VORNADO REALTY TRUST
Form 10-K/A
June 10, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# WASHINGTON, D. C. 20549

# FORM 10-K/A

**(Amendment No. 1)**

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

**For the Fiscal Year Ended: December 31, 2004**

**OR**

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

**For the transition period from to**

**Commission File Number: 1-11954**

# VORNADO REALTY TRUST

(Exact name of Registrant as specified in its charter)

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

| | |
|---|---|
| **888 Seventh Avenue, New York, New York** | **10019** |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant s telephone number including area code: **(212) 894-7000**

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

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Shares of beneficial interest, $.04 par value per share | New York Stock Exchange |
| Series A Convertible Preferred Shares of beneficial interest, no par value | New York Stock Exchange |
| 8.5% Series B Cumulative Redeemable Preferred Shares of beneficial interest, no par value | New York Stock Exchange |
| 8.5% Series C Cumulative Redeemable Preferred Shares of beneficial interest, no par value | New York Stock Exchange |
| 7.0% Series E Cumulative Redeemable Preferred Shares of beneficial interest, no par value | New York Stock Exchange |
| 6.75% Series F Cumulative Redeemable Preferred Shares of beneficial interest, no par value | New York Stock Exchange |
| 6.625% Series G Cumulative Redeemable Preferred Shares of beneficial interest, no par value | New York Stock Exchange |

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ý NO o

Aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust as reflected in the table in Item 12 of this Form 10-K/A at June 30, 2004 was $5,790,469,000.

As of February 1, 2005, there were 127,819,849 of the registrant s common shares of beneficial interest outstanding.

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Documents Incorporated by Reference

**Part III**: Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 18, 2005.

## EXPLANATORY PARAGRAPH

This Form 10-K/A is being filed for the purpose of restating the Company s consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002 to reclassify $16,740,000, $6,666,000 and $65,197,000, respectively, from net cash used in investing activities to net cash provided by operating activities as they relate to distributions of income received from investments in partially-owned entities accounted for on the equity method. The restatement does not affect the total net change in cash and cash equivalents for each of the three years in the period ended December 31, 2004, and has no impact on the Company s consolidated balance sheets, consolidated statements of income or the related income per share amounts. It also has no impact on the non-GAAP measure of funds from operations which is described on page 103. Conforming changes have been made to management s discussion and analysis of financial condition and results of operations included in this Form 10-K/A. See footnote 21 in the notes to the consolidated financial statements for further information relating to the restatement. In connection with the restatement, management has revised its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. This Form 10-K/A has not been updated for events or information subsequent to the date of filing of the original Form 10-K except in connection with the foregoing. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the original Form 10-K.

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(1) The Registrant will file a definitive Proxy Statement pursuant to Regulation 14A involving the election of trustees with the Securities and Exchange Commission not later than 120 days after December 31, 2004, portions of which are incorporated by reference herein. Information relating to Executive Officers of the Registrant appears on page 49 of this Annual Report on Form 10-K/A.

**FORWARD LOOKING STATEMENTS**

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as plans, intends, estimates, anticipates, expects, believes or similar expressions in this annual report on Form 10-K/A. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1. Business Certain Factors That May Adversely Affect Our Business and Operations in this annual report on Form 10-K/A.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this annual report on Form 10-K/A or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this annual report on Form 10-K/A.

**PART I**

**ITEM 1.** BUSINESS

**THE COMPANY**

Vornado Realty Trust is a fully-integrated real estate investment trust ( REIT ) and conducts its business through Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership ). All references to We, Us, Company and Vornado refer to Vornado Realty Trust a its consolidated subsidiaries, including the Operating Partnership. Vornado is the sole general partner of, and owned approximately 87% of the common limited partnership interest in, the Operating Partnership at December 31, 2004.

The Company currently owns directly or indirectly:

**Office Properties ( Office ):**

(i) all or portions of 86 office properties aggregating approximately 27.6 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) 94 retail properties in seven states and Puerto Rico aggregating approximately 14.2 million square feet, including 2.8 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 47.6% interest in Americold Realty Trust which owns and operates 88 cold storage warehouses nationwide;

**Other Real Estate Investments**:

(v) 33% of the outstanding common stock of Alexander s, Inc. ( Alexander s ) which has six properties in the greater New York metropolitan area;

(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 0.4 million square feet of retail and office space;

(vii) a 22.4% interest in The Newkirk Master Limited Partnership ( Newkirk MLP ) which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;

(viii) seven dry warehouse/industrial properties in New Jersey containing approximately 1.7 million square feet;

(ix) mezzanine loans to real estate related companies; and

(x) interests in other real estate including a 12.25% interest in GMH Communities L.P. (which owns and manages student and military housing properties throughout the United States), other investments and marketable securities.

**OBJECTIVES AND STRATEGY**

Our business objective is to maximize shareholder value. We intend to achieve this objective by continuing to pursue our investment philosophy and executing our operating strategies through:

Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;

Investing in properties in select markets, such as New York City and Washington, D.C., where we believe there is high likelihood of capital appreciation;

Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;

Investing in retail properties in select under-stored locations such as the New York City metropolitan area;

Investing in fully-integrated operating companies that have a significant real estate component with qualified, experienced operating management and strong growth potential which can benefit from our access to efficient capital;

Developing/redeveloping our existing properties to increase returns and maximize value; and

Providing specialty financing to real estate related companies.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets.

**2004 ACQUISITIONS AND INVESTMENTS**

During the year ended December 31, 2004, the Company has completed $328,600,000 of acquisitions and investments in real estate, of which $246,600,000 related to the retail segment. In addition, the Company made $183,400,000 of mezzanine loans during 2004 which increased the outstanding balance of Notes and Mortgage Loans Receivable to $440,186,000 at December 31, 2004. Details of these transactions are described in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K/A.

*Investment in GMH Communities L.P.*

On July 20, 2004, the Company committed to make up to a $159,000,000 convertible preferred investment in GMH Communities L.P. ( GMH ), a partnership focused on the student and military housing sectors. Distributions accrued on the full committed balance of the investment, whether or not drawn, from July 20, 2004, at a rate of 16.27%. In connection with this commitment, the Company received a placement fee of $3,200,000. The Company also purchased for $1,000,000, warrants to acquire GMH common equity. These warrants entitle the Company to acquire (i) 6,666,667 limited partnership units in GMH at an exercise price of $7.50 per unit and (ii) 5,496,724 limited partnership units, through May 6, 2006, at an exercise price of $9.10 per unit. As of November 3, 2004, the Company had funded a total of $113,777,000 of the commitment.

On November 3, 2004, GMH Communities Trust ( GCT ) closed its initial public offering ( IPO ) at a price of $12.00 per share. GCT is a real estate investment trust that conducts its business through GMH, of which it is the sole general partner. In connection with the IPO, the $113,777,000 previously funded by the Company under the $159,000,000 commitment was repaid, together with accrued distributions of $13,381,000. The Company also exercised warrants to purchase 6,666,667 limited partnership units at a price of $7.50 per unit, or $50,000,000 in total, which resulted in a gain of $29,500,000. The Company accounts for its interest in the partnership units on the equity-method based on its 12.25% ownership interest and right to appoint one of its executive officers to GCT s Board of Trustees. The Company records its pro-rata share of GMH s net income or loss on a one-quarter lag basis as the Company files its financial statements on Form 10-K or 10-Q prior to the time GMH files its financial statements.

