ANNUAL REPORT

1999

FINANCIAL HIGHLIGHTS

	Year Ended December 31,	
	1999	1998
Revenues	**$ 696,958,000**	$ 509,860,000
Net income	**$ 202,519,000**	$ 152,854,000
Net income per share—basic	**$ 1.97**	$ 1.62
Net income per share—diluted	**$ 1.94**	$ 1.59
Total assets	**$ 5,479,218,000**	$4,425,779,000
Shareholders' equity	**$ 2,055,368,000**	$1,782,678,000
Funds from operations (1)	**$ 293,773,000**	$ 218,899,000

(1) See Management's Discussion and Analysis of Financial Conditions and Results of Operations on page 72 for a reconciliation of net income to funds from operations. 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. 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.

Vornado Company Profile

Vornado Realty Trust is a fully-integrated real estate investment trust. The Company currently owns:

- all or partial ownership in 22 office building properties in the New York City metropolitan area (primarily Manhattan) aggregating approximately 14.0 million square feet;
- a 34% limited partnership interest in Charles E. Smith Commercial Realty L.P., a limited partnership which owns and manages approximately 10.7 million square feet of office properties in Northern Virginia and Washington, D.C., and manages an additional 7.9 million square feet of office and other commercial properties in the Washington, D.C. area;
- 56 shopping center properties in six states and Puerto Rico aggregating approximately 12.0 million square feet;
- the Merchandise Mart Properties portfolio containing approximately 6.8 million square feet, including the 3.4 million square foot Merchandise Mart in Chicago;
- a 60% interest in partnerships that own 89 warehouse facilities nationwide with an aggregate of approximately 428 million cubic feet of refrigerated space (excludes 15 additional warehouses containing approximately 91 million cubic feet managed by AmeriCold Logistics);
- approximately 33% of the outstanding common stock of Alexander's, Inc., which has eight properties in the New York City metropolitan area;
- the Hotel Pennsylvania, a New York City hotel which contains approximately 800,000 square feet of space with 1,700 rooms and approximately 400,000 square feet of retail and office space;
- approximately 30% interest in the Newkirk joint ventures which own various equity and debt interests relating to 120 limited partnerships which own real estate, primarily office and retail, net leased to credit rated tenants;
- eight dry warehouse/industrial properties in New Jersey containing approximately 2.0 million square feet; and
- other real estate investments.

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

Alexander's common stock is also listed on the New York Stock Exchange and is traded under the symbol: ALX.

New York is sizzling. I've said before that you can't get a hotel room or a restaurant reservation in New York. Now you can't get an apartment and it's very difficult to find office space. New York is the definition of a high barrier to entry, supply constrained real estate market. Reflecting this shortage, rents and asset values have been rising for several years. New York is the financial capital of the world and has benefited greatly from the ten-year economic expansion. But New York is much more. It has as much office space as the next four largest U.S. cities combined. It is the corporate headquarters city. It is the nation's media capital. It is a tourist heaven. It has the best museums, theaters and culture. It is creating 100,000 new jobs annually and is attracting an enormous influx of talent and energy. It even is the nation's third most important technology center.

Vornado believes in New York. By design, half of our assets are in New York including our flagship New York office business, our Manhattan retail and other area retail. Vornado owns 14 million sq. ft. of New York office in 22 buildings acquired early in the cycle at an average of $170 per sq. ft. (against a replacement value of over $450 per sq. ft.). With in-place rents in existing leases at a way under market $30 per sq. ft., our New York office portfolio marked-to market would generate cash flow of say $200 million per year more than it does today.

When in New York, please do visit the 37,000 sq. ft. Hennes & Mauritz store which opened last month in our 640 Fifth Avenue (at 51st Street) property. This is H & M's first store in the United States. The store has caused quite a sensation - there still is almost always a line waiting to get in - when was the last time you saw that in American retailing? It has been reviewed by *The New York Times* (which does not normally review stores), and has turned heads in the American retail and fashion industry. H & M is a large, important European retailer that is bringing its special brand of very, very high fashion clothing at very, very low prices to America. Mike (Michael Fascitelli, Vornado's President and my partner) and I are gratified that their selection of our location for their flagship confirmed our judgment. For us, this

glamorous store creates tremendous real estate value. Its merchandising and design represent the perfect execution of a three level urban store. Mike and I value this 15-year lease (which has no renewals, but does have frequent step-ups and percentage rent) at $100 million.

The H & M store is but the tip of the iceberg of our Manhattan retail portfolio. Vornado has the largest, highest quality portfolio of retail opportunities in Manhattan.

- The H & M store at 51st Street and Fifth Avenue
- The Fuller Building at 57th Street and Madison Avenue
- The Alexander's site - the square block at 59th Street, Lexington to Third Avenue
- The Bradlees' Building at 14th Street, Broadway to University Place
- The Red Door Building at 54th Street and Fifth Avenue
- Eight separate sites between Madison Square Garden, Penn Station and Macy's in the area of 34th Street on Seventh and Eighth Avenues

Each of these sites enjoys dense wall-to-wall existing foot traffic. Most are adjacent to Macy's or Bloomingdale's - the two highest volume department stores in the nation.

At Alexander's, our partially owned affiliate, where we are developing a more than one million square foot Cesar Pelli-designed tower, we are doing something a little adventurous, but very calculated. There has been speculation in the press about the so-called mystery hole we are excavating at the Alexander's site[1]. We will never again in our lifetime get another square block adjacent to the $500 million volume Bloomingdale's flagship store. That, together with the fact that New York City zoning regulations governing bulk begin from the sidewalk up (meaning that square footage created below grade is extra, above that allowed by zoning), led us to excavate two huge 75,000 sq. ft., 15 foot clear retail floors below grade. In this way, we are expanding the scarcest real estate in the world. We have already signed H & M for a store in Alexander's and have conversations underway with many other retailers.

[1] *We will shortly be running a contest to rename the Alexander's site. Please send us your ideas.*

Also on the retail front, Alexander's 1.2 million square foot Kings Plaza regional shopping center, one of the few $500 per sq. ft. regional malls in the country, is undergoing a wonderful mall renovation and upgrading. Please do visit Kings Plaza in Brooklyn and see for yourself.

FINANCING

Since January 1999, we completed financings or refinancings aggregating $1.8 billion in 11 separate transactions. This does not include a three year extension of our $1 billion revolver completed in March 2000[2]. Two of these financings are noteworthy.

We issued $720 million[3] of perpetual preferred shares or units done in two public offerings and three private placements[4]. These preferred securities have, as I like to say, a due date of never. They bear a weighted average coupon of 8.32% and like all preferred securities they fit in the capital structure junior to all debt and senior to common stock. But perhaps their single most important term is that they are callable at the Company's option anytime after the fifth year without penalty. Mike and I believe this fixed priced (at a coupon which today is not too dissimilar to straight debt rates) perpetual lived security is by far and away the best financing in the market today, bar none, and a perfect way to leverage our common shareholder value. We issued this paper in size.

In March 2000, we refinanced our original Two Guys strip shopping center portfolio with a $500 million[3] privately placed securitization of 10 year, 7.93% mortgage notes cross collateralized by 42 centers. This financing replaced a $227 million triple A, 6.36% financing done in 1993. Mike and I have been studying options for our mature shopping center portfolio. We've considered selling our retail assets, contributing them to a venture or to another publicly traded company or even buying more assets. With sale cap rates in the 9's, it was an easy decision for us, as a first step, to refinance at a sub 8% interest rate and realize $262 million of cash proceeds.

And it was an easy decision for us to sell our three outlying centers in Dallas for $25.7 million, realizing a $2.6 million capital gain. Since we were not going to expand in the region, better we re-deploy the capital.

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(2) *There is now $85 million outstanding under the $1 billion revolver.*

(3) *Carrying charges on the $720 million of preferred and $500 million of shopping center refinancing reduce FFO by about $.11 per share on a pro-forma basis. Extending duration and creating financial capacity were the correct things to do.*

(4) *Including an $85 million private placement executed in 1998, we have issued $805 million of perpetual preferred securities in total.*

Temperature Controlled Logistics

The Temperature Controlled Logistics business has high and stable returns. But it has not yet produced the growth that we seek. Here are the numbers. For our 60% share, as if we owned both the real estate and operations of the business, the EBITDA cap rate was 11.94% in 1999 and 11.80% in 1998. In 1999 our gross investment was $812 million and it was $789 million in 1998.
Our share of debt was approximately $390 million in each year. Our leveraged return was 16.5%. Financial performance has suffered from one-time costs for consolidating the four businesses, Y2K compliance costs, the effects of a tight labor market, etc. and does not adjust for the timing difference between when project capital is invested and their somewhat later phased in returns.

In March 1999, we separated the operations of the business from its real estate using Vornado Operating Company (VOO), Vornado's "paperclip" to own the operations portion. As part of the transaction, VOO leases the real estate from Vornado. This separation was done to comply with REIT rules in the most tax-efficient manner. The lease has a significant percentage rent feature based on volume. While over the last year EBITDA for the total business has been stable, this was achieved through slightly higher volume at slightly lower margin. As a result in 1999, VOO did not earn approximately $3 million (3.9%) of the rent due to Vornado. While it may be necessary to adjust the rental formula, it's too early to tell.

Merchandise Mart

Our best kept secret is our Merchandise Mart division - this year's same store leader in our portfolio. We acquired this business, including the famed Chicago Merchandise Mart, from the Joseph P. Kennedy family in April 1998 for $630 million. Going-in returns were 9.3%, which ripened the following year to over 10.2% in part because space leased to Bank of America, which was under construction at closing, commenced paying rent. We own these buildings at $116 per sq. ft.

As part of the original acquisition, we own the NeoCon® contract furniture trade show, eight other trade shows and their related operations. The ownership of unique industry buildings in multiple cities, the industry trade shows, together with our management's skills and relationships really does create a business platform for us here.

Our platform (industry buildings in Chicago, Washington and New York, trade shows and management) led us to High Point, North Carolina. Twice each year, the furniture industry gathers in High Point for market week, bringing together literally every buyer and seller in the nation. In December 1998, in separate transactions, we acquired two adjacent properties in High Point for $115 million. We immediately invested $23 million to add 335,000 sq. ft. on land we already owned. And Mike has just approved an additional $40 million investment to build, again on land we already own, an additional 435,000 sq. ft. in the coming year. Interestingly, our High Point investments yield the highest returns of any of our investments, even higher than our flagship New York office business currently produces (although current returns in New York are just the tip of the iceberg). Our add on expansions in High Point have 15% first year returns on cost.

Joe Hakim, Chris Kennedy and Tom Kennedy, no relation, do a terrific job of running this business for us.

Business Philosophy

Our business is based on a few simple, straight forward ideas.

- Our business is owning real estate and owning it for the long term. We seek to own assets with growing income streams.
- All real estate is not the same. Much of it has pricing and trading characteristics of commodities, and this real estate we shun. Rather, we seek real estate that is scarce, supply constrained and located in densely populated areas that have a history of spiking in value.
- Real estate markets are cyclical - there is a right time to buy and a right time to sell. Patience is important, as are having conviction and knowing when to load it in. Scale is important to profit making.
- Real estate is complicated. A management team that understands complex transactions, leasing, zoning, development, finance, etc., is extremely valuable. As with athletes, management teams have widely differing abilities.

- Real estate is very capital intensive and the management of the right side of our balance sheet is essential in achieving the profit we seek. Having capital capacity when few others do is an essential aspect of our business model. When everyone has capital, we go golfing.
- We believe that owning B+ assets is generally the sweet spot in the market. We prefer to buy existing assets at cents on the dollar, and insist on buying below replacement cost and below market rents. Development has its place in the cycle, but one must remember that development, definitionally, creates assets at par.
- We opportunistically seek value and will invest in geographies that meet our densely populated, prone to spiking criteria and in various asset types where we have management capability. We do not do random deals, but rather seek business platforms that can grow.

Having been shaped by the inflation of 60's and 70's, I have a tendency to follow a buy-and-hold strategy. This worked wonderfully when rents and asset values went up continuously every year. We think we do a great job of buying right, adding value through re-developing, re-tenanting and refinancing. But in these times holding assets which have stabilized will limit our growth. Accordingly, in the future we may sell stabilized assets, thereby turning over and replenishing capital to reinvest higher in the value spectrum.

We debate how big we want to be? We are now the fourth largest publicly traded REIT, although there are a handful of companies within shouting distance of our size. We are certainly large enough to have position in our marketplace and to do deals in scale. But size has its shortcomings. We do not want to become an index fund or be too large a capitalization to push up the mountain. A little larger and turning over our capital a little faster would be perfect.

We have no annual quota for acquisitions. True, acquisition activity slowed to $750 million last year from $2 billion in each of 1998 and 1997. This is a result of a couple of factors. There are fewer great opportunities as prices continue to rise into the extending cycle and, as importantly, we pull back when difficult capital markets prevent us from replenishing our balance sheet. We will never use all of our financial capacity for the marginal deal. Mike and I believe Vornado is in great shape today. Our large portfolio of under market rents and New York developments and our other business platforms give us sufficient internal growth to almost satisfy our growth aspirations. And we have over $1 billion of financial capacity to support external growth from acquisitions as the right deals come along.

Technology

Our market position and deal flow expose us to a large number of real estate technology opportunities. These include wiring our buildings to supply our tenants with telecommunication and Internet services, advertising in our buildings, elevators and parking lots etc., listing services, procurement systems, etc. Each of these new industry companies seeks access to our buildings and tenants, offering us a piece of the action. Most also seek our capital and offer us the opportunity to invest or grant us warrants as an inducement. Technology is permanently changing the way business is done and we will adapt to change and participate. Our first priority is, of course, to insure that our properties are fully competitive and offer leading edge services to our tenants. Our second priority is to make money, are you surprised. To date, we have invested $17.3 million in seven technology companies and are closing in on six or eight other investments. For the two investees that have gone public so far, we have an unrealized profit of $33.4 million on an investment of $6.7 million, marked-to-market as of April 28th.

