

# Section 1: 10-K405 (VORNADO REALTY TRUST)

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EXHIBIT INDEX ON PAGE 105

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-K

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

For the Fiscal Year Ended: December 31, 1998

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-11954

VORNADO REALTY TRUST

-----  
(Exact name of Registrant as specified in its charter)

Maryland

22-1657560

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(I.R.S. Employer Identification Number)

Park 80 West, Plaza II, Saddle Brook, New Jersey

07663

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

Registrant's telephone number including area code: (201) 587-1000

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust as reflected in the table in Item 12 of this Form 10-K, at March 4, 1999 was \$2,290,892,000.

As of March 4, 1999, there were 85,088,542 common shares of the registrant's shares of beneficial interest outstanding.

Part III: Proxy Statement for Annual Meeting of Shareholders to be held on May 19, 1999.

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 (1) These items are omitted because the Registrant will file a definitive Proxy Statement pursuant to Regulation 14A involving the election of directors with the Securities and Exchange Commission not later than 120 days after December 31, 1998, which is incorporated by reference herein. Information relating to Executive Officers of the Registrant appears on page 42 of this Annual Report on Form 10-K.

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Certain factors could cause actual results to differ materially from those in the forward-looking statements. Factors that might cause such a material difference include, but are not limited to, (a) changes in the general economic climate, (b) local conditions such as an oversupply of space or a reduction in demand for real estate in the area, (c) conditions of tenants, (d) competition from other available space, (e) increased operating costs and interest expense, (f) the timing of and costs associated with property improvements, (g) changes in taxation or zoning laws, (h) government regulations, (i) failure of Vornado to continue to qualify as a REIT, (j) availability of financing on acceptable terms, (k) potential liability under environmental or other laws or regulations, (l) general competitive factors and (m) failure by Vornado, or by other companies with which it does business, to remediate possible Year 2000 problems in computer software or embedded technology.

PART I

Item 1. Business

The Company

Vornado Realty Trust is a fully-integrated real estate investment trust ("REIT"). In April 1997, Vornado transferred substantially all of its assets to Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). As a result, Vornado now conducts its business through the Operating Partnership. Vornado is the sole general partner of, and owned approximately 85% of the limited partnership common interest in, the Operating Partnership at March 17, 1999. All references to the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

The Company currently owns directly or indirectly:

Office Building Properties ("Office"):

- (i) all or portions of 21 office building properties in the New York

City metropolitan area (primarily Manhattan) containing approximately 12.5 million square feet;

(ii) a 34% limited partnership interest in Charles E. Smith Commercial Realty L.P. ("CESCR"), a limited partnership, which owns interests in and manages approximately 10.7 million square feet of office properties in Northern Virginia and Washington D.C., and manages an additional 14.6 million square feet of office and other commercial properties in the Washington, D.C. area;

Retail Properties ("Retail"):

(iii) 59 shopping center properties in seven states and Puerto Rico containing approximately 12.2 million square feet, including 1.4 million square feet built by tenants on land leased from the Company;

Cold Storage Companies ("Cold Storage"):

(iv) a 60% interest in partnerships that own 88 warehouse facilities nationwide with an aggregate of approximately 450 million cubic feet of refrigerated, frozen and dry storage space (excludes 13 additional warehouses containing approximately 80 million cubic feet managed by the Cold Storage Companies - see "Spin-off of Vornado Operating Company");

Merchandise Mart Properties:

(v) the Merchandise Mart Properties portfolio containing approximately 6.7 million square feet, including the 3.4 million square foot Merchandise Mart in Chicago;

Other Real Estate Investments:

(vi) approximately 29.3% of the outstanding common stock of Alexander's, Inc. ("Alexander's"), which has eight properties in the New York City metropolitan area;

(vii) an 80% interest in the Hotel Pennsylvania, a New York City hotel which contains 800,000 square feet of space with 1,700 rooms and 400,000 square feet of retail and office space;

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

(ix) other real estate investments.

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Objectives and Strategy

The Company's business objective is to maximize shareholder value. The Company intends to achieve its business objective by continuing to pursue its investment philosophy, making opportunistic investments and executing its operating strategies through:

- o Maintaining a superior team of operating and investment professionals and an opportunistic entrepreneurial spirit;
- o Investing in properties in the New York City metropolitan area and other selected markets where the Company believes there is high likelihood of capital appreciation;
- o Acquiring high quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- o Investing in retail properties in selected understored locations such as the New York City metropolitan area;
- o Investing in fully integrated operating companies that have a significant real estate component with qualified, experienced operating management and strong growth potential which can benefit from the Company's access to efficient capital; and
- o Developing and redeveloping the Company's existing properties to increase returns and maximize value.

The Company expects to finance its growth, acquisitions and investments using internally generated funds, funds from possible asset sales and by accessing the public and private capital markets.

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Acquisitions and Investments

Since January 1, 1998, the Company completed approximately \$2.4 billion

of real estate acquisitions or investments. The following table lists the acquisitions and investments by business segment:

Location -----	Total Consideration (in millions) -----
Office:	
One Penn Plaza.....New York City	\$ 410
Charles E. Smith Commercial Realty, L.P.:	
Increase in investment to 34%.....Northern Virginia and Washington, D.C.	242
Crystal City hotel land.....Crystal City, Virginia	8
770 Broadway.....New York City	149
150 East 58th Street.....New York City	118
Mendik Real Estate Limited Partnership properties:	
Saxon Woods Corporate Center.....Harrison, New York	21
Two Park Avenue (remaining 60% interest).....New York City	76
330 West 34th Street.....New York City	9
888 Seventh Avenue.....New York City	100
40 Fulton Street.....New York City	55
570 Lexington - increase in investment to 50%....New York City	37
689 Fifth Avenue.....New York City	33
Westport Corporate Office Park.....Westport, Connecticut	14
20 Broad Street.....New York City	1
Retail:	
Las Catalinas Mall.....Caguas, Puerto Rico	38
Cold Storage (60% interest):	
Freezer Services, Inc.....Midwestern section of the United States	80
Carmar Group.....Midwestern and Southwestern sections of the United States	95
Merchandise Mart Properties:	
The Merchandise Mart Properties.....Chicago & Washington, D.C.	630
Market Square Complex.....High Point, North Carolina	97
National Furniture Mart.....High Point, North Carolina	18
Other Real Estate Investments:	
Hotel Pennsylvania - increase in investment to 80%.....New York City	70
Newkirk Joint Ventures (30% interest).....Various	108
	-----
Total Acquisitions and Investments.....	\$ 2,409 =====

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Office:

One Penn Plaza

In February 1998, the Company acquired a long-term leasehold interest in One Penn Plaza for approximately \$410,000,000. One Penn Plaza is a 57 story Manhattan office building containing approximately 2,400,000 square feet and encompasses substantially the entire square block bounded by 33rd Street, 34th Street, Seventh Avenue and Eighth Avenue.

Charles E. Smith Commercial Realty L.P.

On March 4, 1999, the Company made an additional \$242,000,000 investment in CESCO by contributing to CESCO the land under certain CESCO office properties in Crystal City, Arlington, Virginia and partnership interests in certain CESCO subsidiaries. The Company acquired these assets from Commonwealth Atlantic Properties, Inc. ("CAPI"), an affiliate of Lazard Freres Real Estate Investors L.L.C., immediately prior to the contribution to CESCO. Together with the Company's investment in CESCO made in 1997 and the units it reacquired on March 4, 1999 from Vornado Operating Company, the Company owns approximately 34% of CESCO's limited partnership units. In addition, the Company acquired from CAPI for \$8,000,000 the land under a Marriott Hotel located in Crystal City.

The purchase price was paid to CAPI by the Company issuing \$250,000,000 of 6% Convertible Preferred Units of the Company's operating partnership. The Preferred Units are convertible at \$44 per unit and the coupon increases to 6.50% over the next three years and then fixes at 6.75% in year eight. The Company will appoint one of three members to CESCO's Board of Managers, increasing under certain circumstances to two of four members in March 2002.

In connection with these transactions, the Company made a five-year \$41,000,000 loan to CAPI with interest at 8%, increasing to 9% ratably over the term. The loan is secured by approximately \$55,000,000 of the Operating Partnership's units issued to CAPI as well as certain real estate assets.

770 Broadway

In July 1998, the Company acquired 770 Broadway, a 1,016,000 square foot Manhattan office building, for approximately \$149,000,000, including \$18,000,000 of Operating Partnership Units.

150 East 58th Street

In March 1998, the Company acquired 150 East 58th Street (the Architects and Design Center), a 39 story Manhattan office building, for approximately \$118,000,000. The building contains approximately 550,000 square feet.

Mendik Real Estate Limited Partnership Properties

In November 1998, the Company completed the acquisition of certain properties from the Mendik Real Estate Limited Partnership ("Mendik RELP"). The acquired real estate assets include (i) a leasehold interest in the Saxon Woods Corporate Center located at 550/600 Mamaroneck Avenue, in Harrison, New York which contains approximately 234,000 square feet, (ii) the remaining 60% interest in an office building located at Two Park Avenue, in Manhattan which contains approximately 946,000 square feet (the Company already owned 40%) and (iii) a leasehold interest in an office building located at 330 West 34th Street, also in Manhattan, which contains approximately 628,000 square feet. The aggregate purchase price of approximately \$106,000,000, consisted of \$31,000,000 of cash, \$29,000,000 of the Company's common shares and \$46,000,000 of debt.

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888 Seventh Avenue and 40 Fulton Street

In June 1998, the Company entered into an agreement to acquire the leasehold interest in 888 Seventh Avenue, a 46 story office building containing approximately 848,000 square feet located in midtown Manhattan, and simultaneously acquired 40 Fulton Street, a 29 story office building containing approximately 234,000 square feet located in downtown Manhattan. The aggregate consideration for both buildings was approximately \$154,500,000. The acquisition of 888 Seventh Avenue was completed in January 1999.

570 Lexington Avenue - additional investment

In April 1998, the Company increased its interest from 5.6% to approximately 50% in 570 Lexington Avenue, a 49 story office building located in midtown Manhattan containing approximately 433,000 square feet. The Company purchased the additional interest for approximately \$37,200,000, including \$4,900,000 of existing debt.

689 Fifth Avenue

In August 1998, the Company acquired 689 Fifth Avenue, a 84,000 square foot Manhattan specialty building for approximately \$33,000,000 from a partnership that included Bernard H. Mendik, a former trustee of the Company.

Westport Corporate Office Park

In January 1998, the Company acquired Westport Corporate Office Park ("Westport") from a limited partnership that included Bernard H. Mendik and David R. Greenbaum, the Chief Executive Officer of the Company's Mendik Division, as partners (Messrs. Mendik and Greenbaum and certain entities controlled by them are referred to herein as the "Mendik Group".) The purchase price was approximately \$14,000,000 consisting of \$6,000,000 of cash and an \$8,000,000 mortgage loan for the two buildings which contain 120,000 square feet.

20 Broad Street

In September 1997, the Company purchased, at a discount, a mortgage on a 460,000 square foot office building at 20 Broad Street in Manhattan for \$27,000,000. In August 1998, the Company acquired a 60% interest in the leasehold from the Mendik Group for approximately \$600,000 of Operating Partnership Units. In a related transaction, the Company sold a 40% interest in the mortgage to the other unrelated owner of the property for \$10,800,000. The Mendik Group may also receive a future earn-out, capped at \$4,400,000 in additional units, based on leasing activity through December 31, 2004.

Retail:

Las Catalinas Mall

In October 1998, the Company completed the acquisition of Kmart Corporation's ("Kmart") 50% interest in the Las Catalinas Mall located in Caguas, Puerto Rico (adjacent to San Juan). In addition, the Company acquired

75% and the Company's partner in the Mall acquired 25% of Kmart's anchor store. The Company's purchase price of \$38,000,000 was fully financed with 15 year debt. The Las Catalinas Mall, which opened in 1997, contains 489,000 square feet, including a 123,000 square foot Kmart store and a 146,000 square foot Sears store.

#### Cold Storage:

In June 1998, a partnership in which Vornado owns a 60% interest through a preferred stock affiliate acquired the assets of Freezer Services, Inc., consisting of nine cold storage warehouses in the central United States for approximately \$133,000,000, including \$107,000,000 in cash and \$26,000,000 in indebtedness. The Company's share of this investment was \$80,000,000. Additionally, in July 1998, the Carmar Group was acquired for approximately \$158,000,000, including \$144,000,000 in cash and \$14,000,000 in indebtedness. The Company's share of this investment was \$95,000,000. Carmar owned and operated five cold storage distribution warehouses in the midwest and southeast United States.

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#### Merchandise Mart Properties:

##### The Merchandise Mart Properties

In April 1998, the Company acquired a real estate portfolio from the Kennedy Family for approximately \$630,000,000, consisting of \$187,000,000 in cash, \$116,000,000 in Operating Partnership Units, \$77,000,000 in existing debt and \$250,000,000 of newly issued debt. The acquired real estate assets consist of a portfolio of properties used for office, retail and trade showroom space which aggregate approximately 5.4 million square feet and include the Merchandise Mart in Chicago. The transaction also included the acquisition of Merchandise Mart Properties, Inc., which manages the properties and owns and operates certain trade shows.

##### Market Square Complex

In December 1998, the Company completed the acquisition of the 1.07 million square foot Market Square Complex of showrooms in High Point, North Carolina. The consideration was approximately \$97,000,000, consisting of \$46,000,000 in debt, \$44,000,000 in Operating Partnership Units and 6.5% Preferred Operating Partnership Units convertible at \$43.74 per unit and \$7,000,000 of cash. The acquired real estate assets include the Market Square, Hamilton Market and Furniture Plaza showroom buildings and the High Point Holiday Inn hotel.

In a second transaction, the Company acquired the 243,000 square foot National Furniture Mart, which is adjacent to the forementioned properties, in High Point. The price was approximately \$17,700,000, consisting of \$3,800,000 in cash and \$13,900,000 in debt.

#### Other Real Estate Investments:

##### Hotel Pennsylvania - additional investment

In May 1998, the Company acquired an additional 40% interest in the Hotel Pennsylvania increasing its ownership to 80%. The Company purchased the additional 40% interest from Hotel Properties Limited (one of its joint venture partners) for approximately \$70,000,000, including \$48,000,000 of existing debt.

##### Newkirk Joint Ventures

In July and September 1998, the Company invested an aggregate of \$56,000,000 for a 30% share in joint ventures with affiliates of Apollo Real Estate Investment Fund III, L.P., collectively Newkirk Joint Ventures ("Newkirk"). Newkirk owns various equity and debt interests relating to 120 limited partnerships which own real estate primarily net leased to credit rated tenants. The Company has issued a \$15,600,000 letter of credit in connection with these joint ventures.

In March 1999, the Company and its joint venture partner completed an acquisition of additional equity interests in certain limited partnerships. The Company's additional investment of \$52,435,000 consisted of \$47,790,000 in Operating Partnership Units and \$4,645,000 in cash.

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#### Development and Redevelopment Projects

The Company is currently engaged in or considering certain multi-year development and redevelopment projects. These projects include: (i) construction of 119,000 square feet of residential condominiums in Manhattan (YMCA Development 80% interest), (ii) construction of an 800,000 square foot high-rise rental apartment complex in Fort Lee, New Jersey (75% interest), (iii)

acquisitions, developments and expansions of Cold Storage distribution and production warehouses (60% interest), (iv) tenant improvements and refurbishment of 770 Broadway, (v) conversion of 38,000 square feet of office space to retail space at 640 Fifth Avenue, (vi) redevelopment of the Russian Tea Room restaurant building on 57th Street in Manhattan (50% interest), (vii) the conversion of office space at 689 Fifth Avenue to hotel space, (viii) the expansion of the Market Square Complex in High Point, North Carolina, (ix) the redevelopment of the site at 14th Street and Union Square (currently leased by Bradlees), which may include razing the existing building and developing a large multi-use building, (x) the refurbishment of the Hotel Pennsylvania, (xi) the redevelopment of the Company's Penn Station properties which may include creating new retail space, (xii) Alexander's (29.3% interest) redevelopment of its Paramus property into a 550,000 square foot shopping center, (xiii) Alexander's (29.3% interest) development of a large multi-use building at its 59th Street and Lexington Avenue site and (xiv) Alexander's (29.3% interest) renovation of its Kings Plaza Mall. There can be no assurance that all of the above projects will be commenced or ultimately completed.

#### Spin-off of Vornado Operating Company

##### General

Vornado Operating Company, ("Vornado Operating") was incorporated on October 30, 1997, as a wholly owned subsidiary of the Company. In order to maintain its status as a REIT for federal income tax purposes, the Company is required to focus principally on investment in real estate assets. Accordingly, the Company is prevented from owning certain assets and conducting certain activities that would be inconsistent with its status as a REIT. Vornado Operating was formed to own assets that Vornado could not itself own and conduct activities that Vornado could not itself conduct. Vornado Operating is intended to function principally as an operating company, in contrast to the Company's principal focus on investment in real estate assets. Vornado Operating is able to do so because it is taxable as a regular "C" corporation rather than a REIT.

Vornado Operating will seek to become the operator of businesses conducted at properties it leases from the Company, as contemplated by the Intercompany Agreement between the Company and Vornado Operating (the "Intercompany Agreement"), referred to below. Vornado Operating expects to rely exclusively on the Company to identify business opportunities and currently expects that those opportunities will relate in some manner to the Company and its real estate investments rather than to unrelated businesses.

##### The Distribution

On October 16, 1998, the Operating Partnership made a distribution (the "Distribution") of one share of common stock, par value \$.01 per share (the "Common Stock"), of Vornado Operating for 20 units of limited partnership interest of the Operating Partnership (including units owned by the Company) held of record as of the close of business on October 9, 1998 and Vornado Realty Trust in turn made a distribution of the Common Stock it received to the holders of its common shares of beneficial interest. While no Common Stock was distributed in respect of the Company's \$3.25 Series A Convertible Preferred Shares, the Company adjusted the Conversion Price to take into account the Distribution. Vornado Operating's Common Stock is listed on the American Stock Exchange under the symbol "VOO".

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##### Capital Contribution and Revolving Credit Agreement.

The Company initially capitalized Vornado Operating with an equity contribution of \$25,000,000 of cash. As part of its formation, Vornado Operating was granted a \$75,000,000 unsecured five-year revolving credit facility from Vornado (the "Revolving Credit Agreement"). Borrowings under the Revolving Credit Agreement bear interest at a floating rate per annum equal to LIBOR plus 3%. Commencing January 1, 1999, Vornado Operating pays the Company a commitment fee equal to 1% per annum on the average daily unused portion of the facility. Amounts may be borrowed under the Revolving Credit Agreement, repaid and reborrowed from time to time on a revolving basis (so long as the principal amount outstanding at any time does not exceed \$75,000,000). Only interest and commitment fees are payable under the Revolving Credit Agreement until it expires. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. Debt under the Revolving Credit Agreement is recourse to Vornado Operating.

##### Intercompany Agreement.

The Company and Vornado Operating have entered into the Intercompany Agreement pursuant to which, among other things, (a) the Company will under certain circumstances offer Vornado Operating an opportunity to become the lessee of certain real property owned now or in the future by the Company (under mutually satisfactory lease terms) and (b) Vornado Operating will not make any real estate investment or other REIT-Qualified Investment unless it first offers the Company the opportunity to make such investment and the Company has rejected

that opportunity.

Under the Intercompany Agreement, the Company has agreed to provide Vornado Operating with certain administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating will compensate the Company in an amount determined in good faith by the Company as the amount an unaffiliated third party would charge Vornado Operating for comparable services and will reimburse the Company for certain costs incurred and paid to third parties on behalf of Vornado Operating. For the period from October 16, 1998 (commencement date) to December 31, 1998, approximately \$50,000 of compensation for such services was charged pursuant to the Intercompany Agreement.

Vornado Operating and the Company each have the right to terminate the Intercompany Agreement if the other party is in material default of the Intercompany Agreement or upon 90 days written notice to the other party at any time after December 31, 2003. In addition, the Company has the right to terminate the Intercompany Agreement upon a change in control of Vornado Operating.

Vornado Operating's Management.

Messrs. Roth, Fascitelli, West and Wight are directors of Vornado Operating. Mr. Roth is also Chairman of the Board and Chief Executive Officer of Vornado Operating, Mr. Fascitelli is also President of Vornado Operating, and certain other members of the Company's senior management hold a corresponding position with Vornado Operating.

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The Cold Storage Companies

On October 31, 1997, partnerships (the "Vornado/Crescent Partnerships") in which affiliates of the Company have a 60% interest and affiliates of Crescent Real Estate Equities Company have a 40% interest acquired each of Americold Corporation ("Americold") and URS Logistics, Inc. ("URS"). In June 1998, the Vornado/Crescent Partnerships acquired the assets of Freezer Services, Inc. and in July 1998 acquired the Carmar Group (Americold, URS, Freezer Services, Inc. and the Carmar Group, collectively, the "Cold Storage Companies").

On March 12, 1999, the Vornado/Crescent Partnerships sold all of the non-real estate assets of the Cold Storage Companies encompassing the operations of the cold storage business for approximately \$48,000,000 to a new partnership owned 60% by Vornado Operating Company and 40% by Crescent Operating Inc. The new partnership leases the underlying cold storage warehouses used in this business from the Vornado/Crescent Partnerships which continue to own the real estate. The leases have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on customer revenues. The new partnership is required to pay for all costs arising from the operation, maintenance and repair of the properties as well as property capital expenditures in excess of \$5,000,000 annually. Fixed base rent and percentage rent for the initial lease year is projected to be approximately \$151 million. The new partnership has the right to defer a portion of the rent for up to three years beginning on March 12, 1999 to the extent that available cash, as defined in the leases, is insufficient to pay such rent.

Disposition and Acquisition of Interest in CESC

On December 31, 1998, the Company sold approximately 1.7% of the outstanding partnership units of CESC, (a Delaware limited partnership that owns interests in and manages approximately 10,700,000 square feet of office properties in Crystal City, Arlington, Virginia, a suburb of Washington, D.C., and manages an additional 14,600,000 square feet of office and other commercial properties in the Washington, D.C. area) to Vornado Operating Company for an aggregate purchase price of approximately \$12,900,000, or \$34 per unit (which is the price at which CESC issued partnership units in October 1998 in connection with a significant "roll-up" transaction). The purchase price was funded out of Vornado Operating's working capital. After giving effect to this purchase, the Company owned approximately 9.6% of CESC as of December 31, 1998. In connection with this purchase, the Company granted to Vornado Operating an option to require the Company to repurchase all of the CESC units at the price at which Vornado Operating purchased the CESC units, plus a cumulative return on such amount at a rate of 10% per annum. The option was exercised on March 4, 1999. Accordingly, the Company reacquired the CESC units from Vornado Operating for \$13,200,000.

Financing Activities

Corporate:

In April 1998, the Company completed the sale of 10,000,000 common shares pursuant to an effective registration statement with net proceeds to the Company of approximately \$401,000,000. Also in April 1998, the Company sold 1,132,420 common shares to a unit investment trust, which were valued for the purpose of the trust at \$41.06 per share, resulting in net proceeds of approximately \$44,000,000.



In November and December of 1998, the Company sold an aggregate of \$87,500,000 of 8.5% Series D-1 Cumulative Redeemable Preferred Units in the Operating Partnership to an institutional investor in a private placement, resulting in net proceeds of approximately \$85,300,000. The perpetual Preferred Units may be called without penalty at the option of the Company commencing on November 12, 2003.

On March 17, 1999, the Company completed the sale of 3 million 8.5% Series B Cumulative Redeemable Preferred Shares, at a price \$25.00 per share, pursuant to an effective registration statement with net proceeds to the Company of approximately \$72,200,000. Further on March 22, 1999, 400,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of \$9,700,000. The perpetual preferred shares may be called without penalty at the option of the Company commencing on March 17, 2004.

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Office:

In June 1998, the Company completed a \$275,000,000 refinancing of its One Penn Plaza office building and borrowed \$170,000,000 pursuant thereto. In the third quarter of 1998, the Company borrowed the remaining \$105,000,000. The debt matures in June 2002, is prepayable at anytime, and bears interest at LIBOR + 1.25% (currently 6.35%). This debt replaced the \$93,000,000 bridge-mortgage loan financing put in place when the property was acquired.

In February 1999, the Company completed a \$165,000,000 refinancing of its Two Penn Plaza office building and prepaid the then existing \$80,000,000 debt on the property. The new 5-year debt matures in February 2004 and bears interest at 7.08%.

Retail:

In February 1998, the Company completed a \$160,000,000 refinancing of the Green Acres Mall and prepaid the then existing \$118,000,000 debt on the property. The new 10-year debt matures in March 2008 and bears interest at 6.75%.

Cold Storage:

In April 1998, the Cold Storage Companies completed a \$550,000,000 ten-year loan secured by 58 of its warehouses. The loan bears interest at 6.89%. The net proceeds from the loan together with working capital were used to repay \$607,000,000 of bridge financing, which replaced high yield debt assumed at the date of acquisition.

Merchandise Mart Properties:

In June 1998, the Company repaid the \$26,000,000 mortgage on 350 North Orleans Street, in Chicago.

In November 1998, the terms of the \$24,000,000 mortgage on the Washington Design Center were modified to adjust the interest rate from LIBOR + 3.00% to LIBOR + 1.35% (currently 6.45%) and to extend the maturity date from April 2000 to November 2000.

In February 1999, the Company exercised its option to extend the maturity date on the \$250,000,000 loan on its Chicago Merchandise Mart building from March 31, 1999 to September 30, 1999. In connection therewith, the Company paid a fee of 1/8%.

At December 31, 1998, the ratio of debt-to-enterprise value (market equity value plus debt less cash) was 45% based on debt of \$2.8 billion which included the Company's proportionate share of debt of partially-owned entities. Historically, the Company has maintained a lower debt-to-enterprise value ratio. In the future, in connection with its strategy for growth, this percentage may change. The Company's policy concerning the incurrence of debt may be reviewed and modified from time to time by the Company without the vote of shareholders.

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

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EBITDA By Segment and Region

The following table sets forth the percentage of the Company's EBITDA(1) by segment and region on a pro forma basis for the year ended December 31, 1998 and on a historical basis for the years ended December 31, 1998 and 1997. The

pro forma column gives effect to the acquisitions previously described and the financings attributable thereto, as if they had occurred on January 1, 1997. Prior to April 1997, the Company operated in one segment-retail real estate, primarily in the Northeast section of the United States.

Segment	Percentage of EBITDA		
	Pro Forma	Historical	
	Years Ended December 31,		
	1998	1998	1997
Office.....	46%	37%	38%
Retail.....	21%	26%	57%
Cold Storage.....	16%	20%	8%
Merchandise Mart Properties.....	10%	9%	--
Other.....	7%	8%	(3)%
	---	---	---
	100%	100%	100%
	===	===	===
Region			
New York City metropolitan area.....	50%	54%	72%
Washington D.C./Northeast Virginia.....	18%	7%	1%
Chicago.....	5%	6%	--
New Jersey.....	4%	5%	14%
Puerto Rico.....	2%	2%	4%
Other (2).....	21%	26%	9%
	---	---	---
	100%	100%	100%
	===	===	===

- (1) EBITDA represents net income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of real estate and the effect of straight-lining of property rentals for rent escalations. Management considers EBITDA a supplemental measure for making decisions and assessing the performance of its segments. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Other includes the Cold Storage segment which has facilities in 33 states. See page 30 for details.

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#### Relationship with Alexander's

The Company owns 29.3% of the outstanding shares of common stock of Alexander's. See "Interstate Properties" below for a description of Interstate's ownership of the Company and Alexander's.

Alexander's has eight properties (see Item 2. Properties--Alexander's).

In March 1995, the Company lent Alexander's \$45,000,000. The loan, which was originally scheduled to mature in March 1998, has been renewed for two additional one year periods and currently matures in March 2000. The interest rate was reset in March 1999 from 13.87% per annum to 14.18% per annum. Management believes there are no indications of impairment as discussed in Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan".

The Company manages, develops and leases the Alexander's properties under a management and development agreement (the "Management Agreement") and a leasing agreement (the "Leasing Agreement") pursuant to which the Company receives annual fees from Alexander's. These Agreements have a one-year term expiring in March of each year and are automatically renewable.

Alexander's common stock is listed on the New York Stock Exchange under the symbol "ALX".

#### Interstate Properties

As of December 31, 1998, Interstate Properties owned approximately 18.1% of the common shares of beneficial interest of the Company, 27.1% of Alexander's common stock and beneficial ownership of 14.8% of Vornado Operating. Interstate Properties is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are partners. Mr. Roth is the Chairman of the Board and Chief Executive Officer of the Company, the Managing General Partner of Interstate Properties, and the Chief Executive Officer and a director of both Alexander's and Vornado Operating. Mr. Wight is a trustee of the Company and is also a director of both Alexander's and Vornado Operating. Mr. Mandelbaum is a trustee of the Company and is also a director of Alexander's.

## Competition

The Company's four business segments, Office, Retail, Cold Storage and Merchandise Mart Properties, operate in highly competitive environments. The Company's success depends upon, among other factors, the trends of the national and local economies, the financial condition and operating results of current and prospective tenants and customers, the availability and cost of capital, construction and renovation costs, income tax laws, governmental regulations, legislation and population trends. The Company competes with a large number of real estate property owners. Principal factors of competition are rent charged, attractiveness of property and the quality and breadth of services provided. The Company has a large concentration of properties in the New York City metropolitan area, a highly competitive market. The economic condition of this market may be significantly influenced by supply and demand for space and the financial performance and productivity of the publishing, retail, pharmaceutical, insurance and finance industries.

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## Environmental Regulations

Under various Federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up certain hazardous or toxic substances released at a property, and may be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by the parties in connection with the contamination. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such substances. The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. Other Federal, state and local laws, ordinances and regulations require abatement or removal of certain asbestos-containing materials in the event of demolition or certain renovations or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The operation and subsequent removal of certain underground storage tanks are also regulated by Federal and state laws. In connection with the ownership, operation and management of its properties, the Company could be held liable for the costs of remedial action with respect to such regulated substances or tanks or related claims.

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

## Certain Activities

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

## Employees

The Company has approximately 600 employees consisting of 88 in the Office Properties segment, 53 in the Retail Properties segment, 384 in the Merchandise Mart Properties segment and 75 in the corporate office. This does not include employees of partially-owned entities such as the 5,500 employees of the Cold Storage Companies and the 400 employees at the Hotel Pennsylvania.

## Segment Data

The Company operates in four business segments: Office Properties, Retail Properties, Cold Storage and Merchandise Mart Properties. The Company engages in no foreign operations.

The Company's principal executive offices are located at Park 80 West, Plaza II, Saddle Brook, New Jersey 07663; telephone (201) 587-1000.

## Item 2. Properties

The Company currently owns, directly or indirectly, Office properties Retail properties, Cold Storage warehouses and the Merchandise Mart Properties. The Company also owns or has investments in dry warehouse and industrial buildings, Alexander's, Hotel Pennsylvania and Newkirk Joint Ventures.

Office

The Company's office properties consist of (i) all or a portion of 21 office buildings in the New York City metropolitan area (primarily Manhattan) containing approximately 12.5 million square feet (including 720,000 square feet of retail space and 5 garages containing 334,000 square feet) (collectively, the "New York City Office Properties") and (ii) a 34% interest in Charles E. Smith Commercial Realty, L.P. which owns interests in and manages approximately 10.7 million square feet of office properties in Northern Virginia and Washington D.C. (the "CESCR Office Properties").

The following data on pages 16 to 20 covers the New York City Office Properties. The CESCR Office Properties are described on page 21.

New York City Office Properties:

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

Industry -----	Percentage -----
Publishing.....	11.8%
Finance.....	9.5%
Technology.....	8.3%
Retail.....	8.1%
Insurance.....	6.9%
Legal.....	6.7%
Pharmaceuticals.....	5.3%
Government.....	5.1%
Media and Entertainment....	4.1%
Service Contractors.....	3.2%
Apparel.....	3.2%
Engineering.....	3.1%
Bank Branches.....	2.6%
Other.....	22.1%

The average lease term of a tenant's lease is approximately 12 years. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenant's share of increases in real estate taxes and operating expenses for a building over a base year. Electricity is provided to tenants on a submetered basis or included in rent based on surveys and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction of its premises. None of the tenants in the office segment accounted for more than 10% of the Company's total revenue. Below is a listing of the New York City Office Properties tenants which accounted for 2% or more of the New York City Office Properties revenues in 1998:

(in thousands, except percentages)			Percentage of the New York City Office Properties Revenues
Tenant -----	Square Feet Leased	1998 Revenues	
Sterling Winthrop Inc.....	429	\$18,268	7%
Times Mirror Company.....	519	16,056	6%
The McGraw Hill Companies Inc.....	447	10,168	4%
Mutual Life Insurance Co.....	264	8,259	3%
Information Builders, Inc.....	252	6,052	2%
Kmart Corporation.....	287	5,620	2%
R.H. Macy & Co. Inc.....	154	5,488	2%

The following table sets forth as of December 31, 1998 lease expirations for each of the next 10 years, assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Total Leased Square Feet	Total	Per Square Foot
1999	187	793,000	6.4%	\$ 21,556,000	\$ 27.18
2000	106	396,000	3.2%	12,134,000	30.64
2001	95	709,000	5.7%	20,456,000	28.85
2002	86	768,000	6.2%	19,318,000	25.15
2003	77	613,000	4.9%	18,263,000	29.79
2004	60	820,000	6.6%	23,119,000	28.19
2005	44	551,000	4.4%	14,788,000	26.84
2006	51	765,000	6.2%	20,153,000	26.34
2007	45	715,000	5.7%	21,571,000	30.17
2008	58	1,109,000	8.9%	32,908,000	29.67

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

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
1998	12,437,000	91%	\$ 28.14
1997	8,353,000	95%	\$ 27.09

As of March 1, 1999, the occupancy rate of the Company's New York City Office properties was 92%. Excluding 770 Broadway, which was acquired in July 1998, the occupancy rate was 96% at March 1, 1999 and 95% at December 31, 1998.

