ANNUAL REPORT

2000

## FINANCIAL HIGHLIGHTS

| | Year Ended December 31, | |
|---|---|---|
| | **2000** | 1999 |
| Revenues | **$ 826,532,000** | $ 696,958,000 |
| Net income | **$ 233,991,000** | $ 202,519,000 |
| Net income per share—basic | **$ 2.26** | $ 1.97 |
| Net income per share—diluted | **$ 2.20** | $ 1.94 |
| Total assets | **$ 6,370,314,000** | $ 5,479,218,000 |
| Shareholders' equity | **$ 2,078,720,000** | $ 2,055,368,000 |
| Funds from operations (1) | **$ 335,158,000** | $ 293,773,000 |

*(1) See Management's Discussion and Analysis of Financial Conditions and Results of Operations on page 74 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 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 14.4 million square feet;
- a 34% limited partnership interest in Charles E. Smith Commercial Realty L.P., a limited partnership which owns and manages approximately 12.5 million square feet of office properties in Northern Virginia and Washington, D.C., and manages an additional 5.8 million square feet of office and other commercial properties in the Washington, D.C. area;
- 55 shopping center properties in six states and Puerto Rico aggregating approximately 11.3 million square feet;
- the Merchandise Mart Properties portfolio containing approximately 8.1 million square feet, including the 3.4 million square foot Merchandise Mart in Chicago;
- a 60% interest in partnerships that own 88 warehouse facilities nationwide with an aggregate of approximately 438.9 million cubic feet of refrigerated space leased to AmeriCold Logistics;
- approximately 33.1% of the outstanding common stock of Alexander's, Inc.;
- the Hotel Pennsylvania in New York City consisting of a hotel portion containing approximately 800,000 square feet with 1,700 rooms and a commercial portion containing 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.

We have tried to deliver growth. The following table shows five year performance:

($ in millions, except share data and percentages)

| Year | Total Assets[1] | EBITDA | Funds From Operations Per Share | Funds From Operations % Increase | Dividends Per Share[2] | Dividends % Increase |
|---|---|---|---|---|---|---|
| 2000 | 9,014 | 738.9 | 3.47 | 10.2% | 1.97 | 9.4% |
| 1999 | 7,457 | 609.4 | 3.15 | 18.9% | 1.80 | 9.8% |
| 1998 | 5,528 | 427.1 | 2.65 | 58.7% | 1.64 | 20.6% |
| 1997 | 4,557 | 173.4 | 1.67 | 15.2% | 1.36 | 11.5% |
| 1996 | 1,546 | 88.1 | 1.45 | 9.0% | 1.22 | 8.9% |

[1] *Total assets based on market value of equity.*

[2] *Amounts actually paid by year. 2001 running rate is $2.12.*

We have delivered growth, but we have not been able to convert that to shareholder value. Our stock trades in a narrow and disappointing range. Of the 200 odd publicly traded real estate companies, at least a dozen are or have the potential to be great companies. But the market has not rewarded anyone with a premium multiple. In fact, while some have predicted that the leading companies would benefit from differentiation and pull away from the pack, the opposite has occurred. Multiple compression is the rule of the day for the real estate industry. Using David Kostin's coverage universe as an example, the best performing stocks year-to-date are MT and EPR and the worst are the great EOP and BXP—now go figure. What's more, the market does not seem to favor any of the various strategies; big vs. small, regional vs. national, focused vs. diversified, hold vs. sell. Is the stock market predicting weak real estate markets? If it is, we would strongly disagree. Is the market penalizing us and our brethren for being too capital intensive? Sure. But the more capital efficient real estate service companies trade even cheaper—now go figure. Someday (perhaps soon) Mr. Market will pay honor to the model of publicly traded real estate delivering year after year 15% plus total returns. I am not complaining—I am openly acknowledging that Mike and I respect the power of Mr. Market—and that we will continue to search for a model that it will reward.

Let's dwell for a moment on focused vs. diversified—after all this is an issue with our Company. We have chosen to invest in several asset classes and platforms trying to create a stronger Company and to create value. It has been suggested that we should focus only on our flagship office business. While that may be, the financial results of our other businesses are really quite good. Here are the numbers based on 2000's results:

| | Return on Assets | Return on Equity (Leveraged) |
|---|---|---|
| Retail | 11.0% | 19.4% |
| Merchandise Mart | 11.3% | 21.5% |
| Temperature Controlled Logistics | 11.1% | 16.1% |

Leveraged returns are, of course, very sensitive to the amount and cost of debt. We acknowledge our disappointment in the Temperature Controlled Logistics business, which is discussed later in this letter.

*Asset values used in these computations reflect historical cost, except for the Retail amount which is based on 1995 EBITDA capped at 9%. Earnings used in these computations represent the segment breakdown shown in the financial statements included in this annual report with corporate overhead included in Other. Non-asset specific debt is proportionately allocated based on segment specific assets less segment specific debt.*

## 2000 Financial Results

Vornado's Funds From Operations for the year ended December 31, 2000 was $335.2 million, $3.47 per diluted share, compared to $293.8 million, $3.15 per diluted share, for the year ended December 31, 1999. Net income applicable to common shares for the year ended December 31, 2000 was $195.3 million, $2.20 per diluted share, versus, $169.1 million, $1.94 per diluted share, for the previous year. Here are the financial results by segment:

| ($ in millions, except share data and percentages) | % of 2000 EBITDA | Year Ended December 31, | | Same Store % Increase (Decrease) |
|---|---|---|---|---|
| | | **2000** | 1999 | |
| EBITDA | | | | |
| Office | 45% | **331.0** | 254.5 | 16.5% |
| Retail | 16% | **121.8** | 114.8 | 4.9% |
| Merchandise Mart | 12% | **91.9** | 75.0 | 17.8% |
| Temperature Controlled Logistics | 13% | **93.2** | 95.6 | (2.6%) |
| Newkirk Joint Ventures | 7% | **51.0** | 39.8 | 4.7% |
| Hotel Pennsylvania | 4% | **26.9** | 21.0 | 20.4% |
| Other | 3% | **23.1** | 8.7 | 8.0% |
| Total EBITDA | 100% | **738.9** | 609.4 | 10.7% |
| Funds From Operations | | **335.2** | 293.8 | |
| Funds From Operations Per Share | | **3.47** | 3.15 | |

When looking at Vornado's financial results please remember that we are one of only five companies which do not include the straight lining of rent in reporting Funds From Operations. In 2000, had we done so, our reported Funds From Operations would have been $.26 a share higher.

## First Quarter Write-off

Mike and I and Joe Macnow too, have always believed in very conservative accounting with full transparency. We always face up to bad news. Over the last several years we invested in a half dozen technology ventures. Our total investment is $19.1 million. We did not get caught up in the tech crazy stock market, rather we tried to invest selectively, both for profit and to stay in touch competitively with ideas which might change our business. A company in which we invested $4.7 million has just announced it will close and accordingly we will write this off in the first quarter. Over the balance of this year we will continue to review each of these technology investments for impairment.

In the first quarter we will also record a $5 million write-off for pursuit costs which ripened into dead deals. Almost all of this is for the World Trade Center. Over the years, I have occasionally suffered dead deal costs in the low six figures, but never anything like this. The World Trade Center deal was unique and had to be fully due diligenced and legaled up front.

## New York City Office

Our flagship New York City office business continues to flourish under the leadership of our partner David Greenbaum.

- EBITDA increased 30% in 2000 to $255 million. Same store growth was 20%. Portfolio occupancy is 97%, occupancy in our Penn Plaza buildings is higher.
- Average portfolio rents are $33.21, a loss-to-lease of about $20.00. In 2000, this division leased 1,400,000 sq. ft. at a 50% increase from prior tenants.
- Lease expirations in 2001 are 818,000 sq. ft. at $34.29 and are 645,000 sq. ft. in 2002 at $31.98.[1]

(1) *We are always able to induce turnover higher than scheduled expirations.*

While New York City is in the best shape it has ever been to cushion the blow of an economic slow down (very high occupancy and little new supply), we are both cautious and very realistic. For the moment, absorption has turned negative, leasing velocity is half of what it was and rents are flat at best. Nonetheless, we are well pleased with our recent leasing activity. For example, at 11 Penn Plaza, we have recently leased to a major media company 110,000 sq. ft. of office space together with a street level studio. Starting rent is $52 per sq. ft. for the office space and over $100 per sq. ft. for the studio. Further, at 595 Madison Avenue (corner of 57th Street) we have just completed a 15 year lease with a major international retailer for 19,000 sq. ft. on three levels at an initial blended rate of $260 per sq. ft.

As landlords we dodged the dot-com bullet. We have only three large dot-com tenants: a fully guaranteed Viacom division in 144,000 sq. ft., a stand alone NBC affiliate in 51,000 sq. ft., which is now being acquired by its parent, and a third 83,000 sq. ft. low credit tenant with a $4 million letter of credit. Our next largest dot-com is around 5,000 sq. ft.

We believe in New York. We believe it is the single best real estate market in the nation. We are here in scale with a very low cost basis and a huge loss-to-lease in our under market leases. The New York market is holding up and Mike, David and I are wagering that when the national economy re-accelerates, New York's real estate market will retain its leadership position and will continue its upward march.

## Retail—Bradlees

Rick's retail business continues to be our old reliable cash cow. Retail has the lowest capex needs of any of our businesses, carries debt well and accordingly produces excellent returns on invested capital.

As expected, Bradlees again filed Chapter 11 on December 26, 2000 and immediately ceased operations and liquidated. The 14th Street lease was rejected—it only had a year of term left. We will now proceed to redevelop this fine piece of real estate.(2)

There are 15 other Bradlees stores in our strip shopping center portfolio. All of these are the subject of a guarantee agreement between Bradlees, Stop & Shop (Bradlees' previous owner) and ourselves. This agreement was the subject of a recent bankruptcy court contest and appeal, the result of which was to dull the anti-assignment provisions of this agreement. The economic protection of the Stop & Shop guarantee continues and Stop & Shop is, as is its responsibility, paying rent on all locations. For the moment, control over these leases resides with the debtor.

(2) *The 14th Street Bradlees' store and the 435 Seventh Avenue properties together had earned on an annual basis about $6.6 million. Both of these are now out of service and will be for the balance of the redevelopment period. We expect these properties to yield substantially higher incomes when they are completed in several years.*

# Merchandise Mart

2000 EBITDA of our Mart business grew 22.5% to $91.9 million. Same store growth was a superb 17.8%. Chris Kennedy and Joe Hakim report that showroom space is literally sold out in each of our locations, with a satisfactory backlog of tenants seeking occupancy. They report no softening, even though Mike and I keep looking over our shoulders. This business has had record EBITDA in each of the last three years and it will achieve a record again this year as well.

Mart division office space is currently 90% occupied and with good prospects in tow, Chris, Joe and Tom Kennedy expect to achieve 95% occupancy by year end. We do note, however, a slight softening of office rents in the Chicago market.

This year, the Mart division entered the California market with the acquisition of the LA Gift Mart for $54 million, or $75 per square foot. Going in returns are 9.4% on a cap rate basis. Chris' business plan for this asset has returns rising to 11% and over 12% in each of the next two years.

## AmeriCold Logistics

AmeriCold did not meet budget in 2000.

We own AmeriCold 60/40 with Crescent. The Vornado and Crescent REITs own the real estate with the operations owned by their paperclips. 100% of the business generated $155.0 million of EBITDA before rent in 2000, $1.0 million less than in 1999 (on a same store basis $3.6 million or 2% less). Deducting maintenance capex and debt service, there was $144.0 million available to pay a scheduled rent of $160.5 million. The shortfall was deferred by the operating company. Vornado Realty Trust did not recognize any of this deferred rent (which was $9.8 million), neither did Crescent.

As of January 1, 2001, the leases were restructured to (a) reduce 2001 rent to $146 million; (b) reduce 2002 rent to $150 million; (c) increase the landlords' share of annual maintenance capital expenditures by $4.5 million to $9.5 million effective January 1, 2000 and (d) extend the deferred rent period to December 31, 2003.

For February and March, AmeriCold has suffered revenue declines of about 8%, as customers lean out inventories. It is now certain AmeriCold will suffer declining earnings this year.

Mike and I and our partner John Goff, CEO of Crescent, are pleased to announce that Alec Covington joined AmeriCold as CEO on May 1, 2001. Alec, who is 44, was formerly an Executive Vice President of SUPERVALU Inc. (NYSE: SVU) and President and Chief Operating Officer of the SUPERVALU food distribution companies division. This division is the nation's largest distributor to grocery retailers with $17 billion of revenue and 34 distribution centers. Alec has more than 25 years of wholesale, retail and supply-chain management experience in the food industry. He is an in industry executive, very knowledgeable of our business and related businesses. He is energized, ambitious, optimistic, very hard working and decisive. Welcome to Alec and Gail.

# ALEXANDER'S—BLOOMBERG, AT LAST

Days ago Alexander's (our 33% owned affiliate) announced that it had entered into a 25 year net lease with Bloomberg L.P. for its 59th Street and Lexington Avenue development. Bloomberg, a global multi-media distributor of financial information is a great company—the 20 year old creation of Michael Bloomberg, its visionary founder. Bloomberg will occupy 700,000 sq. ft., just over half the space in the project, the balance being split almost equally between retail at the base, for rent office space above Bloomberg and apartments at the top, which will be very, very high with wonderful uninterrupted views of the city and Central Park.[3] The building, designed by Cesar Pelli and his son Rafael Pelli, has as its central theme a mid block, open to the sky courtyard, unique in the very heart of New York City, which will provide a grand off street entrance for the offices and apartments.

The program for the building was changed several times over the last two years to accommodate both the changing market and Bloomberg's requirements that grew from 400,000 sq. ft. to the final 700,000 sq. ft. To accommodate its growth and to improve our economics, we eliminated the hotel, a loss leader at best, and one mixed use too many. Out of respect for a suspect apartment market we reduced the number of apartments by half, but the higher half remains and it is the most valuable by far.[4]

We were confident that, with the preleasing represented by the Bloomberg and Hennes & Mauritz[5] leases, Alexander's equity in the land plus, say, $150 million would have been sufficient to finance the project. This might not be possible in the current economic environment. Accordingly, Alexander's is exploring various alternatives for financing the project, including equity, debt, joint ventures and asset sales, which may involve arrangements with Vornado.

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[3] *As a frame of reference, our apartments will start above the rooftop of 515 Park Avenue, the highly successful apartment building just completed one block away.*

[4] *By zoning, 168,000 of the site's FARs can only be used for apartments.*

[5] *Alexander's has also entered into a 15 year lease with H & M for a store in the building to be built on the Lexington Avenue site. This was the second lease with H & M; the first was for their flagship store at our 640 Fifth Avenue site.*

While on Alexander's, I can't help but boast about the just completed renovation of the Kings Plaza regional mall in Brooklyn. This renovation was more than a mere freshening, it was a much needed total make over. Mall sales are now rising by double digits and will likely exceed $600 this year. Importantly, our bankers also recognize this property's value—we are scheduled in mid May to refinance the existing $115 million Kings Plaza loan for over $220 million.

A key element in the Kings Plaza story was the acquisition of our partner's interest in the mall. After 8 years of chasing, we were finally able to buy its 50% of the mall in June 1998 for $46 million, $15 million of which was allocated to a refurbishment of their store. Recapping this deal, $46 million plus $17 million (50% of the mall renovation costs spent in 2000) gives us a total basis of $63 million for what was their half. This investment has earned an unleveraged IRR of 28% to date.

## Sightseeing

Our development business is beginning to bear fruit. We invite shareholders to see for themselves:

- The Park Laurel at 63rd Street is nearing completion and everyone agrees that its distinctive pyramid shaped crown is a very attractive addition to the Central Park West skyline. First apartments are scheduled to close in June.
- Our 75% owned rental apartment hi-rise in Fort Lee is now topped off. The 41 story building (now in the see through stage) is a massive presence, on the edge of the Palisades, just south of the George Washington Bridge.
- 435 Seventh Avenue, corner of 34th Street across from Macy's, now in the demolition phase.
- The newly renovated Kings Plaza mall on Flatbush Avenue in Brooklyn.
- And of course, don't miss the huge and famous Alexander's hole.

