Vornado
REALTY TRUST

Vornado

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ANNUAL REPORT

2001

FINANCIAL HIGHLIGHTS

	Year Ended December 31,	
	2001	2000
Revenues	**$ 985,773,000**	$ 825,972,000
Net income	**$ 263,738,000**	$ 233,991,000
Net income per share—basic	**$ 2.55**	$ 2.26
Net income per share—diluted	**$ 2.47**	$ 2.20
Total assets	**$ 6,777,343,000**	$ 6,403,210,000
Shareholders' equity	**$ 2,570,372,000**	$ 2,078,720,000
Funds from operations (1)	**$ 376,523,000**	$ 335,158,000

(1) See Management's Discussion and Analysis of Financial Conditions and Results of Operations on page 95 for a reconciliation of net income to funds from operations. Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity.

Vornado Company Profile

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

- all or portions of 73 office properties aggregating approximately 27.2 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia 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 8.6 million square feet of showroom and office space, including the 3.4 million square foot Merchandise Mart in Chicago;
- a 60% interest in partnerships that own 89 warehouse facilities nationwide with an aggregate of approximately 445 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 1.0 million square feet with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space;
- a 21.1% interest in The Newkirk Master Limited Partnership which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;
- eight dry warehouse/industrial properties in New Jersey containing approximately 2.0 million square feet; and
- other investments, including interests in other real estate, marketable securities and loans and notes receivable.

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.

To Our Shareholders

Mike and I are proud to be New Yorkers. We make large investments in great cities. Our conviction about New York and Washington, D.C. is as strong as ever. We believe that the best and the brightest will always cluster to our greatest cities.

Everyone tells me how lucky we are not to have owned the World Trade Center. We won the bidding, but were unable to complete the deal. The emotion of the pursuit was intense. In the end, we were happy to lose the business deal. But as history, the attack on the World Trade Center and on the Pentagon, really the attack on America, is as important as Pearl Harbor and maybe even any event in the last one hundred years. Together with all civilized people we grieve for the victims and honor the heroes. God will bless America.

Understandably, the world went topsy-turvy after the attack. Long-held real estate principles temporarily reversed. High floors were suspect. Businesses debated dispersing to remote locations. Landmark buildings were to be avoided. But the return to normalcy is underway. Rents do rise the higher the building floor. Companies do want their people clustered downtown. It pays to own important buildings in important locations. Our great way of life is surely returning.

2001 Financial Results

Vornado's Funds From Operations for the year ended December 31, 2001 was $376.5 million, $3.78 per diluted share, compared to $335.2 million, $3.47 per diluted share, for the year ended December 31, 2000. Net income applicable to common shares for the year ended December 31, 2001 was $227.2 million, $2.47 per diluted share, versus $195.3 million, $2.20 per diluted share, for the previous year. Here are the financial results by segment:

($ in millions, except share data)	% of 2001 EBITDA	EBITDA 2001	EBITDA 2000	Same Store % Increase (Decrease)
Office (NY and 34% of CESCR)	48%	**380.2**	331.0	11.4%
Retail	15%	**117.7**	121.8	2.7%
Merchandise Mart	14%	**110.8**	91.9	8.2%
Temperature Controlled Logistics	10%	**78.4**	93.2	(15.8%)
Newkirk Joint Ventures	8%	**63.4**	51.0	16.8%
Hotel Pennsylvania	3%	**17.0**	26.9	(42.6%)
Other	2%	**16.4**	23.1	7.0%
Total	100%	**783.9**	738.9	4.4%
Funds From Operations		**376.5**	335.2	
Funds From Operations Per Share		**3.78**[1]	3.47	

[1] *$3.90 per share excluding net non-recurring items, a 12.4% increase over last year.*

By their nature, financial statements have cutoff dates. The statements in this report are as of December 31, 2001. But the business changed substantially the very next day with the completion of the Charles E. Smith Commercial Realty (CESCR) merger. The table below presents pro forma statistics as if CESCR was a part of Vornado for the entire year 2001. Please note the mix change — office segment up from 48% to 57%[1], and all other segments declining:

($ in millions, except share data)	Proforma	
	% of EBITDA	EBITDA
Office (NY and 100% of CESCR)	57%	545.5
Retail	12%	117.7
Merchandise Mart	12%	110.8
Temperature Controlled Logistics	8%	78.4
Newkirk Joint Ventures	7%	63.4
Hotel Pennsylvania	2%	17.0
Other	2%	16.4
Total	100%	949.2
Funds From Operations		414.3
Funds From Operations Per Share		4.15

[1] *62% if the Office portion of the Mart Division is included.*

More numbers. Mike and I thrive on numbers. The table below shows our five year performance:

($ in millions, except share data)

	Year	Total Assets[1]	EBITDA	Funds From Operations		Dividends	
				Per Share	% Increase	Per Share	% Increase
Proforma	2001[2]	11,076	949.2	4.15[3]	12.5%[3]	—	—
	2001	9,476	783.9	3.78[3]	8.9%[3]	2.63[4]	33.5%
	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%

[1] *Total assets based on market value of equity on December 31 of each year.*

[2] *Proforma as if CESCR was a part of Vornado for the entire year 2001.*

[3] *Excluding net non-recurring items, 2001 was $3.90 per share, or a 12.4% increase, and 2001 proforma was $4.27, or a 15.7% increase.*

[4] *Includes a special dividend of $.31.*

It is a sign of the earnings power of our business that it could withstand FFO declines of $24.7 million in 2001 from Hotel Pennsylvania and AmeriCold and still produce an industry leading 12.4% recurring FFO increase (see footnote 3 above).

I love milestones. In 2002, we expect to reach $1 billion of EBITDA. Further, having completed the Smith merger and the subsequent sale of $434 million of common shares (to rebalance our balance sheet), Vornado is now the fourth largest property REIT. Someone recently asked me what it would take to become number three. I didn't know. It is value per share that we seek to create, not size for size sake.

Here is Vornado's capital structure (as of April 24, 2002):

($ in millions, except share data)	Amount	Rate
Floating Rate Debt	1,120	3.48%
Fixed Rate Debt	3,403	7.73%
Total Debt (including $777 of Joint Venture Debt)	4,523	6.68%
Perpetual Preferred	1,092	8.33%
Equity — 138.4 million shares/units at $43.95 per	6,083	n/a
Enterprise Value	11,698	
Debt to Enterprise Value	38.7%	
Debt plus Perpetual Preferred to Enterprise Value	48.0%	

We feel our capital structure is properly balanced between debt, perpetual preferred and equity, with debt being under 40%. Perpetual preferred is a wonderful security, which has an infinite life (i.e. no due date), a fixed coupon and a one way option in the Company's favor to call without penalty five years after issue date, now only three years away. This security, which is junior to all debt, provides financial capacity without diluting common equity. Further, Vornado maintains a $1 billion bank line of credit with a syndicate of banks, which currently has no outstandings.

Accounting

The largest company in the world has a 71 page 10-K. Vornado's 10-K is 145 pages. Vornado's 10-K has grown from 75 pages in 1997, to 110 pages in both 1998 and 1999, to 120 pages in 2000, to the 145 in 2001. It's a silly parallel, but I hope you get my point. Year after year Joe and Ross have expanded disclosure and the clarity of presentation. Vornado has always strived for open kimono disclosure and conservative accounting.[1] We think Vornado achieves a very high standard indeed.

Vornado has 10 unconsolidated joint ventures. As of December 31, 2001, our investment was $1.27 billion and our share of debt was $1.32 billion. See 10-K page 65 for income statements for these partially owned entities and pages 103-106 for the detail of our investment in these partially owned entities. Beginning in 2002, CESCR, the largest of these unconsolidated investments, is wholly owned and will be consolidated. Had CESCR been consolidated in 2001, unconsolidated investments would have been reduced by $347 million and Vornado's share of unconsolidated debt would have been $500 million lower.

[1] *Vornado is one of only five companies in the entire REIT universe that backs out straight lining of rents when calculating FFO. We do this to more closely track cash. To be fair, we believe investors should add $.21 per share to our FFO when comparing our results to those of other REITs.*

Charles E. Smith Commercial Realty

All real estate is not the same. Commodity-type real estate is dangerous for one's financial health. It has always been our philosophy to invest only in fortress real estate in select, great, supply constrained cities, those which have a history of spiking in value. Our flagship New York office business fits this archetype. So too does Washington, D.C. Charles E. Smith Commercial Realty is the largest and most important office owner in the D.C. market, and Robert H. Smith and Robert P. Kogod are the deans of Washington real estate. We invested in CESCR sequentially. In 1997 we invested $60 million; in 1999 we invested an additional $242 million to bring our interest up to 34%; and finally, in a transaction committed to in the fourth quarter of 2001 and closed on January 1, 2002, we acquired the remainder. We now own 100% of CESCR.

We entered the New York marketplace by buying an important existing business rather than by just buying a building or two. So too with our entry into Washington, D.C. The Charles E. Smith Companies were founded in 1946 by the company's visionary namesake, the father of Bob Smith and father-in-law of Bob Kogod. Bob Smith joined the company 52 years ago and Bob Kogod not too many years thereafter. Over the years, these leaders and their management team built the premier office business in the Washington market, as well as the premier apartment business; both are the largest as well. In 1994, the apartment division went public in a transaction lead managed by Goldman Sachs with our own Michael Fascitelli as the Goldman partner in charge.[1]

The CESCR division of Vornado has a fully integrated stand-alone management capability. Bob Smith will continue his role as Chairman. Bob Kogod has chosen a somewhat less active advisory role. The very deep and talented management team at CESCR is headed by Paul Larner — COO & CFO, Ken McVearry — EVP–Leasing, and Brent Bitz — EVP–Operations. Take it from Mike and me, these guys are good.

In their letter to their partners and employees announcing our deal, Bob Smith and Bob Kogod wrote, "We are very comfortable that Vornado's values, business ethics and strategy for the future are consistent with our own." This is a deal based on great real estate and also on the shared values of the principals. Mike and I are delighted to be partners with Bob Smith, Bob Kogod and their team.

The CESCR division of Vornado owns 12.9 million square feet of office space and manages an additional 5.8 million square feet. Its flagship asset is Crystal City, located contiguous to the western edge of Washington's Reagan National Airport, a five iron to the Pentagon and a drive and a long iron to the Washington Monument. Our Crystal City office assets contain 6.9 million square feet in 24 buildings, fully 57% of which is leased to the federal government and 25% more to vendors to the federal government.

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[1] *Last year Smith Residential was merged to form Archstone-Smith, thereby becoming the nation's second largest apartment REIT.*

Our acquisition metrics[1] in this transaction are as follows:

- 12.9 million square feet acquired
- $2.45 billion transaction size[2]
- $197 per square foot average cost
- 10.3% cap rate
- $30.63 average rents per square foot in Crystal City and $27.22 average rents per square foot in the remainder of the portfolio

Mike and I made this deal because CESCR is a great platform and the Crystal City assets are irreplaceable. We are wagering that market rents will go up $10 per square foot over the next 3 to 7 years. It's a bet we are going to win.

Watch the Occupancies

Occupancy and rental rates drive our financial performance. They almost always trend in the same direction. Mike and I look at occupancy as the single most important operating statistic in our business — and we look at it every single week. After all, to be successful we must keep the buildings full. Here are the occupancy rates at year end for our various businesses:

	2001	2000	1999
Office:			
New York	**97%**	96%	95%
CESCR	**95%**	98%	99%
Retail	**91%**	92%	92%
Merchandise Mart:			
Office	**89%**	90%	93%
Showroom	**96%**	98%	98%
Hotel Pennsylvania	**63%**	76%	80%
Temperature Controlled Logistics	**81%**	82%	95%

New York occupancy rose in the aftermath of 9/11 from displaced tenants. We made deals with the U.S. Customs House, the New York State Department of Taxation and Finance, the Hartford Insurance Company and the Bank of New York. Nobody wants to benefit from 9/11, but I guess some New York office owners indirectly did. I am proud of our Company and David and his people who did whatever it took to help.

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(1) *Math is based on 100% ownership.*

(2) *We have budgeted $75 million for capex to re-let the 1.9 million square feet leased to the Patent Trade Office which will be leaving in four years; measured this way, a 10.0% cap rate.*

Hotel Pennsylvania has been on a roller coaster. We bought this 1700 room asset located directly across Seventh Avenue from Two Penn Plaza and Madison Square Garden in stages from 1997 to 1999, opportunistically responding to our partners' needs. Our objective is not to be in the hotel business, but rather to make certain this large, important asset will reflect favorably on our holdings in the neighborhood. The financial performance of this asset fluctuates with occupancy and room rate. It's been quite a ride. Hotel Pennsylvania's EBITDA was $21.0 million, $26.8 million and $17.0 million from 1999 to 2001, respectively. Our budget for 2002 is lower. This economy, tour and travel hotel began to suffer in the beginning of 2001, and was further impacted by the tragic events of 9/11.

Our 60% owned temperature controlled logistics company (AmeriCold Logistics) reported decreasing EBITDA from declining occupancy and margin. Alec Covington, who joined AmeriCold as CEO one year ago, is the real McCoy. With 20-20 hindsight, I should have changed senior management here much, much sooner. Alec is working hard and with success, changing people, systems and culture, and streamlining the business and controlling expenses. Most importantly, he understands his customers. EBITDA here will only rise as occupancies rise.

Penn Plaza District

Vornado has extensive holdings in the Penn Plaza District of Manhattan — One Penn Plaza, Two Penn Plaza, Eleven Penn Plaza and 330 W. 34th Street contain 6 million square feet of office space; the Hotel Pennsylvania has 1700 rooms and 400,000 square feet of commercial space. We also own four major corner retail locations.

This has been a superb investment for Vornado. We acquired the four office buildings in 1997 and 1998 at an average cost of $157 per square foot with average in-place rents of $26. In 2001, David's group leased 717,000 square feet[1] in these buildings at an average of $50.40 per square foot and in 2000, 645,000 square feet was leased at $44.29. Our occupancy in the Penn Plaza office buildings was 98.3% at year end 2001 and 97.3% at year end 2000. Considering that in-place rent in these four buildings is now only $32.69, our future here is very bright indeed. By the way, this loss-to-lease is typical of our entire New York portfolio.

We believe that signage and related large scale graphics are a major art form of today's urban landscape. We spent all of 2000 conceiving and all of 2001 processing a formal application to create a special signage district on Seventh Avenue from 31st Street to 35th Street. The New York City Planning Commission recognized the uniqueness of this area, which, in their own words, is a "regional gateway"

[1] *David is a leasing machine. In 2001 his team leased 1,890,000 square feet in total in New York.*

to the city, "largely defined by Penn Station, Madison Square Garden and Macy's and by the heavy pedestrian and vehicular traffic they generate." The City Planning Commission agreed with us that the special signage district will "foster a visually cohesive identity for the area… as a major destination and regional center of retail, entertainment, commercial and transit activities." Vornado's application was approved into law by the City Council on October 31, creating a special signage district that will permit Times Square-type signage in Penn Plaza. Thanks to Margaret.

The southeast corner of 34th Street and Seventh Avenue is now actively under construction — the four level building will contain 43,000 square feet and has been entirely leased to Hennes & Mauritz. The opposite corner, the full block front on Seventh Avenue from 33rd Street to 34th Street, has been redeveloped into retail space and is now in lease-up.

Merchandise Mart

The Merchandise Mart division is a great grower for us, both on a same store basis as well as from adding assets. Here's the math:

($ in thousands)

Year	EBITDA	Same Store % Increase
2001	110,802	8.2%
2000	91,858	17.8%
1999	74,996	16.6%
1998[1]	53,154	15.5%

When we acquired this business, we thought the low in-place rents represented a tremendous opportunity. Joe Hakim, Chris Kennedy and their people have done a wonderful job for us pushing rents here. The Mart Division's flagship business, the showroom segment of the famed Chicago Merchandise Mart, is realizing its birthright in spades. Here's more math:

Year	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2001	2,425,026	96.50%	$27.85
2000	2,418,558	97.80%	$26.28
1999	2,473,355	97.70%	$26.14
1998	2,611,115	93.90%	$22.08
1997	2,482,499	95.40%	$20.63

Increasing rents at high and stable occupancy, now that's the ticket. Thanks again to Joe and Chris.

[1] *For Vornado's period of ownership, 1998 EBITDA was $39,447.*

Alexander's

Progress and more progress at Alexander's, our 33% owned affiliate. Alexander's balance sheet has benefited from the refinancing of Kings Plaza and the net ground leasing of the Paramus, NJ site to Ikea and the related financing of that lease. These two transactions yielded incremental cash of $177 million. Further, Alexander's is considering selling two non-core assets to generate over $30 million more cash.

Vornado is the developer of Alexander's flagship multi-use, Cesar Pelli designed project at 59th Street and Lexington Avenue. Cranes and steel are scheduled to arrive on-site in mid-May. A construction loan of $630 million is now being arranged.

Vornado recorded recurring FFO from Alexander's of $20.9 million from interest and fee income and from our share of its results of operations. As a reality check, this $20.9 million represents a modest 9% yield on Vornado's investment of $228 million, calculated as $119 million in loans and 1,656,000 shares of Alexander's common stock priced at market.

Bradlees and Kmart

Bradlees has been totally liquidated. We have 15 former Bradlees stores that are the subject of a guarantee agreement between Bradlees, Stop & Shop (Bradlees' previous parent) and ourselves. Five of these stores have been re-let, three more have leases out for signature and the balance are in advanced stages of negotiation. The guarantee burns off as to individual leases as they expire. There are five such leases whose terms expire in November 2002. As luck would have it (and we are lucky) these are five of the really good original Two Guys in-fill locations, where Bradlees was paying low rents as shown below:

Location	Rent Per Square Foot
Jersey City, NJ	$7.26
Manalapan, NJ	$5.45
Middletown, NJ	$5.17
Union, NJ	$9.00
Woodbridge, NJ	$5.50

We have deals working for all these stores.

The former Bradlees store on 14th Street and Union Square in Manhattan was not guaranteed. This seven level building contains 232,000 square feet. It is on our books for $33.5 million. We signed an agreement to sell this wonderful property to a very financially capable entity for eleemosynary purposes. As happens sometimes, this transaction, which had a 90 day due diligence period, failed to proceed. It was a great price for a great use and it's too bad it didn't happen. It cost us six months. We have studied every alternative for this property, from office conversion to retail conversion to a combination thereof, and even to razing the building for apartment construction. The best math, by far, will be produced by a retail renovation and we are moving forward.

In January 2002, Kmart filed for bankruptcy protection. We have eight Kmarts, really very few in comparison to our size. Of these, one has been disaffirmed — York, PA, where the rent was $4.50 per square foot and which had been dark for years. Surprisingly, our Green Acres store located in the strip center adjacent to our super regional mall is slated for closing. We will struggle with York, but Green Acres will for sure be acquired by another retailer at bankruptcy auction.

Our other six Kmarts continue to remain open and operating. Two of them are great stores in Puerto Rico, two more are Kmart's only stores in Manhattan. The fifth is in center city Philadelphia (and is credit enhanced by an investment grade entity) and the sixth is in a so-so location in Northern New Jersey. On the whole, current market rents exceed the rents Kmart pays us, so we'll be okay here. The two Manhattan properties represent a very unique opportunity for us.

Our 69% owned Park Laurel condo project is now finished and sold out. Since condo sales are prohibited activities for a REIT, this project was done through a fully taxed, Taxable REIT Subsidiary. In 2000, our Board established a policy with respect to the Park Laurel and similar projects (i.e. non-recurring, for sale, fully taxable transactions), to create a bonus pool for employees whose involvement with the projects contributed to their success. With respect to the Park Laurel, the bonus pool amounted to $5.6 million pre-tax, the largest beneficiaries of which were Mike and me. Please see the 2001 proxy statement for further detail.

Rainmaker

Michael Fascitelli, our President and resident rainmaker, has re-upped for another five years. I have been blessed in my career to have Russ as my partner from 1969 and Mike from 1997. Those of you who know these two men know exactly what I mean. Mike treats me like I was half father, half brother and I treat him like the full partner that he is. Michael Fascitelli produces far, far more than he takes out.

But this business is much, much more than just Mike and me. Here's the all-star line up of our very top players:

Mel Blum	Development
Alec Covington	AmeriCold
Michelle Felman	Acquisitions
Fred Grapstein	Hotel Pennsylvania
David Greenbaum	New York Office
Joe Hakim	COO
Chris Kennedy	Merchandise Mart
Paul Larner	COO & CFO – CESCR
Joe Macnow	CFO
Sandeep Mathrani	Retail
Wendy Silverstein	Capital Markets
Bob Smith	Chairman – CESCR

There is no better group of professionals.

Rick and Sandeep

I love Rick and I love change.

Rick Rowan had run our retail business from the very beginning when there was only a retail business and when it was just Rick, Joe and me. Rick retired at the end of last year; he's earned our thanks and earned his bundle. Barb and Rick are following their kids to California.

Now for the change. Vornado's retail business is large and important. It would be a respectably sized, stand alone REIT. We conducted a formal, thorough nationwide search to find its new leader. We were able to attract our leading candidate by far, Sandeep Mathrani, whom I am delighted to say is now EVP and Divisional Head — Vornado Retail. Sandeep comes to us from New York-based Forrest City Ratner. Nobody likes to lose a star player, but I must say my friend Bruce Ratner handled the matter with grace and class.

Sandeep runs over $2.5 billion of assets for us including our 55 power centers, our malls, our very important New York street retail, including our Penn Plaza retail assets, and Alexander's retail, including the retail base of the mixed use project we are developing on the square block next to Bloomingdale's.

Sandeep has all the skills. He is 39, driven and very smart. He has tremendous leasing skills — he knows and has done deals with everyone. He is a seasoned urban developer. Sandeep's job is to mine our existing assets and grow our retail business. In just his first six weeks on the job, he has shown to be better than Rick and I together ever were. Mike and I are delighted to welcome Sandeep and Ayesha to Vornado.

Board of Trustees

I did a panel for Jonathan Litt[1] last month. A major portion of it covered corporate governance and boards of directors. Much comment was made of the value of outside/independent directors. We have a slightly different view about qualification for board membership. Our Trustees are truly wise, know our business really well, care deeply and have a huge financial stake in our Company. In the case of six of our nine Trustees, their financial stake in Vornado is in nine figures. This Board is truly focused on our business.

Obviously age is not a criteria for membership on our Board whose average age is 67. We see no reason to deprive the Company of the talent and wisdom of our members just because they have grown a year or two older.[2] Similarly, we believe continuity and longevity are a virtue. Excluding Messrs. Smith and Kogod, average length of service is 23 years.[3]

This Board has carefully directed the strategy, growth and financial performance of Vornado for the 22 years that I have been the senior executive. I applaud their important role and on behalf of all shareholders extend to them thanks.

In connection with the merger of CESCR, Bob Smith and Bob Kogod have joined our Board. Over the last four years of dating (Mike's expression), Mike and I and the two Bobs (also Mike's expression), have really gotten to know one another. For sure, Bob and Bob will be full contributors to Vornado's Board, as well as careful listeners.

Out on a Limb

Here are some miscellaneous thoughts and observations.