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In 1998, the New York City Office Properties leased 1,155,931 square feet at a weighted average initial rent per square foot of \$35.03. Vornado's ownership interest is 820,975 square feet at a weighted average initial rent per square foot of \$34.82. At December 31, 1997, the weighted average escalated rent per square foot for Vornado's interest in such properties was \$28.69. Following is the detail by building:

Location	1998 Leases			The Company's Estimate at March 1, 1999 of Market Rents Per Square Foot
	Square Feet	Average Initial Rent Per Square Foot (1)	Average Annual Escalated Rent Per Square Foot at December 31, 1997	
One Penn Plaza	176,496	\$ 38.27	\$ 25.33	\$35.50 to \$42.00
Two Penn Plaza	42,025	30.81	28.17	\$35.00 to \$39.00
Eleven Penn Plaza	130,511	30.77	28.02	\$32.00 to \$35.00
Two Park Avenue	137,422	33.01	23.56	\$31.00 to \$38.00
90 Park Avenue	99,710	39.13	36.52	\$42.00 to \$50.00
1740 Broadway	22,865	43.35	34.90	\$38.00 to \$44.00
150 East 58th Street	31,347	34.73	30.19	\$30.00 to \$40.00
866 United Nations Plaza	84,372	32.79	30.01	\$33.00
40 Fulton Street	4,993	30.00	26.35	\$26.00 to \$30.00
330 Madison Avenue	160,412	42.56	34.41	\$38.00 to \$45.00
20 Broad Street	19,494	30.00	27.24	\$30.00
570 Lexington Avenue	88,737	33.17	31.53	\$38.00 to \$48.00
825 Seventh Avenue	157,547	29.46	12.63	\$29.00
Total	1,155,931	35.03	28.62	
Vornado's ownership interest	820,975	34.82	28.69	

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

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#### New York City Office Properties

The following table sets forth certain information for the New York City Office Properties owned by the Company as of December 31, 1998 or as of the

date of acquisition for properties acquired thereafter.

Location	Year Originally Developed or Acquired	Land Area (Sq. Ft.)	Approximate Leasable Building Square Feet	Number of Tenants	Annualized Base Rent per Sq. Ft. (1)	Annualized Escalated Rent per Sq. Ft. (2)	Percent Leased (1)
NEW YORK							
Manhattan							
One Penn Plaza (3)	1972	128,000	2,400,000	223	\$ 26.88	\$ 27.98	95%
Two Penn Plaza	1968	117,000	1,508,000	68	27.23	27.80	97%
770 Broadway	1907	63,000	1,016,000	5	20.16	20.16	47%
Eleven Penn Plaza	1923	56,000	956,000	72	26.13	26.75	97%
Two Park Avenue	1928	44,000	946,000	48	22.97	23.54	97%
90 Park Avenue	1964	38,000	877,000	30	32.21	37.63	100%
888 Seventh Avenue	1969	32,000	848,000	61	29.98	30.08	94%
330 West 34th Street (3)	1925	46,000	628,000	12	12.56	12.65	100%

Location	Principal Tenants (50,000 square feet or more)	Lease Expiration/Option Expiration	Encumbrances (thousands)
NEW YORK			
Manhattan			
One Penn Plaza (3)	BNY Financial Group	2004/2009	\$ 275,000
	Buck Consultants	2008	
	Cisco Systems	2005/2009	
	First Albany	2008/2013	
	Kmart Corporation	2016/2036	
	Metropolitan Life	2002	
	Miller Freeman Inc.	2011/2016	
	MWB Leasing	2006	
	Parsons Brinkerhoff	2008/2013	
	State of NY	2004	
	Stone & Webster	2008	
Two Penn Plaza	Compaq Computer	2003/2008	80,000(4)
	Forest Electric	2006/2011	
	Information Builders, Inc.	2013/2023	
	Madison Square Garden	2007/2017	
	McGraw Hill Co., Inc.	2020/2030	
	Ogden Services	2008	
	UHC Management	2001/2006	
770 Broadway	Chase Manhattan Bank	1999	--
	J. Crew	2012/2017	

	Kmart	2016/2036	
Eleven Penn Plaza	Crowthers McCall	2010	53,901
	Executive Office Network	2012	
	General Mills	2002	
	Times Mirror	2001	
Two Park Avenue	Herrick Feinstein	2010	65,000
	Schefflin & Summerset	2006	
	Times Mirror Company	2010/2025	
	United Way	2013	
90 Park Avenue	Sterling Winthrop Inc.	2015/2035	--
888 Seventh Avenue	Golden Books	2013	55,000
	The Limited	2014	
330 West 34th Street (3)	City of New York	2012	--
	Master Garment	2002	
	Props for Today	2006	

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Location	Year Originally Developed or Acquired	Land Area (Sq. Ft.)	Approximate Leasable Building Square Feet	Number of Tenants	Annualized Base Rent per Sq. Ft. (1)	Annualized Escalated Rent per Sq. Ft. (2)	Percent Leased (1)
1740 Broadway	1950	30,000	551,000	19	\$ 31.06	\$ 34.42	100%
150 East 58th Street	1969	21,000	548,000	125	29.90	30.99	92%
866 United Nations Plaza	1966	90,000	386,000	81	30.20	30.69	92%
640 Fifth Avenue	1950	22,000	249,000	13	25.24	29.62	81%
40 Fulton Street	1987	18,000	234,000	27	26.45	26.60	93%
689 Fifth Avenue	1925	6,000	84,000	7	55.22	55.65	68%
330 Madison Avenue (25% Ownership)	1963	33,000	771,000	47	34.47	35.42	93%
20 Broad Street (3) (60% Ownership)	1956	20,000	459,000	16	27.13	27.51	94%
570 Lexington Avenue (49.9% Ownership)	1930	16,000	433,000	45	31.36	31.69	82%
825 Seventh Avenue (50% Ownership)	1968	18,000	160,000	3	27.69	27.69	100%
WESTCHESTER							
550/600 Mamaroneck Avenue (3)	1971/1969	666,000	234,000	49	19.32	19.72	97%
NEW JERSEY							
Paramus (3)	1987	148,000	118,000	27	16.89	16.95	65%
CONNECTICUT							
Westport	1980	955,000	120,000	5	22.31	22.81	100%
Total Office Buildings		2,567,000	13,526,000	983	27.01	28.14	91%
Vornado's Ownership Interest		2,517,000	12,467,000				91%

Location	Principal Tenants (50,000 square feet or more)	Lease Expiration/Option Expiration	Encumbrances (thousands)
-----			

1740 Broadway	Mutual of New York William Douglas McAdams	2016/2026 2007	--
150 East 58th Street			
866 United Nations Plaza	Fross & Zelnick	2009	\$33,000
640 Fifth Avenue	Bozell Jacobs Kenyon	2008/2013	--
40 Fulton Street	Pencom Systems	2007	--
689 Fifth Avenue			
330 Madison Avenue (25% Ownership)	Bank Julius Baer BDO Seidman	2005 2010/2015	60,000
20 Broad Street (3) (60% Ownership)	N.Y. Stock Exchange	2003/2066	--
570 Lexington Avenue (49.9% Ownership)			16,410
825 Seventh Avenue (50% Ownership)	International Merchandising Corp Young & Rubicom	2013/2023 2008/2018	18,015
WESTCHESTER			
550/600 Mamaroneck Avenue (3)			6,500
NEW JERSEY			
Paramus (3)			250
CONNECTICUT			
Westport	Metropolitan Life Insurance	2001	8,000
Total Office Buildings			----- \$ 671,076 =====
Vornado's Ownership Interest			\$ 608,847 =====

- (1) Represents annualized monthly base rent excluding rent for leases which had not commenced as of December 31, 1998, which are included in percent leased.
- (2) Represents annualized monthly base rent for office properties including tenant pass--throughs of operating expenses (exclusive of tenant electricity costs) and real estate taxes.
- (3) 100% ground leased property.
- (4) At December 31, 1998, the property was encumbered by an \$80,000,000 mortgage. In February 1999, the Company completed a \$165,000,000 refinancing on the property and prepaid the then existing \$80,000,000 mortgage.

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CESCR Office Properties:

The following table sets forth certain information for the CESCR Office Properties (in which the Company has a 34% interest), as of December 31, 1998 or as of the date of acquisition for properties acquired thereafter.

Location	Year Originally Developed or Acquired	Number of Buildings	Approximate Leasable Building Square Feet	Number of Tenants	Annualized Base Rent per Sq. Ft. (1)	Annualized Escalated Rent per Sq. Ft. (2)
Crystal Mall	1968	4	1,068,000	14	\$ 24.17	\$ 24.84
Crystal Plaza	1964-1969	6	1,223,000	127	21.42	21.54
Crystal Square	1974-1980	4	1,388,000	211	26.03	27.37
Crystal Gateway	1983-1987	4	1,081,000	107	26.85	27.53



Crystal Park	1984-1989	5	2,154,000	113	27.46	28.69
Arlington Plaza	1985	1	174,000	17	23.83	26.95
1919 S Eads Street	1990	1	93,000	7	26.69	27.38
Skyline Place	1973-1984	6	1,595,000	192	20.61	20.91
One Skyline Tower	1988	1	477,000	8	20.96	22.47
Courthouse Plaza	1988-1989	2	609,000	80	23.72	23.99
1101 17th Street	1963	1	204,000	55	27.50	28.40
1730 M Street	1963	1	190,000	49	22.77	24.34
1140 Connecticut Ave	1966	1	175,000	36	26.18	26.00
1150 17th Street	1970	1	226,000	43	26.15	26.42
Total Charles E. Smith Properties		38	10,657,000	1,059	24.42	25.22

Location	Percent Leased (1)	Principal Tenants (50,000 square feet or more)	Lease Expiration/Option Expiration	Encumbrances (thousands)
Crystal Mall	100%	General Services Administration	2001/2011	\$ 64,835
Crystal Plaza	100%	General Services Administration	2001/2006	
Crystal Square	97%	General Services Administration	2004/2014	75,803
		Boeing	2002/2007	82,287
		General Services Administration	2003/2008	
		Lockheed Martin	2003/2008	
		Oblon Spivak	2004/2009	
Crystal Gateway	95%	Analytical Services, Inc.	2001/2006	177,794
		General Services Administration	1999	
		Lockheed Martin	2002/2005	
		Science Applications Int'l Corp.	2002	
Crystal Park	95%	CE Smith Headquarters	2004/2009	316,023
		General Services Administration	2001/2011	
		Techmatics	2002/2007	
		US Airways Headquarters	2008/2018	
		Vitro Corp	2002/2007	
Arlington Plaza	100%	Georgetown University	2002/2007	18,455
		Science Research Analysis Corp.	2001/2011	
1919 S Eads Street	94%	Vitro Corp	2001/2004	13,841
Skyline Place	99%	BDM Federal, Inc.	2000/2003	126,346
		Electronic Data Services	2000	
		Science Application Int'l Corp.	2003/2008	
		Science Research Analysis Corp.	2001	
One Skyline Tower	100%	General Services Administration	1999 & 2009	68,871
		Science Research Analysis Corp.	2003/2008	
Courthouse Plaza	100%	Arlington County	2003/2008	83,645
		KPMG-Peat Marwick	2000/2003	
1101 17th Street	96%	American Iron & Steel Institute	2001/2006	22,830
		Cosmetic & Toiletry Assn	2000/2005	
1730 M Street	98%	General Services Administration	2002/2012	19,026
		General Services Administration	1999/2004	
		League of Women Voters	2004/2009	
1140 Connecticut Ave	93%	Michaels & Wishner PC	2002/2007	22,876
		The Investigative Group	2000/2005	
1150 17th Street	97%	American Enterprise Institute	2002/2012	9,804
		Arthur Andersen LLP	1999/2004	
Total Charles E. Smith Properties	98%			\$ 1,102,436

(1) Represents annualized monthly base rent excluding rent for leases which had not commenced as of December 31, 1998, which are included in percent leased.

(2) Represents annualized monthly base rent for office properties including tenant pass-throughs of operating expenses (exclusive of tenant electricity costs) and real estate taxes

## Retail

The Company owns 59 shopping center properties of which 56 are strip shopping centers primarily located in the Northeast and Midatlantic states, two are regional centers located in San Juan, Puerto Rico and one, the Green Acres Mall, is a super-regional center located in Nassau County, Long Island, New York. The Company's shopping centers are generally located on major regional highways in mature densely populated areas. The Company believes its shopping centers attract consumers from a regional, rather than a neighborhood marketplace because of their location on regional highways.

As of March 1, 1999, the occupancy rate of the retail properties was 93%. The following table sets forth the occupancy rate and the average annual base rent per square foot (excluding the Green Acres Mall) for the properties at the end of each of the past five years.

Year End -----	Rentable Square Feet -----	Occupancy Rate -----	Average Annual Base Rent Per Square Foot -----
1998	10,625,000	92%	\$ 10.53
1997	10,550,000	91%	9.78
1996	10,019,000	90%	9.09
1995	9,913,000	91%	8.68
1994	9,501,000	94%	8.05

The average annual base rent per square foot at December 31, 1998 for the Green Acres Mall was \$12.92 in total and \$32.24 for mall tenants only.

The Company's shopping center lease terms range from five years or less in some instances, for smaller tenant spaces to as long as thirty years for major tenants. Leases generally provide for additional rents based on a percentage of tenant's sales and pass through to tenants the tenant's share of all common area charges (including roof and structure in strip shopping centers, unless it is the tenant's direct responsibility), real estate taxes and insurance costs and certain capital expenditures. Percentage rent accounted for less than 2% of total shopping center revenues in 1998. None of the tenants in the Retail Segment accounted for more than 10% of the Company's total revenues.

Below is a listing of the Retail tenants which accounted for 2% or more of the Retail property rentals in 1998:

(in thousands, except percentages)		1998	Percentage of
Tenant -----	Square Feet Leased -----	Property Rentals -----	Retail Property Rentals (excluding reimbursements) -----
Bradlees, Inc. ("Bradlees")	1,300(1)	\$13,917(1)	11%
The Home Depot, Inc.	409	4,922	4%
Kmart Corporation	359	3,547	3%
Staples, Inc.	214	2,868	2%
The TJX Companies, Inc.	328	2,728	2%

(1) Excludes the 14th Street and Union Square Property currently leased to Bradlees- see below.

In June 1995, Bradlees filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Bradlees emerged from bankruptcy in January 1999 when its plan of reorganization was confirmed. The Company withdrew its objection to Bradlees' proposed plan of reorganization after obtaining Bradlees' agreement that its lease of the Company's 14th Street and Union Square property would terminate in March 2000. The lease was scheduled to expire in October 2019, and contained an option to renew for an additional ten years. In addition, the rent under the lease was increased by \$1,100,000 per annum to \$3,400,000 per annum from January 1999 to the March 2000 termination date. In connection with the foregoing, the Company paid \$11,000,000 to Bradlees. The Company is considering various alternatives for the redevelopment of this site. The Company currently leases 15 other locations to Bradlees. Of these locations, the leases for 14 are fully guaranteed by Stop & Shop Companies, Inc., a wholly-owned subsidiary of Royal Ahold NV, a leading international food retailer, and one is guaranteed as to 70% of the rent.

The following table sets forth as of December 31, 1998 lease expirations for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet	Annual Base Rent of Expiring Leases	
				Total	Per Square Foot
1999.....	114	403,000	3.3%	\$ 5,344,000	\$ 13.26
2000.....	62	455,000	3.7%	5,352,000	11.76
2001.....	74	471,000	3.9%	5,300,000	11.25
2002.....	66	1,177,000	9.7%	12,870,000	10.93
2003.....	50	503,000	4.1%	5,836,000	11.60
2004.....	69	871,000	7.1%	8,426,000	9.67
2005.....	80	581,000	4.8%	8,054,000	13.86
2006.....	46	862,000	7.1%	6,089,000	7.06
2007.....	42	587,000	4.8%	6,027,000	10.27
2008.....	17	382,000	3.1%	2,904,000	7.60

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

The Company's two regional shopping centers located in Montehiedra and Caguas, Puerto Rico, (both of which are in the San Juan area) contain 1,014,000 square feet of which the Company owns 727,000 square feet. The centers are anchored by four major stores: Sears, Roebuck and Co., Kmart (one in each of the centers) and a Builders Square Home Improvement store.

The Green Acres Mall is a 1.6 million square foot super-regional enclosed shopping mall complex situated in Nassau County, Long Island, New York, approximately one mile east of the borough of Queens, New York. The Green Acres Mall is anchored by four major department stores: Sears, Roebuck and Co., J.C. Penney Company, Inc. and Federated Department Stores, Inc. doing business as Stern's and as Macy's. The complex also includes The Plaza at Green Acres, a 188,000 square foot strip shopping center which is anchored by Kmart and Waldbaums.

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#### Retail Properties

The following table sets forth certain information for the Retail Properties as of December 31, 1998.

Location	Year Originally Developed or Acquired	Land Area (Acres)	Approximate Leasable Building Square Feet		Number of Tenants
			Owned/Leased by Company	Owned by Tenants (Land Leased from Company)	
NEW JERSEY					
Bordentown	1958	31.2	179,000	--	4
Bricktown	1968	23.9	260,000	3,000	20
Cherry Hill	1964	37.6	231,000	64,000	14
Delran	1972	17.5	168,000	4,000	6
Dover	1964	19.6	173,000	--	14
East Brunswick	1957	19.2	216,000	10,000	6
East Hanover I	1962	24.6	271,000	--	18

East Hanover II	1979	8.1	91,000	--	10
Hackensack	1963	21.3	208,000	59,000	21
Jersey City	1965	16.7	223,000	3,000	13
Kearny	1959	35.3	42,000	62,000	4
Lawnside	1969	16.4	145,000	--	3

Location	Annualized Base Rent per Sq. Ft. (1)	Percent Leased (1)	Principal Tenants (30,000 square feet or more)	Lease Expiration/ Option Expiration	Encumbrances (thousands)
-----					
NEW JERSEY					
Bordentown	\$ 6.63	100%	Bradlees (2)	2001/2021	\$ 3,276(7)
			Shop-Rite	2011/2016	
Bricktown	10.57	100%	Kohl's	2008/2028	9,919(7)
			Shop-Rite	2002/2017	
Cherry Hill	9.25	96%	Bradlees (2)	2006/2026	9,706(7)
			Drug Emporium	2002	
			Shop & Bag	2007/2017	
Delran	5.87	100%	Toys "R" Us	2012/2042	
Dover	6.29	100%	Sam's Wholesale	2011/2021	2,848(7)
			Ames	2017/2037	3,635(7)
			Shop-Rite	2012/2022	
East Brunswick	13.10	100%	Bradlees (2)	2003/2023	8,205(7)
			Shoppers World	2007/2012	
			T.J. Maxx	2004/2009	
East Hanover I	10.85	98%	Home Depot	2009/2019	11,066(7)
			Marshalls	2004/2009	
			Pathmark	2001/2024	
			Today's Man	2009/2014	
East Hanover II	10.36	82%			---
Hackensack	15.53	98%	Bradlees (2)	2012/2017	--
			Pathmark	2014/2034	
			Staples	2003/2013	
Jersey City	12.35	100%	Bradlees (2)	2002/2022	10,381(7)
			Shop-Rite	2008/2028	
Kearny	13.49	68%	Pathmark	2013/2033	--
Lawnside	10.50	100%	Home Depot	2012/2027	5,708(7)
			Drug Emporium	2007	

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Location	Year Originally Developed or Acquired	Land Area (Acres)	Approximate Leasable Building Square Feet		Number of Tenants
			Owned/ Leased by Company	Owned by Tenants (Land Leased from Company)	
Lodi	1975	8.7	130,000	--	1
Manalapan	1971	26.3	194,000	2,000	7
Marlton	1973	27.8	173,000	7,000	10
Middletown	1963	22.7	180,000	52,000	22
Morris Plains	1985	27.0	172,000	1,000	19
North Bergen	1959	4.6	7,000	55,000	3
North Plainfield (3)	1989	28.7	217,000	--	13
Totowa	1957	40.5	178,000	139,000	7
Turnersville	1974	23.3	89,000	7,000	3
Union	1962	24.1	257,000	--	11
Vineland	1966	28.0	143,000	--	3



PENNSYLVANIA					
Allentown	1957	86.8	263,000	354,000	20
Bensalem	1972	23.2	119,000	7,000	10
Bethlehem	1966	23.0	157,000	3,000	13
Broomall	1966	21.0	146,000	22,000	5
Glenolden	1975	10.0	101,000	--	3
Lancaster	1966	28.0	180,000	--	7

Location	Annualized Base Rent per Sq. Ft. (1)	Percent Leased (1)	Principal Tenants (30,000 square feet or more)	Lease		Encumbrances (thousands)
				Expiration/ Option Expiration		
Buffalo (Amherst) (3)	\$ 6.99	96%	Circuit City Media Play MJ Design Toys "R" Us T.J. Maxx	2017 2002/2017 2006/2017 2013 2004		\$ 4,863(7)
Freeport	11.53	100%	Home Depot Cablevision	2011/2021 2004		8,021(7)
New Hyde Park (3)	13.55	100%	Mayfair Supermarkets	2019/2029		2,043(7)
North Syracuse (3)	2.74	100%	Reisman Properties	2014		--
Rochester (Henrietta) (3)	5.86	47%	Hechinger (4)	2005/2025		2,203 (7)
Rochester	6.05	41%	Hechinger (4)	2005/2025		2,832(7)
Valley Stream (Green Acres) (3)	(5)	94%	Macy Sterns JC Penney Sears Home Depot (6) Kmart Dime Savings Bank Greenpoint Bank	2006/2036 2007/2017 2012/2017 2023/2073 2010/2038 2020 2009		165,574
PENNSYLVANIA						
Allentown	10.13	100%	Hechinger Shop-Rite Burlington Coat Factory Wal*Mart Sam's Wholesale T.J. Maxx	2011/2031 2011/2019 2017 2024/2094 2024/2094 2003/2008		7,696(7)
Bensalem	5.84	95%	Kohl's (2)	2011/2031		3,967(7)
Bethlehem	5.41	81%	Pathmark Super Petz	2008/2033 2005/2015		--
Broomall	9.41	100%	Bradlees (2)	2006/2026		3,260(7)
Glenolden	10.73	100%	Bradlees (2)	2012/2022		4,245(7)
Lancaster	4.42	51%	Weis Markets	2008/2018		2,312(7)

Location	Year Originally Developed or Acquired	Land Area (Acres)	Approximate Leasable Building Square Feet		
			Owned/ Leased by Company	Owned by Tenants (Land Leased from Company)	Number of Tenants
Levittown	1964	12.8	104,000	--	1
10th and Market Streets, Philadelphia	1994	1.8	271,000	--	5
Upper Moreland	1974	18.6	122,000	--	1
York	1970	12.0	113,000	--	3
MARYLAND					
Baltimore (Belair Rd.)	1962	16.0	206,000	--	2
Baltimore (Towson)	1968	14.6	146,000	7,000	7
Baltimore (Dundalk)	1966	16.1	183,000	--	17

Glen Burnie	1958	21.2	117,000	3,000	5
Hagerstown	1966	13.9	133,000	15,000	6
CONNECTICUT					
Newington	1965	19.2	134,000	45,000	4
Waterbury	1969	19.2	140,000	3,000	10
MASSACHUSETTS					
Chicopee	1969	15.4	112,000	3,000	2
Milford (3)	1976	14.7	83,000	--	1
Springfield	1966	17.4	8,000	117,000	2
TEXAS					
Lewisville	1990	13.3	35,000	7,000	14
Mesquite	1990	5.5	71,000	--	13
Dallas	1990	9.9	100,000	--	9

Location	Annualized Base Rent per Sq. Ft. (1)	Percent Leased (1)	Principal Tenants (30,000 square feet or more)	Lease Expiration/ Option Expiration	Encumbrances (thousands)
Levittown 10th and Market Streets, Philadelphia	5.98	100%	(2)	2006/2026	2,283(7)
Upper Moreland York	\$ 9.36 7.50 4.64	77% 100% 100%	Kmart Sam's Wholesale Builders Square	2010/2035 2010/2015 2009/2018	\$ -- 3,517(7) 1,463(7)
MARYLAND					
Baltimore (Belair Rd.) Baltimore (Towson)	5.95 9.64	65% 100%	Food Depot Staples Cost Saver Supermarket Drug Emporium	2003 2004 2000/2020 2004	-- 5,779(7)
Baltimore (Dundalk)	6.78	82%	A & P Ollie's	2002/2017 2003/2008	4,084(7)
Glen Burnie Hagerstown	5.99 3.29	100% 100%	Weis Markets Big Lots Pharmhouse Weis Markets	2018/2053 2002/2012 2008/2012 2004/2009	2,299(7) --
CONNECTICUT					
Newington	6.86	100%	(2) The Wiz	2002/2022 2007/2027	3,042(7)
Waterbury	6.33	100%	Toys "R" Us Shaws Supermarkets	2010 2003/2018	3,889(7)
MASSACHUSETTS					
Chicopee Milford (3) Springfield	4.71 5.26 12.25	84% 100% 100%	Bradlees (2) Bradlees (2) Wal*Mart	2002/2022 2004/2009 2018/2092	1,999(7) -- --
TEXAS					
Lewisville Mesquite Dallas	14.52 15.25 10.13	84% 98% 83%	Albertson's (6)	2055	764(7) 3,445(7) 1,987(7)

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Location	Year Originally Developed or Acquired	Land Area (Acres)	Approximate Leasable Building Square Feet		Number of Tenants
			Owned/ Leased by Company	Owned by Tenants (Land Leased from Company)	
PUERTO RICO (SAN JUAN AREA)					
Montehiedra	1997	57.1	525,000	--	96
Caguas (50% ownership of mall stores and 75% ownership of Kmart store)	1998	35.0	343,000	--	105
Total Shopping Centers		1,362.2	10,915,000	1,356,000	785

Vornado's Ownership Interest	1,346.6	10,774,000	1,356,000
	=====	=====	=====

Location	Annualized Base Rent per Sq. Ft. (1)	Percent Leased (1)	Principal Tenants (30,000 square feet or more)	Lease Expiration/ Option Expiration	Encumbrances (thousands)
-----					
PUERTO RICO (SAN JUAN AREA)					
Montehiedra	\$ 16.02	100%	Kmart Builders Square Marshalls Caribbean Theatres	2022/2072 2022/2072 2010/2025 2021/2026	\$ 62,180
Caguas (50% ownership of mall stores and 75% ownership of Kmart store)	25.86	92%	Kmart Sears (6)	2064	70,941
Total Shopping Centers	10.53	93%			----- \$516,004 =====
Vornado's Ownership Interest		93%			----- \$480,534 =====

- (1) Represents annualized monthly base rent excluding ground leases, storage rent and rent for leases which had not commenced as of December 31, 1998, which are included in percent leased.
- (2) These leases are either fully guaranteed by Stop & Shop, a wholly-owned subsidiary of Royal Ahold NV, or in the case of Totowa, guaranteed as to 70% of rent.
- (3) 100% ground and/or building leasehold interest; other than Green Acres, where approximately 10% of the ground is leased.
- (4) The tenant has ceased operations at these locations but continues to pay rent.
- (5) Annualized rent per square foot is \$12.92 in total and \$32.24 for the mall tenants only.
- (6) Square footage excludes anchor store which owns its land and building.
- (7) These encumbrances are cross collateralized under a mortgage in the amount of \$227,000,000 at December 31, 1998.

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#### Cold Storage

The Company has a 60% interest in the Vornado/Crescent Partnerships that currently own 88 refrigerated warehouses with an aggregate of approximately 450 million cubic feet (excludes 13 additional warehouses containing approximately 80 million cubic feet managed by the Cold Storage Companies doing business as AmeriCold Logistics). The Cold Storage segment is headquartered in Atlanta, Georgia.

On March 12, 1999, the Vornado/Crescent Partnerships sold all of the non-real estate assets of AmeriCold Logistics encompassing the operations of the cold storage business for approximately \$48,000,000 to a new partnership owned 60% by Vornado Operating Company and 40% by Crescent Operating Inc. The new partnership leases the underlying cold storage warehouses used in this business from the Vornado/Crescent Partnerships which continue to own the real estate. The leases have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on customer revenues. The new partnership is required to pay for all costs arising from the operation, maintenance and repair of the properties as well as property capital expenditures in excess of \$5,000,000 annually. Fixed base rent and percentage rent for the initial lease year is projected to be approximately \$151 million. The new partnership has the right to defer a portion of the rent for up to three years beginning on March 12, 1999 to the extent that available cash, as defined in the lease, is insufficient to pay such rent.

AmeriCold Logistics provides the frozen food industry with refrigerated warehousing and transportation management services. Refrigerated warehouses are comprised of production and distribution facilities. Production facilities typically serve one or a small number of customers, generally food processors,



located nearby. These customers store large quantities of processed or partially processed products in the facility until they are shipped to the next stage of production or distribution. Distribution facilities primarily warehouse a wide variety of customers' finished products until future shipment to end-users. Each distribution facility primarily services the surrounding regional market. AmeriCold Logistics' transportation management services include freight routing, dispatching, freight rate negotiation, backhaul coordination, freight bill auditing, network flow management, order consolidation and distribution channel assessment. AmeriCold Logistics' temperature-controlled logistics expertise and access to both frozen food warehouses and distribution channels enable its customers to respond quickly and efficiently to time-sensitive orders from distributors and retailers.

AmeriCold Logistics' customers consist primarily of national, regional and local frozen food manufacturers, distributors, retailers and food service organizations which include Con-Agra, Inc., Tyson Foods, H.J. Heinz & Co., McCain Foods, Pillsbury, Sara Lee, Phillip Morris, J.R. Simplot, Farmland Industries and Unilever.

Facilities

The following table shows the location, size and type of facility for each of the Cold Storage properties as of December 31, 1998:

Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)	Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)	
GEORGIA				PENNSYLVANIA				
Xavier Drive, SW Atlanta, GA	D	Owned	11.1	RD2, Orchard Lane Leesport, PA	D	Owned	5.8	
Lakewood Avenue, SW Atlanta, GA	D	Owned	2.9	Mill Road Fogelsville, PA	D	Owned 85% Leased 15%	21.6	
Laney-Walker Road Augusta, GA	P	Owned	1.1	Dry 2600 Brodhead Road Bethlehem, PA	M	Managed	16.1	
Westgate Parkway Atlanta, GA	D	Owned	11.4	Refrigerated 4000 Miller Circle North Bethlehem, PA	M	Managed	7.3 ---	
Westgate Parkway Atlanta, GA	D	Owned	3.5	TOTAL PENNSYLVANIA				50.8 ----
South Airport Drive Montezuma, GA	P	Owned	4.2	TEXAS				
121 Roseway Drive Thomasville, GA	P	Owned	6.9 ----	10300 South East Third Street Amarillo, TX		Owned	3.2	
TOTAL GEORGIA			41.1 ----	200 Railhead Drive Ft. Worth, TX	D	Owned	3.4	
NORTH CAROLINA								
West 9th Street Charlotte, NC	P	Owned	1.0	Dry 1006 Railhead Drive Ft. Worth, TX	M	Managed	13.0	
Exchange Street Charlotte, NC	P	Owned	4.1	Refrigerated 1005 Railhead Drive Ft. Worth, TX	M	Managed	7.6 ---	
Sara Lee Road Tarboro, NC	P	Leased	3.4 ---	TOTAL TEXAS				27.2 ----
TOTAL NORTH CAROLINA			8.5 ---	WASHINGTON				
				South Walnut Burlington, WA	P/D	Owned	4.7	
				Wheeler Road Moses Lake, WA	P/D	Owned	7.3	

14th Avenue South P Owned 3.1  
Walla Walla, WA

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Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)	Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)
SOUTH CAROLINA				Industrial Way	P	Leased	6.7
Shop Road	P	Owned	1.6	Pasco, WA			
Columbia, SC				West Juniper Street	P	Owned	5.7
ALABAMA				Connell, WA			
West 25th Avenue	P	Owned	2.0	Dodd Road	P/D	Owned	1.2
Birmingham, AL				Wallula, WA			---
Newcomb Avenue	P	Leased	1.2				
Montgomery, AL				TOTAL			
				WASHINGTON			28.7
							----
East Air Depot Road	P	Leased	4.0	VIRGINIA			
Gadsden, AL				East Princess Anne Road	P	Owned	1.9
Railroad Avenue	P	Owned	2.2	Norfolk, VA			
Albertville, AL				MASSACHUSETTS			
4th Street, West	M	Managed	0.1	East Main Street	P/D	Owned	1.9
Birmingham, AL			---	Gloucester, MA			
TOTAL ALABAMA			9.5	Railroad Avenue	P/D	Owned	0.3
			---	Gloucester, MA			
KANSAS				Rogers Street	P/D	Owned	2.8
North Mead	P	Owned	2.8	Gloucester, MA			
Wichita, KS				Rowe Square	P/D	Owned	2.4
2007 West Mary Street	P	Owned	2.2	Gloucester, MA			
Garden City, KS				Wildett Circle	P/D	Owned	3.1
Inland Drive	P/D	Owned	35.2(1)	Boston, MA			
Kansas City, KS			----	Pleasant Street	P/D	Owned	4.7
TOTAL KANSAS			40.2	Watertown, MA			---
			----	TOTAL			
MISSOURI				MASSACHUSETTS			15.2
							----
West Highway 20	P	Owned	4.8	UTAH			
Marshall, MO				South Street	P/D	Owned	8.6
No. 1 Civil War Road	D	Owned	33.1	Clearfield, UT			
Carthage, MO			----				
TOTAL MISSOURI			37.9				
			----				

(1) AmeriCold Logistics plans to cease warehousing operations at this facility in October 1999 which will have no effect on the rent being paid to the Vornado/Crescent Partnership because the cessation of operations was contemplated at the time of the March 12, 1999 sale.