Mike and I are in the deal business. We augment our internal growth with acquisitions. We look at a variety of investments in different geographies and only pull the trigger on a few. But we do look at literally everything that comes for sale in New York, and this year Rockefeller Center and the World Trade Center both came up for sale.

Rockefeller Center was simple. We were one of three public and one private real estate companies that bid. We bid up to, but not through, a price that we thought was the highest justified to meet our investment criteria, and there we stopped. After all, our business mission is making money, not buying buildings, even very big and pretty ones. The owners declined our offer and days later sold to an insider for $100 million more than our top price. The process was fair—we went as far as we thought we should. We wish Jerry and the Crown's the very best.

The World Trade Center was more of the same, but here we made some mistakes. In retrospect we should not have even begun this process with an unrealistic 20 day deadline. The combination of the quickly deteriorating downtown market, the leverage and the issues of the much publicized capitalized lease gave us pause. In the end, the underwriting (both the income side and capex side) was not what we had thought, and further, we were unable to agree on a half dozen important points. We won't know for many, many years how this deal will turn out. We still have our money in our jeans, so to speak, and we wish our friends on the Port Board and Larry and his investors well.

In 2000 we invested $127 million in two high yield financing transactions. Both yield over 20% and are described in our financial statements. We do not intend to be a lender in the regular course, but we are happy to make high yield loans in situations which are secured by assets that we understand and would be prepared to own if we had to. We expect both of these loans to be paid in full at maturity.

Thanks to Mike for being Mike.

Thanks to Mike and to David, the leaders of our Bloomberg team which included Mel Blum, Eli Zamek, Tom Dunlap and John Kundrat on the development side, Glen Weiss on the leasing side, and to Wendy Silverstein, our capital markets queen with Tiffanie Fisher. Thanks also to Larry Lipson and Ron Sernau on the legal side and the brilliant Cesar Pelli and Rafael Pelli. Mike, David and I pay our respects to the entire Bloomberg team for their professionalism, civility and good humor. The job got done—it will be a great, great building and make us a lot of money.

We did a little elephant hunting this year. We stretched all our people and all the third party professionals who advise us as well. We thank them all. Special thanks to our acquisitions/due diligence team led by Steven Ganeless and Hugh Ward with Ben Atkins, Jason Kelley, Philippe Visser and Steve Sonitis. And thanks to Michelle Felman and Gaston Silva.

Mike and I thank our Board who always get it on the first read—and always advise us well.

Steven Roth
*Chairman*

May 4, 2001

*Vornado Realty Trust*

| LOCATION | SQUARE FEET | PERCENT LEASED | PRINCIPAL TENANTS |
|---|---|---|---|
| **NEW YORK CITY OFFICE PROPERTIES** | | | |
| **MANHATTAN** | | | |
| One Penn Plaza (1) | 2,474,000 | 98% | Buck Consultants, Cisco Systems, First Albany, General Motor Acceptance Corp., Kmart Corporation, Metropolitan Life, Miller Freeman Inc., MWB Leasing, Parsons Brinkerhoff, Public Service Commission, Stone & Webster |
| Two Penn Plaza | 1,498,000 | 98% | Compaq Computer, Forest Electric, Information Builders, Inc., Madison Square Garden, McGraw Hill Co., Inc., Ogden Services, US Healthcare Service |
| 909 Third Avenue (1) | 1,312,000 | 95% | Bear Stearns, Citibank, Fischbein Badillo, Forest Laboratories, IDG Books, Ogilvy Public Relations, Shearman & Sterling, U.S. Post Office |
| 770 Broadway | 1,050,000 | 99% | J. Crew, Kmart, MTVN Online, V.N.U. U.S.A., Inc. |
| Eleven Penn Plaza | 981,000 | 93% | Crowthers McCall, EMC Corp., Executive Office Network, Faulkner & Gray, Federated Dept Stores, General Media |
| Two Park Avenue | 953,000 | 99% | Herrick Feinstein, Medical Liability Mutual Ins, Schiefflin & Somerset, Times Mirror Company, United Way |
| 90 Park Avenue | 882,000 | 100% | HQ Global Workplace, Sterling Winthrop Inc., Warnaco |
| 888 Seventh Avenue (1) | 865,000 | 94% | Golden Books, New Line Realty, Soros Fund, Stanley H. Kaplan, The Limited |
| 330 West 34th Street (1) | 630,000 | 100% | City of New York, Live Person Inc., NBC Internet, Props for Today |
| 1740 Broadway | 556,000 | 92% | Davis & Gilbert, Mutual Life Insurance, William Douglas McAdams |
| 150 East 58th Street | 548,000 | 95% | — |
| 7 West 34th Street | 479,000 | 100% | Capital Cities Media, Health Insurance Plan of NY |
| 866 United Nations Plaza | 388,000 | 90% | Fross & Zelnick |
| 595 Madison (Fuller Building) | 294,000 | 89% | — |
| 640 Fifth Avenue | 259,000 | 83% | BSMG Worldwide, Hennes & Mauritz |
| 40 Fulton Street | 233,000 | 100% | — |
| 689 Fifth Avenue | 88,000 | 65% | — |
| 330 Madison Avenue (25% Ownership) | 774,000 | 99% | Bank Julius Baer, BDO Seidman, PowerSpace & Services |
| 20 Broad Street (1) (60% Ownership) | 461,000 | 95% | N.Y. Stock Exchange |
| 825 Seventh Avenue (50% Ownership) | 165,000 | 100% | Young & Rubicom |
| **WESTCHESTER** | | | |
| 550/600 Mamaroneck Avenue (1) | 235,000 | 97% | |
| **NEW JERSEY** | | | |
| Paramus (1) | 118,000 | 99% | |
| **Total Office Buildings** | **15,243,000** | **96%** | |
| **Vornado's Ownership Interest** | **14,396,000** | **96%** | |

| Location | Square Feet | Percent Leased | Principal Tenants |
| --- | --- | --- | --- |
| **Retail Properties** | | | |
| **New Jersey** | | | |
| Bordentown | 179,000 | 98% | Bradlees (2), Shop-Rite |
| Bricktown | 263,000 | 96% | Kohl's, Shop-Rite |
| Cherry Hill | 295,000 | 97% | Bradlees (2), Drug Emporium, Shop & Bag (3), Toys "Я" Us |
| Delran | 172,000 | 94% | Sam's Wholesale |
| Dover | 173,000 | 98% | Ames, Shop-Rite |
| East Brunswick | 226,000 | 98% | Bradlees (2), Shoppers World, T. J. Maxx, Circuit City |
| East Hanover I | 271,000 | 98% | Home Depot, Marshalls, Pathmark, Today's Man |
| East Hanover II | 91,000 | 100% | — |
| Hackensack | 267,000 | 99% | Bradlees (2), Pathmark, Staples |
| Jersey City | 226,000 | 100% | 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 | 83% | Bradlees (2), Grand Union |
| Marlton | 180,000 | 99% | Kohl's (2), Shop-Rite |
| Middletown | 232,000 | 94% | Bradlees (2), Grand Union |
| Morris Plains | 173,000 | 97% | Kohl's, Shop-Rite |
| North Bergen | 62,000 | 95% | A&P |
| North Plainfield (1) | 217,000 | 94% | Kmart, Pathmark |
| Totowa | 317,000 | 100% | Bradlees (2), Home Depot, Marshalls |
| Turnersville | 96,000 | 100% | Bradlees (2) |
| Union | 257,000 | 99% | Bradlees (2), Toys "Я" Us, Cost Cutter Drug |
| Vineland | 143,000 | 17% | — |
| Watchung | 166,000 | 97% | B.J.'s Wholesale |
| Woodbridge | 236,000 | 90% | Bradlees (2), Foodtown, Syms |
| **New York** | | | |
| Albany (Menands) | 141,000 | 74% | Fleet Bank, 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 | — | — | Wal*Mart (4) |
| Valley Stream (Green Acres) (1) | 1,596,000 | 94% | Macy's, Sterns (3), JC Penney, Sears, Kmart Dime Savings Bank, Circuit City, GreenPoint Bank, Waldbaum (3) |
| **Pennsylvania** | | | |
| Allentown | 621,000 | 100% | Shop-Rite, Burlington Coat Factory, Wal*Mart, Sam's Wholesale, T. J. Maxx |
| Bensalem | 126,000 | 100% | Kohl's (2) |
| Bethlehem | 160,000 | 78% | Pathmark, Super Petz |
| Broomall | 168,000 | 100% | Bradlees (2) |
| Glenolden | 101,000 | 100% | Bradlees (2) |
| Lancaster | 64,000 | 100% | Weis Markets, Lowe's Home Center (4) |
| Levittown | 104,000 | 100% | (2) |

| Location | Square Feet | Percent Leased | Principal Tenants |
|---|---|---|---|
| *(Retail continued)* | | | |
| 10th and Market Streets, Philadelphia | 271,000 | 80% | Kmart, Rouse Co. |
| Upper Moreland | 122,000 | 100% | Sam's Wholesale |
| York | 113,000 | 100% | Kmart (3) |
| **Maryland** | | | |
| Baltimore (Belair Rd.) | 206,000 | 81% | Disabled American Veterans (3), Food Depot, TJ Maxx (3) |
| Baltimore (Towson) | 153,000 | 99% | Staples, Cost Saver Supermarket, Drug Emporium |
| Baltimore (Dundalk) | 183,000 | 77% | A&P, Ollie's |
| Glen Burnie | 122,000 | 99% | Weis Markets |
| Hagerstown | 148,000 | 100% | Big Lots, Pharmhouse, Weis Markets (3) |
| **Connecticut** | | | |
| Newington | 32,000 | 100% | Wal*Mart (4) |
| Waterbury | 143,000 | 82% | Toys "Я" Us (3), Shaws Supermarkets (3) |
| **Massachusetts** | | | |
| Chicopee | 115,000 | 83% | 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 (50% Ownership) | 343,000 | 96% | Kmart |
| **Total Shopping Centers** | **11,434,000** | **92%** | |
| **Vornado's Ownership Interest** | **11,293,000** | **92%** | |
| **Warehouse/Industrial Properties** | | | |
| **New Jersey** | | | |
| East Brunswick | 326,000 | 100% | Popsicle Playwear |
| East Hanover | 941,000 | 100% | J. Leven, Tri-coastal Designs |
| Edison | 272,000 | 100% | Lamitech, Propack |
| Garfield | 487,000 | 77% | Various |
| **Total Warehouse** | **2,026,000** | **95%** | |

| Location | Square Feet | Percent Leased | Principal Tenants |
|---|---|---|---|
| **Merchandise Mart Properties** | | | |
| **Illinois** | | | |
| Merchandise Mart, Chicago | 3,441,000 | 97% | Baker, Knapp & Tubbs, Bankers Life & Casualty, CCC Information Services, Chicago Teachers Union, Chicago Transit Authority, Holly Hunt Ltd., Monsanto, Office of the Special Deputy, Robert Allen Group, Steelcase |
| 350 North Orleans, Chicago | 1,149,000 | 88% | RCN Telecom Services, Ameritech, Art Institute of Illinois, Bank of America, Chicago Transit Authority, Fox Sports, Fiserv Solutions |
| 33 North Dearborn Street, Chicago | 321,000 | 91% | — |
| **Washington, D.C.** | | | |
| Washington Office Center | 398,000 | 88% | General Services Administration |
| Washington Design Center | 388,000 | 98% | — |
| Other | 93,000 | 64% | District of Columbia |
| **High Point, North Carolina** | | | |
| Market Square Complex | 1,320,000 | 99% | Century Furniture Company, La-Z-Boy |
| National Furniture Mart | 252,000 | 100% | — |
| **California** | | | |
| L.A. Mart | 724,000 | 94% | — |
| **Total Merchandise Mart Properties** | **8,086,000** | **95%** | |
| **Grand Total** | **36,789,000** | **94%** | |
| **Grand Total Vornado's Ownership Interest** | **35,801,000** | **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, which is guaranteed as to 70% of rent.*

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

*(4) These tenants have leased land from the Company to construct their own buildings. Governmental approvals have been received in Newington and Lancaster and construction has commenced.*

## *Alexander's Inc.*

### *(A 33.1% 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 |
| Flushing, Queens | 177,000 | — | — |
| Third Avenue, Bronx | 173,000 | 100% | An affiliate of Conway |
| | **1,467,000** | | |
| **Development Properties** | | | |
| **New York** | | | |
| 59th Street and 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 | 1,068,000 | 100% | General Services Administration |
| Crystal Plaza | 1,223,000 | 100% | General Services Administration |
| Crystal Square | 1,388,000 | 99% | General Services Administration, Lockheed Martin, Oblon Spivak |
| Crystal Gateway | 1,081,000 | 99% | Analytical Services, Inc., General Services Administration, Lockheed Martin, Science Applications Int'l Corp. |
| Crystal Park | 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 | 1,595,000 | 96% | Electronic Data Services, Science Application Int'l Corp., Science Research Analysis Corp. |
| One Skyline Tower | 477,000 | 98% | General Services Administration, Science Research Analysis Corp. |
| Courthouse Plaza | 609,000 | 100% | Arlington County, KPMG Peat Marwick |
| 1101 17th Street | 204,000 | 99% | American Iron & Steel Institute |
| 1730 M Street | 190,000 | 99% | League of Women Voters |
| 1140 Connecticut Ave | 175,000 | 98% | Michaels & Wishner, P.C. |
| 1150 17th Street | 226,000 | 98% | American Enterprise Institute, Arthur Andersen LLP |
| 1750 Pennsylvania Avenue | 262,000 | 53% | General Services Administration, PA Consulting Group Holdings |
| Democracy Plaza I | 203,000 | 100% | Optical Technology Group |
| Tysons Dulles | 474,000 | 100% | Keane Federal Systems, Inc. |
| Commerce Executive | 412,000 | 95% | BAE Systems Mission Solutions, Concert Management Services |
| Reston Executive | 487,000 | 100% | Science Applications Int'l Corp. |
| **Total Charles E. Smith Commercial Realty L.P. Office Properties** | **12,495,000** | **98%** | |

## *Temperature Controlled Logistics*

*(A 60% Owned Investment)*

The Temperature Controlled Logistics business owns 88 refrigerated warehouses with an aggregate capacity of approximately 438.9 million cubic feet. The warehouses are located in 33 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, 2000** | Year Ended December 31, 1999 | Year Ended December 31, 1998 |
|---|---|---|---|
| Revenues: | | | |
| Property rentals | **$ 695,078** | $ 591,270 | $ 425,496 |
| Expense reimbursements | **120,056** | 96,842 | 74,737 |
| Other income (including fee income from related parties of $1,978, $1,857 and $2,327) | **11,398** | 8,846 | 9,627 |
| Total revenues | **826,532** | 696,958 | 509,860 |
| Expenses: | | | |
| Operating | **318,360** | 282,118 | 207,171 |
| Depreciation and amortization | **99,846** | 83,585 | 59,227 |
| General and administrative | **47,911** | 40,151 | 28,610 |
| Total expenses | **466,117** | 405,854 | 295,008 |
| Operating income | **360,415** | 291,104 | 214,852 |
| Income applicable to Alexander's | **13,053** | 7,427 | 3,123 |
| Income from partially-owned entities | **90,404** | 82,310 | 32,025 |
| Interest and other investment income | **32,926** | 18,359 | 24,074 |
| Interest and debt expense | **(170,273)** | (141,683) | (114,686) |
| Net gain on sales of real estate | **10,965** | — | — |
| Net gain from insurance settlement and condemnation proceeding | **—** | — | 9,649 |
| Minority interest: | | | |
| Perpetual preferred unit distributions | **(62,089)** | (19,254) | (756) |
| Minority limited partnership earnings | **(38,320)** | (33,904) | (14,822) |
| Partially-owned entities | **(1,965)** | (1,840) | (605) |
| Income before extraordinary item | **235,116** | 202,519 | 152,854 |
| Extraordinary item | **(1,125)** | — | — |
| Net income | **233,991** | 202,519 | 152,854 |
| Preferred stock dividends (including accretion of issuance expenses of $2,875 in 2000, 1999 and 1998) | **(38,690)** | (33,438) | (21,690) |
| **Net income applicable to common shares** | **$ 195,301** | $ 169,081 | $ 131,164 |
| **Net income per common share — basic** | **$ 2.26** | $ 1.97 | $ 1.62 |
| **Net income per common share — diluted** | **$ 2.20** | $ 1.94 | $ 1.59 |