It's hard to have a recession with housing booming, auto sales strong, interest rates low and capital plentiful. I think when we look back years from now, we will conclude we are now in a correction, not a recession.

The twenty odd year old bull cycle in interest rates is still intact. I know trees don't grow to the sky, as my dear friend Bob Kogod warns, and rates can't go to zero, so we are ever vigilant of signs of a break in the secular cycle. We believe that to be successful we must be skilled in the management of both sides of our balance sheet. Vornado has had about $1 billion of floating rate debt for years now. It's proportional to our business size and it's been right.

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(1) *Jonathan Litt is the Senior Real Estate Analyst at Salomon Smith Barney. For the last seven years, he has been on the I.I. all-star team.*

(2) *Our Board and I, too, do believe that while age and wisdom are important for Board membership, intelligence and youth are important for management, i.e. Messrs. Fascitelli and Mathrani.*

(3) *Special mention must be made of Stanley Simon's 42 years of service which predates even me by 20 years.*

Our loan to Primestone, currently $57 million, continues to be the subject of litigation and press reports. You can read the play-by-play in our 10-K (pg. 9) and in subsequent filings. We stopped recognizing income on this loan in November 2001. The outcome here is currently uncertain.

NAVs in the real marketplace are rising much more quickly than analysts give credit and certainly much more quickly than REIT stocks are rising. Several New York office buildings have just sold for over $500 per square foot and cap rates for all property types (try to buy an apartment project or a shopping center today) are coming in. Further, shouldn't the many well managed REITs deserve a premium to NAV? For sure their franchise and management have value.

In the recovery, real estate will benefit from a double whammy as rents will rise and cap rates will hold or go lower. The discipline that the public securities markets and capital markets have imposed will reward the disciplined and patient.

Michael Bloomberg, founder of Bloomberg, LP, is a hall of fame entrepreneur and businessman. But Mike is much more — he is hugely philanthropic and civic minded. Fate was on New York's side when in this 9/11 year, Mike chose to run for mayor and in a brilliantly managed campaign, with large doses of fate and luck, he won. All New Yorkers won that election. I know this man, for all of his vast accomplishments, he has no pretensions. He is brilliant, practical, and driven to improve the human condition. We are fortunate to have him; our City will benefit immensely. I was in the audience last week when Michael spoke. He joked that business and politics are exactly the opposite. Business is dog-eat-dog and politics is exactly the opposite. Mayor Mike is learning quickly.

The tragic events of 9/11 put things into perspective. We are blessed to live in the greatest country, under the best form of government, with the most effective economic system in the history of civilization. Our leaders and our people acted courageously and magnificently. In Vornado's case, our people, who already had an intense emotional involvement with the World Trade Center, did everything they could do to help. Vornado is proud to have contributed $1 million to the Twin Towers Fund and $250,000 to the New York City Fireman's Fund. And we are grateful that life is returning to normalcy, in all the ways that really matter.

Welcome little Abigail Jerome. Congratulations to David and Laura.

Steven Roth
Chairman
April 24, 2002

Vornado Realty Trust

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
OFFICE PROPERTIES			
NEW YORK CITY			
One Penn Plaza (1)	2,502,000	99%	Buck Consultants, Cisco Systems, First Albany, General Motors Acceptance Corp., Kmart (2), Metropolitan Life, MWB Leasing, Parsons Brinkerhoff, Public Service Commission, Stone & Webster, The United States of America
Two Penn Plaza	1,521,000	98%	Compaq Computer, Forest Electric, Information Builders, Inc., Madison Square Garden, McGrawHill Co., Inc., US Healthcare Service
909 Third Avenue (1)	1,304,000	99%	Bear Stearns, Citibank, Fischbein Badillo, Forest Laboratories, IDG Books, Ogilvy Public Relations, Shearman & Sterling, U.S. Post Office
770 Broadway	1,046,000	100%	J. Crew, Kmart (2), MTVN Online, V.N.U. U.S.A., Inc.
Eleven Penn Plaza	1,021,000	96%	Crowthers McCall, EMC Corp., Executive Office Network, Faulkner & Gray, Federated Dept Stores, General Media, Rainbow Media Holdings
Two Park Avenue	964,000	99%	Hartford Insurance, Herrick Feinstein, Medical Liability Mutual Ins, Schiefflin & Somerset, Times Mirror Company, United Way
90 Park Avenue	884,000	100%	HQ Global Workplace, Sterling Winthrop Inc., Warnaco (2)
888 Seventh Avenue (1)	875,000	92%	Golden Books, New Line Realty, Soros Fund, Kaplan Educational Center, The Limited
330 West 34th Street (1)	634,000	100%	City of New York, Props for Today, The Bank of New York
1740 Broadway	563,000	100%	Davis & Gilbert, Mutual Life Insurance, William Douglas McAdams
150 East 58th Street	557,000	90%	—
866 United Nations Plaza	391,000	98%	Fross Zelnick, Mission of Japan, The United Nations
595 Madison (Fuller Building)	303,000	90%	—
640 Fifth Avenue	266,000	94%	Weber Shandwick Worldwide
40 Fulton Street	235,000	89%	—
689 Fifth Avenue	89,000	74%	—
7 West 34th Street	425,000	100%	Capital Cities Media, Health Insurance Plan of NY
715 Lexington Avenue (1)	36,000	92%	—
330 Madison Avenue (25% Ownership)	777,000	97%	Bank Julius Baer, BDO Seidman, PowerSpace & Services
20 Broad Street (1) (60% Ownership)	466,000	100%	N.Y. Stock Exchange
825 Seventh Avenue (50% Ownership)	165,000	100%	Young & Rubicam
NEW JERSEY			
Paramus (1)	128,000	89%	
Total New York City Office Buildings	**15,152,000**	**97%**	
Vornado's Ownership Interest	**14,300,000**		

Location	Square Feet	Percent Leased	Principal Tenants
Washington D.C. and Northern Virginia			
Crystal Mall	1,068,000	99%	General Services Administration
Crystal Plaza	1,223,000	99%	General Services Administration
Crystal Square	1,388,000	96%	General Services Administration, Lockheed Martin, Oblon Spivak
Crystal Gateway	1,081,000	96%	Boeing, General Services Administration, Lockheed Martin, Science Applications Int'l Corp.
Crystal Park	2,154,000	96%	CESCR Headquarters, General Services Administration, Techmatics, US Airways Headquarters
Arlington Plaza	174,000	100%	Georgetown University, Science Research Analysis Corp.
1919 S. Eads Street	93,000	67%	General Dynamics
Skyline Place	1,999,000	88%	Electronic Data Services, Science Applications Int'l Corp., Science Research Analysis Corp., General Services Administration
One Skyline Tower	477,000	99%	General Services Administration, Science Research Analysis Corp.
Courthouse Plaza (1)	609,000	89%	Arlington County
1101 17th Street	204,000	96%	American Iron and Steel Institute
1730 M Street (1)	190,000	95%	MHI DC Inc
1140 Connecticut Avenue	175,000	88%	Michaels & Wishner, P.C.
1150 17th Street	226,000	97%	American Enterprise Institute, Arthur Andersen LLP
1750 Pennsylvania Avenue	262,000	98%	General Services Administration, PA Consulting Group Holdings
Democracy Plaza I (1)	203,000	100%	Astrolink International
Tysons Dulles	474,000	94%	Keane Federal Systems, Inc.
Commerce Executive	412,000	93%	BAE Systems Mission Solutions, Concert Management Services
Reston Executive	487,000	96%	Science Applications Int'l Corp.
Total Washington D.C. and Northern Virginia Office Buildings	**12,899,000**	**95%**	
Total Office Properties	**28,051,000**		
Vornado's Ownership Interest	**27,199,000**		

Location	Square Feet	Percent Leased	Principal Tenants
Retail Properties			
New Jersey			
Bordentown (3)	179,000	100%	Shop-Rite
Bricktown	263,000	96%	Kohl's, Foodrama
Cherry Hill (3)	295,000	86%	Shop & Bag (4), Toys "Я" Us
Delran	172,000	100%	Sam's Wholesale
Dover	173,000	98%	Ames, Shop-Rite
East Brunswick	226,000	98%	Kohl's (3), Shoppers World, T. J. Maxx, Circuit City
East Hanover I	271,000	99%	Home Depot, Marshalls, Pathmark, Today's Man
East Hanover II	91,000	46%	—
Hackensack (3)	267,000	99%	Pathmark, Staples
Jersey City (3)	226,000	100%	Shop-Rite
Kearny	105,000	100%	Pathmark, Marshalls
Lawnside	145,000	100%	Home Depot, Drug Emporium
Lodi	171,000	100%	National Wholesale Liquidators
Manalapan (3)	196,000	83%	Best Buy
Marlton	180,000	87%	Kohl's (3), Shop-Rite
Middletown (3)	232,000	96%	Stop & Shop
Morris Plains	173,000	96%	Kohl's, Shop-Rite
North Bergen	62,000	95%	Waldbaum's
North Plainfield (1)	217,000	98%	Kmart (2), Pathmark
Totowa	317,000	100%	Bed Bath & Beyond (3), Home Depot, Marshalls, Circuit City
Turnersville (3)	96,000	100%	
Union (3)	264,000	99%	Toys "Я" Us, Cost Cutter Drug
Vineland	143,000	15%	—
Watchung	166,000	97%	B.J.'s Wholesale
Woodbridge (3)	236,000	92%	A&P, 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%	Stop & Shop
North Syracuse	98,000	100%	Reisman Properties
Rochester (Henrietta) (1)	148,000	—	
Rochester	—	100%	Wal*Mart (5)
Valley Stream (Green Acres) (1)	1,596,000	99%	Macy's, Sterns (4), JC Penney, Sears, Kmart (2), Dime Savings Bank, Circuit City, GreenPoint Bank, Waldbaum (4)
Pennsylvania			
Allentown	621,000	100%	Shop-Rite, Burlington Coat Factory, Wal*Mart, Sam's Wholesale, T. J. Maxx
Bensalem	126,000	100%	Kohl's (3)
Bethlehem	160,000	78%	Pathmark, Super Petz
Broomall	168,000	100%	Giant Foods (3)
Glenolden	101,000	10%	
Lancaster	64,000	88%	Weis Markets, Lowe's Home Center (5)
Levittown (3)	104,000	100%	

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
(Retail continued)			
10th and Market Streets, Philadelphia	271,000	80%	Kmart (2), Rouse Co.
Upper Moreland	122,000	100%	Sam's Wholesale
York	113,000	—	
MARYLAND			
Baltimore (Belair Rd.)	206,000	66%	Food Depot, TJ Maxx (4)
Baltimore (Towson)	153,000	78%	Staples, Basics
Baltimore (Dundalk)	183,000	60%	A&P, Ollie's
Glen Burnie	122,000	99%	Weis Markets
Hagerstown	148,000	64%	Big Lots, Weis Markets (4)
CONNECTICUT			
Newington	32,000	100%	Wal*Mart (5)
Waterbury	143,000	82%	Toys "Я" Us (4), Shaws Supermarkets (4), Price Chopper
MASSACHUSETTS			
Chicopee (3)	115,000	83%	
Milford (1)	83,000	100%	Kohl's (3)
Springfield	125,000	100%	Wal*Mart
PUERTO RICO (SAN JUAN)			
Montehiedra	525,000	98%	Kmart (2), Home Depot, Marshalls, Caribbean Theatres
Las Catalinas (50% Ownership)	343,000	98%	Kmart (2), Sears
Total Shopping Centers	**11,442,000**	**91%**	
Vornado's Ownership Interest	**11,301,000**	**91%**	
WAREHOUSE/INDUSTRIAL PROPERTIES			
NEW JERSEY			
East Brunswick	326,000	100%	
East Hanover	942,000	100%	
Edison	272,000	100%	
Garfield	487,000	100%	
Total Warehouse	**2,027,000**	**100%**	

Location	Square Feet	Percent Leased	Principal Tenants (30,000 square feet or more)
Merchandise Mart Properties			
Illinois			
Merchandise Mart, Chicago	3,433,000	97%	Baker, Knapp & Tubbs, Bankers Life & Casualty, CCC Information Services, Chicago Teachers Union, Chicago Transit Authority, Holly Hunt Ltd., Navtech, Office of the Special Deputy of the Special Deputy Receiver, Beacon Hill/Masco, Steelcase
350 North Orleans, Chicago	1,150,000	86%	21st Century Telecom/RCN, Ameritech, Art Institute of Illinois, Bank of America, Chicago Transit Authority, Fox Sports, Fiserv Solutions
33 North Dearborn Street, Chicago	320,000	89%	—
Washington, D.C.			
Washington Office Center	396,000	95%	General Services Administration
Washington Design Center	388,000	99%	—
Other	93,000	62%	District of Columbia
High Point, North Carolina			
Market Square Complex	1,997,000	98%	Century Furniture Company, La-Z-Boy
California			
L.A. Mart	781,000	84%	—
Total Merchandise Mart Properties	**8,558,000**	**94%**	
Grand Total	**50,078,000**		
Grand Total Vornado's Ownership Interest	**49,085,000**		

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

(2) These tenants have filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

(3) Stores at these locations were formerly leased to Bradlees. 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.

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

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

Alexander's Properties

(A 33.1% Owned Investment)

Location	Square Feet	Percent Leased	Principal Tenants
Operating Properties			
New York			
Kings Plaza Regional Shopping Center, Brooklyn	759,000	98%	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
New Jersey			
Paramus, New Jersey		100%	IKEA Property, Inc.
	1,460,000		
Development Properties			
New York			
59th Street and Lexington Avenue, Manhattan	—		Bloomberg L.P., Hennes & Mauritz
Rego Park II, Queens	—		

The Newkirk Master Limited Partnership

(A 21.1% Owned Investment)

The Newkirk Limited Partnership owns an aggregate of 19.7 million square feet of office, retail and industrial properties located throughout the United States, which are net leased primarily to credit rated tenants.

Temperature Controlled Logistics

(A 60% Owned Investment)

The Temperature Controlled Logistics business owns 89 refrigerated warehouses with an aggregate capacity of approximately 445 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, 2001**	Year Ended December 31, 2000	Year Ended December 31, 1999
Revenues:			
Property rentals	**$ 841,999**	$ 695,078	$ 591,270
Expense reimbursements	**133,114**	120,056	96,842
Other income (including fee income from related parties of $1,655, $1,418 and $1,262)	**10,660**	10,838	8,251
Total revenues	**985,773**	825,972	696,363
Expenses:			
Operating	**398,969**	318,360	282,118
Depreciation and amortization	**123,862**	99,846	83,585
General and administrative	**72,572**	47,911	40,151
Costs of acquisitions not consummated	**5,223**	—	—
Total expenses	**600,626**	466,117	405,854
Operating income	**385,147**	359,855	290,509
Income applicable to Alexander's	**24,548**	17,363	11,772
Income from partially-owned entities	**80,612**	86,654	78,560
Interest and other investment income	**54,385**	32,926	18,359
Interest and debt expense (including amortization of deferred financing costs of $8,458, and $7,298)	**(173,076)**	(170,273)	(141,683)
Net gain on disposition of wholly-owned and partially-owned assets	**7,425**	10,965	—
Minority interest:			
Perpetual preferred unit distributions	**(70,705)**	(62,089)	(19,254)
Minority limited partnership earnings	**(39,138)**	(38,320)	(33,904)
Partially-owned entities	**(2,520)**	(1,965)	(1,840)
Income before cumulative effect of change in accounting principle and extraordinary item	**266,678**	235,116	202,519
Cumulative effect of change in accounting principle	**(4,110)**	—	—
Extraordinary item	**1,170**	(1,125)	—
Net income	**263,738**	233,991	202,519
Preferred stock dividends (including accretion of issuance expenses of $958 in 2001 and $2,875 in 2000 and 1999)	**(36,505)**	(38,690)	(33,438)
Net income applicable to common shares	**$ 227,233**	$ 195,301	$ 169,081
Net income per common share — basic	**$ 2.55**	$ 2.26	$ 1.97
Net income per common share — diluted	**$ 2.47**	$ 2.20	$ 1.94

See notes to consolidated financial statements.

Consolidated Balance Sheets

Vornado Realty Trust

(amounts in thousands, except share and per share amounts)	**December 31, 2001**	December 31, 2000
Assets:		
Real estate, at cost:		
Land	**$ 895,831**	$ 870,023
Buildings and improvements	**3,480,249**	3,328,760
Development costs and construction in progress	**258,357**	125,814
Leasehold improvements and equipment	**55,774**	29,795
Total	**4,690,211**	4,354,392
Less accumulated depreciation and amortization	**(506,225)**	(393,787)
Real estate, net	**4,183,986**	3,960,605
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of $15,235 and $27,793	**265,584**	136,989
Escrow deposits and restricted cash	**204,463**	214,359
Marketable securities	**126,774**	120,340
Investments and advances to partially-owned entities, including Alexander's of $188,522 and $178,413	**1,270,195**	1,432,557
Due from officers	**18,197**	20,549
Accounts receivable, net of allowance for doubtful accounts of $8,831 and $9,343	**47,406**	47,937
Notes and mortgage loans receivable	**258,555**	188,722
Receivable arising from the straight-lining of rents	**138,154**	111,504
Other assets	**264,029**	169,648
	$6,777,343	$6,403,210

(amounts in thousands, except share and per share amounts)	**December 31, 2001**	December 31, 2000
Liabilities and Shareholders' Equity:		
Notes and mortgages payable	**$2,477,173**	$2,263,308
Revolving credit facility	**—**	425,000
Accounts payable and accrued expenses	**179,597**	130,464
Officer's compensation payable	**6,708**	38,424
Deferred leasing fee income	**11,940**	7,852
Other liabilities	**51,895**	1,798
Total liabilities	**2,727,313**	2,866,846
Minority interest of unitholders in the Operating Partnership	**1,479,658**	1,457,644
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 5,520,435 and 5,789,239 shares	**276,024**	288,507
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, 99,035,023 and 86,803,770 shares	**3,961**	3,472
Additional capital	**2,162,512**	1,709,284
Distributions in excess of net income	**(95,647)**	(90,366)
	2,539,803	2,103,850
Deferred compensation shares earned but not yet delivered	**38,253**	—
Accumulated other comprehensive loss	**(2,980)**	(20,426)
Due from officers for purchase of common shares of beneficial interest	**(4,704)**	(4,704)
Total shareholders' equity	**2,570,372**	2,078,720
	$6,777,343	$6,403,210

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	Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Other	Shareholders' Equity	Comprehensive Income
BALANCE, January 1, 1999	$282,758	$3,403	$1,653,208	$(132,837)	$(18,957)	$(4,897)	$1,782,678	
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	—
Redemption of units for 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
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 ($2.125 per share)	—	—	—	(7,225)	—	—	(7,225)	—
Series C Preferred Shares ($2.125 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	—
Redemption of units for 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

(continued)

	Preferred Shares	Common Shares	Additional Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Other	Shareholders' Equity	Comprehensive Income
BALANCE, December 31, 2000	$481,460	$3,472	$1,709,284	$ (90,366)	$(20,426)	$ (4,704)	$2,078,720	$215,013
Net Income	—	—	—	263,738	—	—	263,738	263,738
Dividends paid on Preferred Shares:								
Series A Preferred Shares ($3.25 per share)	—	—	—	(19,505)	—	—	(19,505)	—
Series B Preferred Shares ($2.125 per share)	—	—	—	(7,225)	—	—	(7,225)	—
Series C Preferred Shares ($2.125 per share)	—	—	—	(9,775)	—	—	(9,775)	—
Dividends paid on common shares ($2.32 per share)	—	—	—	(201,813)	—	—	(201,813)	—
Dividends payable on common shares ($.31 per share)	—	—	—	(30,701)	—	—	(30,701)	—
Common shares issued net of shelf registration costs of $260	—	391	376,542	—	—	—	376,933	—
Common shares issued under employees' share plan	—	12	9,947	—	—	—	9,959	—
Conversion of Series A Preferred Shares to common shares	(13,441)	15	13,426	—	—	—	—	—
Redemption of units for common shares	—	70	52,017	—	—	—	52,087	—
Accretion of issuance expenses on preferred shares	958	—	—	—	—	—	958	—
Common shares issued in connection with dividend reinvestment plan	—	1	1,296	—	—	—	1,297	—
Change in unrealized net loss on securities available for sale	—	—	—	—	18,178	—	18,178	18,178
Deferred compensation shares earned but not yet delivered	—	—	—	—	—	38,253	38,253	—
Pension obligations	—	—	—	—	(732)	—	(732)	(732)
BALANCE, December 31, 2001	**$468,977**	**$3,961**	**$2,162,512**	**$ (95,647)**	**$(2,980)**	**$33,549**	**$2,570,372**	**$281,184**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Vornado Realty Trust

(amounts in thousands)	**Year Ended December 31, 2001**	Year Ended December 31, 2000	Year Ended December 31, 1999
Cash Flows from Operating Activities:			
Net income	**$ 263,738**	$ 233,991	$ 202,519
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	**4,110**	—	—
Extraordinary item	**(1,170)**	1,125	—
Minority interest	**112,363**	102,374	54,998
Net gain on dispositions of wholly-owned and partially-owned assets	**(7,425)**	(10,965)	—
Depreciation and amortization (including debt issuance costs)	**123,862**	99,846	83,585
Straight-lining of rental income	**(27,230)**	(32,206)	(29,587)
Equity in (income) loss of Alexander's	**(24,548)**	(17,363)	(11,772)
Equity in income of partially-owned entities	**(80,612)**	(86,654)	(78,560)
Changes in operating assets and liabilities	**24,597**	(40,227)	(44,288)
Net cash provided by operating activities	**387,685**	249,921	176,895
Cash Flows from Investing Activities:			
Development costs and construction in progress	**(145,817)**	(35,701)	(66,962)
Acquisitions of real estate and other	**(11,574)**	(199,860)	(224,654)
Additions to real estate	**(67,090)**	(136,081)	(104,177)
Investments in partially-owned entities	**(109,332)**	(99,974)	(118,409)
Proceeds from sale of real estate	**162,045**	47,945	—
Proceeds from sale of Temperature Controlled Logistics assets	—	—	22,769
Investments in notes and mortgage loans receivable	**(83,879)**	(144,225)	(59,787)
Repayment of notes and mortgage loans receivable	**64,206**	5,222	20,751
Cash restricted, primarily mortgage escrows	**9,896**	(183,788)	13,624
Distributions from partially-owned entities	**114,218**	68,799	16,938
Real estate deposits	—	4,819	14,819
Purchases of marketable securities	**(14,325)**	(26,531)	(21,614)
Proceeds from sale or maturity of securities available for sale	**1,930**	—	12,498
Net cash used in investing activities	**(79,722)**	(699,375)	(494,204)

(continued)

(amounts in thousands)	**Year Ended December 31, 2001**	Year Ended December 31, 2000	Year Ended December 31, 1999
Cash Flows from Financing Activities:			
Proceeds from borrowings	**$ 554,115**	$ 1,195,108	$ 455,000
Repayments of borrowings	**(835,257)**	(633,655)	(668,957)
Costs of refinancing debt	**(3,394)**	(18,445)	(8,059)
Proceeds from issuance of preferred shares	**—**	—	192,953
Proceeds from issuance of preferred units	**52,673**	204,750	525,013
Proceeds from issuance of common shares	**377,193**	—	—
Dividends paid on common shares	**(201,813)**	(168,688)	(153,223)
Dividends paid on preferred shares	**(35,547)**	(35,815)	(30,563)
Distributions to minority partners	**(98,594)**	(80,397)	(52,491)
Exercise of share options	**11,256**	10,955	2,458
Net cash (used in) provided by financing activities	**(179,368)**	473,813	262,131
Net increase (decrease) in cash and cash equivalents	**128,595**	24,359	(55,178)
Cash and cash equivalents at beginning of year	**136,989**	112,630	167,808
Cash and cash equivalents at end of year	**$ 265,584**	$ 136,989	$ 112,630
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest (including capitalized interest of $12,171, $12,269 and $7,012)	**$ 171,166**	$ 165,325	$ 143,665
Non-Cash Transactions:			
Financing in connection with acquisitions	**$ —**	$ 46,640	$ 188,000
Minority interest in connection with acquisitions	**18,798**	9,192	302,100
Unrealized (loss) gain on securities available for sale	**9,495**	(18,399)	15,603
(Appreciation) depreciation of securities held in officer's deferred compensation trust	**(3,023)**	(579)	579

See notes to consolidated financial statements.