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Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)	Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)
----------	--	------------------	--	----------	--	------------------	--

IOWA				ARKANSAS			
Maple Drive Fort Dodge, IA	D	Owned	3.7	Midland Boulevard Fort Smith, AR	P	Owned	1.4
State Street Bettendorf, IA	P/D	Owned	8.8 ---	Genoa Road Texarkana, AR	P	Owned	4.7
TOTAL IOWA			12.5 ----	South Airport Road West Memphis, AR	D	Owned	5.3
TENNESSEE				300 El Mira Russellville, AR	P	Owned	5.6
East Parkway South Memphis, TN	P	Owned	5.6	203 Industrial Boulevard Russellville, AR	P	Owned	9.5
Spottswood Avenue Memphis, TN	P	Owned	0.5	1200 N. Old Missouri Road Springdale, AR	P	Owned	6.6 ---
Stephenson Drive Murfreesboro, TN	P/D	Owned	4.5	TOTAL ARKANSAS			33.1 ----
Biffle Road Newbern, TN	P	Managed	2.4 ---	FLORIDA			
TOTAL TENNESSEE			13.0 ----	South Lois Avenue Tampa, FL	D	Owned	0.4
OREGON				U.S. Highway 17 Bartow, FL	P/D	Owned	1.4
Westland Avenue Hermiston, OR	P	Owned	4.0	South Alexander Street Plant City, FL	P/D	Owned	0.8
S.E. McLoughlin Blvd. Milwaukie, OR	D	Owned	4.7	50th Street Tampa, FL	P/D	Owned 80% Leased 20%	3.9
Brooklake Road Brooks, OR	P	Owned	4.8	Port of Tampa Tampa, FL	D	Owned	1.0 ---
Portland Road N.E. Salem, OR	P/D	Owned	12.5	TOTAL FLORIDA			7.5 ---
Silverton Road Woodburn, OR	P/D	Owned	6.3				
N.E. First Street Ontario, OR	P	Leased	8.1 ---				
TOTAL OREGON			40.4 ----				

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Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)	Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)
OKLAHOMA				CALIFORNIA			
South Hudson Oklahoma City, OK	P	Owned	0.7	Malaga Place Ontario, CA	D	Owned 24% Leased 76%	8.1
Exchange Street Oklahoma City, OK	P	Owned	1.4 ---	Santa Ana Ontario, CA	D	Leased	1.9
TOTAL OKLAHOMA			2.1 ---	West Magnolia Boulevard Burbank, CA	P/D	Owned	0.8
MISSISSIPPI				Jesse Street Los Angeles, CA	P/D	Owned	2.7
751 West Churchill Road West Point, MS	P	Owned	4.7	5th Street Turlock, CA	P/D	Owned	2.5
MAINE				South Kilroy Road Turlock, CA	P/D	Owned	3.0
Read Street Portland, ME	P/D	Owned	1.8				

IDAHO				Coil Avenue Wilmington, CA	D	Managed	4.5	
U.S. Highway 30 Burley, ID	P/D	Owned	10.7	751 North Vintage Street Ontario, CA	M	Managed	0.5	
4th Street North Nampa, ID	P	Owned	8.0 ---	South Raymond Avenue Fullerton, CA	P/D	Leased	2.8	
TOTAL IDAHO			18.7 ----	Salinas Road Pajaro, CA	P/D	Leased	1.4	
ILLINOIS				West Riverside Drive Watsonville, CA	P/D	Owned	5.4	
Americold Drive Rochelle, IL	D	Owned	6.0	Wanamaker Avenue Ontario, CA	M	Managed	3.2	
18531 U.S. Route 20 West East Dubuque, IL	P	Owned	5.6 ---	Airport Drive Ontario, CA	M	Managed	13.5 ----	
TOTAL ILLINOIS			11.6 ----	TOTAL CALIFORNIA				50.3 ----
NEW YORK				WISCONSIN				
Farrell Road Syracuse, NY	D	Owned	11.8	Route 2 Tomah, WI	P	Owned	4.6	
INDIANA				110th Street Plover, WI	P/D	Owned	9.4 ---	
Arlington Avenue Indianapolis, IN	D	Owned	9.1	TOTAL WISCONSIN				14.0 ----

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Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)	Property	Type Production(P)/ Distribution(D)/ Managed(M)	Owned/ Leased	Total Cubic Footage (in millions)
NEBRASKA				COLORADO			
950 South Schneider Street Fremont, NE	P	Owned	2.2	East 50th Street Denver, CO	P/D	Owned 52% Leased 48%	2.8
East Roberts Street Grand Island, NE	P/D	Leased	2.2 ---	North Washington Street Denver, CO	P/D	Leased	0.6 ---
TOTAL NEBRASKA			4.4 ---	TOTAL COLORADO			3.4 ---
SOUTH DAKOTA				KENTUCKY			
2300 East Rice Street Sioux Falls, SD	P	Owned	2.9	1541 U.S. Highway 41 North Sebree, KY	P	Owned	2.7
Distribution Development 802 East Rice Street Sioux Falls, SD	M	Managed	3.4 ---	MINNESOTA			
TOTAL SOUTH DAKOTA			6.3 ---	U.S. Highway 71 South Park Rapids, MN	M	Managed	5.9
ARIZONA				NEW JERSEY			
455 South 75th Avenue Phoenix, AZ	D	Owned	2.9	N. Mill road Vineland, NJ	P	Managed	2.7

The above table is summarized as follows:

Total

Type of Property	Cubic Feet (in millions)	Percent of Total	Number of Facilities
Owned facilities.....	406.7	90%	78
Leased facilities.....	43.2	10%	10
	-----	---	---
	449.9	100%	88
		===	
Managed facilities.....	80.2		13
	-----		---
	530.1		101
	=====		===

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#### Merchandise Mart Properties

The Merchandise Mart Properties are a portfolio of seven properties containing an aggregate of approximately 6.7 million square feet. The properties are used for offices (34%), showrooms (63%) and retail stores (3%). The Company acquired these assets in separate transactions in 1998. In April 1998, the Company purchased four buildings containing approximately 5.4 million square feet from the Kennedy Family, including the 3.4 million square foot Merchandise Mart building in Chicago, the adjacent 350 North Orleans Street building, the Washington Office Center and the adjacent Washington Design Center. In December 1998, the Company purchased the 1.3 million square foot Market Square Complex and in a separate transaction purchased the National Furniture Mart in High Point, North Carolina.

#### Office Space

The following table sets forth the percentage of the Merchandise Mart Properties office revenues by tenant's industry:

Industry	Percentage
Government	40.4%
Service	20.3%
Telecommunications	16.2%
Insurance	12.9%
Pharmaceutical	4.9%
Other	5.3%

The average lease term of a tenant's lease is 10 years. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenant's share of increases in real estate taxes and operating expenses for a building over a base year. Electricity is provided to tenants on a submetered basis or included in rent based on surveys and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction of its premises. None of the tenants in the Merchandise Mart Properties segment accounted for more than 10% of the Company's total revenue. Below is a listing of the Merchandise Mart Properties office tenants which accounted for 2% or more of the Merchandise Mart Properties' revenues in 1998:

(in thousands, except percentages)	Square Feet Leased	1998 Revenues	Percentage of Merchandise Mart Properties Revenues
Tenant	-----	-----	-----
General Services Administration	303	5,725	7%
Bankers Life and Casualty	303	3,695	4%
Ameritech	234	3,527	4%
Chicago Transit Authority	244	3,179	4%
CCC Information Services	144	2,541	3%

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As of March 1, 1999, the occupancy rate of the Merchandise Mart Properties' office space was 95%. The following table sets forth the occupancy rate and the average escalated rent per square foot for the Merchandise Mart Properties' office space at the end of each of the past five years.

Year End	Rentable Square Feet	Occupancy Rate	Average Escalated Rent Per Square Foot
-----	-----	-----	-----
1998	2,274,000	95%	\$ 19.68
1997	2,160,000	91%	19.50
1996	2,026,000	88%	19.42
1995	2,028,000	85%	19.34
1994	2,043,000	83%	18.21

The following table sets forth as of December 31, 1998 office lease expirations for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
----	-----	-----	-----	-----	-----
1999.....	18	52,000	2.4%	\$ 1,034,000	\$ 19.88
2000.....	14	335,000	15.2%	8,884,000	26.52
2001.....	9	41,000	1.9%	937,000	22.85
2002.....	9	37,000	1.7%	1,118,000	30.22
2003.....	5	70,000	3.2%	1,594,000	22.77
2004.....	1	29,000	1.3%	693,000	23.89
2005.....	1	42,000	1.9%	1,060,000	25.23
2006.....	4	32,000	1.5%	1,202,000	37.56
2007.....	9	439,000	19.9%	7,802,000	17.77
2008.....	10	441,000	20.0%	7,898,000	17.91

#### Showroom Space

The Merchandise Mart Properties' showroom space aggregates 4,177,000 square feet of which 2,611,000 square feet is located in the Merchandise Mart building and 350 North Orleans in Chicago, 1,223,000 square feet is located in the Market Square Complex (including the National Furniture Mart) in High Point, North Carolina and 343,000 square feet is located in the Design Center in Washington, D.C. The showroom space consists of 2,850,000 square feet of permanent mart space (leased to manufacturers and distributors whose clients are retailers, specifiers and end users), 966,000 square feet of permanent design center space (leased to wholesalers whose principal clientele is interior designers), and 361,000 square feet of temporary market suite space (used for trade shows).

The showrooms provide manufacturers and wholesalers with permanent and temporary space in which to display products for buyers, specifiers and end users. The showrooms are also used for hosting trade shows for the contract furniture, casual furniture, gift-ware, carpet, residential furnishings, crafts, and design industries. The Merchandise Mart Properties own and operate five of the leading furniture/gift-ware trade shows including the contract furniture industry's largest trade show, the NeoCon Show, which attracts over 50,000 attendees annually and is hosted at the Merchandise Mart building in Chicago. The Market Square Complex co-hosts the home furniture industry's semi-annual market weeks which occupy over 8,800,000 square feet in the High Point, North Carolina region.

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As of March 1, 1999 the occupancy rate of the Merchandise Mart Properties' showroom space was 95%. The following table sets forth the occupancy rate and the average escalated rent per square foot for this space at the end of each of the past five years.

Year End	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
-----	-----	----	-----
1998	4,177,000	95%	\$ 21.50
1997	2,817,000	93%	20.94
1996	2,825,000	88%	20.65
1995	2,953,000	75%	22.07
1994	2,906,000	73%	22.35

The following table sets forth as of December 31, 1998 showroom lease

expirations for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
1999.....	260	526,000	12.9%	\$ 8,200,000	\$ 15.59
2000.....	277	651,000	16.0%	12,533,000	19.25
2001.....	230	620,000	15.3%	9,371,000	15.11
2002.....	129	377,000	9.3%	7,028,000	18.64
2003.....	128	473,000	11.6%	9,814,000	20.75
2004.....	35	244,000	6.0%	4,104,000	16.82
2005.....	21	146,000	3.6%	3,348,000	22.93
2006.....	27	134,000	3.3%	3,458,000	25.81
2007.....	25	163,000	4.0%	3,433,000	21.12
2008.....	29	157,000	3.9%	3,184,000	20.28

Retail Stores

The Merchandise Mart Properties' portfolio also contains approximately 200,000 square feet of retail stores which were 66% occupied at March 1, 1999.

Merchandise Mart in Chicago

The Merchandise Mart in Chicago is a 25-story industry building. Built in 1930, the Merchandise Mart is one of the largest buildings in the nation, containing over 4,000,000 gross square feet of which approximately 3,440,000 square feet is rentable.

As of March 1, 1999, the occupancy rate of the Merchandise Mart in Chicago was 96%. The following table sets forth the occupancy rate and the average escalated rent per square foot at the end of each of the past five years.

Year Ended	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
1998	3,440,000	96%	\$ 21.50
1997	3,411,000	96%	20.94
1996	3,404,000	94%	20.65
1995	3,404,000	82%	22.07
1994	3,401,000	78%	22.35

The following table sets forth as of December 31, 1998 lease expirations at the Merchandise Mart in Chicago for each of the next 10 years assuming that none of the tenants exercise renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet	Annual Escalated Rent of Expiring Leases	
				Total	Per Square Foot
1999.....	136	242,000	7.3%	\$ 4,997,000	\$ 20.65
2000.....	136	385,000	11.6%	9,591,000	24.91
2001.....	100	196,000	5.9%	4,928,000	25.14
2002.....	70	197,000	6.0%	4,780,000	24.26
2003.....	84	311,000	9.4%	6,885,000	22.14
2004.....	33	173,000	5.2%	4,134,000	23.90
2005.....	20	182,000	5.5%	4,249,000	23.35
2006.....	29	139,000	4.2%	3,527,000	25.37
2007.....	29	459,000	13.9%	8,693,000	18.94
2008.....	19	503,000	15.2%	9,545,000	18.98

The aggregate un depreciated tax basis of depreciable real property at the

Merchandise Mart in Chicago for Federal income tax purposes was approximately \$165,000,000 as of December 31, 1998, and depreciation for such property is computed for Federal income tax purposes on the straight-line method over thirty-nine years.

For the 1997 tax year, the tax rate in Chicago for commercial real estate is \$8.84 for \$100 assessed value which results in real estate taxes of \$9,156,000 for the Merchandise Mart.

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Merchandise Mart Properties:

The following table sets forth certain information for the Merchandise Mart Properties owned by the Company as of December 31, 1998.

Location	Year Originally Developed or Acquired	Land Area (Acres)	Approximate Leaseable Building Square Feet	Number of Tenants	Annualized Base Rent per Sq. Ft.(1)	Annualized Escalated Rent per Sq. Ft. (2)
ILLINOIS						
Merchandise Mart, Chicago	1930	6.7	3,440,000	743	\$ 20.70	\$ 21.59
350 North Orleans, Chicago	1977	4.3	1,117,000	328	17.83	18.04
WASHINGTON, D.C.						
Washington Office Center	1990	1.2	388,000	25	27.30	28.64
Washington Design Center	1919	1.2	387,000	76	23.05	23.31
Other		1.3	93,000	8	8.38	10.43
HIGH POINT, NORTH CAROLINA						
Market Square Complex	1902 - 1989	13.1	1,069,000	164	8.66	10.34
National Furniture Mart	1964	0.7	243,000	31	11.99	11.99
Total Merchandise Mart Properties		28.5	6,737,000	1,375	18.58	19.45

Location	Percent Leased(1)	Principal Tenants (50,000 square feet or more)	Lease Expiration/Option Expiration/	Encumbrances (thousands)
ILLINOIS				
Merchandise Mart, Chicago	97%	Baker, Knapp & Tubbs Bankers Life & Casualty CCC Information Services Chicago Teachers Union Chicago Transit Authority Holly Hunt Monsanto Office of the Special Deputy Steelcase	2007/2013 2008/2018 2008/2018 2005 2007/2027 2003 2007 2005 2007	\$ 250,000
350 North Orleans, Chicago	87%	21st Century Cable Ameritech Art Institute of Illinois Bank of America Chicago Transit Authority Sports Channel	2012/2022 2011/2021 2009/2019 2008/2018 2007/2017 2007/2017	--
WASHINGTON, D.C.				
Washington Office Center	97%	General Services Administration	2000/2010	50,878



Washington Design Center	96%			24,225
Other	87%			--
HIGH POINT, NORTH CAROLINA				
Market Square Complex	99%	Century Furniture Company La-Z-Boy	2004 2004	45,302
National Furniture Mart	100%			13,831
				-----
Total Merchandise Mart Properties	95%			\$ 384,236
				=====

- (1) Represents annualized monthly base rent excluding rent for leases which had not commenced as of December 31, 1998, which are included in percent leased.
- (2) Represents annualized monthly base rent including tenant pass-throughs of operating expenses (exclusive of tenant electricity costs) and real estate taxes.

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#### Alexander's Properties

The following table shows as of December 31, 1998 the location, approximate size and leasing status of each of the properties owned by Alexander's in which the Company has a 29.3% interest.

Location	Approximate Area in Square Feet/ or Acreage	Approximate Leaseable Square Footage/ Number of Floors	Average Annualized Base Rent Per Sq. Foot	Percent Leased	Significant Tenant (30,000 square feet or more)	Lease Expiration/ Option Expiration
Operating Properties						
New York:						
Kings Plaza Regional Shopping Center						
Brooklyn.....	24.3 acres	289,000	\$10.00	100%	Sears	2023/2033
		477,000	40.63	90%	110 mall tenants	Various
		-----				
		766,000/4(1)(2)	29.07	94%		
Rego Park--Queens.....	4.8 acres	351,000/3(1)	28.76	100%	Bed Bath & Beyond	2013
					Circuit City	2021
					Marshalls	2008/2021
					Old Navy	2007/2021
					Sears	2021
Fordham Road--Bronx.....	92,211 SF	303,000/5	--	--		
Flushing--Queens (3).....	44,975 SF	177,000/4(1)	16.74	100%	Caldor(4)	2027
Third Avenue--Bronx.....	60,451 SF	173,000/4	5.00	100%	An affiliate of Conway	2023
		-----				
		1,770,000				
		=====				

#### Redevelopment Properties

New York:						
Lexington Avenue- Manhattan.....	84,420 SF	(5)				
Rego Park II--Queens.....	6.6 acres	--				
New Jersey:						
Paramus, New Jersey.....	30.3 acres	(6)				

- 
- (1) Excludes parking garages.
- (2) Excludes 330,000 square foot Macy's store, owned and operated by Federated Department Stores, Inc.
- (3) Leased by the Company through January 2027.
- (4) Caldor announced that it is closing all of its stores and rejected this lease effective March 29, 1999.
- (5) Alexander's is razing the existing buildings and is evaluating redevelopment plans for this site which may involve developing a large multi-use building.
- (6) Alexander's has approvals to develop a shopping center at this site containing 550,000 square feet.

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Alexander's estimates that its capital expenditures for redevelopment projects at the above properties will include: (i) approximately \$100,000,000 for the redevelopment of its Paramus property, (ii) approximately \$30,000,000 to renovate the mall and \$15,000,000 to renovate the Macy's store at its Kings Plaza Regional Shopping Center and (iii) more than \$300,000,000 to develop its Lexington Avenue site. While Alexander's anticipates that financing will be available after tenants have been obtained for these redevelopment projects, there can be no assurance that such financing will be obtained, or if obtained, that such financings will be on terms that are acceptable to the Company. In addition, it is uncertain as to when these projects will commence.

#### Hotel Pennsylvania

The Company owns an 80% interest in the Hotel Pennsylvania, which is located on Seventh Avenue opposite Madison Square Garden in Manhattan, New York. The property is owned through a joint venture with Planet Hollywood International, Inc. The venture intends to refurbish the hotel. Under the terms of the mortgage on this property, in connection with the refurbishment, the Company is required to escrow \$37,000,000 prior to September 30, 1999. The Hotel Pennsylvania contains approximately 800,000 square feet of hotel space with 1,700 rooms and 400,000 square feet of retail and office space. The Company manages the property's retail and office space, and manages the hotel with Hotel Properties Limited.

The following table presents rental information for the hotel:

	Year Ended December 31,	
	-----	-----
	1998	1997
	-----	-----
Average occupancy rate.....	79%	78%
Average daily rate.....	\$ 99	\$ 93

As of December 31, 1998, the property's retail and office space was 86% and 55% occupied. 26 tenants occupy the retail and commercial space. Annual rent per square foot of retail and office space in 1998 were \$41 and \$16.

#### Newkirk Joint Ventures

In July and September 1998, the Company invested an aggregate of \$56,000,000 for a 30% share in joint ventures with affiliates of Apollo Real Estate Investment Fund III, L.P., collectively Newkirk Joint Ventures ("Newkirk"). Newkirk owns various equity and debt interests relating to 120 limited partnerships which own real estate primarily net leased to credit rated tenants. The Company has issued letters of credit of \$15,600,000 in connection with these joint ventures.

In March 1999, the Company and its joint venture partner completed an acquisition of additional equity interests in certain limited partnerships. The Company's additional investment of \$52,435,000 consisted of \$47,790,000 in Operating Partnership Units and \$4,645,000 in cash.

#### Dry Warehouse/Industrial Properties

The Company's dry warehouse/industrial properties consist of eight buildings containing approximately 2.0 million square feet. At December 31, 1998, the occupancy rate of the properties was 82%. The average term of a tenant's lease is three to five years. Average annual rent per square foot at December 31, 1998 was \$3.19.

#### Insurance

The Company carries comprehensive liability, fire, flood, extended coverage and rental loss insurance with respect to its properties with policy specifications and insured limits customarily carried for similar properties. Management of the Company believes that the Company's insurance coverage conforms to industry norms.

#### Item 3. Legal Proceedings

The Company is from time to time involved in legal actions arising in the ordinary course of its business. In the opinion of management, after consultation with legal counsel, the outcome of such matters will not have a material adverse effect on the Company's financial condition or results of operations.

#### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 1998.

Executive Officers of the Registrant

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

Name	Age	Principal Occupation, Position and Office (current and during past five years with Vornado unless otherwise stated)
Steven Roth.....	57	Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee of the Board; the Managing General Partner of Interstate Properties, an owner of shopping centers and an investor in securities and partnerships; Chief Executive Officer of Alexander's, Inc. since March 2, 1995 and a Director since 1989.
Michael D. Fascitelli...	42	President and a Trustee since December 2, 1996; Director of Alexander's, Inc. since December 2, 1996; Partner at Goldman, Sachs & Co. in charge of its real estate practice from December 1992 to December 1996; and Vice President at Goldman, Sachs & Co., prior to December 1992.
Joseph Macnow.....	53	Executive Vice President--Finance and Administration since January 1998; Vice President--Chief Financial Officer from 1985 to January 1998; Vice President--Chief Financial Officer of Alexander's, Inc. since August 1995
Irwin Goldberg.....	54	Vice President--Chief Financial Officer since January 1998; Partner at Deloitte & Touche LLP from September 1978 to January 1998.
David R. Greenbaum.....	47	Chief Executive Officer of the Mendik Division since April 15, 1997 (date of the Company's acquisition); President of Mendik Realty (the predecessor to the Mendik Division) from 1990 until April 15, 1997.
Joseph Hakim.....	50	Chief Executive Officer of the Merchandise Mart Division since April 1, 1998 (date of the Company's acquisition); President and Chief Executive Officer of Merchandise Mart Properties, Inc., the main operating subsidiary of Joseph P. Kennedy Enterprises, Inc. (the predecessor to the Merchandise Mart Division) from 1992 to April 1, 1998
Daniel F. McNamara(1)...	52	Chief Executive Officer of the Cold Storage Division (AmeriCold Logistics) since October 1997 (the date of the Company's acquisition), Chief Executive Officer of URS Logistics, Inc. (one of the predecessors to the Cold Storage Division) from March 1996 to October 1997 and Executive Vice President and Chief Operating Officer of Value Rent-A-Car, a wholly owned subsidiary of Mitsubishi Motors prior to March 1996.
Richard T. Rowan.....	52	Vice President-Retail Real Estate Division since January 1982.

(1) As of March 17, 1999, Mr. McNamara is an employee of the partnership which purchased the non-real estate assets of AmeriCold Logistics.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Vornado's common shares are traded on the New York Stock Exchange under

the symbol "VNO".

Quarterly price ranges of the common shares and dividends paid per share for the years ended December 31, 1998 and 1997 were as follows:

Quarter	Year Ended December 31, 1998			Year Ended December 31, 1997		
	High	Low	Dividends	High	Low	Dividends
1st .....	\$49.81	\$38.50	\$ .40	\$35.50	\$25.38	\$ .32
2nd .....	44.00	36.38	.40	37.00	30.44	.32
3rd .....	39.88	27.63	.40	44.25	32.13	.32
4th .....	38.25	26.00	.44	47.38	40.63	.40

All share and per share information has been adjusted for a 2-for-1 share split in October 1997.

The approximate number of record holders of common shares of Vornado at December 31, 1998, was 2,700.

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Item 6. Selected Consolidated Financial Data

	Year Ended December 31,				
	1998	1997	1996	1995	1994
(in thousands, except share and per share amounts)					
Operating Data					
Revenues:					
Property rentals .....	\$ 425,496	\$ 168,321	\$ 87,424	\$ 80,429	\$ 70,755
Expense reimbursements .....	74,737	36,652	26,644	24,091	21,784
Other income .....	9,627	4,158	2,819	4,198	1,459
Total Revenues .....	509,860	209,131	116,887	108,718	93,998
Expenses:					
Operating .....	207,171	74,745	36,412	32,282	30,223
Depreciation and amortization ....	59,227	22,983	11,589	10,790	9,963
General and administrative .....	28,610	13,580	5,167	6,687	6,495
Amortization of officer's deferred compensation expense .....	--	22,917	2,083	--	--
Total Expenses .....	295,008	134,225	55,251	49,759	46,681
Operating Income .....	214,852	74,906	61,636	58,959	47,317
Income applicable to Alexander's .....	3,123	7,873	7,956	3,954	--
Income from partially-owned entities ...	32,025	4,658	1,855	788	--
Interest and other investment income ...	24,074	23,767	6,643	5,733	8,132
Interest and debt expense .....	(114,686)	(42,888)	(16,726)	(16,426)	(14,209)
Net gain from insurance settlement and condemnation proceedings .....	9,649	--	--	--	--
Minority interest of unitholders in the Operating Partnership .....	(16,183)	(7,293)	--	--	--
Net Income .....	152,854	61,023	61,364	53,008	41,240
Preferred stock dividends .....	(21,690)	(15,549)	--	--	--
Net income applicable to common shares .	\$ 131,164	\$ 45,474	\$ 61,364	\$ 53,008	\$ 41,240
Net income per share--basic(1) .....	\$ 1.62	\$ .83	\$ 1.26	\$ 1.13	\$ .95
Net income per share--diluted(1) ....	\$ 1.59	\$ .79	\$ 1.25	\$ 1.12	\$ .94
Cash dividends declared for common shares .....	\$ 1.64	\$ 1.36	\$ 1.22	\$ 1.12	\$ 1.00

	Year Ended December 31,				
	1998	1997	1996	1995	1994

(in thousands, except share and per share amounts)

Balance Sheet Data

Total assets .....	\$4,425,779	\$2,524,089	\$ 565,204	\$ 491,496	\$ 393,538
Real estate, at cost .....	3,315,891	1,564,093	397,298	382,476	365,832
Accumulated depreciation .....	226,816	173,434	151,049	139,495	128,705
Debt .....	2,051,000	956,654	232,387	233,353	234,160
Shareholders' equity .....	1,782,678	1,313,762	276,257	194,274	116,688

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Year Ended December 31,

	1998	1997	1996	1995	1994
(in thousands)					
Other Data					
Funds from operations(2):					
Net income applicable to common shares .....	\$ 131,164	\$ 45,474	\$ 61,364	\$ 53,008	\$ 41,240
Depreciation and amortization of real .....	58,277	22,413	11,154	10,019	9,192
Straight-lining of property rentals for rent .....	(14,531)	(3,359)	(2,676)	(2,569)	(2,181)
Leasing fees received in excess of income .....	1,339	1,733	1,805	1,052	--
Net gain from insurance settlement and .....	(9,649)	--	--	--	--
Minority interest in excess of .....	(3,991)	--	--	--	--
Appreciation of securities held in officer's .....	340	--	--	--	--
Losses (gains) on sale of securities available .....	(898)	--	--	360	(51)
Proportionate share of adjustments to equity .....					
in net income of partially-owned entities .....					
to arrive at funds from operations:					
Cold Storage Companies .....	41,988(3)	4,183	--	--	--
Alexander's .....	4,023	(2,471)	(2,331)	539	--
Mendik partially-owned office buildings .....	3,561	2,891	--	--	--
Hotel Pennsylvania .....	4,083	457	--	--	--
Charles E. Smith Commercial Realty L.P. ....	2,974	1,298	--	--	--
Other .....	219	--	--	--	--
Funds from operations(4) .....	\$ 218,899	\$ 72,619	\$ 69,316	\$ 62,409	\$ 48,200
Cash flow provided by (used in):					
Operating activities .....	\$ 189,406	\$ 115,473	\$ 70,703	\$ 62,882	\$ 46,948
Investing activities .....	(1,257,367)	(1,064,484)	14,912	(103,891)	(15,434)
Financing activities .....	879,815	1,215,269	(15,046)	36,577	(32,074)

(1) The earnings per share amounts prior to 1997 have been restated to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). For further discussion of earnings per share and the impact of SFAS 128, see the notes to the consolidated financial statements. All share and per share information has also been adjusted for a 2-for-1 share split in October 1997.

(2) Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of funds from operations. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers funds from operations a supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations may not be comparable to similarly titled measures employed by other REITs since a number of REITs, including the Company, calculate funds from operations in a manner different from

that used by the National Association of Real Estate Investment Trusts ("NAREIT"). Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary or non-recurring items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified to adjust for the effect of straight-lining of property rentals for rent escalations and leasing fee income.

- (3) Includes adding back of (i) income taxes of \$4,287 and related items which are considered non-recurring because of the expected conversion of Cold Storage Companies to REITs and (ii) non-recurring unification costs of \$4,585.
- (4) The number of shares that should be used for determining funds from operations per share is the number used for diluted earnings per share. (See Note 15 of the Notes to Consolidated Financial Statements.)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

(All of the amounts presented are in thousands, except share amounts and percentages)

Overview

The Company's net income was \$152,854 in the year ended December 31, 1998, as compared to \$61,023 in the prior year, an increase of \$91,831. EBITDA, as defined, (1) was \$427,088 in the year ended December 31, 1998, as compared to \$150,426 in the prior year, an increase of \$276,662. The Company's net income was \$61,364 and its EBITDA was \$87,048 in the year ended December 31, 1996 when it operated in only one segment.

Below is a summary of net income and EBITDA by segment for the years ended December 31, 1998 and 1997:

December 31, 1998						
	Total	Office	Retail	Cold Storage	Merchandise Mart	Other(2)
Total revenues .....	\$ 509,860	\$ 247,499	\$ 167,155	\$ --	\$ 86,521	\$ 8,685
Total expenses .....	295,008	151,573	70,334	--	50,761	22,340
Operating income .....	214,852	95,926	96,821	--	35,760	(13,655)
Income applicable to Alexander's ...	3,123	--	--	--	--	3,123
Income from partially-owned entities	32,025	10,854	258	15,191	(1,969)	7,691
Interest and other investment income	24,074	4,467	2,159	--	639	16,809
Interest and debt expense .....	(114,686)	(25,175)	(32,249)	--	(18,711)	(38,551)
Net gain from insurance settlement and condemnation proceeding .....	9,649	--	--	--	--	9,649
Minority interest .....	(16,183)	(7,236)	(5,853)	(1,024)	(2,070)	--
Net income .....	152,854	78,836	61,136	14,167	13,649	(14,934)
Minority interest .....	16,183	7,236	5,853	1,024	2,070	--
Interest and debt expense (5) .....	164,478	40,245	32,709	26,541	18,711	46,272
Depreciation and amortization (5) ..	104,299	39,246	15,520	33,117	9,899	6,517
Net gain from insurance Settlement and condemnation proceeding .....	(9,649)	--	--	--	--	(9,649)
Straight-lining of rents (5) .....	(16,132)	(6,845)	(3,203)	--	(4,882)	(1,202)
Other .....	15,055	(79)	--	8,872(3)	--	6,262(4)
EBITDA .....	\$ 427,088	\$ 158,639	\$ 112,015	83,721	\$ 39,447	\$ 33,266

December 31, 1997						
	Total	Office	Retail	Cold Storage	Merchandise Mart	Other(2)
Total revenues .....	\$ 209,131	\$ 80,846	\$ 120,299	\$ --	--	\$ 7,986
Total expenses .....	134,225	50,186	46,204	--	--	37,835
Operating income .....	74,906	30,660	74,095	--	--	(29,849)
Income applicable to Alexander's ...	7,873	--	--	--	--	7,873
Income from partially-owned entities	4,658	1,015	--	\$ 1,720	--	1,923
Interest and other investment income	23,767	6,834	2,296	--	--	14,637
Interest and debt expense .....	(42,888)	(9,009)	(19,893)	--	--	(13,986)
Net gain from insurance settlement and condemnation proceeding ...	--	--	--	--	--	--
Minority interest .....	(7,293)	(2,042)	(4,303)	--	--	(948)

Net income .....	61,023	27,458	52,195	1,720	--	(20,350)
Minority interest .....	7,293	2,042	4,303	--	--	948
Interest and debt expense (5) .....	54,395	13,707	19,893	5,839	--	14,956
Depreciation and amortization (5) ..	31,972	12,813	11,706	4,182	--	3,271
Net gain from insurance Settlement and condemnation proceeding ...	--	--	--	--	--	--
Straight-lining of rents (5) .....	(3,932)	(645)	(2,558)	--	--	(729)
Other .....	(325)	1,303	970	17	--	(2,615)
EBITDA .....	\$ 150,426	\$ 56,678	\$ 86,509	\$ 11,758	--	\$ (4,519)
	=====	=====	=====	=====	=====	=====

Footnotes 1-5 are explained on the following page.

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- EBITDA represents net income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of real estate and the effect of straight-lining of property rentals for rent escalations. Management considers EBITDA a supplemental measure for making decisions and assessing the performance of its segments. EBITDA may not be comparable to similarly titled measures employed by other companies.
- Other includes (i) the operations of the Company's warehouse and industrial properties, (ii) investments in the Hotel Pennsylvania, Alexander's, and Newkirk Joint Ventures, (iii) corporate general and administrative expenses and (iv) unallocated investment income and interest and debt expense.
- Includes adding back of (i) \$4,287 of income taxes and related items, which are considered non-recurring because of the expected conversion of the Cold Storage Companies to REITS and (ii) non-recurring unification costs of \$4,585.
- Primarily represents the Company's equity in Alexander's loss from the write-off of the carrying value of Alexander's Lexington Avenue buildings.
- Interest and debt expense, depreciation and amortization and straight-lining of rents included in the reconciliation of net income to EBITDA reflects amounts which are netted in income from partially-owned entities.

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#### Results of Operations

Years Ended December 31, 1998 and December 31, 1997

Below are the details of the changes by segment in EBITDA. The change in the Cold Storage EBITDA is discussed in Income from partially-owned entities.

	Total	Office	Retail	Cold Storage	Merchandise Mart	Other
	-----	-----	-----	-----	-----	-----
Year ended December 31, 1997	\$150,426	\$ 56,678	\$ 86,509	\$ 11,758	\$ --	\$ (4,519)(1)
1998 Operations:						
Same store operations(2)	32,502	4,279	4,382	411	--	23,430(1)
Acquisitions	244,160	97,682	21,124	71,552	39,447	14,355
Year ended December 31, 1998	\$427,088	\$158,639	\$112,015	\$ 83,721	\$ 39,447	\$ 33,266
	=====	=====	=====	=====	=====	=====
% increase in same store operations	5.5%	7.5%	5.1%	3.5%	*	2.8%(1)

\* not applicable

- EBITDA for "Other" and in "Total" for the year ended December 31, 1997 reflects the amortization of a deferred payment due to an officer of \$22,917; the percentage increases in same store operations have been adjusted to exclude the increase in EBITDA in 1998 resulting therefrom.
- Represents operations which were owned for the same period in each year.

#### Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were \$509,860 in the year ended December 31, 1998, compared to \$209,131 in the prior year, an increase of \$300,729. These increases by segment resulted from:

Date of

Merchandise

	Acquisition	Total	Office	Retail	Mart	Other
	-----	-----	-----	-----	-----	-----
Property Rentals:						
Acquisitions:						
Mendik RELP	December 1998	\$ 4,126	\$ 4,126			
20 Broad Street	August 1998	4,399	4,399			
689 Fifth Avenue	August 1998	1,333	1,333			
770 Broadway	July 1998	5,713	5,713			
40 Fulton Street	June 1998	3,561	3,561			
Merchandise Mart						
Properties	April 1998	82,509			\$ 82,509	
150 E. 58th Street	March 1998	13,021	13,021			
One Penn Plaza	February 1998	53,991	53,991			
Westport	January 1998	2,355	2,355			
Green Acres Mall	December 1997	22,449		\$ 22,449		
640 Fifth Avenue	December 1997	5,312	5,312			
90 Park Avenue	May 1997	9,251	9,251			
Mendik	April 1997	25,313	25,313			
Montehiedra Shopping Center	April 1997	2,935		2,935		
		-----	-----	-----	-----	-----
		236,268	128,375	25,384	82,509	
		-----	-----	-----	-----	-----
Leasing activity, including \$1,740 of step-ups in Retail		20,907	16,508	4,106		\$ 293
		-----	-----	-----	-----	-----
Total increase in property rentals		257,175	144,883	29,490	82,509	293
		-----	-----	-----	-----	-----
Tenant expense reimbursements:						
Increase in tenant expense reimbursements due to acquisitions		34,526	16,112	15,759	2,655	
Other		3,559	2,292	1,373		(106)
		-----	-----	-----	-----	-----
Total increase in tenant expense reimbursements		38,085	18,404	17,132	2,655	(106)
		-----	-----	-----	-----	-----
Other income		5,469	3,366	234	1,357	512
		-----	-----	-----	-----	-----
Total increase in revenues		\$ 300,729	\$ 166,653	\$ 46,856	\$ 86,521	\$ 699
		=====	=====	=====	=====	=====

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#### Expenses

The Company's expenses were \$295,008 in the year ended December 31, 1998, compared to \$134,225 in the prior year, an increase of \$160,783. These increases by segment resulted from:

	Total	Office	Retail	Merchandise Mart	Other
	-----	-----	-----	-----	-----
Operating:					
Acquisitions	\$ 121,297	\$ 67,545	\$ 15,339	\$ 38,413	\$ --
Same store operations	11,129	5,751	5,185	--	193
	-----	-----	-----	-----	-----
	132,426	73,296	20,524	38,413	193
	-----	-----	-----	-----	-----
Depreciation and amortization:					
Acquisitions	35,586	22,630	3,057	9,899	--
Same store operations	658	47	549	--	62
	-----	-----	-----	-----	-----
	36,244	22,677	3,606	9,899	62
	-----	-----	-----	-----	-----
General and administrative:	15,030(2)	5,414	--(1)	2,449	7,167(1)
	-----	-----	-----	-----	-----
Amortization of officer's deferred compensation expense	(22,917)	--	--	--	(22,917)(3)
	-----	-----	-----	-----	-----
	\$ 160,783	\$ 101,387	\$ 24,130	\$ 50,761	\$ (15,495)
	=====	=====	=====	=====	=====

(1) Retail general and administrative expenses are included in corporate expenses which are not allocated.

(2) Of this increase: (i) \$6,631 is attributable to acquisitions, (ii) \$4,641 resulted from payroll, primarily for additional employees and corporate office expenses, and (iii) \$3,758 resulted from



professional fees.

- (3) The Company recognized an expense of \$22,917 in the prior year representing the amortization of the deferred payment due to the Company's President, which was fully amortized at December 31, 1997.

Income (loss) applicable to Alexander's (loan interest income, equity in income (loss) and depreciation) was \$3,123 in the year ended December 31, 1998, compared to \$7,873 in the prior year, a decrease of \$4,750. This decrease resulted primarily from (i) the Company's equity in the write-off of the carrying value of Alexander's Lexington Avenue building, of \$4,423, partially offset by (ii) income from the commencement of leases at Alexander's Rego Park and Kings Plaza store properties and (iii) income from Alexander's acquisition of the remaining 50% interest in the Kings Plaza Mall.

Income from partially-owned entities was \$32,025 in the year ended December 31, 1998, compared to \$4,658 in the prior year, an increase of \$27,367. This increase by segment resulted from:

Acquisitions:	Date of Acquisition	Total	Office	Retail	Cold Storage	Merchandise Mart	Other
	-----	-----	-----	-----	-----	-----	-----
Cold Storage:							
Americold and URS	October 1997	\$7,137	\$ --	\$ --	\$ 7,137	\$ --	\$ --
Freezer Services	June 1998	3,218	--	--	3,218	--	--
Carmar Group	July 1998	2,960	--	--	2,960	--	--
Charles E. Smith							
Commercial Realty L.P.	October 1997	4,669	4,669	--	--	--	--
Hotel Pennsylvania	September 1997	2,623	--	--	--	--	2,623
Newkirk Joint Ventures	July 1998	3,412	--	--	--	--	3,412
Mendik partially-owned							
office buildings	April 1997	2,852	2,852	--	--	--	--
Merchandise Mart							
Management Company	April 1998	(1,969)	--	--	--	(1,969)	--
Caguas	November 1998	258	--	258	--	--	--
Other		2,207	2,318	--	156	--	(267)
		-----	-----	-----	-----	-----	-----
		\$27,367	\$ 9,839	\$ 258	\$ 13,471	\$ (1,969)	\$ 5,768
		=====	=====	=====	=====	=====	=====

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Interest and other investment income (interest income on mortgage loans receivable, other interest income, dividend income and net gains on marketable securities) was \$24,074 for the year ended December 31, 1998, compared to \$23,767 in the prior year, an increase of \$307. This increase resulted primarily from gains on the sale of marketable securities of \$2,395, partially offset by a decrease in interest income due to lower average investments this year.

Interest and debt expense was \$114,686 for the year ended December 31, 1998, compared to \$42,888 in the prior year, an increase of \$71,798. This increase resulted primarily from debt in connection with acquisitions.

In the third quarter of 1998, the Company recorded a net gain of \$9,649, in connection with an insurance settlement and condemnation proceeding (see Note 11 to the Consolidated Financial Statements).

The minority interest is comprised of:

	Year Ended December 31,	
	1998	1997*
	-----	-----
Equity in earnings to unit		
holders in the Operating Partnership ..	\$15,532	\$ 7,293
40% interest in 20 Broad Street .....	651	--
	-----	-----
	\$16,183	\$ 7,293
	=====	=====

\* For the period from April 15, 1997 to December 31, 1997

The preferred stock dividends of \$21,690 for the year ended December 31, 1998 and \$15,549 for the period from April 15, 1997 to December 31, 1997 apply to the Company's \$3.25 Series A Convertible Preferred Shares issued in April and December 1997 and include accretion of expenses of issuing them.

Years Ended December 31, 1997 and December 31, 1996

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income, were \$209,131 in the year ended December 31, 1997, compared to \$116,887 in the prior year, an increase of \$92,244. This increase was primarily comprised of \$90,520 of revenues from properties acquired in 1997.

Property rentals were \$168,321 in the year ended December 31, 1997, compared to \$87,424 in the prior year, an increase of \$80,897. This increase resulted from:

1997 Acquisitions:	
Mendik .....	\$56,958
90 Park Avenue .....	9,874
Montehiedra shopping center .....	6,386
Riese .....	2,485
Green Acres Mall .....	937
	-----
	76,640
Full year effect of a 1996 Acquisition .....	472
Shopping center leasing activity .....	1,907
Step-ups in shopping center leases .....	1,878
	-----
	\$80,897
	=====

Tenant expense reimbursements were \$36,652 in the year ended December 31, 1997, compared to \$26,644 in the prior year, an increase of \$10,008. This increase was primarily comprised of \$11,320 of reimbursements from tenants at properties acquired in 1997, partially offset by a reduction in reimbursements at the Company's other properties due to lower expenses passed through to tenants.

Operating expenses were \$74,745 in the year ended December 31, 1997, as compared to \$36,412 in the prior year, an increase of \$38,333. This increase was primarily comprised of \$39,645 of expenses from properties acquired in 1997, partially offset by lower snow removal costs and repairs and maintenance at the Company's other properties.

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Depreciation and amortization expense increased in 1997 as compared to 1996, primarily as a result of acquisitions.

General and administrative expenses were \$13,580 in the year ended December 31, 1997 compared to \$5,167 in the prior year, an increase of \$8,413. This increase resulted primarily from (i) Mendik Division payroll and corporate office expenses of \$2,760, (ii) cash compensation attributable to the employment of the Company's President of \$2,350 and (iii) professional fees of \$1,641.

The Company recognized expense of \$22,917 in the year ended December 31, 1997 and \$2,083 in the prior year representing the amortization of the \$25,000 deferred payment due to the Company's President.

Income applicable to Alexander's (loan interest income, equity in income and depreciation) was \$7,873 in the year ended December 31, 1997, compared to \$7,956 in the prior year, a decrease of \$83. This decrease resulted primarily from a \$327 reduction in loan interest income due to the reset of the interest rate on the loan, partially offset by an increase in equity in non-recurring income.

Income from partially-owned entities was \$4,658 in the year ended December 31, 1997, compared to \$1,855 in the prior year, an increase of \$2,803. This increase consists of: (i) \$1,720 from the Cold Storage Companies, (ii) \$424 from partially owned properties acquired as part of the Mendik Transaction, (iii) \$1,055 from the Company's 40% interest in Hotel Pennsylvania and (iv) \$85 from the Company's 15% interest in Charles E. Smith Commercial Realty L.P., partially offset by (v) lower management fee income.

Interest and other investment income (interest income on mortgage loans receivable, other interest income, dividend income and net gains on marketable securities) was \$23,767 for the year ended December 31, 1997, compared to \$6,643 in the prior year, an increase of \$17,124. Of this increase, \$9,047 resulted primarily from income earned on higher average investments (resulting from proceeds from stock offerings and temporary borrowings) and \$7,901 resulted from investments in mortgage loans receivable.

Interest and debt expense was \$42,888 for the year ended December 31, 1997, compared to \$16,726 in the prior year, an increase of \$26,162. Of this increase, (i) \$13,369 resulted from borrowings under the Company's revolving credit facility and a term loan, (ii) \$9,009 resulted from debt on the

properties acquired in the Mendik Transaction and (iii) \$3,784 resulted from borrowings related to the acquisition of the Montehiedra Town Center in April 1997.

The minority interest unit holders in the Operating Partnership are entitled to preferential distributions which aggregated \$7,293 for the year ended December 31, 1997.

The preferred stock dividends of \$15,549 apply to the 6.5% preferred shares issued in April 1997 and include accretion of expenses of issuing them of \$1,918.

The Company operates in a manner intended to enable it to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986 as amended. Under those sections, a REIT which distributes at least 95% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company has distributed to its shareholders an amount greater than its taxable income. Therefore, no provision for Federal income taxes is required.

#### Liquidity and Capital Resources

##### Cash Flows for the Years Ended December 31, 1998, 1997 and 1996

###### Years Ended December 31, 1998

Cash flows provided by operating activities of \$189,406 was primarily comprised of (i) income of \$143,205 (net income of \$152,854 less net gain from insurance settlement and condemnation proceeding of \$9,649), (ii) adjustments for non-cash items of \$27,657, and (iii) the net change in operating assets and liabilities of \$18,544. The adjustments for non-cash items are primarily comprised of (i) depreciation and amortization of \$59,227 and (ii) minority interest of \$16,183, partially offset by (iii) the effect of straight-lining of rental income of \$17,561 and (iv) equity in net income of partially-owned entities of \$32,025.

Net cash used in investing activities of \$1,257,367 was primarily comprised of (i) acquisitions of real estate of \$896,800 (see detail below), (ii) investments in partially-owned entities of \$308,000 (see detail below), (iii) capital expenditures of \$68,085 (see detail below) and investments in securities of \$73,513 (including purchase of Capital Trust Preferred Stock of \$48,700), partially offset by (v) proceeds from the repayment of mortgage loans receivable of \$57,600.

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Acquisitions of real estate and investments in partially-owned entities were comprised of:

	Cash	Debt	Value of shares or Units Issued	Assets Acquired
	-----	-----	-----	-----
Real Estate:				
Merchandise Mart Properties	\$ 187,000	\$ 327,000	\$ 116,000	\$ 630,000
One Penn Plaza Office Building	317,000	93,000	--	410,000
770 Broadway Office Building	131,000	--	18,000	149,000
150 East 58th Street Office Building	118,000	--	--	118,000
40 Fulton Street Office Building	55,000	--	--	55,000
689 Fifth Avenue Office Building	33,000	--	--	33,000
Mendik RELP Properties	31,000	46,000	29,000	106,000
Market Square Complex	11,000	60,000	44,000	115,000
Other	13,800	--	--	13,800
	-----	-----	-----	-----
	\$ 896,800	\$ 526,000	\$ 207,000	\$1,629,800
	=====	=====	=====	=====
Investments in Partially-Owned Entities:				
Hotel Pennsylvania (acquisition of additional 40% interest increasing ownership to 80%)	\$ 22,000	\$ 48,000	\$ --	\$ 70,000
570 Lexington Avenue Office Building (increased interest from 5.6% to approximately 50%)	32,300	4,900	--	37,200
Acquisition of Freezer Services, Inc. (60% interest)	58,000	16,000	6,000	80,000
Reduction in Cold Storage Companies debt (60% interest)	44,000	--	--	44,000
Acquisition of Carmar Group (60% interest)	86,400	8,400	--	94,800
Investment in Newkirk Joint Ventures	56,000	--	--	56,000
Las Catalinas Mall (50% interest)	--	38,000	--	38,000
Other	9,300	--	--	9,300
	-----	-----	-----	-----
	\$ 308,000	\$ 115,300	\$ 6,000	\$ 429,300

Capital expenditures were comprised of:

	New York City Office	Retail	Merchandise Mart	Other	Total
Expenditures to maintain the assets .....	\$ 4,975	\$ 3,138	\$ 5,273	\$ 1,074	\$14,460
Tenant allowances and leasing commissions	46,187	2,397	5,041	--	53,625
	\$51,162	\$ 5,535	\$10,314	\$ 1,074	\$68,085

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Net cash provided by financing activities of \$879,815 was primarily comprised of (i) proceeds from borrowings of \$1,427,821, (ii) proceeds from the issuance of common shares of \$445,247 and (iii) proceeds from the issuance of preferred shares of \$85,313, partially offset by (iv) repayment of borrowings of \$883,475, (v) dividends paid on common shares of \$154,440 and (vi) dividends paid on preferred shares of \$18,816.

Year Ended December 31, 1997

Cash flows provided by operating activities of \$115,473 was comprised of (i) net income of \$61,023, (ii) adjustments for non-cash items of \$39,723 and (iii) the net change in operating assets and liabilities of \$14,727. The adjustments for non-cash items are primarily comprised of (i) amortization of deferred officer's compensation expense of \$22,917 and (ii) depreciation and amortization of \$24,460.

Net cash used in investing activities of \$1,064,484 was primarily comprised of (i) acquisitions of real estate of \$887,423 (see detail below), (ii) investments in mortgage loans receivable of \$71,663 (see detail below), (iii) capital expenditures of \$23,789, (iv) restricted cash for tenant improvements of \$27,079 and (v) real estate deposits of \$46,152. Acquisitions of real estate and investments in mortgage loans receivable are comprised of:

	Cash	Debt Assumed	Value of Shares or Units Issued	Assets Acquired
<b>Real Estate:</b>				
Mendik Transaction .....	\$ 263,790	\$ 215,279	\$ 177,000	\$ 656,069
60% interest in Cold Storage Companies ....	243,846	376,800	--	620,646
Green Acres Mall .....	--	125,000	102,015	227,015
90 Park Avenue office building .....	185,000	--	--	185,000
Montehiedra shopping center .....	11,000	63,000	--	74,000
40% interest in Hotel Pennsylvania .....	17,487	48,000	--	65,487
640 Fifth Ave. office building .....	64,000	--	--	64,000
15% interest in Charles E. Smith Commercial Realty L.P. ....	60,000	--	--	60,000
Riese properties .....	26,000	--	--	26,000
1135 Third Avenue and other .....	16,300	--	--	16,300
	887,423	828,079	279,015	1,994,517
<b>Mortgage loans receivable:</b>				
Riese properties .....	41,649	--	--	41,649
20 Broad Street .....	27,000	--	--	27,000
909 Third Ave. and other, net .....	3,014	--	--	3,014
	71,663	--	--	71,663
<b>Total Acquisitions .....</b>	<b>\$ 959,086</b>	<b>\$ 828,079</b>	<b>\$ 279,015</b>	<b>\$2,066,180</b>

Net cash provided by financing activities of \$1,215,269 was primarily comprised of proceeds from (i) borrowings of \$770,000 (ii) issuance of common shares of \$688,672, and (iii) issuance of preferred shares of \$276,000, partially offset by (iv) repayment of borrowings of \$409,633, (v) dividends paid on common shares of \$77,461, (vi) dividends paid on preferred shares of \$15,549 and (vii) the repayment of borrowings on U.S. Treasury obligations of \$9,636.

Year Ended December 31, 1996

Cash flows provided by operating activities of \$70,703 was comprised of (i) net income of \$61,364 and (ii) adjustments for non-cash items of \$9,972, less (iii) the net change in operating assets and liabilities of \$633. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$12,586 and amortization of deferred officers compensation expense of \$2,083, partially offset by the effect of straight-lining of rental income of \$2,676 and equity in income from Alexander's of \$1,108. The net change in "Leasing fees receivable" and "Deferred leasing fee income" included in item (iii) above reflects a decrease of \$1,717 resulting from the rejection of a lease by an Alexander's tenant in March 1996 and an increase of \$1,738 resulting from the releasing of a portion of this space. "Leasing fees receivable" of \$2,500 were collected during this period.

Net cash provided by investing activities of \$14,912 was comprised of (i) proceeds from sale or maturity of securities available for sale of \$46,734, partially offset by (ii) the Company's investment in a mortgage note receivable of \$17,000 and (iii) capital expenditures of \$14,822 (including \$8,923 for the purchase of an office building).

Net cash used in financing activities of \$15,046 was primarily comprised of (i) dividends paid of \$59,558, (ii) the net repayment of borrowings on U.S. Treasury obligations of \$34,239, (iii) the net repayment on mortgages of \$966, partially offset by (iv) net proceeds from the issuance of common shares of \$73,060 and (v) the proceeds from the exercise of stock options of \$6,657.

Cash increased during the period from December 31, 1995 to December 31, 1996, from \$19,127 to \$89,696, primarily as the result of the issuance of common shares in the fourth quarter of 1996 as noted above.

Funds from Operations for the Years Ended December 31, 1998 and 1997

Funds from operations were \$218,899 in the year ended December 31, 1998, compared to \$72,619 in the prior year, an increase of \$146,280. Funds from operations for the year ended December 31, 1997 reflect amortization of the deferred payment due to the Company's President and related compensation of \$25,397, compared to no such amortization in 1998. The following table reconciles funds from operations and net income:

	Year Ended December 31,	
	----- 1998 -----	----- 1997 -----
Net income applicable to common shares .....	\$ 131,164	\$ 45,474
Depreciation and amortization of real property .....	58,277	22,413
Straight-lining of property rentals for rent escalations .....	(14,531)	(3,359)
Net gain from insurance settlement and condemnation proceedings .....	(9,649)	--
Minority interest in excess of preferential distributions .....	(3,991)	--
Appreciation of securities held in officer's deferred compensation trust	340	--
Gain on sale of securities available for sale .....	(898)	--
Leasing fees received in excess of income recognized .....	1,339	1,733
Proportionate share of adjustments to equity in net income of partially-owned entities to arrive at funds from operations .....	56,848	6,358
Funds from operations .....	\$ 218,899	\$ 72,619
	=====	=====

The number of shares that should be used for determining funds from operations per share is the number used for diluted earnings per share. (See Note 15 of Notes to Consolidated Financial Statements.)

Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of funds from operations. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers funds from operations a supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations may not be comparable to similarly titled measures reported by other REITs since a number of REITs, including the Company, calculate funds from operations in a manner different from that used by

the National Association of Real Estate Investment Trusts ("NAREIT"). Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified to adjust for the effect of straight-lining of property rentals for rent escalations and leasing fee income. Below are the cash flows provided by (used in) operating, investing and financing activities:

	Year Ended December 31,	
	1998	1997
Operating activities	\$ 189,406	\$ 115,473
Investing activities	\$(1,257,367)	\$(1,064,484)
Financing activities	\$ 879,815	\$ 1,215,269

#### Certain Cash Requirements

In January 1999, the Company acquired the leasehold interest in 888 Seventh Avenue for approximately \$100,000 including \$55,000 of indebtedness. Further, in 1999, under the mortgage for the Hotel Pennsylvania, in connection with the redevelopment, the Company is required to escrow \$37,000.

The Company has budgeted approximately \$39,805 for capital expenditures (excluding acquisitions) over the next year as follows:

	New York City Office	Retail	Cold Storage	Merchandise Mart	Total
Expenditures to maintain the assets	\$ 3,600	\$ 2,480	\$ 3,000(1)	\$ 3,000	\$12,080
Tenant allowances and leasing commissions	22,175	2,000	--	6,550	30,725
	\$25,775	\$ 4,480	\$ 3,000	\$ 9,550	\$42,805

(1) Represents the Company's 60% share of the Vornado/Crescent Partnership's obligation to fund up to \$5,000 of capital expenditures per annum.

Tenant allowances and leasing commissions for the New York City Office properties approximate \$21.00 per square foot for renewal space and \$52.00 per square foot for vacant space. Historically, approximately two-thirds of existing tenants renew their leases.

In addition to the capital expenditures reflected above, the Company is currently engaged in or considering certain multi-year development and redevelopment projects for which it has budgeted approximately \$387 million as outlined in the "Development and Redevelopment Projects" section of Item 1--Business (Items (i) through (vi)). The \$387 million does not include amounts for other projects which are also included in the "Development and Redevelopment Projects" section of Item 1--Business, as no budgets for them have been finalized. There can be no assurance that any of the above projects will be ultimately completed, completed on time or completed for the budgeted amount.

No cash requirements have been budgeted for the capital expenditures and amortization of debt of CESCO, Newkirk or Alexander's, which are partially owned by the Company. These investees are expected to fund their own cash requirements. Newkirk and Alexander's are not expected to distribute any cash to the Company in 1999. In 1999, the Company expects to receive at a minimum, preferred distributions from CESCO of approximately \$13.9 million (7,679,365 preferred units at \$1.81 per unit) and common distributions of approximately \$3.5 million (2,500,000 common units at \$1.40 per unit - current dividend rate). The minimum preferred distribution rate increases by .25% each year for the next three years.

In July 1997, the Company obtained a \$600,000 unsecured three-year revolving credit facility. In February 1998, the facility was increased to \$1,000,000. At December 31, 1998, the Company had approximately \$687,250 outstanding under the facility.

In February 1998, the Company completed a \$160,000 refinancing of the Green Acres Mall and prepaid the then existing \$118,000 debt on the property.

The new 10-year debt matures in March 2008 and bears interest at 6.75%.

In June 1998, the Company completed a \$275,000 refinancing of its One Penn Plaza office building and borrowed \$170,000 pursuant thereto. In the third quarter of 1998, the Company borrowed the remaining \$105,000. The debt matures in June 2002, is prepayable at anytime, and bears interest at LIBOR + 1.25% (currently 6.35%). This debt replaced the \$93,000 bridge-mortgage loan financing put in place when the property was acquired.

In April 1998, the Cold Storage Companies completed a \$550,000 ten-year loan secured by 58 of its warehouses. The loan bears interest at 6.89%. The net proceeds from the loan together with working capital were used to repay \$607,000 of bridge financing, which replaced high yield debt assumed at the date of acquisition.

In October 1998, the Company completed its spin-off of Vornado Operating Company, which the Company capitalized with an equity contribution of \$25,000 of cash. In addition, Vornado entered into a \$75,000 revolving credit agreement with Vornado Operating Company.

On March 12, 1999 the Vornado/Crescent Partnerships sold all of the non-real estate assets of the Cold Storage Companies encompassing the operations of the cold storage business for approximately \$48,000 to a new partnership owned 60% by Vornado Operating Company and 40% by Crescent Operating Inc.

In November and December of 1998, the Company sold an aggregate of \$87,500 of 8.5% Series D-1 Cumulative Redeemable Preferred Units in the Operating Partnership to an institutional investor in a private placement, resulting in net proceeds of approximately \$85,300. The perpetual Preferred Units may be called without penalty at the option of the Company commencing on November 12, 2003.

In February 1999, the Company completed a \$165,000 refinancing of its Two Penn Plaza office building and prepaid the then existing \$80,000 debt on the property. The new 5-year debt matures in February 2004 and bears interest at 7.08%.

In February 1999, the Company also exercised its option to extend the maturity date on the \$250,000 loan on its Chicago Merchandise Mart building from March 31, 1999 to September 30, 1999. In connection therewith, the Company paid a fee of 1/8%.

On March 17, 1999, the Company completed the sale of 3 million 8.5% Series B Cumulative Redeemable Preferred Shares, at a price \$25.00 per share, pursuant to an effective registration statement with net proceeds to the Company of approximately \$72,200. Further on March 22, 1999, 400,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of \$9,700. The perpetual preferred shares may be called without penalty at the option of the Company commencing on March 17, 2004.

The Company has an effective shelf registration under which it can offer an aggregate of \$1.5 billion of equity securities and an aggregate of \$1.0 billion of debt securities.

The Company anticipates that cash from continuing operations will be adequate to fund business operations and the payment of dividends and distributions on an on-going basis for more than the next twelve months; however, capital outlays for significant acquisitions will require funding from borrowings or equity offerings.

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#### Acquisition Activity

As a result of acquisitions, the book value of the Company's assets have grown from \$2,524,089 at December 31, 1997 to \$4,425,779 at December 31, 1998.

The Company's future success will be affected by its ability to integrate the assets and businesses it acquires and to effectively manage those assets and businesses. The Company currently expects to continue to grow at a relatively fast pace. However, its ability to do so will be dependent on a number of factors, including, among others, (a) the availability of reasonably priced assets that meet the Company's acquisition criteria and (b) the price of the Company's common stock, the rates at which the Company is able to borrow money and, more generally, the availability of financing on terms that, in the Company's view, make such acquisitions financially attractive.

#### Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Because the

Company does not currently utilize derivatives or engage in significant hedging activities, management does not anticipate that implementation of this statement will have a material effect on the Company's financial statements.

In April, 1998 the American Institute of Certified Public Accountants Issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities", (98-5) which is effective for the Company in the first quarter of 1999. The Company has no deferred organization costs or other deferred start-up costs as defined in 98-5, and therefore adoption of 98-5 will have no impact in the first quarter of 1999.

#### Year 2000 Issues

Year 2000 compliance programs and information systems modification were initiated by the Company in early 1998 to address the risk posed by the year 2000 issue. The Company developed a plan to address their affected informational (accounting, billing, payroll) and operational (refrigeration, HVAC, security, elevators, lighting, energy management) systems. The Company's plan also considers statements from outside vendors as to their year 2000 readiness.

The Company and its partially-owned entities have completed their initial assessment, inventory and planning phases of their plan and have determined that the majority of their systems, including all mission critical systems are already year 2000 compliant. The Company anticipates that any issues encountered with informational or operational systems will be remediated. The Company expects that where appropriate, all mission critical systems will be tested by June 30, 1999. The cost of the Company's year 2000 plan was not material to 1998 operations and is not expected to be material to 1999 operations.

The Company believes that its exposure may be the failure of third parties (i.e., energy providers) in meeting their commitments which may result in temporary business interruption at the Company's buildings, retail centers, mart properties, cold storage warehouses and other real estate related properties. The Company has contingency plans for its own day to day informational and operational systems and is in the process of updating these plans. Failure of third parties with which the Company conducts business to successfully respond to their year 2000 issues may have an adverse effect on the Company.

#### Economic Conditions

Substantially all of the Company's office, retail and permanent showroom leases contain step-ups in rent. Such rental increases are not designed to, and in many instances do not, approximate the cost of inflation, but do have the effect of mitigating the adverse impact of inflation. In addition, substantially all of the Company's leases contain provisions that require the tenant to reimburse the Company for the tenant's share of common area charges (including roof and structure in strip shopping centers, unless it is the tenant's direct responsibility) and real estate taxes or for increases of such expenses over a base amount, thus offsetting, in part, the effects of inflation on such expenses.

Inflation did not have a material effect on the Company's results for the periods presented.

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#### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

At December 31, 1998, the Company has \$1,426,777,000 of variable rate debt at a weighted average rate of 6.55% and \$624,223,000 of fixed rate debt bearing interest at a weighted average rate of 7.00%. A one-percent increase in the base used to determine the interest rate of the variable rate debt would result in a \$14,268,000 decrease in the Company's net income (\$.18 per diluted share). The fair value of the Company's debt at December 31, 1998, based on 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 approximates its carrying value.

In July 1998, the Company entered into an interest rate cap agreement to reduce the impact of changes in interest rates on its \$275,000,000 One Penn Plaza loan. The agreement caps the Company's interest rate in the event that LIBOR increases above 8.5% through January 20, 2000 and 9% thereafter, until the termination date of the cap agreement on July 30, 2001 (the debt matures in June 2002). The Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate cap agreement. However, the Company does not anticipate nonperformance by the counterparty. The fair value of the interest rate cap agreement at December 31, 1998 approximates its cost.

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#### Item 8. Financial Statements and Supplementary Data



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Item 9. Changes In and Disagreements With Independent Auditors on Accounting and Financial Disclosure

Not applicable.

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INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Trustees  
Vornado Realty Trust  
Saddle Brook, New Jersey

We have audited the accompanying consolidated balance sheets of Vornado Realty Trust as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 14. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Vornado Realty Trust at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
March 24, 1999

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VORNADO REALTY TRUST

CONSOLIDATED BALANCE SHEETS

	December 31,	
	----- 1998	1997 -----
	-----	-----
(amounts in thousands except share amounts)		
ASSETS		
Real estate, at cost:		
Land .....	\$ 743,324	\$ 436,274
Buildings and improvements .....	2,561,383	1,118,334
Leasehold improvements and equipment .....	11,184	9,485
	-----	-----
Total .....	3,315,891	1,564,093
Less accumulated depreciation and amortization .....	(226,816)	(173,434)
	-----	-----
Real estate, net .....	3,089,075	1,390,659
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of \$56,500 and \$8,775 .....	167,808	355,954

Restricted cash .....	44,195	27,079
Marketable securities .....	77,156	34,469
Investments and advances to partially-owned entities, including Alexander's of \$104,038 and \$108,752 .....	827,840	482,787
Due from officers .....	17,165	8,625
Accounts receivable, net of allowance for doubtful accounts of \$3,044 and \$658 .....	35,517	16,663
Mortgage loans receivable .....	10,683	88,663
Receivable arising from the straight-lining of rents .....	49,711	24,127
Deposits in connection with real estate acquisitions .....	22,947	47,275
Other assets .....	83,682	47,788
	-----	-----
	\$ 4,425,779	\$ 2,524,089
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Notes and mortgages payable .....	\$ 1,363,750	\$ 586,654
Revolving credit facility .....	687,250	370,000
Accounts payable and accrued expenses .....	109,925	36,538
Officer's compensation payable .....	35,628	25,000
Deferred leasing fee income .....	10,051	9,927
Other liabilities .....	3,196	3,641
	-----	-----
Total liabilities .....	2,209,800	1,031,760
	-----	-----
Minority interest of unitholders in the Operating Partnership .....	433,301	178,567
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized, 20,000,000 shares; liquidation preference \$50.00 per share (\$289,462 in total); issued 5,789,239 and 5,789,315 shares .....	282,758	279,884
Common shares of beneficial interest: \$.04 par value per share; authorized, 100,000,000 shares; issued and outstanding, 85,076,542 and 72,164,654 shares ..	3,403	2,887
Additional capital .....	1,653,208	1,146,385
Accumulated deficit .....	(132,837)	(109,561)
	-----	-----
	1,806,532	1,319,595
Accumulated other comprehensive loss .....	(18,957)	(840)
Due from officers for purchase of common shares of beneficial interest .....	(4,897)	(4,993)
	-----	-----
Total shareholders' equity .....	1,782,678	1,313,762
	-----	-----
	\$ 4,425,779	\$ 2,524,089
	=====	=====

See notes to consolidated financial statements.

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VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1998	1997	1996
(amounts in thousands except per share amounts)			
Revenues:			
Property rentals .....	\$ 425,496	\$ 168,321	\$ 87,424
Expense reimbursements .....	74,737	36,652	26,644
Other income (including fee income from related parties of \$2,327, \$1,752 and \$2,569) ...	9,627	4,158	2,819
	-----	-----	-----
Total revenues .....	509,860	209,131	116,887
	-----	-----	-----
Expenses:			
Operating .....	207,171	74,745	36,412
Depreciation and amortization .....	59,227	22,983	11,589
General and administrative .....	28,610	13,580	5,167
Amortization of officer's deferred compensation expense	--	22,917	2,083
	-----	-----	-----
Total expenses .....	295,008	134,225	55,251
	-----	-----	-----
Operating income .....	214,852	74,906	61,636
Income applicable to Alexander's .....	3,123	7,873	7,956
Income from partially-owned entities .....	32,025	4,658	1,855
Interest and other investment income .....	24,074	23,767	6,643
Interest and debt expense .....	(114,686)	(42,888)	(16,726)
Net gain from insurance settlement and condemnation proceeding .....	9,649	--	--
Minority interest .....	(16,183)	(7,293)	--

Net income .....	152,854	61,023	61,364
Preferred stock dividends (including accretion of issuance expenses of \$2,874 in 1998 and \$1,918 in 1997) .....	(21,690)	(15,549)	--
NET INCOME applicable to common shares .....	\$ 131,164	\$ 45,474	\$ 61,364
NET INCOME PER COMMON SHARE-BASIC .....	\$ 1.62	\$ .83	\$ 1.26
NET INCOME PER COMMON SHARE-DILUTED .....	\$ 1.59	\$ .79	\$ 1.25

See notes to consolidated financial statements.