*See notes to consolidated financial statements.*

# Consolidated Balance Sheets

*Vornado Realty Trust*

| (amounts in thousands, except share and per share amounts) | **December 31, 2000** | December 31, 1999 |
|---|---|---|
| **Assets:** | | |
| Real estate, at cost: | | |
| Land | **$ 870,023** | $ 826,477 |
| Buildings and improvements | **3,395,024** | 3,080,174 |
| Leasehold improvements and equipment | **29,795** | 14,856 |
| Total | **4,294,842** | 3,921,507 |
| Less accumulated depreciation and amortization | **(393,787)** | (308,542) |
| Real estate, net | **3,901,055** | 3,612,965 |
| Cash and cash equivalents, including U.S. government obligations under repurchase agreements of $27,793 and $43,675 | **136,989** | 112,630 |
| Escrow deposits and restricted cash | **214,359** | 30,571 |
| Marketable securities | **120,340** | 106,503 |
| Investments and advances to partially-owned entities, including Alexander's of $178,413 and $159,148 | **1,459,211** | 1,315,387 |
| Due from officers | **20,549** | 17,190 |
| Accounts receivable, net of allowance for doubtful accounts of $9,343 and $7,292 | **47,937** | 36,408 |
| Notes and mortgage loans receivable | **188,722** | 49,719 |
| Receivable arising from the straight-lining of rents | **111,504** | 79,298 |
| Deposits in connection with real estate acquisitions | **3,309** | 8,128 |
| Other assets | **166,339** | 110,419 |
| | **$6,370,314** | $5,479,218 |

| (amounts in thousands, except share and per share amounts) | **December 31, 2000** | December 31, 1999 |
|---|---|---|
| **Liabilities and Shareholders' Equity:** | | |
| Notes and mortgages payable | **$2,231,897** | $1,681,804 |
| Revolving credit facility | **425,000** | 367,000 |
| Accounts payable and accrued expenses | **130,464** | 107,036 |
| Officer's compensation payable | **38,424** | 34,996 |
| Deferred leasing fee income | **7,852** | 8,349 |
| Other liabilities | **1,798** | 2,634 |
| Total liabilities | **2,835,435** | 2,201,819 |
| Minority interest of unitholders in the Operating Partnership | **1,456,159** | 1,222,031 |
| 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 and outstanding 5,789,239 shares | **288,507** | 285,632 |
| Series B: liquidation preference $25.00 per share; issued and outstanding 3,400,000 shares | **81,805** | 81,805 |
| Series C: liquidation preference $25.00 per share; issued and outstanding 4,600,000 shares | **111,148** | 111,148 |
| Common shares of beneficial interest: $.04 par value per share; authorized, 150,000,000 shares; issued and outstanding, 86,803,770 and 86,335,741 shares | **3,472** | 3,453 |
| Additional capital | **1,709,284** | 1,696,557 |
| Accumulated deficit | **(90,366)** | (116,979) |
| | **2,103,850** | 2,061,616 |
| Accumulated other comprehensive loss | **(20,426)** | (1,448) |
| Due from officers for purchase of common shares of beneficial interest | **(4,704)** | (4,800) |
| Total shareholders' equity | **2,078,720** | 2,055,368 |
| | **$6,370,314** | $5,479,218 |

*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, January 1, 1998 | $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 employees' 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) | (18,957) | (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 |

*(continued)*

| | Preferred Shares | Common Shares | Additional Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Due from Officers | Shareholders' Equity | Comprehensive Income |
|---|---|---|---|---|---|---|---|---|
| BALANCE, December 31, 1999 | $478,585 | $3,453 | $1,696,557 | $(116,979) | $ (1,448) | $(4,800) | $2,055,368 | $220,028 |
| Net Income | — | — | — | 233,991 | — | — | 233,991 | $233,991 |
| Dividends paid on Preferred Shares: | | | | | | | | |
| Series A Preferred Shares ($3.25 per share) | — | — | — | (21,689) | — | — | (21,689) | — |
| Series B Preferred Shares ($1.68 per share) | — | — | — | (7,225) | — | — | (7,225) | — |
| Series C Preferred Shares ($1.31 per share) | — | — | — | (9,776) | — | — | (9,776) | — |
| Dividends paid on common shares ($1.97 per share) | — | — | — | (168,688) | — | — | (168,688) | — |
| Common shares issued under employees' share plan | — | 15 | 9,913 | — | — | — | 9,928 | — |
| Conversion of units to common shares | — | 3 | 1,789 | — | — | — | 1,792 | — |
| Accretion of issuance expenses on preferred shares | 2,875 | — | — | — | — | — | 2,875 | — |
| Common shares issued in connection with dividend reinvestment plan | — | 1 | 1,025 | — | — | — | 1,026 | — |
| Change in unrealized net loss on securities available for sale | — | — | — | — | (18,399) | — | (18,399) | (18,399) |
| Appreciation of securities held in officer's deferred compensation trust | — | — | — | — | (579) | — | (579) | (579) |
| Forgiveness of amount due from officers | — | — | — | — | — | 96 | 96 | — |
| **BALANCE, December 31, 2000** | **$481,460** | **$3,472** | **$1,709,284** | **$ (90,366)** | **$(20,426)** | **$(4,704)** | **$2,078,720** | **$215,013** |

*See notes to consolidated financial statements.*

# Consolidated Statements of Cash Flows

***Vornado Realty Trust***

| (amounts in thousands) | **Year Ended December 31, 2000** | Year Ended December 31, 1999 | Year Ended December 31, 1998 |
|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | |
| Net income | **$ 233,991** | $ 202,519 | $ 152,854 |
| Adjustments to reconcile net income to net cash provided by operations: | | | |
| Extraordinary item | **1,125** | — | — |
| Depreciation and amortization (including debt issuance costs) | **99,846** | 83,585 | 59,227 |
| Straight-lining of rental income | **(32,206)** | (29,587) | (17,561) |
| Net gain on sales of real estate | **(10,965)** | — | — |
| Minority interest | **102,374** | 54,998 | 16,183 |
| Equity in (income) loss of Alexander's | **(13,053)** | (1,021) | 3,363 |
| Equity in income of partially-owned entities | **(90,404)** | (82,310) | (32,025) |
| Gain on marketable securities | **—** | (382) | (1,530) |
| Gain from insurance settlement and condemnation proceeding | **—** | — | (9,649) |
| Changes in operating assets and liabilities | **(40,787)** | (50,907) | 18,544 |
| Net cash provided by operating activities | **249,921** | 176,895 | 189,406 |
| **Cash Flows from Investing Activities:** | | | |
| Acquisitions of real estate and other | **(199,860)** | (224,654) | (896,800) |
| Additions to real estate | **(171,782)** | (171,139) | (68,085) |
| Investments in partially-owned entities | **(99,974)** | (118,409) | (308,000) |
| Proceeds from sale of real estate | **47,945** | — | — |
| Proceeds from sale of Temperature Controlled Logistics assets | **—** | 22,769 | — |
| Investments in mortgage loans receivable | **(144,225)** | (59,787) | (6,620) |
| Repayment of mortgage loans receivable | **5,222** | 20,751 | 57,600 |
| Cash restricted, primarily mortgage escrows | **(183,788)** | 13,624 | (14,716) |
| Distribution from partially-owned entities | **68,799** | 16,938 | 3,200 |
| Real estate deposits and other | **4,819** | 14,819 | 23,788 |
| Purchases of securities available for sale | **(26,531)** | (21,614) | (73,513) |
| Proceeds from sale or maturity of securities available for sale | **—** | 12,498 | 25,779 |
| Net cash used in investing activities | **(699,375)** | (494,204) | (1,257,367) |

*(continued)*

| (amounts in thousands) | **Year Ended December 31, 2000** | Year Ended December 31, 1999 | Year Ended December 31, 1998 |
|---|---|---|---|
| **Cash Flows from Financing Activities:** | | | |
| Proceeds from borrowings | **$1,195,108** | $ 455,000 | $1,427,821 |
| Repayments of borrowings | **(633,655)** | (668,957) | (883,475) |
| Costs of refinancing debt | **(18,445)** | (8,059) | (11,418) |
| Proceeds from issuance of preferred shares | **—** | 192,953 | — |
| Proceeds from issuance of preferred units | **204,750** | 525,013 | 85,313 |
| Proceeds from issuance of common shares | **—** | — | 445,247 |
| Dividends paid on common shares | **(168,688)** | (153,223) | (154,440) |
| Dividends paid on preferred shares | **(35,815)** | (30,563) | (18,816) |
| Distributions to minority shareholders | **(80,397)** | (52,491) | (11,229) |
| Exercise of share options | **10,955** | 2,458 | 812 |
| Net cash provided by financing activities | **473,813** | 262,131 | 879,815 |
| Net increase (decrease) in cash and cash equivalents | **24,359** | (55,178) | (188,146) |
| Cash and cash equivalents at beginning of year | **112,630** | 167,808 | 355,954 |
| Cash and cash equivalents at end of year | **$ 136,989** | $ 112,630 | $ 167,808 |
| **Supplemental Disclosure of Cash Flow Information:** | | | |
| Cash payments for interest (including capitalized interest of $12,269, $7,012 and $1,410 in 2000, 1999 and 1998) | **$ 165,325** | $ 143,665 | $ 111,089 |
| **Non-Cash Transactions:** | | | |
| Financing in connection with acquisitions | **$ 46,640** | $ 188,000 | $ 526,000 |
| Shares issued in connection with acquisitions | **—** | — | 29,000 |
| Minority interest in connection with acquisitions | **9,192** | 302,100 | 184,000 |
| Unrealized (loss) gain on securities available for sale | **(18,399)** | 15,603 | (5,047) |
| Appreciation (depreciation) of securities held in officer's deferred compensation trust | **(579)** | 579 | 10,464 |

*See notes to consolidated financial statements.*

(amounts in thousands, except where indicated)

## 1. ORGANIZATION AND BUSINESS

Vornado Realty Trust is a fully-integrated real estate investment trust ("REIT"). Vornado conducts its business through Vornado Realty L.P., ("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 February 1, 2001. 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 Properties ("Office"):*

(i) all or portions of 22 office properties in the New York City metropolitan area (primarily Manhattan) aggregating approximately 14.4 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 12.5 million square feet of office properties in Northern Virginia and Washington D.C., and manages an additional 5.8 million square feet of office and other commercial properties in the Washington, D.C. area;

*Retail Properties ("Retail"):*

(iii) 55 shopping center properties in six states and Puerto Rico aggregating approximately 11.3 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 portfolio containing approximately 8.1 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 88 warehouse facilities nationwide with an aggregate of approximately 438.9 million cubic feet of refrigerated space leased to AmeriCold Logistics;

*Other Real Estate Investments:*

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

(vii) the Hotel Pennsylvania in New York City consisting of a hotel portion containing 800,000 square feet with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space;

(viii) a 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 investments.

## 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.

On January 1, 2001, the Company acquired the common stock of the preferred stock affiliates and converted them to taxable REIT subsidiaries. Accordingly, these entities will be consolidated in 2001.

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 $12,269, $7,012 and $1,410 for the years ended December 31, 2000, 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 (including warrants to acquire equity securities to be classified as available for sale) 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 shareholders' 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, 2000 and 1999, marketable securities had an aggregate cost of $129,023 and $96,787 and an aggregate market value of $120,340 and $106,503 (of which $12,213 and $9,826 represents trading securities and $48,682 and $48,606 represent securities held to maturity and reported at amortized cost). Gross unrealized gains and losses were $8,159 and $16,842 at December 31, 2000, and $19,374 and $9,658 at December 31, 1999. Included in marketable securities available for sale at December 31, 2000 are warrants to acquire 2,781,718 common shares with a market value of $1,595.

**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, which approximates the effective interest rate method, in accordance with the terms of the agreements to which they relate.

**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. Contingent rents are not recognized until realized.

**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, 2000 and 1999, 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 $1,033,000 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 outstanding options, warrants and convertible securities.

**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**

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

In 2001, the Company will reclassify a previously recognized charge of approximately $4,000 from other comprehensive income to income, relating to the market-to-market on public and private technology company warrants, as the cumulative effect of adopting Statement 133. The Company does not currently anticipate utilizing hedge accounting for its derivative positions following the adoption of Statement 133.

## 3. Acquisitions and Dispositions

The Company completed approximately $404.1 million of real estate acquisitions or investments from January 1, 2000 through March 2001 and $771.0 million in 1999. 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 that 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.

**Acquisitions:**

**Office:**

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

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. 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.

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

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

In connection with these transactions, the Company agreed to make a five-year $41,200 loan to CAPI with interest at 8%, increasing to 9% ratably over the term. The loan is secured by approximately $55,000 of the Company's Operating Partnership units issued to CAPI as well as certain real estate assets.

*888 Seventh Avenue*

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

*909 Third Avenue*

On July 21, 1999, the Company acquired 909 Third Avenue, a 33 story Manhattan office building, for $123,000, of which $109,000 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 $125,000 in cash.

*GreenPoint Leasehold Interest*

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

*7 West 34th Street*

On November 1, 2000, the Company acquired 7 West 34th Street, a Manhattan office building containing 479,000 square feet for $128,000.

**Retail:**

*Vornado-Ceruzzi Joint Ventures*

In the first quarter of 2000, the Company and its joint venture partner acquired 2 fee interests containing 210,000 square feet and 6 leasehold interests containing 567,000 square feet in properties located in

Pennsylvania, Virginia, Maryland and Ohio formerly occupied by Hechinger, Inc., a home improvement retailer which was liquidated. The purchase price was $27,425, of which the Company's share was 80%.

**Merchandise Mart Properties:**

*33 North Dearborn Street*

On September 21, 2000, the Company acquired 33 North Dearborn Street, a 321,000 square foot office building in Chicago for $35,000, of which $19,000 was indebtedness.

*L.A. Mart*

On October 2, 2000, the Company acquired the 724,000 square foot L.A. Mart in Los Angeles and its 9.3 acre site for $54,000, of which $10,000 was indebtedness.

**Other Real Estate Investments:**

*Hotel Pennsylvania*

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 and by assuming $24,000 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*

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 consisted of $47,790 in Operating Partnership Units and $4,645 in cash.

On October 15, 1999, the Company completed the acquisition of $15,600 of securitized debt of the Newkirk Joint Ventures which has an average yield of 14.28%.

During 2000, the Company completed acquisitions of additional equity investments in certain limited partnerships for $10,526, including $1,334 in cash and $9,192 in Operating Partnership units.

*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, of which $19,600 was indebtedness. The Company's share of this investment is 90%.

*Alexander's*

On March 31, 2000, the Company increased its ownership in Alexander's from 32% to 32.9% by acquiring 41,500 shares of Alexander's common stock for $2,740. On April 11, 2000, the Company acquired an additional 10,400 shares for $674, thereby increasing its ownership interest to 33.1%.