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 79% of the common limited partnership interest in, the Operating Partnership at February 1, 2002. 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 73 office properties aggregating approximately 27.2 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia area;

Retail Properties ("Retail"):

(ii) 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:

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

Temperature Controlled Logistics:

(iv) a 60% interest in the Vornado/Crescent partnerships that own 89 warehouse facilities nationwide with an aggregate of approximately 445 million cubic feet of refrigerated space leased to AmeriCold Logistics;

Other Real Estate Investments:

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

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

(vii) a 21.1% interest in The Newkirk Master Limited Partnership which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;

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

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

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 entities in which the Company has a 50% or greater interest, provided that the Company exercises control (where the Company doesn't exercise control, such entities are accounted for under the equity method). All significant intercompany amounts have been eliminated. Equity interests in partially-owned corporate entities are accounted for under the equity method of accounting when the Company's ownership interest is more than 20% but less than 50%. When partially-owned investments are in partnership form, the 20% threshold may be reduced. For all other investments, the Company uses the cost method. Equity investments are recorded initially at cost and subsequently adjusted for the Company's share of the net income or loss and cash contributions and distributions to or from these entities.

Prior to January 1, 2001, the Company's equity interests in partially-owned entities also included investments in preferred stock affiliates (corporations in which the Company owned all of the preferred stock and none of the common equity). Ownership of the preferred stock entitled the Company to substantially all of the economic benefits in the preferred stock affiliates. On January 1, 2001, the Company acquired the common stock of the preferred stock affiliates, which was owned by the Officers and Trustees of the Company, and converted them to taxable REIT subsidiaries. Accordingly, the Hotel portion of the Hotel Pennsylvania and the management companies (which provide services to the Company's business segments and operate the Trade Show business of the Merchandise Mart division) have been consolidated beginning January 1, 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. For redevelopment of existing operating properties, the net book value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when complete. If the cost of the redeveloped property, including the undepreciated net book value of the property carried forward, exceeds the estimated fair value of redeveloped property, the excess is charged to expense. During 2001, the amount of undepreciated book value carried forward on redeveloped properties totaled $8,116,000. 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, which approximates the useful lives of the assets. Additions to real estate include interest expense capitalized during construction of $12,171,000, $12,269,000, and $7,012,000 for the years ended December 31, 2001, 2000, and 1999.

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 estimated 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) as securities available for sale; equity securities it intends to buy and sell on a short term basis as trading securities; and preferred stock investments as securities held to maturity. Unrealized gains and losses on trading securities are included in earnings. Unrealized gains and losses on securities available for sale are included as a component of shareholders' equity and other comprehensive income. Realized gains or losses on the sale of securities are recorded based on specific identification. A portion of the Company's preferred stock investments are redeemable and accounted for in accordance with EITF 99-20 "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." Income is recognized by applying the prospective method of adjusting the yield to maturity based on an estimate of future cash flows. If the value of the investment based on the present value of the future cash flows is less than the Company's carrying amount, the investments will be written-down to fair value through earnings.

At December 31, 2001 and 2000, marketable securities had an aggregate cost of $117,284,000 and $129,023,000 and an aggregate market value of $126,774,000 and $120,340,000 (of which $13,888,000 and $13,713,000 represents trading securities; $49,763,000 and $57,945,000 represents securities available for sale; and $63,123,000 and $48,682,000 represent securities held to maturity). Gross unrealized gains and losses were $14,738,000 and $5,243,000 at December 31, 2001, and $8,159,000 and $16,842,000 at December 31, 2000.

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 or, as a practical expedient to the value of the collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis.

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.

Goodwill: The excess of purchase price over the fair value of assets acquired is capitalized and amortized on a straight-line basis over the estimated useful lives which range from 10 to 40 years. Goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. In such event, a comparison is made of the current and projected operating cash

flows of the related assets into the foreseeable future on an undiscounted basis to the carrying amount of both the asset and related goodwill. Such carrying amount would be adjusted, if necessary, to estimate value to reflect an impairment in the value of the goodwill.

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, if they 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 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company will distribute to its shareholders 100% of its taxable income before the first distribution of the 2002 calendar year. Therefore, no provision for Federal income taxes is required. Dividend distributions for the years ended December 31, 2001, 2000 and 1999, were characterized for Federal income tax purposes as ordinary income.

The Company owns stock in corporations that have elected to be treated for Federal income tax purposes, as taxable REIT subsidiaries ("TRS"). The value of the combined TRS stock cannot and does not exceed 20% of the value of the Company's total assets. A TRS is taxable on its net income at regular corporate tax rates. For the 2001 tax year, the total tax is approximately $1,050,000.

The net basis of the Company's assets and liabilities for tax purposes is approximately $1,069,000,000 lower than the amount reported for financial statement purposes. At December 31, 2001, the Company had a capital loss carryover of approximately $83,000,000. The capital loss carryover is available to offset future capital gains that would otherwise be required to be distributed as dividends to shareholders.

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 or redeemable 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") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which establishes accounting and reporting standards requiring every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on 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. The Company's investment securities include stock purchase warrants received from companies that provide fiber-optic network and broadband access to the Company's Office division tenants. Statement 133 requires these warrants to be marked-to-market at each reporting period with the change in value recognized currently in earnings. The Company has previously marked-to-market changes in value through accumulated other comprehensive loss. Under Statement 133, those changes are recognized through earnings, and accordingly, the Company has reclassified $4,110,000 from accumulated other comprehensive loss to the consolidated statement of income as the cumulative effect of change in accounting principle as of January 1, 2001. Future changes in value of such securities will be recorded through earnings. The Company does not currently utilize derivatives for hedging purposes and does not engage in speculative activities.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations* (effective July 1, 2001) and SFAS No. 142, *Goodwill and Other Intangible Assets* (effective January 1, 2002). SFAS No. 141 prohibits pooling-of-interests accounting for acquisitions. SFAS No. 142 specifies that goodwill and some intangible assets will no longer be amortized but instead be subject to periodic impairment testing. In the first quarter of 2002, the Company will write-off goodwill of approximately $32,491,000, of which (i) $18,000,000 represents its share of the goodwill arising from the Company's investment in Temperature Controlled Logistics and (ii) $14,491,000 represents goodwill arising from the Company's acquisition of the Hotel Pennsylvania. The write-off will be reflected as a cumulative effect of a change in accounting principle. Amortization of goodwill during 2001 was approximately $1,116,000.

In August 2001, FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (effective January 1, 2003) and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period which it is incurred. SFAS No. 144 supersedes current accounting literature and now provides for a single accounting model for long lived-assets to be disposed of by sale and requires discontinued operations presentation for disposals of a "component" of an entity. The Company does not anticipate that the adoption of these statements will have a material effect on the Company's financial statements; however under SFAS No. 144, if the Company were to dispose of a material operating property, such property's results of operations will have to be separately disclosed as discontinued operations in the Company's financial statements.

3. ACQUISITIONS AND DISPOSITIONS

The Company completed approximately $1,611,600,000 of real estate acquisitions or investments from January 1, 2001 through February 2002 and $404,000,000 in 2000. 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 pro forma effect of the acquisitions, other than Charles E. Smith Commercial Realty, were not material to the Company's historical results of operations.

Office:

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

See, Note 17 — "Subsequent Events."

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 $128,000,000.

Retail:

Starwood-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 4 leasehold interests containing 400,000 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 $27,425,000, 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 $35,000,000 of which $19,000,000 was debt.

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 $54,000,000, of which $10,000,000 was debt.

Other Real Estate Investments:

Loan to Commonwealth Atlantic Properties, Inc. ("CAPI")

In March 1999, in connection with the Company's acquisition of land under certain of the CESCR office properties from CAPI, the Company made a $41,200,000 loan to CAPI, which matures in June 2004. Interest on the loan was 8.5% at December 31, 2001. The loan is secured by approximately 1,100,000 units of Vornado Realty, L.P. Series E-1 Convertible Preferred Units (with a liquidation value of $55,000,000 at December 31, 2001) issued to CAPI in connection with the acquisition. Each Series E-1 Unit is convertible into 1.1364 shares of Vornado Realty Trust.

Newkirk Joint Ventures

During 2000, the Company completed acquisitions of additional equity investments in certain limited partnerships for $10,526,000, including $1,334,000 in cash and $9,192,000 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 $27,000,000, of which $19,600,000 was debt. 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 $2,740,000. On April 11, 2000, the Company acquired an additional 10,400 shares for $674,000, thereby increasing its ownership interest to 33.1%.

Loan to NorthStar Partnership L.P.

On September 19, 2000, the Company acquired $75,000,000 of subordinated unsecured debt of NorthStar Partnership, L.P. ("NorthStar"), a private real estate company, for $65,000,000. The loan bears interest at 11.5% per annum, requires quarterly principal payments of $2,500,000 and matures in May 2002. All of the quarterly principal payment have been received by the Company in accordance with the loan agreement with the exception of the payment due on September 28, 2001 which was not received until October 30, 2001.

Loan to Primestone Investment Partners, L.P.

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

On November 19, 2001 the Company sold, pursuant to a participation agreement with a subsidiary of Cadim inc., a Canadian pension fund, a 50% participation in both loans at par for approximately $50,000,000 reducing the Company's net investment in the loans at December 31, 2001 to $56,768,000, including unpaid interest and fees of $6,790,000. Under the terms of the participation agreement, cash payments received shall be applied (i) first, to the reimbursement of reimbursable out-of-pocket costs and expenses incurred in connection with the servicing, administration or enforcement of the loans after November 19, 2001, (ii) second, to the Company and Cadim pro rata in proportion to the amount of interest and fees owed to them (all of such fees and interest accrued through November 19, 2001 are for the account of Vornado and all of such fees and interest accrued after November 19, 2001 accrue on a 50/50 basis to the Company and Cadim) and (iii) third, 50% to the Company and 50% to Cadim. The Company has agreed that in the event the Company acquires the collateral in a foreclosure proceeding it will, upon the request of Cadim, deliver 50% of such collateral to Cadim.

For financial reporting purposes, the gross amount of the loan, $106,768, is included in "Notes and mortgage loans receivable" and Cadim's 50% participation, $50,000,000, is reflected in "Other liabilities". The Company did not recognize income on these loans for the period from November 19, 2001 through December 31, 2001, and will not recognize income until such time that cash is received or foreclosure proceedings have been consummated. The Company believes that the value of the collateral and the guarantees is sufficient to cover the carrying amount of the loans receivable including unpaid interest and fees.

Loan to Dearborn Center

The Company's investment of $21,522,000 represents a 38.5% interest in $55,901,000 funded of a $65,000,000 mezzanine loan to an entity whose sole asset is Dearborn Center, a 1.5 million square foot high-rise office tower under construction in Chicago. The entity is owned by Prime Group Realty L.P. and another investor. The Company is a member of a loan syndicate led by a money center bank. The proceeds of the loan are being used to finance the construction, and are subordinate to a $225,000,000 first mortgage. The loan is due January 21, 2004, three years from the date of the initial draw, and provides for a one year extension at the borrower's option (assuming net operating income at a specified level and a cash reserve sufficient to fund interest for the extension period). The loan bears interest at 12% per annum plus additional interest ranging from a minimum of 9.5% to a maximum of 13% if certain leasing thresholds are not met.

Dispositions:

The following table sets forth the details of net gain on disposition of wholly-owned and partially-owned assets for the years ended December 31, 2001, 2000 and 1999:

($ in thousands)	**2001**	2000	1999
Wholly-owned Assets:			
Net gain from condemnation proceeding	**$ 3,050**	$ —	$—
Write-off of investments in technology companies	**(16,513)**	—	—
Net gain on sale of other real estate	—	10,965	—
Partially-owned Assets:			
After-tax net gain on sale of Park Laurel condominium units	**15,657**	—	—
Net gain on sale of 570 Lexington Avenue	**12,445**	—	—
Write-off of net investment in the Russian Tea Room ("RTR")	**(7,374)**	—	—
Other	**160**	—	—
	$ 7,425	$10,965	$—

Net Gain From Condemnation Proceeding

In September 1998, Atlantic City condemned the Company's property. In the third quarter of 1998, the Company recorded a gain of $1,694,000, which reflected the condemnation award of $3,100,000, net of the carrying value of the property of $1,406,000. The Company appealed the amount and on June 27, 2001, was awarded an additional $3,050,000, which has been recorded as a gain in the quarter ended June 30, 2001.

Write-off Investments in Technology Companies

In the first quarter of 2001, the Company recorded a charge of $4,723,000 resulting from the write-off of an equity investment in a technology company. In the second quarter of 2001, the Company recorded an additional charge of $13,561,000 resulting from the write-off of all of its remaining equity investments in technology companies due to both the deterioration of the financial condition of these companies and the lack of acceptance by the market of certain of their products and services. In the fourth quarter of 2001, the Company recorded $1,481,000 of income resulting from the reversal of a deferred rent liability relating to the termination of an agreement permitting one of the technology companies access to its properties.

550/600 Mamaroneck Avenue

On August 6, 2001, the Company sold its leasehold interest in 550/600 Mamaroneck Avenue for $22,500,000, which approximated book value.

Net Gain on Sale of Other Real Estate

During 2000, the Company sold (i) its three shopping centers located in Texas for $25,750,000, resulting in a gain of $2,560,000 and (ii) its Westport, Connecticut office property for $24,000,000, resulting in a gain of $8,405,000.

Park Laurel Condominium Project

In the third quarter of 2001, the Park Laurel joint venture (69% interest owned by the Company) completed the sale of 52 condominium units of the total 53 units and received proceeds of $139,548,000. The Company's share of the after tax net gain was $15,657,000. The Company's share of the after-tax net gain reflects $3,953,000 (net of tax benefit of $1,826,000) awards accrued under the venture's incentive compensation plan.

570 Lexington Avenue

On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue for $60,000,000, resulting in a gain of $12,445,000.

Write-off of Net Investment in RTR

In the third quarter of 2001, the Company wrote-off its entire net investment of $7,374,000 in RTR based on the operating losses and an assessment of the value of the real estate.

4. INVESTMENTS IN PARTIALLY-OWNED ENTITIES

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

Balance Sheet Data:

	Company's Investment		100% of These Entities					
			Total Assets		Total Debt		Total Equity	
(amounts in thousands)	2001	2000	2001	2000	2001	2000	2001	2000
Investments:								
Temperature Controlled Logistics (60% Ownership)	$ 474,862	$ 469,613	$1,379,212	$1,406,299	$ 602,530	$ 561,321	$ 768,485	$ 755,603
Charles E. Smith Commercial Realty L.P.[1] (34% Ownership)	347,263	325,328	$1,308,297	$1,279,809	$1,503,057	$1,492,230	$(307,584)	$(318,949)
Alexander's (33.1% Ownership)	188,522	178,413	$ 583,339	$ 403,305	$ 515,831	$ 367,787	$ 45,081	$ 17,695
Newkirk Joint Ventures[2] (30% Ownership)	191,534	163,157	$ 722,293		$ 879,840		$(157,547)	
Hotel Pennsylvania[3]	—	73,531						
Partially-Owned Office Buildings[4] (34% Ownership)	23,346	62,174						
Starwood Ceruzzi Joint Venture (80% Ownership)	25,791	28,847						
Park Laurel[5] (69% Ownership)	(4,745)	70,007						
Management companies and other[6]	23,622	61,487						
	$1,270,195	$1,432,557						

[1] *Vornado owned a 34% interest in CESCR in 2001 and 2000. On January 1, 2002, the Company acquired the remaining 66% of CESCR. See Note 3 — "Acquisitions and Dispositions" for details of the acquisition.*

[2] *The Company's investment in and advances to Newkirk Joint Ventures is comprised of*

	December 31, 2001	December 31, 2000
Investments in limited partnerships	*$145,107*	*$116,730*
Mortgages and loans receivable	*39,511*	*39,511*
Other	*6,916*	*6,916*
Total	*$191,534*	*$163,157*

On January 2, 2002, the Newkirk Joint Ventures' partnership interests were merged into a master limited partnership (the "MLP") in which the Company has a 21% interest. In conjunction with the merger, the MLP completed a $225,000 mortgage financing collateralized by its properties, subject to the existing first and certain second mortgages on those properties. The loan bears interest at LIBOR plus 5.5% with a LIBOR floor of 3% (8.5% at February 1, 2002) and matures on January 31, 2005, with two one-year extension options. As a result of the financing on February 6, 2002, the MLP repaid approximately $28,200 of existing debt and distributed approximately $37,000 to the Company.

[3] *As of December 31, 2000, the Company owned 98% of the hotel portion which was owned through a preferred stock affiliate. On January 1, 2001, the Company acquired the common stock of the preferred stock affiliate and converted it to a taxable REIT subsidiary. Accordingly, the hotel portion is consolidated in 2001.*

[4] *Represents the Company's interests in 330 Madison Avenue (24.8%), 825 Seventh Avenue (50%) and 570 Lexington Avenue (50%). On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue for $60,000, resulting in a gain of $12,445.*

[5] *The credit balance at December 31, 2001, is a result of the accrual of awards under the ventures incentive compensation plan.*

[6] *On January 1, 2001, the Company acquired the common stock of the preferred stock affiliates and converted them to taxable REIT subsidiaries. Accordingly the management companies are consolidated in 2001.*

Below is a summary of the debt of partially owned entities as of December 31, 2001 and 2000, none of which is guaranteed by the Company.

($ in thousands)	100% Partially-Owned Entities Debt 2001	2000
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 13.74%	**$ 95,000**	$ 95,000
Portion financed by a bank, due March 15, 2002, with interest at LIBOR plus 1.85% (3.75% at December 31, 2001) (extended to March 15, 2003)	**10,000**	20,000
Unsecured Line of Credit financed by the Company, due on March 15, 2002 with interest at 13.74%	**24,000**	20,000
Rego Park mortgage payable, due in June 2009, with interest at 7.25%	**82,000**	82,000
Kings Plaza Regional Shopping Center mortgage payable, due in June 2011, with interest at 7.46% (prepayable with yield maintenance)	**221,831**	114,525
Paramus mortgage payable, due in October 2011, with interest at 5.92% (prepayable without penalty)	**68,000**	—
Other notes and mortgages payable	**15,000**	36,262
Temperature Controlled Logistics (60% interest):		
Mortgage notes payable collateralized by 58 temperature controlled warehouses, due in May 2008, requires amortization based on a 25 year term with interest at 6.89% (prepayable with yield maintenance)	**563,782**	527,207
Other notes and mortgages payable	**38,748**	34,114
Hotel Pennsylvania – Hotel (98% interest):		
Mortgage payable, due in October 2002, requires amortization based on a 25 year term, with interest at LIBOR plus 1.60% (3.74% at December 31, 2001) (prepayable without penalty)	**N/A**	70,514
Newkirk Joint Ventures (30% interest):		
Portion of first mortgages and contract rights, collateralized by the partnerships' real estate, due from 2002 to 2024, with a weighted average interest rate of 11.89% at December 31, 2001 (various prepayment rights)	**879,840**	837,190
Charles E. Smith Commercial Realty L.P. (34% interest):		
29 mortgages payable due from 2002 through 2030, with interest from 3.60% to 10.21% at December 31, 2001 (various prepayment rights)	**1,470,057**	1,458,230
Unsecured line of credit due in October 2003, with interest at 4.87% at December 31, 2001	**33,000**	34,000
Partially Owned Office Buildings:		
330 Madison Avenue (25% interest) mortgage note payable, due in April 2008, with interest at 6.52% (prepayable with yield maintenance)	**60,000**	60,000
825 Seventh Avenue (50% interest) mortgage payable, due in October 2014, with interest at 8.07% (prepayable with yield maintenance)	**23,552**	43,768
Las Catalinas Mall (50% interest):		
Mortgage notes payable, due in November 2013 with interest at 6.97% (prepayable after December 2002 with yield maintenance)	**68,591**	69,430
Russian Tea Room (50% interest) mortgages payable, due in March 2002, with interest at Prime plus 50 basis points (5.25% at December 31, 2001)	**13,000**	13,000

The Company's share of the debt of partially owned entities was $1,319,535,000 and $1,328,388,000 as of December 31, 2001 and 2000.

Income Statement Data:

($ in thousands)	Company's Income from Partially Owned Entities			100% of These Entities					
				Total Revenues			Net Income (loss)		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Income applicable to Alexander's: 33.1% share of equity in income (loss) (29.3% prior to October 1999)[1]	$ 7,295	$ 1,105	$ 1,021	$69,343	$ 63,965	$ 64,390	$27,386	$ 5,197	$ 5,524
Interest income	11,899	11,948	6,406						
Management and leasing fee income[1]	5,354	4,310	4,345						
	$24,548	$17,363	$11,772						
Temperature Controlled Logistics:									
60% share of equity in net income	$12,093	$23,244	$31,468	$126,957	$154,341	$264,266	$16,647	$37,284	$54,198
Management Fee (40% of 1% per annum of the Total Combined Assets, as defined)	5,354	5,534	5,254						
	17,447	28,778	36,722						
Charles E. Smith Commercial Realty L.P. (34% interest)[2]	28,653	25,724	18,817	$382,502	$344,084	$307,377	$82,713	$76,707	$61,009
Newkirk Joint Ventures (30% interest):									
Equity in income of limited partnerships	25,470	18,632	18,601	$179,551			$84,900		
Interest and other income	5,474	5,894	1,321						
Hotel Pennsylvania[3]	—	8,072	5,095						
Partially-Owned Office Buildings[4]	4,093	2,832	1,743						
Management companies and other	(525)	(3,278)	(3,739)						
	$80,612	$86,654	$78,560						

(1) *Equity in income for the year ended December 31, 2001, includes $6,298 representing the Company's share of Alexander's gain on sale of its Fordham Road property on January 12, 2001 and is after a charge of $1,684 representing the Company's share of abandoned development costs. Equity in income excludes $1,170 representing the Company's share of Alexander's extraordinary gain on the early extinguishment of debt on its Fordham Road property because it is reflected as an extraordinary item in the consolidated statements of income. Management and leasing fee income include a fee of $520 paid to the Company in connection with the sale of Fordham Road.*

(2) *The Company owned a 34% interest in CESCR. On January 1, 2002, the Company acquired the remaining 66% of CESCR it did not previously own. See Note 17 — "Subsequent Events" for details of the acquisition.*

(3) *As of December 31, 2000, the Company owned 98% of the hotel portion which was owned through a preferred stock affiliate. On January 1, 2001, the Company acquired the common stock of the preferred stock affiliate and converted it to a taxable REIT subsidiary. Accordingly, the hotel portion is consolidated in 2001.*

(4) *Represents the Company's interests in 330 Madison Avenue (24.8%), 825 Seventh Avenue (50%) and 570 Lexington Avenue (50%). On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue for $60,000, resulting in a gain of $12,445 which is not included in income in the table above.*

Alexander's

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

($ in thousands)	**December 31, 2001**	December 31, 2000
Common stock, including equity in income and $3,996 and $3,396 of accumulated depreciation of buildings	**$ 64,928**	$ 62,267
Loan receivable	**119,000**	115,000
Leasing fees and other receivables	**4,594**	1,146
	$188,522	$178,413

Ownership

At December 31, 2001, the Company had a 33.1% ownership interest in Alexander's. In addition, Interstate Properties and its partners owned approximately 15.5% 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.