Under the warrant agreement, the number of GMH partnership units or GCT common shares underlying the warrants is adjusted for dividends declared by GCT. On December 16, 2004, GCT declared a dividend of $.16 per common share, which increased the number of shares underlying the warrants from 5,496,724 to 5,563,417 and the exercise price was decreased from $9.10 to $8.99 per share. Because these warrants are derivatives and do not qualify for hedge accounting treatment, the gains and losses resulting from the mark-to-market of the warrants at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. In the quarter ended December 31, 2004, the Company recognized income of $24,190,000 from the mark-to-market of these warrants, which were valued using a trinomial option pricing model based on GCT s closing stock price on the NYSE of $14.10 per share on December 31, 2004.

Further, in connection with the IPO, the Company contributed its 90% interest in Campus Club Gainesville, which it acquired in 2000, in exchange for an additional 671,190 GMH limited partnership units.

Of the Company s GMH units, 6,666,667 may be converted into an equivalent number of common shares of GCT commencing on May 2, 2005 and 671,190 units may be converted commencing on November 2, 2005. The Company has agreed not to sell any common shares or units it owns or may acquire until May 2, 2005.

*Investment in Sears, Roebuck and Co.*

In July and August 2004, the Company acquired an aggregate of 1,176,600 common shares of Sears, Roebuck and Co. ( Sears ) for $41,945,000, an average price of $35.65 per share. Included in the cost is $1,361,000 for a performance-based participation. These shares are recorded as marketable securities on the Company s consolidated balance sheet and are classified as available for sale. Appreciation or depreciation in the fair market value of these shares is recorded as an increase or decrease in accumulated other comprehensive income in the shareholders equity section of the Company s consolidated balance sheet and not recognized in income. At December 31, 2004, based on Sears closing stock price of $51.03 per share, $18,105,000 of appreciation in the value of these shares was included in accumulated other comprehensive income.

In August and September 2004, the Company acquired an economic interest in an additional 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which the Company purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options have an initial weighted-average strike price of $39.82 per share, or an aggregate of $315,250,000, expire in April 2006 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points and is credited for the dividends received on the shares. The options provide the Company with the same economic gain or loss as if it had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. During the year ended December 31, 2004, the Company recorded net income of $81,730,000, comprised of (i) $88,782,000 from the mark-to-market of the options on December 31, 2004, based on Sears closing stock price of $51.03 per share and (ii) $2,295,000 for accrued dividends, partially offset by (i) $5,972,000 for a performance-based participation, (ii) $2,371,000 for the increase in strike price resulting from the LIBOR charge and (iii) $1,004,000 of professional fees.

On November 16, 2004, Kmart Holding Corporation ( Kmart ) and Sears entered into an Agreement and Plan of Merger. Upon the effective date of the merger, each share of Sears common stock will be converted into the right to receive, at the election of the holder, (i) $50.00 in cash or (ii) 0.50 shares of common stock of the merged company, subject to proration so that 55% of the Sears shares are exchanged for shares of the merged company.

Based on Sears most recent filing with the Securities and Exchange Commission, the Company s aggregate investment in Sears represents 4.2% of Sears outstanding common shares.

**2004 DISPOSITIONS**

On June 29, 2004, the Company sold the Palisades Residential Complex for $222,500,000, which resulted in a net gain on sale after closing costs of $65,905,000. Substantially all of the proceeds from the sale were reinvested in tax-free like kind exchange investments pursuant to Section 1031 of the Internal Revenue Code ( Section 1031 ).

On August 12, 2004, the Company sold its Dundalk, Maryland shopping center for $12,900,000, which resulted in a net gain on sale after closing costs of $9,850,000. Substantially all of the proceeds from the sale have been reinvested in tax-free like-kind exchange investments pursuant to Section 1031 .

On November 4, 2004, Americold Realty Trust ( Americold ), owned 60% by the Company, purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. On November 18, 2004 the Company and its 40% partner, Crescent Real Estate Equities Company ( CEI ) collectively sold 20.7% of Americold s common shares to The Yucaipa Companies ( Yucaipa ) for $145,000,000, which resulted in a gain, of which the Company s share was $18,789,000. In connection with the governance provisions of the transaction, the Company has the right to appoint three of the five members to Americold s Board of Trustees. Consequently, the Company is deemed to exercise control over Americold and on November 18, 2004 began to consolidate Americold s operations and financial position and no longer accounts for its investment on the equity method.

Further details regarding the Company s dispositions are disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this annual report on Form 10-K/A.

**DEVELOPMENT AND REDEVELOPMENT PROJECTS**

The Company is currently engaged in various development/redevelopment projects for which it has budgeted approximately $470.0 million. Of this amount $30.9 million was expended in 2004 (excluding $104.5 million for projects completed in 2004) and $310.0 million is estimated to be expended in 2005. Below is a description of these projects.

| | | The Company s Share of | | |
|---|---|---|---|---|
| ($ in millions) | Estimated Completion Date | Estimated Project Cost | Costs Expended in Year Ended December 31, 2004 | Estimated Costs to Complete |
| **In Progress:** | | | | |
| New York Office: | | | | |
| Redevelopment of 7 West 34th Street office space to permanent showroom space for Gift industry manufacturers and wholesalers | 2005-2006 | $ 33.0 | $ .5 | $ 32.5 |
| CESCR: | | | | |
| Crystal City Office space to be vacated by the U.S. Government Patent and Trade Office ( PTO ): | | | | |
| (i)Renovation of buildings (see next page) | 2005-2007 | 75.0 (1) | 11.0 | 64.0 |
| (ii)Cost to retenant | 2005-2007 | 75.0 (1) | | 75.0 |
| Retail: | | | | |
| Green Acres Mall interior and exterior renovation, construction of an additional 63,600 square feet of free-standing retail space, parking decks and site-work and tenant improvements for B.J. s Wholesale who will construct its own store(2) | 2006 | 71.0 | 1.0 | 69.0 |
| Bergen Mall expand, re-tenant and redevelop the mall(2) | 2008 | 102.0 | 1.6 | 100.0 |
| Strip shopping centers redevelopment of five properties and one industrial warehouse(2) | 2005-2006 | 54.0 | 7.2 | 44.0 |
| 715 Lexington Avenue - demolition of existing building and construction of 24,000 square feet of retail space on four floors | Fall 2005 | 19.0 | 4.9 | 12.0 |
| 968 Third Avenue (50% interest) demolition of existing building and construction of 5,700 square feet of retail space on three floors | Spring 2005 | 6.0 | 1.8 | 1.0 |
| Other: | | | | |
| Penn Plaza Signage District construction of approximately 21 signs at various locations in the Penn Plaza District, of which 10 have been completed as of December 31, 2004 | Ongoing | 35.0 | 2.9 | 20.0 |
| | | $ 470.0 | $ 30.9 | $ 417.5 |

(1) Revised from the prior estimate of $90.0 million to renovate the buildings and $60.0 million to re-tenant the space.

(2) Subject to governmental approvals.

The Company is also in the pre-development phase of other projects including, retail space in the Penn Plaza area, repositioning of the Hotel Pennsylvania, expansion of the Monmouth Mall and renovation of the 2101 L Street office building.

There can be no assurance that any of the above projects will commence or be completed on schedule or on budget.