*Loan to NorthStar Partnership L.P.*

On September 19, 2000, the Company acquired $75,000 of subordinated unsecured debt of NorthStar Partnership, L.P. ("NorthStar"), a private real estate company, for $65,000. The loan bears interest at 11.5% per annum, requires quarterly principal payments of $2,500 and matures in May 2002. The effective yield on the loan is approximately 22% including the amortization of the discount. During the third quarter of 2000, NorthStar filed suit against the Company seeking to enjoin Vornado from taking any action with respect to the debt, to rescind the Company's acquisition of the debt and for damages. In the opinion of management, after consultation with legal counsel, NorthStar's suit is without merit and the Company intends to vigorously defend against it. On January 19, 2001, the Company agreed to withdraw its motion to dismiss NorthStar's complaint without prejudice and NorthStar agreed to take no action in the proceeding until after providing written notice that NorthStar wishes to recommence proceedings in the action. If NorthStar does not give such notice by April 2, 2001, its complaint will be dismissed without prejudice.

*Loan to Primestone Investment Partners, L.P.*

On September 28, 2000, the Company made a $62,000 subordinated loan to Primestone Investment Partners, L.P. secured by partnership units in Prime Group Realty LP, the operating partnership of Prime Group Realty Trust (NYSE:PGE). The Company has received a 1% upfront fee and will be entitled to receive certain other fees aggregating approximately 3% upon repayment of the loan. The debt bears interest at 16% per annum and matures on October 26, 2001 with an eleven month extension option. The effective yield on the loan is approximately 20% including the fees.

**Dispositions:**

The Company sold (i) its three shopping centers located in Texas on March 2, 2000 for $25,750, resulting in a gain of $2,560 and (ii) its Westport, Connecticut office property on August 30, 2000 for $24,000, resulting in a gain of $8,405. In addition, the Company entered into an agreement on February 1, 2001 to sell its 50% interest in 570 Lexington Avenue, a New York City office property, for approximately $60,000, which will result in a gain of approximately $9,000. The sale is expected to be completed in the third quarter of 2001 subject to customary closing conditions.

## 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) | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Investments: | | | | | | | | |
| Temperature Controlled Logistics (60% interest) | $ 469,613 | $ 481,808 | $1,406,299 | $1,524,385 | $ 561,321 | $ 630,540 | $ 755,603 | $ 756,808 |
| Alexander's (33.1% interest) | 178,413 | 159,148 | $ 403,305 | $ 366,496 | $ 367,788 | $ 329,161 | $ 17,695 | $ 12,498 |
| Charles E. Smith Commercial Realty L.P. (34% interest) | 325,328 | 317,812 | $1,279,810 | $ 951,414 | $1,492,301 | $1,152,164 | $(318,963) | $(241,399) |
| Newkirk Joint Ventures | 163,157 | 142,670 | | | | | | |
| Hotel Pennsylvania | 73,531 | 59,176 | | | | | | |
| Partially-Owned Office Buildings | 61,002 | 59,510 | | | | | | |
| Vornado Ceruzzi Joint Ventures | 28,847 | — | | | | | | |
| Fort Lee | 28,208 | 16,663 | | | | | | |
| Park Laurel | 70,007 | 24,695 | | | | | | |
| Management Companies and other | 61,105 | 53,905 | | | | | | |
| | $1,459,211 | $1,315,387 | | | | | | |

Below is a summary of the debt of partially owned entities as of December 31, 2000 and 1999, none of which is guaranteed by the Company.

| | Amount of Partially-Owned Entities Debt | |
|---|---|---|
| (amounts in thousands) | **2000** | 1999 |
| Alexander's (33.1% interest): | | |
| Term loan secured by all of Alexander's assets except for the Kings Plaza Regional Shopping Center. | | |
| Portion financed by the Company due on March 15, 2002 with interest at 15.72% prepayable without penalty (see below) | **$ 95,000** | $ 95,000 |
| Portion financed by a bank, due March 15, 2001, with interest at LIBOR plus 1.85% (8.56% at December 31, 2000)[1] | **20,000** | 20,000 |
| Unsecured Line of Credit financed by the Company, due on March 15, 2002 with interest at 15.72% (see below) | **20,000** | — |
| Kings Plaza Regional Shopping Center mortgage payable, due on June 1, 2001, with interest at LIBOR plus 1.25% (8.06% at December 31, 2000) (prepayable without penalty)[2] | **114,525** | 95,676 |
| Rego Park mortgage payable, due in 2009, with interest at 7.25% (prepayable after June 2004 without penalty) | **82,000** | 82,000 |
| Other notes and mortgages payable | **36,262** | 36,485 |
| 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 with yield maintenance) | **527,207** | 536,502 |
| Other notes and mortgages payable | **34,114** | 94,038 |
| 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% (8.42% at December 31, 2000) (prepayable without penalty) | **70,514** | 71,641[3] |
| Newkirk Joint Ventures (30% interest): | | |
| Portion of first mortgages and contract rights held by 96 of the 120 Limited Partnerships, collateralized by the partnerships' real estate, due from 2001 to 2024, with a weighted average interest rate of 8.06% at December 31, 2000 | **1,560,354** | 800,060 |
| Other debt | **—** | 28,000 |
| Charles E. Smith Commercial Realty L.P. (34% interest): | | |
| 28 mortgages payable due from 2001 through 2025, with interest from 6.51% to 10.21% at December 31, 2000 (prepayable with yield maintenance) | **1,458,301** | 1,152,164 |
| Unsecured line of credit due in 2003, with interest at 9.39% at December 31, 2000 (prepayable without penalty) | **34,000** | — |
| 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) | **43,768** | 43,968 |
| Las Catalinas Mall (50% interest): | | |
| Mortgage notes payable, due in 2013 with interest at 6.97% (prepayable after December 2002 with yield maintenance) | **69,430** | 70,212 |
| Other mortgages payable | **13,000** | 13,000 |

[1] *This loan has been extended to March 15, 2002 at the same interest rate.*
[2] *Alexander's is currently negotiating the refinancing of the debt.*
[3] *The balance of the mortgage of $47,009 applicable to the commercial portion of the building is reflected in the Company's wholly-owned debt in 2000, see Note 5.*

Income Statement Data:

| (amounts in thousands) | Company's Income from Partially Owned Entities | | | 100% of These Entities: Total Revenues | | | 100% of These Entities: Net Income (loss) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Income Applicable to Alexander's[1]: | | | | | | | | | |
| 33.1% share of equity in income (loss) (29.3% prior to October 1999) | $ 1,105 | $ 1,021 | $ (2,272) | $ 63,965 | $ 64,390 | $ 51,663 | $ 5,197 | $ 5,524[2] | $(6,055)[2] |
| Interest income | 11,948 | 6,406 | 5,395 | | | | | | |
| | $13,053 | $ 7,427 | $ 3,123 | | | | | | |
| Temperature Controlled Logistics: | | | | | | | | | |
| 60% share of equity in net income[3] | $23,244 | $31,468 | $10,249 | $154,341 | $264,266 | $567,867 | $37,284 | $54,198 | $16,988 |
| Management Fee (40% of 1% per annum of the Total Combined Assets, as defined) | 5,534 | 5,254 | 4,942 | | | | | | |
| | 28,778 | 36,722 | 15,191 | | | | | | |
| Charles E. Smith Commercial Realty L.P.[4] | 25,724 | 18,817 | 4,754 | $344,043 | $310,038 | | $76,695 | $61,102 | |
| Newkirk Joint Ventures | 24,526 | 19,922 | 2,712 | | | | | | |
| Hotel Pennsylvania | 8,072 | 5,095 | 3,678 | | | | | | |
| Partially-Owned Office Buildings[5] | 2,832 | 1,743 | 3,276 | | | | | | |
| Management Companies and other | 472 | 11 | 2,414 | | | | | | |
| | $90,404 | $82,310 | $32,025 | | | | | | |

*(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.*

*(3) Revenues and net income reflect lease payments from AmeriCold Logistics from March 11, 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 the Company 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, 2000** | December 31, 1999 |
|---|---|---|
| Common stock, net of $3,396 and $2,796 of accumulated depreciation of buildings | **$ 58,719** | $ 59,912 |
| Loan receivable | **115,000** | 95,000 |
| Leasing fees and other receivables | **1,146** | 2,393 |
| Equity in income | **3,548** | 1,843 |
| | **$178,413** | $159,148 |

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. On March 31, 2000, the Company increased its ownership in Alexander's from 32% to 32.9% by acquiring 41,500 shares of Alexander's common stock for approximately $2,740. On April 11, 2000, the Company acquired an additional 10,400 shares of Alexander's common stock for approximately $674 thereby increasing its ownership interest to 33.1%.

At December 31, 2000, the Company has loans receivable from Alexander's of $115,000, including $20,000 drawn under the $50,000 line of credit the Company granted to Alexander's on August 1, 2000. The terms of the line of credit are the same as Alexander's original $95,000 loan from the Company, including the interest rate of 15.72%. The maturity date of the original $95,000 loan has been extended to March 15, 2002, which is also the maturity date of the new line of credit. The interest rate on the loan and line of credit will reset on March 15, 2001, using the same spread to treasuries as presently exists.

Alexander's has completed 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. The capital required for the proposed building will be in excess of $650,000.

If the residential portion of the property is developed, the air rights representing the residential portion would be transferred to a taxable REIT subsidiary, as a REIT is not permitted to sell condominiums without being subject to a 100% excise tax on the gain from the sale of such condominiums.

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, (ii) 3% of the gross income from the Kings Plaza Mall, and (iii) 6% of development costs with minimum guaranteed fees of $750 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. Such amount is receivable annually in an amount not to exceed $2,500 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. At December 31, 2000, there are no fees due to the Company.

On January 12, 2001, Alexander's sold its Fordham Road property located in Bronx, New York for $25,500, which resulted in a gain of $19,100. In addition, Alexander's paid off the mortgage on this property at a discount, which resulted in an extraordinary gain from early extinguishment of debt of $3,500 in the first quarter of 2001.

As of December 31, 2000, Interstate Properties and its partners owned approximately 17.7% of the common shares of beneficial interest of the Company and 27.5% 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, 2000** | December 31, 1999 |
|---|---|---|
| Notes and Mortgage Payable: | | |
| Fixed Interest: | | |
| Cross collateralized mortgages payable, due in 2010, requires amortization based on a 30 year term with interest at 7.93% (prepayable with penalty until 2009) [(1)] | **$ 496,764** | $224,865 |
| 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) | **52,289** | 53,129 |
| 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 ($51,044) and 2009 ($9,977), requires amortization based on 30 year term with interest at 8.23% (prepayable with yield maintenance) | **61,021** | 61,618 |
| Two Penn Plaza mortgage payable, due in 2004, requires amortization based on a 25 year term with interest at 7.08% (prepayable with penalty fee) [(2)] | **160,518** | 163,147 |
| 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) | **48,102** | 49,537 |
| Green Acres Mall and Plaza mortgage payable, due in 2008, requires amortization based on a 30 year term with interest at 6.75% (prepayable with yield maintenance) | **154,928** | 156,798 |
| Other mortgages payable | **56,524** | 31,542 |
| | **1,063,146** | 773,636 |

| | | |
|---|---|---|
| Variable Interest: | | |
| Washington Design Center mortgage payable, due on November 27, 2001, requires amortization based on a 25 year term with interest at LIBOR plus 1.35% (8.11% at December 31, 2000) (prepayable without penalty) | **23,632** | 23,932 |
| Two Park Avenue mortgage payable, due on March 1, 2003, interest at LIBOR plus 1.45% (8.21% at December 31, 2000) (prepayable without penalty) [3] | **90,000** | 65,000 |
| Merchandise Mart mortgage payable, due in September 2002, interest at LIBOR plus 1.50% (7.39% at December 31, 2000) (prepayable with penalty fee) [4] | **250,000** | 250,000 |
| 33 North Dearborn Street mortgage payable, due in 2003, interest at LIBOR plus 1.75% (8.21% at December 31, 2000) (prepayable without penalty) | **19,000** | — |
| One Penn Plaza mortgage payable, due in 2002, interest at LIBOR plus 1.25% (8.00% at December 31, 2000) (prepayable 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% (8.42% at December 31, 2000) (prepayable without penalty) | **47,009** | 47,761 |
| 350 North Orleans mortgage payable, due in 2002, interest at LIBOR + 1.65% (8.46% at December 31, 2000) (prepayable with yield maintenance) [5] | **70,000** | 40,000 |
| 909 Third Avenue mortgage payable, due in 2003, interest at LIBOR + 1.65% (8.43% at December 31, 2000) (prepayable with penalty fee) | **107,879** | 108,754 |
| 888 Seventh Avenue mortgage payable, due in 2001, interest at LIBOR + 1.75% (8.50% at December 31, 2000) (prepayable with yield maintenance) [6] | **55,000** | 55,000 |
| 770 Broadway/595 Madison Avenue cross-collateralized mortgage payable, due on August 1, 2002, interest at LIBOR + .40% (7.16% at December 31, 2000) [7] | **173,500** | — |
| Five individual notes or mortgages payable collateralized by the Market Square Complex with maturity dates ranging from 2001 through 2011 and interest rates ranging from 8.76% to 9.38% at December 31, 2000 | **57,731** | 42,721 |
| Total notes and mortgages payable | **2,231,897** | 1,681,804 |
| Unsecured revolving credit facility, interest at LIBOR plus .90% (7.66% at December 31, 2000) (prepayable without penalty) [8] | **425,000** | 367,000 |
| Total Debt | **$2,656,897** | $2,048,804 |

*[1] 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. In connection with the repayment of this debt, the Company recorded an extraordinary loss of $1,125 in the first quarter of 2000 due to the write-off of unamortized financing costs.*

*[2] On February 18, 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.*

*[3] On March 1, 2000, the Company refinanced its Two Park Avenue office building for $90,000. Of the proceeds received, the Company repaid the existing debt of $65,000. The new 3-year debt matures on February 28, 2003 and bears interest at LIBOR + 1.45% (8.21% at December 31, 2000).*

*[4] 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 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, 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 to a third party on the same terms as the cap the Company purchased.*

*[5] On July 18, 1999, the Company completed a $70,000 mortgage financing of its 350 North Orleans property in Chicago. On such date, the Company received proceeds of $40,000. The balance of the proceeds were received on March 14, 2000.*

*[6] On January 11, 2001, the Company completed a $105,000 refinancing of its 888 Seventh Avenue office building. The loan bears interest at a fixed rate of 6.6% and matures on January 1, 2006. A portion of the proceeds received were used to repay the then existing mortgage of $55,000.*

*[7] On August 11, 2000, the Company completed a $173,500 mortgage financing, cross-collaterized by its 770 Broadway and 595 Madison Avenue office buildings. The loan bears interest at LIBOR + .40% (7.16% at December 31, 2000) and matures on August 1, 2002. At December 31, 2000, the proceeds of the loan are in a restricted mortgage escrow account, which bears interest at the same rate as the loan.*

*[8] On March 21, 2000, the Company renewed its $1,000,000 revolving credit facility for an additional three years. The covenants of the facility include, among others, maximum loan to value ratio, minimum debt service coverage and minimum capitalization requirements. Interest is at LIBOR plus .90% (7.66% at December 31, 2000). The Company paid origination fees of $6,700 and pays a commitment fee quarterly of .20% per annum on the facility amount.*

The net carrying value of properties collateralizing the notes and mortgages amounted to $2,952,979 at December 31, 2000. As at December 31, 2000, the maturities for the next five years and thereafter are as follows:

| (in thousands)<br>Year Ending December 31, | Amount |
|---|---|
| 2001 | $ 27,308 |
| 2002 | 914,643 |
| 2003 | 651,800 |
| 2004 | 241,620 |
| 2005 | — |
| Thereafter | 821,526 |

## 6. Shareholders' Equity

During the three years ended December 31, 2000, the Company sold $445,000 of Common Shares and $193,300 of Cumulative Redeemable Preferred Shares. The following are the details of the sales.

*Sale of Common Shares*

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. 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.

*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 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.