At December 31, 2001, the Company had loans receivable from Alexander's of $119,000,000, including $24,000,000 drawn under the $50,000,000 line of credit the Company granted to Alexander's on August 1, 2000. The interest rates on the loan and the line of credit were extended to April 15, 2003. The interest rates on the loan and line of credit will reset on March 15, 2002, and quarterly thereafter, using the same spread to treasuries as presently exists with a 3% floor for treasuries.

Real Estate and Development Activity

Alexander's has completed the excavation and foundation for its Lexington Avenue property development project. The development plan is to construct a 1.4 million square foot multi-use building comprised of a commercial portion, which may include a combination of retail stores and offices; and a residential portion consisting of condominium units. There can be no assurance that the residential portion will be built. The funding required for the proposed building will be in excess of $650,000,000. Alexander's is exploring various alternatives for financing the project, including equity, debt, joint ventures and asset sales, which may involve arrangements with the Company.

On May 1, 2001 Alexander's entered into a lease agreement with Bloomberg L.P., for approximately 700,000 square feet of office space. The initial term of the lease is for 25 years, with one ten-year renewal option. Base annual net rent is $34,221,000 in each of the first four years and $38,226,000 in the fifth year with similar percentage increases each four years. There can be no assurance that this project ultimately will be completed, completed on time or completed for the budgeted amount. If the project is not completed on a timely basis, the lease may be cancelled and significant penalties may apply.

On January 12, 2001, Alexander's sold its Fordham Road property located in Bronx, New York for $25,500,000, which resulted in a gain of $19,026,000. 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 $3,534,000 in the first quarter of 2001.

On October 5, 2001, Alexander's entered into a ground lease for its Paramus, N.J. property with IKEA Property, Inc. The lease has a 40-year term with an option to purchase at the end of the 20th year for $75,000,000. Further, Alexander's has obtained a $68,000,000 interest only, non-recourse mortgage loan on the property from a third party lender. The interest rate on the debt is 5.92% with interest payable monthly until maturity in October, 2011. The triple net rent each year is the sum of $700,000 plus the amount of debt service on the mortgage loan. If the purchase option is not exercised at the end of the 20th year, the triple net rent for the last 20 years must include debt service sufficient to fully amortize the $68,000,000 over the remaining 20 year lease period.

Agreements with Alexander's

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

The leasing agreement provides for the Company to generally receive a fee of (i) 3% of sales proceeds and (ii) 3% of lease rent for the first ten years of a lease term, 2% of lease rent for the eleventh through the twentieth years of a lease term and 1% of lease rent for the twenty-first through thirtieth year of a lease term, subject to the payment of rents by Alexander's tenants. Such amount is receivable annually in an amount not to exceed $2,500,000 until the present value of such installments (calculated at a discount rate of 9% per annum) equals the amount that would have been paid at the time the transactions which gave rise to the commissions occurred. At December 31, 2001, $2,249,000 is due to the Company under this agreement.

5. DEBT

Following is a summary of the Company's debt:

(amounts in thousands)	**December 31, 2001**	December 31, 2000
Notes and Mortgage Payable:		
Fixed Interest:		
Two Penn Plaza mortgage payable, due in March 2004, requires amortization based on a 25 year term with interest at 7.08% (prepayable with penalty fee)	**$ 157,697**	$ 160,518
Washington Office Center mortgage payable, due in February 2004, requires amortization based on a 25 year term with interest at 6.80% (prepayable with yield maintenance)	**46,572**	48,102
866 UN Plaza mortgage payable, due in April 2004, with interest at 7.79%	**33,000**	33,000
888 Seventh Avenue mortgage payable, due in February 2006, with interest at 6.63% (prepayable with yield maintenance)[1]	**105,000**	55,000
Eleven Penn Plaza mortgage payable, due in June 2007, requires amortization based on a 25 year term with interest at 8.39% (prepayable after 2003 with yield maintenance)	**51,376**	52,289
Montehiedra Town Center mortgage pass-through certificates, due in April 2027, requires amortization based on 30 year term with interest at 8.23% (prepayable with yield maintenance)	**60,359**	61,021
Green Acres Mall and Plaza mortgage payable, due in February 2008, requires amortization based on a 30 year term with interest at 6.75% (prepayable with yield maintenance)	**152,894**	154,928
Cross collateralized mortgages payable on 42 shopping centers due in March 2010, requires amortization based on a 30 year term with interest at 7.93% (prepayable with penalty until 2009)[2]	**492,156**	496,764
Market Square Complex mortgage payable, due in July 2011, requires amortization based on an 18 year term with interest at 7.95%[3]	**49,702**	44,134
Industrial warehouses cross-collateralized mortgage payable, due in October 2011, requires amortization based on a 30 year term with interest at 6.95%[4]	**50,000**	—
Washington Design Center mortgage payable, due in October 2011, requires amortization based on a 30 year term with interest at 6.95% (prepayable after 2003)[5]	**48,959**	23,632
Other mortgages payable	**46,853**	56,524
	1,294,568	1,185,912

Variable Interest:		
Two Park Avenue mortgage payable, due on March 1, 2003, interest at LIBOR plus 1.65% (3.38% at December 31, 2001) (prepayable without penalty)[6]	**90,000**	90,000
One Penn Plaza mortgage payable, due in June 2002, interest at LIBOR plus 1.25% (3.34% at December 31, 2001) (prepayable without penalty)	**275,000**	275,000
350 North Orleans mortgage payable, due in June 2002, interest at LIBOR + 1.65% (3.84% at December 31, 2001) (prepayable with yield maintenance)	**70,000**	70,000
909 Third Avenue mortgage payable, due in August 2003, interest at LIBOR + 1.65% (3.52% at December 31, 2001) (prepayable with penalty fee)	**105,253**	107,879
770 Broadway/595 Madison Avenue cross-collateralized mortgage payable, due on August 1, 2002, interest at LIBOR + .40% (2.27% at December 31, 2001)[7]	**123,500**	173,500
33 North Dearborn Street mortgage payable, due in September 2003, interest at LIBOR plus 1.75% (3.89% at December 31, 2001) (payable without penalty)	**19,000**	19,000
Merchandise Mart mortgage payable, due in October 2002, interest at LIBOR plus 1.50% (3.49% at December 31, 2001) (prepayable with penalty fee)	**250,000**	250,000
Hotel Pennsylvania — (commercial) mortgage payable, due in October 2002, requires amortization based on a 25 year term, with interest at LIBOR + 1.60% (3.74% at December 31, 2001) (prepayable without penalty)	**115,508**	47,009
Palisades construction loan payable, due in January 2003, with interest at LIBOR + 1.75% (3.91% at December 31, 2001) (prepayable without penalty)	**90,526**	31,411
Two mortgages payable collateralized by the Market Square Complex due in 2003, with interest at LIBOR plus 2.0% and Prime plus .50% (4.05% and 4.25% at December 31, 2001)	**43,818**	13,597
Total notes and mortgages payable	**2,477,173**	2,263,308
Unsecured revolving credit facility, interest at LIBOR plus .90% (2.90% at December 31, 2001)[8]	**—**	425,000
Total Debt	**$2,477,173**	$2,688,308

[1] *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 6.63% and matures on January 1, 2006. A portion of the proceeds received were used to repay the then existing mortgage of $55,000.*

[2] *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.*

[3] *On July 11, 2001, the Company completed a $50,000 refinancing of its Market Square Complex. The loan bears interest at a fixed rate of 7.95% per annum and matures in July, 2011. The proceeds received were used to repay the then existing mortgage of $49,000.*

[4] *On September 20, 2001, the Company completed a $50,000 mortgage financing, cross-collateralized by its eight industrial warehouse properties. The loan bears interest at a fixed rate of 6.95% per annum and matures on October 1, 2011.*

[5] *On October 16, 2001, the Company completed a $49,000 refinancing of its Washington Design Center property. The loan bears interest at a fixed rate of 6.95% and matures on October 16, 2011. A portion of the proceeds received were used to repay the then existing mortgage of $23,000.*

[6] *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% (3.38% at December 31, 2001).*

[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% (2.27% at December 31, 2001) and matures on August 1, 2002. At December 31, 2001, 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% (2.90% at December 31, 2001). 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 $3,136,582,000 at December 31, 2001. As at December 31, 2001, the principal repayments for the next five years and thereafter are as follows:

($ in thousands) Year Ending December 31,	Amount
2002	$834,008
2003	348,597
2004	237,269
2005	—
2006	105,000
Thereafter	952,299

The Company's debt instruments, consisting of mortgage loans secured by its properties (which generally non-recourse to the Company) and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. There can be no assurance that the lenders under these instruments will not take the position that an exclusion from all risk insurance coverage for losses due to terrorist acts is a breach of these debt instruments that allows the lenders to declare an event of default and accelerate repayment of debt. In addition, if lenders insist on coverage for these risks, it could adversely affect the Company's ability to finance and/or refinance its properties and to expand its portfolio.

6. SHAREHOLDERS' EQUITY

During the three years ended December 31, 2001, the Company sold 9,775,000 of common shares and 8,000,000 of Cumulative Redeemable Preferred Shares. The following are the details of the sales.

Sale of Common Shares

On November 19, 2001, the Company sold 9,775,000 common shares pursuant to an effective registration statement based on the closing price of $40.58 on the NYSE. The net proceeds to the Company were approximately $377,200,000. In connection therewith the Company repaid the $285,000,000 then outstanding under its revolving credit facility.

Sale of Cumulative Redeemable Preferred Shares

On March 17, 1999, the Company completed the sale of 3,000,000 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 $72,200,000. Further on March 22, 1999, 400,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of $9,700,000.

On May 17, 1999, the Company completed the sale of 4,000,000 8.5% Series C Cumulative Redeemable Preferred Shares, at a price of $25.00 per share, pursuant to an effective registration statement with net proceeds to the Company of approximately $96,900,000. Additionally, on May 19, 1999, 600,000 shares were sold when the underwriters exercised their over-allotment option resulting in additional net proceeds to the Company of $14,500,000.

Series A Preferred Shares of Beneficial Interest

Beginning in April 2001, these shares became convertible at the Company's option into common shares of beneficial interest at a current conversion rate of 1.38504 common shares per preferred share.

Series B Preferred Shares of Beneficial Interest

These shares are redeemable at the Company's option beginning in March 2004, for the liquidation preference and any accumulated and unpaid distributions.

Series C Preferred Shares of Beneficial Interest

These shares are redeemable at the Company's option beginning in May 2004, for the liquidation preference and any accumulated and unpaid distributions.

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. 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, 2001.

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, 2001, 2000, and 1999:

(amounts in thousands, except share and per share amounts)	**December 31, 2001**	December 31, 2000	December 31, 1999
Net income applicable to common shares:			
As reported	**$227,233**	$195,301	$169,081
Pro-forma	**213,831**	177,075	151,836
Net income per share applicable to common shares:			
Basic:			
As reported	**$ 2.55**	$ 2.26	$ 1.97
Pro-forma	**2.40**	2.05	1.77
Diluted:			
As reported	**$ 2.47**	$ 2.20	$ 1.94
Pro forma	**2.32**	2.00	1.74

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, 2001, 2000 and 1999.

	December 31, 2001	December 31, 2000	December 31, 1999
Expected volatility	**17%**	17%	19%
Expected life	**5 years**	5 years	5 years
Risk-free interest rate	**4.38%**	5.0%	6.4%
Expected dividend yield	**6.0%**	6.0%	5.9%

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

	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	15,861,260	$32.25	11,472,352	$32.65	8,724,316	$32.35
Granted	26,000	35.88	4,863,750	31.02	3,301,550	33.53
Exercised	(314,965)	31.91	(377,440)	26.29	(132,119)	18.64
Cancelled	(119,195)	34.12	(97,402)	34.86	(421,395)	37.71
Outstanding at December 31	15,453,100	$32.25	15,861,260	$32.26	11,472,352	$32.65
Options exercisable at December 31	11,334,124		7,272,878		4,546,429	
Weighted-average fair value of options granted during the year ended December 31 (per option)	$3.46		$2.98		$4.43	

The following table summarizes information about options outstanding under the Plan at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2001	Weighted-Average Exercise Price
$ 6 – $12	43,402	1.1 Years	$11.42	43,402	$11.42
$17 – $19	325,894	3.1 Years	$17.75	325,894	$17.75
$23 – $24	3,500,000	4.9 Years	$23.47	3,500,000	$23.47
$26 – $27	161,570	5.1 Years	$26.28	161,570	$26.28
$30 – $32	5,009,711	7.8 Years	$30.73	2,048,126	$30.66
$32 – $36	3,241,446	7.1 Years	$33.66	2,109,475	$33.64
$36 – $40	266,505	6.4 Years	$38.89	241,085	$39.13
$41 – $44	97,572	6.0 Years	$43.06	97,572	$43.06
$45 – $46	2,542,000	5.9 Years	$45.31	2,542,000	$45.31
$48 – $49	265,000	6.1 Years	$48.41	265,000	$48.41
$ 6 – $49	15,453,100	6.5 Years	$32.25	11,334,124	$32.47

Shares available for future grant under the Plan at December 31, 2001 were 7,050,074.

8. Retirement Plan

In December, 1997, benefits under the Company's Retirement Plan were frozen. Prior to December 31, 1997, the Company's qualified 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)	**2001**	2000	1999
Interest cost on projected benefit obligation	**$ 565**	$ 567	$ 559
Expected return on assets	**(412)**	(374)	(387)
Net amortization and deferral	**32**	30	53
Net pension expense	**$ 185**	$ 223	$ 225
Assumptions used in determining the net pension expense:			
Discount rate	**7¼%**	7¾%	7¾%
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:

($ in thousands)	**December 31, 2001**	December 31, 2000	December 31, 1999
Change in benefit obligation			
Benefit obligation at beginning of year	**$ 7,530**	$ 7,918	$ 8,952
Interest cost	**565**	567	559
Benefit payments	**(793)**	(637)	(777)
Experience loss/(gain)	**648**	(318)	(816)
Benefit obligation at end of year	**7,950**	7,530	7,918
Change in plan assets			
Fair value of plan assets at beginning of year	**5,732**	5,284	5,551
Employer contribution	**821**	698	362
Benefit payments	**(793)**	(637)	(777)
Actual return on assets	**295**	387	148
Fair value of plan assets at end of year	**6,055**	5,732	5,284
Funded status	**(1,895)**	(1,798)	(2,634)
Unrecognized loss	**2,011**	1,279	1,279
Net Amount Recognized	**$ 116**	$ (519)	$(1,355)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued benefit liability	**$(1,895)**	$(1,798)	$(2,634)
Accumulated other comprehensive income	**2,011**	1,279	1,279
Net amount recognized	**$ 116**	$ (519)	$(1,355)

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 office buildings and shopping centers 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, 2001, 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:

($ in thousands)

Year ending December 31:	Amount
2002	$ 703,001
2003	678,064
2004	638,973
2005	586,644
2006	531,703
Thereafter	3,014,647

These amounts do not include rentals based on tenants' sales. These percentage rents approximated $2,157,000, $4,825,000, and $2,213,000 for the years ended December 31, 2001, 2000, and 1999.

In February 2001, Bradlees, which was in Chapter 11, closed all of its stores including the 16 locations it leased from the Company. Three of the former Bradlees leases were assigned and 13 were rejected. Of the 16 locations, the leases for 13 are fully guaranteed (6 of these guarantees expire in 2002) and one is guaranteed as to 70% 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. In addition to these 14 leases, Stop & Shop also guarantees four other leases which were rejected in a prior Bradlees bankruptcy (three of which have been assigned). The effectiveness of Stop & Shop's guarantee is not affected by Bradlees' bankruptcy or subsequent lease assignments. Annual property rentals at December 31, 2001, include an aggregate of $4,000,000 of additional rent allocated to the former Bradlees locations in East Brunswick, Jersey City, Middletown, Union and Woodbridge in accordance with the Master Agreement and Guaranty. This rent will be reallocated to other locations guaranteed by Stop & Shop at or prior to the applicable expiration dates of such leases.

None of the Company's tenants represented more than 10% of the Company's total revenues for the year ended December 31, 2001.

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, 2001, are as follows:

($ in thousands)

Year ending December 31:	Amount
2002	$ 14,442
2003	13,758
2004	13,033
2005	13,034
2006	13,143
Thereafter	382,373

Rent expense was $15,433,000, $15,248,000, and $14,269,000 for the years ended December 31, 2001, 2000 and 1999.

10. Commitments and Contingencies

At December 31, 2001, the Company's revolving credit facility had a zero balance, and utilized approximately $83,238,000 of availability under the facility for letters of credit and guarantees.

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.

The Company carries comprehensive liability and all risk property insurance (fire, flood, extended coverage and rental loss insurance) with respect to its assets. The Company's all risk insurance policies in effect before September 11, 2001 included coverage for terrorist acts, except for acts of war. Since September 11, 2001, insurance companies are excluding terrorists acts from coverage in all risk policies. In 2002, the Company has been unable to obtain all risk insurance which includes coverage for terrorists acts for policies it has renewed including the New York City Office portfolio and may not be able to obtain such coverage for any of its other properties in the future. Therefore, the risk of financial loss in the case of terrorist acts is the Company's, which loss could be material.

The Company's debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to the Company) and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. There can be no assurance that the lenders under these instruments will not take the position that an exclusion from all risk insurance coverage for losses due to terrorist acts is a breach of these debt instruments that allows the lenders to declare an event of default and accelerate repayment of debt. In addition, if lenders insist on coverage for these risks, it could adversely affect the Company's ability to finance and/or refinance its properties and to expand its portfolio.

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.

On October 25, 2001, Primestone Investment Partners L.P. ("Primestone") defaulted on the repayment of its loan from the Company (See Note 3 — Acquisitions and Dispositions). On November 19, 2001, the Company commenced an action in the Delaware Court of Chancery against Primestone Investment Partners L.P. in connection with foreclosure proceedings with respect to the collateral under the loan agreement.

Although Primestone is a special purpose entity with only one asset, units in Prime Group Realty, L.P., no operations, no employees and no operating income, it filed a Chapter 11 bankruptcy petition on November 19, 2001 in the United States Bankruptcy Court for the District of Delaware. The Company moved to dismiss Primestone's petition as bad faith filing. A federal bankruptcy judge granted the Company's motion on December 18, 2001.

Following the bankruptcy court's dismissal of Primestone's petition, the Company attempted to reschedule the auction for January 25, 2002. Primestone appealed to the United States District Court for the District of Delaware, and the auction was stayed pending appeal. On January 28, 2002, the district court affirmed the bankruptcy court's decision. The Company has since attempted to reschedule the auction for a third time, but Primestone has appealed once again, this time to the United States Court of Appeals. Briefing

for the appeal concluded on February 25, 2002 and the parties are currently awaiting a decision as to if and when oral argument will occur.

On February 13, 2002, Primestone counterclaimed against the Company. In the counterclaim, Primestone alleges that the Company tortiously interfered with a prospective contract with Cadim, inc. Primestone alleges that the failure to consummate this alleged contract deprived it of the ability to repay its loans to the Company, and that the Company is attempting to obtain control of Prime Group Realty Trust, a publicly held affiliate of Primestone, at an artificially low price. Primestone seeks equitable relief, including a permanent injunction prohibiting the Company from foreclosing on collateral pledged by Primestone, and also demands damages totaling $150,000,000 plus costs and attorneys' fees. The parties commenced discovery on an expedited basis in preparation for a hearing on Primestone's motion for a preliminary injunction that was scheduled for February 22, 2002, but Primestone has indicated that it intends not to proceed with that motion in light of a stay granted by the United States Court of Appeals in Primestone's appeal from the dismissal of its bankruptcy case. On March 4, 2002, the Company filed an answer denying the essential allegations of the counterclaim.

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. 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.

12. Related Party Transactions

Loan and Compensation Agreements

At December 31, 2001, the loan due from Mr. Roth in accordance with his employment arrangement was $13,123,000 ($4,704,000 of which is shown as a reduction in shareholders' equity). The loan bears interest at 4.49% per annum (based on the applicable Federal rate) and matures in January 2006. The Company also provided Mr. Roth with the right to draw up to $15,000,000 of additional loans on a revolving basis. Each additional loan will bear interest, payable quarterly, at the applicable Federal rate on the date the loan is made and will mature on the sixth anniversary of the loan.

At December 31, 2001, loans due from Mr. Fascitelli, in accordance with his employment agreement, aggregated $8,600,000. The loans which were scheduled to mature in 2003 have been extended to 2006 in connection with the extension of Mr. Fascitelli's employment agreement (discussed below), and bear interest, payable quarterly at a weighted average interest rate of 3.97% (based on the applicable Federal rate).

Pursuant to his December 1996 employment agreement, Mr. Fascitelli became entitled to a deferred payment consisting of $5,000,000 in cash and a convertible obligation payable November 30, 2001, at the Company's option in 919,540 of its common shares or the cash equivalent of their appreciated value but not less than $20,000,000. Prior to November 30, 2001, the Company and Mr. Fascitelli have agreed

to extend the deferral period for three additional years. The Company has funded the obligation in common shares. Accordingly, the Company has reflected this liability Deferred compensation shares not yet delivered in the Equity section of the balance sheet. The cash and common shares are held in an irrevocable trust (the fair value of this obligation was $40,155,000 at December 31, 2001). For the years ended December 31, 2001 and 2000, the Company recognized approximately $4,744,000 and $3,733,000 of compensation expense of which $2,612,000 and $1,968,000 represented the appreciation in value of the shares in each period and $2,132,000 and $1,765,000 represented dividends paid on the shares.

On March 8, 2002, the Company extended its employment agreement with Mr. Fascitelli for a five year period ending December 31, 2006. Pursuant to the employment agreement, he will receive a deferred payment in five years of 626,566 Vornado common shares which are valued for compensation purposes at $27,500,000. The number of shares was set by the Company's Compensation Committee in December to achieve a value of $25,000,000 and have appreciated $2,500,000 since then. The shares will vest on December 31, 2002. Mr. Fascitelli will also receive regular annual cash compensation as determined by the Company's Compensation Committee and will continue as a member of Vornado's Board.