But we are a property company above all and the most important issue is how technology will affect our real estate values. Everyone who follows our Company closely knows that for years I have believed that the Internet (together with over-storing) will impact brick and mortar retailing. Accordingly, over the last five years we have followed a strategy of restraining new investments in retail, withdrawing cash through refinancing and de-emphasizing retail by changing our mix from almost 100% retail in 1996 to 19% currently. We have analyzed our retail assets carefully, one by one, and are convinced that as a group our New York area strip shopping centers and malls, which are in densely populated areas, will stand the test of time. And we are certain that our Manhattan retail, among the scarcest assets of all, will flourish and produce extraordinary returns over time.

America's technology and entrepreneurial boom has had a different, very beneficial effect on our office assets. In office, we have invested in New York City and Washington. These two wonderful cities, together with several other dynamic, 24/7 cities, have benefited immensely from the unprecedented demand for space fueled both by the growing economy and the explosion of new business startups. People thrive on the collegial interaction in these cities. Demand for our office buildings is high and will trend up from here.

Straight-lining of Rents

I would like to paraphrase this year what I said last. When you compare our 1999 financial performance to that of our colleagues in the industry, to make it fair, you should add \$.21 per share to our Funds From Operations ("FFO"). Of the more than 200 publicly traded real estate companies, only a handful of us reduce FFO for straight-lining of rents. We follow this more conservative policy so that our published FFO more closely mirrors our actual cash flow. This straight-line adjustment in 2000 is estimated to be approximately \$.23 per share.

Stock Buybacks

There has been much comment that stock buybacks are the appropriate response to the real estate group's undervalued stocks. At Vornado, in the 1980s we pursued perhaps the largest (by percentage) stock buyback in the history of the New York Stock Exchange when we bought back 62% of our common stock. This activity (in essence the management of the right side of our balance sheet) created immense values for the non-selling shareholders and contributed significantly to our industry leading stock performance. Our thinking about buybacks is simple. First, buybacks should never be used to prop up falling stock prices. Second, buybacks make great sense at, and only at, significant discounts to "real" value. And third, then only when the harvesting of that value is more important than maintaining the liquidity that it costs. Simply put, a stock buyback's sole purpose is to enhance the value for the remaining shareholders.

A Milestone

Last year Vornado's revenues for the first time exceeded \$1 billion. While not readily apparent from our financial statements, I do the math by adding our wholly owned revenues to our pro rata share of partially owned. The resulting number is \$1.05 billion.

People People People

Like so many other companies, we are struggling with how to retain and properly compensate our people, especially our business heads and deal making people. And I am also struggling with how best to compensate Mike. I make these comments in the context that our senior management is working very hard and that the performance of our business financially, and in every other way, has been excellent.

Our historic compensation philosophy of modest salaries with heavy reliance on stock options worked well for many, many years. But that approach hasn't worked for the past two years, a period when our stock price has been in flatline. Several of our industry colleagues have recently done some interesting things and we ourselves are reviewing our compensation system. We need to have the best people and they must be fairly compensated. As a first step we have permitted senior management to co-invest in one of our technology investments - eight of us invested $3 million. Also, we have established a bonus pool that will allow senior management to share profits from the non-core, non-recurring Park Laurel project.

Mike and I are very fortunate to be able to work with an extraordinary group of colleagues, in particular, our highly capable business heads, each of whom runs a business that if free-standing would be a large company in itself. To Joe, David, Joe, Dan and Rick, you have our deep thanks and friendship.

We were extremely fortunate this year to attract some really talented people. Mel Blum has joined us as President of Vornado Development. Mel is an extraordinarily capable, seasoned developer who will be in charge of the Alexander's project and many more. In turn, Mel attracted Eli Zamek to oversee (along with the great John Kundrat) our construction operations.

David Greenbaum, the extremely talented head of our New York office business recruited Gaston Silva as his COO. Gaston, an architect by training, most recently served as Commissioner of the Department of Buildings of the City of New York. We're thrilled to have Gaston managing the operations of our buildings. Gaston's intimate knowledge of the workings of city government and the complex zoning code and other regulations is an extra benefit.

I have had a 15 year love affair with Sheldon Gordon, whom I consider to be perhaps the most talented retail developer in the nation. Notable among Sheldon's projects are the Forum Shops in Las Vegas, the Nordstrom complex in San Francisco and recently the Bridge Market development in Manhattan. This year, we created an affiliation with Sheldon, his partner Randy Brant and their team to assist with our Manhattan retail properties. And we would be surprised if our now formal relationship with Sheldon did not lead to many new exciting opportunities.

We have a great group in our finance, accounting, control division. Mike and I thank each of them deeply. At the same time, we note that whenever we ask a question of anyone, even Joe, the answer always comes back from the same source - the great Ross Morrison. So we thank Ross extra specially. We also want Larry Portal to know that we certainly do notice that he has perfect command of his very complex area.

Mike and I and of course David were thrilled to hear that Todd M. is leaving his position with us as building manager to strike out on his own. We wish Todd well and are certain that he, who comes from the world's best real estate genes, will be very successful.

Mike and I are seasoned warriors who understand markets and know how fickle markets can be. Of course we have been disappointed that the last several years of hard work have born little immediate fruit - our stock and the entire real estate group has been in flatline. But we believe in our Company and are certain that our management team and our real estate assets with their ever growing yield will soon be fairly valued by the efficient securities markets.

We thank our shareholders for believing in us.

Steven Roth
Chairman

May 5, 2000

Vornado Realty Trust

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
NEW YORK OFFICE PROPERTIES			
MANHATTAN			
One Penn Plaza (1)	2,418,000	97%	BNY Financial Group, Buck Consultants, Cisco Systems, First Albany, Kmart Corporation, Metropolitan Life, Miller Freeman Inc., MWB Leasing, Parsons Brinkerhoff, State of NY, Stone & Webster
Two Penn Plaza	1,497,000	98%	Compaq Computer, Forest Electric, Information Builders, Inc., Madison Square Garden, McGraw Hill Co., Inc., Ogden Services, UHC Management
909 Third Avenue (1)	1,303,000	88%	Citibank, Fischbein Badillo, Forest Laboratories, Ogilvy Public Relations, Shearman & Sterling, U.S. Post Office
770 Broadway	1,037,000	97%	Chase Manhattan Bank, J. Crew, Kmart, MTVN Online, V.N.U. U.S.A., Inc.
Eleven Penn Plaza	975,000	97%	Crowthers McCall, Executive Office Network, Faulkner & Gray, Federated Department Stores
Two Park Avenue	952,000	96%	Herrick Feinstein, Medical Liability Mutual Ins, Schiefflin & Somerset, Times Mirror Company, United Way
90 Park Avenue	882,000	99%	Sterling Winthrop Inc., Warnaco
888 Seventh Avenue (1)	861,000	93%	Golden Books, New Line Realty, Soros Fund Management LLC, Stanley H. Kaplan, The Limited
330 West 34th Street (1)	625,000	90%	City of New York, Props for Today
1740 Broadway	552,000	100%	Davis & Gilbert, Mutual Life Insusrance, William Douglas McAdams
150 East 58th Street	548,000	94%	
866 United Nations Plaza	386,000	94%	Fross & Zelnick
595 Madison (Fuller Building)	297,000	92%	
640 Fifth Avenue	259,000	92%	Bozell Jacobs Kenyon, Hennes & Mauritz, Inc.
40 Fulton Street	233,000	94%	Pencom Systems
689 Fifth Avenue	86,000	66%	Red Door Salons, Inc.
330 Madison Avenue	770,000	93%	Bank Julius Baer, BDO Seidman
20 Broad Street (1)	462,000	96%	N.Y. Stock Exchange
570 Lexington Avenue	427,000	94%	
825 Seventh Avenue	165,000	100%	International Merchandising Corp., Young & Rubicom
WESTCHESTER			
550/600 Mamaroneck Avenue (1)	234,000	92%	
NEW JERSEY			
Paramus (1)	118,000	64%	
Total New York Office Properties	**15,087,000**	**95%**	
Ownership Interest	**14,028,000**	**95%**	

Location	Square Feet	Percent Leased	Principal Tenants
Retail Properties			
New Jersey			
Bordentown	179,000	98%	Bradlees (2), Shop-Rite
Bricktown	263,000	98%	Kohl's, Shop-Rite
Cherry Hill	295,000	97%	Bradlees (2), Drug Emporium, Shop & Bag, Toys "Я" Us
Delran	172,000	94%	Sam's Wholesale
Dover	173,000	100%	Ames, Shop-Rite
East Brunswick	226,000	100%	Bradlees (2), Shoppers World, T. J. Maxx, Circuit City
East Hanover I	271,000	100%	Home Depot, Marshalls, Pathmark, Today's Man
East Hanover II	91,000	99%	
Hackensack	267,000	100%	Bradlees (2), Pathmark, Staples
Jersey City	226,000	95%	Bradlees (2), Shop-Rite
Kearny	104,000	68%	Pathmark
Lawnside	145,000	100%	Home Depot, Drug Emporium
Lodi	171,000	100%	National Wholesale Liquidators
Manalapan	196,000	100%	Bradlees (2), Grand Union
Marlton	180,000	100%	Kohl's (2), Shop-Rite
Middletown	232,000	96%	Bradlees (2), Grand Union
Morris Plains	173,000	100%	Kohl's, Shop-Rite
North Bergen	62,000	100%	A&P
North Plainfield (1)	217,000	94%	Kmart, Pathmark
Totowa	317,000	100%	Bradlees (2), Home Depot, Marshalls, Circuit City
Turnersville	96,000	100%	Bradlees (2)
Union	257,000	100%	Bradlees (2), Toys "Я" Us, Cost Cutter Drug
Vineland	143,000	98%	PC Roomlink
Watchung	166,000	97%	B.J.'s Wholesale
Woodbridge	236,000	91%	Bradlees (2), Foodtown, Syms
New York			
14th Street and Union Square, Manhattan	232,000	100%	Bradlees
Albany (Menands)	141,000	100%	Fleet Bank, Albany Public Markets (3), People of the State of NY
Buffalo (Amherst) (1)	297,000	81%	Circuit City, Media Play, Toys "Я" Us, T. J. Maxx
Freeport	167,000	100%	Home Depot, Cablevision
New Hyde Park (1)	101,000	100%	Mayfair Supermarkets
North Syracuse (1)	98,000	100%	Reisman Properties
Rochester (Henrietta) (1)	148,000	—	
Rochester	176,000	—	
Valley Stream (Green Acres) (1)	1,596,000	94%	Macy's, Sterns, JC Penney, Sears, Kmart Dime Savings Bank, Greenpoint Bank, Waldbaum (3)
Pennsylvania			
Allentown	617,000	100%	Hechinger (3), Shop-Rite, Burlington Coat Factory, Wal*Mart, Sam's Wholesale, T. J. Maxx
Bensalem	126,000	98%	Kohl's (2)
Bethlehem	160,000	78%	Pathmark, Super Petz

Location	Square Feet	Percent Leased	Principal Tenants
(Retail continued)			
Broomall	168,000	100%	Bradlees (2)
Glenolden	101,000	100%	Bradlees (2)
Lancaster	180,000	49%	Weis Markets
Levittown	104,000	100%	(2)
10th and Market Streets, Philadelphia	271,000	77%	Kmart, Rouse Co.
Upper Moreland	122,000	100%	Sam's Wholesale
York	113,000	100%	Builders Square
Maryland			
Baltimore (Belair Rd.)	206,000	81%	Disabled American Veterans, Food Depot, TJ Maxx (3)
Baltimore (Towson)	153,000	100%	Staples, Cost Saver Supermarket, Drug Emporium
Baltimore (Dundalk)	183,000	77%	A&P, Ollie's
Glen Burnie	122,000	100%	Weis Markets
Hagerstown	148,000	100%	Big Lots, Pharmhouse, Weis Markets
Connecticut			
Newington	179,000	100%	(2) Pathmark (3)
Waterbury	143,000	89%	Toys "Я" Us, Shaws Supermarkets
Massachusetts			
Chicopee	115,000	84%	Bradlees (2)
Milford (1)	83,000	100%	Bradlees (2)
Springfield	125,000	100%	Wal*Mart
Puerto Rico (San Juan)			
Montehiedra	525,000	100%	Kmart, Builders Square, Marshalls, Caribbean Theatres
Caguas	343,000	96%	Kmart
Total Retail Properties	**12,101,000**	**92%**	
Ownership Interest	**11,960,000**	**92%**	
Warehouse/Industrial Properties			
New Jersey			
East Brunswick	326,000	97%	Popsicle Playwear, IFB Apparel
East Hanover	941,000	100%	Various Tenants
Edison	272,000	45%	Lamitech
Garfield	487,000	100%	Various Tenants
Total Warehouse/Industrial Properties	**2,026,000**	**92%**	

Location	Square Feet	Percent Leased	Principal Tenants
Merchandise Mart Properties			
Illinois			
Merchandise Mart, Chicago	3,440,000	95%	Baker, Knapp & Tubbs, Bankers Life & Casualty, CCC Information Services, Chicago Teachers Union, Chicago Transit Authority, Holly Hunt, Monsanto, Office of the Special Deputy, Steelcase
350 North Orleans, Chicago	1,117,000	91%	21st Century Telecom, Ameritech, Art Institute of Illinois, Bank of America, Chicago Transit Authority, Fox Sports, Fiserv Solutions
Washington, D.C.			
Washington Office Center	398,000	94%	General Services Administration
Washington Design Center	388,000	95%	
Other	93,000	87%	
High Point, North Carolina			
Market Square Complex	1,115,000	99%	Century Furniture Company, La-Z-Boy
National Furniture Mart	244,000	100%	
Total Merchandise Mart Properties	**6,795,000**	**95%**	
Grand Total	**36,009,000**	**94%**	
Grand Total Vornado's Ownership Interest	**34,809,000**	**94%**	

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

(2) These leases are fully guaranteed by Stop & Shop, a wholly-owned subsidiary of Koninklijke Ahold NV (formerly Royal Ahold NV), except in the case of Totowa, guaranteed as to 70% of rent.