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VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Shares	Common Shares	Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
(amounts in thousands except share amounts)					
Balance, January 1, 1996 .....		\$ 970	\$ 279,231	\$ (79,380)	\$ (1,362)*
Net Income .....		--	--	61,364	--
Net proceeds from issuance of common shares ..		60	73,000	--	--
Dividends paid (\$1.22 per share) .....		--	--	(59,558)	--
Common shares issued under employees' share plans .....		14	6,643	--	--
Change in unrealized gains on securities available for sale .....		--	--	--	364
Forgiveness of amount due from officers .....		--	--	--	--
Balance, December 31, 1996 .....		1,044	358,874	(77,574)	(998)
Net income .....		--	--	61,023	--
Dividends paid on preferred shares (\$2.37 per share) .....		--	--	(15,549)	--
Net proceeds from issuance of preferred shares (including accretion of \$1,918) .....	\$ 277,918	--	--	--	--
Two-for-one common share split .....	--	1,044	(1,044)	--	--
Net proceeds from issuance of common shares ..	--	644	688,028	--	--
Shares issued in connection with Arbor acquisition .....	1,966	117	99,932	--	--
Dividends paid on common shares (\$1.36 per share) .....	--	--	--	(77,461)	--
Common shares issued in connection with an employment agreement and employees' share plans .....	--	38	595	--	--
Change in unrealized gains on securities available for sale .....	--	--	--	--	158
Forgiveness of amount due from officers .....	--	--	--	--	--
Balance, December 31, 1997 .....	279,884	2,887	1,146,385	(109,561)	(840)
Net Income .....	--	--	--	152,854	--
Dividends paid on preferred shares (\$2.37 per share) .....	--	--	--	(21,690)	--
Dividends paid on common shares (\$1.64 per share) .....	--	--	--	(131,110)	--
Net proceeds from issuance of common shares .....	--	445	444,118	--	--
Common shares issued in connection with Mendik RELP properties acquisition .....	--	34	29,029	--	--
Common shares issued under employees' share plan .....	--	2	907	--	--
Conversion of units to common shares .....	--	35	32,745	--	--
Capital contribution to Vornado Operating Company .....	--	--	--	(23,330)	--
Accretion of issuance expenses on preferred shares .....	2,874	--	--	--	--

Common shares issued in connection with dividend reinvestment plan .....	--	--	24	--	--
Change in unrealized (losses) on securities available for sale .....	--	--	--	--	(5,047)
Appreciation of securities held in officer's deferred compensation trust ..	--	--	--	--	(10,464)
Pension obligations .....	--	--	--	--	(2,606)
Forgiveness of amount due from Officers .....	--	--	--	--	--
Balance, December 31, 1998 .....	\$ 282,758	\$ 3,403	\$ 1,653,208	\$ (132,837)	\$ (18,957)
	=====	=====	=====	=====	=====

\* Represents unrealized losses on securities available for sale.

	Due (to) from Officers	Shareholders' Equity	Comprehensive Income
	-----	-----	-----
(amounts in thousands except share amounts)			
Balance, January 1, 1996 .....	\$ (5,185)	\$ 194,274	
Net Income .....	--	61,364	\$ 61,364
Net proceeds from issuance of common shares ..	--	73,060	--
Dividends paid (\$1.22 per share) .....	--	(59,558)	--
Common shares issued under employees' share plans .....	--	6,657	--
Change in unrealized gains on securities available for sale .....	--	364	364
Forgiveness of amount due from officers .....	96	96	--
Balance, December 31, 1996 .....	(5,089)	276,257	\$ 61,728
			=====
Net income .....	--	61,023	\$ 61,023
Dividends paid on preferred shares (\$2.37 per share) .....	--	(15,549)	--
Net proceeds from issuance of preferred shares (including accretion of \$1,918) .....	--	277,918	--
Two-for-one common share split .....	--	--	--
Net proceeds from issuance of common shares ..	--	688,672	--
Shares issued in connection with Arbor acquisition .....	--	102,015	--
Dividends paid on common shares (\$1.36 per share) .....	--	(77,461)	--
Common shares issued in connection with an employment agreement and employees' share plans .....	--	633	--
Change in unrealized gains on securities available for sale .....	--	158	158
Forgiveness of amount due from officers .....	96	96	--
Balance, December 31, 1997 .....	(4,993)	1,313,762	\$ 61,181
			=====
Net Income .....	--	152,854	\$ 152,854
Dividends paid on preferred shares (\$2.37 per share) .....	--	(21,690)	--
Dividends paid on common shares (\$1.64 per share) .....	--	(131,110)	--
Net proceeds from issuance of common shares .....	--	444,563	--
Common shares issued in connection with Mendik RELP properties acquisition .....	--	29,063	--
Common shares issued under employees' share plan .....	--	909	--
Conversion of units to common shares .....	--	32,780	--
Capital contribution to Vornado Operating Company .....	--	(23,330)	--
Accretion of issuance expenses on preferred shares .....	--	2,874	--
Common shares issued in connection with dividend reinvestment plan .....	--	24	--
Change in unrealized (losses) on securities available for sale .....	--	(5,047)	(5,047)
Appreciation of securities held in officer's deferred compensation trust ..	--	(10,464)	(10,464)

Pension obligations .....	--	(2,606)	(2,606)
Forgiveness of amount due from Officers .....	96	96	--
Balance, December 31, 1998 .....	\$ (4,897)	\$ 1,782,678	\$ 134,737
	=====	=====	=====

See notes to consolidated financial statements.

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VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1998	1997	1996
(amounts in thousands)			
Cash Flows from Operating Activities			
Net income .....	\$ 152,854	\$ 61,023	\$ 61,364
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization (including debt issuance costs) .....	59,227	24,460	12,586
Amortization of officer's deferred compensation expense ....	--	22,917	2,083
Straight-lining of rental income .....	(17,561)	(7,075)	(2,676)
Minority interest .....	16,183	7,293	--
Equity in loss (income) of Alexander's .....	3,363	(2,188)	(1,108)
Equity in income of partially-owned entities .....	(32,025)	(4,658)	--
Gain on marketable securities .....	(1,530)	(1,026)	(913)
Gain from insurance settlement and condemnation .....	(9,649)	--	--
Changes in operating assets and liabilities .....	18,544	14,727	(633)
Net cash provided by operating activities .....	189,406	115,473	70,703
Cash Flows from Investing Activities:			
Acquisitions of real estate and other .....	(896,800)	(887,423)	--
Investments in partially-owned entities .....	(308,000)	--	--
Investments in mortgage loans receivable .....	(6,620)	(71,663)	(17,000)
Repayment of mortgage loans receivable .....	57,600	--	--
Cash restricted for tenant improvements .....	(14,716)	(27,079)	--
Additions to real estate .....	(68,085)	(23,789)	(14,822)
Real estate deposits and other .....	26,988	(46,152)	--
Purchases of securities available for sale .....	(73,513)	(8,378)	--
Proceeds from sale or maturity of securities available for sale .....	25,779	--	46,734
Net cash (used in) provided by investing activities .....	(1,257,367)	(1,064,484)	14,912
Cash Flows from Financing Activities:			
Proceeds from borrowings .....	1,427,821	770,000	10,000
Repayments on borrowings .....	(883,475)	(409,633)	(10,966)
Costs of refinancing debt .....	(11,418)	(3,038)	--
Proceeds from issuance of common shares .....	445,247	688,672	73,060
Proceeds from issuance of preferred shares .....	--	276,000	--
Proceeds from issuance of preferred units .....	85,313	--	--
Proceeds from borrowings on U.S. Treasury obligations .....	--	--	10,000
Repayment of borrowings on U.S. Treasury obligations .....	--	(9,636)	(44,239)
Dividends paid on common shares .....	(154,440)	(77,461)	(59,558)
Dividends paid on preferred shares .....	(18,816)	(15,549)	--
Distributions to minority shareholders .....	(11,229)	(4,719)	--
Exercise of share options .....	812	633	6,657
Net cash provided by (used in) financing activities .....	879,815	1,215,269	(15,046)
Net (decrease) increase in cash and cash equivalents .....	(188,146)	266,258	70,569
Cash and cash equivalents at beginning of year .....	355,954	89,696	19,127
Cash and cash equivalents at end of year .....	\$ 167,808	\$ 355,954	\$ 89,696
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest .....	\$ 111,089	\$ 38,968	\$ 15,695
Non-Cash Transactions:			
Financing in connection with acquisitions .....	\$ 526,000	\$ 403,279	\$ --
Shares issued in connection with acquisitions .....	29,000	102,015	--
Minority interest in connection with acquisitions .....	184,000	177,000	--
Deferred officer's compensation expense and related liability .	--	--	25,000
Unrealized (loss) gain on securities available for sale .....	(5,047)	158	364

See notes to consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Vornado Realty Trust is a fully-integrated real estate investment trust ("REIT"). In April 1997, Vornado transferred substantially all of its assets to Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). As a result, Vornado now conducts its business through, the Operating Partnership. Vornado is the sole general partner of, and owned approximately 85% of the limited partnership common interest in, the Operating Partnership at March 17, 1999. All references to the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

The Company currently owns directly or indirectly:

Office Building Properties ("Office"):

(i) all or portions of 21 office building properties in the New York City metropolitan area (primarily Manhattan) containing approximately 12.5 million square feet;

(ii) a 34% limited partnership interest in Charles E. Smith Commercial Realty L.P. ("CESCR"), a limited partnership, which owns interests in and manages approximately 10.7 million square feet of office properties in Northern Virginia and Washington D.C., and manages an additional 14.6 million square feet of office and other commercial properties in the Washington, D.C. area;

Retail Properties ("Retail"):

(iii) 59 shopping center properties in seven states and Puerto Rico containing approximately 12.2 million square feet, including 1.4 million square feet built by tenants on land leased from the Company;

Cold Storage Companies ("Cold Storage"):

(iv) a 60% interest in partnerships that own 88 warehouse facilities nationwide with an aggregate of approximately 450 million cubic feet of refrigerated, frozen and dry storage space; (excludes 13 additional warehouses containing approximately 30 million cubic feet managed by the Cold Storage Companies - see "Spin-off of Vornado Operating Company");

Merchandise Mart Properties:

(v) the Merchandise Mart properties containing approximately 6.7 million square feet, including the 3.4 million square foot Merchandise Mart in Chicago;

Other Real Estate Investments:

(vi) approximately 29.3% of the outstanding common stock of Alexander's, Inc. ("Alexander's"), which has eight properties in the New York City metropolitan area;

(vii) an 80% interest in the Hotel Pennsylvania, a New York City hotel which contains 800,000 square feet of space with 1,700 rooms and 400,000 square feet of retail and office space;

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

(ix) other real estate and investments.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spin-off of Vornado Operating Company

General

Vornado Operating Company ("Vornado Operating"), was incorporated on October 30, 1997, as a wholly owned subsidiary of the Company. In order to maintain its status as a REIT for federal income tax purposes, the Company is required to focus principally on investment in real estate assets. Accordingly, the Company is prevented from owning certain assets and conducting certain activities that would be inconsistent with its status as a REIT. Vornado Operating was formed to own assets that Vornado could not itself own and conduct activities that Vornado could not itself conduct. Vornado Operating is intended to function principally as an operating company, in contrast to the Company's principal focus on investment in real estate assets. Vornado Operating is able to do so because it is taxable as a regular "C" corporation rather than a REIT.

Vornado Operating will seek to become the operator of businesses conducted at properties it leases from the Company, as contemplated by the Intercompany Agreement between the Company and Vornado Operating (the "Intercompany Agreement"), referred to below. Vornado Operating expects to rely exclusively on the Company to identify business opportunities and currently expects that those opportunities will relate in some manner to the Company and its real estate investments rather than to unrelated businesses.

#### The Distribution

On October 16, 1998, the Operating Partnership made a distribution (the "Distribution") of one share of common stock, par value \$.01 per share (the "Common Stock"), of Vornado Operating for 20 units of limited partnership interest of the Operating Partnership (including units owned by the Company) held of record as of the close of business on October 9, 1998 and Vornado Realty Trust in turn made a distribution of the Common Stock it received to the holders of its common shares of beneficial interest. While no Common Stock was distributed in respect of the Company's \$3.25 Series A Convertible Preferred Shares, the Company adjusted the Conversion Price to take into account the Distribution. Vornado Operating's Common Stock is listed on the American Stock Exchange under the symbol "VOO".

#### Capital Contribution and Revolving Credit Agreement.

The Company initially capitalized Vornado Operating with an equity contribution of \$25,000,000 of cash. As part of its formation, Vornado Operating was granted a \$75,000,000 unsecured five-year revolving credit facility from Vornado (the "Revolving Credit Agreement"). Borrowings under the Revolving Credit Agreement bear interest at a floating rate per annum equal to LIBOR plus 3%. Commencing January 1, 1999, Vornado Operating pays the Company a commitment fee equal to 1% per annum on the average daily unused portion of the facility. Amounts may be borrowed under the Revolving Credit Agreement, repaid and reborrowed from time to time on a revolving basis (so long as the principal amount outstanding at any time does not exceed \$75,000,000). Only interest and commitment fees are payable under the Revolving Credit Agreement until it expires. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. Debt under the Revolving Credit Agreement is recourse to Vornado Operating.

#### Intercompany Agreement.

The Company and Vornado Operating have entered into the Intercompany Agreement pursuant to which, among other things, (a) the Company will under certain circumstances offer Vornado Operating an opportunity to become the lessee of certain real property owned now or in the future by the Company (under mutually satisfactory lease terms) and (b) Vornado Operating will not make any real estate investment or other REIT-Qualified Investment unless it first offers the Company the opportunity to make such investment and the Company has rejected that opportunity.

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#### VORNADO REALTY TRUST

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the Intercompany Agreement, the Company has agreed to provide Vornado Operating with certain administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating will compensate the Company in an amount determined in good faith by the Company as the amount an unaffiliated third party would charge Vornado Operating for comparable services and will reimburse the Company for certain costs incurred and paid to third parties on behalf of Vornado Operating. For the period from October 16, 1998 (commencement date) to December 31, 1998, approximately \$50,000 of compensation for such services was charged pursuant to the Intercompany Agreement.

Vornado Operating and the Company each have the right to terminate the Intercompany Agreement if the other party is in material default of the Intercompany Agreement or upon 90 days written notice to the other party at any time after December 31, 2003. In addition, the Company has the right to terminate the Intercompany Agreement upon a change in control of Vornado

Operating.

Vornado Operating's Management.

Messrs. Roth, Fascitelli, West and Wight are directors of Vornado Operating. Mr. Roth is also Chairman of the Board and Chief Executive Officer of Vornado Operating, Mr. Fascitelli is also President of Vornado Operating, and certain other members of the Company's senior management hold a corresponding position with Vornado Operating.

The Cold Storage Companies.

On October 31, 1997, partnerships (the "Vornado/Crescent Partnerships") in which affiliates of the Company have a 60% interest and affiliates of Crescent Real Estate Equities Company have a 40% interest acquired each of Americold Corporation ("Americold") and URS Logistics, Inc. ("URS"). In June 1998, the Vornado/Crescent Partnerships acquired the assets of Freezer Services, Inc. and in July 1998 acquired the Carmar Group (Americold, URS, Freezer Services, Inc. and the Carmar Group, collectively, the "Cold Storage Companies").

On March 12, 1999, the Vornado/Crescent Partnerships sold all of the non-real estate assets of the Cold Storage Companies encompassing the operations of the cold storage business for approximately \$48,000,000 to a new partnership owned 60% by Vornado Operating Company and 40% by Crescent Operating Inc. The new partnership leases the underlying cold storage warehouses used in this business from the Vornado/Crescent Partnerships which continue to own the real estate. The leases have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on customer revenues. The new partnership is required to pay for all costs arising from the operation, maintenance and repair of the properties, as well as property capital expenditures in excess of \$5,000,000 annually. Fixed base rent and percentage rent for the initial lease year is projected to be approximately \$151 million. The new partnership has the right to defer a portion of the rent for up to three years beginning on March 12, 1999 to the extent that available cash, as defined in the leases, is insufficient to pay such rent.

Disposition and Acquisition of Interest in CESCO

On December 31, 1998, the Company sold approximately 1.7% of the outstanding partnership units of CESCO, (a Delaware limited partnership that owns interests in and manages approximately 10.7 million square feet of office properties in Crystal City, Arlington, Virginia, a suburb of Washington, D.C., and manages an additional 14.6 million square feet of office and other commercial properties in the Washington, D.C. area), to Vornado Operating Company, for an aggregate purchase price of approximately \$12,900,000 or \$34 per unit (which is the price at which CESCO issued partnership units in October 1998 in connection with a significant "roll-up" transaction). The purchase price was funded out of Vornado Operating's working capital. After giving effect to this purchase, the Company owned approximately 9.6% of CESCO as of December 31, 1998. In connection with this purchase, the Company granted to Vornado Operating an option to require the Company to repurchase all of the CESCO units at the price at which Vornado Operating purchased the CESCO units, plus a cumulative return on such amount at a rate of 10% per annum. The option was exercised on March 4, 1999. Accordingly, the Company reacquired the CESCO units from Vornado Operating for \$13,200,000.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements include the accounts of Vornado Realty Trust and its majority-owned subsidiary, Vornado Realty L.P. as well as interests acquired that individually (or in the aggregate with prior interests) exceed a 50% interest and the Company exercises unilateral control. All significant intercompany amounts have been eliminated. Equity interests in partially-owned entities include partnerships, joint ventures and preferred stock affiliates (corporations in which the Company owns all of the preferred stock and none of the common equity) and are accounted for under the equity method of accounting as the Company exercises significant influence. These investments are recorded initially at cost and subsequently adjusted for net equity in income (loss) and cash contributions and distributions. Ownership of the preferred stock entitles the Company to substantially all of the economic benefits in the preferred stock affiliates. The common stock of the preferred stock affiliates is owned by Officers and Trustees of Vornado.

Management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.



Real Estate: Real estate is carried at cost, net of accumulated depreciation and amortization. Betterments, major renewals and certain costs directly related to the acquisition, improvement and leasing of real estate are capitalized. Maintenance and repairs are charged to operations as incurred. Depreciation is provided on a straight-line basis over the assets estimated useful lives which range from 7 to 40 years. Tenant allowances are amortized on a straight-line basis over the lives of the related leases.

The Company's properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. In such an event, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future on an undiscounted basis, to the carrying amount of such property. Such carrying amount would be adjusted, if necessary, to reflect an impairment in the value of the asset.

Cash and Cash Equivalents: Cash and cash equivalents consist of highly liquid investments purchased with original maturities of three months or less. Cash and cash equivalents does not include cash restricted for tenant improvements at the Company's Two Penn Plaza office building of \$25,708,000 and cash restricted in connection with an officer's deferred compensation payable of \$4,823,000.

Marketable Securities: The Company has classified debt and equity securities which it intends to hold for an indefinite period of time as securities available for sale, equity securities it intends to buy and sell on a short term basis as trading securities and its preferred stock investment in Capital Trust as securities held to maturity. Unrealized gains and losses are included in earnings for trading securities and as a component of shareholder's equity and other comprehensive income for securities available for sale. Realized gains or losses on the sale of securities are recorded based on average cost.

At December 31, 1998 and 1997, marketable securities had an aggregate cost of \$83,043,000 and \$34,950,000 and an aggregate market value of \$77,156,000 and \$34,469,000 (of which \$6,826,000 and \$7,583,000 represents trading securities). The securities held to maturity of \$48,530,000 are reported at amortized cost. Gross unrealized gains and losses were \$513,000 and \$6,400,000 at December 31, 1998 and \$1,583,000 and \$2,064,000 at December 31, 1997.

Mortgage Loans Receivable: The Company evaluates the collectibility of both interest and principal of each of its loans, if circumstances warrant, to determine whether it is impaired. A loan is considered to be impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate. Interest on impaired loans is recognized on a cash basis.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Officers Compensation Payable: In July 1998, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board issued EITF 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested" (EITF 97-14). EITF 97-14 applies to the Company's accounting treatment of the Officers Compensation Payable as reflected in the balance sheet. The transition guidance of EITF 97-14 required the Company to record a charge to equity of \$10,464,000 which represents the appreciation in the value of the stock from the date the trust was established (at which time the price of the stock was \$21.75 per share) to September 30, 1998 (at which time the price of the stock was \$33.13 per share). In subsequent periods, appreciation in the stock's price above \$33.13 will be recognized as compensation expense and if the price fluctuates between \$33.13 and \$21.75, equity would be adjusted. For the quarter ended December 31, 1998, approximately \$340,000 was recognized as compensation expense as the price per share at December 31, 1998 was \$33.50.

Fair Value of Financial Instruments: All financial instruments of the Company are reflected in the accompanying consolidated balance sheets at amounts which, in management's estimation, based upon an interpretation of available market information and valuation methodologies (including discounted cash flow analyses with regard to fixed rate debt) are considered appropriate, and reasonably approximate their fair values. Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition of the Company's financial instruments.

Deferred Charges: Direct financing costs are deferred and amortized over the terms of the related agreements as a component of interest expense. Direct costs related to leasing activities are capitalized and amortized on a straight-line basis over the lives of the related leases. All other deferred charges are amortized on a straight-line basis in accordance with the terms of

the agreements to which they relate.

Revenue Recognition: Base rents, additional rents based on tenants' sales volume and reimbursement of the tenants' share of certain operating expenses are generally recognized when due from tenants. The straight-line basis is used to recognize base rents under leases entered into after November 14, 1985, which provide for varying rents over the lease terms.

Income Taxes: The Company operates in a manner intended to enable it to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986 as amended. Under those sections, a REIT which distributes at least 95% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company has distributed to shareholders an amount greater than its taxable income. Therefore, no provision for Federal income taxes is required. Dividend distributions for the year ended December 31, 1998, were characterized for Federal income tax purposes as ordinary income (81%), return of capital (17%) and capital gain (2%). The distributions for the tax years ended December 31, 1997 and 1996 were characterized for Federal income tax purposes as ordinary income.

The net basis of the Company's assets and liabilities for tax purposes is approximately \$920,000,000 lower than the amount reported for financial statement purposes.

Amounts Per Share: Basic earnings per share is computed based on average shares outstanding. Diluted earnings per share considers the effect of options, warrants and convertible securities. All share and per share information has also been adjusted for a 2-for-1 stock split in October 1997.

Stock Options: The Company accounts for stock-based compensation using the intrinsic value method. Under the intrinsic value method compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to the quoted market price of the Company's stock on the grant date. Accordingly, no compensation cost has been recognized for the Company's stock option plans.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Acquisitions

The Company completed approximately \$2.4 billion of real estate acquisitions or investments from January 1, 1998 through March, 1999 and \$2.0 billion in 1997. These acquisitions were consummated through subsidiaries or preferred stock affiliates of the Company and were recorded under the purchase method of accounting. Related net assets and results of operations have been included in these financial statements since their respective dates of acquisition. The respective purchase costs were allocated to acquired assets and assumed liabilities using their relative fair values as of the closing dates, based on valuations and other studies certain of which are not yet complete. Accordingly, the initial valuations are subject to change as such information is finalized. The Company believes that any such change will not be significant since the allocations were principally to real estate. The following are the details of the acquisitions or investments by segment:

Office:

Mendik Transaction

In April 1997, Vornado consummated the acquisition of interests in all or a portion of seven Manhattan office buildings and the management company held by Bernard H. Mendik, David R. Greenbaum and certain entities controlled by them (the "Mendik Group") and certain of their affiliates, which is operated as the Mendik Division. The properties acquired include (i) four wholly owned properties: Two Penn Plaza, Eleven Penn Plaza, 1740 Broadway and 866 U.N. Plaza and (ii) three partially owned properties: Two Park Avenue (40% interest), 330 Madison Avenue (24.8% interest) and 570 Lexington Avenue (5.6% interest). The consideration for the transaction was approximately \$656,000,000, including \$264,000,000 in cash, \$177,000,000 in the limited partnership units of the Operating Partnership ("Minority Interests") and \$215,000,000 in indebtedness.

90 Park Avenue

In May 1997, the Company acquired a mortgage loan from a consortium of banks collateralized by an office building located at 90 Park Avenue, Manhattan, New York. On August 21, 1997, the Company entered into an agreement with the owners of 90 Park Avenue pursuant to which the Company restructured the mortgage, took title to the land and obtained a 43-year lease on the building

under which the Company manages the building and receives the building's cash flow. As part of the restructuring, the amount of the debt was adjusted from the face value of \$193,000,000 to the May 1997 acquisition cost of \$185,000,000, the maturity date of the debt was extended to August 31, 2022 and the interest rate was set at 7.5%. The Company purchased the land from the borrower for \$8,000,000, which was further applied to reduce the debt to \$177,000,000. This investment is classified as real estate.

20 Broad Street

In September 1997, the Company purchased, at a discount, a mortgage on an office building at 20 Broad Street in Manhattan, New York for \$27,000,000. The mortgage, which was in default, yielded approximately 12%. In August 1998, the Company acquired the Mendik Group's 60% interest in the leasehold for approximately \$600,000 of Operating Partnership Units. In a related transaction, the Company sold a 40% interest in the mortgage to the other unrelated owner of the property for \$10,800,000. The purchase from the Mendik Group includes a provision for a future earn-out, capped at \$4,400,000 in additional units, based on leasing activity through December 31, 2004.

Charles E. Smith Commercial Realty Investment ("CESCR")

In October 1997, the Company acquired a 15% limited partnership interest in CESCR for \$60,000,000. CESCR owns interests in and manages approximately 10.7 million square feet of office properties in Northern Virginia and Washington, D.C. and manages an additional 14.6 million square feet of office and other commercial properties in the Washington, D.C. area. In October 1998, CESCR issued partnership units in connection with a significant roll-up transaction reducing the Company's limited partnership interest to 11.3%.

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#### VORNADO REALTY TRUST

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

On December 31, 1998, the Company sold approximately 1.7% of the outstanding partnership units of CESCR to Vornado Operating for an aggregate price of approximately \$12,900,000. In connection with this purchase, the Company granted Vornado Operating an option to require the Company to repurchase the units. The option was exercised on March 4, 1999. Accordingly, the Company reacquired the CESCR units from Vornado Operating for \$13,200,000.

On March 4, 1999 the Company made an additional \$242,000,000 investment in CESCR by contributing to CESCR the land under certain CESCR office properties in Crystal City, Arlington, Virginia and partnership interests in certain CESCR subsidiaries. The Company acquired these assets from Commonwealth Atlantic Properties, Inc. ("CAPI"), an affiliate of Lazard Freres Real Estate Investors L.L.C., immediately prior to the contribution to CESCR. Together with the Company's investment in CESCR made in 1997 and the units it reacquired from Vornado Operating Company, Vornado now owns approximately 34% of CESCR's limited partnership units. In addition, the Company acquired from CAPI for \$8,000,000 the land under a Marriott Hotel located in Crystal City.

The purchase price was paid to CAPI by Vornado issuing \$250,000,000 of 6% Convertible Preferred Units of the Company's operating partnership. The Preferred Units are convertible at \$44 per unit and the coupon increases to 6.50% over the next three years and then fixes at 6.75% in year eight. The Company will appoint one of three members to CESCR's Board of Managers, increasing under certain circumstances to two of four members in March 2002.

In connection with these transactions, the Company agreed to make a five-year \$41,000,000 loan to CAPI with interest at 8%, increasing to 9% ratably over the term. The loan is secured by approximately \$55,000,000 of the Company's units issued to CAPI as well as certain real estate assets.

640 Fifth Avenue

In December 1997, the Company acquired 640 Fifth Avenue, a Manhattan office building located at the corner of 51st Street, for approximately \$64,000,000.

Westport Corporate Office Park

In January 1998, the Company acquired the Westport Corporate Office Park from a limited partnership that included members of the Mendik Group. The purchase price was approximately \$14,000,000 consisting of \$6,000,000 of cash and an \$8,000,000 mortgage loan for the two buildings.

One Penn Plaza

In February 1998, the Company acquired a long-term leasehold interest in One Penn Plaza, a Manhattan office building for approximately \$410,000,000.

150 East 58th Street

In March 1998, the Company acquired 150 East 58th Street (the "Architects and Design Center"), a Manhattan office building, for approximately \$118,000,000.

570 Lexington Avenue - additional investment

In April 1998, the Company increased its interest from 5.6% to approximately 50% in 570 Lexington Avenue, an office building located in midtown Manhattan. The Company purchased the additional interest for approximately \$37,200,000, including \$4,900,000 of existing debt.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

888 Seventh Avenue and 40 Fulton Street

In June, 1998, the Company entered into an agreement to acquire the leasehold interest in 888 Seventh Avenue, a 46 story office building located in midtown Manhattan, and simultaneously acquired 40 Fulton Street, a 29 story office building located in downtown Manhattan. The aggregate consideration for both buildings is approximately \$154,500,000. The acquisition of 888 Seventh Avenue was completed in January 1999.

770 Broadway

In July 1998, the Company acquired 770 Broadway, a Manhattan office building, for approximately \$149,000,000, including \$18,000,000 of Operating Partnership Units.

689 Fifth Avenue

In August 1998, the Company acquired 689 Fifth Avenue, a 84,000 square foot Manhattan specialty building for approximately \$33,000,000 from a partnership that included Bernard H. Mendik, a former trustee of the Company.

Mendik Real Estate Limited Partnership Properties

In November 1998, the Company completed the acquisition of certain properties from the Mendik Real Estate Limited Partnership ("Mendik RELP"). The acquired real estate assets include (i) a leasehold interest in the Saxon Woods Corporate Center located at 550/600 Mamaroneck Avenue, in Harrison, New York, (ii) the remaining 60% interest in an office building located at Two Park Avenue, in Manhattan (the Company already owned 40%) and (iii) a leasehold interest in an office building located at 330 West 34th Street, also in Manhattan. The aggregate purchase price of approximately \$106,000,000, consists of \$31,000,000 of cash, \$29,000,000 of the Company's common shares and \$46,000,000 of debt.

Retail:

Montehiedra Town Center

In April 1997, the Company acquired The Montehiedra Town Center ("Montehiedra"), a shopping center, located in San Juan, Puerto Rico, for approximately \$74,000,000, of which \$63,000,000 was newly issued ten-year indebtedness.

Arbor Property Trust

In December 1997, the Company acquired Arbor Property Trust ("Arbor") for approximately 2,936,000 common shares of beneficial interest of Vornado and 39,400 Series A Convertible Preferred Shares of Vornado. The approximate value of the transaction was \$225,000,000, subject to property level debt of \$125,000,000. Arbor was a single property real estate investment trust which owned the Green Acres Mall, a super-regional enclosed shopping mall complex situated in Nassau County, Long Island, New York, approximately one-mile east of the borough of Queens, New York.

Las Catalinas Mall

In October 1998, the Company completed the acquisition of Kmart Corporation's ("Kmart") 50% interest in the Las Catalinas Mall located in Caguas, Puerto Rico (adjacent to San Juan). In addition, the Company acquired 75% and the Company's partner in the Mall acquired 25% of Kmart's anchor store. The Company's purchase price of \$38,000,000 was fully financed with 15 year debt.

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VORNADO REALTY TRUST

## Cold Storage

In October 1997, two partnerships in which preferred stock affiliates of the Company have 60% interests and affiliates of Crescent Real Estate Equities Company have 40% interests acquired Americold Corporation ("Americold") and URS Logistics, Inc. ("URS") from affiliates of Kelso & Company, Inc. and other owners. Americold and URS are cold storage and logistics warehouse companies. The consideration for these transactions totaled approximately \$1,000,000,000, including \$628,000,000 of indebtedness. The Company's share of the purchase price was approximately \$600,000,000.

In June 1998, a partnership in which Vornado owns a 60% interest through a preferred stock affiliate acquired the assets of Freezer Services, Inc., consisting of nine cold storage warehouses in the central United States for approximately \$133,000,000, including \$107,000,000 in cash and \$26,000,000 in indebtedness. The Company's share of this investment was \$80,000,000. Additionally, in July 1998, the Carmar Group cold storage warehouse business was acquired for approximately \$158,000,000, including \$144,000,000 in cash and \$14,000,000 in indebtedness. The Company's share of this investment was \$95,000,000. Carmar owns and operates five cold storage distribution warehouses in the midwest and southeast United States. See "Subsequent Events".

## Merchandise Mart Properties:

## The Merchandise Mart Properties

In April 1998, the Company acquired a real estate portfolio from the Kennedy Family for approximately \$630,000,000, consisting of \$187,000,000 in cash, \$116,000,000 in Operating Partnership Units, \$77,000,000 in existing debt and \$250,000,000 of newly issued debt. The acquired real estate assets consist of a portfolio of properties used for office, retail and trade showroom space which aggregate approximately 5.4 million square feet and include the Merchandise Mart in Chicago. The transaction also included the acquisition of Merchandise Mart Properties, Inc., which manages the properties and owns and operates trade shows.

## Market Square Complex

In December 1998, Vornado completed the acquisition of the 1.07 million square foot Market Square Complex of showrooms in High Point, North Carolina. The consideration was approximately \$97,000,000 consisting of \$46,000,000 in debt, \$44,000,000 in Operating Partnership Units and 6.5% Preferred Operating Partnership Units convertible at \$43.74 per unit and \$7,000,000 of cash. The acquired real estate assets include the Market Square, Hamilton Market and Furniture Plaza showroom buildings and the High Point Holiday Inn hotel.

In a second transaction, the Company acquired the 243,000 square foot National Furniture Mart, which is adjacent to the forementioned properties, in High Point. The price was approximately \$17,700,000 consisting of \$3,800,000 in cash and \$13,900,000 in debt.

## Other Real Estate Investments:

## Riese Transaction

In June 1997, the Company acquired four properties for approximately \$26,000,000. The properties were previously owned by affiliates of the Riese Organization. These properties are located in midtown Manhattan. The Company also made a \$41,000,000 mortgage loan to Riese affiliates cross-collateralized by ten other Manhattan properties. The mortgage loan which had a five-year term and an initial interest rate of 9.75% increasing annually, was repaid in May 1998.

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## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Hotel Pennsylvania

In September 1997, the Company acquired a 40% interest in the Hotel Pennsylvania, which is located on Seventh Avenue opposite Madison Square Garden in Manhattan, New York. The property was acquired in a joint venture with Hotel Properties Limited and Planet Hollywood International, Inc. from a group of partnerships. Under the joint venture agreement, Hotel Properties Limited and Planet Hollywood International, Inc. had 40% and 20% interests, respectively. The joint venture acquired the hotel for approximately \$159,000,000, of which \$120,000,000 was newly issued five-year financing. The Company's share of the purchase price was approximately \$64,000,000. In May 1998, the Company acquired an additional 40% interest in the Hotel Pennsylvania increasing its ownership to 80%. The Company purchased the additional 40% interest from Hotel Properties Limited (one of its joint venture partners) for approximately \$70,000,000, including \$48,000,000 of existing debt. The Company manages the property's

retail and office space, and manages the hotel with Hotel Properties Limited.

#### Newkirk Joint Ventures

In July and September 1998, the Company invested an aggregate of \$56,000,000 for a 30% share in joint ventures with affiliates of Apollo Real Estate Investment Fund III, L.P., collectively Newkirk Joint Ventures ("Newkirk"). Newkirk owns various equity and debt interests relating to 120 limited partnerships which own real estate primarily net leased to credit rated tenants. The Company has issued letters of credit of \$15,600,000 in connection with these joint ventures.

In March 1999, the Company and its joint venture partner completed an acquisition of additional equity interests in certain limited partnerships. The Company's additional investment of \$52,435,000 consisted of \$47,790,000 in Operating Partnership Units and \$4,645,000 in cash.