One other executive officer of the Company has a loan outstanding pursuant to an employment agreement of $1,000,000 at December 31, 2001. The loan matures in April 2005 and bears interest at either the applicable Federal rate provided or the broker call rate (6.63% at December 31, 2001).

Information regarding employment agreements with other Officers of the Company are incorporated by reference in Part II of this document.

Transactions with Affiliates and Officers and Trustees of the Company

Alexander's

The Company owns 33.1% of Alexander's. Mr. Roth and Mr. Fascitelli are Officers and Directors of Alexander's and the Company provides various services to Alexander's in accordance with management and leasing agreements. See Note 4 — "Investments in Partially-Owned Entities" for further details.

Interstate Properties

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, 2001, 2000 and 1999, $1,655,000, $1,418,000, and $1,262,000 of management fees were earned by the Company pursuant to the management agreement.

The New York Office Cleaning Contract

The estate of Bernard Mendik and certain other individuals including Mr. Greenbaum own 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 $51,280,000, $47,493,000, and $40,974,000 for the years ended December 31, 2001, 2000 and 1999.

Vornado Operating Company

In October 1998, Vornado Operating Company ("Vornado Operating") was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct. The Company granted Vornado Operating a $75,000,000 unsecured revolving credit facility (the "Revolving Credit Agreement") which expires on December 31, 2004. Borrowings under the Revolving Credit Agreement bear interest at LIBOR plus 3%. The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the Revolving Credit Agreement during its term. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 2001, $31,424,000 was outstanding under the Revolving Credit Agreement.

Other

The Company owns preferred securities in Capital Trust, Inc. ("Capital Trust") totaling $48,758,000 at December 31, 2001. Mr. Roth, the Chairman and Chief Executive Officer of Vornado Realty Trust, is a member of the Board of Directors of Capital Trust.

On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue to an entity controlled by the late Bernard Mendik, a former executive officer of the Company, for $60,000,000, resulting in a gain to the Company of $12,445,000.

During 2001, the Company paid $136,000 for legal services to a firm in which one of the Company's trustees is a member.

On January 1, 2001, the Company acquired the common stock of various preferred stock affiliates which was owned by Officer and Trustees of the Company and converted them to taxable REIT subsidiaries. The total acquisition price was $5,155,000. The purchase price, which was the estimated fair value, was determined by both independent appraisal and by reference to the individuals' pro rata share of the earnings of the preferred stock affiliates during the three-year period that these investments were held.

In connection with the Park Laurel condominium project, the joint venture accrued $5,779,000 of awards under the venture's incentive compensation plan.

13. 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, 2001	Outstanding Units at December 31, 2000	Per Unit Liquidation Preference	Preferred or Annual Distribution Rate	Conversion Rate Into Class A Units
Common:					
Class A[(1)]	**5,823,419**	6,456,749	—	$ 2.64	N/A
Class D[(2)]	—	869,387	—	N/A	N/A
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
6.5% E-1 Convertible Preferred	**4,998,000**	4,998,000	$50.00	$ 3.25[(3)]	1.1364
Perpetual Preferred:[(4)]					
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**	840,000	$25.00	$2.0625	N/A
8.25% D-7 Cumulative Redeemable Preferred	**7,200,000**	7,200,000	$25.00	$2.0625	N/A
8.25% D-8 Cumulative Redeemable Preferred	**360,000**	360,000	$25.00	$2.0625	N/A
8.25% D-9 Cumulative Redeemable Preferred	**1,800,000**	—	$25.00	$2.0625	N/A
9.00% F-1 Cumulative Redeemable Preferred[(5)]	**400,000**	—	$25.00	$ 2.25	N/A

(1) *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.*

(2) *Class D units automatically converted into Class A units in the third quarter of 2001. Prior to the conversion, the Class D unitholders participated in distributions at an annual rate of $2.12, then pari passu with the Class A units.*

(3) *Increases to $3.38 in March 2006.*

(4) *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 September 2001).*

(5) *Issued in connection with the acquisition of a leasehold interest at 715 Lexington Avenue. Redeemable at the Company's option beginning January 2012 for Class A units.*

14. 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, 2001**	December 31, 2000	December 31, 1999
Numerator:			
Income before cumulative effect of change in accounting principle and extraordinary item	**$ 266,678**	$ 235,116	$ 202,519
Cumulative effect of change in accounting principle	**(4,110)**	—	—
Extraordinary item	**1,170**	(1,125)	—
Net income	**263,738**	233,991	202,519
Preferred stock dividends	**(36,505)**	(38,690)	(33,438)
Numerator for basic and diluted income per share — net income applicable to common shares	**$ 227,233**	$ 195,301	$ 169,081
Denominator:			
Denominator for basic income per share — weighted average shares	**89,109,169**	86,521,195	85,666,424
Effect of dilutive securities:			
Employee stock options	**2,963,438**	2,170,894	1,621,386
Denominator for diluted income per share — adjusted weighted average shares and assumed conversions	**92,072,607**	88,692,089	87,287,810
INCOME PER COMMON SHARE — BASIC:			
Income before cumulative effect of change in accounting principle and extraordinary item	**$ 2.58**	$ 2.27	$ 1.97
Cumulative effect of change in accounting principle	**(.04)**	—	—
Extraordinary item	**.01**	(.01)	—
Net income per common share	**$ 2.55**	$ 2.26	$ 1.97
INCOME PER COMMON SHARE — DILUTED:			
Income before cumulative effect of change in accounting principle and extraordinary item	**$ 2.50**	$ 2.21	$ 1.94
Cumulative effect of change in accounting principle	**(.04)**	—	—
Extraordinary item	**.01**	(.01)	—
Net income per common share	**$ 2.47**	$ 2.20	$ 1.94

15. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following summary represents the results of operations for each quarter in 2001 and 2000:

(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
2001				
March 31	$242,610	$46,836	$.54	$.52
June 30	246,075	56,920	.65	.64
September 30	250,265	67,876	.76	.74
December 31	246,823	55,601	.59	.57
2000				
March 31	$195,279	$47,523	$.55	$.54
June 30	198,745	47,281	.55	.53
September 30	215,655	58,447	.68	.65
December 31	216,293	42,050	.48	.47

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

16. Segment Information

The Company has four business segments: Office, Retail, Merchandise Mart Properties and Temperature Controlled Logistics. Prior to 2001, income from the Company's preferred stock affiliates ("PSAs") was included in income from partially-owned entities. On January 1, 2001, the Company acquired the common stock of its PSAs and converted these entities to taxable REIT subsidiaries. Accordingly, the Hotel portion of the Hotel Pennsylvania and the management companies (which provide services to the Company's business segments and operate the Trade Show business of the Merchandise Mart division) have been consolidated effective January 1, 2001. Amounts for the years ended December 31, 2000 and 1999 have been reclassified to give effect to the consolidation of these entities as if consolidated as of January 1, 1999.

	December 31, 2001					
($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Rentals	$ 841,999	$ 463,234	$119,730	$197,668	$ —	$ 61,367
Expense reimbursements	133,114	67,842	47,998	13,801	—	3,473
Other income	10,660	3,957	2,038	3,324	—	1,341
Total revenues	985,773	535,033	169,766	214,793	—	66,181
Operating expenses	398,969	217,965	58,996	83,107	—	38,901
Depreciation and amortization	123,862	71,548	17,349	25,397	—	9,568
General and administrative	72,572	12,694	470	18,081	—	41,327
Costs of acquisitions not consummated	5,223	—	—	—	—	5,223
Total expenses	600,626	302,207	76,815	126,585	—	95,019
Operating income	385,147	232,826	92,951	88,208	—	(28,838)
Income applicable to Alexander's	24,548	—	—	—	—	24,548
Income from partially-owned entities	80,612	32,746	1,914	149	17,447[4]	28,356
Interest and other investment income	54,385	6,866	608	2,045	—	44,866
Interest and debt expense	(173,076)	(54,559)	(55,466)	(33,354)	—	(29,697)
Net gain disposition of wholly-owned and partially-owned assets	7,425	12,445	3,050	160	—	(8,230)
Minority interest	(112,363)	(55,932)	(16,562)	(15,650)	(10,968)	(13,251)
Income before extraordinary item	266,678	174,392	26,495	41,558	6,479	17,754
Cumulative effect of change in accounting principle	(4,110)	—	—	—	—	(4,110)
Extraordinary item	1,170	—	—	—	—	1,170
Net income	263,738	174,392	26,495	41,558	6,479	14,814
Cumulative effect of change in accounting principle	4,110	—	—	—	—	4,110
Extraordinary item	(1,170)	—	—	—	—	(1,170)
Minority interest	112,363	55,932	16,562	15,650	10,968	13,251
Net gain on disposition of wholly-owned and partially-owned assets	(15,655)	(12,445)	(3,050)	(160)	—	—
Interest and debt expense[3]	270,357	95,875	58,023	33,354	26,459	56,646
Depreciation and amortization[3]	188,859	91,208	18,834	25,397	33,815	19,605
Straight-lining of rents[3]	(26,134)	(20,124)	787	(4,997)	—	(1,800)
Other	(12,586)	(4,673)	—	—	716	(8,629)[5]
EBITDA[1]	$ 783,882	$ 380,165	$117,651	$110,802	$ 78,437	$ 96,827
Balance sheet data:						
Real estate, net	$4,183,986	$2,446,534	$503,923	$911,067	$ —	$322,462
Investments and advances to partially-owned entities	1,270,195	374,371	28,213	9,764	474,862	382,985
Capital expenditures:						
Acquisitions	11,574	11,574	—	—	—	—
Other	158,343	79,117	7,597	51,036	5,700	14,893

Footnotes are explained on page 60.

Vornado Realty Trust

	December 31, 2000 (after giving effect to consolidation of PSAs)					
($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Rentals	$ 788,469	$ 406,261	$129,902	$171,001	$ —	$ 81,305
Expense reimbursements	120,074	60,767	45,490	10,654	—	3,163
Other income	17,608	5,499	2,395	4,661	—	5,053
Total revenues	926,151	472,527	177,787	186,316	—	89,521
Operating expenses	379,524	199,424	55,671	74,553	—	49,876
Depreciation and amortization	108,109	58,074	17,464	21,984	—	10,587
General and administrative	63,468	10,401	667	16,330	—	36,070
Total expenses	551,101	267,899	73,802	112,867	—	96,533
Operating income	375,050	204,628	103,985	73,449	—	(7,012)
Income applicable to Alexander's	17,363	—	—	—	—	17,363
Income from partially-owned entities	79,694	29,210	667	—	28,778[4]	21,039
Interest and other investment income	33,798	6,162	—	2,346	—	25,290
Interest and debt expense	(179,380)	(62,162)	(53,180)	(38,569)	—	(25,469)
Net gain disposition of wholly-owned and partially-owned assets	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 disposition of wholly-owned and partially-owned assets	(10,965)	(8,405)	(2,560)	—	—	—
Interest and debt expense[3]	260,573	96,224	55,741	38,566	27,424	42,618
Depreciation and amortization[3]	167,268	76,696	18,522	20,627	34,015	17,408
Straight-lining of rents[3]	(30,001)	(19,733)	(2,295)	(5,919)	(1,121)	(933)
Other	14,510	—	(1,654)	1,358	4,064[2]	10,742[5]
EBITDA[1]	$ 738,875	$ 331,025	$121,786	$ 91,858	$ 93,160	$101,046
Balance sheet data:						
Real estate, net	$3,960,605	$2,388,393	$551,183	$862,003	$ —	$159,026
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	212,907	106,689	7,251	37,362	28,582	33,023

Footnotes are explained on page 60.

($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
	December 31, 1999 (after giving effect to consolidation of PSAs)					
Rentals	$ 675,313	$ 333,025	$125,510	$151,308	$ —	$ 65,470
Expense reimbursements	95,658	42,198	43,326	8,245	—	1,889
Other income	12,542	4,572	1,702	1,831	—	4,437
Total revenues	783,513	379,795	170,538	161,384	—	71,796
Operating expenses	335,744	168,825	58,058	67,518	—	41,343
Depreciation and amortization	92,316	48,058	15,646	19,607	—	9,005
General and administrative	57,092	10,797	358	13,044	—	32,893
Total expenses	485,152	227,680	74,062	100,169	—	83,241
Operating income	298,361	152,115	96,476	61,215	—	(11,445)
Income applicable to Alexander's	11,772	—	—		—	11,772
Income from partially-owned entities	78,184	19,055	938	—	36,722	21,469
Interest and other investment income	20,683	1,786	—	2,995	—	15,902
Interest and debt expense	(151,483)	(49,624)	(27,635)	(31,685)	—	(42,539)
Minority interest	(54,998)	(25,854)	(14,628)	(6,819)	(7,697)	—
Net income (loss)	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[3]	226,253	82,460	30,249	29,509	27,520	56,515
Depreciation and amortization[3]	143,499	64,702	16,900	17,702	31,044	13,151
Straight-lining of rents[3]	(25,359)	(16,386)	(2,120)	(4,740)	(1,698)	(415)
Other	7,451	365	—	—	2,054[2]	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 60.

Notes to segment information:

[1] EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of depreciable 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] 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.
[3] 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.
[4] Net of $15,281 and $9,787 of rent not recognized as income in 2001 and 2000, respectively.
[5] Includes the reversal of $1,266 and $4,765 of expenses in connection with a deferred compensation arrangement in 2001 and 2000, respectively.

Other EBITDA is comprised of:

	2001	2000	1999
Newkirk Joint Ventures (30% interest):			
Equity in EBITDA of limited partnerships	$54,695 [1]	$ 43,685	$ 38,465
Interest and other income	8,700	7,300	1,331
Total	63,395	50,985	39,796
Alexander's (33.1% interest)	19,362 [2]	18,330	13,469
Hotel Pennsylvania [3]	16,978 [4]	26,866	21,200
After-tax net gain on sale of Park Laurel condominium units	15,657	—	—
Write-off of net investment in the Russian Tea Room ("RTR")	(7,374)	—	—
Write-off of net investments in technology companies	(16,513)	—	—
Costs of acquisitions not consummated	(5,223)	—	—
Corporate general and administrative expenses	(41,327)	(36,070)	(32,893)
Investment income and other	51,872	40,935	27,870
Total	$96,827	$101,046	$ 69,442

[1] Reflects acquisitions of additional partnership interests.
[2] Includes leasing fees of $2,500 in connection with Alexander's ground lease of its Paramus property to IKEA in the fourth quarter of 2001.
[3] The commercial portion of the Hotel was wholly-owned as of August 5, 1999, and accordingly consolidated.
[4] Average occupancy and REVPAR for the Hotel Pennsylvania for the year ended December 31, 2001 was 63% and $70 compared to 76% and $87 for the year ended December 31, 2000.

17. SUBSEQUENT EVENTS

On January 1, 2002, the Company completed the combination of Charles E. Smith Commercial Realty L.P. with Vornado. Prior to the combination, Vornado owned a 34% interest in CESCR. The consideration for the remaining 66% of CESCR was approximately $1,600,000,000, consisting of 15.7 million newly issued Vornado Operating Partnership units (valued at $608,000,000) and $992,000,000 of debt (66% of CESCR's total debt).

The unaudited proforma information set forth below presents (i) the condensed consolidated statements of income for the Company for the years ended December 31, 2001 and 2000 as if (a) the acquisition of the CESCR acquisition described above had occurred on January 1, 2000 and (ii) the condensed consolidated proforma balance sheet of the Company as of December 31, 2001, as if such acquisition had occurred on December 31, 2001.

Condensed ProForma Consolidated Statements of Income:

	Pro Forma (Unaudited) For the Years Ended December 31,	
(in thousands, except per share amounts)	**2001**	2000
Revenues	**$1,372,464**	$1,176,106
Net income	**$ 265,893**	$ 234,838
Preferred stock dividends	**(36,505)**	(38,690)
Net income per applicable to common shares	**$ 229,388**	$ 196,148
Net income per common share — basic	**$ 2.57**	$ 2.27
Net income per common share — diluted	**$ 2.49**	$ 2.21

Condensed ProForma Consolidated Balance Sheet at December 31, 2001:

Total assets	**$8,979,015**
Total liabilities	**$4,321,077**
Minority interest	**2,087,566**
Total shareholders' equity	**2,570,372**
Total liabilities and shareholders' equity	**$8,979,015**

On February 25, 2002, the Company sold 884,543 common shares to a closed-end fund and 514,200 shares to a unit investment trust based on the closing price of $42.96 on the NYSE. The net proceeds to the Company were approximately $57,042,000.

On March 7, 2002, the Company acquired for $55,000,000, a mortgage on a 360,000 square foot office building, which is in the Crystal City complex in Arlington, Virginia, together with an option to purchase the property. The Company expects to exercise its option to acquire the property from a limited partnership, which is approximately 50% owned by Messrs. Robert H. Smith and Robert P. Kogod, trustees of Vornado since January 1, 2002, in exchange for approximately $13,700,000 of Vornado's Operating Partnership units. The acquisition of the building is expected to close within 90 days and is subject to receipt of certain consents from third parties and other customary conditions.

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, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 11, 2002

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, 2001 and 2000 were as follows:

	YEAR ENDED DECEMBER 31, 2001			YEAR ENDED DECEMBER 31, 2000		
Quarter	**High**	**Low**	**Dividends**	High	Low	Dividends
1st	**$38.76**	**$34.57**	**$.53**	$35.25	$29.88	$.48
2nd	**39.75**	**34.56**	**.53**	36.50	33.69	.48
3rd	**41.60**	**37.95**	**.60**	40.75	35.50	.48
4th	**41.65**	**37.60**	**.97***	38.94	33.38	.53

** Comprised of a regular quarterly dividend of $.66 per share and a special dividend of $.31 declared on December 18, 2001, which was necessary to avoid the Company incurring an excise tax on distributions of less than 85% of taxable income in the current year.*

On March 1, 2002, the number of record holders of common shares of Vornado was 2,094.

At December 31, 2001, the Company had a capital loss carryover of approximately $83,000,000. The capital loss carryover is available to offset future capital gains that would otherwise be required to be distributed as dividends to shareholders.

Selected Consolidated Financial Data

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(in thousands, except share and per share amounts)				
Operating Data					
Revenues:					
Property rentals	**$ 841,999**	$ 695,078	$ 591,270	$ 425,496	$ 168,321
Expense reimbursements	**133,114**	120,056	96,842	74,737	36,652
Other income	**10,660**	10,838	8,251	9,627	4,158
Total Revenues	**985,773**	825,972	696,363	509,860	209,131
Expenses:					
Operating	**398,969**	318,360	282,118	207,171	74,745
Depreciation and amortization	**123,862**	99,846	83,585	59,227	22,983
General and administrative	**72,572**	47,911	40,151	28,610	13,580
Amortization of officer's deferred compensation expense	—	—	—	—	22,917
Costs of acquisitions not consummated	**5,223**	—	—	—	—
Total Expenses	**600,626**	466,117	405,854	295,008	134,225
Operating Income	**385,147**	359,855	290,509	214,852	74,906
Income applicable to Alexander's	**24,548**	17,363	11,772	3,123	7,873
Income from partially-owned entities	**80,612**	86,654	78,560	32,025	4,658
Interest and other investment income	**54,385**	32,926	18,359	24,074	23,767
Interest and debt expense	**(173,076)**	(170,273)	(141,683)	(114,686)	(42,888)
Net gain on disposition of wholly-owned and partially-owned assets	**7,425**	10,965	—	9,649	—
Minority interest:					
Perpetual preferred unit distributions	**(70,705)**	(62,089)	(19,254)	(756)	—
Minority limited partnership earnings	**(39,138)**	(38,320)	(33,904)	(14,822)	(7,293)
Partially-owned entities	**(2,520)**	(1,965)	(1,840)	(605)	—
Income before cumulative effect of change in accounting principle and extraordinary item	**266,678**	235,116	202,519	152,854	61,023
Cumulative effect of change in accounting principle	**(4,110)**	—	—	—	—
Extraordinary item	**1,170**	(1,125)	—	—	—
Net income	**263,738**	233,991	202,519	152,854	61,023
Preferred share dividends	**(36,505)**	(38,690)	(33,438)	(21,690)	(15,549)
Net income applicable to common shares	**$ 227,233**	$ 195,301	$ 169,081	$ 131,164	$ 45,474
Income per share—basic[1]	**$ 2.55**	$ 2.26	$ 1.97	$ 1.62	$ .83
Income per share—diluted[1]	**$ 2.47**	$ 2.20	$ 1.94	$ 1.59	$ .79
Cash dividends declared for common shares	**$ 2.63**	$ 1.97	$ 1.80	$ 1.64	$ 1.36
Balance Sheet Data					
Total assets	**$6,777,343**	$6,403,210	$5,479,218	$4,425,779	$2,524,089
Real estate, at cost	**4,690,211**	4,354,392	3,921,507	3,315,891	1,564,093
Accumulated depreciation	**506,225**	393,787	308,542	226,816	173,434
Debt	**2,477,173**	2,688,308	2,048,804	2,051,000	956,654
Shareholders' equity	**2,570,372**	2,078,720	2,055,368	1,782,678	1,313,762

(in thousands)	2001	2000	1999	1998	1997
	Year Ended December 31,				
Other Data					
Funds from operations[2]:					
Net income applicable to common shares	**$ 227,233**	$ 195,301	$ 169,081	$ 131,164	$ 45,474
Cumulative effect of change in accounting principle	**4,110**	—	—	—	—
Extraordinary item	**(1,170)**	1,125	—	—	—
Depreciation and amortization of real property	**119,568**	97,744	82,216	58,277	22,413
Straight-lining of property rentals for rent escalations	**(24,314)**	(28,893)	(22,881)	(14,531)	(3,359)
Leasing fees received in excess of income recognized	**1,954**	1,259	1,705	1,339	1,733
Net gain on sale of real estate	**(12,445)**	(10,965)	—	—	—
Net gain from insurance settlement and condemnation proceedings	**(3,050)**	—	—	(9,649)	—
Appreciation/(depreciation) of securities held in officer's deferred compensation trust	**3,023**	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	**34,531**	35,565	31,400	41,988	4,183
Alexander's	**(5,980)**	93	1,324	4,023	(2,471)
Partially-owned office buildings	**1,913**	2,926	50	3,561	2,891
Hotel Pennsylvania	—	5,779	4,866	4,083	457
Charles E. Smith Commercial Realty L.P.	**17,917**	15,767	12,024	2,974	1,298
Other	**10,538**	9,448	7,463	219	—
Minority interest in partially owned entities in excess of preferential distributions	**(16,810)**	(16,445)	(9,020)	(3,991)	—
Dilutive effect of Series A Preferred Share dividends	**19,505**	21,689	16,268	—	—
Funds from operations[2]	**$ 376,523**	$ 335,158	$ 293,773	$ 218,899	$ 72,619
Cash flow provided by (used in):					
Operating activities	**$ 387,685**	$ 249,921	$ 176,895	$ 189,406	$ 115,473
Investing activities	**(79,722)**	(699,375)	(494,204)	(1,257,367)	(1,064,484)
Financing activities	**(179,368)**	473,813	262,131	879,815	1,215,269

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

[2] *Funds from operations does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States of America and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of funds from operations. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers funds from operations a supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations may not be comparable to similarly titled measures reported by other REITs since a number of REITs, including the Company, calculate funds from operations in a manner different from that used by the National Association of Real Estate Investment Trusts ("NAREIT"). Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified 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.*

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Vornado Realty Trust

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Overview

The Company has operated over the periods presented in a generally favorable economic environment, although the Company's operating environment began to show signs of weakening in the first half of 2001. The Company's physical properties were not directly affected by the catastrophic events of September 11, 2001. Demand for New York City office space increased temporarily as a result of displaced tenants from buildings damaged or destroyed. The occupancy rate of the Company's New York City office portfolio increased from 95% at June 30, 2001 to 97% at December 31, 2001. The Company has experienced a significant reduction in occupancy at its Hotel Pennsylvania subsequent to September 11, 2001 accelerating a trend which began in the first quarter of 2001.