(3) The tenant has ceased operations at these locations but continues to pay rent.

Alexander's Inc.
(A 33% Owned Investment)

Location	Square Feet	Percent Leased	Principal Tenants
Operating Properties			
New York			
Kings Plaza Regional Shopping Center, Brooklyn	766,000	91%	Sears
Rego Park, Queens	351,000	100%	Bed Bath & Beyond, Circuit City, Marshalls, Sears
Fordham Road, Bronx	303,000	—	—
Flushing, Queens	177,000	—	—
Third Avenue, Bronx	173,000	100%	An affiliate of Conway
	1,770,000		
Development Properties			
New York			
Lexington Avenue, Manhattan	—		
Rego Park II, Queens	—		
New Jersey			
Paramus, New Jersey	—		

Charles E. Smith Commercial Realty L.P.

(A 34% Owned Investment)

Location	Square Feet	Percent Leased	Principal Tenants
Northern Virginia and Washington D.C.			
Crystal Mall (4 Buildings)	1,068,000	100%	General Services Administration
Crystal Plaza (7 Buildings)	1,223,000	99%	General Services Administration
Crystal Square (4 Buildings)	1,388,000	98%	Boeing, General Services Administration, Lockheed Martin, Oblon Spivak
Crystal Gateway (4 Buildings)	1,081,000	97%	Analytical Services, Inc., General Services Administration, Lockheed Martin, Science Applications Int'l Corp.
Crystal Park (5 Buildings)	2,154,000	100%	CE Smith Headquarters, General Services Administration, Techmatics, US Airways Headquarters, Vitro Corp
Arlington Plaza	174,000	100%	Georgetown University, Science Research Analysis Corp.
1919 S Eads Street	93,000	100%	Vitro Corp.
Skyline Place (6 Buildings)	1,595,000	98%	BDM Federal, Inc., Electronic Data Services, Science Application Int'l Corp., Science Research Analysis Corp.
One Skyline Tower	477,000	100%	General Services Administration, Science Research Analysis Corp.
Courthouse Plaza (2 Buildings)	609,000	100%	Arlington County, KPMG-Peat Marwick
1101 17th Street	204,000	99%	American Iron & Steel Institute, Cosmetic & Toiletry Assn
1730 M Street	190,000	99%	General Services Administration, League of Women Voters
1140 Connecticut Ave	175,000	98%	Michaels & Wishner PC, The Investigative Group
1150 17th Street	226,000	99%	American Enterprise Institute, Arthur Andersen LLP
Total Charles E. Smith Commercial Realty L.P. Office Properties	**10,657,000**	**99%**	

Temperature Controlled Logistics

(A 60% Owned Investment)

The Temperature Controlled Logistics business owns 89 refrigerated warehouses with an aggregate capacity of approximately 428 million cubic feet. The warehouses are located in 31 states and Alberta, Canada.

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Consolidated Statements of Income

Vornado Realty Trust

(amounts in thousands except per share amounts)	**Year Ended December 31, 1999**	Year Ended December 31, 1998	Year Ended December 31, 1997
Revenues:			
Property rentals	**$ 590,814**	$ 425,496	$168,321
Expense reimbursements	**90,246**	74,737	36,652
Other income (including fee income from related parties of $1,857, $2,327 and $1,752)	**15,898**	9,627	4,158
Total revenues	**696,958**	509,860	209,131
Expenses:			
Operating	**282,118**	207,171	74,745
Depreciation and amortization	**83,585**	59,227	22,983
General and administrative	**40,151**	28,610	13,580
Amortization of officer's deferred compensation expense	**—**	—	22,917
Total expenses	**405,854**	295,008	134,225
Operating income	**291,104**	214,852	74,906
Income applicable to Alexander's	**7,427**	3,123	7,873
Income from partially-owned entities	**82,310**	32,025	4,658
Interest and other investment income	**18,359**	24,074	23,767
Interest and debt expense	**(141,683)**	(114,686)	(42,888)
Net gain from insurance settlement and condemnation proceeding	**—**	9,649	—
Minority interest	**(54,998)**	(16,183)	(7,293)
Net income	**202,519**	152,854	61,023
Preferred stock dividends (including accretion of issuance expenses of $2,874 in 1999 and 1998 and $1,918 in 1997)	**(33,438)**	(21,690)	(15,549)
Net income applicable to common shares	**$ 169,081**	$ 131,164	$ 45,474
Net income per common share — basic	**$ 1.97**	$ 1.62	$ .83
Net income per common share — diluted	**$ 1.94**	$ 1.59	$ .79

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Vornado Realty Trust

(amounts in thousands except share amounts)	**December 31, 1999**	December 31, 1998
Assets:		
Real estate, at cost:		
Land	**$ 826,477**	$ 743,324
Buildings and improvements	**3,080,174**	2,561,383
Leasehold improvements and equipment	**14,856**	11,184
Total	**3,921,507**	3,315,891
Less accumulated depreciation and amortization	**(308,542)**	(226,816)
Real estate, net	**3,612,965**	3,089,075
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of $43,675 and $56,500	**112,630**	167,808
Escrow deposits and restricted cash	**30,571**	44,195
Marketable securities	**106,503**	77,156
Investments and advances to partially-owned entities, including Alexander's of $159,148 and $104,038	**1,315,387**	827,840
Due from officers	**16,190**	17,165
Accounts receivable, net of allowance for doubtful accounts of $7,292 and $3,044	**36,408**	35,517
Notes and mortgage loans receivable	**49,719**	10,683
Receivable arising from the straight-lining of rents	**79,298**	49,711
Deposits in connection with real estate acquisitions	**8,128**	22,947
Other assets	**111,419**	83,682
	$5,479,218	$4,425,779

(amounts in thousands except share amounts)	**December 31, 1999**	December 31, 1998
Liabilities and Shareholders' Equity:		
Notes and mortgages payable	**$1,681,804**	$1,363,750
Revolving credit facility	**367,000**	687,250
Accounts payable and accrued expenses	**107,036**	109,925
Officer's compensation payable	**34,996**	35,628
Deferred leasing fee income	**8,349**	10,051
Other liabilities	**2,634**	3,196
Total liabilities	**2,201,819**	2,209,800
Minority interest of unitholders in the Operating Partnership	**1,222,031**	433,301
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized, 45,000,000 shares; Series A: liquidation preference $50.00 per share; issued 5,789,239 shares	**285,632**	282,758
Series B: liquidation preference $25.00 per share; issued 3,400,000 shares	**81,805**	—
Series C: liquidation preference $25.00 per share; issued 4,600,000 shares	**111,148**	—
Common shares of beneficial interest: $.04 par value per share; authorized, 125,000,000 shares; issued and outstanding, 86,335,741 and 85,076,542 shares	**3,453**	3,403
Additional capital	**1,696,557**	1,653,208
Accumulated deficit	**(116,979)**	(132,837)
	2,061,616	1,806,532
Accumulated other comprehensive loss	**(1,448)**	(18,957)
Due from officers for purchase of common shares of beneficial interest	**(4,800)**	(4,897)
Total shareholders' equity	**2,055,368**	1,782,678
	$5,479,218	$4,425,779

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Vornado Realty Trust

(amounts in thousands except share amounts)	Preferred Shares	Common Shares	Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Due from Officers	Shareholders' Equity	Comprehensive Income
BALANCE, December 31, 1996	—	$ 1,044	$ 358,874	$ (77,574)	$ (998)	$ (5,089)	$ 276,257	$ —
Net income	—	—	—	61,023	—	—	61,023	$ 61,023
Dividends paid on preferred shares ($2.37 per share)	—	—	—	(15,549)	—	—	(15,549)	—
Net proceeds from issuance of preferred shares (including accretion of $1,918)	$277,918	—	—	—	—	—	277,918	—
Two-for-one common share split	—	1,044	(1,044)	—	—	—	—	—
Net proceeds from issuance of common shares	—	644	688,028	—	—	—	688,672	—
Shares issued in connection with Arbor acquisition	1,966	117	99,932	—	—	—	102,015	—
Dividends paid on common shares ($1.36 per share)	—	—	—	(77,461)	—	—	(77,461)	—
Common shares issued in connection with an employment agreement and employees' share plans	—	38	595	—	—	—	633	—
Change in unrealized gains on securities available for sale	—	—	—	—	158	—	158	158
Forgiveness of amount due from officers	—	—	—	—	—	96	96	—
BALANCE, December 31, 1997	279,884	2,887	1,146,385	(109,561)	(840)	(4,993)	1,313,762	$ 61,181
Net income	—	—	—	152,854	—	—	152,854	$152,854
Dividends paid on Series A Preferred Shares ($3.25 per share)	—	—	—	(21,690)	—	—	(21,690)	—
Dividends paid on common shares ($1.64 per share)	—	—	—	(131,110)	—	—	(131,110)	—
Net proceeds from issuance of common shares	—	445	444,118	—	—	—	444,563	—
Common shares issued in connection with Mendik RELP properties aquisition	—	34	29,029	—	—	—	29,063	—
Common shares issued under employee's share plan	—	2	907	—	—	—	909	—
Conversion of units to common shares	—	35	32,745	—	—	—	32,780	—
Capital contribution to Vornado Operating Company	—	—	—	(23,330)	—	—	(23,330)	—
Accretion of issuance expenses on preferred shares	2,874	—	—	—	—	—	2,874	—
Common shares issued in connection with dividend reinvestment plan	—	—	24	—	—	—	24	—
Change in unrealized losses on securities available for sale	—	—	—	—	(5,047)	—	(5,047)	(5,047)
Appreciation of securities held in officer's deferred compensation trust	—	—	—	—	(10,464)	—	(10,464)	(10,464)
Pension obligations	—	—	—	—	`(2,606)	—	(2,606)	(2,606)
Forgiveness of amount due from officers	—	—	—	—	—	96	96	—
BALANCE, December 31, 1998	$282,758	$ 3,403	$1,653,208	$(132,837)	$(18,597)	$ (4,897)	$1,782,678	$134,737

	Preferred Shares	Common Shares	Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Due from Officers	Shareholders' Equity	Comprehensive Income
BALANCE, December 31, 1998	$282,758	$3,403	$1,653,208	$(132 837)	$(18,597)	$(4,897)	$1,782,678	$134,737
Net Income	—	—	—	202,519	—	—	202,519	$202,519
Dividends paid on Preferred Shares:								
Series A Preferred Shares ($3.25 per share)	—	—	—	(21,690)	—	—	(21,690)	—
Series B Preferred Shares ($1.68 per share)	—	—	—	(5,720)	—	—	(5,720)	—
Series C Preferred Shares ($1.31 per share)	—	—	—	(6,028)	—	—	(6,028)	—
Net proceeds from issuance of preferred shares	192,953	—	—	—	—	—	192,953	—
Dividends paid on common shares ($1.80 per share)	—	—	—	(153,223)	—	—	(153,223)	—
Common shares issued under employees' share plan	—	5	2,458	—	—	—	2,463	—
Conversion of units to common shares	—	44	40,214	—	—	—	40,258	—
Accretion of issuance expenses on preferred shares	2,874	—	—	—	—	—	2,874	—
Common shares issued in connection with dividend reinvestment plan	—	1	677	—	—	—	678	—
Change in unrealized net loss on securities available for sale	—	—	—	—	15,603	—	15,603	15,603
Depreciation of securities held in officer's deferred compensation trust	—	—	—	—	579	—	579	579
Pension obligations	—	—	—	—	1,327	—	1,327	1,327
Forgiveness of amount due from officers	—	—	—	—	—	97	97	—
BALANCE, December 31, 1999	**$478,585**	**$3,453**	**$1,696,557**	**$(116,979)**	**$ (1,448)**	**$(4,800)**	**$2,055,368**	**$220,028**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Vornado Realty Trust

(amounts in thousands)	**Year Ended December 31, 1999**	Year Ended December 31, 1998	Year Ended December 31, 1997
Cash Flows from Operating Activities:			
Net income	**$202,519**	$ 152,854	$ 61,023
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization (including debt issuance costs)	**83,585**	59,227	24,460
Amortization of officer's deferred compensation expense	**—**	—	22,917
Straight-lining of rental income	**(29,587)**	(17,561)	(7,075)
Minority interest	**54,998**	16,183	7,293
Equity in (income) loss of Alexander's	**(1,021)**	3,363	(2,188)
Equity in income of partially-owned entities	**(82,310)**	(32,025)	(4,658)
Gain on marketable securities	**(382)**	(1,530)	(1,026)
Gain from insurance settlement and condemnation	**—**	(9,649)	—
Changes in operating assets and liabilities	**(50,907)**	18,544	14,727
Net cash provided by operating activities	**176,895**	189,406	115,473
Cash Flows from Investing Activities:			
Acquisitions of real estate and other	**(224,654)**	(896,800)	(887,423)
Additions to real estate	**(153,591)**	(68,085)	(23,789)
Development costs	**(17,548)**	—	—
Investments in partially-owned entities	**(118,409)**	(308,000)	—
Proceeds from sale of Temperature Controlled Logistics assets	**22,769**	—	—
Investments in mortgage loans receivable	**(59,787)**	(6,620)	(71,663)
Repayment of mortgage loans receivable	**20,751**	57,600	—
Cash restricted for tenant improvements	**13,624**	(14,716)	(27,079)
Distribution from partially-owned entities	**16,938**	3,200	—
Real estate deposits and other	**14,819**	23,788	(46,152)
Purchases of securities available for sale	**(21,614)**	(73,513)	(8,378)
Proceeds from sale or maturity of securities available for sale	**12,498**	25,779	—
Net cash used in investing activities	**(494,204)**	(1,257,367)	(1,064,484)