## 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, 2000.

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, 2000, 1999 and 1998:

| (amounts in thousands, except share amounts) | **December 31, 2000** | December 31, 1999 | December 31, 1998 |
|---|---|---|---|
| Net income applicable to common shares: | | | |
| As reported | **$195,301** | $169,081 | $131,164 |
| Pro-forma | **177,075** | 151,836 | 117,938 |
| Net income per share applicable to common shares: | | | |
| Basic: | | | |
| As reported | **$ 2.26** | $ 1.97 | $ 1.62 |
| Pro-forma | **2.05** | 1.77 | 1.46 |
| Diluted: | | | |
| As reported | **$ 2.20** | 1.94 | 1.59 |
| Pro forma | **2.00** | 1.74 | 1.43 |

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, 2000, 1999 and 1998.

| | **December 31, 2000** | December 31, 1999 | December 31, 1998 |
|---|---|---|---|
| Expected volatility | **17%** | 19% | 19% |
| Expected life | **5 years** | 5 years | 5 years |
| Risk-free interest rate | **5.0%** | 6.4% | 4.6% |
| Expected dividend yield | **6.0%** | 5.9% | 5.3% |

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

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at January 1 | 11,472,352 | $32.65 | 8,724,316 | $32.35 | 5,529,917 | $24.43 |
| Granted | 4,863,750 | 31.02 | 3,301,550 | 33.53 | 3,436,250 | 44.99 |
| Exercised | (377,440) | 26.29 | (132,119) | 18.64 | (41,851) | 21.95 |
| Cancelled | (97,402) | 34.86 | (421,395) | 37.71 | (200,000) | 32.93 |
| Outstanding at December 31 | 15,861,260 | $32.26 | 11,472,352 | $32.65 | 8,724,316 | $32.35 |
| Options exercisable at December 31 | 7,272,878 | | 4,546,429 | | 2,703,407 | |
| Weighted-average fair value of options granted during the year ended December 31 (per option) | $2.98 | | $4.43 | | $5.33 | |

The following table summarizes information about options outstanding under the Plan at December 31, 2000:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding at December 31, 2000 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at December 31, 2000 | Weighted-Average Exercise Price |
| $ 6 to $12 | 43,402 | 2.1 Years | $11 | 43,402 | $11 |
| $17 to $19 | 339,644 | 4.1 Years | 18 | 339,644 | 18 |
| $23 to $24 | 3,500,000 | 5.9 Years | 23 | 2,800,000 | 23 |
| $26 to $27 | 164,500 | 6.1 Years | 26 | 164,500 | 26 |
| $30 to $32 | 5,143,917 | 8.8 Years | 31 | 596,867 | 30 |
| $32 to $36 | 3,470,602 | 8.1 Years | 34 | 1,197,341 | 34 |
| $36 to $40 | 277,565 | 7.4 Years | 39 | 164,485 | 39 |
| $41 to $44 | 101,075 | 7.1 Years | 43 | 69,922 | 43 |
| $45 to $46 | 2,555,555 | 7.0 Years | 45 | 1,719,167 | 45 |
| $48 to $49 | 265,000 | 7.1 Years | 48 | 177,550 | 48 |
| $ 6 to $49 | 15,861,260 | 7.5 Years | $32 | 7,272,878 | $32 |

Shares available for future grant under the Plan at December 31, 2000 were 6,956,879.

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) | **2000** | 1999 | 1998 |
| Interest cost on projected benefit obligation | **$ 567** | $ 559 | $ 594 |
| Actual return on assets | **(374)** | (387) | (334) |
| Net amortization and deferral | **30** | 53 | 51 |
| Net pension expense | **$ 223** | $ 225 | $ 311 |
| Assumptions used in determining the net pension expense: | | | |
| Discount rate | **7¾%** | 7¾% | 6¾% |
| Rate of increase in compensation levels | **—*** | —* | —* |
| 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, 2000** | December 31, 1999 | December 31, 1998 |
|---|---|---|---|
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | **$ 7,918** | $ 8,952 | $ 8,337 |
| Interest cost | **567** | 559 | 594 |
| Benefit payments | **(637)** | (777) | (599) |
| Experience loss/(gain) | **(318)** | (816) | 620 |
| Benefit obligation at end of year | **7,530** | 7,918 | 8,952 |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | **5,284** | 5,551 | 4,254 |
| Employer contribution | **698** | 362 | 1,531 |
| Benefit payments | **(637)** | (777) | (599) |
| Actual return on assets | **387** | 148 | 365 |
| Fair value of plan assets at end of year | **5,732** | 5,284 | 5,551 |
| Funded status | **(1,798)** | (2,634) | (3,401) |
| Unrecognized loss | **1,279** | 1,279 | 2,270 |
| Net amount recognized | **$ (519)** | $(1,355) | $(1,131) |
| Amounts recognized in the statement of financial position consist of: | | | |
| Accrued benefit liability | **$(1,798)** | $(2,634) | $(3,401) |
| Accumulated other comprehensive income | **1,279** | 1,279 | 2,270 |
| Net amount recognized | **$ (519)** | $(1,355) | $(1,131) |

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, 2000, future

base rental revenue under non-cancelable 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:

| Year ending December 31: | Amount |
|---|---|
| 2001 | $ 646,149 |
| 2002 | 620,774 |
| 2003 | 578,014 |
| 2004 | 539,107 |
| 2005 | 485,822 |
| Thereafter | 2,673,476 |

These amounts do not include rentals based on tenants' sales. These percentage rents approximated $4,825, $2,213, and $2,493 for the years ended December 31, 2000, 1999 and 1998.

Bradlees, which accounts for 14.3% of the Retail property rentals and 2.2% of total property rentals, filed for protection under Chapter 11 of the U.S. Bankruptcy Code and closed all of its stores in February 2001. The Company leases 16 locations to Bradlees. Of these 16 locations, the leases for 14 are fully guaranteed and the fifteenth is guaranteed as to 70% of the rent by Stop & Shop Companies, Inc., under a Master Agreement and Guaranty, dated May 1, 1992. Stop & Shop is a wholly-owned subsidiary of Koninklijke Ahold NV (formerly Royal Ahold NV), a leading international Food retailer. The effectiveness of Stop & Shop's guarantee to Vornado of Bradlees' lease obligations is not affected by Bradlees' bankruptcy. None of these leases have been either rejected or assumed.

The lease for the 14th Street and Union Square property is not guaranteed. In 1999, the Company paid Bradlees $11,000 to modify the terms of this lease to increase the rent by approximately $1,100 per annum to $4,600 effective March 2000, and to change the lease expiration date from October 2019 to March 15, 2002. On February 9, 2001, Bradlees rejected this lease. The Company is currently considering various redevelopment alternatives for this site which will include a combination of office and retail space.

None of the Company's tenants represented more than 10% of the Company's total revenues for the year ended December 31, 2000.

*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, 2000, are as follows:

(in thousands)

| Year ending December 31: | Amount |
|---|---|
| 2001 | $ 14,800 |
| 2002 | 14,400 |
| 2003 | 13,700 |
| 2004 | 12,800 |
| 2005 | 12,800 |
| Thereafter | 392,000 |

Rent expense was $15,248, $14,269 and $5,937 for the years ended December 31, 2000, 1999 and 1998.

## 10. Committments and Contingencies

At December 31, 2000, in addition to the $425.0 million balance outstanding under the Company's revolving credit facility, the Company had utilized $93.6 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, changes 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 Proceeding

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, (which reflects the condemnation award of $3,100, net of the carrying value of the property of $1,406). The Company is appealing the amount of the award.

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 and the Company recorded a gain of $7,955 (the agreed upon amount, net of the carrying value of the shopping center of $1,057). The insurance carrier had previously advanced $5,550 to the Company. The reconstruction of the shopping center was completed in 1999.

## 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, 2000, the loan due from Mr. Roth, in accordance with his employment arrangement, was $13,123 ($4,704 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 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, 2000, loans due from Mr. Fascitelli, in accordance with his employment agreement, aggregated $8,600. The loans mature in 2003 and bear interest, payable quarterly at a weighted average interest rate of 5.39% (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 in cash and a $20,000 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. Accordingly, the cash and common shares are being held in an irrevocable trust (the fair value of this obligation was $37,544 at December 31, 2000). The Company recorded a charge to equity of $10,464 which represented 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 all subsequent periods, appreciation in the stock's price above $33.13 is recognized as compensation expense and, if the price fluctuates between $33.13 and $21.75, equity is adjusted. For the year ended December 31, 2000, the Company recognized approximately $1,968 of compensation expense. For the year ended December 31, 1999, approximately $340 was recognized as a reduction of compensation expense and approximately $579 was recorded as a reduction of stockholders' equity.

Two other executive officers of the Company have loans outstanding pursuant to employment agreements of $3,000 at December 31, 2000. The loans bear interest at either the applicable Federal rate provided or the broker call rate (8.25% at December 31, 2000).

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, 2000, 1999 and 1998, $1,418, $1,262 and $1,365 of management fees were earned by the Company pursuant to the management agreement.

The Mendik Group (Messrs. Mendik and Greenbaum and certain entities controlled by them) 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 amounts charged to other real estate companies, that the terms and conditions of such contracts are fair to the Company. In connection with these contracts, the Company paid $47,493, $40,974 and $25,686 for the years ended December 31, 2000, 1999 and 1998.

At December 31, 2000, the common stock of the preferred stock affiliates which owned interests in the Temperature Controlled Logistics Companies, Hotel Pennsylvania and related management companies was owned by Officers and Trustees of Vornado. In January 2001, the Company acquired the common stock of the preferred stock affiliates and converted them to taxable REIT Subsidiaries.

## 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, 2000 | Outstanding Units at December 31, 1999 | Per Unit Liquidation Preference | Preferred or Annual Distribution Rate | Conversion Rate Into Class A Units |
|---|---|---|---|---|---|
| Common: | | | | | |
| Class A (a) | **6,456,749** | 6,247,829 | — | $1.97 | N/A |
| Class D | **869,387** | 876,543 | — | $2.04125 | 1.0(b) |
| Convertible Preferred: | | | | | |
| 5.0% B-1 Convertible Preferred | **899,566** | 899,566 | $50.00 | $2.50 | .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 |
| 6.25% E-1 Convertible Preferred | **4,998,000** | 4,998,000 | $50.00 | $3.09375(c) | 1.1364 |
| Perpetual Preferred: (d) | | | | | |
| 8.5% D-1 Cumulative Redeemable Preferred | **3,500,000** | 3,500,000 | $25.00 | $2.125 | N/A |
| 8.375% D-2 Cumulative Redeemable Preferred | **549,336** | 549,336 | $50.00 | $4.1875 | N/A |
| 8.25% D-3 Cumulative Redeemable Preferred | **8,000,000** | 8,000,000 | $25.00 | $2.0625 | N/A |
| 8.25% D-4 Cumulative Redeemable Preferred | **5,000,000** | 5,000,000 | $25.00 | $2.0625 | N/A |
| 8.25% D-5 Cumulative Redeemable Preferred | **7,480,000** | 7,480,000 | $25.00 | $2.0625 | N/A |
| 8.25% D-6 Cumulative Redeemable Preferred | **840,000** | — | $25.00 | $2.0625 | N/A |
| 8.25% D-7 Cumulative Redeemable Preferred | **7,200,000** | — | $25.00 | $2.0625 | N/A |
| 8.25% D-8 Cumulative Redeemable Preferred | **360,000** | — | $25.00 | $2.0625 | N/A |

*(a) Class A units are redeemable at the option of the holder for common shares of beneficial interest in Vornado, on a one-for-one basis, or at the Company's option for cash.*

*(b) 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).*

*(c) Increases to $3.25 over the next two years and fixes at $3.38 in March 2007.*

*(d) Convertible at the option of the holder for an equivalent amount of the Company's preferred shares and redeemable at the Company's option after the 5th anniversary of the date of issuance (ranging from December 1998 to December 2000).*

## 15. INCOME PER SHARE

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

| (amounts in thousands, except per share amounts) | **December 31, 2000** | December 31, 1999 | December 31, 1998 |
|---|---|---|---|
| Numerator: | | | |
| Income before extraordinary item | **$ 235,116** | $ 202,519 | $ 152,854 |
| Extraordinary item | **(1,125)** | — | — |
| Net income | **233,991** | 202,519 | 152,854 |
| Preferred stock dividends | **(38,690)** | (33,438) | (21,690) |
| Numerator for basic and diluted income per share—net income applicable to common shares | **$ 195,301** | $ 169,081 | $ 131,164 |
| Denominator: | | | |
| Denominator for basic income per share—weighted average shares | **86,521,195** | 85,666,424 | 80,724,132 |
| Effect of dilutive securities: | | | |
| Employee stock options | **2,170,894** | 1,621,386 | 1,931,818 |
| Denominator for diluted income per share—adjusted weighted average shares and assumed conversions | **88,692,089** | 87,287,810 | 82,655,950 |
| INCOME PER COMMON SHARE—BASIC: | | | |
| Income before extraordinary item | **$ 2.27** | $ 1.97 | $ 1.62 |
| Extraordinary item | **(.01)** | — | — |
| Net income per common share | **2.26** | 1.97 | 1.62 |
| INCOME PER COMMON SHARE—DILUTED: | | | |
| Income before extraordinary item | **$ 2.21** | $ 1.94 | $ 1.59 |
| Extraordinary item | **(.01)** | — | — |
| Net income per common share | **$ 2.20** | $ 1.94 | $ 1.59 |

## 16. Summary of Quarterly Results (Unaudited)

The following summary represents the results of operations for each quarter in 2000 and 1999:

| (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 |
|---|---|---|---|---|
| 2000 | | | | |
| March 31 | $195,279 | $47,523[2] | $.55 | $.54 |
| June 30 | 198,745 | 47,281 | .55 | .53 |
| September 30 | 215,655 | 58,447[2] | .68 | .65 |
| December 31 | 216,853 | 42,050 | .48 | .47 |
| 1999 | | | | |
| March 31 | $163,564 | $42,754[3] | $.50 | $.49 |
| June 30 | 166,188 | 42,758[3] | .50 | .49 |
| September 30 | 183,555 | 44,487[3] | .52 | .51 |
| December 31 | 183,651 | 39,082 | .45 | .45 |

[1] *The total for the year may differ from the sum of the quarters as a result of weighting.*

[2] *Net income for the quarters ended March 31, 2000 and September 30, 2000 included net gains on sale of real estate of $2,560 ($.03 per share) and $8,405 ($.09 per share), respectively.*

[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: $462 ($.01 per share), $887 ($.01 per share), and $887 ($.01 per share), respectively.*

## 17. SEGMENT INFORMATION

The Company has four business segments: Office, Retail, Merchandise Mart Properties and Temperature Controlled Logistics.

| | December 31, 2000 | | | | | |
|---|---|---|---|---|---|---|
| (amounts in thousands) | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other[2] |
| Total revenues | $ 826,532 | $ 472,527 | $177,787 | $155,213 | $ — | $ 21,005 |
| Total expenses | 466,117 | 267,899 | 73,802 | 83,006 | — | 41,410 |
| Operating income | 360,415 | 204,628 | 103,985 | 72,207 | — | (20,405) |
| Income applicable to Alexander's | 13,053 | — | — | — | — | 13,053 |
| Income from partially-owned entities | 90,404 | 29,210 | 667 | 2,111 | 28,778[6] | 29,638 |
| Interest and other investment income | 32,926 | 6,162 | — | 1,474 | — | 25,290 |
| Interest and debt expense | (170,273) | (62,162) | (53,180) | (38,566) | — | (16,365) |
| Net gain on sale of real estate | 10,965 | 8,405 | 2,560 | — | — | — |
| Minority interest | (102,374) | (46,917) | (16,550) | (12,660) | (12,483) | (13,764) |
| Income before extraordinary item | 235,116 | 139,326 | 37,482 | 24,566 | 16,295 | 17,447 |
| Extraordinary item | (1,125) | — | (1,125) | — | — | — |
| Net income | 233,991 | 139,326 | 36,357 | 24,566 | 16,295 | 17,447 |
| Extraordinary item | 1,125 | — | 1,125 | — | — | — |
| Minority interest | 102,374 | 46,917 | 16,550 | 12,660 | 12,483 | 13,764 |
| Net gain on sale of real estate | (10,965) | (8,405) | (2,560) | — | — | — |
| Interest and debt expense[4] | 260,573 | 96,224 | 55,741 | 38,566 | 27,424 | 42,618 |
| Depreciation and amortization[4] | 167,268 | 76,696 | 18,522 | 20,627 | 34,015 | 17,408 |
| Straight-lining of rents[4] | (30,001) | (19,733) | (2,295) | (5,919) | (1,121) | (933) |
| Other | 14,510 | — | (1,654) | 1,358 | 4,064 | 10,742[7] |
| EBITDA[1] | $ 738,875 | $ 331,025 | $121,786 | $ 91,858 | $ 93,160 | $101,046 |
| Balance sheet data: | | | | | | |
| Real estate, net | $3,901,055 | $2,388,393 | $551,183 | $862,003 | $ — | $ 99,476 |
| Investments and advances to partially-owned entities | 1,459,211 | 394,089 | 31,660 | 41,670 | 469,613 | 522,179 |
| Capital expenditures: | | | | | | |
| Acquisitions | 246,500 | 128,000 | — | 89,000 | — | 29,500 |
| Other | 200,181 | 106,689 | 7,251 | 37,362 | 28,582 | 20,297 |

| | 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 |

*Footnotes are explained on page 51.*

| (amounts in thousands) | 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 |
| 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 |

