except per unit amounts)

|  | <b>For the Three Months Ended<br/>June 30,</b> |             | <b>For the Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2018</b>                                    | <b>2017</b> | <b>2018</b>                                  | <b>2017</b> |
| <b>Numerator:</b>  |  |             |  |             |
| Income from continuing operations, net of income attributable to noncontrolling interests in consolidated subsidiaries | \$ 130,830                                     | \$ 121,696  | \$ 139,749                                   | \$ 173,488  |
| Income from discontinued operations  | 683  | 18,111      | 320  | 33,429      |
| Net income attributable to Vornado Realty L.P.   | 131,513  | 139,807     | 140,069                                      | 206,917     |
| Preferred unit distributions   | (12,582)                                       | (16,177)    | (25,666)                                     | (32,355)    |
| Preferred unit issuance costs  | —  | —           | (14,486)                                     | —           |
| Net income attributable to Class A unitholders   | 118,931  | 123,630     | 99,917                                       | 174,562     |
| Earnings allocated to unvested participating securities  | (772)  | (742)       | (1,544)                                      | (1,759)     |
| Numerator for basic income per Class A unit  | 118,159  | 122,888     | 98,373                                       | 172,803     |
| <b>Impact of assumed conversions:</b>  |  |             |  |             |
| Convertible preferred unit distributions   | 16   | 20          | —  | —           |
| Numerator for diluted income per Class A unit  | \$ 118,175                                     | \$ 122,908  | \$ 98,373                                    | \$ 172,803  |
| <b>Denominator:</b>  |  |             |  |             |
| Denominator for basic income per Class A unit – weighted average units   | 202,064  | 201,127     | 201,997                                      | 200,987     |
| Effect of dilutive securities <sup>(1)</sup> :   |  |             |  |             |
| Vornado stock options and restricted unit awards   | 1,252  | 1,458       | 1,269  | 1,630       |
| Convertible preferred units  | 38   | 38          | —  | —           |
| Denominator for diluted income per Class A unit – weighted average units and assumed conversions                       | 203,354  | 202,623     | 203,266                                      | 202,617     |
| <b>INCOME PER CLASS A UNIT – BASIC:</b>  |  |             |  |             |
| Income from continuing operations, net   | \$ 0.58  | \$ 0.52     | \$ 0.49                                      | \$ 0.69     |
| Income from discontinued operations, net   | —  | 0.09        | —  | 0.17        |
| Net income per Class A unit  | \$ 0.58  | \$ 0.61     | \$ 0.49                                      | \$ 0.86     |
| <b>INCOME PER CLASS A UNIT – DILUTED:</b>  |  |             |  |             |
| Income from continuing operations, net   | \$ 0.58  | \$ 0.52     | \$ 0.48                                      | \$ 0.69     |
| Income from discontinued operations, net   | —  | 0.09        | —  | 0.16        |
| Net income per Class A unit  | \$ 0.58  | \$ 0.61     | \$ 0.48                                      | \$ 0.85     |

(1) The effect of dilutive securities for the three months ended June 30, 2018 and 2017 excludes an aggregate of 112 and 89 weighted average Class A unit equivalents, respectively, and 175 and 182 weighted average Class A unit equivalents for the six months ended June 30, 2018 and 2017, respectively, as their effect was anti-dilutive.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**21. Commitments and Contingencies**

*Insurance*

We maintain general liability insurance with limits of \$300,000,000 per occurrence and per property, and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, with sub-limits for certain perils such as flood and earthquake. Our California properties have earthquake insurance with coverage of \$260,000,000 per occurrence and in the aggregate, subject to a deductible in the amount of 5% of the value of the affected property. We maintain coverage for terrorism acts with limits of \$4.0 billion per occurrence and in the aggregate, and \$2.0 billion per occurrence and in the aggregate for terrorism involving nuclear, biological, chemical and radiological (“NBCR”) terrorism events, as defined by the Terrorism Risk Insurance Program Reauthorization Act of 2015, which expires in December 2020.

Penn Plaza Insurance Company, LLC (“PPIC”), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for acts of terrorism including NBCR acts. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third-party insurance companies and the Federal government with no exposure to PPIC. For NBCR acts, PPIC is responsible for a deductible of \$1,601,000 and 18% of the balance of a covered loss and the Federal government is responsible for the remaining portion of a covered loss. We are ultimately responsible for any loss incurred by PPIC.

We continue to monitor the state of the insurance market and the scope and cost of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for deductibles and losses in excess of our insurance coverage, which could be material.

Our debt instruments, consisting of mortgage loans secured by our properties which are generally non-recourse to us, senior unsecured notes and revolving credit agreements, contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable cost in the future. Further, if lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance our properties and expand our portfolio.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**21. Commitments and Contingencies - continued**

*Other Commitments and Contingencies*

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters is not currently expected to have a material adverse effect on our financial position, results of operations or cash flows.

Each of our properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites or changes in cleanup requirements would not result in significant cost to us.

Generally, our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of June 30, 2018, the aggregate dollar amount of these guarantees and master leases is approximately \$667,000,000.

As of June 30, 2018, \$13,337,000 of letters of credit was outstanding under one of our unsecured revolving credit facilities. Our unsecured revolving credit facilities contain financial covenants that require us to maintain minimum interest rate coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our unsecured revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

In September 2016, our 50.1% joint venture with Related Companies ("Related") was designated by Empire State Development ("ESD"), an entity of New York State, to redevelop the historic Farley Post Office Building. The joint venture entered into a development agreement with ESD and a design-build contract with Skanska Moynihan Train Hall Builders. Under the development agreement with ESD, the joint venture is obligated to build the Moynihan Train Hall, with Vornado and Related each guaranteeing the joint venture's obligations. Under the design-build agreement, Skanska Moynihan Train Hall Builders is obligated to fulfill all of the joint venture's obligations. The obligations of Skanska Moynihan Train Hall Builders have been bonded by Skanska USA and bear a full guaranty from Skanska AB.

As of June 30, 2018, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$34,000,000.

As of June 30, 2018, we have construction commitments aggregating approximately \$342,000,000.

*Income Taxes - 220 Central Park South*

We are constructing a residential condominium tower at 220 Central Park South ("220 CPS"). For income tax purposes, we recognize revenue associated with our 220 CPS project using the percentage of completion method. On May 25, 2018, the 220 CPS condominium offering plan was declared effective by the Attorney General of the State of New York. Accordingly, during the quarter ended June 30, 2018, we recorded a liability (a component of "other liabilities") and a corresponding asset (a component of "other assets") of \$52,000,000 for estimated Federal, state and local income taxes due September 17, 2018. GAAP revenue associated with our 220 CPS project is recognized under the completed contract method upon closing of the condominium unit sales.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**22. Segment Information**

Net Operating Income ("NOI") represents total revenues less operating expenses. We consider NOI to be the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. NOI should not be considered a substitute for net income. NOI may not be comparable to similarly titled measures employed by other companies.

Below is a reconciliation of net income to NOI at share and NOI at share - cash basis for three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|   | For the Three Months Ended<br>June 30, |                   | For the Six Months Ended<br>June 30, |                   |
|---|--|-------------------|--------------------------------------|-------------------|
|   | 2018                                   | 2017              | 2018                                 | 2017              |
| Net income  | \$ 105,338                             | \$ 147,484        | \$ 105,620                           | \$ 221,331        |
| Deduct:   |  |                   |                                      |                   |
| (Income) loss from partially owned entities   | (8,757)                                | (46,021)          | 1,147                                | (47,379)          |
| Loss (income) from real estate fund investments   | 28,976                                 | (4,391)           | 37,783                               | (4,659)           |
| Interest and other investment income, net   | (30,892)                               | (8,541)           | (6,508)                              | (15,236)          |
| Net gains on disposition of wholly owned and partially owned assets                                       | (23,559)                               | —                 | (23,559)                             | (501)             |
| Income from discontinued operations   | (683)                                  | (18,111)          | (320)                                | (33,429)          |
| NOI attributable to noncontrolling interests in consolidated subsidiaries                                 | (17,160)                               | (16,269)          | (34,472)                             | (32,607)          |
| Add:  |  |                   |                                      |                   |
| Depreciation and amortization expense   | 111,846                                | 105,123           | 220,532                              | 210,251           |
| General and administrative expense  | 34,427                                 | 35,405            | 76,960                               | 81,580            |
| Transaction related costs and other   | 1,017                                  | 260               | 14,173                               | 1,012             |
| NOI from partially owned entities   | 65,752                                 | 67,016            | 133,265                              | 133,113           |
| Interest and debt expense   | 87,657                                 | 84,789            | 175,823                              | 167,513           |
| Income tax expense (benefit)  | 467                                    | (610)             | 3,021                                | 2,303             |
| NOI at share  | 354,429                                | 346,134           | 703,465                              | 683,292           |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (12,481)                               | (22,475)          | (30,429)                             | (42,956)          |
| NOI at share - cash basis   | <u>\$ 341,948</u>                      | <u>\$ 323,659</u> | <u>\$ 673,036</u>                    | <u>\$ 640,336</u> |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**22. Segment Information - continued**

Below is a summary of NOI at share and NOI at share - cash basis by segment for the three and six months ended June 30, 2018 and 2017.

| (Amounts in thousands)  | <b>For the Three Months Ended June 30, 2018</b> |                   |                  |
|---|---|-------------------|------------------|
|   | <b>Total</b>                                    | <b>New York</b>   | <b>Other</b>     |
| Total revenues  | \$ 541,818                                      | \$ 458,552        | \$ 83,266        |
| Operating expenses  | 235,981   | 200,903           | 35,078           |
| NOI - consolidated  | 305,837   | 257,649           | 48,188           |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (17,160)  | (11,560)          | (5,600)          |
| Add: Our share of NOI from partially owned entities   | 65,752  | 49,778            | 15,974           |
| NOI at share  | 354,429   | 295,867           | 58,562           |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (12,481)  | (12,713)          | 232              |
| NOI at share - cash basis   | <u>\$ 341,948</u>                               | <u>\$ 283,154</u> | <u>\$ 58,794</u> |

| (Amounts in thousands)  | <b>For the Three Months Ended June 30, 2017</b> |                   |                  |
|---|---|-------------------|------------------|
|   | <b>Total</b>                                    | <b>New York</b>   | <b>Other</b>     |
| Total revenues  | \$ 511,087                                      | \$ 436,862        | \$ 74,225        |
| Operating expenses  | 215,700   | 185,712           | 29,988           |
| NOI - consolidated  | 295,387   | 251,150           | 44,237           |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (16,269)  | (11,348)          | (4,921)          |
| Add: Our share of NOI from partially owned entities   | 67,016  | 46,386            | 20,630           |
| NOI at share  | 346,134   | 286,188           | 59,946           |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (22,475)  | (18,297)          | (4,178)          |
| NOI at share - cash basis   | <u>\$ 323,659</u>                               | <u>\$ 267,891</u> | <u>\$ 55,768</u> |

| (Amounts in thousands)  | <b>For the Six Months Ended June 30, 2018</b> |                   |                   |
|---|---|-------------------|-------------------|
|   | <b>Total</b>                                  | <b>New York</b>   | <b>Other</b>      |
| Total revenues  | \$ 1,078,255                                  | \$ 907,036        | \$ 171,219        |
| Operating expenses  | 473,583                                       | 398,819           | 74,764            |
| NOI - consolidated  | 604,672                                       | 508,217           | 96,455            |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (34,472)                                      | (23,305)          | (11,167)          |
| Add: Our share of NOI from partially owned entities   | 133,265                                       | 99,551            | 33,714            |
| NOI at share  | 703,465                                       | 584,463           | 119,002           |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (30,429)                                      | (30,036)          | (393)             |
| NOI at share - cash basis   | <u>\$ 673,036</u>                             | <u>\$ 554,427</u> | <u>\$ 118,609</u> |

| (Amounts in thousands)  | <b>For the Six Months Ended June 30, 2017</b> |                   |                   |
|---|---|-------------------|-------------------|
|   | <b>Total</b>                                  | <b>New York</b>   | <b>Other</b>      |
| Total revenues  | \$ 1,019,145                                  | \$ 863,101        | \$ 156,044        |
| Operating expenses  | 436,359                                       | 368,819           | 67,540            |
| NOI - consolidated  | 582,786                                       | 494,282           | 88,504            |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (32,607)                                      | (22,787)          | (9,820)           |
| Add: Our share of NOI from partially owned entities   | 133,113                                       | 91,848            | 41,265            |
| NOI at share  | 683,292                                       | 563,343           | 119,949           |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (42,956)                                      | (36,669)          | (6,287)           |
| NOI at share - cash basis   | <u>\$ 640,336</u>                             | <u>\$ 526,674</u> | <u>\$ 113,662</u> |



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Trustees of Vornado Realty Trust

### Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust and subsidiaries (the "Company") as of June 30, 2018, the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and of changes in equity, and cash flows, for the six-month periods ended June 30, 2018 and 2017, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended; and in our report dated February 12, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

### Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
July 30, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of Vornado Realty L.P.

### Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Vornado Realty L.P. and subsidiaries (the "Partnership") as of June 30, 2018, the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and of changes in equity, and cash flows, for the six-month periods ended June 30, 2018 and 2017, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Partnership as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended; and in our report dated February 12, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

### Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
July 30, 2018

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements contained in this Quarterly Report constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. 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 "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. We also note the following forward-looking statements: in the case of our development and redevelopment projects, the estimated completion date, estimated project cost and cost to complete; and estimates of future capital expenditures, dividends to common and preferred shareholders and operating partnership distributions. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017. 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 Quarterly Report on Form 10-Q 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 occurring after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three and six months ended June 30, 2018. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to the current year presentation.

## Overview

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 93.5% of the common limited partnership interest in, the Operating Partnership as of June 30, 2018. All references to the “Company,” “we,” “us,” and “our” mean collectively Vornado, the Operating Partnership and those entities/subsidiaries consolidated by Vornado.

We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, sales prices, attractiveness of location, the quality of the property and the breadth and the quality of services provided. Our success depends upon, among other factors, trends of the global, national, regional and local economies, the 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, population and employment trends. See “Risk Factors” in Item 1A for additional information regarding these factors.

### *Vornado Realty Trust*

#### Quarter Ended June 30, 2018 Financial Results Summary

Net income attributable to common shareholders for the quarter ended June 30, 2018 was \$111,534,000, or \$0.58 per diluted share, compared to \$115,972,000, or \$0.61 per diluted share, for the prior year’s quarter. The quarters ended June 30, 2018 and 2017 include certain items that impact the comparability of period to period net income attributable to common shareholders, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the quarter ended June 30, 2018 by \$41,881,000, or \$0.22 per diluted share, and \$48,600,000, or \$0.26 per diluted share, for the quarter ended June 30, 2017.

Funds From Operations (“FFO”) attributable to common shareholders plus assumed conversions for the quarter ended June 30, 2018 was \$209,680,000, or \$1.10 per diluted share, compared to \$257,673,000, or \$1.35 per diluted share, for the prior year’s quarter. FFO attributable to common shareholders plus assumed conversions for the quarters ended June 30, 2018 and 2017 include certain items that impact the comparability of period to period FFO, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common shareholders plus assumed conversions for the quarter ended June 30, 2018 by \$22,268,000, or \$0.12 per diluted share, and \$77,129,000, or \$0.40 per diluted share, for the quarter ended June 30, 2017.

#### Six Months Ended June 30, 2018 Financial Results Summary

Net income attributable to common shareholders for the six months ended June 30, 2018 was \$93,693,000, or \$0.49 per diluted share, compared to \$163,724,000, or \$0.86 per diluted share, for the six months ended June 30, 2017. The six months ended June 30, 2018 and 2017 include certain items that impact the comparability of period to period net income attributable to common shareholders, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased net income attributable to common shareholders for the six months ended June 30, 2018 by \$32,384,000, or \$0.17 per diluted share, and increased net income attributable to common shareholders for the six months ended June 30, 2017 by \$50,212,000, or \$0.26 per diluted share.

FFO attributable to common shareholders plus assumed conversions for the six months ended June 30, 2018 was \$312,339,000, or \$1.63 per diluted share, compared to \$463,422,000, or \$2.43 per diluted share, for the six months ended June 30, 2017. FFO attributable to common shareholders plus assumed conversions for the six months ended June 30, 2018 and 2017 include certain items that impact the comparability of period to period FFO, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO attributable to common shareholders plus assumed conversions for the six months ended June 30, 2018 by \$49,038,000, or \$0.26 per diluted share, and increased FFO attributable to common shareholders plus assumed conversions for the six months ended June 30, 2017 by \$124,008,000, or \$0.65 per diluted share.



## Overview - continued

The following table reconciles the difference between our net income attributable to common shareholders and our net income attributable to common shareholders, as adjusted:

| (Amounts in thousands)   | For the Three Months Ended<br>June 30,   |             | For the Six Months Ended<br>June 30, |             |
|--|--|-------------|--------------------------------------|-------------|
|  | 2018   | 2017        | 2018                                 | 2017        |
|  | Certain (income) expense items that impact net income attributable to common shareholders: |             |                                      |             |
| Net gains on sale of real estate   | \$ (24,449)  | \$ (15,339) | \$ (24,767)                          | \$ (19,459) |
| (Increase) decrease in fair value of marketable securities (including our share of partially owned entities)   | (16,024)   | —           | 18,636                               | —           |
| Profit participation on the April 2018 sale of 701 Seventh Avenue  | (5,457)  | —           | (5,457)                              | —           |
| Our share of loss from 666 Fifth Avenue Office Condominium (49.5% interest)  | 1,269  | 7,852       | 4,761                                | 18,049      |
| Our share of (income) loss from real estate fund investments (excluding our \$4,252 share of One Park Avenue potential additional transfer taxes and reduction in carried interest for the six months ended June 30, 2018) | (551)  | 304         | (1,365)                              | 3,539       |
| (Income) loss from discontinued operations and sold properties (primarily related to JBG SMITH Properties operating results and transaction costs through July 17, 2017 spin-off)  | (286)  | (18,251)    | 83                                   | (31,246)    |
| Net gain resulting from Urban Edge Properties ("UE") operating partnership unit issuances  | —  | (15,900)    | —                                    | (15,900)    |
| Net gain on repayment of our Suffolk Downs JV debt investments   | —  | (11,373)    | —                                    | (11,373)    |
| Our share of potential additional New York City transfer taxes based on a Tax Tribunal interpretation which Vornado is appealing   | —  | —           | 23,503                               | —           |
| Preferred share issuance costs   | —  | —           | 14,486                               | —           |
| Other  | 839  | 900         | 4,609                                | 2,864       |
|  | (44,659)   | (51,807)    | 34,489                               | (53,526)    |
| Noncontrolling interests' share of above adjustments   | 2,778  | 3,207       | (2,105)                              | 3,314       |
| Total of certain (income) expense items that impact net income attributable to common shareholders   | \$ (41,881)  | \$ (48,600) | \$ 32,384                            | \$ (50,212) |

The following table reconciles the difference between our FFO attributable to common shareholders plus assumed conversions and our FFO attributable to common shareholders plus assumed conversions, as adjusted:

| (Amounts in thousands)   | For the Three Months Ended<br>June 30,   |             | For the Six Months Ended<br>June 30, |              |
|--|--|-------------|--------------------------------------|--------------|
|  | 2018   | 2017        | 2018                                 | 2017         |
|  | Certain (income) expense items that impact FFO attributable to common shareholders plus assumed conversions: |             |                                      |              |
| (Increase) decrease in fair value of marketable securities (including our share of partially owned entities)   | \$ (16,024)  | \$ —        | \$ 18,636                            | \$ —         |
| Profit participation on the April 2018 sale of 701 Seventh Avenue  | (5,457)  | —           | (5,457)                              | —            |
| Our share of FFO from 666 Fifth Avenue Office Condominium (49.5% interest)   | (2,178)  | (4,160)     | (2,041)                              | (7,713)      |
| Our share of FFO from real estate fund investments (excluding our \$4,252 share of One Park Avenue potential additional transfer taxes and reduction in carried interest for the six months ended June 30, 2018) | (551)  | 304         | (1,365)                              | 3,539        |
| FFO from discontinued operations and sold properties (primarily related to JBG SMITH Properties operating results and transaction costs through July 17, 2017 spin-off)  | (374)  | (51,561)    | (104)                                | (99,901)     |
| Net gain resulting from UE operating partnership unit issuances  | —  | (15,900)    | —                                    | (15,900)     |
| Net gain on repayment of our Suffolk Downs JV debt investments   | —  | (11,373)    | —                                    | (11,373)     |
| Our share of potential additional New York City transfer taxes based on a Tax Tribunal interpretation which Vornado is appealing   | —  | —           | 23,503                               | —            |
| Preferred share issuance costs   | —  | —           | 14,486                               | —            |
| Other  | 839  | 379         | 4,592                                | (962)        |
|  | (23,745)   | (82,311)    | 52,250                               | (132,310)    |
| Noncontrolling interests' share of above adjustments   | 1,477  | 5,182       | (3,212)                              | 8,302        |
| Total of certain (income) expense items that impact FFO attributable to common shareholders plus assumed conversions, net  | \$ (22,268)  | \$ (77,129) | \$ 49,038                            | \$ (124,008) |



## Overview - continued

### Vornado Realty L.P.

#### Quarter Ended June 30, 2018 Financial Results Summary

Net income attributable to Class A unitholders for the quarter ended June 30, 2018 was \$118,931,000, or \$0.58 per diluted Class A unit, compared to \$123,630,000, or \$0.61 per diluted Class A unit, for the prior year's quarter. The quarters ended June 30, 2018 and 2017 include certain items that impact net income attributable to Class A unitholders, which are listed in the table below. The aggregate of these items increased net income attributable to Class A unitholders for the quarter ended June 30, 2018 by \$44,659,000, or \$0.22 per diluted Class A unit, and \$51,807,000, or \$0.26 per diluted Class A unit, for the quarter ended June 30, 2017.

#### Six Months Ended June 30, 2018 Financial Results Summary

Net income attributable to Class A unitholders for the six months ended June 30, 2018 was \$99,917,000, or \$0.48 per diluted Class A unit, compared to \$174,562,000, or \$0.85 per diluted Class A unit, for the six months ended June 30, 2017. The six months ended June 30, 2018 and 2017 include certain items that impact net income attributable to Class A unitholders, which are listed in the table below. The aggregate of these items decreased net income attributable to Class A unitholders for the six months ended June 30, 2018 by \$34,489,000, or \$0.17 per diluted Class A unit, and increased net income attributable to Class A unitholders for the six months ended June 30, 2017 by \$53,526,000, or \$0.26 per diluted Class A unit.