(amounts in thousands)	**Year Ended December 31, 1999**	Year Ended December 31, 1998	Year Ended December 31, 1997
Cash Flows from Financing Activities:			
Proceeds from borrowings	**$455,000**	$1,427,821	$ 770,000
Repayments of borrowings	**(668,957)**	(883,475)	(419,269)
Costs of refinancing debt	**(8,059)**	(11,418)	(3,038)
Proceeds from issuance of preferred shares	**192,953**	—	276,000
Proceeds from issuance of preferred units	**525,013**	85,313	—
Proceeds from issuance of common shares	—	445,247	688,672
Dividends paid on common shares	**(153,223)**	(154,440)	(77,461)
Dividends paid on preferred shares	**(30,563)**	(18,816)	(15,549)
Distributions to minority shareholders	**(52,491)**	(11,229)	(4,719)
Exercise of share options	**2,458**	812	633
Net cash provided by financing activities	**262,131**	879,815	1,215,269
Net (decrease) increase in cash and cash equivalents	**(55,178)**	(188,146)	266,258
Cash and cash equivalents at beginning of year	**167,808**	355,954	89,696
Cash and cash equivalents at end of year	**$112,630**	$ 167,808	$ 355,954
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest	**$143,665**	$ 111,089	$ 38,968
Non-Cash Transactions:			
Financing in connection with acquisitions	**$188,000**	$ 526,000	$ 403,279
Shares issued in connection with acquisitions	—	29,000	102,015
Minority interest in connection with acquisitions	**302,100**	184,000	177,000
Unrealized gain (loss) on securities available for sale	**15,603**	(5,047)	158
Depreciation of securities held in officer's deferred compensation trust	**579**	10,464	—

See 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 conducts its business through the Operating Partnership. Vornado is the sole general partner of, and owned approximately 86% of the common limited partnership interest in, the Operating Partnership at March 1, 2000. 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 22 office building properties in the New York City metropolitan area (primarily Manhattan) aggregating approximately 14.0 million square feet;

(ii) a 34% limited partnership interest in Charles E. Smith Commercial Realty L.P. ("CESCR"), a limited partnership, which owns and manages approximately 10.7 million square feet of office properties in Northern Virginia and Washington D.C., and manages an additional 7.9 million square feet of office and other commercial properties in the Washington, D.C. area;

Retail Properties ("Retail"):

(iii) 56 shopping center properties in six states and Puerto Rico aggregating approximately 12.0 million square feet, including 1.4 million square feet built by tenants on land leased from the Company;

Merchandise Mart Properties:

(iv) the Merchandise Mart properties containing approximately 6.8 million square feet, including the 3.4 million square foot Merchandise Mart in Chicago;

Temperature Controlled Logistics:

(v) a 60% interest in partnerships that own 89 warehouse facilities nationwide with an aggregate of approximately 428 million cubic feet of refrigerated space (excludes 15 additional warehouses containing approximately 91 million cubic feet managed by the AmeriCold Logistics). AmeriCold Logistics leases all of the partnerships' facilities.

Other Real Estate Investments:

(vi) approximately 32% of the outstanding common stock of Alexander's, Inc. ("Alexander's"), which has eight properties in the New York City metropolitan area;

(vii) the Hotel Pennsylvania in New York City contains approximately 800,000 square feet of space with 1,700 rooms and approximately 400,000 square feet of retail and office space;

(viii) approximately 30% interest in the Newkirk joint ventures which own various equity and debt interests relating to 120 limited partnerships which own real estate, primarily office and retail, net leased to credit rated tenants;

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

(x) other real estate and investments.

Operations of Vornado Operating Company

In October 1998, Vornado Operating Company ("Vornado Operating") was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct.

The Company and Vornado Operating are parties to certain agreements described below.

Revolving Credit Agreement

Vornado Operating was granted a $75,000,000 unsecured revolving credit facility from the company (the "Revolving Credit Agreement") which expires on December 31, 2004. Borrowings under the Revolving Credit Agreement bear interest at LIBOR plus 3% (9.09% at December 31, 1999). The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the Revolving Credit agreement during its term. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 1999, $4,587,000 was outstanding under the Revolving Credit Agreement.

Agreement with Vornado Operating

The Company and Vornado Operating are parties to an 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 Agreement, the Company provides Vornado Operating with certain administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating compensates the Company in an amount determined in good faith by the Company as the amount an unaffiliated third party would charge Vornado Operating for comparable services and reimburses the Company for certain costs incurred and paid to third parties on behalf of Vornado Operating. Pursuant to the Agreement compensation for such services was $330,000 for the year ended December 31, 1999 and $50,000 for the period from October 16, 1998 (commencement date) through December 31, 1998.

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

Temperature Controlled Logistics Business

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.

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. ("AmeriCold Logistics"). 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 generally have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on revenues AmeriCold Logistics receives from its customers. 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 was approximately $134,000,000 for the period from March 12, 1999 through December 31, 1999. 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 and pursuant thereto, rent was deferred as of December 31, 1999, of which the Company's share is $3,240,000.

Disposition and Acquisition of Interest in CESCR

On December 31, 1998, the Company sold approximately 1.7% of the outstanding partnership units of CESCR to Vornado Operating Company for an aggregate purchase price of approximately $12,900,000 or $34 per unit (which is the price at which CESCR 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 CESCR 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 CESCR units at the price at which Vornado Operating purchased the CESCR units, plus a cumulative return on such amount at a rate of 10% per annum. In March 1999 Vornado Operating exercised such option and the Company reacquired the CESCR units from Vornado Operating for $13,200,000.

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.

Reclassifications: Certain prior year balances have been reclassified in order to conform to current year presentation.

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. Additions to real estate include interest expense capitalized during construction of $7,012,000 and $1,410,000 for the years ended December 31, 1999 and 1998.

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 estimate fair value 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 escrowed under loan agreements and cash restricted in connection with an officer's deferred compensation payable.

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, 1999 and 1998, marketable securities had an aggregate cost of $96,787,000 and $83,043,000 and an aggregate market value of $106,503,000 and $77,156,000 (of which $9,826,000 and $6,826,000 represents trading securities and $48,606,000 and $48,531,000 represent securities held to maturity and reported at amortized cost). Gross unrealized gains and losses were $19,374,000 and $9,658,000 at December 31, 1999 and $513,000 and $6,400,000 at December 31, 1998. Included in marketable securities available for sale at December 31, 1999 are warrants to acquire 550,941 common shares with a market value of $11,397,000.

Notes and 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.

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.

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 year ended December 31, 1998, approximately $340,000 was recognized as compensation expense as the share price was $33.50 on December 31, 1998. For the year ended December 31, 1999, approximately $340,000 was recognized as a reduction of compensation expense and approximately $579,000 was recorded as a reduction of stockholders' equity as the share price was $32.50 on December 31, 1999.

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.

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 years ended December 31, 1999 and 1997, were characterized for Federal income tax purposes as ordinary income. Dividend distributions for the tax year ended December 31, 1998 were characterized as ordinary income (81%), return of capital (17%) and capital gain (2%).

The net basis of the Company's assets and liabilities for tax purposes is approximately $1,617,000,000 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.

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, 2000. 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 December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 provides clarification in applying generally accepted accounting principles to revenue recognition in financial statements including contingent rentals under leases. The Company does not anticipate that implementation of this statement will have a material effect on the Company's financial statements.

3. Acquisitions

The Company completed approximately $807 million of real estate acquisitions or investments from January 1, 1999 through March 2000 and $2.4 billion in 1998. 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:

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 7.9 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%.

In December 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 subsiciaries. 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 wtih these transactions, the Company agreed to make a five-year $41,200,000 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 Operating Partnership units issued to CAPI as well as certain real estate assets.

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 (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.

Subsequent to year end the Company entered into an agreement to sell this property for approximately $24,000,000.

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.

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 was approximately $154,500,000.

On January 12, 1999, the Company completed the acquisition of 888 Seventh Avenue, a 46 story Manhattan office building, for approximately $117,000,000, of which $55,000,000 was indebtedness.

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.

909 Third Avenue

On July 21, 1999, the Company acquired 909 Third Avenue, a 33 story Manhattan office building, for approximately $123,000,000, of which $109,000,000 was indebtedness.

595 Madison Avenue

On September 15, 1999, the Company acquired 595 Madison Avenue (the "Fuller Building"), a 40 story Manhattan office building, for approximately $125,000,000 in cash.

GreenPoint Leasehold Interest

On December 16, 1999, the Company acquired GreenPoint Financial Corporation's 99-year leasehold interest in approximately 56,000 square feet, adjacent to One Penn Plaza, as part of its redevelopment plan for the Penn Plaza district for approximately $37,300,000.

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.

Vornado-Ceruzzi Joint Ventures

On January 4, 2000 and January 25, 2000, the Company and its joint venture partner acquired fee and/or leasehold interests in six properties located in Pennsylvania, Virginia and Maryland formerly occupied by Hechinger, Inc., a home improvement retailer which was liquidated. The purchase price for the 500,000 square feet acquired was $15,000,000. The Company's share of this investment is 80% or $12,000,000.

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.

Temperature Controlled Logistics Business:

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.

Other Real Estate Investments:

Hotel Pennsylvania

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.

On August 5, 1999, the Company increased its interest in the Hotel Pennsylvania by acquiring Planet Hollywood International, Inc.'s ("Planet Hollywood") 20% interest in the hotel for approximately $18,000,000 and assumed $24,000,000 of existing debt. In connection with the transaction, the Company terminated the licensing agreement with Planet Hollywood for an Official All-Star Hotel. The Hotel Pennsylvania is located in New York City on Seventh Avenue opposite Madison Square Garden.

After the acquisitions noted above, the Company owns 100% of the commercial portion of the building (retail and office space) and 98% of the hotel portion which is owned through a preferred stock affiliate in which the Company owns all of the preferred equity and none of the common equity.

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.

On March 9, 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.

Student Housing Joint Venture

On January 28, 2000, the Company and its joint venture partner, acquired a 252-unit student housing complex in Gainesville, Florida, for approximately $27,000,000, of which $19,600,000 was indebtedness. The Company's share of this investment is 90%.

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, 1999 and 1998 as if (a) the acquisitions described above and the financings attributable thereto had occurred on January 1, 1998. No condensed consolidated pro forma balance sheet data is presented as there have been no material acquisitions subsequent to December 31, 1999.

Condensed Pro Forma Consolidated Operating Results (unaudited)

	Pro Forma Year Ended	
(amounts in thousands except per share amounts)	**Dec. 31, 1999**	Dec. 31, 1998
Revenues	**$719,600**	$685,000
Net income	**$201,600**	$191,700
Preferred stock dividends	**(33,400)**	(21,700)
Net income applicable to common shares	**$168,200**	$170,000
Net income per common share — basic	**$ 1.96**	$ 1.97
Net income per common share — diluted	**$ 1.93**	$ 1.93

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:

			100% of These Entities					
	Company's Investment		Total Assets		Total Debt		Total Equity	
(amounts in thousands)	1999	1998	1999	1998	1999	1998	1999	1998
Investments:								
Temperature Controlled Logistics (60% interest)	$481,808	$459,172	$1,524,385	$1,743,212	$630,540	$642,714	$756,808	$737,344
Alexander's (32% interest)	159,148	104,038	$ 366,496	$ 317,043	$329,161	$277,113	$ 12,498	$ 6,974
Charles E. Smith Commercial Realty L.P. (34% interest)	317,812	49,151	$ 951,414		$1,152,164		$(241,399)	
Newkirk Joint Ventures	142,670	58,665						
Hotel Pennsylvania	59,176	47,813						
Partially- Owned Office Buildings	59,510	59,902						
Management Companies, and other	95,263	49,099						
	$1,315,387	$827,840						

Below is a summary of the debt of partially owned entities as of December 31, 1999 and 1998, none of which is guaranteed by the Company.

(amounts in thousands)	Amount of Partially-Owned Entities Debt 1999	1998
Alexander's (32% interest):		
Term loan secured by all of Alexander's assets except for the Kings Plaza Regional Shopping Center, due on March 15, 2000 with interest at a blended rate of 12.95%. The portion financed by the Company ($95,000) bears interest at 14.18% (prepayable without penalty) (the loan has been extended to March 15, 2001—see below)	**$115,000**	$65,000
Kings Plaza Regional Shopping Center mortgage payable, due in 2001, with interest at LIBOR plus 1.25% (7.75% at December 31, 1999) (prepayable without penalty)	**95,676**	90,000
Rego Park mortgage payable, due in 2009, with interest at 7.25% (prepayable after June 2004 without penalty)	**82,000**	75,000
Other notes and mortgages payable	**36,485**	47,113
Temperature Controlled Logistics (60% interest):		
Mortgage notes payable collateralized by 58 temperature controlled warehouses, due in 2008, requires amortization based on a 25 year term with interest at 6.89% (prepayable after May 2000 with yield maintenance)	**536,502**	545,273
Other notes and mortgages payable	**94,038**	97,441
Hotel Pennsylvania - Hotel (98% interest):		
Mortgage payable, due in 2002, requires amortization based on a 25 year term, with interest at LIBOR plus 1.60% (at December 31, 1999 the interest rate is fixed at 7.00% through a swap agreement which expires on March 31, 2000) (prepayable without penalty)	**76,641***	120,000
Newkirk Joint Ventures (30% interest):		
Portion of first mortgages and contract rights held by 120 Limited Partnerships, collateralized by the partnerships' real estate, due from 2000 to 2040, with a weighted average interest rate of 9.40% at December 31, 1999	**800,060**	—
Other debt	**28,000**	—
Charles E. Smith Commercial Realty L.P. (34% interest):		
20 mortgages payable due from 2000 through 2025, with interest from 2.25% to 9.89% at December 31, 1999 (prepayable with yield maintenance)	**850,806**	786,413
6 mortgages payable (partially owned properties) due from 2006 through 2013, with interest from 6.51% to 10.33% at December 31, 1999 (prepayable with yield maintenance)	**301,358**	156,463
Unsecured line of credit due in October 2000, with interest at 8.25% at December 31, 1999 (prepayable without penalty)	—	26,000
Partially Owned Office Buildings:		
330 Madison Avenue (25% interest) mortgage note payable, due in 2008, with interest at 6.52% (prepayable with yield maintenance)	**60,000**	60,000
Other notes and mortgages payable (50% owned by Vornado)	**43,968**	34,425
Las Catalinas Mall (50% interest):		
Mortgage notes payable, due in 2013 with interest at 6.97% (prepayable after December 2002 with yield maintenance)	**70,212**	70,941
Other mortgages payable	**13,000**	—