#### YMCA Development

In September 1997, the Company and its joint venture partner entered into an agreement with the YMCA to develop a property now occupied by the YMCA. The property overlooks Central Park and is located between West 63rd and 64th Streets in Manhattan, New York. The transaction closed in February 1999.

Pursuant to the agreement, the joint venture entity, of which the Company owns 80%, will develop a 40 story mixed-use complex. The YMCA will own and use approximately 94,000 square feet of the new building and the joint venture intends to sell the remaining 119,000 square foot portion of the building as residential condominiums. The project is expected to cost approximately \$96,000,000 which will be funded by the Company and is expected to be completed in 2001.

To date, the Company has expended approximately \$6,400,000 in connection with this transaction, and has provided the YMCA with letters of credit totalling \$7,750,000.

The Company will receive a preferential return on its funds invested and the return of its funds invested prior to the other joint venture partner receiving any distribution.

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#### VORNADO REALTY TRUST

##### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

##### Pro Forma Information

The unaudited pro forma information set forth below presents (i) the condensed consolidated operating results for the Company for the years ended December 31, 1998 and 1997 as if (a) the acquisitions described above and the financings attributable thereto had occurred on January 1, 1997 and (ii) the condensed consolidated pro forma balance sheet data of the Company as of December 31, 1998, as if the acquisitions and financings subsequent to December 31, 1998 (See "Subsequent Events") had occurred on December 31, 1998.

##### Condensed Pro Forma Consolidated Operating Results (unaudited)

	Pro Forma Year Ended December 31,	
	1998	1997
	-----	-----
(amounts in thousands except per share amounts)		
Revenues .....	\$ 643,700	\$ 602,900
	=====	=====
Net income .....	\$ 172,400	\$ 148,700
Preferred stock dividends .....	(21,700)	(20,700)
	-----	-----
Net income applicable to common shares .....	\$ 150,700	\$ 128,000
	=====	=====
Net income per common share-basic .....	\$ 1.77	\$ 1.50
	=====	=====
Net income per common share-diluted .....	\$ 1.73	\$ 1.47
	=====	=====

Pro Forma revenues and net income applicable to common shares after giving effect only to the acquisitions and financings completed prior to December 31, 1998 were \$611,965 and \$125,381 for the year ended December 31, 1998 and \$574,602 and \$105,251 for the year ended December 31, 1997. The pro forma results for the year ended December 31, 1997, include non-recurring lease cancellation income of \$14,350,000, partially offset by related expenses of

\$2,775,000.

Condensed Pro Forma Consolidated Balance Sheet Data (Unaudited)

(amounts in thousands):

	December 31, 1998 -----
Total assets .....	\$4,775,800 =====
Total liabilities .....	\$2,309,800
Minority interest .....	683,300
Total shareholders' equity .....	1,782,700 -----
Total liabilities and shareholders' equity .....	\$4,775,800 =====

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4. Investments in Partially-Owned Entities

The Company's investments in partially-owned entities and income recognized from such investments is disclosed below. Summarized financial data is provided for (i) investments in entities which exceed 10% of the Company's total assets and (ii) investments in which the Company's share of partially-owned entities pre-tax income exceeds 10% of the Company's net income.

Balance Sheet Data:

	Company's Investment		Total Assets		Total Debt		Total Equity	
	1998	1997	1998	1997	1998	1997	1998	1997
(amounts in thousands)								
Investments:								
Cold Storage Companies .....	\$459,172	\$243,846	\$1,743,212 =====	\$1,481,405 =====	\$642,714 =====	\$638,047 =====	\$737,344 =====	\$404,227 =====
Alexander's .....	104,038	108,752	\$ 317,043 =====	\$ 235,074 =====	\$277,113 =====	\$208,087 =====	\$ 6,974 =====	\$ 13,029 =====
Charles E. Smith Commercial Realty L.P. ....	49,151	60,437						
Hotel Pennsylvania .....	47,813	20,152						
Newkirk Joint Ventures .....	58,665	--						
Mendik Partially-Owned Office Buildings .....	59,902	37,209						
Vornado Management Corp., Mendik Management Company, Merchandise Mart Properties, Inc. and other ....	49,099	12,391						
	----- \$827,840 =====	----- \$482,787 =====						

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Below is a summary of the debt of partially owned entities as of December 31, 1998, none of which is guaranteed by the Company.





Properties, Inc. and other	2,414	1,374	1,855
	-----	-----	-----
	\$ 32,025	\$ 4,658	\$ 1,855
	=====	=====	=====

\* 1998 net loss includes the write-off of the carrying value of the Lexington Avenue buildings of \$15,096. 1997 net income includes income from the condemnation of a portion of a property of \$8,914. 1996 income includes income from discontinued operations of \$11,602 and a non-recurring gain of \$14,372.

Alexander's

The Company owns 29.3% of the outstanding shares of common stock of Alexander's. In March 1995, the Company lent Alexander's \$45,000,000. The loan, which was originally scheduled to mature in March 1998, has been renewed for two additional one year periods and currently matures in March 2000. The interest rate was reset in March 1999 from 13.87% per annum to 14.18% per annum.

The investment in and loans and advances to Alexander's are comprised of:

	December 31,	
	1998	1997
(amounts in thousands)		
Common stock, net of \$2,196,000 and \$1,596,000 of accumulated depreciation of buildings.....	\$ 53,157	\$ 54,931
Loan receivable.....	45,000	45,000
Deferred loan origination income.....	--	(83)
Leasing fees and other receivables.....	5,441	6,576
Equity in income.....	222	1,894
Deferred expenses.....	218	434
	-----	-----
	\$ 104,038	\$ 108,752
	=====	=====

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Income applicable to Alexander's is comprised of :

(amounts in thousands)	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Interest income .....	\$ 5,395	\$ 6,293	\$ 6,848
Equity in (loss) income .....	(2,272)	1,580	1,108
	-----	-----	-----
	\$ 3,123	\$ 7,873	\$ 7,956
	=====	=====	=====

Alexander's is managed by and its properties are leased by the Company, pursuant to agreements with a one-year term expiring in March of each year which are automatically renewable. The annual management fee payable to the Company by Alexander's is equal to the sum of (i) \$3,000,000, (ii) 3% of the gross income from the Kings Plaza Mall, plus (iii) 6% of development costs with minimum guaranteed fees of \$750,000 per annum.

The leasing agreement provides for the Company to generally receive a fee of (i) 3% of sales proceeds and (ii) 3% of lease rent for the first ten years of a lease term, 2% of lease rent for the eleventh through the twentieth years of a lease term and 1% of lease rent for the twenty-first through thirtieth year of a lease term. Subject to the payment of rents by Alexander's tenants, the Company is due \$5,145,000 at December 31, 1998. Such amount is receivable annually in an amount not to exceed \$2,500,000 until the present value of such installments (calculated at a discount rate of 9% per annum) equals the amount that would have been paid had it been paid on September 21, 1993, or at the time the transactions which gave rise to the commissions occurred, if later.

As of December 31, 1998, Interstate Properties owned approximately 15.2% of the common shares of beneficial interest of the Company and 27.1% of

Alexander's common stock. Interstate Properties is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are partners. Mr. Roth is the Chairman of the Board and Chief Executive Officer of the Company, the Managing General Partner of Interstate Properties, and the Chief Executive Officer and a Director of Alexander's, Messrs. Mandelbaum and Wight are trustees of the Company and are also directors of Alexander's.

Cold Storage

Investment represented a 60% interest in partnerships held by preferred stock affiliates. Income recognized from the Cold Storage Companies is comprised of:

(amounts in thousands)	Year Ended December 31,	
	1998	1997*
60% share of equity in net income .....	\$10,249	\$ 1,000
Management fee (40% of 1% per annum of the Total Combined Assets (as defined)) .....	4,942	720
	-----	-----
	\$15,191	\$ 1,720
	=====	=====

\* Period from November 1, 1997 (date of acquisition) to December 31, 1997.

See "Subsequent Events".

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Mendik Partially-Owned Office Buildings

These investments represented the Company's interests in the partially-owned properties included in the Mendik Transaction: Two Park Avenue (40% interest), 330 Madison Avenue (24.8% interest) and 570 Lexington Avenue (5.6% interest).

In April 1998, the Company increased its interest in 570 Lexington Avenue to approximately 50%. Income for the year ended December 31, 1998 is comprised of equity in net income of 570 Lexington at 5.6% until the additional investment was made in April 1998, at which time equity in net income was recorded at approximately 50%. In November 1998, the Company acquired the remaining 60% interest in Two Park Avenue. Income for the year ended December 31, 1998 is comprised of equity in net income of Two Park Avenue until November, 1998 at which time, the property was accounted for on a consolidated basis for the remainder of 1998.

Vornado Management Corp., Mendik Management Company and Merchandise Mart Properties Inc.

These investments represent non-voting interest in preferred stock affiliates. Income is comprised of equity in the net income of these preferred stock affiliates.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

5. Debt

Following is a summary of the Company's debt:

(amounts in thousands)	December 31,	
	1998	1997
	-----	-----

Notes and Mortgage Payable:

Fixed Interest:

Mortgage payable cross collateralized by an aggregate of 44 shopping centers and warehouse/industrial properties, due in 2000 with interest at 6.36% (prepayable with yield maintenance) .....	\$ 227,000	\$ 227,000
Eleven Penn Plaza mortgage payable, due in 2007, requires amortization based on a 25 year term with interest at 8.39% (prepayable after 2003 with yield maintenance) .....	53,901	54,612
866 UN Plaza mortgage payable, due in 2004, with interest at 7.79% (prepayable without penalty) .....	33,000	33,000
Monteheidra Town Center mortgage pass-through certificates, due in 2007 (\$52,014) and 2009 (\$10,167), requires amortization based on 30 year term with interest at 8.23% (prepayable after August 1999 with yield maintenance) .....	62,181	62,698
Washington Office Center mortgage payable, due in 2004, requires amortization based on a 25 year term with interest at 6.80% (prepayable with yield maintenance) .....	50,878	--
Green Acres Mall and Plaza mortgage payable, due in 2008, requires amortization based on a 30 year term with interest at 6.75% (prepayable after May 2000 with yield maintenance) .....	158,575	--
Other mortgages payable .....	38,688	11,344
	-----	-----
	624,223	388,654

Variable Interest:

Two Penn Plaza mortgage payable, due in 2005, interest at LIBOR plus .63% (6.22% at December 31, 1998) (prepayable without penalty) .....	80,000	80,000
Green Acres Mall and Plaza, collateralized notes, due on August 19, 1998, interest at LIBOR plus .78% (6.40% at December 31, 1997) .....	--	118,000
Merchandise Mart mortgage payable, due in September 1999, interest at LIBOR plus 1.35% (6.90% at December 31, 1998) (prepayable without penalty) .....	250,000	--
Washington Design Center mortgage payable, due in 2000, requires amortization based on a 25 year term with interest at LIBOR plus 1.35% (6.90% at December 31, 1998) (prepayable without penalty) .....	24,225	--
Two Park Avenue mortgage payable, due in 2000, interest at LIBOR plus 1.50% (6.74% at December 31, 1998) (prepayable without penalty) .....	65,000	--
One Penn Plaza mortgage payable, due in 2002, interest at LIBOR plus 1.25% (6.35% at December 31, 1998) (prepayable after June 1999 without penalty) .....	275,000	--
Eight individual notes or mortgages payable collateralized by the Market Square Complex with maturity dates ranging from 1999 through 2003 and interest rates ranging from 7.25% to 8.25% at December 31, 1998 .....	45,302	--
	-----	-----

Total notes and mortgages payable .....	1,363,750	586,654
Unsecured revolving credit facility, interest at LIBOR plus .89% (6.44% at December 31, 1998) (prepayable without penalty) .....	687,250	370,000
	-----	-----
Total Debt .....	\$2,051,000	\$ 956,654
	=====	=====

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The net carrying value of properties collateralizing the notes and mortgages amounted to \$2,114,246,000 at December 31, 1998. As at December 31, 1998, the maturities for the next five years and thereafter are as follows:

(in thousands)

Year Ending December 31, -----	Amount -----
1999 .....	\$ 268,232
2000 .....	1,010,014
2001 .....	14,341
2002 .....	275,840
2003 .....	29,094
Thereafter.....	453,479

In July 1997, the Company obtained a \$600,000,000 unsecured three-year revolving credit facility. In February 1998, the facility was increased to \$1,000,000,000. The facility contains customary loan covenants including, among others, limits on total outstanding indebtedness; maximum loan to value ratio; minimum debt service coverage and minimum market capitalization requirements. Interest is at LIBOR plus .70% to 1.00% depending on the Company's senior debt

rating. The credit facility has a competitive bid option program, which allows the Company to hold auctions among banks participating in the facility for short term borrowings of up to \$500,000,000. The Company paid an origination fee in July 1997 of .30%, origination and amendment fees in February 1998 of .39% and pays a commitment fee quarterly over the remaining term of the facility ranging from .15% to .20% on the facility amount.

In February 1998, the Company completed a \$160,000,000 refinancing of the Green Acres Mall and prepaid the then existing \$118,000,000 debt on the property. The new 10-year debt matures in March 2008, requires amortization based on a 30-year term, bears interest at 6.75% and may be defeased after 2001.

In June 1998, the Company completed a \$275,000,000 refinancing of its One Penn Plaza office building and borrowed \$170,000,000 pursuant thereto. In the third quarter of 1998, the Company borrowed the remaining \$105,000,000. The debt matures in June 2002, is prepayable at anytime, and bears interest at LIBOR + 1.25% (currently 6.35%). This debt replaced the \$93,192,000 bridge-mortgage loan financing put in place when the property was acquired. The Company entered into an interest rate cap agreement to reduce the impact of changes in interest rates on this loan. The agreement caps the Company's interest rate in the event that LIBOR increases above 8.5% through January 20, 2000 and 9% thereafter, until the termination date of the cap agreement on July 30, 2001. The Company is exposed to credit loss in the event of nonperformance by the other parties to the interest rate cap agreement. However, the Company does not anticipate nonperformance by the counterparty. The fair value of the interest rate cap agreement at December 31, 1998 approximates its cost.

In February 1999, the Company completed a \$165,000,000 refinancing of its Two Penn Plaza office building and prepaid the then existing \$80,000,000 debt on the property. The new 5-year debt matures in February 2004 and bears interest at 7.08%.

#### 6. Shareholders' Equity

In April 1998, the Company completed the sale of 10,000,000 common shares of beneficial interest, par value \$.04 per share pursuant to an effective registration statement with net proceeds to the Company of approximately \$401,000,000. On April 29, 1998, the Company sold 1,132,420 common shares to a unit investment trust, which were valued for the purpose of the trust at \$41.06 per share, resulting in net proceeds of approximately \$44,000,000.

In connection with the acquisition of the Mendik RELP properties in November 1998, the Company issued 842,200 common shares with an approximate value of \$29,063,000.

During the year ended December 31, 1998, certain Operating Partnership limited partners converted their units into approximately 894,000 common shares. The value of these shares were approximately \$32,780,000.

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#### VORNADO REALTY TRUST

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In September 1998, the Company implemented a dividend reinvestment plan which provides holders of record of common shares and the limited partners of the Operating Partnership the opportunity to automatically reinvest all or a portion of their cash distributions received on common shares and units of the Operating Partnership into common shares. During the year ended December 31, 1998, 706 shares were issued and proceeds of approximately \$24,000 were received from dividend reinvestment.

In April 1997, Vornado completed its public offering of 5,750,000 Series A Convertible Preferred Shares of Beneficial Interest, liquidation preference \$50.00 per share. The preferred shares bear a coupon of 6 1/2% and are convertible into common shares at \$36.11 per share. The offering, net of expenses, generated approximately \$276,000,000 which was used to fund the cash portion of the Mendik Transaction. In connection with the acquisition of Arbor in December 1997, the Company issued approximately 2,936,000 common shares and 39,400 Series A Convertible Preferred Shares of Beneficial Interest. The approximate value of the shares issued at the time of the acquisition was \$102,000,000. Dividends on the preferred shares in 1998 and 1997 were approximately \$21,690,000 and \$15,549,000 (including accretion of expenses in connection with the offering of \$2,874,000 and \$1,918,000).

On October 20, 1997, the Company paid a 100% common share dividend to shareholders. All share and per share information has been adjusted to reflect this two-for-one share split.

In October 1997, Vornado sold 14,000,000 common shares and an additional 2,100,000 common shares in November 1997 when the underwriters exercised in full their over-allotment option. The shares were sold at a price of \$45.00 per share which, net of expenses, yielded approximately \$688,672,000. The net proceeds were used to repay \$310,000,000 outstanding under the Company's line of credit and to fund a portion of the purchase price of certain acquisitions previously

described.

7. Employees' Share Option Plan

Under the Omnibus Share Plan (the "Plan"), various officers and employees have been granted incentive share options and non-qualified options to purchase common shares. Options granted are at prices equal to 100% of the market price of the Company's shares at the date of grant, 1,055,066 shares vest on a graduated basis, becoming fully vested 27 months after grant, 3,500,000 shares (granted in connection with Mr. Fascitelli's employment agreement) vest on a graduated basis becoming fully vested 60 months after grant and 4,169,250 shares vest on a graduated basis, becoming fully vested 36 months after grant. All options expire ten years after grant.

The Plan also provides for the award of Stock Appreciation Rights, Performance Shares and Restricted Stock, as defined, none of which have been awarded as of December 31, 1998.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

If compensation cost for Plan awards had been determined based on fair value at the grant dates, net income and income per share would have been reduced to the pro-forma amounts below, for the years ended December 31, 1998, 1997 and 1996:

	December 31,		
	1998	1997	1996
(amounts in thousands, except share amounts)			
Net income applicable to common shares:			
As reported .....	\$ 131,164	\$ 45,474	\$ 61,364
Pro-forma .....	117,938	38,416	60,613
Net income per share applicable to common shares:			
Basic:			
As reported .....	\$ 1.62	\$ .83	\$ 1.26
Pro-forma .....	1.46	.70	1.24
Diluted:			
As reported .....	1.59	.79	1.25
Pro forma .....	1.43	.67	1.23

The fair value of each option grant is estimated on the date of grant using the Binomial option-pricing model with the following weighted-average assumptions used for grants in the periods ending December 31, 1998, 1997 and 1996.

	December 31,		
	1998	1997	1996
Expected volatility .....	19%	25%	26%
Expected life .....	5 years	5 years	5 years
Risk-free interest rate.....	4.6%	6.4%	5.6%
Expected dividend yield.....	5.3%	3.4%	5.1%

A summary of the Plan's status, and changes during the years then ended, is presented below:

	December 31, 1998		December 31, 1997		December 31, 1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1 .....	5,529,917	\$ 24.43	4,139,386	\$ 22.51	1,079,880	\$12.27
Granted .....	3,436,250	44.99	1,521,500	29.99	3,741,500	23.14
Exercised .....	(41,851)	21.95	(33,969)	18.69	(681,994)	9.75
Cancelled .....	(200,000)	32.93	(97,000)	31.25	--	--

Outstanding at December 31 .....	8,724,316	\$ 32.35	5,529,917	\$ 24.43	4,139,386	\$22.51
	=====		=====		=====	
Options exercisable at December 31 ...	2,703,407		1,327,418		420,770	
	=====		=====		=====	
Weighted-average fair value of options granted during the year ended						
December 31 (per option) .....	\$ 5.33		\$ 7.87		\$ 4.75	
	=====		=====		=====	

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes information about options outstanding under the Plan at December 31, 1998:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding December 31, 1998	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 1998	Weighted-Average Exercise Price
\$6 to \$12	52,868	4.0 Years	\$11	52,868	\$11
\$17 to \$19	536,769	6.1 Years	18	536,769	18
\$23	3,500,000	7.9 Years	23	1,400,000	23
\$26	289,929	8.1 Years	26	214,920	26
\$30	764,800	8.2 Years	30	309,400	30
\$32 to \$36	195,500	8.5 Years	34	87,750	34
\$38 to \$40	241,500	9.4 Years	39	--	--
\$41 to \$44	132,700	9.2 Years	43	1,700	41
\$45	2,745,250	9.1 Years	45	100,000	45
\$48	265,000	9.1 Years	48	--	--
	-----			-----	
\$6 to \$48	8,724,316	8.3 Years	\$32	2,703,407	\$24
	=====			=====	

Shares available for future grant under the Plan at December 31, 1998 were 4,103,382.

In connection with the acquisition of Arbor in December 1997, the Company issued 60,000 options to a third party outside of the Plan parameters. These options were granted at \$43.75 per share and immediately vested. No expense was incurred related to this issuance as it was accounted for as component of the acquisition price.

8. Retirement Plan

In December 1997, benefits under the Plan were frozen. Prior to December 31, 1997, the Company's qualified retirement plan covered all full-time employees. The Plan provided annual pension benefits that were equal to 1% of the employee's annual compensation for each year of participation. The funding policy is in accordance with the minimum funding requirements of ERISA.

Pension expense includes the following components:

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
(amounts in thousands, except percentages)			
Service cost--benefits earned during the period	\$ --	\$ 115	\$ 108
Interest cost on projected benefit obligation	594	607	544
Actual return on assets .....	(334)	(494)	(179)
Net amortization and deferral .....	51	347	(59)
	-----	-----	-----
Net pension expense .....	\$ 311	\$ 575	\$ 414
	=====	=====	=====
Assumptions used in determining the net pension expense were:			
Discount rate .....	6 3/4%	7 1/4%	7 1/2%
Rate of increase in compensation levels .....	--*	5 1/2%	5 1/2%
Expected rate of return on assets .....	7%	7%	8%

\* Not applicable, as benefits under the Plan were frozen in December

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table sets forth the Plan's funded status and the amount recognized in the Company's balance sheet:

	December 31,	
	1998	1997
(amounts in thousands)		
Actuarial present value of benefit obligations:		
Vested benefit obligation .....	\$ 8,853	\$ 8,245
	=====	=====
Accumulated benefit obligation .....	\$ 8,952	\$ 8,337
	=====	=====
Projected benefit obligation .....	\$ 8,952	\$ 8,337
Plan assets at fair value .....	5,551	4,901
	-----	-----
Projected benefit obligation in excess of plan assets	3,401	3,436
Unrecognized net obligations .....	(2,269)	(1,086)
Adjustment required to recognize minimum liability ..	2,269	1,086
	-----	-----
Accrued pension costs .....	\$ 3,401	\$ 3,436
	=====	=====

Plan assets are invested in U.S. government obligations and securities backed by U.S. government guaranteed mortgages.

## 9. Leases

## As lessor:

The Company leases space to tenants in shopping centers and office buildings under operating leases. Most of the leases provide for the payment of fixed base rentals payable monthly in advance. Shopping center leases provide for the pass-through to tenants of real estate taxes, insurance and maintenance. Office building leases generally require the tenants to reimburse the Company for operating costs and real estate taxes above their base year costs. Shopping center leases also provide for the payment by the lessee of additional rent based on a percentage of the tenants' sales. As of December 31, 1998, future base rental revenue under noncancellable operating leases, excluding rents for leases with an original term of less than one year and rents resulting from the exercise of renewal options, is as follows:

(in thousands)

Year Ending December 31:	Amount
-----	-----
1999.....	\$ 474,990
2000.....	454,327
2001.....	422,600
2002.....	394,066
2003.....	354,323
Thereafter.....	2,287,595

These amounts do not include rentals based on tenants' sales. These percentage rents approximated \$2,493,000, \$1,786,000 and \$936,000 for the years ended December 31, 1998, 1997 and 1996.

None of the Company's tenants represented more than 10% of the Company's total revenues for the year ended December 31, 1998.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## As lessee:

The Company is a tenant under operating leases for certain properties. These leases will expire principally during the next thirty years. Future minimum lease payments under operating leases at December 31, 1998, are as follows:

(in thousands)

Year Ending December 31: -----	Amount -----
1999.....	\$ 9,297
2000.....	6,359
2001.....	6,503
2002.....	6,081
2003.....	5,586
Thereafter.....	122,700

Rent expense was \$5,937,000, \$2,001,000 and \$1,465,000 for the years ended December 31, 1998, 1997 and 1996.

#### 10. Contingencies

At December 31, 1998, in addition to the \$687,250,000 balance outstanding under the Company's revolving credit facility, the Company had utilized \$100,165,000 of availability under the facility for letters of credit and guarantees primarily related to pending acquisitions.

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

From time-to-time, the Company has disposed of substantial amounts of real estate to third parties for which, as to certain properties, it remains contingently liable for rent payments or mortgage indebtedness.

There are various legal actions against the Company in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the outcome of such matters will not have a material effect on the Company's financial condition, results of operations or cash flow.

#### 11. Net Gain From Insurance Settlement and Condemnation Proceedings

In April 1997, the Company's Lodi shopping center was destroyed by a fire. In the third quarter of 1998, the Company and its insurer agreed that the estimated cost to reconstruct the shopping center is approximately \$9,012,000 and the Company recorded a gain of \$7,955,000 (the agreed upon amount, net of the carrying value of the shopping center of \$1,057,000). The insurance carrier had previously advanced \$5,550,000 to the Company. The reconstruction of the shopping center is expected to be completed in 1999.

On September 1, 1998, Atlantic City condemned the Company's vacant property. In the third quarter of 1998, the Company recorded a gain of \$1,694,000, (which reflects the condemnation award of \$3,100,000, net of the carrying value of the property of \$1,406,000). The Company is contesting the amount of the award.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

#### 12. Repurchase Agreements

The Company enters into agreements for the purchase and resale of U.S. government obligations for periods of up to one week. The obligations purchased under these agreements are held in safekeeping in the name of the Company by various money center banks. The Company has the right to demand additional collateral or return of these invested funds at any time the collateral value is less than 102% of the invested funds plus any accrued earnings thereon.

#### 13. Other Related Party Transactions

Pursuant to his employment contract, in December 1996 Mr. Fascitelli, the President of the Company, received a deferred payment consisting of \$5,000,000 in cash and a \$20,000,000 convertible obligation payable at the Company's option in 919,540 of its common shares or the cash equivalent of their appreciated value but not less than \$20,000,000. Accordingly, cash of \$5,000,000 and 919,540 common shares are being held in an irrevocable trust (the fair value of this



obligation was \$35,628,000 at December 31, 1998).

During 1998, the Company made loans to Mr. Fascitelli aggregating \$7,600,000 in accordance with the terms of his employment contract. The loans have a five-year term and bear interest, payable quarterly, at a weighted average rate of 5.16% (based on the mid-term applicable federal rate provided under the Internal Revenue Code).

At December 31, 1998, the loans due from Mr. Roth, Mr. Rowan and Mr. Macnow in connection with their stock option exercises were \$13,930,000 (\$4,897,000 of which is shown as a reduction in shareholders' equity), \$144,000 and \$130,000, respectively. The loans bear interest at a rate equal to the broker call rate (6.50% at December 31, 1998) but not less than the minimum applicable federal rate provided under the Internal Revenue Code. Interest on the loan to Mr. Roth is payable quarterly. Mr. Roth's loan is due in December 2002. The Company has agreed on each January 1st (commencing January 1, 1997) to forgive one-fifth of the amounts due from Mr. Rowan and Mr. Macnow, provided that they remain employees of the Company.

The Company currently manages and leases the real estate assets of Interstate Properties pursuant to a management agreement for which the Company receives a quarterly fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on sixty days' notice at the end of the term. Although the management agreement was not negotiated at arms length, the Company believes based upon comparable fees charged by other real estate companies, that its terms are fair to the Company. For the years ended December 31, 1998, 1997 and 1996, \$1,365,000 and \$1,184,000 and \$2,074,000 of management fees were earned by the Company pursuant to the management agreement.

The Mendik Group owns an entity which provides cleaning and related services and security services to office properties, including the Company's Manhattan office properties. Although the terms and conditions of the contracts pursuant to which these services are provided were not negotiated at arms length, the Company believes based upon comparable fees charged to other real estate companies, that the terms and conditions of such contracts are fair to the Company. The Company was charged fees in connection with these contracts of \$25,686,000 for the year ended December 31, 1998 and \$9,965,000 for the period from April 15, 1997 (date of acquisition of the Mendik portfolio) to December 31, 1997.

The common stock of the preferred stock affiliates which own interests in the Cold Storage Companies, Hotel Pennsylvania and related management companies is owned by Officers and Trustees of Vornado.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

14. Minority Interest

The minority interest represents limited partners, other than Vornado, interests in the Operating Partnership and are comprised of:

Unit Series	Outstanding Units at December 31, 1998	Per Unit Liquidation Preference	Preferred or Annual Distribution Rate	Conversion Rate Into Class A Units
Class A .....	1,887,781	--	\$ 1.76	(a)
Class C .....	3,534,098	--	\$ 1.69 (b)	1.0 (c)
Class D .....	1,332,596	--	\$ 2.015	1.0 (d)
5.0% B-1 Convertible Preferred	899,566	\$50.00	\$ 2.75	.914
8.0% B-2 Convertible Preferred	449,783	\$50.00	\$ 4.00	.914
6.5% C-1 Convertible Preferred	747,912	\$50.00	\$ 3.25	1.1431
8.5% D-1 Cumulative Redeemable Preferred .....	3,500,000	\$25.00	\$ 2.125	(e)

- (a) Class A units are convertible into one common share of beneficial interest in Vornado or cash at Vornado's option.
- (b) Class C unit holders participated in distributions at an annual rate of \$1.69, then pari passu with the Class A rate.
- (c) Mandatory conversion of Class C units occurs after four consecutive quarters of distributions of at least \$.4225 per unit (\$1.69 annually).
- (d) Mandatory conversion of Class D units occurs after four consecutive quarters of distributions of at least \$.50375 per unit (\$2.015 annually), then pari passu with the Class A rate.

(e) Convertible into an equivalent Vornado 8.5% preferred share.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	1998	1997	1996
(amounts in thousands, except per share amounts)			
Numerator:			
Net income .....	\$ 152,854	\$ 61,023	\$ 61,364
Preferred stock dividends .....	(21,690)	(15,549)	--
-----			
Numerator for basic and diluted earnings per share-- income applicable to common shares .....	\$ 131,164	\$ 45,474	\$ 61,364
=====			
Denominator:			
Denominator for basic earnings per share--weighted average shares .....	80,724,132	55,097,656	48,854,832
Effect of dilutive securities:			
Employee stock options .....	1,931,818	2,119,553	352,052
-----			
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions .....	82,655,950	57,217,209	49,206,884
=====			
Net income per common share--basic .....	\$ 1.62	\$ 0.83	\$ 1.26
Net income per common share--diluted .....	\$ 1.59	\$ 0.79	\$ 1.25

16. Summary of Quarterly Results (Unaudited)

The following summary represents the results of operations for each quarter in 1998 and 1997:

	Revenue	Net Income Applicable to Common Shares	Net Income Per Common Share(1)	
			Basic	Diluted
(amounts in thousands, except share amounts)				
1998				
March 31 .....	\$ 90,211	\$ 26,064	\$ .36	\$ .35
June 30 .....	128,523	30,894	.38	.37
September 30 .....	140,672	39,659	.47	.46
December 31 .....	150,454	34,547	.41	.40
1997				
March 31 .....	\$ 29,297	\$ 9,690	\$ .19	\$ .18
June 30 .....	50,662	8,933	.17	.17
September 30 .....	61,868	10,385	.20	.19
December 31 .....	67,304	16,466	.26	.25

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

17. Segment Information

The Company has four business segments: Office, Retail, Cold Storage and

Merchandise Mart Properties. Prior to April 1997, the Company operated in one segment-retail real estate, primarily in the Northeast section of the United States. Accordingly, selected financial information related to each segment is presented for 1998 and 1997 only.

(amounts in thousands)	December 31, 1998					
	Office	Retail	Cold Storage	Merchandise Mart	Other(2)	Total
Total revenues	\$ 247,499	\$ 167,155	\$ --	\$ 86,521	\$ 8,685	509,860
Total expenses	151,573	70,334	--	50,761	22,340	295,008
Operating income	95,926	96,821	--	35,760	(13,655)	214,852
Income applicable to Alexander's	--	--	--	--	3,123	3,123
Income from partially-owned entities	10,854	258	15,191	(1,969)	7,691	32,025
Interest and other investment income	4,467	2,159	--	639	16,809	24,074
Interest and debt expense	(25,175)	(32,249)	--	(18,711)	(38,551)	(114,686)
Net gain from insurance settlement and condemnation proceeding	--	--	--	--	9,649	9,649
Minority interest	(7,236)	(5,853)	(1,024)	(2,070)	--	(16,183)
Net income	78,836	61,136	14,167	13,649	(14,934)	152,854
Minority interest	7,236	5,853	1,024	2,070	--	16,183
Interest and debt expense(5)	40,245	32,709	26,541	18,711	46,272	164,478
Depreciation and amortization(5)	39,246	15,520	33,117	9,899	6,517	104,299
Net gain from insurance settlement and condemnation proceeding	--	--	--	--	(9,649)	(9,649)
Straight-lining of rents(5)	(6,845)	(3,203)	--	(4,882)	(1,202)	(16,132)
Other	(79)	--	8,872(3)	--	6,262(4)	15,055
EBITDA(1)	\$ 158,639	\$ 112,015	\$ 83,721	\$ 39,447	\$ 33,266	\$ 427,088
Balance sheet data:						
Real estate, net	\$ 1,777,919	\$ 565,723	\$ --	\$ 729,485	\$ 15,948	\$ 3,089,075
Investments and advances to partially-owned entities	118,337	2,946	459,172	26,638	220,747	827,840
Capital expenditures:						
Acquisitions	923,000	38,000	175,000	745,000	178,000	2,059,000
Other	51,162	5,535	12,463	10,314	1,074	80,548
December 31, 1997						
	Office	Retail	Cold Storage	Merchandise Mart	Other(2)	Total
Total revenues	\$ 80,846	\$ 120,299	\$ --	\$ --	\$ 7,986	\$ 209,131
Total expenses	50,186	46,204	--	--	37,835	134,225
Operating income	30,660	74,095	--	--	(29,849)	74,906
Income applicable to Alexander's	--	--	--	--	7,873	7,873
Income from partially-owned entities	1,015	--	1,720	--	1,923	4,658
Interest and other investment income	6,834	2,296	--	--	14,637	23,767
Interest and debt expense	(9,009)	(19,893)	--	--	(13,986)	(42,888)
Net gain from insurance settlement and condemnation proceeding	--	--	--	--	--	--
Minority interest	(2,042)	(4,303)	--	--	(948)	(7,293)
Net income	27,458	52,195	1,720	--	(20,350)	61,023
Minority interest	2,042	4,303	--	--	948	7,293
Interest and debt expense(5)	13,707	19,893	5,839	--	14,956	54,395
Depreciation and amortization(5)	12,813	11,706	4,182	--	3,271	31,972
Net gain from insurance settlement and condemnation proceeding	--	--	--	--	--	--
Straight-lining of rents(5)	(645)	(2,558)	--	--	(729)	(3,932)
Other	1,303	970	17	--	(2,615)	(325)
EBITDA(1)	\$ 56,678	\$ 86,509	\$ 11,758	\$ --	\$ (4,519)	\$ 150,426
Balance sheet data:						
Real estate, net	\$ 803,324	\$ 564,214	\$ --	\$ --	\$ 23,120	\$ 1,390,659
Investments and advances to partially-owned entities	105,586	4,451	243,846	--	128,904	482,787
Capital expenditures:						
Acquisitions	965,000	366,000	600,000	--	64,000	1,995,000

-----  
See footnotes 1-5 on the next page.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Notes to segment information:

- (1) EBITDA represents net income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of real estate and the effect of straight-lining of property rentals for rent escalations. Management considers EBITDA a supplemental measure for making decisions and assessing the performance of its segments. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Other includes (i) the operations of the Company's warehouse and industrial properties, (ii) investments in the Hotel Pennsylvania, Alexander's, and Newkirk Joint Ventures, (iii) corporate general and administrative expenses and (iv) unallocated investment income and interest and debt expense.
- (3) Includes adding back of (i) \$4,287 of income taxes and related items, which are considered non-recurring because of the expected conversion of the Cold Storage Companies to REITs and (ii) non-recurring unification costs of \$4,585.
- (4) Primarily represents the Company's equity in Alexander's loss from the write-off of the carrying value of Alexander's Lexington Avenue buildings.
- (5) Interest and debt expense, depreciation and amortization and straight-lining of rents included in the reconciliation of net income to EBITDA reflects amounts which are netted in income from partially-owned entities.