The following table reconciles the difference between our net income attributable to Class A unitholders and our net income attributable to Class A unitholders, as adjusted:

(Amounts in thousands)

|  | For the Three Months Ended<br>June 30, |             | For the Six Months Ended<br>June 30, |             |
|--|--|-------------|--------------------------------------|-------------|
|  | 2018                                   | 2017        | 2018                                 | 2017        |
| Certain (income) expense items that impact net income attributable to Class A unitholders:   |  |             |                                      |             |
| Net gains on sale of real estate   | \$ (24,449)                            | \$ (15,339) | \$ (24,767)                          | \$ (19,459) |
| (Increase) decrease in fair value of marketable securities (including our share of partially owned entities)   | (16,024)                               | —           | 18,636                               | —           |
| Profit participation on the April 2018 sale of 701 Seventh Avenue  | (5,457)                                | —           | (5,457)                              | —           |
| Our share of loss from 666 Fifth Avenue Office Condominium (49.5% interest)  | 1,269                                  | 7,852       | 4,761                                | 18,049      |
| Our share of (income) loss from real estate fund investments (excluding our \$4,252 share of One Park Avenue potential additional transfer taxes and reduction in carried interest for the six months ended June 30, 2018) | (551)                                  | 304         | (1,365)                              | 3,539       |
| (Income) loss from discontinued operations and sold properties (primarily related to JBG SMITH Properties operating results and transaction costs through July 17, 2017 spin-off)  | (286)                                  | (18,251)    | 83                                   | (31,246)    |
| Net gain resulting from UE operating partnership unit issuances  | —                                      | (15,900)    | —                                    | (15,900)    |
| Net gain on repayment of our Suffolk Downs JV debt investments   | —                                      | (11,373)    | —                                    | (11,373)    |
| Our share of potential additional New York City transfer taxes based on a Tax Tribunal interpretation which Vornado is appealing   | —                                      | —           | 23,503                               | —           |
| Preferred unit issuance costs  | —                                      | —           | 14,486                               | —           |
| Other  | 839                                    | 900         | 4,609                                | 2,864       |
| Total of certain (income) expense items that impact net income attributable to Class A unitholders   | \$ (44,659)                            | \$ (51,807) | \$ 34,489                            | \$ (53,526) |

**Overview - continued**

***Vornado Realty Trust and Vornado Realty L.P.***

Same Store Net Operating Income ("NOI")

The percentage increase (decrease) in same store NOI and same store NOI - cash basis of our New York segment, theMART and 555 California Street are summarized below.

|  | <u>Total</u> | <u>New York</u> | <u>theMART</u> | <u>555<br/>California<br/>Street</u> |
|--|--------------|-----------------|----------------|--------------------------------------|
| Same store NOI at share % increase <sup>(1)</sup> :              |              |                 |                |                                      |
| Three months ended June 30, 2018 compared to June 30, 2017       | 4.7%         | 4.2%            | 5.2%           | 13.5%                                |
| Six months ended June 30, 2018 compared to June 30, 2017         | 4.5%         | 4.1%            | 4.3%           | 12.9%                                |
| Three months ended June 30, 2018 compared to March 31, 2018      | 3.2%         | 3.3%            | 3.4%           | 1.1%                                 |
| Same store NOI at share - cash basis % increase <sup>(1)</sup> : |              |                 |                |                                      |
| Three months ended June 30, 2018 compared to June 30, 2017       | 7.0%         | 5.9%            | 10.8%          | 23.8%                                |
| Six months ended June 30, 2018 compared to June 30, 2017         | 6.7%         | 5.8%            | 10.4%          | 18.5%                                |
| Three months ended June 30, 2018 compared to March 31, 2018      | 4.6%         | 4.6%            | 2.9%           | 7.7%                                 |

|  | <u>Increase<br/>(Decrease)</u> |
|--|--------------------------------|
| (1) Excluding Hotel Pennsylvania - New York same store NOI at share % increase (decrease): |                                |
| Three months ended June 30, 2018 compared to June 30, 2017                                 | 4.6 %                          |
| Six months ended June 30, 2018 compared to June 30, 2017                                   | 4.2 %                          |
| Three months ended June 30, 2018 compared to March 31, 2018                                | (0.3)%                         |
| Excluding Hotel Pennsylvania - New York same store NOI at share - cash basis % increase:   |                                |
| Three months ended June 30, 2018 compared to June 30, 2017                                 | 6.3 %                          |
| Six months ended June 30, 2018 compared to June 30, 2017                                   | 5.8 %                          |
| Three months ended June 30, 2018 compared to March 31, 2018                                | 0.7 %                          |

Calculations of same store NOI, reconciliations of our net income to NOI, NOI - cash basis and FFO and the reasons we consider these non-GAAP financial measures useful are provided in the following pages of Management's Discussion and Analysis of the Financial Condition and Results of Operations.

## Overview - continued

### Acquisition

On February 9, 2018, we acquired 537 West 26th Street, a 14,000 square foot commercial property adjacent to our 260 Eleventh Avenue office property and 55,000 square feet of additional zoning air rights, for \$44,000,000.

### Dispositions

On January 17, 2018, Vornado Capital Partners Real Estate Fund (the "Fund") completed the sale of the retail condominium at 11 East 68th Street, a property located on Madison Avenue and 68th Street, for \$82,000,000. From the inception of this investment through its disposition, the Fund realized a \$46,259,000 net gain.

On June 21, 2018, we completed the \$45,000,000 sale of 27 Washington Square North, which resulted in a net gain of \$23,559,000 which is included in "net gains on disposition of wholly owned and partially owned assets" on our consolidated statements of income. We acquired the property in December 2015 for \$20,000,000.

### Financings

On January 4 and 11, 2018, we redeemed all of the outstanding 6.625% Series G and Series I cumulative redeemable preferred shares/units at their redemption price of \$25.00 per share/unit, or \$470,000,000 in the aggregate, plus accrued and unpaid dividends/distributions through the date of redemption, and expensed \$14,486,000 of previously capitalized issuance costs.

On January 5, 2018, we completed a \$100,000,000 refinancing of 33-00 Northern Boulevard (Center Building), a 471,000 square foot office building in Long Island City, New York. The seven-year loan is at LIBOR plus 1.80%, which was swapped to a fixed rate of 4.14%. We realized net proceeds of approximately \$37,200,000 after repayment of the existing 4.43% \$59,800,000 mortgage and closing costs.

On April 19, 2018, the joint venture between the Fund and the Crowne Plaza Joint Venture completed a \$255,000,000 refinancing of the Crowne Plaza Times Square Hotel. The interest-only loan is at LIBOR plus 3.51% (5.56% at June 30, 2018) and matures in May 2020 with three one-year extension options. In connection therewith, the joint venture purchased an interest rate cap that caps LIBOR at a rate of 4.00%. The Crowne Plaza Times Square Hotel was previously encumbered by a \$310,000,000 interest-only mortgage at LIBOR plus 2.80%, which was scheduled to mature in December 2018.

On June 11, 2018, the joint venture that owns Independence Plaza, a three-building 1,327 unit residential complex in the Tribeca submarket of Manhattan completed a \$675,000,000 refinancing of Independence Plaza. The seven-year interest-only loan matures in July 2025 and has a fixed rate of 4.25%. Our share of net proceeds, after repayment of the existing 3.48% \$550,000,000 mortgage and closing costs, was \$55,618,000.

### Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2017 in Management's Discussion and Analysis of Financial Condition and Results of Operations. For the six months ended June 30, 2018, there were no material changes to these policies, other than the adoption of the Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, described in Note 3 to the unaudited consolidated financial statements in Part I, Item I of this Quarterly Report on Form 10-Q.

### Recently Issued Accounting Literature

Refer to Note 3 - *Recently Issued Accounting Literature* to the unaudited consolidated financial statements in Part I, Item I of this Quarterly Report on Form 10-Q for information regarding recent accounting pronouncements that may affect us.

## Overview - continued

### Leasing Activity

The leasing activity and related statistics in the table below are based on leases signed during the period and are not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Second generation relet space represents square footage that has not been vacant for more than nine months and tenant improvements and leasing commissions are based on our share of square feet leased during the period.

(Square feet in thousands)

|  | New York  |           | theMART  | 555 California Street |
|--|-----------|-----------|----------|-----------------------|
|  | Office    | Retail    |          |                       |
| <b>Three Months Ended June 30, 2018</b>      |           |           |          |                       |
| Total square feet leased                     | 611       | 49        | 50       | —                     |
| Our share of square feet leased:             | 545       | 44        | 50       | —                     |
| Initial rent <sup>(1)</sup>                  | \$ 88.28  | \$ 165.98 | \$ 51.66 | \$ —                  |
| Weighted average lease term (years)          | 10.5      | 5.9       | 5.4      | —                     |
| Second generation relet space:               |           |           |          |                       |
| Square feet                                  | 502       | 38        | 50       | —                     |
| GAAP basis:                                  |           |           |          |                       |
| Straight-line rent <sup>(2)</sup>            | \$ 94.89  | \$ 153.04 | \$ 51.26 | \$ —                  |
| Prior straight-line rent                     | \$ 67.17  | \$ 137.19 | \$ 46.86 | \$ —                  |
| Percentage increase                          | 41.3%     | 11.6%     | 9.4%     | —%                    |
| Cash basis:                                  |           |           |          |                       |
| Initial rent <sup>(1)</sup>                  | \$ 89.59  | \$ 145.58 | \$ 51.66 | \$ —                  |
| Prior escalated rent                         | \$ 69.80  | \$ 133.90 | \$ 50.83 | \$ —                  |
| Percentage increase                          | 28.4%     | 8.7%      | 1.6%     | —%                    |
| Tenant improvements and leasing commissions: |           |           |          |                       |
| Per square foot                              | \$ 101.10 | \$ 110.51 | \$ 8.35  | \$ —                  |
| Per square foot per annum                    | \$ 9.63   | \$ 18.73  | \$ 1.55  | \$ —                  |
| Percentage of initial rent                   | 10.9%     | 11.3%     | 3.0%     | —%                    |

See notes on the following page

Overview - continued

Leasing Activity - continued

(Square feet in thousands)

|  | New York             |                        |          |                       |
|--|----------------------|------------------------|----------|-----------------------|
|  | Office               | Retail                 | theMART  | 555 California Street |
| <b>Six Months Ended June 30, 2018</b>        |                      |                        |          |                       |
| Total square feet leased                     | 1,036                | 126                    | 169      | 89                    |
| Our share of square feet leased:             | 903                  | 120                    | 169      | 62                    |
| Initial rent <sup>(1)</sup>                  | \$ 85.81             | \$ 195.29              | \$ 50.77 | \$ 85.89              |
| Weighted average lease term (years)          | 10.5                 | 5.0                    | 5.6      | 7.1                   |
| Second generation relet space:               |                      |                        |          |                       |
| Square feet                                  | 787                  | 114                    | 163      | 30                    |
| GAAP basis:                                  |                      |                        |          |                       |
| Straight-line rent <sup>(2)</sup>            | \$ 91.34             | \$ 199.25              | \$ 51.14 | \$ 99.34              |
| Prior straight-line rent                     | \$ 61.81             | \$ 214.76              | \$ 40.30 | \$ 71.29              |
| Percentage increase (decrease)               | 47.8% <sup>(3)</sup> | (7.2)% <sup>(4)</sup>  | 26.9%    | 39.3%                 |
| Cash basis:                                  |                      |                        |          |                       |
| Initial rent <sup>(1)</sup>                  | \$ 87.55             | \$ 190.03              | \$ 50.73 | \$ 96.68              |
| Prior escalated rent                         | \$ 64.75             | \$ 221.94              | \$ 42.83 | \$ 82.61              |
| Percentage increase (decrease)               | 35.2% <sup>(3)</sup> | (14.4)% <sup>(4)</sup> | 18.4%    | 17.0%                 |
| Tenant improvements and leasing commissions: |                      |                        |          |                       |
| Per square foot                              | \$ 99.87             | \$ 80.44               | \$ 19.29 | \$ 82.65              |
| Per square foot per annum                    | \$ 9.51              | \$ 16.09               | \$ 3.44  | \$ 11.64              |
| Percentage of initial rent                   | 11.1%                | 8.2%                   | 6.8%     | 13.6%                 |

- (1) Represents the cash basis weighted average starting rent per square foot, which is generally indicative of market rents. Most leases include free rent and periodic step-ups in rent which are not included in the initial cash basis rent per square foot but are included in the GAAP basis straight-line rent per square foot.
- (2) Represents the GAAP basis weighted average rent per square foot that is recognized over the term of the respective leases, and includes the effect of free rent and periodic step-ups in rent.
- (3) Excluding a single lease at 770 Broadway for 77 square feet, the GAAP and cash basis mark-to-markets were 35.6% and 24.0%, respectively.
- (4) Excluding a single lease at 435 Seventh Avenue for 43 square feet, the GAAP and cash basis mark-to-markets were 16.0% and 6.4%, respectively.

**Overview - continued**

**Square Footage (in service) and Occupancy as of June 30, 2018**

(Square feet in thousands)

|   | Number of Properties | Square Feet (in service) |               | Occupancy % |
|---|----------------------|--------------------------|---------------|-------------|
|   |                      | Total Portfolio          | Our Share     |             |
| New York:   |                      |                          |               |             |
| Office  | 36                   | 20,243                   | 16,966        | 96.6%       |
| Retail (includes retail properties that are in the base of our office properties) | 72                   | 2,672                    | 2,422         | 96.3%       |
| Residential - 1,682 units   | 10                   | 1,533                    | 800           | 98.3%       |
| Alexander's, including 312 residential units                                      | 7                    | 2,437                    | 790           | 99.5%       |
| Hotel Pennsylvania  | 1                    | 1,400                    | 1,400         |             |
|   |                      | <u>28,285</u>            | <u>22,378</u> | 96.6%       |
| Other:  |                      |                          |               |             |
| theMART   | 3                    | 3,694                    | 3,685         | 99.3%       |
| 555 California Street   | 3                    | 1,741                    | 1,219         | 97.3%       |
| Other   | 11                   | 2,522                    | 1,187         | 93.6%       |
|   |                      | <u>7,957</u>             | <u>6,091</u>  |             |
| Total square feet as of June 30, 2018   |                      | <u>36,242</u>            | <u>28,469</u> |             |

**Square Footage (in service) and Occupancy as of December 31, 2017**

(Square feet in thousands)

|   | Number of properties | Square Feet (in service) |               | Occupancy % |
|---|----------------------|--------------------------|---------------|-------------|
|   |                      | Total Portfolio          | Our Share     |             |
| New York:   |                      |                          |               |             |
| Office  | 36                   | 20,256                   | 16,982        | 97.1%       |
| Retail (includes retail properties that are in the base of our office properties) | 71                   | 2,720                    | 2,471         | 96.9%       |
| Residential - 1,671 units   | 10                   | 1,533                    | 800           | 97.3%       |
| Alexander's, including 312 residential units                                      | 7                    | 2,437                    | 790           | 99.3%       |
| Hotel Pennsylvania  | 1                    | 1,400                    | 1,400         |             |
|   |                      | <u>28,346</u>            | <u>22,443</u> | 97.2%       |
| Other:  |                      |                          |               |             |
| theMART   | 3                    | 3,689                    | 3,680         | 98.6%       |
| 555 California Street   | 3                    | 1,741                    | 1,219         | 94.2%       |
| Other   | 11                   | 2,525                    | 1,188         | 93.6%       |
|   |                      | <u>7,955</u>             | <u>6,087</u>  |             |
| Total square feet as of December 31, 2017   |                      | <u>36,301</u>            | <u>28,530</u> |             |



## Net Operating Income by Segment for the Three Months Ended June 30, 2018 and 2017

NOI represents total revenues less operating expenses. We consider NOI to be the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. NOI should not be considered a substitute for net income. NOI may not be comparable to similarly titled measures employed by other companies.

Below is a summary of NOI at share and NOI at share - cash basis by segment for the three months ended June 30, 2018 and 2017.

(Amounts in thousands)

|   | For the Three Months Ended June 30, 2018 |            |           |
|---|--|------------|-----------|
|   | Total                                    | New York   | Other     |
| Total revenues  | \$ 541,818                               | \$ 458,552 | \$ 83,266 |
| Operating expenses  | 235,981                                  | 200,903    | 35,078    |
| NOI - consolidated  | 305,837                                  | 257,649    | 48,188    |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (17,160)                                 | (11,560)   | (5,600)   |
| Add: Our share of NOI from partially owned entities   | 65,752                                   | 49,778     | 15,974    |
| NOI at share  | 354,429                                  | 295,867    | 58,562    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (12,481)                                 | (12,713)   | 232       |
| NOI at share - cash basis   | \$ 341,948                               | \$ 283,154 | \$ 58,794 |

(Amounts in thousands)

|   | For the Three Months Ended June 30, 2017 |            |           |
|---|--|------------|-----------|
|   | Total                                    | New York   | Other     |
| Total revenues  | \$ 511,087                               | \$ 436,862 | \$ 74,225 |
| Operating expenses  | 215,700                                  | 185,712    | 29,988    |
| NOI - consolidated  | 295,387                                  | 251,150    | 44,237    |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (16,269)                                 | (11,348)   | (4,921)   |
| Add: Our share of NOI from partially owned entities   | 67,016                                   | 46,386     | 20,630    |
| NOI at share  | 346,134                                  | 286,188    | 59,946    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (22,475)                                 | (18,297)   | (4,178)   |
| NOI at share - cash basis   | \$ 323,659                               | \$ 267,891 | \$ 55,768 |

## Net Operating Income by Segment for the Three Months Ended June 30, 2018 and 2017 - continued

The elements of our New York and Other NOI at share for the three months ended June 30, 2018 and 2017 are summarized below.

| (Amounts in thousands) | For the Three Months Ended June 30, |            |
|------------------------|-------------------------------------|------------|
|                        | 2018                                | 2017       |
| New York:              |                                     |            |
| Office                 | \$ 184,867                          | \$ 171,809 |
| Retail                 | 87,109                              | 89,955     |
| Residential            | 6,338                               | 6,191      |
| Alexander's            | 11,909                              | 11,966     |
| Hotel Pennsylvania     | 5,644                               | 6,267      |
| Total New York         | 295,867                             | 286,188    |
| Other:                 |                                     |            |
| theMART                | 27,816                              | 26,182     |
| 555 California Street  | 13,660                              | 12,032     |
| Other investments      | 17,086                              | 21,732     |
| Total Other            | 58,562                              | 59,946     |
| NOI at share           | \$ 354,429                          | \$ 346,134 |

The elements of our New York and Other NOI at share - cash basis for the three months ended June 30, 2018 and 2017 are summarized below.

| (Amounts in thousands)    | For the Three Months Ended June 30, |            |
|---------------------------|-------------------------------------|------------|
|                           | 2018                                | 2017       |
| New York:                 |                                     |            |
| Office                    | \$ 180,710                          | \$ 163,972 |
| Retail                    | 79,139                              | 79,967     |
| Residential               | 5,463                               | 5,342      |
| Alexander's               | 12,098                              | 12,311     |
| Hotel Pennsylvania        | 5,744                               | 6,299      |
| Total New York            | 283,154                             | 267,891    |
| Other:                    |                                     |            |
| theMART                   | 27,999                              | 24,897     |
| 555 California Street     | 13,808                              | 11,151     |
| Other investments         | 16,987                              | 19,720     |
| Total Other               | 58,794                              | 55,768     |
| NOI at share - cash basis | \$ 341,948                          | \$ 323,659 |

## Reconciliation of Net Income to Net Operating Income for the Three Months Ended June 30, 2018 and 2017

Below is a reconciliation of net income to NOI at share and NOI at share - cash basis for the three months ended June 30, 2018 and 2017.

| (Amounts in thousands)  | For the Three Months Ended June 30, |            |
|---|-------------------------------------|------------|
|   | 2018                                | 2017       |
| Net income  | \$ 105,338                          | \$ 147,484 |
| Deduct:   |                                     |            |
| Income from partially owned entities  | (8,757)                             | (46,021)   |
| Loss (income) from real estate fund investments   | 28,976                              | (4,391)    |
| Interest and other investment income, net   | (30,892)                            | (8,541)    |
| Net gains on disposition of wholly owned and partially owned assets                                       | (23,559)                            | —          |
| Income from discontinued operations   | (683)                               | (18,111)   |
| NOI attributable to noncontrolling interests in consolidated subsidiaries                                 | (17,160)                            | (16,269)   |
| Add:  |                                     |            |
| Depreciation and amortization expense   | 111,846                             | 105,123    |
| General and administrative expense  | 34,427                              | 35,405     |
| Transaction related costs and other   | 1,017                               | 260        |
| NOI from partially owned entities   | 65,752                              | 67,016     |
| Interest and debt expense   | 87,657                              | 84,789     |
| Income tax expense (benefit)  | 467                                 | (610)      |
| NOI at share  | 354,429                             | 346,134    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (12,481)                            | (22,475)   |
| NOI at share - cash basis   | \$ 341,948                          | \$ 323,659 |

### NOI by Region

Below is a summary of the percentages of NOI at share by geographic region for the three months ended June 30, 2018 and 2017.

| Region:                         | For the Three Months Ended June 30, |      |
|---------------------------------|-------------------------------------|------|
|                                 | 2018                                | 2017 |
| New York City metropolitan area | 88%                                 | 88%  |
| Chicago, IL                     | 8%                                  | 8%   |
| San Francisco, CA               | 4%                                  | 4%   |
|                                 | 100%                                | 100% |

## Results of Operations – Three Months Ended June 30, 2018 Compared to June 30, 2017

### Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, and fee and other income, were \$541,818,000 for the three months ended June 30, 2018 compared to \$511,087,000 for the prior year's quarter, an increase of \$30,731,000. Below are the details of the increase by segment:

| (Amounts in thousands)                | <u>Total</u>     | <u>New York</u>      | <u>Other</u>    |
|---------------------------------------|------------------|----------------------|-----------------|
| Increase (decrease) due to:           |                  |                      |                 |
| <b>Property rentals:</b>              |                  |                      |                 |
| Acquisitions, dispositions and other  | \$ (1,287)       | \$ (1,287)           | \$ —            |
| Development and redevelopment         | (2,089)          | (2,192)              | 103             |
| Hotel Pennsylvania                    | 1,767            | 1,767                | —               |
| Trade shows                           | 999              | —                    | 999             |
| Same store operations                 | 16,562           | 12,416               | 4,146           |
|                                       | <u>15,952</u>    | <u>10,704</u>        | <u>5,248</u>    |
| <b>Tenant expense reimbursements:</b> |                  |                      |                 |
| Acquisitions, dispositions and other  | 12               | 12                   | —               |
| Development and redevelopment         | 282              | 273                  | 9               |
| Same store operations                 | 6,361            | 4,924                | 1,437           |
|                                       | <u>6,655</u>     | <u>5,209</u>         | <u>1,446</u>    |
| <b>Fee and other income:</b>          |                  |                      |                 |
| BMS cleaning fees                     | 6,442            | 6,790 <sup>(1)</sup> | (348)           |
| Management and leasing fees           | (70)             | (1)                  | (69)            |
| Lease termination fees                | (302)            | (662)                | 360             |
| Other income                          | 2,054            | (350)                | 2,404           |
|                                       | <u>8,124</u>     | <u>5,777</u>         | <u>2,347</u>    |
| <b>Total increase in revenues</b>     | <u>\$ 30,731</u> | <u>\$ 21,690</u>     | <u>\$ 9,041</u> |

(1) Includes \$1,935 related to services provided to JBG Smith Properties ("JBGS") and \$1,451 of one-time tenant work.