The Company has substantially completed the following projects during 2004:

| ($ in millions) | The Company s Share of Project Cost | Costs Expended in Year Ended December 31, 2004 | Estimated Costs to Complete |
|---|---|---|---|
| **Completed in 2004:** | | | |
| New York City: | | | |
| 640 Fifth Avenue construction of additional 47,000 square feet of office space and redevelopment of existing building | $ 64.0 | $ 13.9 | $ 6.0 |
| CESCR: | | | |
| Crystal Drive Retail construction of additional 57,000 square feet of retail space and improvements to the infrastructure including streets, signals and signs as part of way finding program | 43.0 | 25.5 | 3.0 |
| Retail: | | | |
| 4 Union Square South redevelopment of 198,000 square feet, of which 193,000 square feet has been leased to Whole Foods, Forever 21, DSW Shoe Warehouse and Filenes | 54.0 | 29.6 | 6.0 |
| Strip shopping centers site work and/or demolition of existing buildings as part of the redevelopment of six properties released to Wal-Mart and Lowes. (each of these locations were previously leased to Bradlees.) | 18.0 | 16.9 | |
| Merchandise Mart: | | | |
| 350 West Mart Center, Chicago addition of 40,000 square feet at street level and new lobby and drive | 18.0 | 14.6 | 2.0 |
| Other: | | | |
| 400 North LaSalle (85% interest) construction of 381,000 square foot, high-rise rental apartment complex containing 452 apartments | 78.0 | 4.0 | 1.0 |
| | $ 275.0 | $ 104.5 | $ 18.0 |

**PTO Space Redevelopment:**

The Company plans to redevelop certain office buildings in which the PTO has vacated or will vacate space as their leases expire over the next two years as follows:

| | | Square Feet Vacated | Square Feet Expiring (in thousands) | | | | |
|---|---|---|---|---|---|---|---|
| | | 2004 | 2005 | | | | 2006 |
| | Total | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Taken out of Service: | | | | | | | |
| Crystal Plaza Three | 263 | 263 | | | | | |
| Crystal Plaza Four | 234 | 234 | | | | | |
| Remaining in Service: | | | | | | | |
| Crystal Plaza Two | 181 | | 181 | | | | |
| Crystal Park One | 224 | 13 | 109 | 64 | | 38 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Crystal Park Two | 406 | 39 | 103 | 77 | | 98 | 89 |
| Crystal Park Three | 107 | 67 | | 24 | | | 16 |
| Crystal Park Five | 194 | | | 194 | | | |
| Crystal Mall One | 180 | 180 | | | | | |
| Other Buildings | 150 | 141 | | | | 9 | |
| | 1,939 | 937 | 393 | 359 | | 145 | 105 |

Renovations to Crystal Plaza Three and Four will include new mechanical systems, new restrooms, lobbies and corridors. These buildings have been taken out of service for redevelopment which is expected to be completed over a 12 to 18 month period. Renovations to the remaining buildings will consist of common area and exterior renovations to upgrade the buildings that will not be taken out of service.

See page 60 for details of the projected lease up of the PTO space.

**FINANCING ACTIVITIES**

During 2004, the Company issued (i) $425,000,000 of Cumulative Redeemable Preferred Shares at a weighted average rate of 6.74%, (ii) $55,000,000 Cumulative Redeemable Preferred Units of the Operating Partnership at a weighted average rate of 6.96%, (iii) $46,700,000 of 3.0% Series D-13 preferred units and (iv) redeemed $85,000,000 and $27,500,000 of outstanding Cumulative Redeemable Preferred Shares and Units with a weighted average rate of 8.50% and 8.38%, respectively. In addition, the Company completed property level financings of $520,000,000 and issued $250,000,000 of senior unsecured notes. Details of these transactions as well as other financing activities are described in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K/A.

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

**COMPETITION**

The Company s business segments Office, Retail, Merchandise Mart Properties, Temperature Controlled Logistics, and Other operate in highly competitive environments. The Company has a large concentration of properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. The Company competes with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location, the quality of the property and breadth and quality of services provided. The Company s success depends upon, among other factors, trends of the national and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

**ENVIRONMENTAL REGULATIONS**

The Company s operations and properties are subject to various federal, state and local laws and regulations concerning the protection of the environment including air and water quality, hazardous or toxic substances and health and safety. Under certain of these environmental laws a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property. The owner or operator may also be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by those parties because of the contamination. These laws often impose liability without regard to whether the owner or operator knew of the release of the substances or caused the release. The presence of contamination or the failure to remediate contamination may impair the Company s ability to sell or lease real estate or to borrow using the real estate as collateral. Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) and underground storage tanks are also regulated by federal and state laws. The Company could incur fines for environmental compliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or tanks or related claims arising out of environmental contamination or exposure at or from the Company s properties.

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 environmental condition material to the Company s business. However, identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, discovery of additional sites, human exposure to the contamination or changes in cleanup or compliance requirements could result in significant costs to the Company.

**TENANTS WHICH ACCOUNTED FOR OVER 10% OF REVENUES**

In 2004, the Company had 106 separate leases with various agencies of the U.S. Government, the rent from which accounted for 12.5% of the Company s consolidated total revenues. The loss of this tenant would have a material adverse effect on the Company s finances as a whole.

**CERTAIN ACTIVITIES**

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

**EMPLOYEES**

As of December 31, 2004, the Company and its majority-owned subsidiaries had approximately 2,592 employees, of which 186 were corporate staff. The Office segment had 269 employees and 1,123 employees of Building Maintenance Services, a wholly-owned subsidiary. The Retail segment, the Merchandise Mart segment and the Hotel Pennsylvania had 61, 479 and 474 employees, respectively. This does not include employees of partially-owned entities, including Americold Realty Trust which had 6,058 employees as of December 31, 2004.

**SEGMENT DATA**

The Company operates in four business segments: Office Properties, Retail Properties, Merchandise Mart Properties and Temperature Controlled Logistics. The Merchandise Mart segment has trade show operations in Canada. The Temperature Controlled Logistics segment operates one managed warehouse in Canada. Information related to the Company s business segments for the years 2004, 2003 and 2002 is set forth in Note 19. Segment Information to the Company s consolidated financial statements in this annual report on Form 10-K/A.

The Company s principal executive offices are located at 888 Seventh Avenue, New York, New York 10019; telephone (212) 894-7000.

**MATERIALS AVAILABLE ON OUR WEBSITE**

Copies of the Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as well as Reports on Forms 3, 4 and 5 regarding officers, trustees or 10% beneficial owners of the Company, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934 are available free of charge through our website (www.vno.com) as soon as reasonably practicable after it is electronically filed with, or furnished to, the Securities and Exchange Commission. We also have made available on our website copies of our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website.

**CERTAIN FACTORS THAT MAY ADVERSELY AFFECT OUR BUSINESS AND OPERATIONS**

**Real Estate Investments  Value and Income Fluctuate Due to Various Factors.**

***The value of real estate fluctuates depending on conditions in the general economy and the real estate business. These conditions may also limit our revenues and available cash.***

The factors that affect the value of the our real estate include, among other things, national, regional and local economic conditions; consequences of any armed conflict involving, or terrorist attack against, the United States; our ability to secure adequate insurance; local conditions such as an oversupply of space or a reduction in demand for real estate in the area; competition from other available space; whether tenants consider a property attractive; the financial condition of our tenants, including the extent of tenant bankruptcies or defaults; whether we are able to pass some or all of any increased operating costs through to tenants; how well we manage our properties; fluctuations in interest rates; changes in real estate taxes and other expenses; changes in market rental rates; the timing and costs associated with property improvements and rentals; changes in taxation or zoning laws; government regulation; availability of financing on acceptable terms or at all; potential liability under environmental or other laws or regulations; and general competitive factors.