18. Subsequent Events

Acquisition of 888 Seventh Avenue

On January 12, 1999, the Company completed the acquisition of 888 Seventh Avenue, a 46 story Manhattan office building for approximately \$100,000,000.

Additional Investment in Newkirk

In March 1999, the Company and its joint venture partner completed an acquisition of additional equity interests in certain limited partnerships. The Company's additional investment of \$52,435,000 consisted of \$47,790,000 in Operating Partnership Units and \$4,645,000 in cash.

Charles E. Smith Commercial Realty L.P.

On March 4, 1999, the Company made an additional \$242,000,000 investment in CESCER by contributing to CESCER the land under certain CESCER office properties in Crystal City, Arlington, Virginia and partnership interests in certain CESCER subsidiaries. The Company acquired these assets from Commonwealth Atlantic Properties, Inc. ("CAPI"), an affiliate of Lazard Freres Real Estate Investors L.L.C., immediately prior to the contribution to CESCER. Together with the Company's investment in CESCER made in 1997 and the units it reacquired on March 4, 1999 from Vornado Operating Company, the Company owns approximately 34% of CESCER's limited partnership units. In addition, the Company acquired from CAPI for \$8,000,000 the land under a Marriott Hotel located in Crystal City.

The purchase price was paid to CAPI by the Company issuing \$250,000,000 of 6% Convertible Preferred Units of the Company's operating partnership. The Preferred Units are convertible at \$44 per unit and the coupon increases to 6.50% over the next three years and then fixes at 6.75% in year eight. The Company will appoint one of three members to CESCER's Board of Managers, increasing under certain circumstances to two of four members in March 2002.

In connection with these transactions, the Company made a five-year \$41,000,000 loan to CAPI with interest at 8%, increasing to 9% ratably over the term. The loan is secured by approximately \$55,000,000 of the Operating Partnership's units issued to CAPI as well as certain real estate assets.

Offering of Preferred Shares

On March 17, 1999, the Company completed the sale of 3 million 8.5% Series B Cumulative Redeemable Preferred Shares, at a price \$25.00 per share, pursuant to an effective registration statement with net proceeds to the Company of approximately \$72,200,000. Further on March 22, 1999, 400,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of \$9,700,000. The perpetual preferred shares may be called without penalty at the option of the Company commencing on

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Sale of Non-Real Estate Assets of AmeriCold Logistics

On March 12, 1999, the Vornado/Crescent Partnerships sold all of the non-real estate assets of the Cold Storage Companies encompassing the operations of the cold storage business for approximately \$48,000,000 to a new partnership owned 60% by Vornado Operating Company and 40% by Crescent Operating Inc. The new partnership leases the underlying cold storage warehouses used in this business from the Vornado/Crescent Partnerships which continue to own the real estate. The leases have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on customer revenues. The new partnership is required to pay for all costs arising from the operation, maintenance and repair of the properties, as well as property capital expenditures in excess of \$5,000,000 annually. Fixed base rent and percentage rent for the initial lease year is projected to be approximately \$151 million. The new partnership has the right to defer a portion of the rent for up to three years beginning on March 12, 1999 to the extent that available cash, as defined in the leases, is insufficient to pay such rent.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information relating to trustees of the Registrant will be contained in a definitive Proxy Statement involving the election of trustees which the Registrant will file with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 not later than 120 days after December 31, 1998, and such information is incorporated herein by reference. Information relating to Executive Officers of the Registrant appears at page 40 of this Annual Report on Form 10-K.

Item 11. Executive Compensation

Information relating to executive compensation will be contained in the Proxy Statement referred to above in Item 10, "Directors and Executive Officers of the Registrant", and such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information relating to security ownership of certain beneficial owners and management will be contained in the Proxy Statement referred to in Item 10, "Directors and Executive Officers of the Registrant", and such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information relating to certain relationships and related transactions will be contained in the Proxy Statement referred to in Item 10, "Directors and Executive Officers of the Registrant", and such information is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. The consolidated financial statements are set forth in Item 8 of this Annual Report on Form 10-K.
2. Financial Statement Schedules.

The following financial statement schedules should be read in conjunction with the financial statements included in Item 8 of this Annual Report on Form 10-K.

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Independent Auditors' Report

II--Valuation and Qualifying Accounts--years ended	
December 31, 1998, 1997 and 1996.....	97
III--Real Estate and Accumulated Depreciation as of	
December 31, 1998.....	98

Schedules other than those listed above are omitted because they are not applicable or the information required is included in the consolidated financial statements or the notes thereto.

The consolidated financial statements of Alexander's, Inc. for the year ended December 31, 1996 are hereby incorporated by reference to Item 14(a)1 of the 1996 Annual Report on Form 10-K of Alexander's, Inc. for the year ended December 31, 1996.

3. The following exhibits listed on the Exhibit Index are filed with this Annual Report on Form 10-K.

Exhibit No.  
-----

- |    |  |
|----|--|
| 12 | Consolidated Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Share Dividend Requirements. |
| 21 | Subsidiaries of the Registrant.  |
| 23 | Consent of Independent Auditors to Incorporation by Reference.   |
| 27 | Financial Data Schedule.   |

(b) Reports on Form 8-K and Form 8-K/A

During the last quarter of the period covered by this Annual Report on Form 10-K described below.

Period Covered:  
(Date of Earliest  
Event Reported)

Items Reported  
-----

Date of Report  
-----

October 22, 1998	Court approval of Mendik RELP litigation settlement; resignation of Bernard H. Mendik	June 2, 1998
November 30, 1998	Issuance of Series D-1 Preferred Units by Vornado Realty L.P.	November 12, 1998

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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

By: /s/ Irwin Goldberg  
-----  
Irwin Goldberg, Vice President,  
Chief Financial Officer

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
-----	-----	----

By: /s/ Steven Roth ----- (Steven Roth)	Chairman of the Board of Trustees (Principal Executive Officer)	March 24, 1999
---	---	----------------

By: /s/ Michael D. Fascitelli President and Trustee March 24, 1999  
-----  
(Michael D. Fascitelli)

By: /s/ Irwin Goldberg Vice President-- March 24, 1999  
-----  
Chief Financial Officer  
(Irwin Goldberg)

By: /s/ David Mandelbaum Trustee March 24, 1999  
-----  
(David Mandelbaum)

By: /s/ Stanley Simon Trustee March 24, 1999  
-----  
(Stanley Simon)

By: /s/ Ronald G. Targan Trustee March 24, 1999  
-----  
(Ronald G. Targan)

By: /s/ Russell B. Wight, Jr. Trustee March 24, 1999  
-----  
(Russell B. Wight, Jr.)

By: /s/ Richard R. West Trustee March 24, 1999  
-----  
(Richard R. West)

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Year	Additions Charged Against Operations	Deductions Description Amount	Balance at End of Year
(amounts in thousands)				
Year Ended December 31, 1998:				
Deducted from accounts receivable, allowance for doubtful accounts.....	\$658 ====	\$2,547 =====	Uncollectible accounts written-off	\$161 ====
				\$ 3,044 =====
Year Ended December 31, 1997:				
Deducted from accounts receivable, allowance for doubtful accounts.....	\$575 ====	\$ 305 =====	Uncollectible accounts written-off	\$222 ====
				\$ 658 =====
Year Ended December 31, 1996:				
Deducted from accounts receivable allowance for doubtful accounts.....	\$578 ====	\$ 211 =====	Uncollectible accounts written-off	\$214 ====
				\$ 575 =====

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(amounts in thousands)

COLUMN A	COLUMN B	COLUMN C		COLUMN D
Description	Encumbrances	Initial cost to company(1)		Costs capitalized subsequent to acquisition
		Land	Buildings and improvements	
Office Buildings				
New York				
One Penn Plaza Manhattan	\$ 275,000	\$ --	\$ 412,169	\$ 3,539
Two Penn Plaza, Manhattan	80,000	53,615	164,903	38,131
770 Broadway Manhattan	--	52,898	95,686	3,605
Eleven Penn Plaza, Manhattan	53,901	40,333	85,259	5,816
Two Park Avenue Manhattan	65,000	44,050	69,715	--
90 Park Avenue, Manhattan	--	8,000	175,890	4,624
330 West 34th Street Manhattan	--	--	8,599	--
1740 Broadway, Manhattan	--	26,971	102,890	5,007
150 East 58th Street Manhattan	--	39,303	80,216	45
866 United Nations Plaza, Manhattan	33,000	32,196	37,534	2,543
640 Fifth Avenue, Manhattan	--	38,224	25,992	424
40 Fulton Street Manhattan	--	20,400	34,235	1,025
20 Broad Street Manhattan	--	--	28,760	55
689 Fifth Avenue Manhattan	--	19,721	13,446	10
550/600 Mamaroneck Avenue Westchester	6,500	--	21,770	30
Total New York	513,401	375,711	1,357,064	64,854

COLUMN A	COLUMN E			COLUMN F	COLUMN G
Description	Gross amount at which carried at close of period			Accumulated depreciation and amortization	Date of construction(3)
	Land	Buildings and improvements	Total(2)		
Office Buildings					
New York					
One Penn Plaza Manhattan	\$ --	\$ 415,708	\$ 415,708	\$ 9,552	1972
Two Penn Plaza, Manhattan	53,615	203,034	256,649	8,240	1968
770 Broadway Manhattan	52,898	99,291	152,189	1,224	1907
Eleven Penn Plaza, Manhattan	40,333	91,075	131,408	3,940	1923
Two Park Avenue Manhattan	44,050	69,715	113,765	3,416	1928
90 Park Avenue, Manhattan	8,000	180,514	188,514	6,199	1964
330 West 34th Street Manhattan	--	8,599	8,599	28	1925
1740 Broadway, Manhattan	26,971	107,897	134,868	4,809	1950
150 East 58th Street Manhattan	39,303	80,261	119,564	1,679	1969
866 United Nations Plaza, Manhattan	32,196	40,077	72,273	1,693	1966
640 Fifth Avenue, Manhattan	38,224	26,416	64,640	695	1950
40 Fulton Street Manhattan	20,400	35,260	55,660	518	1987
20 Broad Street Manhattan	--	28,815	28,815	305	1956
689 Fifth Avenue					



Manhattan 550/600 Mamaroneck Avenue	19,721	13,456	33,177	129	1925
Westchester	--	21,800	21,800	70	1971/1969
Total New York	375,711	1,421,918	1,797,629	42,497	

DESCRIPTION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENT IS COMPUTED
Office Buildings New York		
One Penn Plaza Manhattan	1998	39 Years
Two Penn Plaza, Manhattan	1997	39 Years
770 Broadway Manhattan	1998	39 Years
Eleven Penn Plaza, Manhattan	1997	39 Years
Two Park Avenue Manhattan	1998	39 Years
90 Park Avenue, Manhattan	1997	39 Years
330 West 34th Street Manhattan	1998	39 Years
1740 Broadway, Manhattan	1997	39 Years
150 East 58th Street Manhattan	1998	39 Years
866 United Nations Plaza, Manhattan	1997	39 Years
640 Fifth Avenue, Manhattan	1997	39 Years
40 Fulton Street Manhattan	1998	39 Years
20 Broad Street Manhattan	1998	39 Years
689 Fifth Avenue Manhattan	1998	39 Years
550/600 Mamaroneck Avenue Westchester	1998	39 Years
Total New York		

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(amounts in thousands)

DESCRIPTION	ENCUMBRANCES	LAND	BUILDINGS AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION
Connecticut Westport	8,000	4,544	9,753	369
Total Connecticut	8,000	4,544	9,753	369

New Jersey				
Paramus	250	--	8,345	2,927
	-----	-----	-----	-----
Total New Jersey	250	--	8,345	2,927
	-----	-----	-----	-----
Total Office Buildings	521,651	380,255	1,375,162	68,150
	-----	-----	-----	-----
Merchandise Mart Properties				
Illinois				
Merchandise Mart				
Chicago	250,000	64,528	319,146	4,653
Apparel Center				
Chicago	--	14,238	67,008	3,838
Washington D.C.				
Washington Office Center	50,878	10,721	69,658	134
Washington Design Center	24,225	12,276	40,662	1,660
Other		9,174	6,273	45
North Carolina				
Market Square Complex				
High Point	45,302	11,969	85,478	--
National Furniture Mart				
High Point	13,831	1,069	16,761	--
	-----	-----	-----	-----
Total Merchandise Mart	384,236	123,975	604,986	10,330
	-----	-----	-----	-----

COLUMN A		COLUMN E		COLUMN F	COLUMN G
Gross amount at which carried at close of period					
Description	Land	Buildings and improvements	Total(2)	Accumulated depreciation and amortization	Date of construction(3)
	-----	-----	-----	-----	-----
Connecticut					
Westport	4,544	10,122	14,666	234	1980
	-----	-----	-----	-----	-----
Total Connecticut	4,544	10,122	14,666	234	
	-----	-----	-----	-----	-----
New Jersey					
Paramus	--	11,272	11,272	2,916	1967
	-----	-----	-----	-----	-----
Total New Jersey	--	11,272	11,272	2,916	
	-----	-----	-----	-----	-----
Total Office Buildings	380,255	1,443,312	1,823,567	45,647	
	-----	-----	-----	-----	-----
Merchandise Mart Properties					
Illinois					
Merchandise Mart					
Chicago	64,528	323,799	388,327	6,043	1930
Apparel Center					
Chicago	14,238	70,846	85,084	1,314	1977
Washington D.C.					
Washington Office Center	10,721	69,792	80,513	1,323	1990
Washington Design Center	12,276	42,322	54,598	801	1919
Other	9,174	6,318	15,492	118	
North Carolina					
Market Square Complex					
High Point	11,969	85,478	97,447	180	1902 -- 1989
National Furniture Mart					
High Point	1,069	16,761	17,830	27	1964
	-----	-----	-----	-----	-----
Total Merchandise Mart	123,975	615,316	739,291	9,806	
	-----	-----	-----	-----	-----

COLUMN A	COLUMN H	COLUMN I
	Date	Life on which depreciation in latest income statement

Description	Acquired -----	is computed -----
Connecticut Westport	1998	39 Years
Total Connecticut		
New Jersey Paramus	1987	26 -- 40 Years
Total New Jersey		
Total Office Buildings		
Merchandise Mart Properties		
Illinois		
Merchandise Mart Chicago	1998	40 Years
Apparel Center Chicago	1998	40 Years
Washington D.C.		
Washington Office Center	1998	40 Years
Washington Design Center	1998	40 Years
Other	1998	40 Years
North Carolina		
Market Square Complex High Point	1998	40 Years
National Furniture Mart High Point	1998	40 Years
Total Merchandise Mart		

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(amounts in thousands)

Description	COLUMN A Encumbrances -----	COLUMN B Land -----	COLUMN C Initial cost to company(1)		COLUMN D Costs capitalized subsequent to acquisition -----
			Buildings and improvements -----		
Shopping Centers					
New Jersey					
Bordentown	3,276*	498	3,176		1,113
Bricktown	9,919*	929	2,175		9,180
Cherry Hill	9,706*	915	3,926		3,304
Delran	2,848*	756	3,184		2,421
Dover	3,635*	224	2,330		2,575
East Brunswick	8,205*	319	3,236		6,638
East Hanover	11,066*	376	3,063		3,539
East Hanover (Conran's)	--	1,756	8,706		--
Hackensack	--	536	3,293		7,255
Jersey City	10,381*	652	2,962		1,798
Kearny (4)	--	279	4,429		(1,208)
Lawnside	5,708*	851	2,222		1,412
Lodi (5)	2,420*	245	1,981		--
Manalapan	6,397*	725	2,447		4,945
Marlton	5,398*	1,514	4,671		605
Middletown	7,761*	283	1,508		3,944
Morris Plains	6,600*	1,254	3,140		3,317
North Bergen (4)	--	510	3,390		(955)
North Plainfield	3,109	500	13,340		354
Totowa	15,646*	1,097	5,359		10,941
Turnersville	2,116*	900	2,132		66

Union	15,975*	1,014	4,527	1,908
Vineland	2,358*	290	1,594	1,253
Watchung (4)	--	451	2,347	6,871
Woodbridge	8,792*	190	3,047	711

Total New Jersey	141,316	17,064	92,185	71,987
------------------	---------	--------	--------	--------

New York

14th Street and Union Square, Manhattan	--	12,566	4,044	3,525
Albany (Menands)	--	460	1,677	2,756
Buffalo (Amherst)	4,863*	402	2,019	2,126
Freeport	8,021*	1,231	3,273	2,848
New Hyde Park	2,043*	--	--	126
North Syracuse	--	--	--	23
Rochester (Henrietta)	2,203*	--	2,124	1,156
Rochester	2,832*	443	2,870	596

COLUMN A

COLUMN E

COLUMN F

COLUMN G

Gross amount at which carried at close of period

Description	Gross amount at which carried at close of period			Accumulated depreciation and amortization	Date of construction(3)
	Land	Buildings and improvements	Total(2)		
Shopping Centers					
New Jersey					
Bordentown	713	4,074	4,787	3,723	1958
Bricktown	929	11,355	12,284	4,669	1968
Cherry Hill	915	7,230	8,145	5,106	1964
Delran	756	5,605	6,361	2,900	1972
Dover	204	4,925	5,129	2,851	1964
East Brunswick	319	9,874	10,193	5,212	1957
East Hanover	477	6,501	6,978	4,431	1962
East Hanover (Conran's)	1,756	8,706	10,462	54	1979
Hackensack	536	10,548	11,084	4,585	1963
Jersey City	652	4,760	5,412	3,605	1965
Kearny (4)	290	3,210	3,500	1,088	1938
Lawnside	851	3,634	4,485	2,127	1969
Lodi (5)	245	1,981	2,226	--	1998
Manalapan	725	7,392	8,117	3,741	1971
Marlton	1,611	5,179	6,790	3,722	1973
Middletown	283	5,452	5,735	2,713	1963
Morris Plains	1,104	6,607	7,711	4,474	1961
North Bergen (4)	2,309	636	2,945	100	1993
North Plainfield	500	13,694	14,194	4,384	1955
Totowa	1,163	16,234	17,397	5,687	1957
Turnersville	900	2,198	3,098	1,669	1974
Union	1,014	6,435	7,449	5,001	1962
Vineland	290	2,847	3,137	1,787	1966
Watchung (4)	4,200	5,469	9,669	742	1994
Woodbridge	220	3,728	3,948	2,895	1959
Total New Jersey	22,962	158,274	181,236	77,266	
New York					
14th Street and Union Square, Manhattan	12,581	7,554	20,135	800	1965
Albany (Menands)	460	4,433	4,893	1,979	1965
Buffalo (Amherst)	636	3,911	4,547	2,535	1968
Freeport	1,231	6,121	7,352	2,780	1981
New Hyde Park	--	126	126	123	1970
North Syracuse	--	23	23	23	1967
Rochester (Henrietta)	--	3,280	3,280	2,063	1971
Rochester	443	3,466	3,909	2,427	1966

COLUMN A

COLUMN H

COLUMN I

Life on which depreciation in latest income statement is computed

Description

Date Acquired

Shopping Centers

New Jersey

Bordentown	1958	7 -- 40 Years
------------	------	---------------

Bricktown	1968	22 -- 40 Years
Cherry Hill	1964	12 -- 40 Years
Delran	1972	16 -- 40 Years
Dover	1964	16 -- 40 Years
East Brunswick	1957	8 -- 33 Years
East Hanover	1962	9 -- 40 Years
East Hanover (Conran's)	1998	40 Years
Hackensack	1963	15 -- 40 Years
Jersey City	1965	11 -- 40 Years
Kearny (4)	1959	23 -- 29 Years
Lawnside	1969	17 -- 40 Years
Lodi (5)	1975	(5)
Manalapan	1971	14 -- 40 Years
Marlton	1973	16 -- 40 Years
Middletown	1963	19 -- 40 Years
Morris Plains	1985	7 -- 19 Years
North Bergen (4)	1959	30 Years
North Plainfield	1989	21 -- 30 Years
Totowa	1957	19 -- 40 Years
Turnersville	1974	23 -- 40 Years
Union	1962	6 -- 40 Years
Vineland	1966	18 -- 40 Years
Watchung (4)	1959	27 -- 30 Years
Woodbridge	1959	11 -- 40 Years

Total New Jersey

New York

14th Street and Union Square, Manhattan	1993	36 -- 39 Years
Albany (Menands)	1965	22 -- 40 Years
Buffalo (Amherst)	1968	13 -- 40 Years
Freeport	1981	15 -- 40 Years
New Hyde Park	1976	6 -- 10 Years
North Syracuse	1976	11 -- 12 Years
Rochester (Henrietta)	1971	15 -- 40 Years
Rochester	1966	10 -- 40 Years

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(amounts in thousands)

Description	COLUMN A Encumbrances	COLUMN B Land	COLUMN C Initial cost to company(1)		COLUMN D Costs capitalized subsequent to acquisition
			Buildings and improvements		
Valley Stream (Green Acres)	165,574	138,691	99,586		1,653
Total New York	185,536	153,793	115,593		14,809
Pennsylvania					
Allentown	7,696*	70	3,446		10,183
Bensalem	3,967*	1,198	3,717		1,168
Bethlehem	--	278	1,806		3,873
Broomall	3,260*	734	1,675		1,630
Glenolden	4,245*	850	1,295		744
Lancaster	2,312*	606	2,312		2,643
Levittown	2,283*	193	1,231		132
10th and Market Streets, Philadelphia	--	933	3,230		5,426
Upper Moreland	3,517*	683	2,497		498
York	1,463*	421	1,700		1,248
Total Pennsylvania	28,743	5,966	22,909		27,545
Maryland					
Baltimore (Belair Rd.)	--	785	1,333		3,146

Baltimore (Towson)	5,779*	581	2,756	722
Baltimore (Dundalk)	4,084*	667	1,710	3,209
Glen Burnie	2,299*	462	1,741	1,281
Hagerstown	--	168	1,453	885
Total Maryland	12,162	2,663	8,993	9,243
Connecticut				
Newington	3,042*	502	1,581	600
Waterbury	3,889*	--	2,103	1,463
Total Connecticut	6,931	502	3,684	2,063
Massachusetts				
Chicopee	1,999*	510	2,031	358
Springfield (4)	--	505	1,657	826
Total Massachusetts	1,999	1,015	3,688	1,184

COLUMN A	COLUMN E			COLUMN F	COLUMN G
Description	Gross amount at which carried at close of period			Accumulated depreciation and amortization	Date of construction(3)
	Land	Buildings and improvements	Total(2)		
Valley Stream (Green Acres)	140,069	99,861	239,930	2,706	1956
Total New York	155,420	128,775	284,195	15,436	
Pennsylvania					
Allentown	334	13,365	13,699	4,967	1957
Bensalem	1,198	4,885	6,083	1,242	1972
Bethlehem	278	5,679	5,957	3,297	1966
Broomall	850	3,189	4,039	1,993	1966
Glenolden	850	2,039	2,889	1,055	1975
Lancaster	606	4,955	5,561	3,025	1966
Levittown	193	1,363	1,556	1,131	1964
10th and Market Streets, Philadelphia	933	8,656	9,589	857	1977
Upper Moreland	683	2,995	3,678	1,939	1974
York	421	2,948	3,369	1,715	1970
Total Pennsylvania	6,346	50,074	56,420	21,221	
Maryland					
Baltimore (Belair Rd.)	785	4,479	5,264	2,977	1962
Baltimore (Towson)	581	3,478	4,059	2,140	1968
Baltimore (Dundalk)	667	4,919	5,586	2,723	1966
Glen Burnie	462	3,022	3,484	1,798	1958
Hagerstown	168	2,338	2,506	1,385	1966
Total Maryland	2,663	18,236	20,899	11,023	
Connecticut					
Newington	502	2,181	2,683	1,554	1965
Waterbury	667	2,899	3,566	1,810	1969
Total Connecticut	1,169	5,080	6,249	3,364	
Massachusetts					
Chicopee	510	2,389	2,899	1,796	1969
Springfield (4)	2,586	402	2,988	74	1993
Total Massachusetts	3,096	2,791	5,887	1,870	

COLUMN A	COLUMN H	COLUMN I
Description	Date Acquired	Life on which depreciation in latest income statement is computed
Valley Stream (Green Acres)	1997	39 -- 40 Years

Total New York

Pennsylvania			
Allentown	1957	20 -- 42 Years	
Bensalem	1972	40 Years	
Bethlehem	1966	9 -- 40 Years	
Broomall	1966	9 -- 40 Years	
Glenolden	1975	18 -- 40 Years	
Lancaster	1966	12 -- 40 Years	
Levittown	1964	7 -- 40 Years	
10th and Market			
Streets, Philadelphia	1994	27 -- 30 Years	
Upper Moreland	1974	15 -- 40 Years	
York	1970	15 -- 40 Years	

Total Pennsylvania

Maryland			
Baltimore (Belair Rd.)	1962	10 -- 33 Years	
Baltimore (Towson)	1968	13 -- 40 Years	
Baltimore (Dundalk)	1966	12 -- 40 Years	
Glen Burnie	1958	16 -- 33 Years	
Hagerstown	1966	9 -- 40 Years	

Total Maryland

Connecticut			
Newington	1965	9 -- 40 Years	
Waterbury	1969	21 -- 40 Years	
Total Connecticut			

Massachusetts			
Chicopee	1969	13 -- 40 Years	
Springfield (4)	1966	28 -- 30 Years	

Total Massachusetts

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(amounts in thousands)

Description	COLUMN A Encumbrances	COLUMN C Initial cost to company(1)		COLUMN D Costs capitalized subsequent to acquisition
		Land	Buildings and improvements	
-----				
-----				
Texas				
Dallas				
Lewisville	764*	2,433	2,271	676
Mesquite	3,445*	3,414	4,704	1,233
Skillman	1,987*	3,714	6,891	1,067
	-----	-----	-----	-----
Total Texas	6,196	9,561	13,866	2,976
	-----	-----	-----	-----
Puerto Rico (San Juan)				
Montehiedra	62,180	9,182	66,701	215
	-----	-----	-----	-----
Total Shopping Centers	445,063	199,746	327,619	130,022
	-----	-----	-----	-----
Warehouse/Industrial				
New Jersey				
East Brunswick	--	--	4,772	2,867

East Hanover	8,210*	576	7,752	7,227
Edison	2,455*	705	2,839	1,241
Garfield	--	96	8,068	4,788
	-----	-----	-----	-----
Total Warehouse/ Industrial	10,665	1,377	23,431	16,123
	-----	-----	-----	-----
Other Properties				
New Jersey				
Montclair	--	66	470	330
Rahway	--	--	--	25
	-----	-----	-----	-----
Total New Jersey	--	66	470	355
	-----	-----	-----	-----

COLUMN A	COLUMN E			COLUMN F	COLUMN G
	Gross amount at which carried at close of period				
Description	Land	Buildings and improvements	Total(2)	Accumulated depreciation and amortization	Date of construction(3)
	-----	-----	-----	-----	-----
Texas					
Dallas					
Lewisville	2,469	2,911	5,380	830	1989
Mesquite	3,395	5,956	9,351	1,659	1988
Skillman	3,714	7,958	11,672	2,177	1988
	-----	-----	-----	-----	-----
Total Texas	9,578	16,825	26,403	4,666	
	-----	-----	-----	-----	-----
Puerto Rico (San Juan)					
Montehiedra	9,182	66,916	76,098	2,913	1996
	-----	-----	-----	-----	-----
Total Shopping Centers	210,416	446,971	657,387	137,759	
	-----	-----	-----	-----	-----
Warehouse/Industrial					
New Jersey					
East Brunswick		7,639	7,639	4,126	1972
East Hanover	691	14,864	15,555	9,604	1963 -- 1967
Edison	704	4,081	4,785	2,153	1954
Garfield	97	12,855	12,952	9,098	1942
	-----	-----	-----	-----	-----
Total Warehouse/ Industrial	1,492	39,439	40,931	24,981	
	-----	-----	-----	-----	-----
Other Properties					
New Jersey					
Montclair	66	800	866	522	1972
Rahway	--	25	25	25	1972
	-----	-----	-----	-----	-----
Total New Jersey	66	825	891	547	
	-----	-----	-----	-----	-----

COLUMN A	COLUMN H	COLUMN I
		Life on which depreciation in latest income statement is computed
Description	Date Acquired	
	-----	-----
Texas		
Dallas		
Lewisville	1990	25 -- 30 Years
Mesquite	1990	24 -- 30 Years
Skillman	1990	26 -- 30 Years
	-----	-----
Total Texas		
	-----	-----
Puerto Rico (San Juan)		
Montehiedra	1997	40 Years



Total Shopping Centers

Warehouse/Industrial

New Jersey		
East Brunswick	1972	18 -- 40 Years
East Hanover	1963	7 -- 40 Years
Edison	1982	12 -- 25 Years
Garfield	1959	11 -- 33 Years

Total Warehouse/  
Industrial

Other Properties

New Jersey		
Montclair	1972	4 -- 15 Years
Rahway	1972	14 Years

Total New Jersey

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(amounts in thousands)

COLUMN A	COLUMN B	COLUMN C		COLUMN D
Description	Encumbrances	Initial cost to company(1)		Costs capitalized subsequent to acquisition
		Land	Buildings and improvements	
New York				
1135 Third Avenue	--	7,844	7,844	--
Riese	--	19,277	7,348	20
Total New York	--	27,121	15,192	20
Total Other Properties	--	27,187	15,662	375
Leasehold Improvements and Equipment				11,491
TOTAL -- DECEMBER 31, 1998	\$ 1,361,615	\$ 732,540	\$ 2,346,860	\$236,491

COLUMN A	COLUMN E			COLUMN F	COLUMN G
Description	Gross amount at which carried at close of period			Accumulated depreciation and amortization	Date of construction(3)
	Land	Buildings and improvements	Total(2)		
New York					
1135 Third Avenue	7,844	7,844	15,688	196	1911--1987
Riese	19,276	7,369	26,645	283	
Total New York	27,120	15,213	42,333	479	
Total Other Properties	27,186	16,038	43,224	1,026	

Leasehold Improvements and Equipment		11,491	11,491	7,597
TOTAL --				
DECEMBER 31, 1998	\$ 743,324	\$ 2,572,567	\$ 3,315,891	\$ 226,816
	=====	=====	=====	=====

COLUMN A	COLUMN H	COLUMN I
Description	Date Acquired	Life on which depreciation in latest income statement is computed
New York		
1135 Third Avenue	1997	40 Years
Riese	1997	39 Years
Total New York		
Total Other Properties		

Leasehold Improvements and Equipment 3 -- 20 Years

TOTAL --  
DECEMBER 31, 1998

\* These encumbrances are cross collateralized under a blanket mortgage in the amount of \$227,000,000 at December 31, 1998.

Notes:

- 1) Initial cost is cost as of January 30, 1982 (the date on which Vornado commenced real estate operations) unless acquired subsequent to that date -- see Column H.
- 2) The net basis of the company's assets and liabilities for tax purposes is approximately \$920,000,000 lower than the amount reported for financial statement purposes.
- 3) Date of original construction -- many properties have had substantial renovation or additional construction -- see Column D.
- 4) Buildings on these properties were demolished in 1993. As a result, the cost of the buildings and improvements, net of accumulated depreciation, were transferred to land. In addition, the cost of the land in Kearny is net of a \$1,615,000 insurance recovery.
- 5) Building was destroyed by fire and is being rebuilt.