## Results of Operations – Three Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Expenses

Our expenses, which consist of operating, depreciation and amortization, general and administrative, expense from deferred compensation plan liability, and transaction related costs and other, were \$385,348,000 for the three months ended June 30, 2018, compared to \$357,277,000 for the prior year's quarter, an increase of \$28,071,000. Below are the details of the increase by segment:

| (Amounts in thousands)                                   | <u>Total</u>     | <u>New York</u>      | <u>Other</u>                |
|--|------------------|----------------------|-----------------------------|
| Increase (decrease) due to:                              |                  |                      |                             |
| <b>Operating:</b>  |                  |                      |                             |
| Acquisitions, dispositions and other                     | \$ 239           | \$ 239               | \$ —                        |
| Development and redevelopment                            | (456)            | (1,045)              | 589                         |
| Non-reimbursable expenses, including bad debt reserves   | 2,864            | 2,662                | 202                         |
| Hotel Pennsylvania                                       | 2,373            | 2,373                | —                           |
| Trade shows  | 568              | —                    | 568                         |
| BMS expenses   | 4,908            | 5,225 <sup>(1)</sup> | (317)                       |
| Same store operations                                    | 9,785            | 5,737                | 4,048                       |
|  | <u>20,281</u>    | <u>15,191</u>        | <u>5,090</u>                |
| <b>Depreciation and amortization:</b>                    |                  |                      |                             |
| Acquisitions, dispositions and other                     | 148              | 148                  | —                           |
| Development and redevelopment                            | 1,740            | 1,709                | 31                          |
| Same store operations                                    | 4,835            | 3,538                | 1,297                       |
|  | <u>6,723</u>     | <u>5,395</u>         | <u>1,328</u>                |
| <b>General and administrative</b>                        | <u>(978)</u>     | <u>225</u>           | <u>(1,203)</u>              |
| <b>Expense from deferred compensation plan liability</b> | <u>1,288</u>     | <u>—</u>             | <u>1,288</u> <sup>(2)</sup> |
| <b>Transaction related costs and other</b>               | <u>757</u>       | <u>—</u>             | <u>757</u>                  |
| <b>Total increase in expenses</b>                        | <u>\$ 28,071</u> | <u>\$ 20,811</u>     | <u>\$ 7,260</u>             |

(1) This increase is a result of services provided to JBGS and one-time tenant work.

(2) This increase in expense is entirely offset by a corresponding increase in "income from deferred compensation plan assets" on our consolidated statements of income.

### Income from Partially Owned Entities

Below are the components of income from partially owned entities for the three months ended June 30, 2018 and 2017.

| (Amounts in thousands)                              | <u>Ownership<br/>Percentage at<br/>June 30, 2018</u> | <u>For the Three Months Ended June 30,</u> |                  |
|---|--|--|------------------|
|   |  | <u>2018</u>                                | <u>2017</u>      |
| <b>Our share of net income (loss):</b>              |  |  |                  |
| Alexander's   | 32.4%  | \$ 7,167                                   | \$ 8,197         |
| Partially owned office buildings <sup>(1)</sup>     | Various  | 2,002                                      | 236              |
| UE <sup>(2)</sup>                                   | 4.5%   | 1,112                                      | 19,003           |
| Pennsylvania Real Estate Investment Trust ("PREIT") | 8.0%   | (1,068)                                    | (902)            |
| Other investments <sup>(3)</sup>                    | Various  | (456)                                      | 19,487           |
|   |  | <u>\$ 8,757</u>                            | <u>\$ 46,021</u> |

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others.

(2) 2017 includes a \$15,900 net gain resulting from UE operating partnership unit issuances.

(3) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, 666 Fifth Avenue Condominium and others. In the second quarter of 2017, we recognized \$26,687 of net gains comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV.



## Results of Operations – Three Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Income (Loss) from Real Estate Fund Investments

Below are the components of the income (loss) from our real estate fund investments for the three months ended June 30, 2018 and 2017.

| (Amounts in thousands)   | For the Three Months Ended June 30, |          |
|--|-------------------------------------|----------|
|  | 2018                                | 2017     |
| Net investment income  | \$ 539                              | \$ 3,646 |
| Net unrealized (loss) gain on held investments   | (29,513)                            | 745      |
| Net realized loss on exited investments  | (2)                                 | —        |
| (Loss) income from real estate fund investments  | (28,976)                            | 4,391    |
| Less loss (income) attributable to noncontrolling interests in consolidated subsidiaries                 | 29,527                              | (4,695)  |
| Income (loss) from real estate fund investments attributable to the Operating Partnership <sup>(1)</sup> | 551                                 | (304)    |
| Less (income) loss attributable to noncontrolling interests in the Operating Partnership                 | (34)                                | 19       |
| Income (loss) from real estate fund investments attributable to Vornado                                  | \$ 517                              | \$ (285) |

(1) Excludes \$1,104 and \$1,381 of management and leasing fees for the three months ended June 30, 2018 and 2017, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

### Interest and Other Investment Income, net

Below are the components of interest and other investment income, net for the three months ended June 30, 2018 and 2017.

| (Amounts in thousands)   | For the Three Months Ended June 30, |          |
|--|-------------------------------------|----------|
|  | 2018                                | 2017     |
| Increase in fair value of marketable securities <sup>(1)</sup> | \$ 15,884                           | \$ —     |
| Interest on loans receivable <sup>(2)</sup>                    | 6,205                               | 2,102    |
| Dividends on marketable securities                             | 3,353                               | 3,307    |
| Other, net   | 5,450                               | 3,132    |
|  | \$ 30,892                           | \$ 8,541 |

(1) On January 1, 2018, we adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires changes in the fair value of our marketable securities to be recorded in current period earnings. Previously, changes in the fair value of marketable securities were recognized in "accumulated other comprehensive income" on our consolidated balance sheets.

(2) 2018 includes \$5,457 of income from a profit participation on the April 2018 sale of 701 Seventh Avenue. We received this kicker in connection with our 25% participation in an October 2012, \$137,500 mezzanine loan, which was repaid in January 2014.

### Interest and Debt Expense

Interest and debt expense was \$87,657,000 for the three months ended June 30, 2018, compared to \$84,789,000 in the prior year's quarter, an increase of \$2,868,000. This increase was primarily due to (i) \$6,047,000 of higher interest expense relating to our variable rate loans, and (ii) \$2,611,000 of higher interest expense on our \$750,000,000 delayed draw term loan which was fully drawn in October 2017, partially offset by (iii) \$5,174,000 higher capitalized interest and debt expense.

### Net Gains on Disposition of Wholly Owned and Partially Owned Assets

Net gains on disposition of wholly owned and partially owned assets for the three months ended June 30, 2018 were \$23,559,000 representing the net gain on sale of 27 Washington Square North.

### Income Tax (Expense) Benefit

Income tax expense for the three months ended June 30, 2018 was \$467,000 compared to a benefit of \$610,000 for the prior year's quarter, an increase in expense of \$1,077,000. This increase is primarily due to higher New York City Unincorporated Business Tax ("UBT").

## Results of Operations – Three Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Income from Discontinued Operations

We have reclassified the revenues and expenses of our former Washington, DC segment which was spun off on July 17, 2017 and other related retail assets that were sold or are currently held for sale to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all periods presented in the accompanying financial statements. The table below sets forth the combined results of operations of assets related to discontinued operations for the three months ended June 30, 2018 and 2017.

(Amounts in thousands)

|   | <b>For the Three Months Ended June 30,</b> |                  |
|---|--|------------------|
|   | <b>2018</b>                                | <b>2017</b>      |
| Total revenues                              | \$ 339                                     | \$ 118,939       |
| Total expenses                              | 274  | 94,510           |
|   | 65   | 24,429           |
| Additional net gains on sale of real estate | 618  | —                |
| JBGS spin-off transaction costs             | —  | (6,211)          |
| Income from partially-owned entities        | —  | 255              |
| Pretax income from discontinued operations  | 683  | 18,473           |
| Income tax expense                          | —  | (362)            |
| Income from discontinued operations         | <u>\$ 683</u>                              | <u>\$ 18,111</u> |

### Net Loss (Income) Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net loss attributable to noncontrolling interests in consolidated subsidiaries was \$26,175,000 for the three months ended June 30, 2018, compared to income of \$7,677,000 for the prior year's quarter, a decrease in income of \$33,852,000. This decrease resulted primarily from the allocation of net loss to the noncontrolling interests of our real estate fund investments.

### Net Income Attributable to Noncontrolling Interests in the Operating Partnership (Vornado Realty Trust)

Net income attributable to noncontrolling interests in the Operating Partnership was \$7,445,000 for the three months ended June 30, 2018, compared to \$7,706,000 for the prior year's quarter, a decrease of \$261,000. This decrease resulted primarily from lower net income subject to allocation to Class A unitholders.

### Preferred Share Dividends of Vornado Realty Trust

Preferred share dividends were \$12,534,000 for the three months ended June 30, 2018, compared to \$16,129,000 for the prior year's quarter, a decrease of \$3,595,000. The decrease is comprised of \$7,789,000 of savings from the redemption of all of the outstanding 6.625% Series G and Series I cumulative redeemable preferred shares in January 2018, partially offset by a \$4,194,000 increase due to the issuance of 5.25% Series M cumulative redeemable preferred shares in December 2017.

### Preferred Unit Distributions of Vornado Realty L.P.

Preferred unit distributions were \$12,582,000 for the three months ended June 30, 2018, compared to \$16,177,000 for the prior year's quarter, a decrease of \$3,595,000. The decrease is comprised of \$7,789,000 of savings from the redemption of all the outstanding 6.625% Series G and Series I cumulative redeemable preferred units in January 2018, partially offset by a \$4,194,000 increase due to the issuance of 5.25% Series M cumulative redeemable preferred units in December 2017.



## Results of Operations – Three Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Same Store Net Operating Income

Same store NOI represents NOI from operations which are owned by us and in service in both the current and prior year reporting periods. Same store NOI - cash basis is NOI from operations before straight-line rental income and expense, amortization of acquired below and above market leases, net and other non-cash adjustments which are owned by us and in service in both the current and prior year reporting periods. We present these non-GAAP measures to (i) facilitate meaningful comparisons of the operational performance of our properties and segments, (ii) make decisions on whether to buy, sell or refinance properties, and (iii) compare the performance of our properties and segments to those of our peers. Same store NOI and same store NOI - cash basis should not be considered as an alternative to net income or cash flow from operations and may not be comparable to similarly titled measures employed by other companies.

Below are reconciliations of NOI to same store NOI for our New York segment, theMART, 555 California Street and other investments for the three months ended June 30, 2018 compared to June 30, 2017.

(Amounts in thousands)

|  | <u>Total</u>      | <u>New York</u>            | <u>theMART</u>   | <u>555<br/>California<br/>Street</u> | <u>Other</u> |
|--|-------------------|----------------------------|------------------|--------------------------------------|--------------|
| NOI at share for the three months ended June 30, 2018  | \$ 354,429        | \$ 295,867                 | \$ 27,816        | \$ 13,660                            | \$ 17,086    |
| Less NOI at share from:  |                   |                            |                  |                                      |              |
| Acquisitions   | (503)             | (439)                      | (64)             | —                                    | —            |
| Dispositions   | (310)             | (310)                      | —                | —                                    | —            |
| Development properties placed into and out of service  | (12,794)          | (12,794)                   | —                | —                                    | —            |
| Lease termination income, net of straight-line and FAS 141 write-offs                                  | 1,941             | 1,984                      | (43)             | —                                    | —            |
| Other non-operating income, net  | (17,583)          | (497)                      | —                | —                                    | (17,086)     |
| Same store NOI at share for the three months ended June 30, 2018                                       | <u>\$ 325,180</u> | <u>\$ 283,811</u>          | <u>\$ 27,709</u> | <u>\$ 13,660</u>                     | <u>\$ —</u>  |
| NOI at share for the three months ended June 30, 2017  | \$ 346,134        | \$ 286,188                 | \$ 26,182        | \$ 12,032                            | \$ 21,732    |
| Less NOI at share from:  |                   |                            |                  |                                      |              |
| Acquisitions   | 5                 | (164)                      | 169              | —                                    | —            |
| Dispositions   | (406)             | (406)                      | —                | —                                    | —            |
| Development properties placed into and out of service  | (12,329)          | (12,329)                   | —                | —                                    | —            |
| Lease termination income, net of straight-line and FAS 141 write-offs                                  | (166)             | (166)                      | —                | —                                    | —            |
| Other non-operating income, net  | (22,573)          | (841)                      | —                | —                                    | (21,732)     |
| Same store NOI at share for the three months ended June 30, 2017                                       | <u>\$ 310,665</u> | <u>\$ 272,282</u>          | <u>\$ 26,351</u> | <u>\$ 12,032</u>                     | <u>\$ —</u>  |
| Increase in same store NOI at share for the three months ended June 30, 2018 compared to June 30, 2017 | <u>\$ 14,515</u>  | <u>\$ 11,529</u>           | <u>\$ 1,358</u>  | <u>\$ 1,628</u>                      | <u>\$ —</u>  |
| % increase in same store NOI at share  | <u>4.7%</u>       | <u>4.2% <sup>(1)</sup></u> | <u>5.2%</u>      | <u>13.5%</u>                         | <u>—%</u>    |

(1) Excluding Hotel Pennsylvania, same store NOI at share increased by 4.6%.

## Results of Operations – Three Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Same Store Net Operating Income - continued

Below are reconciliations of NOI - cash basis to same store NOI - cash basis for our New York segment, theMART, 555 California Street and other investments for the three months ended June 30, 2018 compared to June 30, 2017.

(Amounts in thousands)

|   | Total             | New York                   | theMART          | 555<br>California<br>Street | Other       |
|---|-------------------|----------------------------|------------------|-----------------------------|-------------|
| NOI at share - cash basis for the three months ended June 30, 2018  | \$ 341,948        | \$ 283,154                 | \$ 27,999        | \$ 13,808                   | \$ 16,987   |
| Less NOI at share - cash basis from:  |                   |                            |                  |                             |             |
| Acquisitions  | (355)             | (291)                      | (64)             | —                           | —           |
| Dispositions  | (242)             | (242)                      | —                | —                           | —           |
| Development properties placed into and out of service   | (13,686)          | (13,686)                   | —                | —                           | —           |
| Lease termination income  | (162)             | —                          | (162)            | —                           | —           |
| Other non-operating income, net   | (17,483)          | (496)                      | —                | —                           | (16,987)    |
| Same store NOI at share - cash basis for the three months ended June 30, 2018                                       | <u>\$ 310,020</u> | <u>\$ 268,439</u>          | <u>\$ 27,773</u> | <u>\$ 13,808</u>            | <u>\$ —</u> |
| NOI at share - cash basis for the three months ended June 30, 2017  | \$ 323,659        | \$ 267,891                 | \$ 24,897        | \$ 11,151                   | \$ 19,720   |
| Less NOI at share - cash basis from:  |                   |                            |                  |                             |             |
| Acquisitions  | 106               | (63)                       | 169              | —                           | —           |
| Dispositions  | (297)             | (297)                      | —                | —                           | —           |
| Development properties placed into and out of service   | (12,340)          | (12,340)                   | —                | —                           | —           |
| Lease termination income  | (218)             | (218)                      | —                | —                           | —           |
| Other non-operating income, net   | (21,287)          | (1,567)                    | —                | —                           | (19,720)    |
| Same store NOI at share - cash basis for the three months ended June 30, 2017                                       | <u>\$ 289,623</u> | <u>\$ 253,406</u>          | <u>\$ 25,066</u> | <u>\$ 11,151</u>            | <u>\$ —</u> |
| Increase in same store NOI at share - cash basis for the three months ended June 30, 2018 compared to June 30, 2017 | <u>\$ 20,397</u>  | <u>\$ 15,033</u>           | <u>\$ 2,707</u>  | <u>\$ 2,657</u>             | <u>\$ —</u> |
| % increase in same store NOI at share - cash basis  | <u>7.0%</u>       | <u>5.9% <sup>(1)</sup></u> | <u>10.8%</u>     | <u>23.8%</u>                | <u>—%</u>   |

(1) Excluding Hotel Pennsylvania, same store NOI at share - cash basis increased by 6.3%.

## Net Operating Income by Segment for the Six Months Ended June 30, 2018 and 2017

NOI represents total revenues less operating expenses. We consider NOI to be the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. NOI should not be considered a substitute for net income. NOI may not be comparable to similarly titled measures employed by other companies.

Below is a summary of NOI at share and NOI at share - cash basis by segment for the six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|   | For the Six Months Ended June 30, 2018 |            |            |
|---|--|------------|------------|
|   | Total                                  | New York   | Other      |
| Total revenues  | \$ 1,078,255                           | \$ 907,036 | \$ 171,219 |
| Operating expenses  | 473,583                                | 398,819    | 74,764     |
| NOI - consolidated  | 604,672                                | 508,217    | 96,455     |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (34,472)                               | (23,305)   | (11,167)   |
| Add: Our share of NOI from partially owned entities   | 133,265                                | 99,551     | 33,714     |
| NOI at share  | 703,465                                | 584,463    | 119,002    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (30,429)                               | (30,036)   | (393)      |
| NOI at share - cash basis   | \$ 673,036                             | \$ 554,427 | \$ 118,609 |

(Amounts in thousands)

|   | For the Six Months Ended June 30, 2017 |            |            |
|---|--|------------|------------|
|   | Total                                  | New York   | Other      |
| Total revenues  | \$ 1,019,145                           | \$ 863,101 | \$ 156,044 |
| Operating expenses  | 436,359                                | 368,819    | 67,540     |
| NOI - consolidated  | 582,786                                | 494,282    | 88,504     |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (32,607)                               | (22,787)   | (9,820)    |
| Add: Our share of NOI from partially owned entities   | 133,113                                | 91,848     | 41,265     |
| NOI at share  | 683,292                                | 563,343    | 119,949    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (42,956)                               | (36,669)   | (6,287)    |
| NOI at share - cash basis   | \$ 640,336                             | \$ 526,674 | \$ 113,662 |

## Net Operating Income by Segment for the Six Months Ended June 30, 2018 and 2017 - continued

The elements of our New York and Other NOI at share for the six months ended June 30, 2018 and 2017 are summarized below.

| (Amounts in thousands) | For the Six Months Ended June 30, |            |
|------------------------|-----------------------------------|------------|
|                        | 2018                              | 2017       |
| New York:              |                                   |            |
| Office                 | \$ 372,023                        | \$ 346,533 |
| Retail                 | 175,018                           | 179,003    |
| Residential            | 12,479                            | 12,469     |
| Alexander's            | 23,484                            | 23,709     |
| Hotel Pennsylvania     | 1,459                             | 1,629      |
| Total New York         | 584,463                           | 563,343    |
| Other:                 |                                   |            |
| theMART                | 54,691                            | 52,071     |
| 555 California Street  | 27,171                            | 24,066     |
| Other investments      | 37,140                            | 43,812     |
| Total Other            | 119,002                           | 119,949    |
| NOI at share           | \$ 703,465                        | \$ 683,292 |

The elements of our New York and Other NOI at share - cash basis for the six months ended June 30, 2018 and 2017 are summarized below.

| (Amounts in thousands)    | For the Six Months Ended June 30, |            |
|---------------------------|-----------------------------------|------------|
|                           | 2018                              | 2017       |
| New York:                 |                                   |            |
| Office                    | \$ 358,909                        | \$ 330,311 |
| Retail                    | 158,728                           | 159,386    |
| Residential               | 11,062                            | 10,884     |
| Alexander's               | 24,137                            | 24,399     |
| Hotel Pennsylvania        | 1,591                             | 1,694      |
| Total New York            | 554,427                           | 526,674    |
| Other:                    |                                   |            |
| theMART                   | 55,078                            | 49,429     |
| 555 California Street     | 26,634                            | 22,476     |
| Other investments         | 36,897                            | 41,757     |
| Total Other               | 118,609                           | 113,662    |
| NOI at share - cash basis | \$ 673,036                        | \$ 640,336 |

## Reconciliation of Net Income to Net Operating Income for the Six Months Ended June 30, 2018 and 2017

Below is a reconciliation of net income to NOI at share and NOI at share - cash basis for the six months ended June 30, 2018 and 2017.

| (Amounts in thousands)  | For the Six Months Ended June 30, |            |
|---|-----------------------------------|------------|
|   | 2018                              | 2017       |
| Net income  | \$ 105,620                        | \$ 221,331 |
| Deduct:   |                                   |            |
| Loss (income) from partially owned entities   | 1,147                             | (47,379)   |
| Loss (income) from real estate fund investments   | 37,783                            | (4,659)    |
| Interest and other investment income, net   | (6,508)                           | (15,236)   |
| Net gains on disposition of wholly owned and partially owned assets                                       | (23,559)                          | (501)      |
| Income from discontinued operations   | (320)                             | (33,429)   |
| NOI attributable to noncontrolling interests in consolidated subsidiaries                                 | (34,472)                          | (32,607)   |
| Add:  |                                   |            |
| Depreciation and amortization expense   | 220,532                           | 210,251    |
| General and administrative expense  | 76,960                            | 81,580     |
| Transaction related costs and other   | 14,173                            | 1,012      |
| NOI from partially owned entities   | 133,265                           | 133,113    |
| Interest and debt expense   | 175,823                           | 167,513    |
| Income tax expense  | 3,021                             | 2,303      |
| NOI at share  | 703,465                           | 683,292    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (30,429)                          | (42,956)   |
| NOI at share - cash basis   | \$ 673,036                        | \$ 640,336 |

### NOI by Region

Below is a summary of the percentages of NOI at share by geographic region for the six months ended June 30, 2018 and 2017.

| Region:                         | For the Six Months Ended June 30, |      |
|---------------------------------|-----------------------------------|------|
|                                 | 2018                              | 2017 |
| New York City metropolitan area | 88%                               | 88%  |
| Chicago, IL                     | 8%                                | 8%   |
| San Francisco, CA               | 4%                                | 4%   |
|                                 | 100%                              | 100% |

## Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017

### Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, and fee and other income, were \$1,078,255,000 for the six months ended June 30, 2018, compared to \$1,019,145,000 for the prior year's six months, an increase of \$59,110,000. Below are the details of the increase by segment:

(Amounts in thousands)

Increase (decrease) due to:

#### Property rentals:

|                                      | <u>Total</u>  | <u>New York</u> | <u>Other</u> |
|--------------------------------------|---------------|-----------------|--------------|
| Acquisitions, dispositions and other | \$ 1,410      | \$ 1,410        | \$ —         |
| Development and redevelopment        | (2,216)       | (2,461)         | 245          |
| Hotel Pennsylvania                   | 3,524         | 3,524           | —            |
| Trade shows                          | 1,390         | —               | 1,390        |
| Same store operations                | 37,062        | 29,255          | 7,807        |
|                                      | <u>41,170</u> | <u>31,728</u>   | <u>9,442</u> |

#### Tenant expense reimbursements:

|                                      |              |              |              |
|--------------------------------------|--------------|--------------|--------------|
| Acquisitions, dispositions and other | 26           | 26           | —            |
| Development and redevelopment        | 423          | 222          | 201          |
| Same store operations                | 7,483        | 5,912        | 1,571        |
|                                      | <u>7,932</u> | <u>6,160</u> | <u>1,772</u> |

#### Fee and other income:

|                             |               |                       |              |
|-----------------------------|---------------|-----------------------|--------------|
| BMS cleaning fees           | 9,726         | 10,820 <sup>(1)</sup> | (1,094)      |
| Management and leasing fees | 419           | 453                   | (34)         |
| Lease termination fees      | (3,807)       | (4,081)               | 274          |
| Other income                | 3,670         | (1,145)               | 4,815        |
|                             | <u>10,008</u> | <u>6,047</u>          | <u>3,961</u> |

|                            |                  |                  |                  |
|----------------------------|------------------|------------------|------------------|
| Total increase in revenues | <u>\$ 59,110</u> | <u>\$ 43,935</u> | <u>\$ 15,175</u> |
|----------------------------|------------------|------------------|------------------|

(1) Includes \$3,877 related to services provided to JBGS and \$1,451 of one-time tenant work.

## Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Expenses

Our expenses, which consist of operating, depreciation and amortization, general and administrative, expense from deferred compensation plan liability, and transaction related costs and other, were \$786,921,000 for the six months ended June 30, 2018, compared to \$732,460,000 for the prior year's six months, an increase of \$54,461,000. Below are the details of the increase by segment:

| (Amounts in thousands)                                   | <u>Total</u>     | <u>New York</u>              | <u>Other</u>                  |
|--|------------------|------------------------------|-------------------------------|
| Increase(decrease) due to:                               |                  |                              |                               |
| <b>Operating:</b>  |                  |                              |                               |
| Acquisitions, dispositions and other                     | \$ 642           | \$ 642                       | \$ —                          |
| Development and redevelopment                            | (72)             | (1,323)                      | 1,251                         |
| Non-reimbursable expenses, including bad debt reserves   | 4,721            | 4,534                        | 187                           |
| Hotel Pennsylvania                                       | 3,677            | 3,677                        | —                             |
| Trade shows  | 680              | —                            | 680                           |
| BMS expenses   | 7,495            | 8,528 <sup>(1)</sup>         | (1,033)                       |
| Same store operations                                    | 20,081           | 13,942                       | 6,139                         |
|  | <u>37,224</u>    | <u>30,000</u>                | <u>7,224</u>                  |
| <b>Depreciation and amortization:</b>                    |                  |                              |                               |
| Acquisitions, dispositions and other                     | 240              | 240                          | —                             |
| Development and redevelopment                            | 4,925            | 4,860                        | 65                            |
| Same store operations                                    | 5,116            | 1,974                        | 3,142                         |
|  | <u>10,281</u>    | <u>7,074</u>                 | <u>3,207</u>                  |
| <b>General and administrative</b>                        | <u>(4,620)</u>   | <u>(902)</u>                 | <u>(3,718)</u>                |
| <b>Expense from deferred compensation plan liability</b> | <u>(1,585)</u>   | <u>—</u>                     | <u>(1,585) <sup>(2)</sup></u> |
| <b>Transaction related costs and other</b>               | <u>13,161</u>    | <u>13,103 <sup>(3)</sup></u> | <u>58</u>                     |
| <b>Total increase in expenses</b>                        | <u>\$ 54,461</u> | <u>\$ 49,275</u>             | <u>\$ 5,186</u>               |

(1) This increase is a result of services provided to JBGS and one-time tenant work.

(2) This decrease in expense is entirely offset by the corresponding decrease in "income from deferred compensation plan assets" on our consolidated statements of income.

(3) Potential additional New York City real property transfer tax ("Transfer Tax") related to the December 2012 acquisition of Independence Plaza.

## Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### (Loss) Income from Partially Owned Entities

Below are the components of (loss) income from partially owned entities for the six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|  | Percentage<br>Ownership at<br>June 30, 2018 | For the Six Months Ended June 30, |                  |
|--|---|-----------------------------------|------------------|
|  |   | 2018                              | 2017             |
| <b>Our share of net (loss) income</b>                |   |                                   |                  |
| Alexander's <sup>(1)</sup>                           | 32.4%                                       | \$ 5,166                          | \$ 16,598        |
| Partially owned office buildings/land <sup>(2)</sup> | Various                                     | (2,281)                           | 1,046            |
| PREIT  | 8.0%  | (1,497)                           | (3,732)          |
| UE <sup>(3)</sup>                                    | 4.5%  | 471                               | 20,303           |
| Other investments <sup>(4)</sup>                     | Various                                     | (3,006)                           | 13,164           |
|  |   | <u>\$ (1,147)</u>                 | <u>\$ 47,379</u> |

(1) 2018 includes our \$7,708 share of Alexander's potential additional Transfer Tax.

(2) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others.

(3) 2017 includes a \$15,900 net gain resulting from UE operating partnership unit issuances.

(4) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, 666 Fifth Avenue (Office) and others. In the second quarter of 2017, we recognized \$26,687 of net gains comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV.

### Loss from Real Estate Fund Investments

Below are the components of the loss from our real estate fund investments for the six months ended June 30, 2018 and 2017.

(Amounts in thousands)

|  | For the Six Months Ended June 30, |                   |
|--|-----------------------------------|-------------------|
|  | 2018                              | 2017              |
| Net investment income  | \$ 3,273                          | \$ 10,860         |
| Net unrealized loss on held investments  | (29,513)                          | (6,442)           |
| Transfer Tax   | (10,630)                          | —                 |
| Net realized (loss) gain on exited investments   | (913)                             | 241               |
| (Loss) income from real estate fund investments  | <u>(37,783)</u>                   | <u>4,659</u>      |
| Less loss (income) attributable to noncontrolling interests in consolidated subsidiaries   | 34,896                            | (8,198)           |
| Loss from real estate fund investments attributable to the Operating Partnership (2018 includes \$4,252 of loss related to One Park Avenue potential additional transfer taxes and reduction in carried interest) <sup>(1)</sup> | (2,887)                           | (3,539)           |
| Less loss attributable to noncontrolling interests in the Operating Partnership  | 178                               | 221               |
| Loss from real estate fund investments attributable to Vornado   | <u>\$ (2,709)</u>                 | <u>\$ (3,318)</u> |

(1) Excludes \$1,906 and \$2,381 of management and leasing fees for the six months ended June 30, 2018 and 2017, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.



## Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Interest and Other Investment Income, net

Below are the components of interest and other investment income, net for the six months ended June 30, 2018 and 2017.

| (Amounts in thousands)   | For the Six Months Ended June 30, |                  |
|--|-----------------------------------|------------------|
|  | 2018                              | 2017             |
| Decrease in fair value of marketable securities <sup>(1)</sup> | \$ (17,102)                       | \$ —             |
| Interest on loans receivable <sup>(2)</sup>                    | 6,948                             | 2,845            |
| Dividends on marketable securities                             | 6,706                             | 6,614            |
| Other, net   | 9,956                             | 5,777            |
|  | <u>\$ 6,508</u>                   | <u>\$ 15,236</u> |

(1) On January 1, 2018, we adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires changes in the fair value of our marketable securities to be recorded in current period earnings. Previously, changes in the fair value of marketable securities were recognized in "accumulated other comprehensive income" on our consolidated balance sheets.

(2) 2018 includes \$5,457 of income from a profit participation on the April 2018 sale of 701 Seventh Avenue. We received this kicker in connection with our 25% participation in an October 2012, \$137,500 mezzanine loan, which was repaid in January 2014.

### Interest and Debt Expense

Interest and debt expense was \$175,823,000 for the six months ended June 30, 2018, compared to \$167,513,000 for the prior year's six months, an increase of \$8,310,000. This increase was primarily due to (i) \$11,747,000 of higher interest expense relating to our variable rate loans, and (ii) \$5,438,000 of higher interest expense on our \$750,000,000 delayed draw term loan which was fully drawn in October 2017, partially offset by (iii) \$9,085,000 higher capitalized interest and debt expense.

### Net Gains on Disposition of Wholly Owned and Partially Owned Assets

Net gains on disposition of wholly owned and partially owned assets for the six months ended June 30, 2018 were \$23,559,000 representing the net gain on sale of 27 Washington Square North.

### Income Tax Expense

Income tax expense for the six months ended June 30, 2018 was \$3,021,000 compared to \$2,303,000 for the prior year's six months, an increase of \$718,000. This increase is primarily due to higher New York City UBT.

### Income from Discontinued Operations

We have reclassified the revenues and expenses of our former Washington, DC segment which was spun off on July 17, 2017 and other related retail assets that were sold or are currently held for sale to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all periods presented in the accompanying financial statements. The table below sets forth the combined results of operations of assets related to discontinued operations for the six months ended June 30, 2018 and 2017.

| (Amounts in thousands)                      | For the Six Months Ended June 30, |                  |
|---|-----------------------------------|------------------|
|   | 2018                              | 2017             |
| Total revenues                              | \$ 693                            | \$ 235,222       |
| Total expenses                              | 991                               | 190,222          |
|   | (298)                             | 45,000           |
| Additional net gains on sale of real estate | 618                               | 2,267            |
| JBGS spin-off transaction costs             | —                                 | (13,464)         |
| Income from partially-owned entities        | —                                 | 342              |
| Pretax income from discontinued operations  | 320                               | 34,145           |
| Income tax expense                          | —                                 | (716)            |
| Income from discontinued operations         | <u>\$ 320</u>                     | <u>\$ 33,429</u> |

## **Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017 - continued**

### Net Loss (Income) Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net loss attributable to noncontrolling interests in consolidated subsidiaries was \$34,449,000 for the six months ended June 30, 2018, compared to income of \$14,414,000 for the prior year's quarter, a decrease in income of \$48,863,000. This decrease resulted primarily from the allocation of net loss to the noncontrolling interests of our real estate fund investments.

### Net Income Attributable to Noncontrolling Interests in the Operating Partnership (Vornado Realty Trust)

Net income attributable to noncontrolling interests in the Operating Partnership was \$6,321,000 for the six months ended June 30, 2018, compared to \$10,935,000 for the prior year's six months, a decrease of \$4,614,000. The decrease resulted primarily from lower net income subject to allocation to Class A unitholders.

### Preferred Share Dividends of Vornado Realty Trust

Preferred share dividends were \$25,569,000 for the six months ended June 30, 2018, compared to \$32,258,000 for the prior year's six months, a decrease of \$6,689,000. The decrease is comprised of \$15,076,000 of savings from the redemption of all of the outstanding 6.625% Series G and Series I cumulative redeemable preferred shares in January 2018, partially offset by a \$8,387,000 increase due to the issuance of 5.25% Series M cumulative redeemable preferred shares in December 2017.

### Preferred Unit Distributions of Vornado Realty L.P.

Preferred unit distributions were \$25,666,000 for the six months ended June 30, 2018, compared to \$32,355,000 for the prior year's six months, a decrease of \$6,689,000. The decrease is comprised of \$15,076,000 of savings from the redemption of all the outstanding 6.625% Series G and Series I cumulative redeemable preferred units in January 2018, partially offset by a \$8,387,000 increase due to the issuance of 5.25% Series M cumulative redeemable preferred units in December 2017.

## Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Same Store Net Operating Income

Below are reconciliations of NOI to same store NOI for our New York segment, theMART, 555 California Street and other investments for the six months ended June 30, 2018 compared to June 30, 2017.

(Amounts in thousands)

|  | Total             | New York                   | theMART          | 555<br>California<br>Street | Other       |
|--|-------------------|----------------------------|------------------|-----------------------------|-------------|
| NOI at share for the six months ended June 30, 2018  | \$ 703,465        | \$ 584,463                 | \$ 54,691        | \$ 27,171                   | \$ 37,140   |
| Less NOI at share from:  |                   |                            |                  |                             |             |
| Acquisitions   | (938)             | (789)                      | (149)            | —                           | —           |
| Dispositions   | (364)             | (364)                      | —                | —                           | —           |
| Development properties placed into and out of service  | (13,205)          | (13,205)                   | —                | —                           | —           |
| Lease termination income, net of straight-line and FAS 141 write-offs                                | 814               | 857                        | (43)             | —                           | —           |
| Other non-operating income, net  | (38,217)          | (1,077)                    | —                | —                           | (37,140)    |
| Same store NOI at share for the six months ended June 30, 2018                                       | <u>\$ 651,555</u> | <u>\$ 569,885</u>          | <u>\$ 54,499</u> | <u>\$ 27,171</u>            | <u>\$ —</u> |
| NOI at share for the six months ended June 30, 2017  | \$ 683,292        | \$ 563,343                 | \$ 52,071        | \$ 24,066                   | \$ 43,812   |
| Less NOI at share from:  |                   |                            |                  |                             |             |
| Acquisitions   | 36                | (164)                      | 200              | —                           | —           |
| Dispositions   | (883)             | (883)                      | —                | —                           | —           |
| Development properties placed into and out of service  | (12,313)          | (12,313)                   | —                | —                           | —           |
| Lease termination income, net of straight-line and FAS 141 write-offs                                | (825)             | (804)                      | (21)             | —                           | —           |
| Other non-operating income, net  | (45,738)          | (1,926)                    | —                | —                           | (43,812)    |
| Same store NOI at share for the six months ended June 30, 2017                                       | <u>\$ 623,569</u> | <u>\$ 547,253</u>          | <u>\$ 52,250</u> | <u>\$ 24,066</u>            | <u>\$ —</u> |
| Increase in same store NOI at share for the six months ended June 30, 2018 compared to June 30, 2017 | <u>\$ 27,986</u>  | <u>\$ 22,632</u>           | <u>\$ 2,249</u>  | <u>\$ 3,105</u>             | <u>\$ —</u> |
| % increase in same store NOI at share  | <u>4.5%</u>       | <u>4.1% <sup>(1)</sup></u> | <u>4.3%</u>      | <u>12.9%</u>                | <u>—%</u>   |

(1) Excluding Hotel Pennsylvania, same store NOI at share - cash basis increased by 4.2%.

## Results of Operations – Six Months Ended June 30, 2018 Compared to June 30, 2017 - continued

### Same Store Net Operating Income - continued

Below are reconciliations of NOI - cash basis to same store NOI - cash basis for our New York segment, theMART, 555 California Street and other investments for the six months ended June 30, 2018 compared to June 30, 2017.

(Amounts in thousands)

|   | Total             | New York                   | theMART          | 555<br>California<br>Street | Other       |
|---|-------------------|----------------------------|------------------|-----------------------------|-------------|
| NOI at share - cash basis for the six months ended June 30, 2018  | \$ 673,036        | \$ 554,427                 | \$ 55,078        | \$ 26,634                   | \$ 36,897   |
| Less NOI at share - cash basis from:  |                   |                            |                  |                             |             |
| Acquisitions  | (639)             | (490)                      | (149)            | —                           | —           |
| Dispositions  | (220)             | (220)                      | —                | —                           | —           |
| Development properties placed into and out of service   | (14,290)          | (14,290)                   | —                | —                           | —           |
| Lease termination income  | (1,223)           | (1,061)                    | (162)            | —                           | —           |
| Other non-operating income, net   | (37,972)          | (1,075)                    | —                | —                           | (36,897)    |
| Same store NOI at share - cash basis for the six months ended June 30, 2018                                       | <u>\$ 618,692</u> | <u>\$ 537,291</u>          | <u>\$ 54,767</u> | <u>\$ 26,634</u>            | <u>\$ —</u> |
| NOI at share - cash basis for the six months ended June 30, 2017  | \$ 640,336        | \$ 526,674                 | \$ 49,429        | \$ 22,476                   | \$ 41,757   |
| Less NOI at share - cash basis from:  |                   |                            |                  |                             |             |
| Acquisitions  | 137               | (63)                       | 200              | —                           | —           |
| Dispositions  | (665)             | (665)                      | —                | —                           | —           |
| Development properties placed into and out of service   | (12,234)          | (12,234)                   | —                | —                           | —           |
| Lease termination income  | (3,279)           | (3,248)                    | (31)             | —                           | —           |
| Other non-operating income, net   | (44,356)          | (2,599)                    | —                | —                           | (41,757)    |
| Same store NOI at share - cash basis for the six months ended June 30, 2017                                       | <u>\$ 579,939</u> | <u>\$ 507,865</u>          | <u>\$ 49,598</u> | <u>\$ 22,476</u>            | <u>\$ —</u> |
| Increase in same store NOI at share - cash basis for the six months ended June 30, 2018 compared to June 30, 2017 | <u>\$ 38,753</u>  | <u>\$ 29,426</u>           | <u>\$ 5,169</u>  | <u>\$ 4,158</u>             | <u>\$ —</u> |
| % increase in same store NOI at share - cash basis  | <u>6.7%</u>       | <u>5.8% <sup>(1)</sup></u> | <u>10.4%</u>     | <u>18.5%</u>                | <u>—%</u>   |

(1) Excluding Hotel Pennsylvania, same store NOI at share - cash basis increased by 5.8%.

## SUPPLEMENTAL INFORMATION

### Net Operating Income by Segment for the Three Months Ended June 30, 2018 and March 31, 2018

NOI represents total revenues less operating expenses. We consider NOI to be the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. NOI should not be considered a substitute for net income. NOI may not be comparable to similarly titled measures employed by other companies.

Below is a summary of NOI at share and NOI at share - cash basis by segment for the three months ended June 30, 2018 and March 31, 2018.

| (Amounts in thousands)  | For the Three Months Ended June 30, 2018 |            |           |
|---|--|------------|-----------|
|   | Total                                    | New York   | Other     |
| Total revenues  | \$ 541,818                               | \$ 458,552 | \$ 83,266 |
| Operating expenses  | 235,981                                  | 200,903    | 35,078    |
| NOI - consolidated  | 305,837                                  | 257,649    | 48,188    |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (17,160)                                 | (11,560)   | (5,600)   |
| Add: Our share of NOI from partially owned entities   | 65,752                                   | 49,778     | 15,974    |
| NOI at share  | 354,429                                  | 295,867    | 58,562    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (12,481)                                 | (12,713)   | 232       |
| NOI at share - cash basis   | \$ 341,948                               | \$ 283,154 | \$ 58,794 |

| (Amounts in thousands)  | For the Three Months Ended March 31, 2018 |            |           |
|---|---|------------|-----------|
|   | Total                                     | New York   | Other     |
| Total revenues  | \$ 536,437                                | \$ 448,484 | \$ 87,953 |
| Operating expenses  | 237,602                                   | 197,916    | 39,686    |
| NOI - consolidated  | 298,835                                   | 250,568    | 48,267    |
| Deduct: NOI attributable to noncontrolling interests in consolidated subsidiaries                         | (17,312)                                  | (11,745)   | (5,567)   |
| Add: Our share of NOI from partially owned entities   | 67,513                                    | 49,773     | 17,740    |
| NOI at share  | 349,036                                   | 288,596    | 60,440    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (17,948)                                  | (17,323)   | (625)     |
| NOI at share - cash basis   | \$ 331,088                                | \$ 271,273 | \$ 59,815 |

**SUPPLEMENTAL INFORMATION - CONTINUED**

**Net Operating Income by Segment for the Three Months Ended June 30, 2018 and March 31, 2018 - continued**

The elements of our New York and Other NOI at share for the three months ended June 30, 2018 and March 31, 2018 are summarized below.

| (Amounts in thousands) | For the Three Months Ended |                |
|------------------------|----------------------------|----------------|
|                        | June 30, 2018              | March 31, 2018 |
| New York:              |                            |                |
| Office                 | \$ 184,867                 | \$ 187,156     |
| Retail                 | 87,109                     | 87,909         |
| Residential            | 6,338                      | 6,141          |
| Alexander's            | 11,909                     | 11,575         |
| Hotel Pennsylvania     | 5,644                      | (4,185)        |
| Total New York         | 295,867                    | 288,596        |
| Other:                 |                            |                |
| theMART                | 27,816                     | 26,875         |
| 555 California Street  | 13,660                     | 13,511         |
| Other investments      | 17,086                     | 20,054         |
| Total Other            | 58,562                     | 60,440         |
| NOI at share           | \$ 354,429                 | \$ 349,036     |

The elements of our New York and Other NOI at share - cash basis for the three months ended June 30, 2018 and March 31, 2018 are summarized below.

| (Amounts in thousands)    | For the Three Months Ended |                |
|---------------------------|----------------------------|----------------|
|                           | June 30, 2018              | March 31, 2018 |
| New York:                 |                            |                |
| Office                    | \$ 180,710                 | \$ 178,199     |
| Retail                    | 79,139                     | 79,589         |
| Residential               | 5,463                      | 5,599          |
| Alexander's               | 12,098                     | 12,039         |
| Hotel Pennsylvania        | 5,744                      | (4,153)        |
| Total New York            | 283,154                    | 271,273        |
| Other:                    |                            |                |
| theMART                   | 27,999                     | 27,079         |
| 555 California Street     | 13,808                     | 12,826         |
| Other investments         | 16,987                     | 19,910         |
| Total Other               | 58,794                     | 59,815         |
| NOI at share - cash basis | \$ 341,948                 | \$ 331,088     |

SUPPLEMENTAL INFORMATION - CONTINUED

Reconciliation of Net Income to Net Operating Income for the Three Months Ended June 30, 2018 and March 31, 2018

(Amounts in thousands)

|   | For the Three Months Ended |                |
|---|----------------------------|----------------|
|   | June 30, 2018              | March 31, 2018 |
| Net income  | \$ 105,338                 | \$ 282         |
| Deduct:   |                            |                |
| (Income) loss from partially owned entities   | (8,757)                    | 9,904          |
| Loss from real estate fund investments  | 28,976                     | 8,807          |
| Interest and other investment (income) loss, net  | (30,892)                   | 24,384         |
| Net gains on disposition of wholly owned and partially owned assets                                       | (23,559)                   | —              |
| (Income) loss from discontinued operations  | (683)                      | 363            |
| NOI attributable to noncontrolling interests in consolidated subsidiaries                                 | (17,160)                   | (17,312)       |
| Add:  |                            |                |
| Depreciation and amortization expense   | 111,846                    | 108,686        |
| General and administrative expense  | 34,427                     | 42,533         |
| Transaction related costs and other   | 1,017                      | 13,156         |
| NOI from partially owned entities   | 65,752                     | 67,513         |
| Interest and debt expense   | 87,657                     | 88,166         |
| Income tax expense  | 467                        | 2,554          |
| NOI at share  | 354,429                    | 349,036        |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net and other | (12,481)                   | (17,948)       |
| NOI at share - cash basis   | \$ 341,948                 | \$ 331,088     |

**SUPPLEMENTAL INFORMATION - CONTINUED**

**Three Months Ended June 30, 2018 Compared to March 31, 2018**

Same Store Net Operating Income

Below are reconciliations of NOI at share to same store NOI at share for our New York segment, theMART, 555 California Street and other investments for the three months ended June 30, 2018 compared to March 31, 2018.