[1] *EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of real estate, the effect of straight-lining of property rentals for rent escalations and minority interest. 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 EBITDA is comprised of:*

| | *2000* | *1999* | *1998* |
|---|---|---|---|
| *Investment in Newkirk Joint Ventures* | *$ 50,985* | *$39,796* | *$ 5,379* |
| *Investments in other partially-owned entities (Hotel Pennsylvania,* Alexander's and other)* | *43,067* | *34,827* | *25,323* |
| *Investment income* | *25,290* | *15,836* | *16,809* |
| *Unallocated general and administrative expenses* | *(25,166)* | *(23,288)* | *(18,147)* |
| *Other* | *6,870* | *2,271* | *3,902* |
| *Total* | *$101,046* | *$69,442* | *$33,266* |

**The commercial portion of the Hotel was wholly-owned as of August 5, 1999, and accordingly consolidated.*

[3] *Includes (i) the reversal of income taxes (benefit) which are considered non-recurring because of the conversion of the Temperature Controlled Logistics Companies to REIT's in 2000 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.*

[6] *Net of $9,780, of rent not recognized as income.*

[7] *Includes the reversal of $4,765 of expenses in connection with a deferred compensation arrangement.*

## 18. SUBSEQUENT EVENTS

On February 22, 2001, the Company entered into a 20-day exclusive negotiation period with the Port Authority of NY & NJ to complete the contract and associated documents for the net lease of the 11 million square foot World Trade Center complex in New York. The 99-year net lease of the World Trade Center has been valued by the Port Authority's advisors at approximately $3.25 billion. The Board of the Commissioners of the Port Authority has instructed their staff and advisors to present the final contract for approval at a special Port Authority Board meeting scheduled for March 14, 2001. In connection therewith, the Company has provided the Port Authority with a $100 million refundable and non-drawable letter of credit.

On March 19, 2001, the Company announced that it was unable to reach a final agreement with the Port Authority of NY and NJ to conclude the net lease.

# Independent Auditors' Report

Shareholders and Board of Trustees
Vornado Realty Trust
New York, New York

We have audited the accompanying consolidated balance sheets of Vornado Realty Trust as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 1, 2001
(March 19, 2001 as to Note 18)

# 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, 2000 and 1999 were as follows:

| | **YEAR ENDED DECEMBER 31, 2000** | | | YEAR ENDED DECEMBER 31, 1999 | | |
|---|---|---|---|---|---|---|
| Quarter | **High** | **Low** | **Dividends** | High | Low | Dividends |
| 1st | **$35.25** | **$29.88** | **$.48** | $37.75 | $32.06 | $.44 |
| 2nd | **36.50** | **33.69** | **.48** | 39.50 | 33.06 | .44 |
| 3rd | **40.75** | **35.50** | **.48** | 36.06 | 32.19 | .44 |
| 4th | **38.94** | **33.38** | **.53** | 33.31 | 30.06 | .48 |

*On February 1, 2001, the number of record holders of common shares of Vornado was 2,324.*

## SELECTED CONSOLIDATED FINANCIAL DATA

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2000** | 1999 | 1998 | 1997 | 1996 |
| | (in thousands, except share and per share amounts) | | | | |
| **Operating Data** | | | | | |
| Revenues: | | | | | |
| Property rentals | **$ 695,078** | $ 591,270 | $ 425,496 | $ 168,321 | $ 87,424 |
| Expense reimbursements | **120,056** | 96,842 | 74,737 | 36,652 | 26,644 |
| Other income | **11,398** | 8,846 | 9,627 | 4,158 | 2,819 |
| Total Revenues | **826,532** | 696,958 | 509,860 | 209,131 | 116,887 |
| Expenses: | | | | | |
| Operating | **318,360** | 282,118 | 207,171 | 74,745 | 36,412 |
| Depreciation and amortization | **99,846** | 83,585 | 59,227 | 22,983 | 11,589 |
| General and administrative | **47,911** | 40,151 | 28,610 | 13,580 | 5,167 |
| Amortization of officer's deferred compensation expense | **—** | — | — | 22,917 | 2,083 |
| Total Expenses | **466,117** | 405,854 | 295,008 | 134,225 | 55,251 |
| Operating Income | **360,415** | 291,104 | 214,852 | 74,906 | 61,636 |
| Income applicable to Alexander's | **13,053** | 7,427 | 3,123 | 7,873 | 7,956 |
| Income from partially-owned entities | **90,404** | 82,310 | 32,025 | 4,658 | 1,855 |
| Interest and other investment income | **32,926** | 18,359 | 24,074 | 23,767 | 6,643 |
| Interest and debt expense | **(170,273)** | (141,683) | (114,686) | (42,888) | (16,726) |
| Net gain from sales of real estate | **10,965** | — | — | — | — |
| Net gain from condemnation proceeding | **—** | — | 9,649 | — | — |
| Minority interest: | | | | | |
| Perpetual preferred unit distributions | **(62,089)** | (19,254) | (756) | — | — |
| Minority limited partnership earnings | **(38,320)** | (33,904) | (14,822) | (7,293) | — |
| Partially-owned entities | **(1,965)** | (1,840) | (605) | — | — |
| Income before extraordinary item | **235,116** | 202,519 | 152,854 | 61,023 | 61,364 |
| Extraordinary item | **(1,125)** | — | — | — | — |
| Net income | **233,991** | 202,519 | 152,854 | 61,023 | 61,364 |
| Preferred stock dividends | **(38,690)** | (33,438) | (21,690) | (15,549) | — |
| Net income applicable to common shares | **$ 195,301** | $ 169,081 | $ 131,164 | $ 45,474 | $ 61,364 |
| Income per share—basic[1] | **$ 2.26** | $ 1.97 | $ 1.62 | $ .83 | $ 1.26 |
| Income per share—diluted[1] | **$ 2.20** | $ 1.94 | $ 1.59 | $ .79 | $ 1.25 |
| Cash dividends declared for common shares | **$ 1.97** | $ 1.80 | $ 1.64 | $ 1.36 | $ 1.22 |
| **Balance Sheet Data** | | | | | |
| Total assets | **$6,370,314** | $5,479,218 | $4,425,779 | $2,524,089 | $565,204 |
| Real estate, at cost | **4,294,842** | 3,921,507 | 3,315,891 | 1,564,093 | 397,298 |
| Accumulated depreciation | **393,787** | 308,542 | 226,816 | 173,434 | 151,049 |
| Debt | **2,656,897** | 2,048,804 | 2,051,000 | 956,654 | 232,387 |
| Shareholders' equity | **2,078,720** | 2,055,368 | 1,782,678 | 1,313,762 | 276,257 |

*[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, 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **Other Data** | | | | | |
| Funds from operations[2]: | | | | | |
| Net income applicable to common shares | **$ 195,301** | $ 169,081 | $ 131,164 | $ 45,474 | $ 61,364 |
| Extraordinary item | **1,125** | — | — | — | — |
| Depreciation and amortization of real property | **97,744** | 82,216 | 58,277 | 22,413 | 11,154 |
| Straight-lining of property rentals for rent escalations | **(28,893)** | (22,881) | (14,531) | (3,359) | (2,676) |
| Leasing fees received in excess of income recognized | **1,259** | 1,705 | 1,339 | 1,733 | 1,805 |
| Net gain on sale of real estate | **(10,965)** | — | — | — | — |
| Net gain from insurance settlement and condemnation proceedings | **—** | — | (9,649) | — | — |
| Appreciation/(depreciation) of securities held in officer's deferred compensation trust | **4,765** | (340) | 340 | — | — |
| Gains 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: | | | | | |
| Temperature Controlled Logistics | **35,565** | 31,400 | 41,988 | 4,183 | — |
| Alexander's | **93** | 1,324 | 4,023 | (2,471) | (2,331) |
| Partially-owned office buildings | **2,926** | 50 | 3,561 | 2,891 | — |
| Hotel Pennsylvania | **5,779** | 4,866 | 4,083 | 457 | — |
| Charles E. Smith Commercial Realty L.P. | **15,767** | 12,024 | 2,974 | 1,298 | — |
| Other | **9,448** | 7,463 | 219 | — | — |
| Minority interest in partially owned entities in excess of preferential distributions | **(16,445)** | (9,020) | (3,991) | — | — |
| Dilutive effect of Series A Preferred Stock dividends | **21,689** | 16,268 | — | — | — |
| Funds from operations | **$ 335,158** | $ 293,773 | $ 218,899 | $ 72,619 | $ 69,316 |
| Cash flow provided by (used in): | | | | | |
| Operating activities | **$ 249,921** | $ 176,895 | $ 189,406 | $ 115,473 | $ 70,703 |
| Investing activities | **(699,375)** | (494,204) | (1,257,367) | (1,064,484) | 14,912 |
| Financing activities | **473,813** | 262,131 | 879,815 | 1,215,269 | (15,046) |

[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 items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified from this definition to adjust primarily for (i) the effect of straight-lining of property rentals for rent escalations and leasing fee income, and (ii) the reversal of income taxes (benefit) which are considered non-recurring because of the conversion of Temperature Controlled Logistics Companies to REITs in 2000.*

($ in thousands, except where indicated)

**Overview**

Below is a summary of net income and EBITDA[1] by segment for the years ended December 31, 2000, 1999 and 1998:

| | December 31, 2000 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other[2] |
| Total revenues | $826,532 | $472,527 | $177,787 | $155,213 | $ — | $ 21,005 |
| Total expenses | 466,117 | 267,899 | 73,802 | 83,006 | — | 41,410 |
| Operating income | 360,415 | 204,628 | 103,985 | 72,207 | — | (20,405) |
| Income applicable to Alexander's | 13,053 | — | — | — | — | 13,053 |
| Income from partially-owned entities | 90,404 | 29,210 | 667 | 2,111 | 28,778[6] | 29,638 |
| Interest and other investment income | 32,926 | 6,162 | — | 1,474 | — | 25,290 |
| Interest and debt expense | (170,273) | (62,162) | (53,180) | (38,566) | — | (16,365) |
| Net gain on sale of real estate | 10,965 | 8,405 | 2,560 | — | — | — |
| Minority interest | (102,374) | (46,917) | (16,550) | (12,660) | (12,483) | (13,764) |
| Income before extraordinary item | 235,116 | 139,326 | 37,482 | 24,566 | 16,295 | 17,447 |
| Extraordinary item | (1,125) | — | (1,125) | — | — | — |
| Net income | 233,991 | 139,326 | 36,357 | 24,566 | 16,295 | 17,447 |
| Extraordinary item | 1,125 | — | 1,125 | — | — | — |
| Minority interest | 102,374 | 46,917 | 16,550 | 12,660 | 12,483 | 13,764 |
| Net gain on sale of real estate | (10,965) | (8,405) | (2,560) | — | — | — |
| Interest and debt expense[4] | 260,573 | 96,224 | 55,741 | 38,566 | 27,424 | 42,618 |
| Depreciation and amortization[4] | 167,268 | 76,696 | 18,522 | 20,627 | 34,015 | 17,408 |
| Straight-lining of rents[4] | (30,001) | (19,733) | (2,295) | (5,919) | (1,121) | (933) |
| Other | 14,510 | — | (1,654) | 1,358 | 4,064[3] | 10,742[7] |
| EBITDA[1] | $738,875 | $331,025 | $121,786 | $ 91,858 | $93,160 | $101,046 |

| | 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 |

See supplemental information on page 67 for a summary of net income and EBITDA by segment for the three months ended December 31, 2000 and 1999.

| 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 |

[1] *EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of real estate, the effect of straight-lining of property rentals for rent escalations and minority interest. 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 EBITDA is comprised of:*

| | *2000* | *1999* | *1998* |
|---|---|---|---|
| *Investment in Newkirk Joint Ventures* | *$ 50,985* | *$39,796* | *$ 5,379* |
| *Investments in other partially-owned entities (Hotel Pennsylvania,* Alexander's and other)* | *43,067* | *34,827* | *25,323* |
| *Investment income* | *25,290* | *15,836* | *16,809* |
| *Unallocated general and administrative expenses* | *(25,166)* | *(23,288)* | *(18,147)* |
| *Other* | *6,870* | *2,271* | *3,902* |
| *Total* | *$101,046* | *$69,442* | *$33,266* |

**The commercial portion of the Hotel was wholly-owned as of August 5, 1999, and accordingly consolidated.*

[3] *Includes (i) the reversal of income taxes (benefit) which are considered non-recurring because of the expected conversion of the Temperature Controlled Logistics Companies to REIT's in 2000 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.*

[6] *Net of $9,780 of rent not recognized as income.*

[7] *Includes the reversal of $4,765 of expenses in connection with a deferred compensation arrangement.*

## Results of Operations

*Years Ended December 31, 2000 and December 31, 1999*

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

| | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|
| Year ended December 31, 1999 | $609,361 | $254,473 | $114,808 | $74,996 | $95,642 | $ 69,442 |
| 2000 Operations: | | | | | | |
| Same store operations[1] | 65,139 | 41,860 | 5,573 | 13,314 | (2,482)[3] | 6,874 |
| Acquisitions and other | 64,375 | 34,692 | 1,405 | 3,548 | — | 24,730 |
| Year ended December 31, 2000 | $738,875 | $331,025 | $121,786 | $91,858 | $93,160 | $101,046 |
| % increase in same store operations | 10.7% | 16.5%[2] | 4.9% | 17.8% | (2.6%)[3] | 9.9% |

[1] *Represents operations, which were owned for the same period in each year.*
[2] *Same store percentage increase was 20.0% for the New York City office portfolio and 4.2% for the CESCR portfolio.*
[3] *Subsequent to March 11, 1999 (date the operations of the AmeriCold Logistics Company were sold), the Company reflects its 60% share of the Vornado/Crescent Partnerships' ("the Landlord") equity in the rental income it receives from AmeriCold Logistics Company, its tenant, which leases the underlying temperature controlled warehouses used in its business. Prior to that date the Company reflected its equity in the operations.*

*Total contractual rent was $35,672 and $160,494 for the fourth quarter and the year ended December 31, 2000, of which the tenant deferred $7,500 and $17,044. As at December 31, 2000, the balance of the tenant's deferred rent is as follows:*

| | *Total* | *The Company's Share* |
|---|---|---|
| *2000:* | | |
| *Quarter ended December 31* | *$ 7,500* | *$ 4,500* |
| *Quarter ended September 30* | *4,800* | *2,880* |
| *Quarter ended June 30* | *4,744* | *2,846* |
| | *17,044* | *10,226* |
| *1999:* | | |
| *Quarter ended December 31* | *5,400* | *3,240* |
| | *$22,444* | *$13,466* |