**The balance of the mortgage of $47,761 applicable to the commercial portion of the building is reflected in the Company's wholly-owned debt in 1999, see Note 5.*

Income Statement Data:

(amounts in thousands)	Company's Income from Partially Owned Entities			100% of These Entities					
				Total Revenues			Net Income (loss)		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
Income Applicable to Alexander's[1]:									
32% share of equity in income (loss) (29.3% prior to October 1999)	$1,021	$(2,272)	$1,580	$64,390	$51,663	$25,364	$5,524[2]	$(6,055)[2]	$7,466[2]
Interest income	6,406	5,395	6,293						
	$7,427	$3,123	$7,873						
Temperature controlled Logistics:									
60% share of equity in net income[3]	$31,468	$10,249	$1,000	$264,266	$567,867	$78,699	$54,198	$16,988	$90
Management Fee (40% of 1% per annum of the Total Combined Assets, as defined)	5,254	4,942	720						
	36,722	15,191	1,720						
Charles E. Smith Commercial Realty L.P.[4]	18,817	4,754	85	$310,038			$61,102		
Newkirk Joint Ventures	19,922	2,712	—						
Hotel Pennsylvania	5,095	3,678	1,055						
Partially-Owned Office Buildings[5]	1,743	3,276	424						
Management Companies and other	11	2,414	1,374						
	$82,310	$32,025	$4,658						

(1) *Fee income is included in equity in income of Management Companies.*

(2) *1999 is net of $4,877 resulting from the write-off of the asset arising from the straight-lining of rents; 1998 includes the write-off of the carrying value of the Lexington Avenue buildings of $15,096; and 1997 includes income from the condemnation of a portion of a property of $8,914.*

(3) *Revenues and net income reflect lease payments from AmeriCold Logistics from March 12, 1999 through December 31, 1999 and business operations for the periods prior.*

(4) *15% interest from October 1997 to December 1998, 9.6% interest from January 1999 to March 1999 and 34% interest thereafter.*

(5) *Represents the Company's interests in 330 Madison Avenue (24.8%), and 570 Lexington Avenue (50%). In 1998 and 1997 the Companpy had a 40% interest in Two Park Avenue which is now wholly-owned.*

Alexander's

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

(amounts in thousands)	**December 31, 1999**	December 31, 1998
Common stock, net of $2,796,000 and $2,196,000 of accumulated depreciation of buildings	**$ 59,912**	$ 53,157
Loan receivable	**95,000**	45,000
Leasing fees and other receivables	**2,393**	5,441
Equity in income	**1,843**	222
Deferred expenses	**—**	218
	$159,148	$104,038

On October 20, 1999, the Company lent Alexlander's $50,000,000 on the same terms and conditions as the Company's existing $45,000,000 loan to Alexander's, including the interest rate of 14.18%. Both loans, which were scheduled to mature in March 15, 2000, have been extended for one year to March 15, 2001. The interest rate has been reset from 14.18% to 15.72%, reflecting an increase in the underlying Treasury rate.

Alexander's is currently undertaking the excavation and lying foundation for its Lexington Avenue property as part of the proposed development of a large multi-use building. The proposed building is expected to be comprised of a commercial portion, which may include retail stores, offices, hotel space, extended-stay residences, residential rentals and parking; and a residential portion, consisting of condominium units to be sold to the public. In connection therewith, Alexander's paid $14,500,000 for 140,000 square feet of air rights of which $12,200,000 was paid to the Company (Vornado's cost plus $243,000 in interest and closing costs). The air rights were contracted for and paid for in 1999, with closings to take place when the developments which give rise to the air rights are completed in 2000. The capital required for the proposed buildings will be in excess of $400,000,000.

Because a REIT is subject to 100% excise tax on income derived from the sale of "dealer property" (i.e. condominiums), the air rights representing the residential portion of the property are being transferred to a preferred stock affiliate, a corporation in which Alexander's owns all of the preferred equity and none of the common equity. The transfer value will be adjusted once the final size of the residential portion is determined.

On October 21, 1999, the Company increased its ownership in Alexander's from 29.3% to 32% by acquiring an additional 135,600 shares of Alexander's common stock for approximately $8,956,000.

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 $1,756,000 at December 31, 1999. 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, 1999, Interstate Properties owned approximately 17.8% of the common shares of beneficial interest of the Company and 27.3% 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.

5. Debt

Following is a summary of the Company's debt:

(amounts in thousands)	**December 31, 1999**	December 31, 1998
Notes and Mortgage Payable:		
Fixed Interest:		
Mortgage payable cross collateralized by an aggregate of 44 shopping centers and warehouse/industrial properties, due on December 1, 2000 with interest at 6.36% (prepayable with yield maintenance) [1]	**$ 224,865**	$ 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)	**53,129**	53,901
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 ($51,543) and 2009 ($10,075), requires amortization based on 30 year term with interest at 8.23% (prepayable after August 1999 with yield maintenance)	**61,618**	62,181
Two Penn Plaza mortgage payable, due in 2004, requires amortization based on a 25 year term with interest at 7.08% (prepayable after March 2000 with penalty fee) [4]	**163,147**	80,000
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)	**49,537**	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)	**156,798**	158,575
Other mortgages payable	**31,542**	38,688
	773,636	704,223

Variable Interest:		
Washington Design Center mortgage payable, due on November 27, 2000, requires amortization based on a 25 year term with interest at LIBOR plus 1.35% (6.83% at December 31, 1999) (prepayable without penalty)	**23,932**	24,225
Two Park Avenue mortgage payable, due on March 1, 2000, interest at LIBOR plus 1.50% (8.00% at December 31, 1999) (prepayable without penalty) [(2)]	**65,000**	65,000
Merchandise Mart mortgage payable, due in September 2002, interest at LIBOR plus 1.50% (7.97% at December 31, 1999) (prepayable after August 2000 with penalty fee) [(6)]	**250,000**	250,000
One Penn Plaza mortgage payable, due in 2002, interest at LIBOR plus 1.25% (7.73% at December 31, 1999) (prepayable after June 1999 without penalty) [(3)]	**275,000**	275,000
Hotel Pennsylvania - (commercial) mortgage payable, due in 2002, requires amortization based on a 25 year term, with interest at LIBOR + 1.60% (at December 31, 1999, the interest rate is fixed at 7.00% through a swap agreement which expires on March 31, 2000) (prepayable without penalty)	**47,761**	—
350 North Orleans mortgage payable, due in 2002, interest at LIBOR + 1.65% (8.13% at December 31, 1999) (prepayable with yield maintenance) [(5)]	**40,000**	—
909 Third Avenue mortgage payable, due in 2002, interest at LIBOR + .60% (7.08% at December 31, 1999) (prepayable with penalty fee)	**108,754**	—
888 Seventh Avenue mortgage payable, due in 2002, interest at LIBOR + 1.75% (6.81% at December 31, 1999) (prepayable with yield maintenance)	**55,000**	—
Seven individual notes or mortgages payable collateralized by the Market Square Complex with maturity dates ranging from 2000 through 2013 and interest rates ranging from 7.40% to 8.83% at December 31, 1999	**42,721**	45,302
Total notes and mortgages payable	**1,681,804**	1,363,750
Unsecured revolving credit facility, interest at LIBOR plus .90% (7.39% at December 31, 1998) (prepayable without penalty)	**367,000**	687,250
Total Debt	**$2,048,804**	$2,051,000

[(1)] *On March 1, 2000 the Company completed a $500,000,000 private placement of 10-year, 7.83% mortgage notes, cross-collateralized by 42 shopping center properties, resulting in net proceeds of approximately $490,000,000. In connection therewith, the Company repaid $228,000,000 of existing mortgage debt scheduled to mature on December 1, 2000 and $262,000,000 outstanding under its revolving credit facility.*

[(2)] *On March 1, 2000, the Company completed a $90,000,000 refinancing of its Two Park Avenue office building. The Company received proceeds of $65,000,000 and repaid the then existing debt in the same amount on the property. The Company expects to receive the remaining $25,000,000 prior to June 30, 2000 upon satisfying certain closing conditions. The new 3-year debt matures on February 28, 2003 and bears interest at LIBOR + 1.45% (7.39% at March 1, 2000).*

[(3)] *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% (7.73% at December 31, 1999). 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 ($275,000,000 notional amount) 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, 1999 approximates its cost.*

[(4)] *On February 18, 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.*

[(5)] *On July 18, 1999, the Company completed a $70,000,000 mortgage financing of its 350 North Orleans property in Chicago. The Company received proceeds of $40,000,000 and is expected to receive the remaining $30,000,000 during the next year upon meeting certain debt service coverage requirements.*

[(6)] *On September 21, 1999, the Company completed a $250,000,000 mortgage refinancing of its Merchandise Mart property in Chicago of which $50,000,000 is further secured by a letter of credit. The letter of credit will be reduced over the term of the loan as cash flow increases. The Company bought an interest rate cap with a notional amount of $250,000,000, capping the interest rate in the event that LIBOR increases above 9.25% through the termination date of the agreement in September 2002. Simultaneously with this transaction, the Company sold an interest rate cap with a notional amount of $250,000,000 to a third party on the same terms as the cap the Company purchased.*

The net carrying value of properties collateralizing the notes and mortgages amounted to $2,501,882,000 at December 31, 1999. As at December 31, 1999, the maturities for the next five years and thereafter are as follows:

(in thousands) Year Ending December 31,	Amount
2000	$328,135
2001	21,423
2002	528,687
2003	406,272
2004	483,541
Thereafter	280,746

6. Shareholders' Equity

During the three years ended December 31, 1999, the Company sold $1,133,672,000 of Common Shares, $276,000,000 of Convertible Preferred Shares and $193,300,000 of Cumulative Redeemable Preferred Shares. The following are the details of the sales.

Sale of Common Shares

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.

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.

Sale of Convertible Preferred Shares

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 ½% 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.

Sale of Cumulative Redeemable 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 March 17, 2004.

On May 17, 1999, the Company completed the sale of 4 million 8.5% Series C Cumulative Redeemable Preferred Shares, at a price of $25.00 per share, pursuant to an effective registration statement with net proceeds to the Company of approximately $96,900,000. Additionally, on May 19, 1999, 600,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of $14,500,000. The perpetual preferred shares may be called without penalty at the option of the Company commencing on May 17, 2004.

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.

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. 921,697 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 7,050,655 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, 1999.

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, 1999, 1998 and 1997:

(amounts in thousands, except share amounts)	**December 31, 1999**	December 31, 1998	December 31, 1997
Net income applicable to common shares:			
As reported	**$169,081**	$131,164	$45,474
Pro-forma	**151,836**	117,938	38,416
Net income per share applicable to common shares:			
Basic:			
As reported	**$ 1.97**	$ 1.62	$ .83
Pro-forma	**1.77**	1.46	.70
Diluted:			
As reported	**1.94**	1.59	.79
Pro forma	**1.74**	1.43	.67

The fair value of each option grant is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions used for grants in the periods ending December 31, 1999, 1998 and 1997.

	December 31, 1999	December 31, 1998	December 31, 1997
Expected volatility	**19%**	19%	25%
Expected life	**5 years**	5 years	5 years
Risk-free interest rate	**6.4%**	4.6%	6.4%
Expected dividend yield	**5.9%**	5.3%	3.4%

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

	December 31, 1999		December 31, 1998		December 31, 1997	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	8,724,316	$32.35	5,529,917	$24.43	4,139,386	$22.51
Granted	3,301,550	33.53	3,436,250	44.99	1,521,500	29.99
Exercised	(132,119)	18.64	(41,851)	21.95	(33,969)	18.69
Cancelled	(421,395)	37.71	(200,000)	32.93	(97,000)	31.25
Outstanding at December 31	11,472,352	$32.65	8,724,316	$32.35	5,529,917	$24.43
Options exercisable at December 31	4,546,429		2,703,407		1,327,418	
Weighted-average fair value of options granted during the year ended December 31 (per option)	$4.43		$5.33		$7.87	

The following table summarizes information about options outstanding under the Plan at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 1999	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 1999	Weighted-Average Exercise Price
$ 6 to $12	45,368	3.0 Years	$11	45,368	$11
$17 to $19	430,579	5.1 Years	18	430,579	18
$23	3,500,000	6.9 Years	23	2,100,000	23
$26 to $27	275,250	7.1 Years	26	275,250	26
$30	680,000	7.4 Years	30	422,100	30
$31 to $36	3,318,300	9.0 Years	34	176,620	34
$37 to $40	265,510	8.4 Years	39	80,410	39
$41 to $44	117,795	8.2 Years	43	42,093	43
$45	2,574,550	8.1 Years	45	883,909	45
$48	265,000	8.1 Years	48	90,100	48
$ 6 to $48	11,472,352	7.8 Years	$33	4,546,429	$29

Shares available for future grant under the Plan at December 31, 1999 were 8,223,227.