(Amounts in thousands)

|   | <u>Total</u>      | <u>New York</u>            | <u>theMART</u>   | <u>555<br/>California<br/>Street</u> | <u>Other</u> |
|---|-------------------|----------------------------|------------------|--------------------------------------|--------------|
| NOI at share for the three months ended June 30, 2018   | \$ 354,429        | \$ 295,867                 | \$ 27,816        | \$ 13,660                            | \$ 17,086    |
| Less NOI at share from:   |                   |                            |                  |                                      |              |
| Acquisitions  | (288)             | (224)                      | (64)             | —                                    | —            |
| Dispositions  | (310)             | (310)                      | —                | —                                    | —            |
| Development properties placed into and out of service   | (12,794)          | (12,794)                   | —                | —                                    | —            |
| Lease termination income, net of straight-line and FAS 141 write-offs                                   | 1,941             | 1,984                      | (43)             | —                                    | —            |
| Other non-operating income, net   | (17,583)          | (497)                      | —                | —                                    | (17,086)     |
| Same store NOI at share for the three months ended June 30, 2018  | <u>\$ 325,395</u> | <u>\$ 284,026</u>          | <u>\$ 27,709</u> | <u>\$ 13,660</u>                     | <u>\$ —</u>  |
| NOI at share for the three months ended March 31, 2018  | \$ 349,036        | \$ 288,596                 | \$ 26,875        | \$ 13,511                            | \$ 20,054    |
| Less NOI at share from:   |                   |                            |                  |                                      |              |
| Acquisitions  | (206)             | (121)                      | (85)             | —                                    | —            |
| Dispositions  | (54)              | (54)                       | —                | —                                    | —            |
| Development properties placed into and out of service   | (11,654)          | (11,654)                   | —                | —                                    | —            |
| Lease termination income, net of straight-line and FAS 141 write-offs                                   | (1,127)           | (1,127)                    | —                | —                                    | —            |
| Other non-operating income, net   | (20,633)          | (579)                      | —                | —                                    | (20,054)     |
| Same store NOI at share for the three months ended March 31, 2018                                       | <u>\$ 315,362</u> | <u>\$ 275,061</u>          | <u>\$ 26,790</u> | <u>\$ 13,511</u>                     | <u>\$ —</u>  |
| Increase in same store NOI at share for the three months ended June 30, 2018 compared to March 31, 2018 | <u>\$ 10,033</u>  | <u>\$ 8,965</u>            | <u>\$ 919</u>    | <u>\$ 149</u>                        | <u>\$ —</u>  |
| % increase in same store NOI at share   | <u>3.2%</u>       | <u>3.3% <sup>(1)</sup></u> | <u>3.4%</u>      | <u>1.1%</u>                          | <u>—%</u>    |

(1) Excluding Hotel Pennsylvania, same store NOI at share decreased by 0.3%.



**SUPPLEMENTAL INFORMATION - CONTINUED**

**Three Months Ended June 30, 2018 Compared to March 31, 2018 - continued**

Same Store Net Operating Income - continued

Below are reconciliations of NOI at share - cash basis to same store NOI at share - cash basis for our New York segment, theMART, 555 California Street and other investments for the three months ended June 30, 2018 compared to March 31, 2018.

(Amounts in thousands)

|  | <u>Total</u>      | <u>New York</u>            | <u>theMART</u>   | <u>555<br/>California<br/>Street</u> | <u>Other</u> |
|--|-------------------|----------------------------|------------------|--------------------------------------|--------------|
| NOI at share - cash basis for the three months ended June 30, 2018   | \$ 341,948        | \$ 283,154                 | \$ 27,999        | \$ 13,808                            | \$ 16,987    |
| Less NOI at share - cash basis from:   |                   |                            |                  |                                      |              |
| Acquisitions   | (288)             | (224)                      | (64)             | —                                    | —            |
| Dispositions   | (242)             | (242)                      | —                | —                                    | —            |
| Development properties placed into and out of service  | (13,686)          | (13,686)                   | —                | —                                    | —            |
| Lease termination income   | (162)             | —                          | (162)            | —                                    | —            |
| Other non-operating income, net  | (17,484)          | (497)                      | —                | —                                    | (16,987)     |
| Same store NOI at share - cash basis for the three months ended June 30, 2018  | <u>\$ 310,086</u> | <u>\$ 268,505</u>          | <u>\$ 27,773</u> | <u>\$ 13,808</u>                     | <u>\$ —</u>  |
| NOI at share - cash basis for the three months ended March 31, 2018  | \$ 331,088        | \$ 271,273                 | \$ 27,079        | \$ 12,826                            | \$ 19,910    |
| Less NOI at share - cash basis from:   |                   |                            |                  |                                      |              |
| Acquisitions   | (206)             | (121)                      | (85)             | —                                    | —            |
| Dispositions   | 22                | 22                         | —                | —                                    | —            |
| Development properties placed into and out of service  | (12,808)          | (12,808)                   | —                | —                                    | —            |
| Lease termination income   | (1,061)           | (1,061)                    | —                | —                                    | —            |
| Other non-operating income, net  | (20,488)          | (578)                      | —                | —                                    | (19,910)     |
| Same store NOI at share - cash basis for the three months ended March 31, 2018                                       | <u>\$ 296,547</u> | <u>\$ 256,727</u>          | <u>\$ 26,994</u> | <u>\$ 12,826</u>                     | <u>\$ —</u>  |
| Increase in same store NOI at share - cash basis for the three months ended June 30, 2018 compared to March 31, 2018 | <u>\$ 13,539</u>  | <u>\$ 11,778</u>           | <u>\$ 779</u>    | <u>\$ 982</u>                        | <u>\$ —</u>  |
| % increase in same store NOI at share - cash basis   | <u>4.6%</u>       | <u>4.6% <sup>(1)</sup></u> | <u>2.9%</u>      | <u>7.7%</u>                          | <u>—%</u>    |

(1) Excluding Hotel Pennsylvania, same store NOI at share - cash basis increased by 0.7%.

## Liquidity and Capital Resources

Property rental income is our primary source of cash flow and is dependent upon the occupancy and rental rates of our properties. Our cash requirements include property operating expenses, capital improvements, tenant improvements, debt service, leasing commissions, dividends to shareholders and distributions to unitholders of the Operating Partnership, as well as acquisition and development costs. Other sources of liquidity to fund cash requirements include proceeds from debt financings, including mortgage loans, senior unsecured borrowings, unsecured term loan and unsecured revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales.

We anticipate that cash flow from continuing operations over the next twelve months will be adequate to fund our business operations, cash distributions to unitholders of the Operating Partnership, cash dividends to shareholders, debt amortization and recurring capital expenditures. Capital requirements for development expenditures and acquisitions may require funding from borrowings and/or equity offerings.

We may from time to time purchase or retire outstanding debt securities or redeem our equity securities. Such purchases, if any, will depend on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

### *Cash Flows for the Six Months Ended June 30, 2018*

The total of our cash and cash equivalents and restricted cash was \$1,211,959,000 as of June 30, 2018, a \$702,853,000 decrease from the balance at December 31, 2017. Our consolidated outstanding debt, net was \$9,781,529,000 as of June 30, 2018, a \$52,042,000 increase from the balance at December 31, 2017. As of June 30, 2018 and December 31, 2017, \$80,000,000 and \$0, respectively, was outstanding under our revolving credit facilities. During the remainder of 2018 and 2019, \$0 and \$209,262,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities of \$241,260,000 was comprised of (i) net income of \$105,620,000, (ii) \$251,955,000 of non-cash adjustments, which include depreciation and amortization expense, net realized and unrealized losses on real estate fund investments, net gains on disposition of wholly owned and partially owned assets, amortization of below-market leases, net, the decrease in the fair value of marketable securities, the effect of straight-lining of rents and equity in net loss from partially owned entities, (iii) distributions of income from partially owned entities of \$45,999,000 and (iv) return of capital from real estate fund investments of \$20,291,000, partially offset by (v) the net change in operating assets and liabilities of \$182,605,000.

#### Net Cash Used in Investing Activities

Net cash used in investing activities of \$254,906,000 was comprised of (i) \$185,039,000 of development costs and construction in progress, (ii) \$113,300,000 of additions to real estate, (iii) \$56,500,000 of acquisitions of real estate and other and (iv) \$26,663,000 of investments in partially owned entities, partially offset by (v) \$81,997,000 of capital distributions from partially owned entities and (vi) \$44,599,000 of proceeds from the sale of real estate and related investments.

#### Net Cash Used in Financing Activities

Net cash used in financing activities of Vornado Realty Trust of \$689,207,000 was primarily comprised of (i) \$470,000,000 for the redemption of preferred shares, (ii) \$239,594,000 of dividends paid on common shares, (iii) \$148,408,000 of repayments of borrowings, (iv) \$49,338,000 of distributions to noncontrolling interests, (v) \$30,047,000 of dividends paid on preferred shares, (vi) \$3,289,000 of debt issuance costs and (vii) \$818,000 of debt prepayment and extinguishment costs, partially offset by (viii) \$189,042,000 of proceeds from borrowings, (ix) \$59,558,000 of contributions from noncontrolling interests and (x) \$4,471,000 of proceeds received from the exercise of employee share options and other.

Net cash used in financing activities of the Operating Partnership of \$689,207,000 was primarily comprised of (i) \$470,000,000 for the redemption of preferred units, (ii) \$239,594,000 of distributions to Vornado, (iii) \$148,408,000 of repayments of borrowings, (iv) \$49,338,000 of distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries, (v) \$30,047,000 of distributions to preferred unitholders, (vi) \$3,289,000 of debt issuance costs and (vii) \$818,000 of debt prepayment and extinguishment costs, partially offset by (viii) \$189,042,000 of proceeds from borrowings, (ix) \$59,558,000 of contributions from noncontrolling interests in consolidated subsidiaries and (x) \$4,471,000 of proceeds received from the exercise of Vornado stock options and other.

## Liquidity and Capital Resources - continued

### Capital Expenditures for the Six Months Ended June 30, 2018

Capital expenditures consist of expenditures to maintain assets, tenant improvement allowances and leasing commissions. Recurring capital expenditures include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures to lease space that has been vacant for more than nine months and expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition, as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property.

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended for the six months ended June 30, 2018.

(Amounts in thousands)

|  | Total      | New York   | theMART   | 555 California Street |
|--|------------|------------|-----------|-----------------------|
| Expenditures to maintain assets                                    | \$ 43,896  | \$ 31,603  | \$ 7,752  | \$ 4,541              |
| Tenant improvements  | 64,136     | 60,410     | 2,893     | 833                   |
| Leasing commissions  | 26,870     | 26,120     | 387       | 363                   |
| Non-recurring capital expenditures                                 | 17,679     | 13,579     | 156       | 3,944                 |
| Total capital expenditures and leasing commissions (accrual basis) | 152,581    | 131,712    | 11,188    | 9,681                 |
| Adjustments to reconcile to cash basis:                            |            |            |           |                       |
| Expenditures in the current period applicable to prior periods     | 58,701     | 49,179     | 8,516     | 1,006                 |
| Expenditures to be made in future periods for the current period   | (74,233)   | (77,279)   | (3,387)   | 6,433                 |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 137,049 | \$ 103,612 | \$ 16,317 | \$ 17,120             |
| <i>Tenant improvements and leasing commissions:</i>                |            |            |           |                       |
| Per square foot per annum  | \$ 9.44    | \$ 9.90    | \$ 3.44   | \$ 11.64              |
| Percentage of initial rent   | 10.3 %     | 10.0 %     | 6.8 %     | 13.6 %                |

### Development and Redevelopment Expenditures for the Six Months Ended June 30, 2018

Development and redevelopment expenditures consist of all hard and soft costs associated with the development or redevelopment of a property, including capitalized interest, debt and operating costs until the property is substantially completed and ready for its intended use. Our development project budgets below include initial leasing costs, which are reflected as non-recurring capital expenditures in the table above.

We are constructing a residential condominium tower containing 397,000 salable square feet at 220 Central Park South. The development cost of this project (exclusive of land cost of \$515.4 million) is estimated to be approximately \$1.4 billion, of which \$1.1 billion has been expended as of June 30, 2018.

We are developing a 173,000 square foot Class A office building, located along the western edge of the High Line at 512 West 22nd Street in the West Chelsea submarket of Manhattan (55.0% interest). The development cost of this project is estimated to be approximately \$130,000,000, of which our share is \$72,000,000. As of June 30, 2018, \$86,762,000 has been expended, of which our share is \$47,719,000.

We are developing a 170,000 square foot office and retail building at 61 Ninth Avenue, located on the southwest corner of Ninth Avenue and 15th Street in the West Chelsea submarket of Manhattan (45.1% interest). The development cost of this project is estimated to be approximately \$152,000,000, of which our share is \$69,000,000. As of June 30, 2018, \$122,249,000 has been expended, of which our share is \$55,134,000.

## Liquidity and Capital Resources - continued

### *Development and Redevelopment Expenditures for the Six Months Ended June 30, 2018 - continued*

We are developing a 34,000 square foot office and retail building at 606 Broadway, located on the northeast corner of Broadway and Houston Street in Manhattan (50.0% interest). The development cost of this project is estimated to be approximately \$60,000,000, of which our share is \$30,000,000. As of June 30, 2018, \$41,731,000 has been expended, of which our share is \$20,866,000.

A joint venture with the Related Companies ("Related") in which we have a 50.1% ownership interest is redeveloping the historic Farley Post Office building which will include a new Moynihan Train Hall and approximately 850,000 rentable square feet of commercial space, comprised of approximately 730,000 square feet of office space and approximately 120,000 square feet of retail space. As of June 30, 2018, \$314,837,000 has been expended, of which our share is \$157,733,000. The joint venture has also entered into a development agreement with Empire State Development ("ESD") and a design-build contract with Skanska Moynihan Train Hall Builders. Under the development agreement with ESD, the joint venture is obligated to build the Moynihan Train Hall, with Vornado and Related each guaranteeing the joint venture's obligations. Under the design-build agreement, Skanska Moynihan Train Hall Builders is obligated to fulfill all of the joint venture's obligations. The obligations of Skanska Moynihan Train Hall Builders have been bonded by Skanska USA and bear a full guaranty from Skanska AB.

We are redeveloping a 64,000 square foot Class A office building at 345 Montgomery Street, a part of our 555 California Street complex in San Francisco (70.0% interest) located at the corner of California and Pine Street. The development cost of this project is estimated to be approximately \$46,000,000, of which our share is \$32,000,000. As of June 30, 2018, \$9,142,000 has been expended, of which our share is \$6,399,000.

We are redeveloping a 165,000 square foot office building at 825 Seventh Avenue, located at the corner of 53rd Street and Seventh Avenue (50.0% interest). The redevelopment cost of this project is estimated to be approximately \$30,000,000, of which our share is \$15,000,000. As of June 30, 2018, \$4,897,000 has been expended, of which our share is \$2,449,000.

We are redeveloping One Penn Plaza, a 2,535,000 square foot office building located on 34th Street between Seventh and Eighth Avenue. The development cost of this project is estimated to be approximately \$200,000,000, of which \$3,939,000 has been expended as of June 30, 2018.

We are also evaluating other development and redevelopment opportunities at certain of our properties in Manhattan, including, in particular, the Penn Plaza District.

There can be no assurance that any of our development or redevelopment projects will commence, or if commenced, be completed, or completed on schedule or within budget.

Below is a summary of development and redevelopment expenditures incurred for the six months ended June 30, 2018. These expenditures include interest and debt expense of \$31,481,000, payroll of \$4,958,000 and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$23,083,000, which were capitalized in connection with the development and redevelopment of these projects.

(Amounts in thousands)

|  | <b>Total</b>      | <b>New York</b>  | <b>theMART</b>  | <b>555 California Street</b> | <b>Other</b>      |
|--|-------------------|------------------|-----------------|------------------------------|-------------------|
| 220 Central Park South                             | \$ 152,178        | \$ —             | \$ —            | \$ —                         | \$ 152,178        |
| 606 Broadway                                       | 8,593             | 8,593            | —               | —                            | —                 |
| 345 Montgomery Street                              | 7,575             | —                | —               | 7,575                        | —                 |
| Penn Plaza   | 3,576             | 3,576            | —               | —                            | —                 |
| Marriott Marquis Times Square - retail and signage | 2,686             | 2,686            | —               | —                            | —                 |
| One Penn Plaza                                     | 2,565             | 2,565            | —               | —                            | —                 |
| 90 Park Avenue                                     | 1,015             | 1,015            | —               | —                            | —                 |
| Other  | 6,851             | 3,389            | 3,037           | 190                          | 235               |
|  | <u>\$ 185,039</u> | <u>\$ 21,824</u> | <u>\$ 3,037</u> | <u>\$ 7,765</u>              | <u>\$ 152,413</u> |

## Liquidity and Capital Resources - continued

### *Cash Flows for the Six Months Ended June 30, 2017*

The total of our cash and cash equivalents and restricted cash was \$1,557,689,000 at June 30, 2017, a \$41,633,000 decrease from the balance at December 31, 2016. The decrease is due to cash flows used in investing and financing activities, partially offset by cash flows provided by operating activities, as discussed below.

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities of \$316,217,000 was comprised of (i) net income of \$221,331,000, (ii) \$222,708,000 of non-cash adjustments, which include depreciation and amortization expense, equity in net income from partially owned entities, the effect of straight-lining of rents, amortization of below-market leases, net, net realized and unrealized losses on real estate fund investments, net gains on sale of real estate and other and net gains on disposition of wholly owned and partially owned assets and (iii) distributions of income from partially owned entities of \$44,778,000, partially offset by (iv) the net change in operating assets and liabilities of \$172,600,000.

#### Net Cash Used in Investing Activities

Net cash used in investing activities of \$251,529,000 was primarily comprised of (i) \$191,073,000 of development costs and construction in progress, (ii) \$139,611,000 of additions to real estate, (iii) \$27,720,000 of investments in partially owned entities and (iv) \$11,841,000 of acquisitions of real estate and other, partially offset by (v) \$113,507,000 of capital distributions from partially owned entities and (vi) \$5,180,000 of proceeds from sales of real estate and related investments.

#### Net Cash Used in Financing Activities

Net cash used in financing activities of Vornado Realty Trust of \$106,321,000 was primarily comprised of (i) \$268,817,000 of dividends paid on common shares, (ii) \$32,258,000 of dividends paid on preferred shares, (iii) \$25,617,000 of distributions to noncontrolling interests and (iv) \$13,971,000 for the repayments of borrowings, partially offset by (v) \$226,929,000 of proceeds from borrowings and (vi) \$9,626,000 of proceeds received from exercise of employee share options and other.

Net cash used in financing activities of the Operating Partnership of \$106,321,000 was primarily comprised of (i) \$268,817,000 of distributions to Vornado, (ii) \$32,258,000 of distributions to preferred unitholders, (iii) \$25,617,000 of distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries and (iv) \$13,971,000 for the repayments of borrowings, partially offset by (v) \$226,929,000 of proceeds from borrowings and (vi) \$9,626,000 of proceeds received from exercise of Vornado stock options and other.

## Liquidity and Capital Resources - continued

### Capital Expenditures for the Six Months Ended June 30, 2017

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended for the six months ended June 30, 2017.

| (Amounts in thousands)   | Total      | New York  | theMART   | 555 California Street | Other                    |
|--|------------|-----------|-----------|-----------------------|--------------------------|
| Expenditures to maintain assets                                    | \$ 54,674  | \$ 39,972 | \$ 4,361  | \$ 3,148              | \$ 7,193                 |
| Tenant improvements  | 56,737     | 14,828    | 7,309     | 3,454                 | 31,146                   |
| Leasing commissions  | 15,264     | 7,768     | 1,083     | 768                   | 5,645                    |
| Non-recurring capital expenditures                                 | 37,725     | 32,905    | 110       | 526                   | 4,184                    |
| Total capital expenditures and leasing commissions (accrual basis) | 164,400    | 95,473    | 12,863    | 7,896                 | 48,168                   |
| Adjustments to reconcile to cash basis:                            |            |           |           |                       |                          |
| Expenditures in the current period applicable to prior periods     | 65,985     | 26,238    | 5,987     | 8,439                 | 25,321                   |
| Expenditures to be made in future periods for the current period   | (68,784)   | (25,576)  | (7,704)   | 4,263                 | (39,767)                 |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 161,601 | \$ 96,135 | \$ 11,146 | \$ 20,598             | \$ 33,722 <sup>(1)</sup> |
| Tenant improvements and leasing commissions:                       |            |           |           |                       |                          |
| Per square foot per annum  | \$ 7.60    | \$ 9.16   | \$ 6.18   | \$ 8.80               | n/a                      |
| Percentage of initial rent   | 4.9 %      | 11.2 %    | 13.1 %    | 10.1 %                | n/a                      |

(1) Effective July 17, 2017, the date of the spin-off of our Washington, DC segment, capital expenditures and leasing commissions by our former Washington, DC segment have been reclassified to the Other segment. We have reclassified the prior period capital expenditures and leasing commissions to conform to the current period presentation.

### Development and Redevelopment Expenditures for the Six Months Ended June 30, 2017

Below is a summary of development and redevelopment expenditures incurred for the six months ended June 30, 2017. These expenditures include interest and debt expense of \$23,312,000, payroll of \$4,581,000, and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$15,089,000, which were capitalized in connection with the development and redevelopment of these projects.

| (Amounts in thousands) | Total      | New York  | theMART  | 555 California Street | Other                 |
|------------------------|------------|-----------|----------|-----------------------|-----------------------|
| 220 Central Park South | \$ 126,384 | \$ —      | \$ —     | \$ —                  | \$ 126,384            |
| 606 Broadway           | 9,467      | 9,467     | —        | —                     | —                     |
| 90 Park Avenue         | 6,002      | 6,002     | —        | —                     | —                     |
| Penn Plaza             | 3,724      | 3,724     | —        | —                     | —                     |
| 304 Canal Street       | 2,534      | 2,534     | —        | —                     | —                     |
| 345 Montgomery Street  | 2,424      | —         | —        | 2,424                 | —                     |
| Other                  | 40,538     | 5,138     | 3,957    | 4,208                 | 27,235 <sup>(1)</sup> |
|                        | \$ 191,073 | \$ 26,865 | \$ 3,957 | \$ 6,632              | \$ 153,619            |

(1) Effective July 17, 2017, the date of the spin-off of our Washington, DC segment, capital expenditures and leasing commissions by our former Washington, DC segment have been reclassified to the Other segment. We have reclassified the prior period capital expenditures and leasing commissions to conform to the current period presentation.

## Liquidity and Capital Resources - continued

### *Other Commitments and Contingencies*

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters is not currently expected to have a material adverse effect on our financial position, results of operations or cash flows.

Each of our properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites or changes in cleanup requirements would not result in significant cost to us.

Generally, our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of June 30, 2018, the aggregate dollar amount of these guarantees and master leases is approximately \$667,000,000.

As of June 30, 2018, \$13,337,000 of letters of credit was outstanding under one of our unsecured revolving credit facilities. Our unsecured revolving credit facilities contain financial covenants that require us to maintain minimum interest rate coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our unsecured revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

In September 2016, our 50.1% joint venture with Related was designated by ESD, an entity of New York State, to redevelop the historic Farley Post Office Building. The joint venture entered into a development agreement with ESD and a design-build contract with Skanska Moynihan Train Hall Builders. Under the development agreement with ESD, the joint venture is obligated to build the Moynihan Train Hall, with Vornado and Related each guaranteeing the joint venture's obligations. Under the design-build agreement, Skanska Moynihan Train Hall Builders is obligated to fulfill all of the joint venture's obligations. The obligations of Skanska Moynihan Train Hall Builders have been bonded by Skanska USA and bear a full guaranty from Skanska AB.

As of June 30, 2018, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$34,000,000.

As of June 30, 2018, we have construction commitments aggregating approximately \$342,000,000.