*In addition to the amounts deferred above, $1,956 applicable to the receivable arising from the straight-lining of rents was also deferred in the year ended December 31, 2000.*

*Based on the Company's policy of recognizing rental income when earned and collection is assured or cash is received, the Company did not recognize $4,500 of income from this tenant in the quarter ended December 31, 2000 and $9,780 in the year ended December 31, 2000.*

*On February 22, 2001, the Landlord restructured the AmeriCold Logistics leases to, among other things, (i) reduce 2001's contractual rent to $146,000 (the same amount recognized as rental income in 2000's Funds from Operations), (ii) reduce 2002's contractual rent to $150,000 (plus contingent rent in certain circumstances), (iii) increase the Landlord's share of annual maintenance capital expenditures by $4,500 to $9,500 effective January 1, 2000 and (iv) extend the deferred rent period to December 31, 2003 from March 11, 2002.*

## Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were $826,532 in the year ended December 31, 2000 compared to $696,958 in the prior year, an increase of $129,574. These increases by segment resulted from:

| | Date of Acquisition | Total | Office | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|---|
| Property Rentals: | | | | | | |
| Acquisitions | | | | | | |
| 7 West 34th Street | November 2000 | $ 2,428 | $ 2,428 | $ — | $ — | $ — |
| 33 North Dearborn Street | September 2000 | 1,535 | — | — | 1,535 | — |
| L.A. Mart | October 2000 | 2,709 | — | — | 2,709 | — |
| 595 Madison Avenue | September 1999 | 10,195 | 10,195 | — | — | — |
| Hotel Pennsylvania (20%) | August 1999 | 4,638 | — | — | — | 4,638 |
| 909 Third Avenue | July 1999 | 16,223 | 16,223 | — | — | — |
| 888 Seventh Avenue | January 1999 | 765 | 765 | — | — | — |
| Student Housing Complex | January 2000 | 4,227 | — | — | — | 4,227 |
| Leasing activity | | 61,088 | 46,780 | 3,354 | 12,021 | (1,067) |
| Total increase in property rentals | | 103,808 | 76,391 | 3,354 | 16,265 | 7,798 |
| Tenant expense reimbursements: | | | | | | |
| Increase in tenant expense reimbursements due to acquisitions | | 10,733 | 9,071 | — | 899 | 763 |
| Other | | 12,481 | 8,319 | 2,484 | 1,510 | 168 |
| Total increase in tenant expense reimbursements | | 23,214 | 17,390 | 2,484 | 2,409 | 931 |
| Other income | | 2,552 | 963 | 719 | 618 | 252 |
| Total increase in revenues | | $129,574 | $94,744 | $6,557 | $19,292 | $ 8,981 |

The following sets forth certain information for properties the Company owns directly or indirectly, including leasing activity for space previously occupied:

| | Office | | Merchandise Mart | | | Temperature Controlled |
|---|---|---|---|---|---|---|
| | New York City | CESCR[1] | Retail | Office[2] | Showroom[2] | Logistics |
| (square feet and cubic feet in thousands) | | | | | | |
| As of December 31, 2000: | | | | | | |
| Square feet | 14,396 | 4,248 | 11,293 | 2,869 | 5,044 | 17,495 |
| Cubic feet | — | — | — | — | — | 438,900 |
| Number of properties | 22 | 50 | 55 | 9 | 9 | 88 |
| Occupancy rate | 96% | 98% | 92% | 90% | 98% | 95% |
| Leasing Activity: | | | | | | |
| For the year ended | | | | | | |
| December 31, 2000: | | | | | | |
| Square Feet | 1,407 | 927 | 350 | 378 | 819 | — |
| Rent per Square Foot: | | | | | | |
| Initial rent[3] | $45.91 | $29.39 | $14.73 | $30.54 | $16.61 | — |
| Prior escalated rent | $30.54 | $25.97 | $13.05 | $22.99 | $15.91 | — |
| Percentage increase | 50% | 13% | 13% | 33% | 4% | — |
| As of December 31, 1999: | | | | | | |
| Square feet | 14,028 | 3,623 | 11,960 | 2,414 | 4,174 | 16,998 |
| Cubic feet | — | — | — | — | — | 428,300 |
| Number of properties | 22 | 39 | 56 | 7 | 7 | 89 |
| Occupancy rate | 95% | 99% | 92% | 93% | 98% | 95% |

[1] *Represents the Company's 34% interest.*
[2] *The office and showroom space is contained in the same mixed-use properties.*
[3] *Most leases include periodic step-ups in rent, which are not reflected in the initial rent per square foot leased.*

## Expenses

The Company's expenses were $466,117 in the year ended December 31, 2000, compared to $405,854 the prior year, an increase of $60,263. These increases by segment resulted from:

| | Total | Office | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|
| Operating: | | | | | |
| Acquisitions | $23,639 | $16,743 | $ — | $2,310 | $ 4,586 |
| Same store operations | 12,603 | 13,374 | (2,501) | 2,294 | (564) |
| | 36,242 | 30,117 | (2,501) | 4,604 | 4,022 |
| Depreciation and amortization: | | | | | |
| Acquisitions | 5,952 | 3,735 | — | 528 | 1,689 |
| Same store operations | 10,309 | 6,197 | 2,147 | 2,397 | (432) |
| | 16,261 | 9,932 | 2,147 | 2,925 | 1,257 |
| General and Administrative: | | | | | |
| Appreciation in value of Vornado shares and other securities held in officer's deferred compensation Trust | 5,105 | — | — | — | 5,105 |
| Other expenses | 2,655[1] | 170 | 94 | 853 | 1,538 |
| | 7,760 | 170 | 94 | 853 | 6,643 |
| | $60,263 | $40,219 | $ (260) | $8,382 | $11,922 |

[1] *This increase primarily resulted from higher payroll and professional fees.*

Income applicable to Alexander's (loan interest income, equity in income (loss) and depreciation) was $13,053 in the year ended December 31, 2000, compared to $7,427 in the prior year, an increase of $5,626. This increase resulted from interest income on higher outstanding loan balances to Alexander's.

Income from partially-owned entities was $90,404 in the year ended December 31, 2000, compared to $82,310 in the prior year, an increase of $8,094. This increase by segment resulted from:

| | Date of Acquisition | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|---|
| Acquisitions: | | | | | | | |
| Newkirk Joint Ventures | Various | $ 4,604 | $ — | $ — | $ — | $ — | $ 4,604 |
| Other | Various | (2,750) | $ — | $ — | $ — | $ — | (2,750) |
| Increase (decrease) in equity in income: | | | | | | | |
| Temperature Controlled Logistics | | (7,944)[1] | — | — | — | (7,944)[1] | — |
| CESCR | | 6,907 | 6,907 | — | — | — | — |
| Hotel Pennsylvania | | 2,977[2] | — | — | — | — | 2,977[2] |
| Partially-owned office buildings | | 1,089 | 1,089 | — | — | — | — |
| Other | | 3,211 | 2,159 | (271) | 2,111 | — | (788) |
| | | $ 8,094 | $10,155 | $(271) | $2,111 | $(7,944) | $ 4,043 |

[1] *Reflects $9,780 of rent not recognized in the year ended December 31, 2000.*
[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.*

Interest and other investment income (interest income on mortgage loans receivable, other interest income, dividend income and net gains on sales of marketable securities) was $32,926 for the year ended December 31, 2000, compared to $18,359 in the prior year, an increase of $14,567. This increase resulted primarily from the acquisition of NorthStar subordinated unsecured debt (22% effective rate) on September 19, 2000 and a loan to Primestone Investment Partners, L.P. (20% effective rate) on September 28, 2000.

Interest and debt expense was $170,273 for the year ended December 31, 2000, compared to $141,683 in the prior year, an increase of $28,590. This increase resulted primarily from higher average outstanding balances and higher interest rates during the year.

Net gain on sale of real estate of $10,965, resulted from (i) sale of three Texas shopping center properties on March 2, 2000, for $25,750, resulting in a gain of $2,560 and (ii) the sale of the Company's Westport Connecticut office property on August 30, 2000 for $24,000 resulting in a gain of $8,405.

Minority interest was $102,374 for the year ended December 31, 2000, compared to $54,998 for the prior year, an increase of $47,376. This increase is primarily due to higher income.

Preferred stock dividends were $38,690 for the year ended December 31, 2000, compared to $33,438 in the prior year, an increase of $5,252. 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 incurred an extraordinary loss of $1,125 in the first quarter of this year due to the write-off of unamortized financing costs in connection with a prepayment of debt.

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, 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 | — | (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 11, 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 lower equity in Alexander's income 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 |
|---|---|---|---|---|---|---|---|
| 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 11, 1999–December 31, 1999) and equity interest in the operations (January 1, 1999–March 11, 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.

**Supplemental Information**

**Three Months Ended December 31, 2000 and December 31, 1999**

Below is a summary of net income and EBITDA by segment for the three months ended December 31, 2000 and 1999:

| | For The Three Months Ended December 31, 2000 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other[3] |
| Total revenues | $216,853 | $120,942 | $ 47,123 | $ 43,048 | $ — | $ 5,740 |
| Total expenses | 125,509 | 70,170 | 19,943 | 23,887 | — | 11,509 |
| Operating income | 91,344 | 50,772 | 27,180 | 19,161 | — | (5,769) |
| Income applicable to Alexander's | 5,590 | — | — | — | — | 5,590 |
| Income from partially-owned entities | 15,957 | 6,622 | (320) | (2,641) | 4,094[4] | 8,202 |
| Interest and other investment income | 14,657 | 3,501 | — | 755 | — | 10,401 |
| Interest and debt expense | (49,033) | (17,332) | (20,047) | (10,706) | — | (948) |
| Net gain on sale of real estate | — | — | — | — | — | — |
| Minority interest | (26,792) | (11,671) | (4,005) | (3,124) | (3,214) | (4,778) |
| Income before extraordinary item | 51,723 | 31,892 | 2,808 | 3,445 | 880 | 12,698 |
| Extraordinary item | — | — | — | — | — | — |
| Net income | 51,723 | 31,892 | 2,808 | 3,445 | 880 | 12,698 |
| Extraordinary item | — | — | — | — | — | — |
| Minority interest | 26,792 | 11,671 | 4,005 | 3,124 | 3,214 | 4,778 |
| Net gain on sale of real estate | — | — | — | — | — | — |
| Interest and debt expense[2] | 70,755 | 25,160 | 20,663 | 10,706 | 6,478 | 7,748 |
| Depreciation and amortization[2] | 46,913 | 21,137 | 4,345 | 5,835 | 9,593 | 6,003 |
| Straight-lining of rents[2] | (5,860) | (3,916) | (318) | (1,396) | (136) | (94) |
| Other | 7,546 | 252 | (1,923) | 1,358 | 3,706[5] | 4,153[6] |
| EBITDA[1] | $197,869 | $ 86,196 | $ 29,580 | $ 23,072 | $23,735 | $35,286 |

***Vornado Realty Trust***

| | For The Three Months Ended December 31, 1999 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other[3] |
| Total revenues | $183,651 | $103,942 | $42,854 | $33,210 | $ — | $ 3,645 |
| Total expenses | 111,680 | 62,635 | 20,860 | 18,183 | — | 10,002 |
| Operating income | 71,971 | 41,307 | 21,994 | 15,027 | — | (6,357) |
| Income applicable to Alexander's | 2,476 | — | — | — | — | 2,476 |
| Income (loss) from partially-owned entities | 24,015 | 5,442 | 298 | (1,201) | 8,760 | 10,716 |
| Interest and other investment income | 5,779 | 494 | — | 171 | — | 5,114 |
| Interest and debt expense | (35,697) | (14,180) | (6,032) | (8,178) | — | (7,307) |
| Minority interest | (19,789) | (9,692) | (5,206) | (2,116) | (2,775) | — |
| Net income | 48,755 | 23,371 | 11,054 | 3,703 | 5,985 | 4,642 |
| Minority interest | 19,789 | 9,692 | 5,206 | 2,116 | 2,775 | — |
| Interest and debt expense[2] | 58,346 | 23,289 | 6,681 | 8,178 | 7,430 | 12,768 |
| Depreciation and amortization[2] | 41,604 | 18,825 | 4,372 | 5,061 | 7,441 | 5,905 |
| Straight-lining of rents[2] | (5,294) | (3,268) | (119) | (1,236) | (527) | (144) |
| Other | 6,224 | 407 | — | — | 2,306[5] | 3,511 |
| EBITDA[1] | $169,424 | $ 72,316 | $27,194 | $17,822 | $25,410 | $26,682 |

*[1] EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of real estate, the effect of straight-lining of property rentals for rent escalations and minority interest. 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] 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.*

*[3] Other EBITDA is comprised of:*

| | *2000* | *1999* |
|---|---|---|
| *Investment in Newkirk Joint Ventures* | *$13,151* | *$15,621* |
| *Investments in other partially-owned entities (Hotel Pennsylvania*, Alexander's and other)* | *16,250* | *12,706* |
| *Investment income* | *10,401* | *5,114* |
| *Unallocated general and administrative expenses* | *(7,505)* | *(7,723)* |
| *Other* | *2,989* | *964* |
| *Total* | *$35,286* | *$26,682* |

**The commercial portion of the Hotel was wholly-owned as of August 5, 1999, and accordingly consolidated.*

*[4] Net of $4,500 of rent not recognized as income.*

*[5] Includes the reversal of income taxes which are considered non-recurring because of the conversion of the Temperature Controlled Logistics Companies to REITs in 2000.*

*[6] Net of $2,272, the Company's share of the reversal of Alexander's stock appreciation rights expense.*

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

| | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|
| Three months ended December 31, 1999 | $169,424 | $72,316 | $27,194 | $17,822 | $25,410 | $26,682 |
| 2000 Operations: | | | | | | |
| Same store operations[1] | 12,898 | 8,923 | 1,414 | 2,102 | (1,675) | 2,134 |
| Acquisitions and other | 15,547 | 4,957 | 972 | 3,148 | — | 6,470 |
| Three months ended December 31, 2000 | $197,869 | $86,196 | $29,580 | $23,072 | $23,735 | $35,286 |
| % increase in same store operations | 7.6% | 12.3%[2] | 5.2% | 11.8% | (6.6%) | 8.0% |

[1] *Represents operations, which were owned for the same period in each year.*
[2] *Same Store percentage increase was 14.4% for the New York City office portfolio and 5.3% for the CESCR portfolio.*

| | Office | | Merchandise Mart | | |
|---|---|---|---|---|---|
| (square feet in thousands) | New York City | CESCR[1] | Retail | Office[2] | Showroom[2] |
| Square feet | 325 | 335 | 25 | 13 | 111 |
| Rent per square foot: | | | | | |
| Initial rent[3] | $53.34 | $30.61 | $19.44 | $21.93 | $21.16 |
| Prior escalated rent | $30.12 | $25.85 | $12.81 | $20.12 | $21.29 |
| Percentage increase | 77% | 18% | 52% | 9% | — |

[1] *Represents the Company's 34% interest.*
[2] *The office and showroom space is contained in the same mixed-use properties.*
[3] *Most leases include periodic step-ups in rent, which are not reflected in the initial rent per square foot leased.*

**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.

## Liquidity and Capital Resources

### Cash Flows for the Years Ended December 31, 2000, 1999 and 1998

*Year Ended December 31, 2000*

Cash flows provided by operating activities of $249,921 was primarily comprised of (i) income of $233,991 and (ii) adjustments for non-cash items of $66,557 offset by (iii) the net change in operating assets and liabilities of $40,787 and (iv) the net gain on sale of real estate of $10,965. The adjustments for non-cash items are primarily comprised of (i) depreciation and amortization of $99,846 and (ii) minority interest of $102,374, partially offset by (iii) the effect of straight-lining of rental income of $32,206 and (iv) equity in net income of partially-owned entities and income applicable to Alexander's of $103,457.