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,		
(amounts in thousands, except percentages)	**1999**	1998	1997
Service cost—benefits earned during the period	**$ —**	—	$115
Interest cost on projected benefit obligation	**559**	594	607
Actual return on assets	**(387)**	(334)	(494)
Net amortization and deferral	**53**	51	347
Net pension expense	**$225**	$311	$575
Assumptions used in determining the net pension expense			
Discount rate	**7¾%**	6¾%	7¼%
Rate of increase in compensation levels	**—***	—*	5½%
Expected rate of return on assets	**7%**	7%	7%

**Not applicable, as benefits under the Plan were frozen in December 1997.*

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

(amounts in thousands)	**December 31, 1999**	December 31, 1998	December 31, 1997
Actuarial present value of benefit obligations:			
Vested benefit obligation	**$ 7,492**	$ 8,853	$ 8,245
Accumulated benefit obligation	**$ 7,558**	$ 8,952	$ 8,337
Projected benefit obligation	**$ 7,558**	$ 8,952	$ 8,337
Plan assets at fair value	**5,284**	5,551	4,901
Projected benefit obligation in excess of plan assets	**2,274**	3,401	3,436
Unrecognized net obligations	**(1,279)**	(2,269)	(1,086)
Adjustment required to recognize minimum liability	**1,279**	2,269	1,086
Accrued pension costs	**$ 2,274**	$ 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, 1999, 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
2000	$ 572,893
2001	545,003
2002	514,915
2003	474,823
2004	440,655
Thereafter	2,678,987

These amounts do not include rentals based on tenants' sales. These percentage rents approximated $2,213,000, $2,493,000, and $1,786,000 for the years ended December 31, 1999, 1998 and 1997.

None of the Company's tenants represented more than 10% of the Company's total revenues for the year ended December 31, 1999.

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, 1999, are as follows:

(in thousands)

Year ending December 31:	Amount
2000	$ 14,917
2001	14,837
2002	14,415
2003	13,688
2004	12,770
Thereafter	402,652

Rent expense was $14,269,000, $5,937,000, and $2,001,000 for the years ended December 31, 1999, 1998 and 1997.

10. Committments and Contingencies

At December 31, 1999, in addition to the $367 million balance outstanding under the Company's revolving credit facility, the Company had utilized $117 million 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 was completed in 1999.

In September 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 appealing the amount of the award.

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

At December 31, 1999, the loan due from Mr. Roth, in accordance with his employment arrangement, was $13,122,500 ($4,705,000 of which is shown as a reduction in shareholders' equity). During 1999, the Company amended Mr. Roth's loan to, (i) reset the interest rate to 4.49% per annum (based on the applicable Federal rate) from a floating rate equal to the broker call rate and (ii) extend the maturity to January 2006 from December 2002. The Company also provided Mr. Roth with the right to draw up to $15,000,000 of additional loans on a revolving basis. Each additional loan will bear interest, payable quarterly, at the applicable Federal rate on the date the loan is made and will mature on the sixth anniversary of the loan.

At December 31, 1999, loans due from Mr. Fascitelli, in accordance with his employment agreement, aggregated $7,600,000. The loans mature in 2003 and bear interest, payable quarterly at a weighted average interest rate of 5.16% (based on the applicable Federal rate). In addition, in accordance with his employment agreement, in December 1996 Mr. Fascitelli 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, the cash and common shares are being held in an irrevocable trust (the fair value of this obligation was $34,996,620 at December 31, 1999).

Various other executive officers of the Company have loans outstanding pursuant to employment agreements of $1,146,000 at December 31, 1999. The loans bear interest at either the applicable Federal rate provided or the broker call rate (7.25% at December 31, 1999).

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, 1999, 1998 and 1997, $1,262,000, $1,365,000 and $1,184,000 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 $40,974,000 and $25,686,000 for the years ended December 31, 1999 and 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 Temperature Controlled Logistics Companies, Hotel Pennsylvania and related management companies are owned by Officers and Trustees of Vornado.

14. Minority Interest

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

Unit Series	Outstanding Units at December 31, 1999	Outstanding Units at December 31, 1998	Per Unit Liquidation Preference	Preferred or Annual Distribution Rate	Conversion Rate Into Class A Units
Class A	**6,247,829**	1,887,781	—	$1.80	(a)
Class C	**—**	3,534,098	—	$1.69 (b)	1.0 (b)
Class D	**876,543**	1,332,596	—	$2.015	1.0 (c)
5.0% B-1 Convertible Preferred	**889,566**	899,566	$50.00	$2.75	.914
8.0% B-2 Convertible Preferred	**449,783**	449,783	$50.00	$4.00	.914
6.5% C-1 Convertible Preferred	**747,912**	747,912	$50.00	$3.25	1.1431
8.5% D-1 Cumulative Redeemable Preferred	**3,500,000**	3,500,000	$25.00	$2.125	(d)
8.375% D-2 Cumulative Redeemable Preferred	**549,336**	—	$50.00	$4.1875	(d)
8.25% D-3 Cumulative Redeemable Preferred	**8,000,000**	—	$25.00	$2.0625	(d)
8.25% D-4 Cumulative Redeemable Preferred	**5,000,000**	—	$25.00	$2.0625	(d)
8.25% D-5 Cumulative Redeemable Preferred	**7,480,000**	—	$25.00	$2.0625	(d)
6.0% E-1 Convertable Preferred	**4,998,000**	—	$50.00	$ 3.00 (e)	1.1364

(a) Class A units are redeemable at the option of the holder for cash or, at the Company's option, one common share of beneficial interest in Vornado.
(b) Class C units automatically converted to Class A units in the third quarter of 1999. Prior to conversion, the Class C unit holders had participated in distributions at an annual rate of $1.69, then pari passu with the Class A units.
(c) Mandatory conversion of Class D units into Class A units will occur after four consecutive quarters of distributions of at least $.50375 per Class A unit ($2.015 annually).
(d) Redeemable for an equivalent of the Company's preferred share.
(e) Increases to $3.25 over the next three years and fixes at $3.38 in March 2007.

15. EARNINGS PER SHARE

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

(amounts in thousands, except per share amounts)	**December 31, 1999**	December 31, 1998	December 31, 1997
Numerator:			
Net income	**$ 202,519**	$ 152,854	$ 61,023
Preferred stock dividends	**(33,438)**	(21,690)	(15,549)
Numerator for basic and diluted earnings per share—income applicable to common shares	**$ 169,081**	$ 131,164	$ 45,474
Denominator:			
Denominator for basic earnings per share—weighted average shares	**85,666,424**	80,724,132	55,097,656
Effect of dilutive securities:			
Employee stock options	**1,621,386**	1,931,818	2,119,553
Denominator for diluted earnings per share—adjusted weighted average shares and assumed conversions	**87,287,810**	82,655,950	57,217,209
Net income per common share—basic	**$ 1.97**	$ 1.62	$ 0.83
Net income per common share—diluted	**$ 1.94**	$ 1.59	$ 0.79

16. Summary of Quarterly Results (Unaudited)

The following summary represents the results of operations for each quarter in 1999, 1998 and 1997:

(amounts in thousands, except share amounts)	Revenue	Net Income Applicable to Common Shares	Net Income Per Common Share[1] Basic	Net Income Per Common Share[1] Diluted
1999				
March 31	$163,564	$ 42,754[2]	$.50	$.49
June 30	166,188	42,758[2]	.50	.49
September 30	183,555	44,487[2]	.52	.51
December 31	183,651	39,082	.45	.45
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.

[2] Net income for each of the first three quarters of 1999 has been restated to reflect a correction for depreciation expense of a partially-owned entity. The effect of such restatement for each of the first three quarters on net income and net income per common share is as follows: $462,000 ($.01 per share), $887,000 ($.01 per share), and $887,000 ($.01 per share), respectively.

17. SEGMENT INFORMATION

The Company has four business segments: Office, Retail, Merchandise Mart Properties and Temperature Controlled Logistics. Prior to April 1997, the Company operated in one segment-retail real estate, primarily in the Northeast section of the United States.

	December 31, 1999					
(amounts in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[2]
Total revenues	$ 696,958	$ 379,795	$170,538	$135,921	$ —	$ 10,704
Total expenses	405,854	227,680	74,062	74,624	—	29,488
Operating income	291,104	152,115	96,476	61,297	—	(18,784)
Income applicable to Alexander's	7,427	—	—	—	—	7,427
Income from partially-owned entities	82,310	19,055	938	—	36,722	25,595
Interest and other investment income	18,359	1,786	—	737	—	15,836
Interest and debt expense	(141,683)	(49,624)	(27,635)	(29,509)	—	(34,915)
Minority interest	(54,998)	(25,854)	(14,628)	(6,819)	(7,697)	—
Net income	202,519	97,478	55,151	25,706	29,025	(4,841)
Minority interest	54,998	25,854	14,628	6,819	7,697	—
Interest and debt expense[4]	226,253	82,460	30,249	29,509	27,520	56,515
Depreciation and amortization[4]	143,499	64,702	16,900	17,702	31,044	13,151
Straight-lining of rents[4]	(25,359)	(16,386)	(2,120)	(4,740)	(1,698)	(415)
Other	7,451	365	—	—	2,054[3]	5,032
EBITDA[1]	$ 609,361	$ 254,473	$114,808	$ 74,996	$ 95,642	$ 69,442
Balance sheet data:						
Real estate, net	$3,612,965	$2,208,510	$575,633	$753,416	$ —	$ 75,406
Investments and advances to partially-owned entities	1,315,387	382,417	3,057	32,524	481,808	415,581
Capital expenditures:						
Acquisitions	394,006	388,436	—	—	—	5,570
Other	204,591	85,833	22,859	41,134	51,000	3,765

	December 31, 1998					
(amounts in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	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	(1,969)	15,191	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)	(2,070)	(1,024)	—
Net income	152,854	78,836	61,136	13,649	14,167	(14,934)
Minority interest	16,183	7,236	5,853	2,070	1,024	—
Interest and debt expense[4]	164,478	40,245	32,709	18,711	26,541	46,272
Depreciation and amortization[4]	104,299	39,246	15,520	9,899	33,117	6,517
Net gain from insurance settlement and condemnation proceeding	(9,649)	—	—	—	—	(9,649)
Straight-lining of rents[4]	(16,132)	(6,845)	(3,203)	(4,882)	—	(1,202)
Other	15,055	(79)	—	—	8,872[3]	6,262[5]
EBITDA[1]	$ 427,088	$ 158,639	$112,015	$ 39,447	$ 83,721	$ 33,266
Balance sheet data:						
Real estate, net	$3,089,075	$1,777,919	$565,723	$729,485	$ —	$ 15,948
Investments and advances to partially-owned entities	827,840	118,337	2,946	26,638	459,172	220,747
Capital expenditures:						
Acquisitions	2,059,000	923,000	38,000	745,000	175,000	178,000
Other	80,548	51,162	5,535	10,314	12,463	1,074

(amounts in thousands)	December 31, 1997 Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	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)
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[4]	54,395	13,707	19,893	—	5,839	14,956
Depreciation and amortization[4]	31,972	12,813	11,706	—	4,182	3,271
Straight-lining of rents[4]	(3,932)	(645)	(2,558)	—	—	(729)
Other	(325)	1,303	970	—	17	(2,615)
EBITDA[1]	$ 150,426	$ 56,678	$ 86,509	$ —	$ 11,758	$ (4,519)
Balance sheet data:						
Real estate, net	$1,390,659	$803,325	$564,214	$ —	$ —	$ 23,120
Investments and advances to partially-owned entities	482,787	105,586	4,451	—	243,846	128,904
Capital expenditures:						
Acquisitions	1,995,000	965,000	366,000	—	600,000	64,000
Other	29,891	12,992	8,445	—	6,102	2,352

((1) EBITDA represents 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 (i) the reversal of income taxes (benefit for the year ended December 31, 1999) which are considered non-recurring because of the expected conversion of the Temperature Controlled Logistics Companies to REIT's and (ii) the add back of non-recurring unification costs.

(4) 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.

(5) Primarily represents the Company's equity in Alexander's loss for the write-off resulting from the razing of Alexander's building formerly located at its Lexington Avenue site.

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, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 7, 2000

Market Price of Vornado Common Stock and Related Information

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, 1999 and 1998 were as follows:

	YEAR ENDED DECEMBER 31, 1999			YEAR ENDED DECEMBER 31, 1998		
Quarter	**High**	**Low**	**Dividends**	High	Low	Dividends
1st	**$37.75**	**$32.06**	**$.44**	$49.81	$38.50	$.40
2nd	**39.50**	**33.06**	**.44**	44.00	36.38	.40
3rd	**36.06**	**32.19**	**.44**	39.88	27.63	.40
4th	**33.31**	**30.06**	**.48**	38.25	26.00	.44

The approximate number of record holders of common shares of Vornado at December 31, 1999, was 2,500.

Selected Consolidated Financial Data

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(in thousands, except share and per share amounts)				
Operating Data					
Revenues:					
Property rentals	**$ 590,814**	$ 425,496	$ 168,321	$ 87,424	$ 80,429
Expense reimbursements	**90,246**	74,737	36,652	26,644	24,091
Other income	**15,898**	9,627	4,158	2,819	4,198
Total Revenues	**696,958**	509,860	209,131	116,887	108,718
Expenses:					
Operating	**282,118**	207,171	74,745	36,412	32,282
Depreciation and amortization	**83,585**	59,227	22,983	11,589	10,790
General and administrative	**40,151**	28,610	13,580	5,167	6,687
Amortization of officer's deferred compensation expense	**—**	—	22,917	2,083	—
Total Expenses	**405,854**	295,008	134,225	55,251	49,759
Operating Income	**291,104**	214,852	74,906	61,636	58,959
Income applicable to Alexander's	**7,427**	3,123	7,873	7,956	3,954
Income from partially-owned entities	**82,310**	32,025	4,658	1,855	788
Interest and other investment income	**18,359**	24,074	23,767	6,643	5,733
Interest and debt expense	**(141,683)**	(114,686)	(42,888)	(16,726)	(16,426)
Net gain from insurance settlement and condemnation proceedings	**—**	9,649	—	—	—
Minority interest of unitholders in the Operating Partnership	**(54,998)**	(16,183)	(7,293)	—	—
Net Income	**202,519**	152,854	61,023	61,364	53,008
Preferred stock dividends	**(33,438)**	(21,690)	(15,549)	—	—
Net income applicable to common shares	**$ 169,081**	$ 131,164	$ 45,474	$ 61,364	$ 53,008
Net income per share—basic[(1)]	**$ 1.97**	$ 1.62	$ .83	$ 1.26	$ 1.13
Net income per share—diluted[(1)]	**$ 1.94**	$ 1.59	$ .79	$ 1.25	$ 1.12
Cash dividends declared for common shares	**$ 1.80**	$ 1.64	$ 1.36	$ 1.22	$ 1.12
Balance Sheet Data					
Total assets	**$5,479,218**	$4,425,779	$2,524,089	$565,204	$491,496
Real estate, at cost	**3,921,507**	3,315,891	1,564,093	397,298	382,476
Accumulated depreciation	**308,542**	226,816	173,434	151,049	139,495
Debt	**2,048,804**	2,051,000	956,654	232,387	233,353
Shareholders' equity	**2,055,368**	1,782,678	1,313,762	276,257	194,274

(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.