### *Income Taxes - 220 Central Park South*

We are constructing a residential condominium tower at 220 Central Park South ("220 CPS"). For income tax purposes, we recognize revenue associated with our 220 CPS project using the percentage of completion method. On May 25, 2018, the 220 CPS condominium offering plan was declared effective by the Attorney General of the State of New York. Accordingly, during the quarter ended June 30, 2018, we recorded a liability (a component of "other liabilities") and a corresponding asset (a component of "other assets") of \$52,000,000 for estimated Federal, state and local income taxes due September 17, 2018. GAAP revenue associated with our 220 CPS project is recognized under the completed contract method upon closing of the condominium unit sales.

## Funds From Operations (“FFO”)

### Vornado Realty Trust

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are non-GAAP financial measures used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flow as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 20 – *Income Per Share/Income Per Class A Unit*, in our consolidated financial statements on page 40 of this Quarterly Report on Form 10-Q.

FFO attributable to common shareholders plus assumed conversions was \$209,680,000, or \$1.10 per diluted share for the three months ended June 30, 2018, compared to \$257,673,000, or \$1.35 per diluted share, for the prior year’s three months. FFO attributable to common shareholders plus assumed conversions was \$312,339,000, or \$1.63 per diluted share for the six months ended June 30, 2018, compared to \$463,422,000, or \$2.43 per diluted share, for the prior year’s six months. Details of certain adjustments to FFO are discussed in the financial results summary of our “Overview”.

(Amounts in thousands, except per share amounts)

|  | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |            |
|--|--|------------|--------------------------------------|------------|
|  | 2018                                   | 2017       | 2018                                 | 2017       |
| <b>Reconciliation of our net income attributable to common shareholders to FFO attributable to common shareholders plus assumed conversions:</b> |  |            |                                      |            |
| Net income attributable to common shareholders   | \$ 111,534                             | \$ 115,972 | \$ 93,693                            | \$ 163,724 |
| Per diluted share  | \$ 0.58                                | \$ 0.61    | \$ 0.49                              | \$ 0.86    |
| FFO adjustments:   |  |            |                                      |            |
| Depreciation and amortization of real property   | \$ 103,599                             | \$ 128,527 | \$ 204,009                           | \$ 258,996 |
| Net gains on sale of real estate   | (24,177)                               | —          | (24,177)                             | (2,267)    |
| Real estate impairment losses  | —                                      | —          | —                                    | —          |
| Proportionate share of adjustments to equity in net income (loss) of partially owned entities to arrive at FFO:                                  |  |            |                                      |            |
| Depreciation and amortization of real property   | 25,488                                 | 37,682     | 53,594                               | 76,756     |
| Net gains on sale of real estate   | (272)                                  | (15,339)   | (577)                                | (17,192)   |
| Real estate impairment losses  | —                                      | 167        | 4                                    | 3,218      |
|  | 104,638                                | 151,037    | 232,853                              | 319,511    |
| Noncontrolling interests' share of above adjustments   | (6,508)                                | (9,356)    | (14,419)                             | (19,873)   |
| FFO adjustments, net   | \$ 98,130                              | \$ 141,681 | \$ 218,434                           | \$ 299,638 |
| FFO attributable to common shareholders  | \$ 209,664                             | \$ 257,653 | \$ 312,127                           | \$ 463,362 |
| Convertible preferred share dividends  | 16                                     | 20         | 32                                   | 60         |
| Earnings allocated to Out-Performance Plan units   | —                                      | —          | 180                                  | —          |
| FFO attributable to common shareholders plus assumed conversions   | \$ 209,680                             | \$ 257,673 | \$ 312,339                           | \$ 463,422 |
| Per diluted share  | \$ 1.10                                | \$ 1.35    | \$ 1.63                              | \$ 2.43    |
| <b>Reconciliation of Weighted Average Shares</b>   |  |            |                                      |            |
| Weighted average common shares outstanding   | 190,200                                | 189,395    | 190,141                              | 189,304    |
| Effect of dilutive securities:   |  |            |                                      |            |
| Employee stock options and restricted share awards   | 930                                    | 1,011      | 934                                  | 1,089      |
| Convertible preferred shares   | 38                                     | 38         | 38                                   | 57         |
| Out-Performance Plan units   | —                                      | —          | 115                                  | —          |
| Denominator for FFO attributable to common shareholders plus assumed conversions per diluted share   | 191,168                                | 190,444    | 191,228                              | 190,450    |





### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to fluctuations in market interest rates. Market interest rates are sensitive to many factors that are beyond our control. Our exposure to a change in interest rates on our consolidated and non-consolidated debt (all of which arises out of non-trading activity) is as follows:

| (Amounts in thousands, except per share and per unit amounts)  | 2018                |                                      |   | 2017                    |                                      |
|--|---------------------|--------------------------------------|---|-------------------------|--------------------------------------|
|  | June 30,<br>Balance | Weighted<br>Average<br>Interest Rate | Effect of 1%<br>Change In<br>Base Rates | December 31,<br>Balance | Weighted<br>Average<br>Interest Rate |
| Consolidated debt:   |                     |                                      |   |                         |                                      |
| Variable rate  | \$ 3,985,262        | 3.75%                                | \$ 39,853                               | \$ 3,492,133            | 3.19%                                |
| Fixed rate   | 5,859,211           | 3.63%                                | —                                       | 6,311,706               | 3.72%                                |
|  | <u>\$ 9,844,473</u> | <u>3.68%</u>                         | <u>39,853</u>                           | <u>\$ 9,803,839</u>     | <u>3.53%</u>                         |
| Pro rata share of debt of non-consolidated entities (non-recourse): <sup>(1)</sup>                   |                     |                                      |   |                         |                                      |
| Variable rate  | \$ 1,422,776        | 3.86%                                | 14,228                                  | \$ 1,395,001            | 3.24%                                |
| Fixed rate   | 2,080,891           | 4.90%                                | —                                       | 2,035,888               | 4.89%                                |
|  | <u>\$ 3,503,667</u> | <u>4.48%</u>                         | <u>14,228</u>                           | <u>\$ 3,430,889</u>     | <u>4.22%</u>                         |
| Noncontrolling interests' share of consolidated subsidiaries   |                     |                                      | (1,494)                                 |                         |                                      |
| Total change in annual net income attributable to the Operating Partnership                          |                     |                                      | 52,587                                  |                         |                                      |
| Noncontrolling interests' share of the Operating Partnership   |                     |                                      | (3,271)                                 |                         |                                      |
| Total change in annual net income attributable to Vornado  |                     |                                      | <u>\$ 49,316</u>                        |                         |                                      |
| Total change in annual net income attributable to the Operating Partnership per diluted Class A unit |                     |                                      | <u>\$ 0.26</u>                          |                         |                                      |
| Total change in annual net income attributable to Vornado per diluted share                          |                     |                                      | <u>\$ 0.26</u>                          |                         |                                      |

(1) As a result of Toys "R" Us ("Toys") filing a voluntary petition under chapter 11 of the United States Bankruptcy Code, we determined the Company no longer has the ability to exercise significant influence over Toys. Accordingly, we have excluded our share of Toys debt.

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of June 30, 2018, we have an interest rate swap on a \$375,000,000 mortgage loan on 888 Seventh Avenue that swapped the rate from LIBOR plus 1.60% (3.60% as of June 30, 2018) to a fixed rate of 3.15% through December 2020 and an interest rate swap on a \$700,000,000 mortgage loan on 770 Broadway that swapped the rate from LIBOR plus 1.75% (3.77% as of June 30, 2018) to a fixed rate of 2.56% through September 2020.

In connection with the \$100,000,000 refinancing of 33-00 Northern Boulevard, we entered into an interest rate swap from LIBOR plus 1.80% (3.85% as of June 30, 2018) to a fixed rate of 4.14% through January 2025.

#### Fair Value of Debt

The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt. As of June 30, 2018, the estimated fair value of our consolidated debt was \$9,789,000,000.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures (Vornado Realty Trust)***

Disclosure Controls and Procedures: Our management, with the participation of Vornado's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, Vornado's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### ***Evaluation of Disclosure Controls and Procedures (Vornado Realty L.P.)***

Disclosure Controls and Procedures: Vornado Realty L.P.'s management, with the participation of Vornado's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, Vornado's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters is not currently expected to have a material adverse effect on our financial position, results of operations or cash flows.

### **Item 1A. Risk Factors**

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### ***Vornado Realty Trust***

None.

#### ***Vornado Realty L.P.***

During the quarter ended June 30, 2018, we issued 35,062 Class A units in connection with equity awards issued pursuant to Vornado's omnibus share plan, including with respect to grants of restricted Vornado common shares and restricted units of the Operating Partnership and upon conversion, surrender or exchange of the Operating Partnership's units or Vornado stock options, and consideration received included \$672,364 in cash proceeds. Such units were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index.

## EXHIBIT INDEX

### Exhibit No.

|         |   |   |
|---------|---|---|
| 3.54    | — | Articles of Amendment to Declaration of Trust, dated as June 13, 2018                         |
| 3.55    | — | Amended and Restated Bylaws of Vornado Realty Trust, as amended on July 25, 2018              |
| 15.1    | — | Letter regarding Unaudited Interim Financial Information of Vornado Realty Trust              |
| 15.2    | — | Letter regarding Unaudited Interim Financial Information of Vornado Realty L.P.               |
| 31.1    | — | Rule 13a-14 (a) Certification of the Chief Executive Officer of Vornado Realty Trust          |
| 31.2    | — | Rule 13a-14 (a) Certification of the Chief Financial Officer of Vornado Realty Trust          |
| 31.3    | — | Rule 13a-14 (a) Certification of the Chief Executive Officer of Vornado Realty L.P.           |
| 31.4    | — | Rule 13a-14 (a) Certification of the Chief Financial Officer of Vornado Realty L.P.           |
| 32.1    | — | Section 1350 Certification of the Chief Executive Officer of Vornado Realty Trust             |
| 32.2    | — | Section 1350 Certification of the Chief Financial Officer of Vornado Realty Trust             |
| 32.3    | — | Section 1350 Certification of the Chief Executive Officer of Vornado Realty L.P.              |
| 32.4    | — | Section 1350 Certification of the Chief Financial Officer of Vornado Realty L.P.              |
| 101.INS | — | XBRL Instance Document of Vornado Realty Trust and Vornado Realty L.P.                        |
| 101.SCH | — | XBRL Taxonomy Extension Schema of Vornado Realty Trust and Vornado Realty L.P.                |
| 101.CAL | — | XBRL Taxonomy Extension Calculation Linkbase of Vornado Realty Trust and Vornado Realty L.P.  |
| 101.DEF | — | XBRL Taxonomy Extension Definition Linkbase of Vornado Realty Trust and Vornado Realty L.P.   |
| 101.LAB | — | XBRL Taxonomy Extension Label Linkbase of Vornado Realty Trust and Vornado Realty L.P.        |
| 101.PRE | — | XBRL Taxonomy Extension Presentation Linkbase of Vornado Realty Trust and Vornado Realty L.P. |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**VORNADO REALTY TRUST**

---

(Registrant)

Date: July 30, 2018

By:           /s/ Matthew Iocco          

Matthew Iocco, Chief Accounting Officer (duly  
authorized officer and principal accounting officer)

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**VORNADO REALTY L.P.**

(Registrant)

Date: July 30, 2018

By: /s/ Matthew Iocco

Matthew Iocco, Chief Accounting Officer of Vornado Realty Trust, sole General Partner of Vornado Realty L.P. (duly authorized officer and principal accounting officer)

93

[\(Back To Top\)](#)

## Section 2: EX-3.54 (EXHIBIT 3.54)

**EXHIBIT 3.54**

### **VORNADO REALTY TRUST**

#### **ARTICLES OF AMENDMENT**

Vornado Realty Trust, a Maryland real estate investment trust (the “Company”), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

**FIRST:** The Declaration of Trust of the Company (the “Declaration”) is hereby amended by deleting Section 7.2 in its entirety and inserting the following in lieu thereof:

**SECTION 7.2 Voting Rights of Shareholders.** Subject to the provisions of any class or series of Shares then outstanding, the Shareholders shall be entitled to vote only on the following matters: (a) election or removal of Trustees as provided in Sections 7.1 and 2.3; (b) amendment of this Declaration of Trust as provided in Section 9.1; (c) termination of the Trust as provided in Section 10.1; (d) reorganization or other actions of the Trust as provided in Section 9.2; (e) merger, consolidation or share exchange of the Trust, or the sale or disposition of all or substantially all of the Trust Property, as provided in Section 9.3; (f) if provided by the Bylaws of the Trust, amendment of the Bylaws of the Trust to the extent provided in the Bylaws of the Trust; (g) such matters with respect to which the Board of Trustees has adopted a resolution declaring advisable or recommending a proposal and directing that the matter be submitted to the Shareholders for consideration; and (h) such matters with respect to which Shareholders are required to vote (whether in a binding or advisory capacity) by federal law, state law or securities exchange rule. Except with respect to the foregoing matters, no action taken by the Shareholders at any meeting shall in any way bind the Trustees.

**SECOND:** The amendment to the Declaration as set forth above has been duly advised by the Board of Trustees of the Company and approved by the shareholders of the Company as required by law.

**THIRD:** The undersigned officer acknowledges these Articles of Amendment to be the trust act of the Company and, as to all matters of facts required to be verified under oath, the undersigned officer acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF, the Company has caused these Articles of Amendment to be signed in its name and on its behalf by its Executive Vice President—Finance and Administration and Chief Administrative Officer and attested to by its Secretary on this 13<sup>th</sup> day of June, 2018.

ATTEST:

/s/ Alan J. Rice

Alan J. Rice

Secretary

VORNADO REALTY TRUST

By: /s/ Joseph Macnow

Joseph Macnow

Executive Vice President—Finance and Administration and  
Chief Administrative Officer

[\(Back To Top\)](#)

### **Section 3: EX-3.55 (EXHIBIT 3.55)**

**EXHIBIT 3.55**

#### VORNADO REALTY TRUST

#### AMENDED AND RESTATED BYLAWS

#### ARTICLE I

#### OFFICES

SECTION 1. Principal Office. The principal office of the Trust in the State of Maryland shall be located at such place as the Board of Trustees may designate.

SECTION 2. Additional Offices. The Trust may have additional offices, including a principal executive office, at such places as the Board of Trustees may from time to time determine or the business of the Trust may require.

#### ARTICLE II

#### MEETINGS OF SHAREHOLDERS

SECTION 1. Place. All meetings of shareholders shall be held at the principal executive office of the Trust or at such other place as shall be set by the Board of Trustees and stated in the notice of the meeting.

SECTION 2. Annual Meeting. An annual meeting of the shareholders for the election of Trustees and the transaction of any business within the powers of the Trust shall be held during the second calendar quarter of each year, or shortly thereafter, after the delivery of the annual report, referred to in Section 11 of this Article II, at a convenient location and on proper notice, on a date and at the time set by the Board of Trustees, beginning with the year 1993.

SECTION 3. Special Meetings. The chairman or any three Trustees may call special meetings of the shareholders.

SECTION 4. Notice. Not less than ten nor more than 90 days before each meeting of shareholders, the secretary shall give to each shareholder entitled to vote at such meeting and to each shareholder not entitled to vote who is entitled to notice of the meeting written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called, either by mail, by presenting it to such shareholder personally, by leaving it at his residence or usual place of business or by any other means permitted by Maryland law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the shareholder at his post office address as it appears on the records of the Trust, with postage thereon prepaid.

SECTION 5. Scope of Notice. Any business of the Trust may be transacted at an annual meeting of shareholders without being specifically designated in the notice, except such business as is required by statute to be stated in such notice. No business shall be transacted at a special meeting of shareholders except as specifically designated in the notice.

SECTION 6. Quorum. At any meeting of shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting shall constitute a quorum; but this section shall not affect any requirement under any statute or the Declaration of Trust for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the shareholders, the chairman of the meeting or the shareholders entitled to vote at such meeting, present in person or by proxy, shall have power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 7. Voting. A plurality of all the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to elect a Trustee. Each share may be voted for as many individuals as there are Trustees to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of shareholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the Declaration of Trust. Unless otherwise provided in the Declaration, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

SECTION 8. Proxies. A shareholder may cast the votes entitled to be cast by the shares of beneficial interest owned of record by the shareholder in person or by proxy executed by the shareholder or by the shareholder's duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the secretary of the Trust before or at the meeting. No proxy shall be valid more than eleven months after its date, unless otherwise provided in the proxy.

SECTION 9. Voting of Shares by Certain Holders. Shares registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the chief executive officer or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such shares pursuant to a bylaw or a resolution of the board of directors of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such shares. Any trustee or other fiduciary may vote shares registered in his name as such fiduciary, either in person or by proxy.

Shares of the Trust directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time. The Board of Trustees may adopt by resolution a procedure by which a shareholder may certify in writing to the Trust that any shares registered in the name of the shareholder are held for the account of a specified person other than the shareholder. The resolution shall set forth the class of shareholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be

contained in it; if the certification is with respect to a record date or closing of the share transfer books, the time after the record date or closing of the share transfer books within which the certification must be received by the Trust; and any other provisions with respect to the procedure which the Board of Trustees considers necessary or desirable. On receipt of such certification, the shareholder of record of the specified shares in place of the shareholder who makes the certification.

**SECTION 10. Inspectors.** At any meeting of shareholders, the chairman of the meeting may appoint one or more persons as inspectors for such meeting. Such inspectors shall ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, count all votes, report the results and perform such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders.

Each report of an inspector shall be in writing and signed by him or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the result of the voting shall be prima facie evidence thereof.

**SECTION 11. Reports to Shareholders.**

(a) Not later 90 days after the close of each fiscal year of the Trust, the Board of Trustees shall deliver or cause to be delivered a report of the business and operations of the Trust during such fiscal year to the shareholders, containing a balance sheet and a statement of income and surplus of the Trust, accompanied by the certification of an independent certified public accountant, and such further information as the Board of Trustees may determine is required pursuant to any law or regulation to which the Trust is subject. A signed copy of the annual report and the accountant's certificate shall be filed by the Board of Trustees with the State Department of Assessments and Taxation of Maryland, and with such other governmental agencies as may be required by law and as the Board of Trustees may deem appropriate.

(b) Not later than 45 days after the end of the first three quarterly periods of each fiscal year and upon written request by a shareholder, the Board of Trustees shall deliver or cause to be delivered an interim report to such requesting shareholder containing unaudited financial statements for such quarter and for the period from the beginning of the fiscal year to the end of such quarter, and such further information as the Board of Trustees may determine is required pursuant to any law or regulation to which the Trust is subject.

**SECTION 12. Nominations and Shareholder Business.** The matters to be considered and brought before any annual or special meeting of shareholders of the Trust shall be limited to only such matters, including the nomination and election of Trustees, as shall be brought properly before such meeting in compliance with the procedures set forth in this Section 12 and Section 13 of this Article II, as applicable.

For any matter to be properly brought before any annual meeting of shareholders, the matter must be (i) specified in the notice of annual meeting given by or at the direction of the

Board of Trustees, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Trustees or (iii) brought before the annual meeting in the manner specified in this Section 12 or in Section 13 of this Article II, as applicable, by any shareholder of the Trust who was a shareholder of record at the time of giving the applicable Shareholder Notice referred to below or Nomination Notice referred to in Section 13, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 12 or Section 13 of this Article II, as applicable.

In addition to any other requirements under applicable law and the Declaration of Trust and Bylaws of the Trust, no nomination by any shareholder or shareholders of a person or persons for election as Trustees of the Trust pursuant to this Section 12, and no other proposal by any shareholder or shareholders pursuant to this Section 12, shall be considered properly brought before the meeting unless notice of any such nomination or proposal (the "Shareholder Notice") shall be delivered to the Secretary of the Trust at the principal executive office of the Trust not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the meeting is advanced or delayed by more than 30 days from such anniversary date, such Shareholder Notice pursuant to this Section 12 shall be delivered to the Secretary of the Trust at the principal executive office of the Trust not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which the date of such meeting is first publicly announced or disclosed. To be timely for nominations made pursuant to Section 13 of this Article II, a Nomination Notice shall be delivered in accordance with the requirements of Section 13. Any shareholder desiring to nominate any person or persons (as the case may be) for election as a Trustee or Trustees of the Trust pursuant to this Section 12 shall deliver, as part of such Shareholder Notice, a statement in writing setting forth the name of the person or persons to be nominated, the number and class of all shares of each class of shares of beneficial interest of the Trust owned of record and beneficially by each such person, as reported to such shareholder by such nominee(s), the information regarding each such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the Securities and Exchange Commission applicable to the Trust), each such person's signed consent to serve as a Trustee of the Trust if elected, such shareholder's name and address, the number and class of all shares of each class of shares of beneficial interest of the Trust owned of record and beneficially by such shareholder and whether any such person or such shareholder has received any financial assistance, funding or other consideration from any other person in respect of the nomination (and the details thereof).

Any shareholder who gives a Shareholder Notice of any matter (not involving nominees for Trustee) proposed to be brought before a meeting of shareholders shall deliver, as part of such Shareholder Notice, the text of the proposal to be presented and a brief written statement of the reasons why such shareholder favors the proposal and setting forth such shareholder's name and address, the number and class of all shares of each class of shares of beneficial interest of the Trust owned of record and beneficially by such shareholder, any material interest of such shareholder in the matter proposed (other than as a shareholder generally) and whether such shareholder has received any financial assistance, funding or other consideration from any other person in respect of the proposal (and the details thereof). As used herein, shares "beneficially owned" shall mean all shares which such person, or any of such

person's affiliates and associates (as defined in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Exchange Act")), is deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Exchange Act, as well as all shares of which such person, or any of such person's affiliates and associates, has the right to become the beneficial owner pursuant to any agreement or understanding, or upon the exercise of warrants, options or rights to convert or exchange (whether such rights are exercisable immediately or only after the passage of time or the occurrence of conditions).

Notwithstanding anything in this Section 12 to the contrary, in the event that the number of Trustees to be elected to the Board of Trustees of the Trust is increased and either all of the nominees for Trustee or the size of the increased Board of Trustees is not publicly announced or disclosed by the Trust not less than 100 days prior to the first anniversary of the preceding year's annual meeting, a Shareholder Notice pursuant to this Section 12 shall also be considered timely hereunder, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Trust at the principal executive office of the Trust not later than the close of business on the tenth day following the first date all of such nominees or the size of the increased Board of Trustees shall have been publicly announced or disclosed.

In the event the Trust calls a special meeting of shareholders for the purpose of electing one or more Trustees to the Board of Trustees, any shareholder may nominate a person or persons (as the case may be) pursuant to this Section 12, for election to such position(s) as specified in the Trust's notice of meeting, if the Shareholder Notice required by this Section 12 shall be delivered to the Secretary of the Trust at the principal executive office of the Trust not later than the close of business on the tenth day following the day on which the date of the special meeting and of the nominees proposed by the Board of Trustees to be elected at such meeting is publicly announced or disclosed.

For purposes of this Section 12 and Section 13 of this Article II, a matter shall be deemed to have been "publicly announced or disclosed" if such matter is disclosed in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Trust with the Securities and Exchange Commission.

In no event shall the adjournment of an annual or special meeting, or any announcement thereof, commence a new period for the giving of notice as provided in this Section 12. Notwithstanding the foregoing provisions of this Section 12, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder and of the laws of the State of Maryland with respect to the matters set forth in this Section 12. Nothing in this Section 12 shall be deemed to affect any rights (i) of shareholders to request inclusion of proposals in the Trust's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred shares of beneficial interest of the Trust, if any, to elect Trustees under specified circumstances.