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VORNADO REALTY TRUST  
AND SUBSIDIARIES

SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
(amounts in thousands)

The following is a reconciliation of real estate assets and accumulated depreciation:

	Year Ended December 31,		
	1998	1997	1996
Real Estate			
Balance at beginning of period	\$1,564,093	\$ 397,298	\$ 382,476
Additions during the period:			
Land	308,261	374,996	--
Buildings & improvements	1,464,595	792,397	14,822

	-----	-----	-----
	3,336,949	1,564,691	397,298
Less: Cost of assets written-off .....	21,058	598	--
	-----	-----	-----
Balance at end of period .....	\$3,315,891	\$1,564,093	\$ 397,298
	=====	=====	=====
Accumulated Depreciation			
Balance at beginning of period .....	\$ 173,434	\$ 151,049	\$ 139,495
Additions charged to operating expenses .....	59,227	22,983	11,589
	-----	-----	-----
	232,661	174,032	151,084
	-----	-----	-----
Less: Accumulated depreciation on assets			
written-off .....	5,845	598	35
	-----	-----	-----
Balance at end of period .....	\$ 226,816	\$ 173,434	\$ 151,049
	=====	=====	=====

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EXHIBIT INDEX

Exhibit No. -----	
3.1	-- Amended and Restated Declaration of Trust of Vornado, amended April 3, 1997 - Incorporated by reference to Exhibit 3.1 of Vornado's Registration Statement on Form S-8 (File No. 333-29011), filed on June 12, 1997.....*
3.2	-- Articles of Amendment of Declaration of Trust of Vornado, as filed with the State Department of Assessments and Taxation of Maryland on April 22, 1998 - Incorporated by reference to Exhibit 3.1 of Vornado's Current Report on Form 8-K, dated April 22, 1998 (File No. 001-11954), filed on April 28, 1998.....*
3.3	-- Articles Supplementary Classifying Vornado's \$3.25 Series A Preferred Shares of Beneficial Interest, liquidation preference \$50.00 per share - Incorporated by reference to Exhibit 4.1 of Vornado's Current Report on Form 8-K, dated April 3, 1997 (File No. 001-11954), filed on April 8, 1997.....*
3.4	-- Articles Supplementary Classifying Vornado's Series D-1 8.5% Cumulative Redeemable Preferred Shares of Beneficial Interest, no par value (the "Series D-1 Preferred Shares") - Incorporated by reference to Exhibit 3.1 of Vornado's Current Report on Form 8-K, dated November 12, 1998 (file No. 001-11954), filed on November 30, 1998.....*
3.5	-- Articles Supplementary Classifying Additional Series D-1 Preferred Shares - Incorporated by reference to Exhibit 3.2 of Vornado's Current Report on Form 8-K/A, dated November 12, 1998 (File No. 001-11954), filed on February 9, 1999.....*
3.6	-- Articles Supplementary classifying 8.5% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share, no par value - Incorporated by reference to Exhibit 3.3 of Vornado's Current Report on Form 8-K, dated March 3, 1999 (File No. 001-11954), filed on March 17, 1999.....*
3.7	-- By-laws of Vornado, as amended on April 28, 1997 - Incorporated by reference to Exhibit 3(b) of Vornado's Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 001-11954), filed on May 14, 1997.....*
3.8	-- Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated as of October 20, 1997 - Incorporated by reference to Exhibit 3.4 of Vornado's Annual Report on Form 10-K for the year ended December 31, 1997 filed on March 31, 1998 (the "1997 10-K").....*
3.9	-- Amendment to Second Amended and Restated Agreement of Limited Partnership of Vornado Realty L.P., dated as of December 16, 1997--Incorporated by reference to Exhibit 3.5 of the 1997 10-K.....*

\* Incorporated by reference

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Exhibit  
No.

- 
- 3.10 -- Second Amendment to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated as of April 1, 1998 - Incorporated by reference to Exhibit 3.5 of Vornado's Registration Statement on Form S-3 (File No. 333-50095), filed on April 14, 1998.....\*
  - 3.11 -- Third Amendment to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated as of November 12, 1998 - Incorporated by reference to Exhibit 3.2 of Vornado's Current Report on Form 8-K, dated November 12, 1998 (File No. 001-11954), filed on November 30, 1998.....\*
  - 3.12 -- Fourth Amendment to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated as of November 30, 1998 - Incorporated by reference to Exhibit 3.1 of Vornado's Current Report on Form 8-K, dated December 1, 1998 (File No. 001-11954), filed on February 9, 1999.....\*
  - 3.13 -- Exhibit A, dated as of December 22, 1998, to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership - Incorporated by reference to Exhibit 3.4 of Vornado's Current Report on Form 8-K/A, dated November 12, 1998 (File No. 001-11954), filed on February 9, 1999.....\*
  - 3.14 -- Fifth Amendment to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated as of March 3, 1999 - Incorporated by reference to Exhibit 3.1 of Vornado's Current Report on Form 8-K, dated March 3, 1999 (File No. 001-11954), filed on March 17, 1999.....\*
  - 3.15 -- Exhibit A to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated as of March 11, 1999 - Incorporated by reference to Exhibit 3.2 of Vornado's Current Report on Form 8-K, dated March 3, 1999 (File No. 001-11954), filed on March 17, 1999.....\*
  - 4.1 -- Instruments defining the rights of security holders (see Exhibits 3.1 through 3.15 of this Annual Report on Form 10-K)
  - 4.2 -- Indenture dated as of November 24, 1993 between Vornado Finance Corp. and Bankers Trust Company, as Trustee - Incorporated by reference to Vornado's current Report on Form 8-K dated November 24, 1993 (File No. 001-11954), filed December 1, 1993.....\*
  - 4.3 -- Specimen certificate representing Vornado's Common Shares of Beneficial Interest, par value \$0.04 per share - Incorporated by reference to Exhibit 4.1 of Amendment No. 1 to Registration Statement on Form S-3 (File No. 33-62395), filed on October 26, 1995.....\*
  - 4.4 -- Specimen certificate representing Vornado's \$3.25 Series A Preferred Shares of Beneficial Interest, liquidation preference \$50.00 per share - Incorporated by reference to Exhibit 4.2 of Vornado's

-----  
\*Incorporated by reference

Exhibit  
No.

- 
- Current Report on Form 8-K, dated April 3, 1997 (File No. 001-11954), filed on April 8, 1997.....\*
  - 4.5 -- Specimen certificate evidencing Vornado's Series B 8.5% Cumulative Redeemable Preferred Shares of Beneficial Interest-Incorporated by reference to Exhibit 4.2 of Vornado's registration Statement on Form 8-A (File No. 001-11954), on March 15, 1999.....\*
  - 10.1 -- Second Amendment, dated as of June 12, 1997, to Vornado's 1993 Omnibus Share Plan, as amended - Incorporated by reference to Vornado's Registration Statement on Form S-8 (File No. 333-29011) filed on June 12, 1997.....\*
  - 10.2 -- Master Agreement and Guaranty, between Vornado, Inc. and Bradlees New Jersey, Inc. dated as of May 1, 1992 - Incorporated by reference to Vornado's Quarterly Report on Form 10-Q for quarter ended March 31, 1992 (File No. 001-11954), filed May 8, 1992.....\*

- 10.3\*\* -- Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated as of November 24, 1993 made by each of the entities listed therein, as mortgagors to Vornado Finance Corp., as mortgagee - Incorporated by reference to Vornado's Current Report on Form 8-K dated November 24, 1993 (File No. 001-11954), filed December 1, 1993.....\*
- 10.4\*\* -- 1985 Stock Option Plan as amended - Incorporated by reference to Vornado's Quarterly Report on Form 10-Q for quarter ended May 2, 1987 (File No. 001-11954), filed June 9, 1987.....\*
- 10.5\*\* -- Form of Stock Option Agreement for use in connection with incentive stock options issued pursuant to Vornado, Inc. 1985 Stock Option Plan - Incorporated by reference to Vornado's Quarterly Report on Form 10-Q for quarter ended October 26, 1985 (File No. 001-11954), filed December 9, 1985.....\*
- 10.6\*\* -- Form of Stock Option Agreement for use in connection with incentive stock options issued pursuant to Vornado, Inc. 1985 Stock Option Plan--Incorporated by reference to Vornado's Quarterly Report on Form 10-Q for quarter ended May 2, 1987 (File No. 001-11954), filed June 9, 1987.....\*
- 10.7\*\* -- Form of Stock Option Agreement for use in connection with incentive stock options issued pursuant to Vornado, Inc. 1985 Stock Option Plan--Incorporated by reference to Vornado's Quarterly Report on Form 10-Q for quarter ended October 26, 1985 (File No. 001-11954), filed December 9, 1985.....\*
- 10.8\*\* -- Employment Agreement between Vornado Realty Trust and Joseph Macnow dated January 1, 1998 - Incorporated by reference to Exhibit 10.7 of Vornado's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 001-11954), filed November 12, 1998.....\*
- 10.9\*\* -- Employment Agreement between Vornado Realty Trust and Richard Rowan dated January 1, 1998 - Incorporated by reference to Exhibit 10.8 of Vornado's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 001-11954), filed November 12, 1998.....\*
- 10.10\*\* -- Employment Agreement between Vornado Realty Trust and Irwin Goldberg, dated December 11, 1997-Incorporated by reference to Exhibit 10.10 of Vornado's Annual Report on Form 10-K/A for the year ended December 31,1997 (File No. 001-11954), Filed on April 14, 1998.....\*
- 10.11\*\* -- Employment Agreement between Vornado Realty Trust and Michael D. Fascitelli dated December 2, 1996 - Incorporated by reference to Vornado's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 001-11954), filed March 13, 1997.....\*

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 \* Incorporated by reference  
 \*\* Management contract or compensatory plan

Exhibit  
 No.

- 10.12 -- Promissory Notes from Steven Roth to Vornado, Inc. dated December 29, 1992 and January 15, 1993 - Incorporated by reference to Vornado's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 001-11954), filed February 16, 1993.....\*
- 10.13 -- Registration Rights Agreement between Vornado, Inc. and Steven Roth Dated December 29, 1992 - Incorporated by reference to Vornado's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 001-11954), filed February 16, 1993.....\*
- 10.14 -- Stock Pledge Agreement between Vornado, Inc. and Steven Roth dated December 29, 1992 - Incorporated by reference to Vornado's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 001-11954), filed February 16, 1993.....\*
- 10.15 -- Promissory Note from Steven Roth to Vornado Realty Trust dated April 15, 1993 and June 17, 1993 - Incorporated by reference to Vornado's Annual Report on Form 10-K for the

year ended December 31, 1993 (File No. 001-11954), filed  
March 24, 1994.....\*

- 10.16 -- Promissory Note from Richard Rowan to Vornado Realty Trust  
- Incorporated by reference to Vornado's Annual Report on  
Form 10-K for the year ended December 31, 1993 (File No.  
001-11954), filed March 24, 1994.....\*
- 10.17 -- Promissory Note from Joseph Macnow to Vornado Realty Trust  
- Incorporated by reference to Vornado's Annual Report on  
Form 10-K for the year ended December 31, 1993 (File No.  
001-11954), filed March 24, 1994.....\*
- 10.18 -- Management Agreement between Interstate Properties and  
Vornado, Inc. dated July 13, 1992 -Incorporated by reference  
to Vornado's Annual Report on Form 10-K for the year ended  
December 31, 1992 (File No. 001-11954), filed February 16,  
1993.....\*
- 10.19 -- Real Estate Retention Agreement between Vornado, Inc.,  
Keen Realty Consultants, Inc. and Alexander's, Inc., dated as  
of July 20, 1992 - Incorporated by reference to Vornado's  
Annual Report on Form 10-K for the year ended December 31,  
1992 (File No. 001-11954), filed February 16, 1993.....\*
- 10.20 -- Amendment to Real Estate Retention Agreement dated  
February 6, 1995 - Incorporated by reference to Vornado's  
Annual Report on Form 10-K for the year ended December 31,  
1994 (File No. 001-11954), filed March 23, 1995.....\*
- 10.21 -- Stipulation between Keen Realty Consultants Inc. and  
Vornado Realty Trust re: Alexander's Retention Agreement -  
Incorporated by reference to Vornado's annual Report on Form  
10-K for the year ended December 31, 1993 (File No.  
001-11954), filed March 24, 1994.....\*
- 10.22 -- Stock Purchase Agreement, dated February 6, 1995, among  
Vornado Realty Trust and Citibank, N.A. Incorporated by  
reference to Vornado's Current Report on Form 8-K dated  
February 6, 1995 (File No. 001-11954), filed February 21,  
1995.....\*
- 10.23 -- Management and Development Agreement, dated as of February  
6, 1995 - Incorporated by reference to Vornado's Current  
Report on Form 8-K dated February 6, 1995 (File No.  
001-11954), filed February 21, 1995.....\*
- 10.24 -- Standstill and Corporate Governance Agreement, dated as of  
February 6, 1995 - Incorporated by reference to Vornado's  
Current Report on Form 8-K dated February 6, 1995 (File No.  
001-11954), filed February 21, 1995.....\*

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\* Incorporated by reference

Exhibit  
No.

- 10.25 -- Credit Agreement, dated as of March 15, 1995, among  
Alexander's Inc., as borrower, and Vornado Lending Corp., as  
lender - Incorporated by reference from Annual Report on Form  
10-K for the year ended December 31, 1994 (File No. 001 -  
11954), filed March 23, 1995.....\*
- 10.26 -- Subordination and Intercreditor Agreement, dated as of  
March 15, 1995 among Vornado Lending Corp., Vornado Realty  
Trust and First Fidelity Bank, National Association -  
Incorporated by reference to Vornado's Annual Report on Form  
10-K for the year ended December 31, 1994 (File No.  
001-11954), filed March 23, 1995.....\*
- 10.27 -- Revolving Credit Agreement dated as of February 27, 1995  
among Vornado Realty Trust, as borrower, and Union Bank of  
Switzerland, as Bank and Administrative Agent - Incorporated  
by reference to Exhibit 10(F)9 of Vornado's Annual Report on  
Form 10-K for the year ended December 31, 1994 (File No.  
001-11954), filed March 23, 1995.....\*
- 10.28 -- Form of Intercompany Agreement between Vornado Realty L.P.  
and Vornado Operating, Inc. -Incorporated by reference to  
Exhibit 10.1 of Amendment No. 1 to Vornado Operating, Inc.'s  
Registration Statement on Form S-11 (File No. 333-40701),  
filed on January 23, 1998.....\*

- 10.29 -- Form of Revolving Credit Agreement between Vornado Realty L.P. and Vornado Operating, Inc., together with related form of Note - Incorporated by reference to Exhibit 10.2 of Amendment No. 1 to Vornado Operating, Inc.'s Registration Statement on Form S-11 (File No.333-40701).....\*
- 10.30 -- Amended and Restated Revolving Credit Agreement, dated as of February 23, 1998, between Vornado Realty L.P., as Borrower, Vornado Realty Trust, as General Partner and Union Bank of Switzerland (New York Branch), as Bank, the other banks signatory hereto, each as a bank, Union Bank of Switzerland (New York Branch), as Administrative Agent and Citicorp Real Estate, Inc., The Chase Manhattan Bank and Nationsbank, as Syndication Agents - Incorporated by reference to Exhibit 10.29 of the 1997 10-K.....\*
- 10.31 -- Registration Rights Agreement, dated as of April 15, 1997, between Vornado Realty Trust and the holders of Units listed on Schedule A thereto - Incorporated by reference to Exhibit 10.2 of Vornado's Current Report on Form 8-K (File No. 001-11954), filed on April 30, 1997.....\*
- 10.32 -- Noncompetition Agreement, dated as of April 15, 1997, by and among Vornado Realty Trust, the Mendik Company, L.P., and Bernard H. Mendik - Incorporated by reference to Exhibit 10.3 of Vornado's Current Report on Form 8-K (File No. 001-11954), filed on April 30, 1997.....\*
- 10.33 -- Employment Agreement, dated as of April 15, 1997, by and among Vornado Realty Trust, The Mendik Company, L.P. and David R. Greenbaum - Incorporated by reference to Exhibit 10.4 of Vornado's Current Report on Form 8-K (File No. 001-11954), filed on April 30, 1997.....\*
- 10.34 -- Agreement, dated September 28, 1997, between Atlanta Parent Incorporated, Portland Parent Incorporated and Crescent Real Estate Equities, Limited Partnership - Incorporated by reference to Exhibit 99.6 of Vornado's Current Report on Form 8-K (File No. 001-11954), filed on October 8, 1997.....\*
- 10.35 -- Contribution Agreement between Vornado Realty Trust, Vornado Realty L.P. and The Contributors Signatory - thereto - Merchandise Mart Properties, Inc. (DE) and Merchandise Mart Enterprises, Inc. Incorporated by reference to Exhibit 10.34 of Vornado's Annual Report on Form 10-K/A for the year ended December 31, 1997 (File No. 001-11954), Filed on April 8, 1998.....\*
- 10.36 -- Sale Agreement executed November 18, 1997, and effective December 19, 1997, between MidCity Associates, a New York partnership, as Seller, and One Penn Plaza LLC, a New York Limited liability company; as purchaser. Incorporated by reference to Exhibit 10.35 of Vornado's Annual Report on Form 10-K/A for the Year ended December 31, 1997 (File No.001-11954), Filed on April 8, 1998...\*

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 \* Incorporated by reference

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Exhibit No. -----

- 10.37 -- Promissory Notes from Michael D. Fascitelli to Vornado Realty Trust dated March 2, 1998 and April 30, 1998. Incorporated by reference to Exhibit 10.37 of Vornado's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (File No. 001-11954), filed May 13, 1998.....\*
- 10.38 -- Credit Agreement dated as of June 22, 1998 among One Penn Plaza, LLC, as Borrower, The Lenders Party Hereto, The Chase Manhattan Bank, as Administrative Agent Incorporated by reference to Exhibit 10 of Vornado's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 001-11954), filed August 13, 1998.....\*
- 10.39 -- Registration Rights Agreement, dated as of April 1, 1998, between Vornado and the Unit Holders named therein - Incorporated by reference to Exhibit 10.2 of Amendment No. 1 to Vornado's Registration Statement on Form S-3 (File No. 333-50095), filed on May 6, 1998.....\*
- 10.40 -- Underwriting Agreement, dated April 9, 1998, among Vornado, Vornado Realty L.P. and Goldman, Sachs & Co. - Incorporated by reference to Exhibit 1.1 of Vornado's Current Report on Form 8-K, dated April 9, 1998 (file No. 001-11954), filed on April 16, 1998.....\*
- 10.41 -- Pricing Agreement, dated April 9, 1998, between Vornado and

Goldman, Sachs & Co. - Incorporated by reference to Exhibit 1.2 of Vornado's current report on Form 8-K, dated April 9, 1998 (File No. 001-11954), filed on April 16, 1998.....\*

- 10.42 -- Underwriting Agreement, dated April 23, 1998, among Vornado, Vornado Realty L.P. and Merrill Lynch, Pierce, Fenner & Smith Incorporated - Incorporated by reference to Exhibit 1.1 of Vornado's Current Report on Form 8-K, dated April 22, 1998 (File No. 001-11954), filed on April 28, 1998.....\*
- 10.43 -- Underwriting Agreement, dated March 12, 1999, among Vornado, Vornado Realty L.P., Merrill Lynch, Pierce, Fenner & Smith Incorporated - Incorporated by reference to Exhibit 1.1. of Vornado's Current Report on Form 8-K, dated March 3, 1999 (File No. 001-11954), filed on March 17, 1999.....\*
- 12 -- Consolidated Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Share 111 Dividend Requirements.....111
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- 19 -- Not applicable
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- 22 -- Not applicable
- 23 -- Consent of independent auditors.....117
- 25 -- Not applicable
- 27 -- Financial Data Schedule.....118
- 29 -- Not applicable

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\* Incorporated by reference

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## Section 2: EX-12 (COMPUTATION OF RATIOS OF EARNINGS)

1

### EXHIBIT 12

#### VORNADO REALTY TRUST

#### CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED SHARE DIVIDEND REQUIREMENTS

	December 31,				
	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Income from continuing operations before income taxes	\$ 131,164	\$ 45,474	\$ 61,364	\$ 53,008	\$ 41,240
Fixed charges	139,765	59,104	17,214	17,333	16,229
	-----	-----	-----	-----	-----
Income from continuing operations before income taxes and fixed charges	\$ 270,929	\$ 104,578	\$ 78,578	\$ 70,341	\$ 57,469
	=====	=====	=====	=====	=====
Fixed charges:					
Interest and debt expense	\$ 114,686	\$ 42,888	\$ 16,726	\$ 16,426	\$ 14,209
Preferred stock dividends	21,690	15,549	--	--	--
1/3 of rent expense-- interest factor	1,979	667	488	465	438
	-----	-----	-----	-----	-----
	138,355	59,104	17,214	16,891	14,647



Capitalized interest	1,410	--	--	442	1,582
	-----	-----	-----	-----	-----
	\$ 139,765	\$ 59,104	\$17,214	\$ 17,333	\$ 16,229
	=====	=====	=====	=====	=====

Ratio of earnings to fixed charges	1.94	1.76	4.56	4.06	3.54
---------------------------------------	------	------	------	------	------

Note: For purposes of this calculation, earnings before fixed charges consist of earnings before income taxes plus fixed charges. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred debt issuance costs) preferred stock dividends and the portion of operating lease rental expense that is representative of the interest factor (deemed to be one third of operating lease rentals).

Rent Expense	\$ 5,937	\$ 2,001	\$ 1,465	\$ 1,395	\$ 1,313
	=====	=====	=====	=====	=====

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### Section 3: EX-21 (SUBSIDIARIES OF THE REGISTRANT)

1

EXHIBIT 21

#### VORNADO REALTY TRUST SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary -----	State of Organization -----
14 West 64th Street Corp.	New York
150 East 58th Street L.L.C.	New York
1740 Broadway Associates L.P.	Delaware
20 Broad Lender L.L.C.	New York
201 East 66th Street Corp.	New York
201 East 66th Street L.L.C.	New York
314 West 40th Street L.L.C.	New York
330 Madison Company L.L.C.	New York
350 North Orleans L.L.C.	Delaware
40 East 14 Realty Associates L.L.C.	New York
40 Fulton Street L.L.C.	New York
401 Commercial Son, L.L.C.	Delaware
401 Commercial, L.P.	Delaware
401 General Partner, L.L.C.	Delaware
401 Hotel General Partner, L.L.C.	Delaware
401 Hotel, L.P.	Delaware
527 West Kinzie L.L.C.	Delaware
570 Lexington Associates, L.P.	New York
570 Lexington Company, L.P.	New York
689 5th Avenue L.L.C.	Delaware
770 Broadway Company L.L.C.	New York
825 Seventh Avenue Holding L.L.C.	New York
866 U.N. Plaza Associates L.L.C.	New York
888 Seventh Avenue L.L.C.	New York
909 Third Avenue Assignee L.L.C.	New York
AmeriCold Corporation	Oregon
AmeriCold Logistics II L.L.C.	Delaware
AmeriCold Logistics L.L.C.	Delaware
AmeriCold Real Estate, L.P.	Delaware
AmeriCold Realty, Inc.	Delaware
Americold Services Corporation	Delaware
Amherst Holding L.L.C.	New York
Amherst Industries L.L.C.	New York
Arbor Property, L.P.	Delaware
Atlanta Parent, Inc.	Delaware
Atlantic City Holding L.L.C.	New Jersey
B&B Park Avenue L.P.	Delaware
BBE GP Corporation	Delaware
Bensalem Holding Company L.L.C.	Pennsylvania
Bensalem Holding Company L.P.	Pennsylvania
Bethlehem Holding Company L.L.C.	Pennsylvania
Bethlehem Holding Company L.P.	Pennsylvania
Bethlehem Properties Holding Company L.L.C.	Pennsylvania
Bethlehem Properties Holding Company L.P.	Pennsylvania
Bordentown Holding L.L.C.	New Jersey

Name of Subsidiary -----	State of Organization -----
Brentwood Development L.L.C.	New York
Bridgeland Warehouses L.L.C.	New Jersey
Camden Holding L.L.C.	New Jersey
Carmar Freezers Russellville, L.L.C.	Missouri
Carmar Group, Inc.	Missouri
Carmar Industries, L.L.C.	Missouri
Charles E. Smith Commercial Realty L.P.	Delaware
Chicopee Holding L.L.C.	Massachusetts
Clementon Holding L.L.C.	New Jersey
Cumberland Holding L.L.C.	New Jersey
Darby Development Corp.	Florida
Delran Holding L.L.C.	New Jersey
Design Center Owner (D.C.) L.L.C.	Delaware
Dover Holding L.L.C.	New Jersey
DSAC L.L.C.	Texas
DUN L.L.C.	Maryland
Durham Leasing L.L.C.	New Jersey
EH L.L.C.	Maryland
Eleven Penn Plaza L.L.C.	New York
Evesham Holding L.L.C.	New Jersey
Gallery Market Holding Company L.L.C.	Pennsylvania
Gallery Market Holding Company L.P.	Pennsylvania
Gallery Market Properties Holding Company L.L.C.	Pennsylvania
Gallery Market Properties Holding Company L.P.	Pennsylvania
GBSPI L.L.C.	Maryland
Graybar Building L.L.C.	New York
Green Acres Mall, L.L.C.	Delaware
Hackbridge L.L.C.	New Jersey
Hanover Conran's Plaza L.L.C.	New Jersey
Hanover Holding L.L.C.	New Jersey
Hanover Industries L.L.C.	New Jersey
Hanover Leasing L.L.C.	New Jersey
Hanover Public Warehousing L.L.C.	New Jersey
Henrietta Holding L.L.C.	New York
HHC L.L.C.	Maryland
Jersey City Leasing L.L.C.	New Jersey
Kearny Holding L.L.C.	New Jersey
Kearny Leasing L.L.C.	New Jersey
Lancaster Leasing Company L.L.C.	Pennsylvania
Lancaster Leasing Company L.P.	Pennsylvania
Landthorp Enterprises L.L.C.	Delaware
Lawnside Holding L.L.C.	New Jersey
Lawnwhite Holding L.L.C.	New Jersey
Lewisville Centre L.P.	Texas
Lewisville TC L.L.C.	Texas
Littleton Holding L.L.C.	New Jersey
Lodi Industries L.L.C.	New Jersey
Lodi Leasing L.L.C.	New Jersey
M 330 Associates, L.P.	New York
M 393 Associates L.L.C.	New York
Manalapan Industries L.L.C.	New Jersey
Market Square L.L.C.	Illinois
Marple Holding Company L.L.C.	Pennsylvania
Marple Holding Company L.P.	Pennsylvania
Mart Franchise Center, Inc.	Delaware
Mart Franchise Venture, L.L.C.	Delaware

Name of Subsidiary -----	State of Organization -----
Menands Holding L.L.C.	New York
Mendik Management Company Inc.	New York
Merchandise Mart Enterprises, Inc.	Delaware
Merchandise Mart L.L.C.	Delaware
Merchandise Mart Properties, Inc.	Delaware
Merchandise Mart Properties, Inc. (DE)	Delaware
Mesquite - Texas Crossing L.P.	Texas
Mesquite TC L.L.C.	Texas
Middletown Holding L.L.C.	New Jersey
Montclair Holding L.L.C.	New Jersey
Morris Plains Leasing L.L.C.	New Jersey
MRC Management L.L.C.	New York
National Hydrant L.L.C.	New York
New Hanover L.L.C.	New Jersey

New Woodbridge L.L.C.	New Jersey
Newington Connecticut Holding L.L.C.	Connecticut
Ninety Park Lender LLC	New York
Ninety Park Lender QRS, Inc.	Delaware
Ninety Park Manager LLC	New York
Ninety Park Option LLC	New York
Ninety Park Property LLC	New York
North Bergen Stores L.L.C.	New Jersey
North Plainfield Holding L.L.C.	New Jersey
Office Center Owner (D.C.) L.L.C.	Delaware
One Penn Plaza LLC	New York
Philadelphia Holding Company L.L.C.	Pennsylvania
Philadelphia Holding Company L.P.	Pennsylvania
Phillipsburg Holding L.L.C.	New Jersey
Pike Holding Company L.L.C.	Pennsylvania
Pike Holding Company L.P.	Pennsylvania
Portland Parent, Inc.	Delaware
Rahway Leasing L.L.C.	New Jersey
Rochester Holding L.L.C.	New York
Russia Fund, L.L.C.	Delaware
Skillman Abrams Crossing L.P.	Texas
South Capital L.L.C.	Delaware
Springfield Holding L.L.C.	Massachusetts
Star Universal L.L.C.	New Jersey
Stardial GP Corporation	Delaware
T.G. Hanover L.L.C.	New Jersey
T53 Condominium L.L.C.	New York
TGSI L.L.C.	Maryland
The Second Lawnside L.L.C.	New Jersey
The Second Rochester Holding L.L.C.	New York
Trees Acquisition Subsidiary, Inc.	Delaware
Turnersville Holding L.L.C.	New Jersey
Two Guys From Harrison Holding Co. L.P.	Pennsylvania
Two Guys From Harrison Holding Co. LLC	Pennsylvania
Two Guys From Harrison L.L.C.	New Jersey
Two Guys From Harrison N.Y. L.L.C.	New York
Two Guys Mass. L.L.C.	Massachusetts
Two Guys-Connecticut Holding L.L.C.	Connecticut
Two Park Company	New York
Two Penn Plaza REIT, Inc.	New York
Unado L.L.C.	New Jersey
Unifreeze Services Partnership	Delaware

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Name of Subsidiary -----	State of Organization -----
Upper Moreland Holding Company L.L.C.	Pennsylvania
Upper Moreland Holding Company L.P.	Pennsylvania
URS Logistics, Inc.	Delaware
URS Real Estate, L.P.	Delaware
URS Realty, Inc.	Delaware
VC Carthage, L.L.C.	Delaware
VC Freezer Amarillo, L.P.	Delaware
VC Freezer Fremont. L.L.C.	Delaware
VC Freezer Garden City, L.L.C.	Delaware
VC Freezer Omaha Amarillo, L.L.C.	Delaware
VC Freezer Phoenix, L.L.C.	Delaware
VC Freezer Russelville, L.L.C.	Delaware
VC Freezer Sioux Falls, L.L.C.	Delaware
VC Freezer Springdale, L.L.C.	Delaware
VC Logistics, L.L.C.	Delaware
VC Missouri Holdings, L.L.C.	Delaware
VC Missouri Real Estate Holding, L.L.C.	Delaware
VC Omaha Holdings, L.L.C.	Delaware
VC Omaha Real Estate Holdings, L.L.C.	Delaware
VC Omaha Texas, L.L.C.	Delaware
VC Superior, L.L.C.	Delaware
VC Texas, L.P.	Delaware
VFC Connecticut Holding L.L.C.	Delaware
VFC Massachusetts Holding L.L.C.	Delaware
VFC New Jersey Holding L.L.C.	Delaware
VNK Corp	Massachusetts
Vornado - Westport L.L.C.	Connecticut
Vornado 1740 Broadway L.L.C.	New York
Vornado 330 West 34th Street L.L.C.	Delaware
Vornado 401 Commercial L.L.C.	New York
Vornado 401 Commercial Son L.L.C.	New York
Vornado 401 Hotel, Inc.	New York
Vornado 550/600 Mamoroneck L.P.	Delaware
Vornado 570 Lexington L.L.C.	New York
Vornado 63rd Street, Inc.	New York
Vornado 640 Fifth Avenue L.L.C.	New York
Vornado 90 Park Avenue L.L.C.	New York

Vornado 90 Park QRS, Inc.	New York
Vornado B&B L.L.C.	New York
Vornado CAPI L.L.C.	Delaware
Vornado Catalinas GP Inc.	Delaware
Vornado Center Building L.L.C.	New York
Vornado CESCO Holdings L.L.C.	Delaware
Vornado CESCO II L.L.C.	Delaware
Vornado CESCO L.L.C.	Delaware
Vornado Crescent Atlanta Partnership	Delaware
Vornado Crescent Holding L.P.	Delaware
Vornado Crescent Logistics Operating Partnership	Delaware
Vornado Crescent Omaha Partnership	Delaware
Vornado Crescent Portland Partnership	Delaware
Vornado Deer Park L.L.C.	New York
Vornado Finance GP L.L.C.	Delaware
Vornado Finance L.P.	Delaware
Vornado Finance SPE, Inc.	Delaware
Vornado Green Acres Acquisition L.L.C.	Delaware
Vornado Green Acres Delaware L.L.C.	Delaware

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Name of Subsidiary -----	State of Organization -----
Vornado Green Acres Funding L.L.C.	Delaware
Vornado Green Acres Holdings L.L.C.	Delaware
Vornado Green Acres SPE Managing Member, Inc.	Delaware
Vornado Investment Corporation	New York
Vornado Investments L.L.C.	Delaware
Vornado Lending L.L.C.	New Jersey
Vornado M 330 L.L.C.	New York
Vornado M 393 L.L.C.	New York
Vornado M 393 QRS, Inc.	New York
Vornado M/H L.L.C.	Delaware
Vornado Mamaroneck L.L.C.	Delaware
Vornado Managemant Corp.	New Jersey
Vornado Montehiedra Acquisition L.L.C.	Delaware
Vornado Montehiedra Acquisition L.P.	Delaware
Vornado Montehiedra Holding II L.P.	Delaware
Vornado Montehiedra Holding L.L.C.	Delaware
Vornado Montehiedra Holding L.P.	Delaware
Vornado Montehiedra Inc.	Delaware
Vornado Montehiedra OP L.L.C.	Delaware
Vornado Montehiedra OP L.P.	Delaware
Vornado New York RR One L.L.C.	New York
Vornado Newkirk L.L.C.	Massachusetts
Vornado NK Loan L.L.C.	Massachusetts
Vornado Omaha Holdings, Inc.	Delaware
Vornado Realty L.L.C.	Delaware
Vornado Realty L.P.	Delaware
Vornado RR Midtown L.L.C.	New York
Vornado Two Park Holdings L.L.C.	Delaware
Vornado Two Penn Plaza L.L.C.	New York
Vornado/Team Room L.L.C.	New York
VR Retail Holdings LLC	New York
VRT Massachusetts Holding L.L.C.	Delaware
VRT New Jersey Holding L.L.C.	Delaware
Washington Design Center L.L.C.	Delaware
Washington Office Center L.L.C.	Delaware
Watchung Holding L.L.C.	New Jersey
West Windsor Holding L.L.C.	New Jersey
Whitehorse Lawnside L.L.C.	New Jersey
York Holding Company L.L.C.	Pennsylvania
York Holding Company L.P.	Pennsylvania

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## Section 4: EX-23 (CONSENT OF INDEPENDENT AUDITORS)

1

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of our report dated March 24, 1999 appearing in this Annual Report on Form 10-K of Vornado Realty Trust for the year ended December 31, 1998:

Vornado Realty Trust:

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. 333-29011 on Form S-8  
 Registration Statement No. 333-09159 on Form S-8

Vornado Realty Trust and Vornado Realty L.P. (Joint Registration Statements):

Amendment No. 4 to Registration Statement No. 333-40787 on Form S-3  
 Amendment No. 4 to Registration Statement No. 333-29013 on Form S-3

DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
 March 24, 1999

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## Section 5: EX-27 (FINANCIAL DATA SCHEDULE)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

-TYPE>	YEAR	
-YEAR-END>	DEC-31-1998	
-START>	JAN-01-1998	
-END>	DEC-31-1998	
		167,808
		77,156
		35,517
		3,044
		0
-ASSETS>		0
&E>		3,315,891
		226,816
-ASSETS>		4,425,779
-LIABILITIES>		0
		2,051,000
-MANDATORY>		0
		282,758
		3,403
-SE>		1,496,517
-LIABILITY-AND-EQUITY>		4,425,779
		0
-REVENUES>		509,860
		0
-COSTS>		207,171
-EXPENSES>		87,837
-PROVISION>		2,547
-EXPENSE>		114,686
-PRETAX>		152,854
-TAX>		0
-CONTINUING>		152,854
		0
		0
-INCOME>		131,164
-PRIMARY>		1.62
-DILUTED>		1.59

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