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.

Following is a summary of net income and EBITDA(1) by segment for the years ended December 31, 2001, 2000 and 1999. Prior to 2001, income from the Company's preferred stock affiliates ("PSAs") was included in income from partially-owned entities. On January 1, 2001, the Company acquired the common stock of its PSAs and converted these entities to taxable REIT subsidiaries. Accordingly, the Hotel portion of the Hotel Pennsylvania and the management companies (which provide services to the Company's business segments and operate the Trade Show business of the Merchandise Mart division) have been consolidated effective January 1, 2001. Amounts for the years ended December 31, 2000 and 1999 have been reclassified to give effect to the consolidation of these entities, as if consolidated as of January 1, 1999.

Vornado Realty Trust

	December 31, 2001					
($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Rentals	$ 841,999	$463,234	$119,730	$197,668	$ —	$ 61,367
Expense reimbursements	133,114	67,842	47,998	13,801	—	3,473
Other income	10,660	3,957	2,038	3,324	—	1,341
Total revenues	985,773	535,033	169,766	214,793	—	66,181
Operating expenses	398,969	217,965	58,996	83,107	—	38,901
Depreciation and amortization	123,862	71,548	17,349	25,397	—	9,568
General and administrative	72,572	12,694	470	18,081	—	41,327
Costs of acquisitions not consummated	5,223	—	—	—	—	5,223
Total expenses	600,626	302,207	76,815	126,585	—	95,019
Operating income	385,147	232,826	92,951	88,208	—	(28,838)
Income applicable to Alexander's	24,548	—	—	—	—	24,548
Income from partially-owned entities	80,612	32,746	1,914	149	17,447 [4]	28,356
Interest and other investment income	54,385	6,866	608	2,045	—	44,866
Interest and debt expense	(173,076)	(54,559)	(55,466)	(33,354)	—	(29,697)
Net gain on disposition of wholly-owned and partially-owned assets	7,425	12,445	3,050	160	—	(8,230)
Minority interest	(112,363)	(55,932)	(16,562)	(15,650)	(10,968)	(13,251)
Income before cumulative effect of change in accounting principle and extraordinary item	266,678	174,392	26,495	41,558	6,479	17,754
Cumulative effect of change in accounting principle	(4,110)	—	—	—	—	(4,110)
Extraordinary item	1,170	—	—	—	—	1,170
Net income	263,738	174,392	26,495	41,558	6,479	14,814
Cumulative effect of change in accounting principle	4,110	—	—	—	—	4,110
Extraordinary item	(1,170)	—	—	—	—	(1,170)
Minority interest	112,363	55,932	16,562	15,650	10,968	13,251
Net gain on disposition of wholly-owned and partially-owned assets	(15,655)	(12,445)	(3,050)	(160)	—	—
Interest and debt expense[3]	270,357	95,875	58,023	33,354	26,459	56,646
Depreciation and amortization[3]	188,859	91,208	18,834	25,397	33,815	19,605
Straight-lining of rents[3]	(26,134)	(20,124)	787	(4,997)	—	(1,800)
Other	(12,586)	(4,673)	—	—	716	(8,629) [5]
EBITDA[1]	$ 783,882	$380,165	$117,651	$110,802	$ 78,437	$ 96,827

See Supplemental Information on page 83 for the following data regarding the fourth quarter of 2001 and 2000: (i) a summary of net income and EBITDA by segment, (ii) details of the changes by segment in EBITDA and (iii) leasing activity. Further, the Supplemental Information contains data regarding (i) leasing activity for the year ended December 31, 2001, (ii) Condensed Proforma Operating Results for the years ended December 31, 2001 and 2000 giving effect to the January 1, 2002 acquisition of the remaining 66% of Charles E. Smith Commercial Realty as if it had occurred on January 1, 2000 and (iii) a summary of related party disclosures.

December 31, 2000 (after giving effect to consolidation of PSA's)						
($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Rentals	$ 788,469	$406,261	$129,902	$171,001	$ —	$ 81,305
Expense reimbursements	120,074	60,767	45,490	10,654	—	3,163
Other income	17,608	5,499	2,395	4,661	—	5,053
Total revenues	926,151	472,527	177,787	186,316	—	89,521
Operating expenses	379,524	199,424	55,671	74,553	—	49,876
Depreciation and amortization	108,109	58,074	17,464	21,984	—	10,587
General and administrative	63,468	10,401	667	16,330	—	36,070
Costs of acquisitions not consummated	—	—	—	—	—	—
Total expenses	551,101	267,899	73,802	112,867	—	96,533
Operating income	375,050	204,628	103,985	73,449	—	(7,012)
Income applicable to Alexander's	17,363	—	—	—	—	17,363
Income from partially-owned entities	79,694	29,210	667	—	28,778[4]	21,039
Interest and other investment income	33,798	6,162	—	2,346	—	25,290
Interest and debt expense	(179,380)	(62,162)	(53,180)	(38,569)	—	(25,469)
Net gain on disposition of wholly-owned and partially-owned assets	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 disposition of wholly-owned and partially-owned assets	(10,965)	(8,405)	(2,560)	—	—	—
Interest and debt expense[3]	260,573	96,224	55,741	38,566	27,424	42,618
Depreciation and amortization[3]	167,268	76,696	18,522	20,627	34,015	17,408
Straight-lining of rents[3]	(30,001)	(19,733)	(2,295)	(5,919)	(1,121)	(933)
Other	14,510	—	(1,654)	1,358	4,064[2]	10,742[5]
EBITDA[1]	$ 738,875	$331,025	$121,786	$ 91,858	$ 93,160	$101,046

Vornado Realty Trust

	December 31, 1999 (after giving effect to consolidation of PSA's)					
($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Rentals	$ 675,313	$333,025	$125,510	$151,308	$ —	$ 65,470
Expense reimbursements	95,658	42,198	43,326	8,245	—	1,889
Other income	12,542	4,572	1,702	1,831	—	4,437
Total revenues	783,513	379,795	170,538	161,384	—	71,796
Operating expenses	335,744	168,825	58,058	67,518	—	41,343
Depreciation and amortization	92,316	48,058	15,646	19,607	—	9,005
General and administrative	57,092	10,797	358	13,044	—	32,893
Costs of acquisitions not consummated	—	—	—	—	—	—
Total expenses	485,152	227,680	74,062	100,169	—	83,241
Operating income	298,361	152,115	96,476	61,215	—	(11,445)
Income applicable to Alexander's	11,772	—	—		—	11,772
Income from partially-owned entities	78,184	19,055	938	—	36,722	21,469
Interest and other investment income	20,683	1,786	—	2,995	—	15,902
Interest and debt expense	(151,483)	(49,624)	(27,635)	(31,685)	—	(42,539)
Minority interest	(54,998)	(25,854)	(14,628)	(6,819)	(7,697)	—
Net income (loss)	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[3]	226,253	82,460	30,249	29,509	27,520	56,515
Depreciation and amortization[3]	143,499	64,702	16,900	17,702	31,044	13,151
Straight-lining of rents[3]	(25,359)	(16,386)	(2,120)	(4,740)	(1,698)	(415)
Other	7,451	365	—	—	2,054[2]	5,032
EBITDA[1]	$ 609,361	$254,473	$114,808	$ 74,996	$95,642	$ 69,442

[1] *EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of depreciable 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] *Includes (i) the reversal of income taxes (benefit) which are considered non-recurring because of the conversion of the Temperature Controlled Logistics Companies to REITs in 2000 and (ii) the add back of non-recurring unification costs.*

[3] *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.*

[4] *Net of $15,281 and $9,787 of rent not recognized as income in 2001 and 2000, respectively.*

[5] *Includes the reversal of $1,266 and $4,765 of expenses in connection with a deferred compensation arrangement in 2001 and 2000, respectively.*

Other EBITDA is comprised of:

($ in thousands)	2001	2000	1999
Newkirk Joint Ventures			
(30% interest):			
Equity in EBITDA of limited partnerships	$54,695 [1]	$ 43,685	$ 38,465
Interest and other income	8,700	7,300	1,331
Total	63,395	50,985	39,796
Alexander's (33.1% interest)	19,362 [2]	18,330	13,469
Hotel Pennsylvania [3]	16,978 [4]	26,866	21,200
After-tax net gain on sale of Park Laurel condominium units	15,657	—	—
Write-off of net investment in the Russian Tea Room ("RTR")	(7,374)	—	—
Write-off of net investments in technology companies	(16,513)	—	—
Costs of acquisitions not consummated	(5,223)	—	—
Corporate general and administrative expenses	(41,327)	(36,070)	(32,893)
Investment income and other	51,872	40,935	27,870
Total	$96,827	$101,046	$ 69,442

[1] *Reflects acquisitions of additional partnership interests.*
[2] *Includes leasing fees of $2,500 in connection with Alexander's ground lease of its Paramus property to IKEA in the fourth quarter of 2001.*
[3] *The commercial portion of the Hotel was wholly-owned as of August 5, 1999, and accordingly consolidated.*
[4] *Average occupancy and REVPAR for the Hotel Pennsylvania for the year ended December 31, 2001 was 63% and $70 compared to 76% and $87 for the year ended December 31, 2000.*

The following table sets forth the percentage of the Company's EBITDA by segment for the years ended December 31, 2001, 2000 and 1999. The Proforma column gives effect to the January 1, 2002 acquisition by the Company of the remaining 66% interest in CESCR described previously as if it had occurred on January 1, 2001.

	Percentage of EBITDA			
	Years Ended December 31,			
	Proforma	Historical		
	2001	**2001**	2000	1999
Office:				
New York	**31%**	**38%**	35%	32%
CESCR	**26%**	**10%**	10%	10%
Total	**57%**	**48%**	45%	42%
Retail	**12%**	**15%**	16%	19%
Merchandise Mart Properties	**12%**	**14%**	12%	12%
Temperature Controlled Logistics	**8%**	**10%**	13%	16%
Other	**11%**	**13%**	14%	11%
	100%	**100%**	100%	100%

Results of Operations

Years Ended December 31, 2001 and December 31, 2000

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

($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Year ended December 31, 2000	$738,875	$331,025	$121,786	$ 91,858	$ 93,160	$101,046
2001 Operations:						
Same store operations[1]	32,485	37,731	3,305	7,508	(14,723)[3]	(1,336)
Acquisitions, dispositions and non-recurring income and expenses	12,522	11,409	(7,440)	11,436	—	(2,883)
Year ended December 31, 2001	$783,882	$380,165[2]	$117,651	$110,802	$ 78,437	$ 96,827[4]
% increase in same store operations	4.4%	11.4%[2]	2.7%	8.2%	(15.8%)[3]	(1.3%)[4]

(1) *Represents operations which were owned for the same period in each year.*

(2) *EBITDA and the same store percentage increase was $295,222 and 13.7% for the New York City office portfolio and $84,943 and 3.6% for the CESCR portfolio.*

(3) *The Company reflects its 60% share of the Vornado/Crescent Partnerships' ("the Landlord") equity in the rental income it receives from AmeriCold Logistics, its tenant, which leases the underlying temperature controlled warehouses used in its business. On February 22, 2001, the Landlord restructured the AmeriCold Logistics leases to among other things, (i) reduce 2001's contractual rent to $146,000, (ii) reduce 2002's contractual rent to $150,000 (plus additional 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.*

The tenant has advised the Landlord that (i) its revenue for the year ended December 31, 2001 from the warehouses it leases from the Landlord, is lower than last year by 4.2% and (ii) its gross profit before rent at these warehouses for the corresponding period is lower than last year by $26,764 (a 14.4% decline). This decrease is attributable to a reduction in total customer inventory stored at the warehouses and customer inventory turns.

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 $15,281 and $8,606 of the rent it was due in the years ended December 31, 2001 and 2000. On December 31, 2001 the Landlord released the tenant from its obligation to pay $39,812 of deferred rent of which the Company's share was $23,887. This amount equals the rent which was not recognized as income by the Company and accordingly had no profit and loss effect to the Company.

(4) *Included in "Other" is $2,422 of interest income from the $31,424 note receivable the Company has from Vornado Operating Company ("Vornado Operating"). Vornado Operating has only one significant asset, its investment in AmeriCold Logistics and does not generate positive cash flow sufficient to cover all of its expenses. Accordingly, commencing January 1, 2002, the Company will no longer recognize the interest income due on the $31,424 loan until Vornado Operating is cash flow positive in an amount sufficient to fund the interest due to the Company. The Company anticipates that the leases with Vornado Operating's investee may be restructured to provide additional cash flow and Vornado Operating's investee may sell non-core assets.*

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were $985,773,000 in the year ended December 31, 2001 compared to $926,151,000 in the prior year, an increase of $59,622,000. These increases by segment resulted from:

($ in thousands)	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Other
Property Rentals:						
Acquisitions:						
7 West 34th Street	November 2000	$ 12,162	$12,162	$ —	$ —	$ —
33 North Dearborn Street	September 2000	3,928	—	—	3,928	—
L.A. Mart	October 2000	8,622	—	—	8,622	—
715 Lexington Avenue	July 2001	861	861	—	—	—
Plaza Suites on Main Street expansion	September 2001	2,784	—	—	2,784	—
Dispositions		(8,775)		(8,775) [1]		
Hotel Activity		(18,234)	—	—	—	(18,234) [3]
Trade Show Activity		4,490	—	—	4,490	—
Leasing activity		47,692	43,950	(1,397) [4]	6,843	(1,704) [2]
Total increase in property rentals		53,530	56,973	(10,172)	26,667	(19,938)
Tenant expense reimbursements:						
Increase in tenant expense reimbursements due to acquisitions/dispositions		4,664	2,874	(814)	2,604	—
Other		8,376	4,201	3,322	543	310
Total increase in tenant expense reimbursements		13,040	7,075	2,508	3,147	310
Other income		(6,948)	(1,542)	(357)	(1,337)	(3,712)
Total increase in revenues		$ 59,622	$62,506	$ (8,021)	$28,477	$(23,340)

[1] *Results primarily from the 14th Street and Union Square property being taken out of service for redevelopment on February 9, 2001 and the sale of the Company's Texas properties on March 2, 2000.*
[2] *Results primarily from the termination of the Sports Authority lease at the Hotel Pennsylvania in January 2001.*
[3] *Average occupancy and REVPAR for the Hotel Pennsylvania were 63% and $70 for the year ended December 31, 2001 and 76% and $87 for the year ended December 31, 2000.*
[4] *Reflects a decrease of $2,514 in property rentals arising from the straight-lining of rent escalations.*

See Supplemental Information on page 86 for details of leasing activity.

Expenses

The Company's expenses were $600,626,000 in the year ended December 31, 2001, compared to $551,101,000 in the prior year, an increase of $49,525,000. This increase by segment resulted from:

($ in thousands)	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions, dispositions and non-recurring items	$ 8,938	$ 5,115	$ (253)	$ 6,199	$ (2,123)
Hotel activity	(3,331)	—	—	—	(3,331)[1]
Same store operations	13,838	13,426	3,578	2,355	(5,521)
	19,445	18,541	3,325	8,554	(10,975)
Depreciation and amortization:					
Acquisitions, dispositions and non-recurring items	3,788	2,563	(277)	1,502	—
Hotel activity	1,121	—	—	—	1,121
Same store operations	10,844	10,911	162	1,911	(2,140)
	15,753	13,474	(115)	3,413	(1,019)
General and Administrative:					
Other expenses	8,815	2,293	(197)	1,751	4,968
Donations to Twin Towers Fund and NYC Fireman's Fund	1,250	—	—	—	1,250
Hotel activity	(1,605)	—	—	—	(1,605)
Appreciation in value of Vornado shares and other securities held in officer's deferred compensation trust	644	—	—	—	644
	9,104	2,293	(197)	1,751	5,257
Costs of acquisitions not consummated	5,223	—	—	—	5,223
	$49,525	$34,308	$3,013	$13,718	$ (1,514)

[1] *Includes $1,900 for the collection of a receivable from a commercial tenant of the Hotel in 2001 which was previously fully reserved.*

Income Applicable to Alexander's

Income applicable to Alexander's (loan interest income, management, leasing and development fees, equity in income) was $24,548,000 in the year ended December 31, 2001, compared to $17,363,000 in the prior year, an increase of $7,185,000. This increase resulted primarily from the Company's share of Alexander's gain on sale of its Fordham Road property on January 12, 2001.

Income from Partially-Owned Entities

In accordance with generally accepted accounting principles, the Company reflects the income it receives from (i) entities it owns less than 50% of and (ii) entities it owns more than 50% of, but which have a partner who has the right to exercise significant control, on the equity method of accounting resulting in such income appearing on one line in the Company's consolidated statements of income. Below is the detail of income from partially-owned entities by investment as well as the increase (decrease) in income of partially-owned entities for the year ended December 31, 2001 as compared to the prior year:

($ in thousands)	Total	CESCR	Las Catalinas Mall	Starwood Ceruzzi Joint Venture	Temperature Controlled Logistics	Newkirk Joint Venture	Partially-owned Office Buildings	Management Companies/ Other
December 31, 2001:								
Revenues	$ 747,902	$ 382,502	$14,377	$ 1,252	$126,957	$179,551	$ 43,263	$ —
Expenses:								
Operating, general and administrative	(180,337)	(135,133)	(2,844)	(820)	(8,575)	(13,630)	(19,335)	—
Depreciation	(141,594)	(53,936)	(2,330)	(501)	(58,855)	(20,352)	(5,620)	—
Interest expense	(236,996)	(112,695)	(5,705)	—	(44,988)	(65,611)	(7,997)	—
Other, net	6,181	1,975	—	275	2,108	4,942	1,759	(4,878)
Net Income	$ 195,156	$ 82,713	$ 3,498	$ 206	$ 16,647	$ 84,900	$ 12,070	$(4,878)
Vornado's interest		34%	50%	80%	60%	30%	34%	50%
Equity in net income	$ 67,679	$ 28,653	$ 1,749	$ 165	$ 9,988	$ 25,470	$ 4,093	$(2,439)
Interest and other income	7,579	—	—	—	2,105	5,474	—	—
Fee income	5,354	—	—	—	5,354	—	—	—
Income from partially-owned entities	$ 80,612	$ 28,653	$ 1,749	$ 165	$ 17,447	$ 30,944	$ 4,093	$(2,439)
December 31, 2000:								
Revenues	$ 698,712	$ 344,084	$14,386	$ 303	$154,467	$143,272	$ 42,200	$ —
Expenses:								
Operating, general and administrative	(175,135)	(129,367)	(3,817)	(1,740)	(9,029)	(10,652)	(20,530)	—
Depreciation	(126,221)	(42,998)	(2,277)	(153)	(57,848)	(14,786)	(8,159)	—
Interest expense	(218,234)	(98,565)	(4,812)	—	(46,639)	(58,284)	(9,934)	—
Other, net	2,113	3,553		—	(3,667)	2,557	2,561	(2,891)
Net Income	$ 181,235	$ 76,707	$ 3,480	$(1,590)	$ 37,284	$ 62,107	$ 6,138	$(2,891)
Vornado's interest		34%	50%	80%	60%	30%	46%	98%
Equity in net income	$ 67,392	$ 25,724	$ 1,817	$(1,150)	$ 22,370	$ 18,632	$ 2,832	$(2,833)
Interest and other income	6,768	—	—	—	874	5,894	—	—
Fee income	5,534	—	—	—	5,534	—	—	—
Income from partially-owned entities	$79,694	$ 25,724	$ 1,817	$(1,150)	$ 28,778	$ 24,526	$ 2,832	$(2,833)
Increase (decrease) in income of partially-owned entities	$ 918	$ 2,929	$ (68)	$ 1,315	$ (11,331)	$ 6,418	$ 1,261	$ 394

Interest and Other Investment Income

Interest and other investment income (interest income on mortgage loans receivable, other interest income, dividend income and net gains on marketable securities) was $54,385,000 for the year ended December 31, 2001, compared to $33,798,000 in the prior year, an increase of $20,587,000. 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. on September 28, 2000 (20% effective rate).

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

On November 19, 2001 the Company sold, pursuant to a participation agreement with a subsidiary of Cadim inc., a Canadian pension fund, a 50% participation in both loans at par for approximately $50,000,000 reducing the Company's net investment in the loans at December 31, 2001 to $56,768,000 including unpaid interest and fees of $6,790,000. Under the terms of the participation agreement, cash payments received shall be applied (i) first, to the reimbursement of reimbursable out-of-pocket costs and expenses incurred in connection with the servicing, administration or enforcement of the loans after November 19, 2001, (ii) second, to the Company and Cadim pro rata in proportion to the amount of interest and fees owed to them (all of such fees and interest accrued through November 19, 2001 are for the account of Vornado and all of such fees and interest accrued after November 19, 2001 accrue on a 50/50 basis to the Company and Cadim) and (iii) third, 50% to the Company and 50% to Cadim. The Company has agreed that in the event the Company acquires the collateral in a foreclosure proceeding it will, upon the request of Cadim, deliver 50% of such collateral to Cadim.

For financial reporting purposes, the gross amount of the loan, $106,768,000, is included in "Notes and mortgage loans receivable" and Cadim's 50% participation, $50,000,000, is reflected in "Other liabilities". The Company did not recognize income on these loans for the period from November 19, 2001 through December 31, 2001, and will not recognize income until such time that cash is received or foreclosure proceedings have been consummated. The Company believes that the value of the collateral and the guarantees is sufficient to cover the carrying amount of the loans receivable including unpaid interest and fees.

Included in interest and other investment income for the year ended December 31, 2001, is $2,422,000 of interest income from the $31,424,000 note receivable the Company has from Vornado Operating Company ("Vornado Operating"). Vornado Operating has only one significant asset, its investment in AmeriCold Logistics and does not generate positive cash flow sufficient to cover all of its expenses. Accordingly, commencing January 1, 2002, the Company will no longer recognize the interest income due on the $31,424,000 loan until Vornado Operating is cash flow positive in an amount sufficient to fund the interest due to the Company.