Only such persons who are nominated in accordance with the procedures set forth in this Section 12 or the procedures set forth in Section 13 of this Article II, as the case may be, shall be eligible to serve as Trustees and only such business shall be conducted at a meeting of

shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 12. The person presiding at any meeting of shareholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether notice of nominees and other matters proposed to be considered and brought before a meeting has been duly given in the manner provided in this Section 12 and, if not so given, shall direct and declare at the meeting that such nominees and other matters shall not be considered.

**SECTION 13. Shareholder Nominations Included in the Trust's Proxy Materials.**

(a) **Inclusion of Proxy Access Nominees in Proxy Statement.** Subject to the provisions of this Section 13, if expressly requested in the relevant Nomination Notice (as defined below), the Trust shall include in its proxy statement for any annual meeting of shareholders: (i) the names of any person or persons nominated for election (each, a "Proxy Access Nominee"), which shall also be included on the Trust's form of proxy and ballot, by any Eligible Holder (as defined below) or group of up to 20 Eligible Holders that has (individually and collectively, in the case of a group) satisfied, as determined by the Board of Trustees, all applicable conditions and complied with all applicable procedures set forth in this Section 13 (such Eligible Holder or group of Eligible Holders being a "Nominating Shareholder"); (ii) disclosure about each Proxy Access Nominee and the Nominating Shareholder required under the rules of the Securities and Exchange Commission or other applicable law to be included in the proxy statement; (iii) any statement included by the Nominating Shareholder in the Nomination Notice for inclusion in the proxy statement in support of each Proxy Access Nominee's election to the Board of Trustees (subject, without limitation, to Section 13(e)(ii)), if such statement does not exceed 500 words and fully complies with Section 14 of the Exchange Act and the rules and regulations thereunder, including Rule 14a-9 (the "Supporting Statement"); and (iv) any other information that the Trust or the Board of Trustees determines, in their discretion, to include in the proxy statement relating to the nomination of each Proxy Access Nominee, including, without limitation, any statement in opposition to the nomination, any of the information provided pursuant to this Section 13 and any solicitation materials or related information with respect to a Proxy Access Nominee.

For purposes of this Section 13, any determination to be made by the Board of Trustees may be made by the Board of Trustees, a committee of the Board of Trustees or any officer of the Trust designated by the Board of Trustees or a committee of the Board of Trustees, and any such determination shall be final and binding on the Trust, any Eligible Holder, any Nominating Shareholder, any Proxy Access Nominee and any other person so long as made in good faith (without any further requirements). The chairman of any annual meeting of shareholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether a Proxy Access Nominee has been nominated in accordance with the requirements of this Section 13 and, if not so nominated, shall direct and declare at the meeting that such Proxy Access Nominee shall not be considered.

(b) Maximum Number of Proxy Access Nominees.

(i) The Trust shall not be required to include in the proxy statement for an annual meeting of shareholders more Proxy Access Nominees than that number of Trustees constituting the greater of (i) two or (ii) 20% of the total number of Trustees of the Trust on the last day on which a Nomination Notice may be submitted pursuant to this Section 13 (rounded down to the nearest whole number) (the "Maximum Number"). The Maximum Number for a particular annual meeting shall be reduced by: (1) Proxy Access Nominees who the Board of Trustees itself decides to nominate for election at such annual meeting; (2) the number of individuals who will be included in the Trust's proxy materials as nominees recommended by the Board of Trustees pursuant to an agreement, arrangement or other understanding with a shareholder or group of shareholders (other than any such agreement, arrangement or understanding entered into in connection with an acquisition of shares from the Trust by such shareholder or group of shareholders); (3) Proxy Access Nominees who cease to satisfy, or Proxy Access Nominees of Nominating Shareholders that cease to satisfy, the eligibility requirements in this Section 13, as determined by the Board of Trustees; (4) Proxy Access Nominees whose nomination is withdrawn by the Nominating Shareholder or who become unwilling to serve on the Board of Trustees; and (5) the number of incumbent Trustees who had been Proxy Access Nominees with respect to any of the preceding two annual meetings of shareholders and whose reelection at the upcoming annual meeting is being recommended by the Board of Trustees. In the event that one or more vacancies for any reason occurs on the Board of Trustees after the deadline for submitting a Nomination Notice as set forth in Section 13(d) below but before the date of the annual meeting, and the Board of Trustees resolves to reduce the size of the board in connection therewith, the Maximum Number shall be calculated based on the number of Trustees in office as so reduced.

(ii) If the number of Proxy Access Nominees pursuant to this Section 13 for any annual meeting of shareholders exceeds the Maximum Number then, promptly upon notice from the Trust, each Nominating Shareholder will select one Proxy Access Nominee for inclusion in the proxy statement until the Maximum Number is reached, going in order of the amount (largest to smallest) of the ownership position as disclosed in each Nominating Shareholder's Nomination Notice, with the process repeated if the Maximum Number is not reached after each Nominating Shareholder has selected one Proxy Access Nominee. If, after the deadline for submitting a Nomination Notice as set forth in Section 13(d), a Nominating Shareholder or a Proxy Access Nominee ceases to satisfy the eligibility requirements in this Section 13, as determined by the Board of Trustees, a Nominating Shareholder withdraws its nomination or a Proxy Access Nominee becomes unwilling to serve on the Board of Trustees, whether before or after the mailing or other distribution of the definitive proxy statement, then the nomination shall be disregarded, and the Trust: (1) shall not be required to include in its proxy statement or on any ballot or form of proxy the disregarded Proxy Access Nominee or any successor or replacement nominee proposed by the Nominating Shareholder or by any other Nominating Shareholder and (2) may otherwise communicate to its shareholders, including without limitation by amending or supplementing its proxy statement or ballot or form of proxy, that a Proxy Access Nominee will not be included as a nominee in the proxy statement or on any ballot or form of proxy and will not be voted on at the annual meeting.



(c) Eligibility of Nominating Shareholder.

(i) An “Eligible Holder” is a person who has either (1) been a record holder of the common shares used to satisfy the eligibility requirements in this Section 13(c) continuously for the three-year period specified in Subsection (ii) below or (2) provides to the Secretary of the Trust, within the time period referred to in Section 13(d), evidence of continuous ownership of such shares for such three-year period from one or more securities intermediaries in a form that the Board of Trustees determines would be deemed acceptable for purposes of a shareholder proposal under Rule 14a-8(b)(2) under the Exchange Act (or any successor rule).

(ii) An Eligible Holder or group of up to 20 Eligible Holders may submit a nomination in accordance with this Section 13 only if the person or group (in the aggregate) has continuously owned at least the Minimum Number (as defined below) of common shares of the Trust throughout the three-year period preceding and including the date of submission of the Nomination Notice, and continues to own at least the Minimum Number through the date of the annual meeting. Two or more funds that are (x) under common management and investment control, (y) under common management and funded primarily by a single employer or (z) a “group of investment companies,” as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended, shall be treated as one Eligible Holder if such Eligible Holder shall provide together with the Nomination Notice documentation reasonably satisfactory to the Trust that demonstrates that the funds meet the criteria set forth in (x), (y) or (z) hereof. For the avoidance of doubt, in the event of a nomination by a group of Eligible Holders, any and all requirements and obligations for an individual Eligible Holder that are set forth in this Section 13, including the minimum holding period, shall apply to each member of such group; provided, however, that the Minimum Number shall apply to the ownership of the group in the aggregate. Should any shareholder cease to satisfy the eligibility requirements in this Section 13, as determined by the Board of Trustees, or withdraw from a group of Eligible Holders at any time prior to the annual meeting of shareholders, the group of Eligible Holders shall only be deemed to own the shares held by the remaining members of the group.

(iii) The “Minimum Number” of the Trust’s common shares means 3% of the number of outstanding common shares as of the most recent date for which such amount is given in any filing by the Trust with the Securities and Exchange Commission prior to the submission of the Nomination Notice.

(iv) For purposes of this Section 13, an Eligible Holder “owns” only those outstanding shares of the Trust as to which the Eligible Holder possesses both: (A) the full voting and investment rights pertaining to the shares; and (B) the full economic interest in (including the opportunity for profit and risk of loss on) such shares; provided that the number of shares calculated in accordance with clauses (A) and (B) shall not include any shares: (1) purchased or sold by such Eligible Holder or any of its affiliates in any transaction that has not been settled or closed, (2) sold short by such Eligible Holder, (3) borrowed by such Eligible Holder or any of its affiliates for any purpose or purchased by such Eligible Holder or any of its affiliates pursuant to an agreement to resell or subject to any other obligation to resell to another person, or (4) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such Eligible Holder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or

value of outstanding shares of the Trust, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of: (x) reducing in any manner, to any extent or at any time in the future, such Eligible Holder's or any of its affiliates' full right to vote or direct the voting of any such shares, and/or (y) hedging, offsetting, or altering to any degree, gain or loss arising from the full economic ownership of such shares by such Eligible Holder or any of its affiliates. An Eligible Holder "owns" shares held in the name of a nominee or other intermediary so long as the Eligible Holder retains the right to instruct how the shares are voted with respect to the election of Trustees and possesses the full economic interest in the shares. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has delegated any voting power by means of a proxy, power of attorney, or other similar instrument or arrangement that is revocable at any time by the Eligible Holder. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has loaned such shares provided that the Eligible Holder has the power to recall such loaned shares on five business days' notice. The terms "owned," "owning" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of the Trust are "owned" for these purposes shall be determined by the Board of Trustees.

(v) No Eligible Holder shall be permitted to be in more than one group constituting a Nominating Shareholder, and if any Eligible Holder appears as a member of more than one group, it shall be deemed to be a member of the group that has the largest ownership position as reflected in the Nomination Notice.

(vi) Any Eligible Holder (including each Eligible Holder whose stock ownership is counted for the purposes of qualifying as a group) whose Proxy Access Nominee withdraws, becomes ineligible or does not receive at least 10% of the votes cast for such Proxy Access Nominee at an annual meeting of shareholders will not be eligible to nominate or participate in the nomination of a Proxy Access Nominee pursuant to this Section 13 for the following two annual meetings of shareholders.

(d) Nomination Notice.

To nominate a Proxy Access Nominee, the Nominating Shareholder must, no earlier than 150 days and no later than 120 days before the anniversary of the date that the Trust mailed its proxy statement for the prior year's annual meeting of shareholders, submit to the Secretary of the Trust at the principal executive office of the Trust all of the following information and documents (collectively, the "Nomination Notice"); provided, however, that if (and only if) the annual meeting is not scheduled to be held within a period that commences 30 days before such anniversary date and ends 30 days after such anniversary date (an annual meeting date outside such period being referred to herein as an "Other Meeting Date"), the Nomination Notice shall be given in the manner provided herein by the later of the close of business on the date that is 180 days prior to such Other Meeting Date or the tenth day following the date such Other Meeting Date is first publicly announced or disclosed: (i) a Schedule 14N (or any successor form) relating to each Proxy Access Nominee, completed and filed with the Securities and Exchange Commission by the Nominating Shareholder as applicable, in accordance with Securities and Exchange Commission rules; (ii) a written notice, in a form deemed satisfactory by the Board of Trustees, of the nomination of each Proxy Access Nominee that includes the following additional information, agreements, representations and warranties by

the Nominating Shareholder (including each group member): (A) the information required with respect to the nomination of Trustees pursuant to Section 12 of this Article II; (B) the details of any relationship that existed within the past three years and that would have been described pursuant to Item 6(e) of Schedule 14N (or any successor item) if it existed on the date of submission of the Schedule 14N; (C) a representation and warranty that the Nominating Shareholder acquired the securities of the Trust in the ordinary course of business and did not acquire, and is not holding, securities of the Trust for the purpose or with the effect of influencing or changing control of the Trust; (D) a representation and warranty that each Proxy Access Nominee's candidacy or, if elected, Board of Trustees membership would not violate applicable state or federal law or the rules of any stock exchange on which the Trust's securities are traded; (E) a representation and warranty that each Proxy Access Nominee: (1) does not have any direct or indirect relationship with the Trust that would cause the Proxy Access Nominee to be considered not independent pursuant to the Trust's Corporate Governance Guidelines as most recently published on its website and otherwise qualifies as independent under the rules of the primary stock exchange on which the common shares of beneficial interest of the Trust are traded; (2) meets the audit committee and compensation committee independence requirements under the rules of the primary stock exchange on which the common shares of beneficial interest of the Trust are traded; (3) is a "non-employee trustee" for the purposes of Rule 16b-3 under the Exchange Act (or any successor rule); (4) is an "outside trustee" for the purposes of Section 162(m) of the Internal Revenue Code (or any successor provision); (5) meets the Trustee qualifications set forth in Article III of these Bylaws; and (6) is not and has not been subject to any event specified in Rule 506(d)(1) of Regulation D (or any successor rule) under the Securities Act of 1933 or Item 401 (f) of Regulation S-K (or any successor rule) under the Exchange Act, without reference to whether the event is material to an evaluation of the ability or integrity of such Proxy Access Nominee; (F) a representation and warranty that the Nominating Shareholder satisfies the eligibility requirements set forth in Section 13(c) and has provided evidence of ownership to the extent required by Section 13(c)(i); (G) a representation and warranty that the Nominating Shareholder intends to continue to satisfy the eligibility requirements described in Section 13(c) through the date of the annual meeting; (H) details of any position of a Proxy Access Nominee as an officer, director or trustee of any competitor (that is, any entity that provides services or engages in business activities that compete with or are alternatives to the services provided or business activities engaged in by the Trust or its affiliates) of the Trust, within the three years preceding the submission of the Nomination Notice; (I) a representation and warranty that the Nominating Shareholder will not engage in a "solicitation" within the meaning of Rule 14a-1(l) (without reference to the exception in Section 14a-1(l)(2)(iv)) (or any successor rules) with respect to the annual meeting, other than with respect to a Proxy Access Nominee or any nominee of the Board of Trustees; (J) a representation and warranty that the Nominating Shareholder will not use any proxy card other than the Trust's proxy card in soliciting shareholders in connection with the election of a Proxy Access Nominee at the annual meeting; (K) if desired, a Supporting Statement; and (L) in the case of a nomination by a group, the designation by all group members of one group member that is authorized to act on behalf of all group members with respect to matters relating to the nomination, including withdrawal of the nomination; (iii) an executed agreement, in a form deemed satisfactory by the Board of Trustees, pursuant to which the Nominating Shareholder (including each group member) agrees: (A) to comply with all applicable laws, rules and regulations in connection with the nomination, solicitation and election; (B) to file any written solicitation or other

communication with the Trust's shareholders relating to one or more of the Trust's Trustees or Trustee nominees or any Proxy Access Nominee with the Securities and Exchange Commission, to the extent that such filing would be required if such communication were made by or on behalf of the Trust; (C) to assume all liability stemming from an action, suit or proceeding concerning any actual or alleged legal or regulatory violation arising out of any communication by the Nominating Shareholder or any of its Proxy Access Nominees with the Trust, its shareholders or any other person in connection with the nomination or election of Trustees, including, without limitation, the Nomination Notice; (D) to indemnify and hold harmless (jointly with all other group members, in the case of a group member) the Trust and each of its Trustees, officers and employees individually against any liability, loss, damages, expenses or other costs (including attorneys' fees) incurred in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Trust or any of its Trustees, officers or employees arising out of or relating to any nomination, solicitation or other activity by the Nominating Shareholder in connection with its efforts to elect its Proxy Access Nominees pursuant to this Section 13; (E) in the event that any information included in the Nomination Notice, or any other communication by the Nominating Shareholder (including with respect to any group member), with the Trust, its shareholders or any other person in connection with the nomination or election ceases to be true and accurate in all material respects (or omits a material fact necessary to make the statements made not misleading), or that the Nominating Shareholder (including any group member) has failed to continue to satisfy the eligibility requirements described in Section 13(c), to promptly (and in any event within 48 hours of discovering such misstatement, omission or failure) notify the Trust and any other recipient of such communication of (A) the misstatement or omission in such previously provided information and of the information that is required to correct the misstatement or omission or (B) such failure; and (iv) an executed agreement, in a form deemed satisfactory by the Board of Trustees, by each Proxy Access Nominee: (A) to provide to the Trust such other information and certifications, including completion of the Trust's Trustee questionnaire, as it may reasonably request; (B) at the reasonable request of the Trust's Corporate Governance and Nominating Committee, to meet with the Corporate Governance and Nominating Committee to discuss matters relating to the nomination of such Proxy Access Nominee to the Board of Trustees, including the information provided by such Proxy Access Nominee to the Trust in connection with his or her nomination and such Proxy Access Nominee's eligibility to serve as a member of the Board of Trustees; (C) that such Proxy Access Nominee has read and agrees, if elected, to serve as a member of the Board of Trustees, to adhere to the Trust's Corporate Governance Guidelines, Code of Business Conduct and Ethics, and any other Trust policies and guidelines applicable to Trustees; and (D) that such Proxy Access Nominee is not and will not become a party to (i) any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity in connection with his or her nomination, service or action as a Trustee of the Trust that has not been disclosed to the Trust, (ii) any agreement, arrangement or understanding with any person or entity as to how such Proxy Access Nominee would vote or act on any issue or question as a Trustee (a "Voting Commitment") that has not been disclosed to the Trust or (iii) any Voting Commitment that could limit or interfere with such Proxy Access Nominee's ability to comply, if elected as a Trustee of the Trust, with its fiduciary duties under applicable law.

The information and documents required by this Section 13(d) to be provided by the Nominating Shareholder shall be:  
(i) provided with respect to and executed by each group

member, in the case of information applicable to group members; and (ii) provided with respect to the persons specified in Instruction 1 to Items 6(c) and (d) of Schedule 14N (or any successor item) in the case of a Nominating Shareholder or group member that is an entity. The Nomination Notice shall be deemed submitted on the date on which all the information and documents referred to in this Section 13(d) (other than such information and documents contemplated to be provided after the date the Nomination Notice is provided) have been delivered to or, if sent by mail, received by the Secretary of the Trust.

(e) Exceptions.

(i) Notwithstanding anything to the contrary contained in this Section 13, the Trust may omit from its proxy statement any Proxy Access Nominee and any information concerning such Proxy Access Nominee (including a Nominating Shareholder's Supporting Statement) and no vote on such Proxy Access Nominee will occur (notwithstanding that proxies in respect of such vote may have been received by the Trust), and the Nominating Shareholder may not, after the last day on which a Nomination Notice would be timely, cure in any way any defect preventing the nomination of such Proxy Access Nominee, if: (A) the Trust receives a notice pursuant to Section 12 of this Article II that a shareholder intends to nominate a candidate for Trustee at the annual meeting, whether or not such notice is subsequently withdrawn or made the subject of a settlement with the Trust; (B) the Nominating Shareholder or the designated lead group member, as applicable, or any qualified representative thereof, does not appear at the meeting of shareholders to present the nomination submitted pursuant to this Section 13, the Nominating Shareholder withdraws its nomination or the chairman of the annual meeting declares that such nomination was not made in accordance with the procedures prescribed by this Section 13 and shall therefore be disregarded; (C) the Board of Trustees determines that such Proxy Access Nominee's nomination or election to the Board of Trustees would result in the Trust violating or failing to be in compliance with the Declaration of Trust, these Bylaws or any applicable law, rule or regulation to which the Trust is subject, including any rules or regulations of the primary stock exchange on which the common shares of beneficial interest of the Trust are traded; (D) such Proxy Access Nominee was nominated for election to the Board of Trustees pursuant to this Section 13 at one of the Trust's two preceding annual meetings of shareholders and either withdrew or became ineligible or received a vote of less than 25% of the votes cast in favor of such Proxy Access Nominee; (E) such Proxy Access Nominee has been, within the past three years, an officer or director of a competitor, as defined for purposes of Section 8 of the Clayton Antitrust Act of 1914, as amended; (F) the Trust is notified, or the Board of Trustees determines, that the Nominating Shareholder or the Proxy Access Nominee has failed to continue to satisfy the eligibility requirements described in Section 13(c), any of the representations and warranties made in the Nomination Notice ceases to be true and accurate in all material respects (or omits a material fact necessary to make the statements made not misleading), such Proxy Access Nominee becomes unwilling or unable to serve on the Board of Trustees or any material violation or breach occurs of the obligations, agreements, representations or warranties of the Nominating Shareholder or such Proxy Access Nominee under this Section 13;

(ii) Notwithstanding anything to the contrary contained in this Section 13, the Trust may omit from its proxy statement, or may supplement or correct, any information, including all or any portion of the Supporting Statement or any other statement in support of a Proxy Access Nominee included in the Nomination Notice, if the Board of Trustees determines

that: (A) such information is not true in all material respects or omits a material statement necessary to make the statements made not misleading; (B) such information directly or indirectly impugns the character, integrity or personal reputation of, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations, without factual foundation, with respect to, any person; or (C) the inclusion of such information in the proxy statement would otherwise violate the Securities and Exchange Commission proxy rules or any other applicable law, rule or regulation.

The Trust may solicit against, and include in the proxy statement its own statement relating to, any Proxy Access Nominee.

**SECTION 14. Action by Written Consent of Shareholders.** Any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if a consent in writing, setting forth such action, is signed by each shareholder entitled to vote on the matter and any other shareholder entitled to notice of a meeting of shareholders (but not to vote thereat) has waived in writing any right to dissent from such action, and such consent and waiver are filed with the minutes of proceedings of the shareholders.

**SECTION 15. Voting by Ballot.** Voting on any question or in any election may be viva voce unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

**SECTION 16. Organization and Conduct of Meetings.** Every meeting of shareholders shall be conducted by an individual appointed by the Board of Trustees to be chairman of the meeting or, in the absence of such appointment, by the chairman of the board or, in the case of a vacancy in the office or absence of the chairman of the board, by one of the following officers present at the meeting: the president, the vice presidents in their order of rank and seniority, or, in the absence of such officers, a chairman chosen by the shareholders by the vote of a majority of the votes cast by shareholders present in person or by proxy. The secretary, or, in the secretary's absence, an assistant secretary, or in the absence of both the secretary and assistant secretaries, a person appointed by the Board of Trustees or, in the absence of such appointment, a person appointed by the chairman of the meeting shall act as secretary. In the event that the secretary presides at a meeting of the shareholders, an assistant secretary shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of shareholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chairman, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to shareholders of record of the Trust, their duly authorized proxies or other such persons as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to shareholders of record of the Trust entitled to vote on such matter, their duly authorized proxies or other such persons as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments by participants; (e) maintaining order and security at the meeting; (f) removing any shareholder who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman; and (g) recessing or adjourning the meeting to a later date and time and place announced at the meeting.

Unless otherwise determined by the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

SECTION 17. Control Shares. Notwithstanding any other provision of the Declaration of Trust or these Bylaws, Title 3, Subtitle 7 of the Corporations and Associations Article of the Annotated Code of Maryland (or any successor statute) shall not apply to any acquisition by any person of shares of beneficial interest of the Trust.

### ARTICLE III

#### TRUSTEES

SECTION 1. General Powers; Qualifications. The business and affairs of the Trust shall be managed under the direction of its Board of Trustees. A Trustee shall be an individual at least 21 years of age who is not under legal disability.