The rents we receive and the occupancy levels at our properties may decline as a result of adverse changes in any of these factors. If our rental revenues decline, we generally would expect to have less cash available to pay our indebtedness and distribute to our shareholders. In addition, some of our major expenses, including mortgage payments, real estate taxes and maintenance costs, generally do not decline when the related rents decline.

***We depend on leasing space to tenants on economically favorable terms and collecting rent from our tenants, who may not be able to pay.***

Our financial results depend on leasing space in our properties to tenants on economically favorable terms. In addition, because substantially all of our income comes from renting of real property, our income, funds available to pay indebtedness and funds available for distribution to our shareholders will decrease if a significant number of our tenants cannot pay their rent. If a tenant does not pay its rent, we might not be able to enforce our rights as landlord without delays and might incur substantial legal costs to enforce those rights. For information regarding the bankruptcy of our tenants, see Bankruptcy or insolvency of tenants may decrease our revenues and available cash below.

***Bankruptcy or insolvency of tenants may decrease our revenues and available cash.***

A number of companies, including some of our tenants, have declared bankruptcy in recent years, and other tenants may declare bankruptcy or become insolvent in the future. If a major tenant declares bankruptcy or becomes insolvent, the rental property where it leases space may have lower revenues and operational difficulties, and, in the case of our shopping centers, we may have difficulty leasing the remainder of the affected property. Our leases generally do not contain restrictions designed to ensure the creditworthiness of our tenants. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of funds from operations available for distribution to our shareholders or the payment of our indebtedness.

***Real estate is a competitive business.***

For a discussion of risks related to competition in the real estate business, see Item 1. Business Competition.

***We may incur costs to comply with environmental laws.***

For a discussion of risks related to the Company s compliance with environmental laws, see Item 1. Business Environmental Regulations.

***Some of our potential losses may not be covered by insurance.***

The Company carries comprehensive liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) acts of terrorism as defined in the Terrorism Risk Insurance Act of 2002 which expires in 2005 and (v) rental loss insurance) with respect to its assets. In April 2004, the Company reviewed its all risk policies and increased its coverage for Acts of Terrorism for each of its New York Office, CESCR Office, Retail and Merchandise Mart divisions. Below is a summary of the all risk property insurance and terrorism risk insurance for each of the Company s business segments:

| | Coverage Per Occurrence | |
|---|---|---|
| | **All Risk(1)** | **Sub-Limits for Acts of Terrorism** |
| New York Office | $ 1,400,000,000 | $ 750,000,000 |
| CESCR Office | 1,400,000,000 | 750,000,000 |
| Retail | 500,000,000 | 500,000,000 |
| Merchandise Mart | 1,400,000,000 | 750,000,000 |
| Temperature Controlled Logistics | 225,000,000 | 225,000,000 |

(1) Limited as to terrorism insurance by the sub-limit shown in the adjacent column.

In addition to the coverage above, the Company carries lesser amounts of coverage for terrorist acts not covered by the Terrorism Risk Insurance Act of 2002. To the extent the Company incurs losses in excess of its insurance coverage, these losses would be born by the Company and could be significant.

The Company s debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to the Company), its senior unsecured notes due 2007, 2009 and 2010 and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. Although the Company believes that it has adequate insurance coverage under these agreements, the Company may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further if lenders insist on greater coverage than the Company is able to obtain, or if the Terrorism Risk Insurance Act of 2002 is not extended, it could adversely affect the Company s ability to finance and/or refinance its properties and expand its portfolio.

**Our Investments Are Concentrated in the New York City/New Jersey and Washington, D.C. Metropolitan Areas. Circumstances Affecting These Areas Generally Could Adversely Affect Our Business.**

***A significant proportion of our properties are in the New York City/New Jersey and Washington, D.C. metropolitan areas and are affected by the economic cycles and risks inherent to those regions.***

During 2004, 64.2% of our EBITDA, excluding items that affect comparability, came from properties located in New Jersey and the New York City and Washington, D.C. metropolitan areas. In addition, we may continue to concentrate a significant portion of our future acquisitions in New Jersey and the New York City and Washington, D.C. metropolitan areas. Like other real estate markets, the real estate markets in these areas have experienced economic downturns in the past, and we cannot predict how the current economic conditions will impact these markets in both the short and long term.  Further declines in the economy or a decline in the real estate markets in these areas could hurt our financial performance and the value of our properties.  The factors affecting economic conditions in these regions include: space needs of the United States Government, business layoffs or downsizing; industry slowdowns; relocations of businesses; changing demographics; increased telecommuting and use of alternative work places; financial performance and productivity of the publishing, advertising, financial, technology, retail, insurance and real estate industries; infrastructure quality; and any oversupply of or reduced demand for real estate.

It is impossible for us to assess the future effects of the current uncertain trends in the economic and investment climates of the New York City/New Jersey and Washington, D.C. regions, and more generally of the United States, or the real estate markets in these areas.  If these conditions persist or if any local, national or global economic recovery is of a short term, businesses and future profitability may be adversely affected.

***Terrorist Attacks such as those of September 11, 2001 in New York City and the Washington, D.C. Area May Adversely Affect the Value of Our Properties and Our Ability to Generate Cash Flow.***

We have significant investments in large metropolitan areas, including the New York/New Jersey, Washington, D.C. and Chicago metropolitan areas.  Tenants in these areas may choose to relocate their business to less populated, lower-profile areas of the United States that may be perceived to be less likely targets of future terrorist activity. This in turn would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease our properties on less favorable terms.  In addition, threatened or actual future terrorist attacks in these areas could directly or indirectly impact our properties. As a result of the foregoing, the value of our properties and the level of our revenues could decline materially.

**We May Acquire or Sell Additional Assets or Develop Additional Properties. Our Failure or Inability to Consummate These Transactions or Manage the Results of These Transactions Could Adversely Affect Our Operations and Financial Results.**

***We have grown rapidly through acquisitions. We may not be able to maintain this rapid growth and our failure to do so could adversely affect our stock price.***

We have experienced rapid growth in recent years, increasing our total assets from approximately $565 million at December 31, 1996, to approximately $11.6 billion at December 31, 2004. We may not be able to maintain a similar rate of growth in the future or manage our growth effectively. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to pay dividends to our shareholders.

***We may acquire or develop new properties and this may create risks.***

We may acquire or develop properties or acquire other real estate companies when we believe that an acquisition or development is consistent with our business strategies. We may not, however, succeed in consummating desired acquisitions or in completing developments on time or within budget. We also may not succeed in leasing newly developed or acquired properties at rents sufficient to cover their costs of acquisition or development and operations. Difficulties in consummating desired acquisitions and integrating acquisitions may prove costly or time-consuming and could divert management s attention.

***It may be difficult to buy and sell real estate quickly.***

**Real estate investments are relatively difficult to buy and sell quickly. Consequently, we may have limited ability to vary our portfolio promptly in response to changes in economic or other conditions.**

***We may not be permitted to dispose of certain properties or pay down the debt associated with those properties when we might otherwise desire to do so without incurring additional costs.***

As part of an acquisition of a property, we may agree with the seller that we will not dispose of the acquired properties or reduce the mortgage indebtedness on them for significant periods of time unless we pay certain of the resulting tax costs of the seller. These agreements could result in our holding on to properties that we would otherwise sell and not pay down or refinance indebtedness that we would otherwise pay down or refinance.