Interest and Debt Expense

Interest and debt expense was $173,076,000 for the year ended December 31, 2001, compared to $179,380,000 in the prior year, a decrease of $6,304,000. This decrease resulted primarily from a $36,270,000 savings from a 289 basis point reduction in weighted average interest rate on variable rate debt partially offset by interest on higher average outstanding loan balances. Interest and debt expense includes amortization of debt issuance costs of $8,458,000 and $7,298,000 for the years ended December 31, 2001 and 2000.

Net gain on disposition of wholly-owned and partially-owned assets

The following table sets forth the details of net gain on disposition of wholly-owned and partially-owned assets for the years ended December 31, 2001 and 2000:

($ in thousands)	**2001**	2000
Wholly-owned Assets:		
Net gain from condemnation proceeding	**$ 3,050**	$ —
Write-off of investments in technology companies	**(16,513)**	—
Net gain on sale of other real estate	**—**	10,965
Partially-owned Assets:		
After-tax net gain on sale of Park Laurel condominium units	**15,657**	—
Net gain on sale of 570 Lexington Avenue	**12,445**	—
Write-off of net investment in the Russian Tea Room (“RTR”)	**(7,374)**	—
Other	**160**	—
	$ 7,425	$10,965

Net Gain From Condemnation Proceeding

In September 1998, Atlantic City condemned the Company’s property. In the third quarter of 1998, the Company recorded a gain of $1,694,000, which reflected the condemnation award of $3,100,000, net of the carrying value of the property of $1,406,000. The Company appealed the amount and on June 27, 2001, was awarded an additional $3,050,000, which has been recorded as a gain in the quarter ended June 30, 2001.

Write-off Investments in Technology Companies

In the first quarter of 2001, the Company recorded a charge of $4,723,000 resulting from the write-off of an equity investment in a technology company. In the second quarter of 2001, the Company recorded an additional charge of $13,561,000 resulting from the write-off of all of its remaining equity investments in technology companies due to both the deterioration of the financial condition of these companies and the lack of acceptance by the market of certain of their products and services. In the fourth quarter of 2001, the Company recorded $1,481,000 of income resulting from the reversal of a deferred rent liability relating to the termination of an agreement permitting one of the technology companies access to its properties.

550/600 Mamaroneck Avenue

On August 6, 2001, the Company sold its leasehold interest in 550/600 Mamaroneck Avenue for $22,500,000, which approximated its net book value.

Net Gain on Sale of Other Real Estate

During 2000, the Company sold (i) its three shopping centers located in Texas for $25,750,000, resulting in a gain of $2,560,000 and (ii) its Westport, Connecticut office property for $24,000,000, resulting in a gain of $8,405,000.

Park Laurel Condominium Project

In the third and fourth quarters of 2001, the Park Laurel Joint Venture (69% interest owned by the Company) completed the sale of 52 condominium units of the total 53 units and received proceeds of $139,548,000. The Company's share of the after tax net gain was $15,657,000 and is after a charge of $3,953,000 (net of tax benefit of $1,826,000) for awards accrued under the venture's incentive compensation plan.

570 Lexington Avenue

On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue for $60,000,000, resulting in a gain of $12,445,000.

Write-off of Net Investment in RTR

In the third quarter of 2001, the Company wrote-off its entire net investment of $7,374,000 in RTR based on the operating losses and an assessment of the value of the real estate.

Other

The Company recorded the cumulative effect of a change in accounting principle of $4,110,000 in the first quarter of 2001. The Company had previously marked-to-market changes in the value of stock purchase warrants through accumulated other comprehensive loss. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, those changes are recognized through earnings, and accordingly, the Company has reclassified $4,110,000 from accumulated other comprehensive loss to the consolidated statement of income as of January 1, 2001. Future changes in value of such securities will be recorded through earnings.

The Company recorded an extraordinary item of $1,170,000 in the first quarter of 2001 representing the Company's share of Alexander's extraordinary gain from early extinguishment of debt. The Company incurred an extraordinary loss of $1,125,000 in the first quarter of 2000 due to the write-off of unamortized financing costs in connection with the prepayment of debt.

Minority interest was $112,363,000 for the year ended December 31, 2001, compared to $102,374,000 for the prior year, an increase of $9,989,000. This increase is primarily due to an increase in perpetual preferred units distributions for units issued in 2000 and 2001.

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 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company 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, 2000 and December 31, 1999

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

($ in thousands)	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, dispositions and non-recurring income and expenses	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 business 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 was 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 $9,787 in the year ended December 31, 2000.

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were $926,151,000 in the year ended December 31, 2000 compared to $783,513,000 in the prior year, an increase of $142,638,000. These increases by segment resulted from:

($ in thousands)	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		70,436	43,625	4,392	15,449	6,970
Total increase in property rentals		113,156	73,236	4,392	19,693	15,835
Tenant expense reimbursements:						
Increase in tenant expense reimbursements due to acquisitions		10,733	9,071	—	899	763
Other		13,683	9,498	2,164	1,510	511
Total increase in tenant expense reimbursements		24,416	18,569	2,164	2,409	1,274
Other income		5,066	927	693	2,830	616
Total increase in revenues		$142,638	$92,732	$7,249	$24,932	$17,725

Expenses

The Company's expenses were $551,101,000 in the year ended December 31, 2000, compared to $485,152,000 the prior year, an increase of $65,949,000. These increases by segment resulted from:

($ in thousands)	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions	$23,639	$16,743	$ —	$ 2,310	$ 4,586
Same store operations	20,141	13,856	(2,387)	4,725	3,947
	43,780	30,599	(2,387)	7,035	8,533
Depreciation and amortization:					
Acquisitions	5,952	3,735	—	528	1,689
Same store operations	9,841	6,281	1,818	1,849	(107)
	15,793	10,016	1,818	2,377	1,582
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	1,271[1]	(396)	309	3,286	(1,928)
	6,376	(396)	309	3,286	3,177
	$65,949	$40,219	$ (260)	$12,698	$13,292

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

Income Applicable to Alexander's

Income applicable to Alexander's (loan interest income, management, leasing and development fees, equity in income) was $17,363,000 in the year ended December 31, 2000, compared to $11,772,000 in the prior year, an increase of $5,591,000. This increase resulted from interest income on higher outstanding loan balances to Alexander's.

Income from partially-owned entities

Income from partially-owned entities was $79,694,000 in the year ended December 31, 2000, compared to $78,184,000 in the prior year, an increase of $1,510,000. Below are the details by segment.

($ in thousands)	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	—	—	—	—
Partially-owned office buildings		1,089	1,089	—	—	—	—
Other		(396)	663	(271)	—	—	(788)
		$ 1,510	$8,659	$(271)	$—	$(7,944)	$ 1,066

[(1)] *Reflects $9,787 of rent not recognized in the year ended December 31, 2000.*

Interest and Other Investment Income

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 $33,798,000 for the year ended December 31, 2000, compared to $20,683,000 in the prior year, an increase of $13,115,000. 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

Interest and debt expense was $179,380,000 for the year ended December 31, 2000, compared to $151,483,000 in the prior year, an increase of $27,897,000. This increase resulted primarily from higher average outstanding balances and higher interest rates during the year.

Net Gain on Disposition of Wholly-Owned and Partially-Owned Assets

Net gain on sale of real estate of $10,965,000 in the year ended December 31, 2000, resulted from (i) the sale of three Texas shopping center properties on March 2, 2000, for $25,750,000, resulting in a gain of $2,560,000 and (ii) the sale of the Company's Westport Connecticut office property on August 30, 2000 for $24,000,000 resulting in a gain of $8,405,000.

Other

Minority interest was $102,374,000 for the year ended December 31, 2000, compared to $54,998,000 for the prior year, an increase of $47,376,000. This increase is primarily due to higher income.

Preferred stock dividends were $38,690,000 for the year ended December 31, 2000, compared to $33,438,000 in the prior year, an increase of $5,252,000. 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 $1,125,000 in the first quarter of 2000 due to the write-off of unamortized financing costs in connection with a prepayment of debt.

Supplemental Information
Three Months Ended December 31, 2001 and December 31, 2000

Below is a summary of net income and EBITDA by segment for the three months ended December 31, 2001 and 2000. The results by segment for the three months ended December 31, 2000 have been reclassified to give effect to the consolidation of the Company's preferred stock affiliates ("PSAs") as if consolidated as of January 1, 2000.

	For The Three Months Ended December 31, 2001					
($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[3]
Rentals	$213,488	$117,659	$ 29,893	$52,151	$ —	$13,785
Expense reimbursements	30,263	11,333	14,141	3,635	—	1,154
Other income	3,072	1,595	(495)	882	—	1,090
Total revenues	246,823	130,587	43,539	56,668	—	16,029
Operating expenses	99,533	53,110	15,435	20,680	—	10,308
Depreciation and amortization	32,636	18,753	4,280	7,141	—	2,462
General and administrative	20,866	3,830	98	4,795	—	12,143
Costs of acquisitions not consummated	223	—	—	—	—	223
Total expenses	153,258	75,693	19,813	32,616	—	25,136
Operating income	93,565	54,894	23,726	24,052	—	(9,107)
Income applicable to Alexander's	3,126	—	—	—	—	3,126
Income from partially-owned entities	18,538	8,057	(1,095)	(70)	4,538	7,108
Interest and other investment income	10,454	1,100	88	268	—	8,998
Interest and debt expense	(36,633)	(10,496)	(14,037)	(7,488)	—	(4,612)
Net gain on disposition of wholly-owned and partially-owned assets	3,719	—	—	160	—	3,559
Minority interest	(28,432)	(13,997)	(4,176)	(4,240)	(2,674)	(3,345)
Income before extraordinary item	64,337	39,558	4,506	12,682	1,864	5,727
Cumulative effect of change in accounting principle	—	—	—	—	—	—
Extraordinary item	—	—	—	—	—	—
Net income	64,337	39,558	4,506	12,682	1,864	5,727
Cumulative effect of change in accounting principle	—	—	—	—	—	—
Extraordinary item	—	—	—	—	—	—
Minority interest	28,432	13,997	4,176	4,240	2,674	3,345
Net gain on disposition of wholly-owned and partially-owned assets	(160)	—	—	(160)	—	—
Interest and debt expense[2]	64,180	20,609	14,646	7,488	6,261	15,176
Depreciation and amortization[2]	52,386	24,106	4,972	7,141	8,604	7,563
Straight-lining of rents[2]	(3,458)	(3,877)	1,931	(1,126)	—	(386)
Other	(3,697)	218	—	—	494	(4,409)
EBITDA[1]	$202,020	$ 94,611	$ 30,231	$30,265	$19,897	$27,016

	For The Three Months Ended December 31, 2000 (after giving effect to consolidation of PSAs)					
	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Rentals	$211,326	$103,095	$ 35,052	$ 44,834	$ —	$ 28,345
Expense reimbursements	29,772	13,817	11,556	3,323	—	1,076
Other income	10,507	2,450	305	1,142	—	6,610
Total revenues	251,605	119,362	46,913	49,299	—	36,031
Operating expenses	103,522	52,121	15,292	19,040	—	17,069
Depreciation and amortization	30,967	15,805	3,979	7,192	—	3,991
General and administrative	16,808	1,186	454	5,742	—	9,426
Total expenses	151,297	69,112	19,725	31,974	—	30,486
Operating income	100,308	50,250	27,188	17,325	—	5,545
Income applicable to Alexander's	6,282	—	—	—	—	6,282
Income from partially-owned entities	11,803	7,170	(320)	(242)	4,094[3]	1,101
Interest and other investment income	15,298	3,475	(8)	1,430	—	10,401
Interest and debt expense	(55,176)	(16,435)	(15,178)	(11,944)	—	(11,619)
Minority interest	(26,792)	(8,015)	(5,243)	(2,222)	(4,775)	(6,537)
Net income	51,723	36,445	6,439	4,347	(681)	5,173
Minority interest	26,792	8,015	5,243	2,222	4,775	6,537
Interest and debt expense[2]	70,755	24,263	15,794	10,706	6,478	13,514
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[4]	4,153[5]
EBITDA[1]	$197,869	$ 86,196	$ 29,580	$ 23,072	$23,735	$ 35,286

[1] *EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains or losses on sales of depreciable 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] *Net of $7,630 and $4,500 of rent not recognized as income the fourth quarter of 2001 and 2000, respectively.*

[4] *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.*

[5] *Net of $2,272, the Company's share of the reversal of Alexander's stock appreciation rights expense in the fourth quarter of 2000.*

Other EBITDA is comprised of:

($ in thousands)	2001	2000
Newkirk Joint Ventures (30% interest):		
Equity in income of limited partnerships	$ 14,238	$11,199
Interest and other income	4,155	2,300
Total	18,393	13,499
Alexander's (33.1% interest)	3,417[1]	7,510
Hotel Pennsylvania	2,671[2]	9,826
After-tax net gain on sale of Park Laurel condominium units	1,788	—
Corporate general and administrative expenses	(12,143)	(9,426)
Investment income and other	12,890	13,877
Total	$ 27,016	$35,286

[1] *Reflects a charge of $1,684 representing the Company's share of Alexander's write-off of (i) Paramus development costs and (ii) professional fees in connection with its Lexington Avenue development project.*

[2] *Average occupancy and REVPAR for the Hotel Pennsylvania for the three months ended December 31, 2001 was 53.1% and $53.86 compared to 78.6% and $93.97 for the three months ended December 31, 2000.*

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

($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Three months ended December 31, 2000	$197,869	$86,196	$29,580	$23,072	$23,735	$35,286
2001 Operations:						
Same store operations[1]	1,493	10,176	1,174	2,157	(3,838)	(8,176)
Acquisitions, dispositions and non-recurring income and expenses	2,658	(1,761)	(523)	5,036	—	(94)
Three months ended December 31, 2001	$202,020	$94,611[2]	$30,231	$30,265	$19,897	$27,016
% increase in same store operations	.8%	11.8%[2]	4.0%	9.3%	(16.2%)	(23.2%)

[1] *Represents operations, which were owned for the same period in each year.*
[2] *EBITDA and same store percentage increase was $72,739 and 14.7% for the New York city office portfolio and $21,872 and 3.0% for the CESCR portfolio.*

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2001 compared to the three months ended September 30, 2001:

($ in thousands)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Three months ended September 30, 2001	$203,528	$95,526	$29,003	$26,987	$18,393	$33,619
2001 Operations:						
Same store operations[1]	5,820	1,877	1,001	3,278[2]	1,504[3]	(1,840)
Acquisitions , dispositions and non-recurring income and expenses	(7,328)	(2,792)	227	—	—	(4,763)
Three months ended December 31, 2001	$202,020	$94,611	$30,231	$30,265	$19,897	$27,016
% increase in same store operations	2.9%	2.0%[1]	3.5%	12.1%	8.2%	(5.5%)

[1] *EBITDA and same store percentage increase was $72,739 and 1.7% for the New York City office portfolio and $21,872 and 3.0% for the CESCR portfolio.*
[2] *Reflects higher income due to timing of trade shows.*
[3] *Primarily due to seasonality of tenant's operations.*

Leasing Activity

The following table sets forth leasing activity for space previously occupied for the three months ended December 31, 2001 and for the years ended December 31, 2001 and 2000.

	Office			Merchandise Mart		Temperature Controlled
(square feet in thousands)	New York City	CESCR[1]	Retail	Office[2]	Showroom[2]	Logistics
As of December 31, 2001:						
Square feet	14,300	4,386	11,301	2,840	5,532	17,695
Cubic feet	—	—	—	—	—	445,200
Number of properties	22	51	55	9	9	89
Occupancy rate	97%	95%	92%	89%	96%	81%
Leasing Activity:						
For the quarter ended December 31, 2001:						
Square feet	237	38	32	10	106	—
Rent per square foot:						
Initial rent[3]	$46.80	$31.59	$23.64	$19.21	$23.02	—
Prior escalated rent	$32.95	$29.99	$19.24	$11.26	$18.01	—
Percentage increase	42%	5%	23%	70%	28%	—
For the year ended December 31, 2001:						
Square feet	1,479	535	427	36	524	—
Rent per square foot:						
Initial rent[3]	$47.05	$31.30	$16.72	$22.93	$22.40	—
Prior escalated rent	$29.85	$25.59	$13.72	$20.55	$19.06	—
Percentage increase	58%	22%	22%	12%	17.5%	—
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%	82%
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.*

Proforma Operating Results — CESCR Acquisition

Below are condensed Proforma Operating Results for the years ended December 31, 2001 and 2000 giving effect to the January 1, 2002 acquisition by the Company of the remaining 66% of Charles E. Smith Commercial Realty as if it had occurred on January 1, 2000.

	ProForma Year Ended December 31,	
($ in thousands, except per share amounts)	**2001**	2000
Revenues	**$1,372,464**	$1,176,106
Net Income	**$ 265,893**	$ 234,838
Preferred share dividends	**(36,505)**	(38,690)
Net income applicable to common shares	**$ 229,388**	$ 196,148
Net income per common share — diluted	**$2.49**	$ 2.21
EBITDA	**$ 949,176**	$ 885,115
Funds from Operations	**$ 414,319**	$ 356,727
Shares used for determining diluted funds from operations per share	**99,719**	96,710

Related Party Disclosure

Loan and Compensation Agreements

At December 31, 2001, the loan due from Mr. Roth, in accordance with his employment arrangement, was $13,123,000 ($4,704,000 of which is shown as a reduction in shareholders' equity). The loan bears interest at 3.97% per annum (based on the applicable Federal rate) and matures in January 2006. The Company also provided Mr. Roth with the right to draw up to $15,000,000 of additional loans on a revolving basis. Each additional loan will bear interest, payable quarterly, at the applicable Federal rate on the date the loan is made and will mature on the sixth anniversary of the loan.

At December 31, 2001, loans due from Mr. Fascitelli, in accordance with his employment agreement, aggregated $8,600,000. The loans which were scheduled to mature in 2003 have been extended to 2006 in connection with the extension of Mr. Fascitelli's employment agreement (discussed below) and bear interest, payable quarterly at a weighted average interest rate of 3.97% (based on the applicable Federal rate).

Pursuant to his December 1996 employment agreement, Mr. Fascitelli became entitled to a deferred payment consisting of $5,000,000 in cash and a convertible obligation payable November 30, 2001, at the Company's option in 919,540 of its common shares or the cash equivalent of their appreciated value but not less than $20,000,000. Prior to November 30, 2001, the Company and Mr. Fascitelli have agreed to extend the deferral period for three additional years. The Company has funded the obligation in common shares. Accordingly, the Company has reflected this liability as Deferred compensation shares not yet delivered in the Equity section of the balance sheet. The cash and common shares are held in an irrevocable trust (the fair value of this obligation was $40,155,000 at December 31, 2001). For the years ended December 31, 2001 and 2000, the Company recognized approximately $4,744,000 and $3,733,000 of compensation expense of which $2,612,000 and $1,968,000 represented the appreciation in value of the shares in each period and $2,132,000 and $1,765,000 represented dividends paid on the shares.

On March 8, 2002, the Company extended its employment agreement with Mr. Fascitelli for a five year period ending December 31, 2006. Pursuant to the employment agreement, he will receive a deferred payment in five years of 626,566 Vornado common shares which are valued for compensation purposes at $27,500,000. The number of shares was set by the Company's Compensation Committee in December to achieve a value of $25,000,000 and have appreciated $2,500,000 since then. The shares will vest on December 31, 2002. Mr. Fascitelli will also receive regular annual cash compensation as determined by the Company's Compensation Committee and will continue as a member of Vornado's Board.

One other executive officer of the Company has a loan outstanding pursuant to an employment agreement of $1,000,000 at December 31, 2001. The loan matures in April 2005 and bears interest at either the applicable Federal rate provided or the broker call rate (6.63% at December 31, 2001).

Transactions with Affiliates and Officers and Trustees of the Company

Alexander's

The Company owns 33.1% of Alexander's. Mr. Roth and Mr. Fascitelli are Officers and Directors of Alexander's and the Company provides various services to Alexander's in accordance with management and leasing agreements. These agreements are described in Note 4 to the Company's Consolidated Financial Statements — Investments in Partially-Owned Entities.

Interstate Properties

The Company 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, 2001, 2000 and 1999, $1,655,000, $1,418,000, and $1,262,000 of management fees were earned by the Company pursuant to the management agreement.

The New York City Office Cleaning Contract

The estate of Bernard Mendik and certain other individuals including Mr. Greenbaum own 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 $51,280,000, $47,493,000, and $40,974,000 for the years ended December 31, 2001, 2000 and 1999.

Vornado Operating Company

In October 1998, Vornado Operating Company ("Vornado Operating") was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct. The Company granted Vornado Operating a $75,000,000 unsecured revolving credit facility (the "Revolving Credit Agreement") which expires on December 31, 2004. Borrowings under

the Revolving Credit Agreement bear interest at LIBOR plus 3%. The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the Revolving Credit Agreement during its term. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 2001, $31,424,000 was outstanding under the Revolving Credit Agreement.

Other

The Company owns preferred securities in Capital Trust, Inc. ("Capital Trust") totaling $48,758,000 at December 31, 2001. Mr. Roth, the Chairman and Chief Executive Officer of Vornado Realty Trust, is a member of the Board of Directors of Capital Trust nominated by the Company.

On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue to an entity controlled by the late Bernard Mendik, a former trustee and executive officer of the Company, for $60,000,000, resulting in a gain to the Company of $12,445,000.

During 2001, the Company paid approximately $136,000 for legal services to a firm in which one of the Company's trustees is a member.

On January 1, 2001, the Company acquired the common stock of various preferred stock affiliates which was owned by Officer and Trustees of the Company and converted them to taxable REIT subsidiaries. The total acquisition price was $5,155,000. The purchase price, which was the estimated fair value, was determined by both independent appraisal and by reference to the individuals' pro rata share of the earnings of the preferred stock affiliates during the three-year period that these investments were held.

In connection with the Park Laurel condominium project, the joint venture accrued $5,779,000 of awards under the venture's incentive compensation plan.

Liquidity and Capital Resources

Cash Flows for the Years Ended December 31, 2001, 2000 and 1999

Year Ended December 31, 2001

Cash flow provided by operating activities of $387,685,000 was primarily comprised of (i) income of $263,738,000, (ii) adjustments for non-cash items of $131,832,000, and (iii) the net change in operating assets and liabilities of $22,738,000. The adjustments for non-cash items were primarily comprised of (i) a cumulative effect of change in accounting principle of $4,110,000, (ii) the write-off of the Company's remaining equity investments in technology companies of $16,513,000, (iii) the write-off of its entire net investment of $7,374,000 in the Russian Tea Room, (iv) depreciation and amortization of $123,862,000, (v) minority interest of $112,363,000, partially offset by (vi) the effect of straight-lining of rental income of $27,230,000, and (vii) equity in net income of partially-owned entities and income applicable to Alexander's of $105,160,000.

Net cash used in investing activities of $79,722,000 was primarily comprised of (i) recurring capital expenditures of $41,093,000, (ii) non-recurring capital expenditures of $25,997,000, (iii) development and redevelopment expenditures of $145,817,000, (iv) investment in notes and mortgages receivable of $83,879,000, (v) investments in partially-owned entities of $109,332,000, (vi) acquisitions of real estate of $11,574,000, offset by, (vii) proceeds from the sale of real estate of $162,045,000, and (viii) distributions from partially-owned entities of $113,240,000.