SECTION 2. Annual and Regular Meetings. An annual meeting of the Board of Trustees shall be held immediately after and at the same place as the annual meeting of shareholders, no notice other than this Bylaw being necessary. The Board of Trustees may provide, by resolution, the time and place, either within or without the State of Maryland, for the holding of regular meetings of the Board of Trustees without other notice than such resolution.

SECTION 3. Special Meetings. Special meetings of the Board of Trustees may be called by or at the request of the chief executive officer or by a majority of the Trustees then in office. The person or persons authorized to call special meetings of the Board of Trustees may fix any place, either within or without the State of Maryland, as the place for holding any special meeting of the Board of Trustees called by them.

SECTION 4. Notice. Notice of any special meeting of the Board of Trustees shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each trustee at his business, electronic mail or residence address. Notice by personal delivery, telephone, electronic mail, facsimile transmission or courier shall be given at least one day prior to the meeting. Notice by United States mail shall be given at least five business days prior to the meeting and shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Telephone notice shall be deemed to be given when the trustee or the trustee's agent is personally given such notice in a telephone call to which the trustee or the trustee's agent is a party. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Trust by the trustee and receipt of a completed answer-back indicating receipt. Electronic mail shall be deemed to be given upon transmission of the message to the electronic mail address given to the Trust by the trustee. Notice by courier shall be deemed to be given upon delivery to the address given to the Trust by the trustee and receipt by such courier of a signature evidencing delivery thereat. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Trustees need be stated in the notice, unless specifically required by statute or these Bylaws.

SECTION 5. Quorum. A majority of the Trustees shall constitute a quorum for transaction of business at any meeting of the Board of Trustees, provided that, if less than a majority of such Trustees are present at said meeting, a majority of the Trustees may adjourn the meeting from time to time without further notice, and provided further that if, pursuant to the Declaration of Trust or these Bylaws, the vote of a majority of a particular group of Trustees is required for action, a quorum must also include a majority of such group.

The Trustees present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough Trustees to leave less than a quorum.

SECTION 6. Voting. The action of the majority of the Trustees present at a meeting at which a quorum is present shall be the action of the Board of Trustees, unless the concurrence of a greater proportion is required for such action by applicable law or the Declaration of Trust. If enough Trustees have withdrawn from a meeting to leave less than a quorum but the meeting is not adjourned, the action of the majority of the Trustees present at such meeting shall be the action of the Board of Trustees, unless the concurrence of a greater portion is required for such action by applicable law.

SECTION 7. Telephone Meetings. Trustees may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

SECTION 8. Action by Written Consent of Trustees. Any action required or permitted to be taken at any meeting of the Board of Trustees may be taken without a meeting, if a consent in writing to such action is signed by each Trustee and such written consent is filed with the minutes of proceedings of the Board of Trustees.

SECTION 9. Vacancies and Resignations. If for any reason any or all of the Trustees cease to be Trustees, such event shall not terminate the Trust or affect these Bylaws or the powers of the remaining Trustees hereunder (even if fewer than three Trustees remain). Any vacancy (including a vacancy created by an increase in the number of Trustees) shall be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining Trustees, even if such majority is less than a quorum. Any individual so elected as Trustee shall serve for the unexpired term of the Trustee he is replacing and until his successor is elected and qualifies. Any Trustee of the Trust may resign at any time by giving written notice of his resignation to the Board of Trustees, the chairman of the board, the president or the secretary. Any resignation shall take effect immediately upon its receipt or at such later time as specified therein. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation.

SECTION 10. Compensation. Trustees shall not receive any stated salary for their services as Trustees but, by resolution of the Board of Trustees, may receive fixed sums per year and/or per meeting and/or per visit of real property owned or to be acquired by the Trust and for any service or activity they perform or engage in as Trustees. Trustees may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of



Trustees or of any committee thereof and for expenses, if any, in connection with each property visit and any other service or activity performed or engaged in as Trustees; but nothing herein contained shall be construed to preclude any Trustees from serving the Trust in any other capacity and receiving compensation therefor.

SECTION 11. Removal of Trustees. The shareholders may, at any time, remove any Trustee in the manner provided in the Declaration of Trust.

SECTION 12. Loss of Deposits. No trustee shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or shares have been deposited.

SECTION 13. Surety Bonds. Unless required by law, no Trustee shall be obligated to give any bond or surety or other security for the performance of any of his duties.

SECTION 14. Reliance. Each Trustee, officer, employee and agent of the Trust shall, in the performance of his duties with respect to the Trust, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Trust, upon an opinion of counsel or upon reports made to the Trust by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Trustees or officers of the Trust, regardless of whether such counsel or expert may also be a Trustee.

SECTION 15. Certain Rights of Trustees, Officers, Employees and Agents. The Trustees shall have no responsibility to devote their full time to the affairs of the Trust. Any Trustee or officer, employee or agent of the Trust, in his person capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar or in addition to or in competition with those of or relating to the Trust.

#### ARTICLE IV

#### COMMITTEES

SECTION 1. Number, Tenure and Qualifications. The Board of Trustees may appoint from among its members an Executive Committee, an Audit Committee and other committees, composed of one or more Trustees, to serve at the pleasure of the Board of Trustees.

SECTION 2. Powers. The Board of Trustees may delegate to committees appointed under Section 1 of this Article any of the powers of the Board of Trustees.

SECTION 3. Meetings. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another Trustee to act in the place of such absent member.

SECTION 4. Telephone Meetings. Members of a committee of the Board of Trustees may participate in a meeting by means of a conference telephone or similar communications

equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

SECTION 5. Informal Action by Committees. Any action required or permitted to be taken at any meeting of a committee of the Board of Trustees may be taken without a meeting, if a consent in writing to such action is signed by each member of the committee and such written consent is filed with the minutes of proceedings of such committee.

## ARTICLE V

### OFFICERS

SECTION 1. General Provisions. The officers of the Trust may consist of a chairman of the board, a co-chairman of the board, a president, a chief executive officer, one or more vice presidents, a chief financial officer, a secretary, and one or more assistant secretaries. In addition, the Board of Trustees may from time to time appoint such other officers with such powers and duties as they shall deem necessary or desirable. The officers of the Trust shall be elected annually by the Board of Trustees. Each officer shall hold office until his successor is elected and qualifies or until his death or his resignation or removal in the manner hereinafter provided. Any two or more offices except chief executive officer and vice president may be held by the same person. Election of an officer or agent shall not of itself create contract rights between the Trust and such officer or agent.

SECTION 2. Removal and Resignation. Any officer of the Trust may be removed by the Board of Trustees if in their judgment the best interests of the Trust would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Trust may resign at any time by giving written notice of his resignation to the Board of Trustees, the chairman of the board, the chief executive officer or the secretary. Any resignation shall take effect immediately after its receipt or at such later time specified therein. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Trust.

SECTION 3. Vacancies. A vacancy in any office may be filled by the Board of Trustees for the balance of the term.

SECTION 4. Chairman of the Board. The chairman of the board shall preside over the meetings of the Board of Trustees and of the shareholders at which he shall be present. The chairman of the board shall perform such other duties as may be assigned to him by the Board of Trustees.

SECTION 5. Chief Executive Officer. The Board of Trustees may designate a chief executive officer from among the elected officers. In the absence of such designation, the chairman of the board shall be the chief executive officer of the Trust. The chief executive officer shall have general responsibility for implementation of the policies of the Trust, as determined by the Board of Trustees, and for the management of the business affairs of the Trust. The chief executive officer shall in general supervise and control all of the business and affairs of

the Trust. He may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Trustees or by these Bylaws to some other officer or agent of the Trust or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of chief executive officer and such other duties as may be prescribed by the Board of Trustees from time to time.

SECTION 6. Vice Presidents. In the absence of the chief executive officer or in the event of a vacancy in such office, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the chief executive officer and when so acting shall have all the powers of and be subject to all the restrictions upon the chief executive officer; and shall perform such other duties as from time to time may be assigned to him by the chief executive officer or by the Board of Trustees. The Board of Trustees may designate one or more vice presidents as executive vice president or as vice president for particular areas of responsibility.

SECTION 7. Secretary. The secretary shall (a) keep the minutes of the proceedings of the shareholders, the Board of Trustees and committees of the Board of Trustees in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the trust records and of the seal of the Trust; (d) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (e) have general charge of the share transfer books of the Trust; and (f) in general perform such other duties as from time to time may be assigned to him by the chief executive officer or by the Board of Trustees.

SECTION 8. Chief Financial Officer. The chief financial officer shall have the custody of the funds and securities of the Trust and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Trust and shall deposit all moneys and other valuable effects in the name and to the credit of the Trust in such depositories as may be designated by the Board of Trustees.

The chief financial officer shall disburse the funds of the Trust as may be ordered by the Board of Trustees, taking proper vouchers for such disbursements, and shall render to the chief executive officer and the Board of Trustees, at the regular meetings of the Board of Trustees or whenever they may require it, an account of all his transactions as chief financial officer and of the financial condition of the Trust. If required by the Board of Trustees, he shall give the Trust a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Trustees for the faithful performance of the duties of his office and for the restoration to the Trust, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, moneys and other property of whatever kind in his possession or under his control belonging to the Trust.

SECTION 9. Assistant Secretaries. The assistant secretaries, in general, shall perform such duties as shall be assigned to them by the secretary, or by the chief executive officer or the Board of Trustees.

SECTION 10. Salaries. The salaries of the officers shall be fixed from time to time by the Board of Trustees and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Trustee.

## ARTICLE VI

### CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. Contracts. The Board of Trustees may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Trust and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Trust when authorized or ratified by action of the Board of Trustees and executed by an authorized person.

SECTION 2. Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Trust shall be signed by such officer or officers, agent or agents of the Trust in such manner as shall from time to time be determined by the Board of Trustees.

SECTION 3. Deposits. All funds of the Trust not otherwise employed shall be deposited from time to time to the credit of the Trust in such banks, trust companies or other depositories as the Board of Trustees may designate.

## ARTICLE VII

### SHARES

SECTION 1. Certificates. Except as otherwise provided in these Bylaws, this section shall not be interpreted to limit the authority of the Board of Trustees to issue some or all of the shares of any or all classes or series without certificates. Each shareholder upon written request to the secretary of the Trust shall be entitled to a certificate or certificates which shall represent and certify the number of shares of each class of beneficial interests held by him in the Trust. Each certificate shall be signed by the chief executive officer or a vice president and countersigned by the secretary or an assistant secretary or the chief financial officer or an assistant treasurer and may be sealed with the seal, if any, of the Trust. The signatures may be either manual or facsimile. Certificates shall be consecutively numbered; and if the Trust shall, from time to time, issue several classes of shares, each class may have its own number series. A certificate is valid and may be issued whether or not an officer who signed it is still an officer when it is issued. Each certificate representing shares which are restricted as to their transferability or voting powers, which are preferred or limited as to their dividends or as to their allocable portion of the assets upon liquidation or which are redeemable at the option of the Trust, shall have a statement of such restriction, limitation, preference or redemption provision, or a summary thereof, plainly stated on the certificate. In lieu of such statement or summary, the Trust may set forth upon the face or back of the certificate a statement that the Trust will furnish to any shareholder, upon request and without charge, a full statement of such information.

SECTION 2. Transfers. Certificates shall be treated as negotiable and title thereto and to the shares they represent shall be transferred by delivery thereof to the same extent as those of a Maryland stock corporation. Upon surrender to the Trust or the transfer agent of the Trust of a share certificate duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Trust shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The Trust shall be entitled to treat the holder of record of any share or shares as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

SECTION 3. Replacement Certificate. Any officer designated by the Board of Trustees may direct a new certificate to be issued in place of any certificate previously issued by the Trust alleged to have been lost, stolen or destroyed upon the making of any affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, the officer designated by the Board of Trustees may, in his discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he shall require and/or to give bond, with sufficient surety, to the Trust to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

SECTION 4. Closing of Transfer Books or Fixing of Record Date. The Board of Trustees may set, in advance a record date for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or determining shareholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of shareholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of shareholders not less than ten days, before the date on which the meeting or particular action requiring such determination of shareholders is to be held or taken.

In lieu of fixing a record date, the Board of Trustees may provide that the share transfer books shall be closed for a stated period but not longer than 20 days. If the share transfer books are closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days before the date of such meeting. If no record date is fixed and the share transfer books are not closed for the determination of shareholders, (a) the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day on which the notice of meeting is mailed or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of shareholders entitled to receive payment of a dividend or an allotment of any other rights shall be the close of business on the day on which the resolution of the Board of Trustees, declaring the dividend or allotment of rights, is adopted.

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except where the determination has been made through the closing of the transfer books and the stated period of closing the expired.

SECTION 5. Share Ledger. The Trust shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger containing the name and address of each shareholder and the number of shares of each class held by such shareholder.

SECTION 6. Fractional Shares; Issuance of Units. The Board of Trustees may issue fractional shares or provide for the issuance of scrip, all on such terms and under such conditions as the Board of Trustees may determine. Notwithstanding any other provision of the Declaration of Trust or these Bylaws, the Board of Trustees may issue units consisting of different securities of the Trust. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Trust, except that the Board of Trustees may provide that for a specified period securities of the Trust issued in such unit may be transferred on the books of the Trust only in such unit.

## ARTICLE VIII

### ACCOUNTING YEAR

The Board of Trustees shall have the power, from time to time, to fix the fiscal year of the Trust by a duly adopted resolution.

## ARTICLE IX

### DISTRIBUTIONS

SECTION 1. Authorization. Dividends and other distributions upon the Shares of the Trust may be authorized by the Board of Trustees, subject to the provisions of law and the Declaration of Trust. Dividends may be paid in cash, property or shares of the Trust, subject to the provisions of law and the Declaration of Trust.

SECTION 2. Contingencies. Before payment of any dividends, there may be set aside out of any funds of the Trust available for dividends such sum or sums as the Board of Trustees may from time to time, in their absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends, for repairing or maintaining any property of the Trust or for such other purpose as the Board of Trustees shall determine to be in the best interest of the Trust, and the Board of Trustees may modify or abolish any such reserve.

## ARTICLE X

### INVESTMENT POLICY

Subject to the provisions of the Declaration of Trust, the Board of Trustees may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Trust as they shall deem appropriate in their sole discretion.

## ARTICLE XI

### SEAL

SECTION 1. Seal. The Board of Trustees may authorize the adoption of a seal by the Trust. The seal shall have inscribed thereon the name of the Trust and the year of its organization. The Board of Trustees may authorize one or more duplicate seals and provide for the custody thereof.

SECTION 2. Affixing Seal. Whenever the Trust is required to place its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word “(SEAL)” adjacent to the signature of the person authorized to execute the document on behalf of the Trust.

## ARTICLE XII

### INDEMNIFICATION AND ADVANCES FOR EXPENSES

To the maximum extent permitted by Maryland law in effect from time to time, the Trust, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall indemnify (a) any Trustee, officer or shareholder or any former Trustee, officer or shareholder (including among the foregoing, for all purposes of this Article XII and without limitation, any individual who, while a Trustee, officer or shareholder and at the request of the Trust, serves or has served as a director, officer, partner or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) who has been successful, on the merits or otherwise, in the defense of a proceeding to which he was made a party by reason of such status, against reasonable expenses incurred by him in connection with the proceeding, (b) any Trustee or officer or any former Trustee or officer against any claim or liability to which he may become subject by reason of such status unless it is established that (i) his act or omission was material to the cause of action giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (ii) he actually received an improper personal benefit in money, property or services or (iii) in the case of a criminal proceeding, he had reasonable cause to believe that his act or omission was unlawful and (c) each shareholder or former shareholder against any claim or liability to which he may become subject by reason of such status. In addition, the Trust shall pay or reimburse, in advance of final disposition of a proceeding, reasonable expenses incurred by a Trustee, officer or shareholder or former Trustee, officer or shareholder made a party to a proceeding by reason of such status provided that, in the case of a Trustee or officer, the Trust shall have received (i) a written affirmation by the Trustee or officer of his good faith belief that he has met the

applicable standard of conduct necessary for indemnification by the Trust as authorized by these Bylaws and (ii) a written undertaking by him or on his behalf to repay the amount paid or reimbursed by the Trust if it shall ultimately be determined that the applicable standard of conduct was not met. The Trust may, with the approval of the Board of Trustees, provide such indemnification and payment or reimbursement of expenses to any Trustee, officer or shareholder or any former Trustee, officer or shareholder who served a predecessor of the Trust in such capacity and to any employee or agent of the Trust or a predecessor of the Trust. Neither the amendment nor repeal of this Section, nor the adoption or amendment of any other provision of the Declaration of Trust or these Bylaws inconsistent with this Section, shall apply to or affect in any respect the applicability of this paragraph with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption. Any indemnification or payment or reimbursement of the expenses permitted by these Bylaws shall be furnished in accordance with the procedures provided for indemnification or payment or reimbursement of expenses, as the case may be, under Section 2-418 of the Maryland General Corporation Law (the "MGCL") for directors of Maryland corporations. The Trust may provide to Trustees, officers and shareholders such other and further indemnification or payment or reimbursement of expenses as may be permitted by the MGCL, as in effect from time to time, for directors of Maryland corporations.

### ARTICLE XIII

#### WAIVER OF NOTICE

Whenever any notice is required to be given pursuant to the Declaration of Trust or Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

### ARTICLE XIV

#### AMENDMENT OF BYLAWS

The Board of Trustees is vested with the power to alter or repeal any provision of these Bylaws and to adopt new Bylaws. In addition, to the extent permitted by law, the shareholders may alter or repeal any provision of these Bylaws and adopt new Bylaw provisions if any such alteration, repeal or adoption is approved by the affirmative vote of a majority of the votes entitled to be cast on the matter.

### ARTICLE XV

#### MISCELLANEOUS

All references to the Declaration of Trust shall include all amendments and supplements thereto.

-23-

[\(Back To Top\)](#)

## **Section 4: EX-15.1 (EXHIBIT 15.1)**

**EXHIBIT 15.1**

July 30, 2018

Vornado Realty Trust  
New York, New York



We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited consolidated interim financial information of Vornado Realty Trust and subsidiaries for the periods ended June 30, 2018, and 2017, and have issued our report dated July 30, 2018. As indicated in our report, because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, is incorporated by reference in the following Registration Statements of Vornado Realty Trust:

Amendment No.1 to Registration Statement No. 333-36080 on Form S-3  
Registration Statement No. 333-64015 on Form S-3  
Amendment No.1 to Registration Statement No. 333-50095 on Form S-3  
Registration Statement No. 333-52573 on Form S-8  
Registration Statement No. 333-76327 on Form S-3  
Amendment No.1 to Registration Statement No. 333-89667 on Form S-3  
Amendment No.1 to Registration Statement No. 333-102215 on Form S-3  
Amendment No.1 to Registration Statement No. 333-102217 on Form S-3  
Registration Statement No. 333-105838 on Form S-3  
Registration Statement No. 333-107024 on Form S-3  
Registration Statement No. 333-109661 on Form S-3  
Registration Statement No. 333-114146 on Form S-3  
Registration Statement No. 333-114807 on Form S-3  
Registration Statement No. 333-121929 on Form S-3  
Amendment No.1 to Registration Statement No. 333-120384 on Form S-3  
Registration Statement No. 333-126963 on Form S-3  
Registration Statement No. 333-139646 on Form S-3  
Registration Statement No. 333-141162 on Form S-3  
Registration Statement No. 333-150592 on Form S-3  
Registration Statement No. 333-166856 on Form S-3  
Registration Statement No. 333-172880 on Form S-8  
Registration Statement No. 333-191865 on Form S-4

and in the following joint registration statement of Vornado Realty Trust and Vornado Realty L. P.:

Registration Statement No. 333-224104 on Form S-3

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

[\(Back To Top\)](#)

## Section 5: EX-15.2 (EXHIBIT 15.2)

**EXHIBIT 15.2**

July 30, 2018

Vornado Realty L.P.  
New York, New York

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited consolidated interim financial information of Vornado Realty L.P. and subsidiaries for the periods ended June 30, 2018, and 2017, and have issued our report dated July 30, 2018. As indicated in our report, because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, is incorporated by reference in the joint Registration Statement No. 333-224104 on Form S-3 of Vornado Realty Trust and Vornado Realty L.P.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

## Section 6: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

### CERTIFICATION

I, Steven Roth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vornado Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 30, 2018

/s/ Steven Roth

---

Steven Roth

Chairman of the Board and Chief Executive Officer

## Section 7: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

### CERTIFICATION

I, Joseph Macnow, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vornado Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 30, 2018

/s/ Joseph Macnow

---

Joseph Macnow

Executive Vice President – Chief Financial Officer and  
Chief Administrative Officer

[\(Back To Top\)](#)

## Section 8: EX-31.3 (EXHIBIT 31.3)

**EXHIBIT 31.3**

### CERTIFICATION

I, Steven Roth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vornado Realty L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure control and procedures (as defined in

Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 30, 2018

/s/ Steven Roth

Steven Roth

Chairman of the Board and Chief Executive Officer  
of Vornado Realty Trust, sole General Partner of Vornado  
Realty L.P.

[\(Back To Top\)](#)

## Section 9: EX-31.4 (EXHIBIT 31.4)

**EXHIBIT 31.4**

### CERTIFICATION

I, Joseph Macnow, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vornado Realty L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the

effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 30, 2018

/s/ Joseph Macnow

Joseph Macnow

Executive Vice President – Chief Financial Officer and  
Chief Administrative Officer of Vornado Realty Trust,  
sole General Partner of Vornado Realty L.P.

[\(Back To Top\)](#)

## Section 10: EX-32.1 (EXHIBIT 32.1)

EXHIBIT 32.1

### CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Vornado Realty Trust (the "Company"), hereby certifies, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Report") of the Company fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 30, 2018

/s/ Steven Roth

Name: Steven Roth

Title: Chairman of the Board and Chief Executive Officer

[\(Back To Top\)](#)

## Section 11: EX-32.2 (EXHIBIT 32.2)

EXHIBIT 32.2

**CERTIFICATION**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Vornado Realty Trust (the “Company”), hereby certifies, to such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Report”) of the Company fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 30, 2018

/s/ Joseph Macnow

Name: Joseph Macnow  
Title: Executive Vice President – Chief Financial Officer  
and Chief Administrative Officer

[\(Back To Top\)](#)

**Section 12: EX-32.3 (EXHIBIT 32.3)**

**EXHIBIT 32.3**

**CERTIFICATION**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Vornado Realty L.P. (the “Company”), hereby certifies, to such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Report”) of the Company fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 30, 2018

/s/ Steven Roth

Name: Steven Roth  
Title: Chairman of the Board and Chief Executive Officer  
of Vornado Realty Trust, sole General Partner of  
Vornado Realty L.P.

[\(Back To Top\)](#)

**Section 13: EX-32.4 (EXHIBIT 32.4)**

**EXHIBIT 32.4**

**CERTIFICATION**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Vornado Realty L.P. (the “Company”), hereby certifies, to such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Report”) of the Company fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 30, 2018

/s/ Joseph Macnow

Name: Joseph Macnow  
Title: Executive Vice President – Chief Financial Officer  
and Chief Administrative Officer of Vornado Realty  
Trust, sole General Partner of Vornado Realty L.P.

[\(Back To Top\)](#)