(in thousands)	Year Ended December 31, 1999	1998	1997	1996	1995
Other Data					
Funds from operations[2]:					
Net income applicable to common shares	**$ 169,081**	$ 131,164	$ 45,474	$ 61,364	$ 53,008
Depreciation and amortization of real property	**82,216**	58,277	22,413	11,154	10,019
Straight-lining of property rentals for rent escalations	**(22,881)**	(14,531)	(3,359)	(2,676)	(2,569)
Leasing fees received in excess of income recognized	**1,705**	1,339	1,733	1,805	1,052
Net gain from insurance settlement and condemnation proceedings	**—**	(9,649)	—	—	—
(Depreciation)/appreciation of securities held in officer's deferred compensation trust	**(340)**	340	—	—	—
(Gains)/losses on sale of securities available for sale	**(383)**	(898)	—	—	360
Proportionate share of adjustments to equity in income of partially-owned entities to arrive at funds from operations:					
Temperature Controlled Logistics	**31,400**	41,988[3]	4,183	—	—
Alexander's	**1,324**	4,023	(2,471)	(2,331)	539
Partially-owned office buildings	**50**	3,561	2,891	—	—
Hotel Pennsylvania	**4,866**	4,083	457	—	—
Charles E. Smith Commercial Realty L.P.	**12,024**	2,974	1,298	—	—
Other	**7,463**	219	—	—	—
Minority interest in excess of preferential distributions	**(9,020)**	(3,991)	—	—	—
Dilutive effect of Series A Preferred Stock Dividends	**16,268**	—	—	—	—
Funds from operations	**$ 293,773**	$ 218,899	$ 72,619	$ 69,316	$ 62,409
Cash flow provided by (used in):					
Operating activities	**$ 176,895**	$ 189,406	$ 115,473	$ 70,703	$ 62,882
Investing activities	**(494,204)**	(1,257,367)	(1,064,484)	14,912	(103,891)
Financing activities	**262,131**	879,815	1,215,269	(15,046)	36,577

[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 have been modified from this definition to adjust for (i) the effect of straight-lining of property rentals for rent escalations and leasing fee income, (ii) the reversal of income taxes (benefit for the year ended December 31, 1999) which considered non-recurring because of the expected conversion of Temperature Controlled Logistics Companies to REITs, (iii) the addback of Temperature Controlled Logistics non-recurring unification costs, and (iv) the exclusion of a $2,700 reduction in interest expense in 1999 resulting from the amortization of the excess of fair value of Newkirk Joint Venture limited partnership's debt over its face amount at date of acquisition.

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

Overview

Below is a summary of net income and EBITDA[1] by segment for the years ended December 31, 1999, 1998 and 1997:

	December 31, 1999					
	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[2]
Total revenues	$696,958	$379,795	$170,538	$135,921	$ —	$10,704
Total expenses	405,854	227,680	74,062	74,624	—	29,488
Operating income	291,104	152,115	96,476	61,297	—	(18,784)
Income applicable to Alexander's	7,427	—	—	—	—	7,427
Income from partially-owned entities	82,310	19,055	938	—	36,722	25,595
Interest and other investment income	18,359	1,786	—	737	—	15,836
Interest and debt expense	(141,683)	(49,624)	(27,635)	(29,509)	—	(34,915)
Minority interest	(54,998)	(25,854)	(14,628)	(6,819)	(7,697)	—
Net income	202,519	97,478	55,151	25,706	29,025	(4,841)
Minority interest	54,998	25,854	14,628	6,819	7,697	—
Interest and debt expense[4]	226,253	82,460	30,249	29,509	27,520	56,515
Depreciation and amortization[4]	143,499	64,702	16,900	17,702	31,044	13,151
Straight-lining of rents[4]	(25,359)	(16,386)	(2,120)	(4,740)	(1,698)	(415)
Other	7,451	365	—	—	2,054[3]	5,032
EBITDA[1]	$609,361	$254,473	$114,808	$ 74,996	$95,642	$69,442

	December 31, 1998					
	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	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	(1,969)	15,191	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)	(2,070)	(1,024)	—
Net income	152,854	78,836	61,136	13,649	14,167	(14,934)
Minority interest	16,183	7,236	5,853	2,070	1,024	—
Interest and debt expense[4]	164,478	40,245	32,709	18,711	26,541	46,272
Depreciation and amortization[4]	104,299	39,246	15,520	9,899	33,117	6,517
Net gain from insurance settlement and condemnation proceeding	(9,649)	—	—	—	—	(9,649)
Straight-lining of rents[4]	(16,132)	(6,845)	(3,203)	(4,882)	—	(1,202)
Other	15,055	(79)	—	—	8,872[3]	6,262[5]
EBITDA[1]	$427,088	$158,639	$112,015	$39,447	$83,721	$33,266

Footnotes 1-5 are explained on the following page.

	December 31, 1997					
	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	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)
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[4]	54,395	13,707	19,893	—	5,839	14,956
Depreciation and amortization[4]	31,972	12,813	11,706	—	4,182	3,271
Straight-lining of rents[4]	(3,932)	(645)	(2,558)	—	—	(729)
Other	(325)	1,303	970	—	17	(2,615)
EBITDA[1]	$150,426	$56,678	$ 86,509	—	$11,758	$(4,519)

[1] *EBITDA represents 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, Newkirk Joint Ventures, (iii) corporate general and administrative expenses and (iv) unallocated investment income and interest and debt expense.*

[3] *Includes (i) the reversal of income taxes (benefit for the year ended December 31, 1999) which are considered non-recurring because of the expected conversion of the Temperature Controlled Logistics Companies to REIT's and (ii) the add back of non-recurring unification costs.*

[4] *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.*

[5] *Primarily represents the Company's equity in Alexander's loss for the write-off resulting from the razing of Alexander's building formerly located at its Lexington Avenue site.*

Results of Operations

Years Ended December 31, 1999 and December 31, 1998

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

	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Year ended December 31, 1998	$427,088	$158,639	$112,015	$39,447	$83,721	$33,266
1999 Operations:						
Same store operations[1]	27,410	18,074	3,797	6,556	N/A	(1,017)
Acquisitions and other	154,863	77,760	(1,004)	28,993	11,921	37,193
Year ended December 31, 1999	$609,361	$254,473	$114,808	$74,996	$95,642	$69,442
% increase in same store operations	8.0%	11.4%	3.4%	16.6%	N/A[2]	(3.1)%

[1] Represents operations which were owned for the same period in each year.

[2] Not comparable because prior to March 12, 1999 (date the operations of the Temperature Controlled Logistics Companies were sold), the Company reflected its equity in the operations of the Temperature Controlled Logistics Companies. Subsequent thereto, the Company reflects its equity in the rent it receives from the Temperature Controlled Logistics Companies.

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were $696,958 in the year ended December 31, 1999 compared to $509,860 in the prior year, an increase of $187,098. These increases by segment resulted from:

	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Other
Property Rentals:						
Acquisitions:						
595 Madison Avenue	September 1999	$ 4,202	$ 4,202	$ —	$ —	$ —
Hotel Pennsylvania (20%)	August 1999	2,670	—	—	—	2,670
909 Third Avenue	July 1999	11,626	11,626	—	—	—
888 Seventh Avenue	January 1999	22,683	22,683	—	—	—
Market Square Complex	December 1998	13,303	—	—	13,303	—
Mendik RELP Properties	December 1998	26,410	26,410	—	—	—
20 Broad Street	August 1998	8,112	8,112	—	—	—
689 Fifth Avenue	August 1998	2,152	2,152	—	—	—
770 Broadway	July 1998	5,747	5,747	—	—	—
40 Fulton Street	June 1998	2,605	2,605	—	—	—
Merchandise Mart Properties	April 1998	27,227	—	—	27,227	—
150 East 58th Street	March 1998	2,403	2,403	—	—	—
One Penn Plaza	February 1998	5,478	5,478	—	—	—
Westport	January 1998	274	274	—	—	—
		134,892	91,692	—	40,530	2,670
Leasing activity		30,426	25,090	2,935	2,806	(405)
Total increase in property rentals		165,318	116,782	2,935	43,336	2,265
Tenant expense reimbursements:						
Increase in tenant expense reimbursements due to acquisitions		12,754	8,462	—	3,922	370
Other		2,755	887	448	1,668	(248)
Total increase in tenant expense reimbursements		15,509	9,349	448	5,590	122
Other income		6,271	6,165	—	474	(368)
Total increase in revenues		$187,098	$132,296	$3,383	$49,400	$2,019

Expenses

The Company's expenses were $405,854 in the year ended December 31, 1999, compared to $295,008 in the prior year, an increase of $110,846. These increases by segment resulted from:

	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions	$ 68,828	$51,291	$ —	$15,946	$1,591
Same store operations	6,119	6,234	3,332	(3,316)	(131)
	74,947	57,525	3,332	12,630	1,460
Depreciation and amortization:					
Acquisitions	17,498	11,180	—	5,756	562
Same store operations	6,860	4,654	334	2,047	(175)
	24,358	15,834	334	7,803	387
General and Administrative:					
Corporate expenses[2]	11,593	2,748	62[1]	3,430	5,353
Reduction in value of Vornado shares and other securities held in officer's deferred compensation trust	(52)	—	—	—	(52)
	11,541	2,748	62	3,430	5,301
	$110,846	$76,107	$3,728	$23,863	$7,148

[1] Retail general and administrative expenses are included in corporate expenses, which are not allocated.
[2] Of this increase: (i) $2,546 is attributable to acquisitions, (ii) $5,654 resulted from payroll, primarily for additional employees, and corporate office expenses, and (iii) $3,393 resulted from professional fees.

Income applicable to Alexander's (loan interest income, equity in income (loss) and depreciation) was $7,427 in the year ended December 31, 1999, compared to $3,123 in the prior year, an increase of $4,304. This increase resulted from equity in Alexander's loss in the prior year due primarily to the write-off resulting from the razing of its building formerly located at its Lexington Avenue site.

Income from partially-owned entities was $82,310 in the year ended December 31, 1999, compared to $32,025 in the prior year, an increase of $50,285. This increase by segment resulted from:

	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[2]
Acquisitions:							
CESCR	March 1999	$14,063	$14,063	$ —	$ —	$ —	$ —
Newkirk Joint Ventures	July 98/Mar. 99	16,510	—	—	—	—	16,510
Las Catalinas	November 1998	680	—	680	—	—	—
Temperature Controlled Logistics	June/July 1998	8,423	—	—	—	8,423	—
Merchandise Mart Management Company	April 1998	(207)	—	—	(207)	—	—
		39,469	14,063	680	(207)	8,423	16,510
Increase (decrease) in equity in income:							
Temperature Controlled Logistics		12,528	—	—	—	12,528[1]	—
Hotel Pennsylvania		1,417	—	—	—	—	1,417[2]
Partially-owned office buildings		(1,533)	(1,533)[3]	—	—	—	—
Other		(1,596)	(4,329)	—	2,176	580	(23)
		$50,285	$ 8,201	$680	$1,969	$21,531	$17,904

[1] *Primarily reflects equity interest in lease payments (March 12, 1999 – December 31, 1999) and equity interest in the operations (January 1, 1999 – March 12, 1999) for 1999 in excess of equity in the operations of such companies in 1998.*

[2] *Reflects the elimination of the Company's equity in income of the commercial portion of the Hotel Pennsylvania which was wholly-owned as of August 5, 1999, and accordingly consolidated.*

[3] *Reflects the elimination of the Company's equity in income of Two Park Avenue which was wholly-owned as of November 17, 1998 and accordingly consolidated.*

Interest and other investment income (interest income on mortgage loans receivable, other interest income, dividend income and net gains on marketable securities) was $18,359 for the year ended December 31, 1999, compared to $24,074 in the prior year, a decrease of $5,715. This decrease resulted primarily from lower average investments.

Interest and debt expense was $141,683 for the year ended December 31, 1999, compared to $114,686 in the prior year, an increase of $26,997. This increase resulted primarily from debt in connection with acquisitions.

Minority interest was $54,998 for the year ended December 31, 1999, compared to $16,183 for the prior year, an increase of $38,815. This increase is primarily due to higher income.

Preferred stock dividends were $33,438 for the year ended December 31, 1999, compared to $21,690 in the prior year, an increase of $11,748. The increase resulted from the issuance of the Company's Series B Cumulative Redeemable Preferred Shares in March 1999 and Series C Cumulative Redeemable Preferred Shares in May 1999.

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.

Years Ended December 31, 1997 and December 31, 1997

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

	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	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	39,447	71,552	14,355
Year ended December 31, 1998	$427,088	$158,639	$112,015	$39,447	$83,721	$33,266
% increase in same store operations	5.5%	7.5%	5.1%	*	3.5%	2.8%[1]

** not applicable*

[1] *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.*

[2] *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 Acquisition	Total	Office	Retail	Merchandise 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		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

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 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 1998 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:

	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Acquisitions:							
Temperature Controlled Logistics:							
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
Partially-owned office buildings	April 1997	2,852	2,852	—	—	—	—
Merchandise Mart Management Company	April 1998	(1,969)	—	—	(1,969)	—	—
Las Catalinas	November 1998	258	—	258	—	—	—
Other		2,207	2,318	—	—	156	(267)
		$27,367	$9,839	$258	$(1,969)	$13,471	$5,768

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 income 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.