Net cash used in investing activities of $699,375 was primarily comprised of (i) capital expenditures of $171,782, (ii) investment in notes and mortgages receivable of $144,225, (iii) acquisitions of real estate of $199,860, (iv) investments in partially-owned entities of $99,974, (v) cash restricted of $183,788, of which $173,500 represents funds escrowed in connection with a mortgage financing, partially offset by (vi) proceeds from the sale of real estate of $47,945 and distributions from partially-owned entities of $68,799.

Below are the details of acquisitions of real estate, investments in partially-owned entities, investments in notes and mortgages receivable and capital expenditures.

| (in 000's) | Cash | Debt Assumed | Value of Units Issued | Investment |
|---|---|---|---|---|
| Acquisitions of Real Estate: | | | | |
| Student Housing Complex (90% Interest) | $ 6,660 | $17,640 | $ — | $ 24,300 |
| 33 North Dearborn Street | 16,000 | 19,000 | — | 35,000 |
| 7 West 34th Street | 128,000 | — | — | 128,000 |
| L.A. Mart | 44,000 | 10,000 | — | 54,000 |
| Other | 5,200 | — | — | 5,200 |
| | $199,860 | $46,640 | $ — | $246,500 |
| Investments in Partially-Owned Entities: | | | | |
| Vornado Ceruzzi Joint Venture (80% interest) | $ 21,940 | $ — | $ — | $ 21,940 |
| Additional investment in Newkirk Joint Ventures | 1,334 | — | 9,192 | 10,526 |
| Loan to Alexander's | 15,000 | — | — | 15,000 |
| Alexander's—increase in investment to 33% | 3,400 | — | — | 3,400 |
| Funding of Development Expenditures: | | | | |
| Fort Lee (75% interest) | 10,400 | — | — | 10,400 |
| Park Laurel (80% interest) | 47,900 | — | — | 47,900 |
| | $ 99,974 | $ — | $9,192 | $109,166 |
| Investments in Notes and Mortgages receivable: | | | | |
| Loan to NorthStar Partnership L.P. | $ 65,000 | $ — | $ — | $ 65,000 |
| Loan to Primestone Investment Partners, L.P. | 62,000 | — | — | 62,000 |
| Advances to Vornado Operating Company | 15,251 | — | — | 15,251 |
| Other | 1,974 | — | — | 1,974 |
| | $144,225 | $ — | $ — | $144,225 |

| | Total | New York City Office | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|
| Capital expenditures: | | | | | |
| Expenditures to maintain the assets | $ 33,113 | $ 15,661 | $ 414 | $11,437 | $ 5,601 |
| Tenant allowances | 60,850 | 51,017 | 3,307 | 6,301 | 225 |
| Total recurring capital expenditures | 93,963 | 66,678 | 3,721 | 17,738 | 5,826 |
| Redevelopment and development expenditures | 63,348 | 40,124 | 3,600 | 19,624 | — |
| Corporate | 14,471 | — | — | — | 14,471 |
| | $171,782 | $106,802 | $7,321 | $37,362 | $20,297 |

In addition to the expenditures noted above, the Company recorded leasing commissions of $26,133 in the year ended December 31, 2000, of which $24,333 was attributable to New York City Office properties, $647 was attributable to Retail properties and $1,153 was attributable to Merchandise Mart properties.

Net cash provided by financing activities of $473,813 was primarily comprised of (i) proceeds from borrowings of $1,195,108, (ii) proceeds from issuance of preferred units of $204,750, partially offset by, (iii) repayments of borrowings of $633,655, (iv) dividends paid on common shares of $168,688, (v) dividends paid on preferred shares of $35,815, and (vi) distributions to minority partners of $80,397.

*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 $20,751 (of which $14,000 is from Vornado Operating Company).

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

| | Cash | Debt Assumed | Value of Units Issued | Investment |
|---|---|---|---|---|
| Real Estate: | | | | |
| 595 Madison Avenue | $125,000 | $ — | $ — | $125,000 |
| 909 Third Avenue | 12,400 | 109,000 | 1,600 | 123,000 |
| 888 Seventh Avenue | 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 |
| Redevelopment and Development 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.*

In addition to the expenditures noted above, the Company recorded leasing commissions of $16,853 in the year ended December 31, 1999, of which $14,003 was attributable to New York City Office properties, $638 was attributable to Retail properties and $2,212 was attributable to Merchandise Mart properties.

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.

*Years 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 (iv) 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 Assumed | Value of Shares or Units Issued | Investment |
|---|---|---|---|---|
| Real Estate: | | | | |
| Merchandise Mart Properties | $187,000 | $327,000 | $116,000 | $ 630,000 |
| One Penn Plaza | 317,000 | 93,000 | — | 410,000 |
| 770 Broadway | 131,000 | — | 18,000 | 149,000 |
| 150 East 58th Street | 118,000 | — | — | 118,000 |
| 40 Fulton Street | 38,000 | — | — | 38,000 |
| 888 Seventh Avenue | 17,000 | — | — | 17,000[1] |
| 689 Fifth Avenue | 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 (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 | 53,625 | 46,187 | 2,397 | 5,041 | — |
| | $68,085 | $51,162 | $5,535 | $10,314 | $1,074 |

In addition to the expenditures noted above, the Company recorded leasing commissions of $17,142 in the year ended December 31, 1998, of which $13,299 was attributable to New York City Office properties, $763 was attributable to Retail properties and $3,080 was attributable to Merchandise Mart properties.

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.

**Funds from Operations for the Years Ended December 31, 2000 and 1999**

Funds from operations were $335,158 in the year ended December 31, 2000, compared to $293,773 in the prior year, an increase of $41,385. The following table reconciles funds from operations and net income:

| | Year Ended December 31, | |
|---|---|---|
| | **2000** | 1999 |
| Net income applicable to common shares | **$195,301** | $169,081 |
| Extraordinary item | **1,125** | — |
| Depreciation and amortization of real property | **97,744** | 82,216 |
| Straight-lining of property rentals for rent escalations | **(28,893)** | (22,881) |
| Leasing fees received in excess of income recognized | **1,259** | 1,705 |
| Appreciation (depreciation) of securities held in officer's deferred compensation trust | **4,765** | (340) |
| Net gain on sale of real estate | **(10,965)** | — |
| Gain on sale of securities available for sale | **—** | (383) |
| Proportionate share of adjustments to equity in income of partially-owned entities to arrive at funds from operations | **69,578** | 57,127 |
| Minority interest in excess of preferential distributions | **(16,445)** | (9,020) |
| | **313,469** | 277,505 |
| Series A Preferred Stock dividends | **21,689** | 16,268 |
| Funds from operations | **$335,158** | $293,773 |

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

| | Year Ended December 31, | |
|---|---|---|
| | **2000** | 1999 |
| Weighted average shares used for determining diluted income per share | **88,692** | 87,287 |
| Series A preferred shares | **8,018** | 6,015 |
| Share used for determining diluted funds from operations per share | **96,710** | 93,302 |

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 NAREIT. Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified from this definition to adjust primarily for (i) the effect of straight-lining of property rentals for rent escalations and leasing fee income, and (ii) the reversal of income taxes (benefit) which are considered non-recurring because of the conversion of Temperature Controlled Logistics Companies to REITs in 2000.

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

| | Year Ended December 31, | |
|---|---|---|
| | **2000** | 1999 |
| Operating activities | **$ 249,921** | $ 176,895 |
| Investing activities | **$(699,375)** | $(494,204) |
| Financing activities | **$ 473,813** | $ 262,131 |

**Certain Cash Requirements**

The Company has budgeted approximately $101,017 for capital expenditures (excluding acquisitions) over the next year as follows:

| | Total | New York City Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|
| Expenditures to maintain the assets | $ 66,036 | $21,969 | $5,580 | $14,018 | $5,700[1] | $18,769[2] |
| Tenant allowances | 34,981 | 21,349 | 1,847 | 11,785 | — | — |
| | $101,017 | $43,318 | $7,427 | $25,803 | $5,700 | $18,769 |

[1] *Represents the Company's 60% share of the Vornado/Crescent Partnerships obligation to fund $9,500 of capital expenditures per annum.*
[2] *Includes $11,269 in connection with the Hotel Pennsylvania.*

In addition to the expenditures noted above, the Company has budgeted leasing commissions of $12,900, of which $11,000 is attributable to New York City Office properties and $1,900 is attributable to Merchandise Mart properties.

Tenant allowances and leasing commissions for the New York City Office properties approximate $17.00 per square foot for renewal space and $42.00 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 development and redevelopment projects for which it has budgeted approximately $258.8 million to be expended as follows:

| ($ IN MILLIONS) | | The Company's Share of Costs Expended | | | |
|---|---|---|---|---|---|
| | Completion Date | Estimated Project Cost | Year Ended December 31, 2000 | From Inception through December 31, 2000 | Estimated Costs to Complete |
| **DEVELOPMENT AND REDEVELOPMENT PROJECTS** | | | | | |
| Office: | | | | | |
| Penn Plaza Area: | | | | | |
| 2 Penn Plaza – construction of 42,000 square feet of retail space and the redevelopment of 45,000 square feet of existing retail space | Fall 2002 | $ 50.8 | $ 3.4 | $ 3.4 | $ 47.4 |
| 435 Seventh Avenue – demolition of existing buildings and the construction of 37,000 square feet of retail space and 176,000 square feet of office space | Summer 2002 | 78.6 | .5 | .5 | 78.1 |
| GreenPoint site adjacent to One Penn Plaza – redevelopment of 41,000 square feet of retail space | Spring 2002 | 12.1 | .7 | .7 | 11.4 |
| Merchandise Mart: | | | | | |
| Market Square on Main Street, High Point – construction of 465,000 square feet of showrooms | Fall 2001 | 38.7 | 9.9 | 9.9 | 28.8 |
| Other: | | | | | |
| Park Laurel (80% interest) – construction and sale of 119,000 square foot residential condominium tower in Manhattan (as of March 1, 2001, 52 of the 53 units have been presold for an aggregate of $135.6) | Summer 2001 | 106.9 | 47.9 | 70.8 | 36.1 |
| Fort Lee, New Jersey (75% interest) – construction of an 800,000 square foot high rise rental apartment complex | Summer 2002 | 100.3 | 25.5 | 43.3 | 57.0 |
| | | $387.4 | $87.9 | $128.6 | $258.8 |

In addition to the projects noted above, the Company has identified the following opportunities for future development or redevelopment: (i) the redevelopment of the former Bradlees retail site at 14th Street and Union Square to include a combination of office and retail space, (ii) the refurbishment of the Hotel Pennsylvania to include the redevelopment of existing retail space, (iii) the construction of an office tower in excess of 1,000,000 square feet at 20 Times Square (70% interest), (iv) the redevelopment of office space at 640 Fifth Avenue, and (v) the redevelopment of retail space at 34th Street and Eighth Avenue.

There can be no assurance that the above projects will be ultimately completed on time or completed for the budgeted amount.

No cash requirements have been budgeted for the capital expenditures and amortization of debt of Alexander's, CESCR, or Newkirk, which are partially owned by the Company. These investees are expected to fund their own cash requirements. Alexander's is prohibited by its loan agreements from paying dividends. In 2001, the Company expects to receive at a minimum, preferred distributions

from CESCR of approximately $15 million (a blended yield of 6.2%) and common distributions of approximately $4.1 million based on 2000's dividend rate. The minimum preferred distribution rate increases from 6.2% in 2001 to 6.46% in 2002 and 6.5% thereafter. Further, the Company will receive distributions of approximately $8.5 million from its investment in the Newkirk Joint Ventures.

**Financing Activities**

**Corporate**

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.

On March 21, 2000, the Company renewed its $1,000,000 revolving credit facility for an additional three years. The covenants of the facility include, among others, maximum loan to value ratio, minimum debt service coverage and minimum capitalization requirements. Interest is at LIBOR plus .90% (7.66% at December 31, 2000). The Company paid origination fees of $6,700 and pays a commitment fee quarterly, over the remaining term of the facility of .20% per annum on the facility amount.

On May 1, 2000, the Company sold an aggregate of $21,000 of 8.25% Series D-6 Cumulative Redeemable Preferred Units in the Operating Partnership to an institutional investor in a private placement, resulting in net proceeds of approximately $20,475. The Perpetual Preferred Units may be called without penalty at the option of the Operating Partnership commencing on May 1, 2005.

On May 25, 2000, the Company sold an aggregate of $180,000 of 8.25% Series D-7 Cumulative Redeemable Preferred Units in the Operating Partnership to institutional investor in a private placement, resulting in net proceeds of approximately $175,500. The Perpetual Preferred Units may be called without penalty at the option of the Operating Partnership commencing on May 25, 2005.

On December 8, 2000, the Company sold an aggregate of $9,000 of 8.25% Series D-8 Cumulative Redeemable Preferred Units in the Operating Partnership to institutional investors in a private placement, resulting in net proceeds of approximately $8,775. The Perpetual Preferred Units may be called without penalty at the option of the Operating Partnership commencing on December 8, 2005.

**Office**

On March 1, 2000, the Company refinanced its Two Park Avenue office building for $90,000. Of the proceeds received, the Company repaid the existing debt of $65,000. The new 3-year debt matures on February 28, 2003 and bears interest at Libor + 1.45% (8.21% at December 31, 2000).

On August 11, 2000, the Company completed a $173,500 mortgage financing, cross-collaterized by its 770 Broadway and 595 Madison Avenue office buildings. The loan bears interest at LIBOR + .40% (7.16% at December 31, 2000) and matures on August 1, 2002. At December 31, 2000, the proceeds of the loan are in a restricted mortgage escrow account, which bears interest at the same rate as the loan.

On January 11, 2001, the Company completed a $105,000 refinancing of its 888 Seventh Avenue office building. The loan bears interest at a fixed rate of 6.6% and matures on January 1, 2006. A portion of the proceeds received were used to repay the then existing mortgage of $55,000.

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 $5,479,218 at December 31, 1999 to $6,370,314 at December 31, 2000.

*World Trade Center*

On February 22, 2001, the Company entered into a 20-day exclusive negotiation period with the Port Authority of NY & NJ to complete the contract and associated documents for the net lease of the 11 million square foot World Trade Center complex in New York. The 99-year net lease of the World Trade Center has been valued by the Port Authority's advisors at approximately $3.25 billion. The Board of the Commissioners of the Port Authority has instructed their staff and advisors to present the final contract for approval at a special Port Authority Board meeting scheduled for March 14, 2001. In connection therewith, the Company has provided the Port Authority with a $100 million refundable and non-drawable letter of credit.

On March 19, 2001, the Company announced that it was unable to reach a final agreement with the Port Authority of NY and NJ to conclude the net lease.

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 shares, the rates at which the Company is able to borrow money and, more generally, the availability of financing on terms that, in the Company's view, make such acquisitions financially attractive.

**Recently Issued Accounting Standards**

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

In 2001, the Company will reclassify a previously recognized charge of approximately $4,000 from other comprehensive income to income, relating to the market-to-market on public and private technology company warrants, as the cumulative effect of adopting Statement 133. The Company does not currently anticipate utilizing hedge accounting for its derivative positions following the adoption of Statement 133.

**TRUSTEES**

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*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*
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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

**OFFICERS**

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*Chief Executive Officer*

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MELVYN H. BLUM
*Executive Vice President – Development*

MICHELLE FELMAN
*Executive Vice President – Acquisitions*

JOSEPH HAKIM
*Executive Vice President –*
*Chief Operating Officer*

JOSEPH MACNOW
*Executive Vice President –*
*Finance and Administration and*
*Chief Financial Officer*

DAVID R. GREENBAUM
*Chief Executive Officer of the*
*New York Office Division*

RICHARD T. ROWAN
*Executive Vice President –*
*Retail Real Estate Division*

CHRISTOPHER KENNEDY
*President of the*
*Merchandise Mart Division*

ALEC C. COVINGTON
*President and Chief Executive Officer of*
*Temperature Controlled Logistics*



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New York, New York

### Transfer Agent and Registrar
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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, 210 Route 4 East, Paramus, New Jersey 07652; 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 30, 2001 at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663

Vornado

REALTY TRUST