Net cash used in financing activities of $179,368,000 was primarily comprised of (i) proceeds from borrowings of $554,115,000, (ii) proceeds from the issuance of common shares of $377,193,000, (iii) proceeds from the issuance of preferred units of $52,673,000, offset by, (iv) repayments of borrowings of $835,257,000, (v) dividends paid on common shares of $201,813,000, (vi) dividends paid on preferred shares of $35,547,000, and (vii) distributions to minority partners of $98,544,000.

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures.

Capital expenditures are categorized as follows:

Recurring — capital improvements expended to maintain a property's competitive position within the market and tenant improvements and leasing commissions for costs to re-lease expiring leases or renew or extend existing leases.

Non-recurring — capital improvements completed in the year of acquisition and the following two years which were planned at the time of acquisition and tenant improvements and leasing commissions for space which was vacant at the time of acquisition of a property.

Development and Redevelopment expenditures include all hard and soft costs associated with the development or redevelopment of a property, including tenant improvements, leasing commissions and capitalized interest and operating costs until the property is substantially complete and ready for its intended use.

($ in thousands)	Total	New York City Office	Retail	Merchandise Mart	Other	CESCR (34% Interest)
	Funded by the Company					
Capital Expenditures:						
Expenditures to maintain the assets:						
Recurring	$ 14,423	$ 7,684	$1,253	$ 5,287	$ 199	$ 3,121
Non-recurring	20,751	13,635	—	7,116	—	6,678
	35,174	21,319	1,253	12,403	199	9,799
Tenant Improvements:						
Recurring	26,670	21,452	271	4,858	89	$ 5,979
Non-recurring	5,246	5,246	—	—	—	190
	31,916	26,698	271	4,858	89	6,169
Total	$ 67,090	$48,017	$1,524	$17,261	$ 288	$15,968
Leasing Commissions:						
Recurring	$ 19,536	$18,546	$ 336	$ 381	$ 273	$ 1,142
Non-recurring	7,902	7,902	—	—	—	28
	$ 27,438	$26,448	$ 336	$ 381	$ 273	$ 1,170
Total Capital Expenditures and Leasing Commissions:						
Recurring	$ 60,629	$47,682	$1,860	$10,526	$ 561	$10,242
Non-recurring	33,899	26,783	—	7,116	—	6,896
Development and Redevelopment Expenditures:						
Palisades — Fort Lee, NJ	$ 66,173	$ —	$ —	$ —	$66,173	$ —
Market Square on Main Street	29,425	—	—	29,425	—	—
Other	50,219	25,703	6,378	4,350	13,788	14,067
	$145,817	$25,703	$6,378	$33,775	$79,961	$14,067

Year Ended December 31, 2000

Cash flow provided by operating activities of $249,921,000 was primarily comprised of (i) income of $233,991,000 and (ii) adjustments for non-cash items of $66,557,000 offset by (iii) the net change in operating assets and liabilities of $40,787,000 and (iv) the net gain on sale of real estate of $10,965,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $99,846,000 and (ii) minority interest of $102,374,000, partially offset by (iii) the effect of straight-lining of rental income of $32,206,000 and (iv) equity in net income of partially-owned entities and income applicable to Alexander's of $103,457,000.

Net cash used in investing activities of $699,375,000 was primarily comprised of (i) capital expenditures of $171,782,000, (ii) investment in notes and mortgages receivable of $144,225,000, (iii) acquisitions of real estate of $199,860,000, (iv) investments in partially-owned entities of $99,974,000, (v) cash restricted of $183,788,000, of which $173,500,000 represents funds escrowed in connection with a mortgage financing, partially offset by (vi) proceeds from the sale of real estate of $47,945,000 and distributions from partially-owned entities of $68,799,000. Below are the details of acquisitions of real estate, investments in partially-owned entities, investments in notes and mortgages receivable and capital expenditures.

Vornado Realty Trust

($ in thousands)	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 (69% 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 $26,133,000 in the year ended December 31, 2000, of which $24,333,000 was attributable to New York City Office properties, $647,000 was attributable to Retail properties and $1,153,000 was attributable to Merchandise Mart properties.

Net cash provided by financing activities of $473,813,000 was primarily comprised of (i) proceeds from borrowings of $1,195,108,000, (ii) proceeds from issuance of preferred units of $204,750,000, partially offset by, (iii) repayments of borrowings of $633,655,000, (iv) dividends paid on common shares of $168,688,000, (v) dividends paid on preferred shares of $35,815,000, and (vi) distributions to minority partners of $80,397,000.

Year Ended December 31, 1999

Cash flow provided by operating activities of $176,895,000 were comprised of (i) net income of $202,519,000 and (ii) adjustments for non-cash items of $26,686,000 offset by (iii) the net change in operating assets and liabilities of $50,907,000 (primarily prepaid expenses). The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $83,585,000 and (ii) minority interest of $54,998,000, partially offset by (iii) the effect of straight-lining of rental income of $29,587,000 and (iv) equity in income of partially-owned entities of $82,310,000.

Net cash used in investing activities of $494,204,000 was primarily comprised of (i) capital expenditures of $153,591,000 (see detail below), (ii) investment in mortgage loans receivable of $59,787,000 (including $41,200,000 loan to CAPI and $18,587,000 loan to Vornado Operating Company), (iii) acquisitions of real estate of $224,654,000 (see detail below) and (iv) investments in partially-owned entities of $118,409,000 (see detail below), partially offset by (v) the use of cash restricted for tenant improvements of $13,624,000, (vi) proceeds from the sale of Temperature Controlled Logistics assets of $22,769,000 and (vii) proceeds from the repayment of mortgage loans receivable of $20,751,000 (of which $14,000,000 is from Vornado Operating Company).

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

($ in thousands)	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:

($ in thousands)	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 $16,853,000 in the year ended December 31, 1999, of which $14,003,000 was attributable to New York City Office properties, $638,000 was attributable to Retail properties and $2,212,000 was attributable to Merchandise Mart properties.

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

Funds from Operations for the Years Ended December 31, 2001 and 2000

Funds from operations was $376,523,000 in the year ended December 31, 2001, compared to $335,158,000 in the prior year, an increase of $41,365,000. Funds from operations for the year ended December 31, 2001, includes (i) a $15,657,000 after tax net gain on sale of Park Laurel condominium units, (ii) $29,110,000[1] for write-offs of investments and other deferred costs and (iii) $1,250,000 for donations to the Twin Towers Fund and the NYC Fireman's Fund. Funds from operations before these items and after minority interest was $389,426,000, a $54,268,000 increase over the prior year, or a 12.7% increase on a per share basis.

[1] Write-off of investments and other deferred costs in 2001 include:

Write-off of all of the Company's investments in technology companies	*$16,513,000*
Write-off of entire net investment in the Russian Tea Room (50% interest)	*7,374,000*
Write-off of costs of acquisitions not consummated	*5,223,000*
Total	*$29,110,000*

The following table reconciles funds from operations and net income:

	For the Year Ended December 31,	
($ in thousands)	**2001**	2000
Net income applicable to common shares	**$227,233**	$195,301
Cumulative effect of a change in accounting principle	**4,110**	—
Extraordinary item	**(1,170)**	1,125
Depreciation and amortization of real property	**119,568**	97,744
Straight-lining of property rentals for rent escalations	**(24,314)**	(28,893)
Leasing fees received in excess of income recognized	**1,954**	1,259
Appreciation of securities held in officer's deferred compensation trust	**3,023**	4,765
Net gain on sale of 570 Lexington Avenue — through a partially-owned entity	**(12,445)**	—
Net gain from condemnation proceeding	**(3,050)**	—
Net gain on sale of other depreciable real estate	**—**	(10,965)
Proportionate share of adjustments to equity in net income of partially-owned entities to arrive at funds from operations:		
Depreciation and amortization of real property	**65,588**	63,791
Net gain on sale of real estate (Alexander's Fordham Road property)	**(6,298)**	—
Other	**(371)**	5,787
Minority interest in excess of preferential distributions	**(16,810)**	(16,445)
	357,018	313,469
Series A preferred shares	**19,505**	21,689
Funds from operations — diluted[1]	**$376,523**	$335,158

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

	For the Year Ended December 31,	
($ in thousands)	**2001**	2000
Weighted average shares used for determining diluted income per share	**92,073**	88,692
Series A preferred shares	**7,646**	8,018
Shares used for determining diluted funds from operations per share[1]	**99,719**	96,710

[1] *See note on following page for Reconciliation of Funds from Operations as shown above to the Operating Partnership's funds from operations.*

Funds from operations does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States of America and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. 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:

	For the Year Ended December 31,	
($ in thousands)	**2001**	2000
Operating activities	**$ 387,685**	$ 249,921
Investing activities	**$ (79,722)**	$(699,375)
Financing activities	**$(179,368)**	$ 473,813

Assuming all of the convertible units of the Operating Partnership were converted to shares, the minority interest in partnership earnings would not be deducted in calculating funds from operations and the shares used in calculating funds from operations per share would be increased to reflect the conversion. Funds from operations per share would not change. The following table reconciles funds from operations as shown above, to the Operating Partnership's funds from operations for the year ended December 31, 2001 and 2000:

	For the Year Ended December 31,	
($ in thousands)	**2001**	2000
Funds from operations, as above	**$376,523**	$335,158
Addback of minority interest reflected as equity in the Operating Partnership	**52,514**	52,137
Operating Partnership funds from operations	**$429,037**	$387,295

The number of shares to be used for determining Operating Partnership funds from operations per share is as follows:

Shares used for determining diluted funds from operations per share, as above	99,719	96,710
Convertible units:		
Non-Vornado owned Class A units	6,140	6,407
Class D units	—	869
B-1 units	822	822
B-2 units	411	411
C-1 units	855	855
E-1 units	5,680	5,680
Shares used for determining Operating Partnership diluted funds from operations per share	113,627	111,754

See supplemental information on page 87 for Condensed Pro forma Operating Results for the years ended December 31, 2001 and 2000 giving effect to the January 1, 2002 acquisition by the Company of the remaining 66% of Charles E. Smith Commercial Realty as if it had occurred on January 1, 2000.

Acquisition Activity, Certain Cash Requirements and Financing Activities

Acquisition Activity

On January 1, 2002, the Company acquired the remaining 66% of CESCR it did not previously own. The consideration for the remaining 66% of CESCR was approximately $1,600 million, consisting of 15.7 million newly issued Vornado Operating Partnership units (valued at $608 million) and acquiring the assets subject to $992 million of debt (66% of CESCR's total debt). CESCR owns and manages 12.9 million square feet of office properties in Washington D.C. and Northern Virginia and manages an additional 5.8 million square feet of office and other commercial properties in the Washington D.C. area.

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. 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.

Certain Cash Requirements

For 2002, the Company has budgeted approximately $172.6 million for capital expenditures (excluding acquisitions) and leasing commissions as follows:

($ in thousands)	Total	New York Office	CESCR Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Capital Expenditures:							
Expenditures to maintain the assets:							
Recurring	$ 37,500	$ 8,300	$11,600	$4,700	$ 5,000	$5,700[1]	$2,200[2]
Non-recurring	46,500	20,300	17,200	—	9,000	—	—
	84,000	28,600	28,800	4,700	14,000	5,700	2,200
Tenant improvements:							
Recurring	56,000	12,100	30,300	—	13,600	—	—
Non-recurring	9,900	9,900	—	—	—	—	—
	65,900	22,000	30,300	—	13,600	—	—
Total	$149,900	$50,600	$59,100	$4,700	$27,600	$5,700	$2,200
Leasing Commissions:							
Recurring	$ 16,400	$ 6,200	$ 7,600	$ —	$ 2,600	$ —	$ —
Non-recurring	6,300	6,300	—	—	—	—	—
	$ 22,700	$12,500	$ 7,600	$ —	$ 2,600	$ —	$ —
Total Capital Expenditures and Leasing Commissions:							
Recurring	$109,900	$26,600	$49,500	$4,700	$21,200	$5,700	$2,200
Non-recurring	62,700	36,500	17,200	—	9,000	—	—

(1) *Represents the Company's 60% share of the Vornado/Crescent Partnerships obligation to fund $9,500 of capital expenditures per annum.*
(2) *Primarily for the Hotel Pennsylvania.*

Tenant allowances and leasing commissions for the New York City Office properties approximate $23.00 per square foot for renewal space and $48.00 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 $158.4 million to be expended as follows:

($ IN MILLIONS)		The Company's Share of Costs Expended		
Projects	Estimated Completion Date	Estimated Project Cost	Year Ended December 31, 2001	Estimated Costs to Complete
Completed in 2001:				
Merchandise Mart:				
Plaza Suites on Main Street, High Point — construction of 433,000 square feet of showrooms	Fall 2001	$ 37.2	$27.5	$ —
Park Laurel (69% interest) — construction and sale of 119,000 square foot residential condominium tower in Manhattan (as of March 1, 2002, 52 of the 53 units have been sold for an aggregate of $139.5)	Fall 2001	109.9	39.1	—
		$147.1	$66.6	$ —
In Process:				
Office:				
New York City:				
Penn Plaza Area:				
435 Seventh Avenue — demolition of existing buildings and the construction of 43,000 square feet of retail space pre-leased to Hennes & Mauritz	Fall 2002	$ 19.9	$ 5.3	$ 14.1
GreenPoint site adjacent to One Penn Plaza — redevelopment of 28,000 square feet of retail space	Spring 2002	12.5	3.4	8.4
640 Fifth Avenue — construction of additional 48,000 square feet of office space and redevelopment of existing building	Spring 2003	50.7	1.4	49.3
175 Lexington Avenue (50% interest) — construction of a 45,000 square foot building containing approximately 2,300 square feet of commercial space and 42,700 square feet of low income residential housing to be exchanged upon completion for air rights	Spring 2002	7.7	2.3	3.3
Merchandise Mart:				
400 North LaSalle, Chicago (85% interest) — construction of 378,000 square foot high rise rental apartment complex	Spring 2004	71.2	2.3	68.9
Wells Kinzie Garage — Chicago (50% interest) — 244,000 square foot parking garage adjacent to 400 North LaSalle	Spring 2002	11.1	5.5	5.6
Other:				
Fort Lee, New Jersey (75% interest) — construction of a 41-story, 800,000 square foot high rise rental apartment complex	Summer 2002	100.3	48.2	8.8
		$273.4	$68.4	$158.4

The Company is also in the pre-development phase of a number of projects including: (i) redevelopment of retail space in the Penn Plaza area, (ii) the redevelopment of retail space in Crystal City, (iii) the redevelopment of the former Bradlees building at 14th Street and Union Square to include office and/or retail space, (iv) the refurbishment of the Hotel Pennsylvania and (v) the construction of an office tower in excess of 1,000,000 square feet at 20 Times Square (70% interest). Further, the Company is reviewing opportunities in connection with New York City's recent approval of a Penn Plaza signage district.

There can be no assurance that the above projects will be commenced or will be successful, or ultimately completed on time for the budgeted amounts.

No cash requirements have been budgeted for the capital expenditures and amortization of debt of Alexander's, or The Newkirk MLP, 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 2002 the Company expects to receive distributions of approximately $44.2 million from its investment in The Newkirk MLP, including the distribution of approximately $37 million received on February 6, 2002, in connection with a Newkirk refinancing.

Financing Activities and Contractual Obligations

Below is a schedule of the Company's contractual obligations and commitments at December 31, 2001:

($ in thousands)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	Thereafter
Contractual Cash Obligations:					
Unsecured Revolving Credit Facility	$ —	$ —	$ —	$ —	$ —
Mortgages and Notes Payable	2,477,173	834,008	585,866	105,000	952,299
Operating Leases	449,783	14,442	26,791	26,177	382,373
Total Contractual Cash Obligations	$2,926,956	$848,450	$612,657	$131,177	$1,334,672
Commitments:					
Standby Letters of Credit	$ 83,238	$ 83,238	$ —	$ —	$ —
Guarantees	—	—	—	—	—
Total Commitments	$ 83,283	$ 83,238	$ —	$ —	$ —

The Company is reviewing various alternatives for the repayment or refinancing of debt coming due during 2002. The Company has $1 billion available under its revolving credit facility which matures in March, 2003 and a number of properties which are unencumbered.

The Company's credit facility contains customary conditions precedent to borrowing such as the bring down of customary representations and warranties as well as compliance with financial covenants such as minimum interest coverage and maximum debt to market capitalization. The facility provides for higher interest rates in the event of a decline in the Company's ratings below Baa3/BBB. This facility also contains customary events of default which could give rise to acceleration and include such items as failure to pay interest or principal and breaches of financial covenants such as maintenance of minimum capitalization and minimum interest coverage.

The Company carries comprehensive liability and all risk property insurance (fire, flood, extended coverage and rental loss insurance) with respect to its assets. The Company's all risk insurance policies in effect before September 11, 2001 included coverage for terrorist acts, except for acts of war. Since September 11, 2001, insurance companies are excluding terrorists acts from coverage in all risk policies. In 2002, the Company has been unable to obtain all risk insurance which includes coverage for terrorists acts for policies it has renewed including the New York City Office portfolio and may not be able to obtain such coverage for any of its other properties in the future. Therefore, the risk of financial loss in the case of terrorist acts is the Company's, which loss could be material.

The Company's debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to the Company) and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. There can be no assurance that the lenders under these instruments will not take the position that an exclusion from all risk insurance coverage for losses due to terrorist acts is a breach of these debt instruments that allows the lenders to declare an event of default and accelerate repayment of debt. In addition, if lenders insist on coverage for these risks, it could adversely affect the Company's ability to finance and/or refinance its properties and to expand its portfolio.

In addition, many of the Company's non-recourse mortgages contain debt service covenants which if not satisfied could require cash collateral. These covenants are not "ratings" related.

Corporate

On September 20, 2001, the Company sold an aggregate of $45,000,000 8.25% Series D-9 Cumulative Redeemable Preferred Units resulting in net proceeds of approximately $43,875,000.

On November 19, 2001, the Company sold 9,775,000 common shares pursuant to an effective registration statement based on the closing price of $40.58 on the NYSE. The net proceeds to the Company were approximately $377,200,000. In connection therewith the Company repaid the $285,000,000 then outstanding under its revolving credit facility.

On February 25, 2002, the Company sold 884,543 common shares to a closed-end fund and 514,200 shares to a unit investment trust based on the closing price of $42.96 on the NYSE. The net proceeds to the Company were approximately $57,042,000.

Office

On January 11, 2001, the Company completed a $105,000,000 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 $55,000,000.

Merchandise Mart

On October 16, 2001, the Company completed a $49,000,000 refinancing of its Washington Design Center property. The loan bears interest at a fixed rate of 6.95% and matures on October 16, 2011. A portion of the proceeds received were used to repay the then existing mortgage of $23,000,000.

On July 11, 2001, the Company completed a $50,000,000 refinancing of its Market Square Complex. The loan bears interest at a fixed rate of 7.95% and matures in July 2011. The proceeds received were used to repay the then existing mortgage of $49,000,000.

Other

On September 20, 2001, the Company completed a $50,000,000 mortgage financing, cross-collateralized by its eight industrial warehouse properties. The loan bears interest at a fixed rate of 6.95% per annum and matures on October 1, 2011.

On February 1, 2002, the Newkirk MLP, in which the Company has a 21.1% interest, completed a $225,000,000 mortgage financing collateralized by its properties, subject to the existing first and certain second mortgages on those properties. The loan bears interest at LIBOR plus 5.5% with a LIBOR floor of 3.0% (8.5% at February 1, 2002) and matures on January 31, 2005, with two one-year extension options.

The Company has an effective shelf registration under which the Company can offer an aggregate of approximately $940,000,000 of equity securities and Vornado Realty L.P. can offer 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.

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which establishes accounting and reporting standards requiring every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on 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. The Company's investment securities include stock purchase warrants received from companies that provide fiber-optic network and broadband access to the Company's Office division tenants. Statement 133 requires these warrants to be marked-to-market at each reporting period with the change in value recognized currently in earnings. The Company has previously marked-to-market changes in value through accumulated other comprehensive loss. Under Statement 133, those changes are recognized through earnings, and accordingly, the Company has reclassified $4,110,000 from accumulated other comprehensive loss to the consolidated statement of income as the cumulative effect of change in accounting principle as of January 1, 2001. Future changes in value of such securities will be recorded through earnings. The Company does not currently utilize derivatives for hedging purposes and does not engage in speculative activities.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations* (effective July 1, 2001) and SFAS No. 142, *Goodwill and Other Intangible Assets* (effective January 1, 2002). SFAS No. 141 prohibits pooling-of-interests accounting for acquisitions. SFAS No. 142 specifies that goodwill and some intangible assets will no longer be amortized but instead be subject to periodic impairment testing. In the first quarter of 2002, the Company will write-off goodwill of approximately $32,491,000, of which (i) $18,000,000 represents its share of the goodwill arising from the Company's investment in Temperature Controlled Logistics and (ii) $14,491,000 represents goodwill arising from the Company's acquisition of the Hotel Pennsylvania. The write-off will be reflected as a cumulative effect of a change in accounting principle. Amortization of goodwill during 2001 was approximately $1,116,000.

In August 2001, FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (effective January 1, 2003) and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period which it is incurred. SFAS No. 144 supersedes current accounting literature and now provides for a single accounting model for long-lived assets to be disposed of by sale and requires discontinued operations presentation for disposals of a "component" of an entity. The Company does not anticipate that the adoption of these statements will have a material effect on the Company's financial statements; however under SFAS No. 144, if the Company were to dispose of a material operating property, such property's results of operations will have to be separately disclosed as discontinued operations in the Company's financial statements.

TRUSTEES

STEVEN ROTH
Chairman of the Board
Managing Partner, Interstate Properties

MICHAEL D. FASCITELLI
President

ROBERT P. KOGOD
Former Co-Chief Executive Officer and
Co-Chairman of Charles E. Smith
Commercial Realty L.P.

DAVID M. MANDELBAUM*
Partner, Interstate Properties

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

ROBERT H. SMITH
Chairman of Charles E. Smith Commercial Realty,
a division of Vornado Realty Trust

RONALD G. TARGAN
President, Malt Products Corporation

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

RUSSELL B. WIGHT, JR.
Partner, Interstate Properties

*Members of the Audit Committee

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Chief Executive Officer

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President

MELVYN H. BLUM
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MICHELLE FELMAN
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New York Office Division

SANDEEP MATHRANI
Executive Vice President –
Retail Real Estate Division

CHRISTOPHER KENNEDY
President of the
Merchandise Mart Division

PAUL LARNER
Chief Operating Officer and
Chief Financial Officer of Charles E. Smith
Commercial Realty,
a division of Vornado Realty Trust

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

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

Company Data

Executive Offices

888 Seventh Avenue
New York, New York 10019

Independent Auditors

Deloitte & Touche LLP
Parsippany, New Jersey

General Counsel

Sullivan & Cromwell
New York, New York

Transfer Agent and Registrar

First Union National Bank
Charlotte, North Carolina

Report 10-K

Shareholders may obtain a copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission free of charge (except for exhibits), by writing to the Secretary, Vornado Realty Trust, 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 29, 2002 at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663