For example, subject to limited exceptions, we are restricted from selling or otherwise transferring or disposing of certain properties located in the Crystal City area of Arlington, Virginia or an interest in our division that manages the majority of our office properties in the Washington, D.C. metropolitan area, which we refer to as the CESCR Division, until 2014 with respect to certain properties located in the Crystal City area of Arlington, Virginia or until 2008 with respect to an interest in the CESCR Division. These restrictions, which currently cover approximately 13.0 million square feet of space, could result in our inability to sell these properties or an interest in the CESCR Division at an opportune time and increase costs to us.

**Our Organizational and Financial Structure Gives Rise to Operational and Financial Risks.**

***We May Not Be Able to Obtain Capital to Make Investments.***

We depend primarily on external financing to fund the growth of our business. This is because one of the requirements of the Internal Revenue Code of 1986, as amended, for a REIT is that it distribute 90% of its net taxable income, excluding net capital gains, to its shareholders (there is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu). Our access to debt or equity financing depends on the willingness of third parties to lend or make equity investments and on conditions in the capital markets generally. We and other companies in the real estate industry have experienced limited availability of financing from time to time. Although we believe that we will be able to finance any investments we may wish to make in the foreseeable future, new financing may not be available on acceptable terms.

For information about our available sources of funds, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and the notes to the consolidated financial statements in this annual report on Form 10-K/A.

***Vornado Realty Trust depends on its direct and indirect subsidiaries dividends and distributions, and these subsidiaries creditors and preferred security holders are entitled to payment of amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or distributions to Vornado Realty Trust.***

Substantially all of Vornado Realty Trust s assets are held through its Operating Partnership which holds substantially all of its properties and assets through its own subsidiaries. The Operating Partnership therefore depends for substantially all of its cash flow on cash distributions to it by its subsidiaries, and Vornado Realty Trust in turn depends for substantially all of its cash flow on cash distributions to it by the Operating Partnership. The creditors of each of the Vornado Realty Trust s direct and indirect subsidiaries are entitled to payment of that subsidiary s obligations to them, when due and payable, before distributions may be made by that subsidiary to its equity holders. Thus, the Operating Partnership s ability to make distributions to holders of units depends on its subsidiaries ability first to satisfy their obligations to their creditors and then to make distributions to the Operating Partnership.

Furthermore, the holders of preferred units of the Operating Partnership are entitled to receive preferred distributions before payment of distributions to holders of common units of the Operating Partnership, including Vornado Realty Trust. Thus, Vornado Realty Trust ability to pay dividends to holders of its common shares and satisfy its debt obligations depends on the Operating Partnership s ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to Vornado Realty Trust. As of December 31, 2004, there were 13 series of preferred units of the Operating Partnership not held by Vornado Realty Trust that have preference over Vornado Realty Trust common shares. The total liquidation value of these 13 series of preferred units is approximately $960,900,000.

In addition, Vornado Realty Trust s participation in any distribution of the assets of any of its direct or indirect subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary, is only after the claims of the creditors, including trade creditors, and preferred security holders, if any, of the subsidiary are satisfied.

***We have indebtedness, and this indebtedness may increase.***

As of December 31, 2004, we had approximately $5.2 billion in total debt outstanding including the Company s proportionate share of debt of partially-owned entities. Our ratio of total debt to total enterprise value was 30.4%. When we say enterprise value in the preceding sentence, we mean market equity value of Vornado Realty Trust plus total debt outstanding, including the Company s pro-rata share of partially-owned entities debt, less cash. In the future, we may incur additional debt, and thus increase its ratio of total debt to total enterprise value, to finance acquisitions or property developments.

***Vornado Realty Trust might fail to qualify or remain qualified as a REIT.***

Although we believe that we will remain organized and will continue to operate so as to qualify as a REIT for federal income tax purposes, we might fail to remain qualified in this way. Qualification as a REIT for federal income tax purposes is governed by highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations. Our qualification as a REIT also depends on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions might significantly change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT.

If, with respect to any taxable year, Vornado Realty Trust fails to maintain its qualification as a REIT, it could not deduct distributions to shareholders in computing its taxable income and would have to pay federal income tax on its taxable income at regular corporate rates. The federal income tax payable would include any applicable alternative minimum tax. If Vornado Realty Trust had to pay federal income tax, the amount of money available to distribute to shareholders and pay its indebtedness would be reduced for the year or years involved, and Vornado Realty Trust would no longer be required to distribute money to shareholders. In addition, Vornado Realty Trust would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, unless it was entitled to relief under the relevant statutory provisions. Although Vornado Realty Trust currently intends to operate in a manner designed to allow it to qualify as a REIT, future economic, market, legal, tax or other considerations may cause it to revoke the REIT election.

***Loss of the Company s key personnel could harm our operations and adversely affect the value of our common shares.***

We are dependent on the efforts of Steven Roth, the Chairman of the Board of Trustees and Chief Executive Officer of Vornado Realty Trust, and Michael D. Fascitelli, the President of Vornado Realty Trust. While we believe that we could find replacements for these key personnel, the loss of their services could harm our operations and adversely affect the value or our common shares.

***Vornado Realty Trust s charter documents and applicable law may hinder any attempt to acquire us.***

Generally, for Vornado Realty Trust to maintain its qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the outstanding shares of beneficial interest of Vornado Realty Trust may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of Vornado Realty Trust s taxable year. The Internal Revenue Code defines individuals for purposes of the requirement described in the preceding sentence to include some types of entities. Under Vornado Realty Trust s Amended and Restated Declaration of Trust, as amended, no person may own more than 6.7% of the outstanding common shares or 9.9% of the outstanding preferred shares, with some exceptions for persons who held common shares in excess of the 6.7% limit before Vornado Realty Trust adopted the limit and other persons approved by Vornado Realty Trust s Board of Trustees. These restrictions on transferability and ownership may delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. We refer to Vornado Realty Trust s Amended and Restated Declaration of Trust, as amended, as the declaration of trust.

Vornado Realty Trust s Board of Trustees is divided into three classes of trustees. Trustees of each class are chosen for three-year staggered terms. Staggered terms of trustees may reduce the possibility of a tender offer or an attempt to change control of the Company, even though a tender offer or change in control might be in the best interest of Vornado Realty Trust s shareholders.

The declaration of trust authorizes the Board of Trustees to cause Vornado Realty Trust to issue additional authorized but unissued common shares or preferred shares; classify or reclassify, in one or more series, any unissued preferred shares; set the preferences, rights and other terms of any classified or reclassified shares that Vornado Realty Trust issues; and increase, without shareholder approval, the number of shares of beneficial interest that Vornado Realty Trust may issue.

The Board of Trustees could establish a series of preferred shares whose terms could delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of Vornado Realty Trust s shareholders, although the Board of Trustees does not now intend to establish a series of preferred shares of this kind. Vornado Realty Trust s declaration of trust and bylaws contain other provisions that may delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders.