Liquidity and Capital Resources

Cash Flows for the Years Ended December 31, 1999, 1998 and 1997

Year Ended December 31, 1999

Cash flows provided by operating activities of $176,895 were comprised of (i) net income of $202,519 and (ii) adjustments for non-cash items of $26,686, offset by (iii) the net change in operating assets and liabilities of $50,907 (primarily prepaid expenses). The adjustments for non-cash items are primarily comprised of (i) depreciation and amortization of $83,585 and (ii) minority interest of $54,998, partially offset by (iii) the effect of straight-lining of rental income of $29,587 and (iv) equity in income of partially-owned entities of $82,310.

Net cash used in investing activities of $494,204 was primarily comprised of (i) capital expenditures of $153,591 (see detail below), (ii) investment in mortgage loans receivable of $59,787 (including $41,200 loan to CAPI and $18,587 loan to Vornado Operating Company), (iii) acquisitions of real estate of $224,654 (see detail below) and (iv) investments in partially-owned entities of $118,409 (see detail below), partially offset by (v) the use of cash restricted for tenant improvements of $13,624, (vi) proceeds from the sale of Temperature Controlled Logistics assets of $22,769 and (vii) proceeds from the repayment of mortgage loans receivable of $14,000 (Vornado Operating Company).

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

(in 000's)	Cash	Debt Assumed	Value of Units Issued	Assets Acquired
Real Estate:				
595 Madison Avenue Office Building	$125,000	$ —	$ —	$125,000
909 Third Avenue Office Building	12,400	109,000	1,600	123,000
888 Seventh Avenue Office Building	45,000	55,000	—	100,000[1]
GreenPoint leasehold interest	37,300	—	—	37,300
Other	4,954	—	—	4,954
	$224,654	$164,000	$ 1,600	$390,254
Investments in Partially Owned Entities:				
Charles E. Smith Commercial Realty L.P.:				
Increase in investment to 34%	$ —	$ —	$242,000	$242,000
Reacquired units from Vornado Operating Company	13,200	—	—	13,200
Crystal City hotel land	—	—	8,000	8,000
Additional investment in Newkirk Joint Ventures	16,420	—	50,500	66,920
Hotel Pennsylvania — increase in investment to 100%	18,000	24,000	—	42,000
Alexander's — increase in investment to 32%	8,956	—	—	8,956
Loan to Alexander's	50,000	—	—	50,000
Loan to Temperature Controlled Logistics	9,000	—	—	9,000
Other	2,833	—	—	2,833
	$118,409	$ 24,000	$300,500	$442,909

[1] Total consideration for 888 Seventh Avenue was $117,000 of which $17,000 was expended in 1998.

Capital expenditures were comprised of:

	Total	New York City Office	Retail	Merchandise Mart	Other
Expenditures to maintain the assets	$ 27,251	$13,176	$ 1,945	$ 8,221	$3,909
Tenant allowances	40,242	20,890	927	18,384	41
Acquisition and Redevelopment expenditures	86,098	52,288[1]	19,281	14,529	—
	$153,591	$86,354	$22,153	$41,134	$3,950

[1] Includes $27,544 to buyout the tenant's lease on 28,000 square feet of office space at 640 Fifth Avenue, thereby permitting re-leasing for retail use and $24,744 for the refurbishment of 770 Broadway.

Net cash provided by financing activities of $262,131 was primarily comprised of (i) proceeds from issuance of preferred shares of $192,953, (ii) proceeds from issuance of preferred units of $525,013 and (iii) proceeds from borrowings of $455,000 partially offset by, (iv) repayments of borrowings of $668,957, (v) dividends paid on common shares of $153,223, (vi) dividends paid on preferred shares of $30,563, and (vii) distributions to minority partners of $52,491.

Year Ended December 31, 1998

Cash flows provided by operating activities of $189,406 were 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.

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	38,000	—	—	38,000
888 Seventh Avenue Office Building	17,000	—	—	17,000[1]
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 Temperature Controlled Logistics 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

[1] *Acquisition was completed in 1999 for a total of $117,000.*

Capital expenditures were comprised of:

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

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 were 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
Real Estate:				
Mendik Transaction	$263,790	$215,279	$177,000	$ 656,069
60% interest in Temperature Controlled Logistics 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
Mortgage loans receivable:				
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
Total Acquisitions	$959,086	$828,079	$279,015	$2,066,180

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.

Funds from Operations for the Years Ended December 31, 1999 and 1998

Funds from operations were $293,773 in the year ended December 31, 1999, compared to $218,899 in the prior year, an increase of $74,874. The following table reconciles funds from operations and net income:

	Year Ended December 31,	
	1999	1998
Net income applicable to common shares	**$169,081**	$131,164
Depreciation and amortization of real property	**82,216**	58,277
Straight-lining of property rentals for rent escalations	**(22,881)**	(14,531)
Leasing fees received in excess of income recognized	**1,705**	1,339
Net gain from insurance settlement and condemnation proceedings	—	(9,649)
(Depreciation) appreciation of securities held in officer's deferred compensation trust	**(340)**	340
Gain on sale of securities available for sale	**(383)**	(898)
Proportionate share of adjustments to equity in income of partially-owned entities to arrive at funds from operations	**57,127**	56,848
Minority interest in excess of preferential distributions	**(9,020)**	(3,991)
	277,505	218,899
Dilutive effect of Series A Preferred Stock dividends	**16,268**	—
Funds from operations	**$293,773**	$218,899

The number of shares that should be used for determining funds from operations per share is as follows:

	Year Ended December 31,	
	1999	1998
Weighted average shares	**85,666**	80,724
Effect of dilutive securities:		
Employee stock options	**1,621**	1,932
Series A preferred shares	**6,015**	—
Denominator for diluted funds from operations per share — adjusted weighted average shares and assumed conversions	**93,302**	82,656

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 have been modified from this definition to adjust for (i) the effect of straight-lining of property rentals for rent escalations and leasing fee income, (ii) the reversal of income taxes (benefit for the year ended December 31, 1999) which is considered non-recurring because of the expected conversion of Temperature Controlled Logistics Companies to REITs, (iii) the addback of Temperature Controlled Logistics non-recurring unification costs, and (iv) the exclusion of a $2,700 reduction in interest expense in 1999 resulting from the amortization of the excess of fair value of Newkirk Joint Venture limited partnership's debt over its face amount at date of acquisition.

Below are the cash flows provided by (used in) operating, investing and financing activities:

	Year Ended December 31,	
	1999	1998
Operating activities	**$ 176,895**	$ 189,406
Investing activities	**$(494,204)**	$(1,257,367)
Financing activities	**$ 262,131**	$ 879,815

Certain Cash Requirements

In January 2000, the Company completed approximately $36,000 of real estate acquisitions, of which $17,640 was indebtedness.

The Company has budgeted approximately $91,000 for capital expenditures (excluding acquisitions) over the next year as follows:

	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Expenditures to maintain the assets	$42,000	$16,400	$2,800	$11,700	$3,000[1]	$8,100
Tenant allowances	49,000	40,500	900	7,600	—	—
	$91,000	$56,900	$3,700	$19,300	$3,000	$8,100

[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.*

In addition to the above, the Company has budgeted approximately $18,000 of leasing commissions.

Tenant allowances and leasing commissions for the New York City Office properties approximate $18.00 per square foot for renewal space and $50.00 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 $278.7 million to be expended as outlined in the "Development and Redevelopment Projects" section of Item 1 — Business. The $278.7 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 CESCR, Newkirk or Alexander's, which are partially owned by the Company. These investees are expected to fund their own cash requirements. Alexander's is not expected to distribute any cash to the Company in 2000. In 2000, the Company expects to receive at a minimum, preferred distributions from CESCR of approximately $14.4 million (7,679,365 preferred units at $1.87 per unit) and common distributions of approximately $3.85 million (2,500,000 common units at $1.54 per unit — current dividend rate). The minimum preferred distribution rate increases by .25% each year for the next three years.

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

On March 1, 2000, the Company sold three shopping centers located in Texas for approximately $25,750 resulting in a gain of $4,400.

Financing Activities

Corporate

On March 17, 1999, the Company completed the sale of 3 million 8.5% Series B Cumulative Redeemable Preferred Shares, at a price of $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.

On May 17, 1999, the Company completed the sale of 4 million 8.5% Series C Cumulative Redeemable Preferred Shares, at a price of $25.00 per share, pursuant to an effective registration statement with net proceeds to the Company of approximately $96,900. Additionally on May 19, 1999, 600,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of $14,500. The perpetual preferred shares may be called without penalty at the option of the Company commencing on May 17, 2004.

On May 27, 1999, the Company sold an aggregate of $27,500 of 8.375% Series D-2 Cumulative Redeemable Preferred Units in the Operating Partnership to an institutional investor in a private placement, resulting in net proceeds of approximately $26,780. The perpetual Preferred Units may be called without penalty at the option of the Operating Partnership commencing on May 27, 2004.

On September 3, 1999, the Company sold an aggregate of $325,000 of 8.25% Series D-3 and D-4 Cumulative Redeemable Preferred Units in the Operating Partnership to institutional investors in private placements, resulting in net proceeds of approximately $316,400. The Perpetual Preferred Units may be called without penalty at the option of the Operating Partnership commencing on September 7, 2004.

On November 24, 1999, the Company sold an aggregate of $187,000 of 8.25% Series D-5 Cumulative Redeemable Preferred Units in the Operating Partnership to institutional investors in a private placement, resulting in net proceeds of approximately $181,900. The Perpetual Preferred Units may be called without penalty at the option of the Operating Partnership commencing on November 24, 2004.

On March 1, 2000, the Company completed a $500,000 private placement of 10-year, 7.93% mortgage notes, cross-collateralized by 42 shopping center properties, resulting in net proceeds of approximately $490,000. In connection therewith, the Company repaid $228,000 of existing mortgage debt scheduled to mature on December 1, 2000 and $262,000 outstanding under its revolving credit facility.

Office

On February 16, 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%.

On March 1, 2000, the Company completed a $90,000 refinancing of its Two Park Avenue office building. The Company received proceeds of $65,000 and repaid the then existing debt in the same amount on the property. The Company expects to receive the remaining $25,000 prior to June 30, 2000 upon satisfying certain closing conditions. The new 3-year debt matures on February 28, 2003 and bears interest at Libor + 1.45% (7.39% at March 1, 2000).

Merchandise Mart

On July 8, 1999, the Company completed a $70,000 mortgage financing of its 350 North Orleans property in Chicago. The Company received proceeds of $40,000 and is expected to receive the remaining $30,000 during the next year upon meeting certain debt service coverage requirements. The new 3-year debt matures in June 2002 and bears interest at LIBOR + 1.65% (8.13% at December 31, 1999).

On September 21, 1999, the Company completed a $250,000 mortgage refinancing of its Merchandise Mart property in Chicago of which $50,000 is further secured by a letter of credit. The new 5-year debt matures in September 2004 and bears interest at LIBOR +1.50% (7.97% at December 31, 1999). The letter of credit will be reduced over the term of the loan as cash flow increases. The Company bought an interest rate cap, capping the interest rate in the event that LIBOR increases above 9.25% through the termination date of the agreement in September 2002. Simultaneously with this transaction, the Company sold an interest rate cap to a third party on the same terms as the cap the Company purchased.

The Company has an effective shelf registration under which it can offer an aggregate of approximately $1.4 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.

Acquisition Activity

As a result of acquisitions, the book value of the Company's assets have grown from $4,425,779 at December 31, 1998 to $5,479,218 at December 31, 1999.

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.

Year 2000 Issues

To date, there have been no material adverse effects to the Company's financial condition or results of operations as a result of Year 2000.

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, 2000. 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 December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 provides clarification in applying generally accepted accounting principles to revenue recognition in financial statements including contingent rentals under leases. The Company does not anticipate that implementation of this statement will have a material effect on the Company's financial statements.

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.

TRUSTEES

STEVEN ROTH
Chairman of the Board
Managing Partner, Interstate Properties

MICHAEL D. FASCITELLI
President

DAVID M. MANDELBAUM*
Partner, Interstate Properties

STANLEY SIMON*
Principal, Stanley Simon and Associates,
Management and Financial Consultants

RONALD G. TARGAN
President, Malt Products Corporation

RICHARD R. WEST*
Dean Emeritus, Leonard N. Stern School of Business,
New York University

RUSSELL B. WIGHT, JR.
Partner, Interstate Properties

Members of the Audit Committee

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Chief Executive Officer

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Executive Vice President – Development

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Executive Vice President –
Finance and Administration

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Mendik Division

JOSEPH HAKIM
Chief Executive Officer of the
Merchandise Mart Division

DANIEL F. McNAMARA
Chief Executive Officer of
Temperature Controlled Logistics

RICHARD T. ROWAN
Vice President – Retail Real Estate Division

Designed and Produced by Taylor & Ives, Inc., NYC

Company Data

Executive Offices
Park 80 West, Plaza II
Saddle Brook, New Jersey 07663

Independent Auditors

Deloitte & Touche LLP
Parsippany, New Jersey

General Counsel

Sullivan & Cromwell
New York, New York

Transfer Agent and Registrar

First Union National Bank
Charlotte, North Carolina

Report 10-K

Shareholders may obtain a copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission free of charge (except for exhibits), by writing to the Secretary, Vornado Realty Trust, Park 80 West, Plaza II, Saddle Brook, New Jersey 07663; or, visit the Company's website at www.vno.com and refer to the Company's SEC Filings

Annual Meeting

The annual meeting of shareholders of Vornado Realty Trust, will be held at 12:00 noon on Wednesday, May 31, 2000 at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663

Vornado
REALTY TRUST