Under the Maryland General Corporation Law, as amended, which we refer to as the MGCL, as applicable to real estate investment trusts, certain business combinations, including certain mergers, consolidations, share exchanges and asset transfers and certain issuances and reclassifications of equity securities, between a Maryland real estate investment trust and any person who beneficially owns ten percent or more of the voting power of the trust s shares or an affiliate or an associate, as defined in the MGCL, of the trust who, at any time within the two-year period before the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting shares of beneficial interest of the trust, which we refer to as an interested shareholder, or an affiliate of the interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. After that five-year period, any business combination of these kinds must be recommended by the board of trustees of the trust and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of beneficial interest of the trust and (b) two-thirds of the votes entitled to be cast by holders of voting shares of the trust other than shares held by the interested shareholder with whom, or with whose affiliate, the business combination is to be effected, unless, among other conditions, the trust s common shareholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. The provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of trustees of the applicable trust before the interested shareholder becomes an interested shareholder, and a person is not an interested shareholder if the board of trustees approved in advance the transaction by which the person otherwise would have become an interested shareholder. In approving a transaction, the board may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board. Vornado Realty Trust s board has adopted a resolution exempting any business combination between any trustee or officer of the Company, or their affiliates, and the Company. As a result, the trustees and officers of the Company and their affiliates may be able to enter into business combinations with the Company which may not be in the best interest of shareholders. With respect to business combinations with other persons, the business combination provisions of the MGCL may have the effect of delaying, deferring or preventing a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. The business combination statute may discourage others from trying to acquire control of the Company and increase the difficulty of consummating any offer.

**Our Ownership Structure and Related-Party Transactions May Give Rise to Conflicts of Interest.**

***Steven Roth and Interstate Properties may exercise substantial influence over the Company. They and some of the Company s other trustees and officers have interests or positions in other entities that may compete with the Company.***

As of December 31, 2004, Interstate Properties, a New Jersey general partnership, and its partners owned approximately 10.8% of the common shares of Vornado Realty Trust and approximately 27.4% of the common stock of Alexander s, Inc. Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the partners of Interstate Properties. Mr. Roth is the Chairman of the Board and Chief Executive Officer of Vornado Realty Trust, the managing general partner of Interstate Properties, the Chief Executive Officer and a director of Alexander s.

As of December 31, 2004, we owned 33% of the outstanding common stock of Alexander s. Alexander s is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander s has six properties, which are located in the New York City metropolitan area. Mr. Roth and Mr. Fascitelli, the President and a trustee of Vornado Realty Trust, are directors of Alexander s. Messrs. Mandelbaum, West and Wight are trustees of Vornado Realty Trust and are also directors of Alexander s.

Prior to the dissolution of Vornado Operating on December 29, 2004, Interstate was also a significant equity holder of Vornado Operating. When it existed, Vornado Operating s principal business was operating, as tenant, the cold storage warehouses owned by our partially-owned subsidiary, Americold Realty Trust. Messrs. Roth and Fascitelli were officers and directors of Vornado Operating. Mr. Wight was also a director of Vornado Operating.

Because of these overlapping interests, Mr. Roth and Interstate Properties and its partners may have substantial influence over Vornado Realty Trust and Alexander s and on the outcome of any matters submitted to Vornado Realty Trust or Alexander s shareholders for approval. In addition, certain decisions concerning the Company s operations or financial structure may present conflicts of interest among Messrs. Roth, Mandelbaum and Wight and Interstate Properties and the Company s other equity or debt holders. In addition, Mr. Roth and Interstate Properties and its partners currently and may in the future engage in a wide variety of activities in the real estate business which may result in conflicts of interest with respect to matters affecting the Company or Alexander s, such as which of these entities or persons, if any, may take advantage of potential business opportunities, the business focus of these entities, the types of properties and geographic locations in which these entities make investments, potential competition between business activities conducted, or sought to be conducted, by the Company, Interstate Properties and Alexander s, competition for properties and tenants, possible corporate transactions such as acquisitions and other strategic decisions affecting the future of these entities.

The Company currently manages and leases the real estate assets of Interstate Properties under a management agreement for which the Company receives an annual 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 60 days notice at the end of the term. The Company earned $726,000, $703,000, and $747,000 of management fees under the management agreement for the years ended December 31, 2004, 2003 and 2002. Because the Company and Interstate Properties are controlled by the same persons, as described above, the terms of the management agreement and any future agreements between the Company and Interstate Properties may not be comparable to those the Company could have negotiated with an unaffiliated third party.

***There may be conflicts of interest between Alexander s and Us***

At December 31, 2004, the Company had loans receivable from Alexander s of $124,000,000 at an interest rate of 9.0%, including $29,000,000 drawn under a $50,000,000 line of credit. The maturity date of the loans is the earlier of January 3, 2006 or the date that Alexander s Lexington Avenue construction loan is finally repaid. The Operating Partnership manages, develops and leases the Alexander s properties under management and development agreements and leasing agreements under which the Operating Partnership receives annual fees from Alexander s. These agreements have a one-year term expiring in March of each year, except that the Lexington Avenue management and development agreements have a term lasting until substantial completion of development of the Lexington Avenue property, and are all automatically renewable. Because the Company and Alexander s share common senior management and because a majority of the trustees of Vornado Realty Trust also constitute the majority of the directors of Alexander s, the terms of the foregoing agreements and any future agreements between us and Alexander s may not be comparable to those we could have negotiated with an unaffiliated third party.

Interstate Properties, which is further described above, owned an additional 27.4% of the outstanding common stock of Alexander s as of December 31, 2004. Mr. Roth, Chairman of the Board and Chief Executive Officer of Vornado Realty

Trust, is Chief Executive Officer and a director of Alexander s, and Mr. Fascitelli, President and a trustee of Vornado Realty Trust, is President and a director of Alexander s. Messrs. Mandelbaum, West and Wight, trustees of the Company, are also directors of Alexander s. Alexander s common stock is listed on the New York Stock Exchange under the symbol ALX.

For a description of Interstate Properties ownership of Vornado Realty Trust and Alexander s, see Steven Roth and Interstate Properties may exercise substantial influence over the Company. They and some of the Company s other trustees and officers have interests or positions in other entities that may compete with the Company above.

**The Number of Shares of the Company and the Market for Those Shares Give Rise to Various Risks.**

***Vornado Realty Trust has many shares available for future sale, which could hurt the market price of its shares.***

As of February 1, 2005, we had authorized but unissued, 72,178,522 common shares of beneficial interest, $.04 par value, and 85,610,600 preferred shares of beneficial interest, no par value. We may issue these additional shares from time to time in public or private offerings or in connection with acquisitions.

In addition, as of February 1, 2005, 17,643,708 Vornado Realty Trust common shares were reserved for issuance upon redemption of Operating Partnership units. Some of these shares may be sold in the public market after registration under the Securities Act under registration rights agreements between the Company and some holders of units of the Operating Partnership. These shares may also be sold in the public market under Rule 144 under the Securities Act or other available exemptions from registration. In addition, Vornado Realty Trust has reserved a number of common shares for issuance under its employee benefit plans, and these common shares will be available for sale from time to time. Vornado Realty Trust has awarded shares of restricted stock and granted options to purchase additional common shares to some of its executive officers and employees. Of the authorized but unissued common and preferred shares referenced above, 41,969,628 common and 40,929,336 preferred shares, in the aggregate, were reserved for issuance upon the redemption of Operating Partnership units, under benefit plans, the conversion of outstanding securities or other action not directly in our control.

We cannot predict the effect that future sales of our common shares, preferred shares or Operating Partnership Units, or the perception that sales of common shares, preferred or Operating Partnership Units could occur, will have on the market prices for Vornado Realty Trust s shares.

***Changes in market conditions could hurt the market price of Vornado Realty Trust s shares.***

The value of the Vornado Realty Trust s shares depends on various market conditions, which may change from time to time. Among the market conditions that may affect the value of the Vornado Realty Trust s shares are the following: the extent of institutional investor interest in the Company; the reputation of REITs generally and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities; our financial condition and performance; and general financial market conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies generally, and Vornado in particular.

***Increased market interest rates may hurt the value of Vornado Realty Trust s shares.***

We believe that investors consider the distribution rate on REIT shares, expressed as a percentage of the market price of the shares, relative to market interest rates as an important factor in deciding whether to buy or sell the shares. If market interest rates go up, prospective purchasers of REIT shares may expect a higher distribution rate. Higher interest rates would likely increase our borrowing costs and might decrease funds available for distribution. Thus, higher market interest rates could cause the market price of Vornado Realty Trust s shares to decline.

**ITEM 2.** PROPERTIES

The Company currently owns, directly or indirectly, Office properties, Retail properties, Merchandise Mart properties and Temperature Controlled Logistics refrigerated warehouses. The Company also owns or has investments in Alexander s, Hotel Pennsylvania, The Newkirk Master Limited Partnership, GMH Communities L.P., dry warehouses and industrial buildings.

**Office Segment**

The Company currently owns all or a portion of 86 office properties containing approximately 27.6 million square feet. Of these properties, 20 containing 13.4 million square feet are located in the New York City metropolitan area (primarily Manhattan) (the New York City Office Properties ) and 66 containing 14.2 million square feet are located in the Washington, D.C. and Northern Virginia area (the CESCR Office Properties ).

**New York City Office Properties:**

The New York City Office Properties contain 12,607,000 square feet of office space and 805,000 square feet of retail space. In addition, the New York City Office properties contain five garages totaling 332,000 square feet (1,600 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section.

The following table sets forth the percentage of the New York City Office Properties 2004 revenue by tenants industry:

| Industry | | Percentage | |
|---|---|---|---|
| Retail | | 13 | % |
| Publishing | | 10 | % |
| Government | | 8 | % |
| Legal | | 7 | % |
| Technology | | 6 | % |
| Advertising | | 6 | % |
| Pharmaceuticals | | 5 | % |
| Finance | | 5 | % |
| Service Contractors | | 5 | % |
| Communication | | 4 | % |
| Not-for-Profit | | 4 | % |
| Insurance | | 4 | % |
| Bank Branches | | 3 | % |
| Real Estate | | 3 | % |
| Health Services | | 3 | % |

| | | | |
|---|---|---|---|
| Engineering | | 3 | % |
| Other | | 11 | % |
| | | 100 | % |

The Company s New York City Office properties lease terms generally range from five to seven years for smaller tenant spaces to as long as 15 years for major tenants, and may include extension options at market rates. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenant s share of increases in real estate taxes and operating expenses over a base year. Electricity is provided to tenants on a sub-metered basis or included in rent based on surveys and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant s initial construction costs of its premises.

Below is a listing of tenants that accounted for 2% or more of the New York City Office Properties revenues in 2004:

| Tenant | Square Feet Leased | 2004 Revenues | Percentage of New York City Office Revenues | Percentage of Company Revenues |
|---|---|---|---|---|
| The McGraw-Hill Companies, Inc. | 520,000 | $ 20,612,000 | 3.3% | 1.2% |
| VNU Inc. | 515,000 | 19,544,000 | 3.2% | 1.1% |
| Sterling Winthrop, Inc. | 429,000 | 18,879,000 | 3.0% | 1.1% |
| Cablevision/Madison Square Garden L.P./ Rainbow Media Holdings, Inc. | 285,000 | 14,905,000 | 2.4% | 0.9% |
| Federated Department Stores | 357,000 | 14,622,000 | 2.4% | 0.9% |
| U.S. Government | 639,000 | 14,411,000 | 2.3% | 0.8% |
| New York Stock Exchange, Inc. | 348,000 | 14,268,000 | 2.3% | 0.8% |

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

| As of December 31, | Rentable Square Feet | Occupancy Rate | Average Annual Escalated Rent Per Square Foot (excluding retail space) |
|---|---|---|---|
| 2004 | 13,412,000 | 95.6% | $ 41.90 |
| 2003 | 13,253,000 | 95.8% | 37.36 |
| 2002 | 13,957,000 | 97.3% | 35.53 |
| 2001 | 13,953,000 | 96.2% | 32.18 |
| 2000 | 14,049,000 | 94.9% | 30.16 |

During 2004, the Company leased 1,623,000 square feet of New York City Office space as follows:

| | 2004 Leasing Activity | |
|---|---|---|
| Location | Square Feet | Average Initial Rent Per Square Foot(1) |
| One Penn Plaza | 411,000 | $ 39.79 |
| 909 Third Avenue | 286,000 | 41.61 |
| 888 Seventh Avenue | 170,000 | 54.43 |
| 330 Madison Avenue (25% interest) | 146,000 | 39.57 |
| Eleven Penn Plaza | 114,000 | 33.84 |
| Two Penn Plaza | 110,000 | 37.65 |
| 640 Fifth Avenue | 86,000 | 68.23 |
| 866 U.N. Plaza | 84,000 | 42.22 |
| 150 East 58th Street | 65,000 | 46.48 |
| 595 Madison | 54,000 | 49.07 |
| 90 Park Avenue | 24,000 | 44.02 |

| | | |
|---|---|---|
| 825 Seventh Avenue (50% interest) | 23,000 | 25.00 |
| 689 Fifth Avenue | 18,000 | 49.56 |
| 40 Fulton Street | 17,000 | 24.83 |
| 1740 Broadway | 11,000 | 30.00 |
| Paramus | 4,000 | 19.06 |
| Total | 1,623,000 | 42.96 |
| Vornado s Ownership Interest | 1,502,000 | 43.34 |

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

In addition to the office space noted above, the Company leased 51,000 square feet of retail space at a weighted average initial rent of $118.39 per square foot.

The following tables set forth lease expirations for the office and retail portions of the New York City Office Properties as of December 31, 2004, for each of the next 10 years assuming that none of the tenants exercise their renewal options.

**Office Space:**

| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of New York City Office Square Feet | Annual Escalated Rent of Expiring Leases Total | Annual Escalated Rent of Expiring Leases Per Square Foot |
|---|---|---|---|---|---|
| 2005 | 170 | 698,000 | 5.5% | $ 29,312,000 | $ 41.99 |
| 2006 | 80 | 709,000 | 5.6% | 27,592,000 | 38.92 |
| 2007 | 81 | 632,000 | 5.0% | 26,494,000 | 41.92 |
| 2008 | 69 | 1,171,000 (1) | 9.3% | 50,180,000 | 42.85 |
| 2009 | 84 | 653,000 | 5.2% | 27,271,000 | 41.76 |
| 2010 | 55 | 1,043,000 | 8.3% | 43,672,000 | 41.87 |
| 2011 | 35 | 863,000 | 6.8% | 43,036,000 | 49.87 |
| 2012 | 24 | 860,000 | 6.8% | 30,529,000 | 35.50 |
| 2013 | 20 | 584,000 | 4.6% | 22,909,000 | 39.23 |
| 2014 | 26 | 351,000 | 2.8% | 16,400,000 | 46.72 |

(1) Excludes 492,000 square feet at 909 Third Avenue leased to the U.S. Post Office through 2038 (including six five-year renewal options) for which the annual escalated rent is $8.96 per square foot.

**Retail Space (contained in office buildings):**

| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of Retail Square Feet | Annual Escalated Rent of Expiring Leases Total | Annual Escalated Rent of Expiring Leases Per Square Foot |
|---|---|---|---|---|---|
| 2005 | 11 | 24,000 | 3.0% | $ 1,473,000 | $ 61.38 |
| 2006 | 10 | 63,000 | 7.8% | 3,028,000 | 48.06 |
| 2007 | 3 | 4,000 | 0.5% | 770,000 | 192.50 |
| 2008 | 5 | 27,000 | 3.4% | 1,511,000 | 55.96 |
| 2009 | 6 | 26,000 | 3.2% | 4,509,000 | 173.42 |
| 2010 | 4 | 6,000 | 0.7% | 535,000 | 89.17 |
| 2011 | 3 | 9,000 | 1.1% | 667,000 | 74.11 |
| 2012 | 4 | 69,000 | 8.6% | 2,406,000 | 34.87 |
| 2013 | 10 | 36,000 | 4.5% | 3,629,000 | 100.56 |
| 2014 | 13 | 106,000 | 13.2% | 16,719,000 | 157.73 |

**The following table sets forth the New York City Office Properties owned by the Company as of December 31, 2004:**

| Location | Approximate Leasable Building Square Feet | Percent Leased | Encumbrances (in thousands) |
|---|---|---|---|
| NEW YORK (Manhattan) | | | |
| One Penn Plaza(1) | 2,379,000 | 94.0% | $ |
| Two Penn Plaza | 1,543,000 | 91.7% | 300,000 |
| 909 Third Avenue(1) | 1,359,000 | 98.5% | 125,000 |
| 770 Broadway | 1,046,000 | 99.6% | 170,000 |
| Eleven Penn Plaza | 1,029,000 | 96.8% | 219,777 |
| 90 Park Avenue | 890,000 | 98.5% | |
| 888 Seventh Avenue(1) | 833,000 | 99.0% | 105,000 |
| 330 West 34th Street(1) | 637,000 | 99.9% | |
| 1740 Broadway | 567,000 | 96.1% | |
| 150 East 58th Street(2) | 522,000 | 90.5% | |
| 866 United Nations Plaza | 349,000 | 91.1% | 48,130 |
| 595 Madison (Fuller Building) | 307,000 | 95.1% | |
| 640 Fifth Avenue | 324,000 | 99.5% | |
| 40 Fulton Street | 240,000 | 89.4% | |
| 689 Fifth Avenue | 90,000 | 98.8% | |
| 7 West 34th Street | 424,000 | 100.0% | |
| 330 Madison Avenue (25% interest) | 784,000 | 94.1% | 60,000 |
| 20 Broad Street(1) | 466,000 | 85.3% | |
| 825 Seventh Avenue (50% interest) | 165,000 | 100.0% | 23,104 |
| | | | |
| NEW JERSEY | | | |
| Paramus | 128,000 | 91.2% | |
| | | | |
| **Total Office Buildings** | **14,082,000** | **95.6%** | **$ 1,051,011** |
| | | | |
| **Vornado s Ownership Interest** | **13,412,000** | **95.6%** | **$ 994,459** |

(1) Ground leased.

(2) Less than 10% of this property is ground leased.

**Charles E. Smith Commercial Realty (  CESCR  ) Office Properties:**

CESCR owns 66 office buildings and a hotel in the Washington D.C. and Northern Virginia area containing 14.2 million square feet, including two buildings taken out of service for redevelopment. CESCR manages an additional 7.1 million square feet of office and other commercial properties. In addition, CESCR  s buildings contain 19 garages totaling approximately 7.4 million square feet (25,000 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section. As of December 31, 2004, 35 percent of CESCR  s property portfolio is leased to various agencies of the U.S. government.

On July 1, 2004, the Company acquired the Marriott hotel located in its Crystal City office complex from a limited partnership in which Robert H. Smith and Robert P. Kogod, trustees of the Company, together with family members own approximately 67 percent. The purchase price of $21,500,000 was paid in cash. The hotel contains 343 rooms and is leased to an affiliate of Marriott International, Inc. until July 31, 2015, with one 10-year extension option. The land under the hotel was acquired in 1999.

The following table sets forth the percentage of CESCR  s Office properties 2004 revenue by tenants  industry:

| Industry | | Percentage | |
|---|---|---|---|
| | | | |
| U.S. Government | | 42 | % |
| Government Contractors | | 29 | % |
| Legal Services | | 4 | % |
| Communication | | 3 | % |
| Transportation by Air | | 3 | % |
| Real Estate | | 3 | % |
| Trade Associations | | 2 | % |
| Business Services | | 2 | % |
| Eating and Drinking Places | | 1 | % |
| Health Services | | 1 | % |
| Other | | 10 | % |
| | | 100 | % |

CESCR office leases are typically for four to seven year terms, and may provide for extension options at either pre-negotiated or market rates. Most leases provide for annual rental escalations throughout the lease term, plus recovery of increases in real estate taxes and certain property operating expenses over a base year. Annual rental escalations are typically based upon either fixed percentage increases or the consumer price index. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant  s initial construction costs of its premises.

Below is a listing of tenants which accounted for 2% or more of the CESCR Office properties revenues during 2004:

| Tenant | | Square Feet Leased | | 2004 Revenues | | Percentage of CESCR Revenues | | Percentage of Company Revenues | |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| U.S. Government (93 separate leases) | 5,043,000 | $ | 186,315,000 | 41.9 | % | 10.9 | % |
| Science Applications International Corp | 499,000 | | 12,631,000 | 2.8 | % | 0.7 | % |
| TKC Communications | 305,000 | | 10,221,000 | 2.3 | % | 0.6 | % |
| The Boeing Company | 283,000 | | 9,035,000 | 2.0 | % | 0.5 | % |



The following table sets forth the New York City Office Properties owned by the Company as of December 31, 2004

The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the CESCR properties at the end of each of the past five years:

| As of December 31, | Rentable Square Feet | Occupancy Rate | Average Annual Escalated Rent Per Square Foot |
|---|---|---|---|
| 2004 | 14,216,000 | 91.5% | $ 30.06 |
| 2003 | 13,963,000 | 93.9% | 29.64 |
| 2002 | 13,395,000 | 93.6% | 29.38 |
| 2001 | 12,899,000 | 94.8% | 28.59 |
| 2000 | 12,495,000 | 97.9% | 27.38 |

During 2004, the Company leased 2,824,000 square feet of CESCR office space as follows:

| Location | Square Feet | Average Initial Rent Per Square Foot(1) |
|---|---|---|
| Skylines | 762,000 | $ 26.13 |
| Crystal Gateway | 529,000 | 32.53 |
| Crystal Plaza | 499,000 | 29.40 |
| Crystal Park | 201,000 | 32.62 |
| Crystal Square | 158,000 | 32.83 |
| Tysons Dulles | 142,000 | 24.25 |
| Reston Executive | 90,000 | 24.19 |
| Courthouse Plaza | 88,000 | 26.61 |
| Commerce Executive | 83,000 | 19.97 |
| 1919 South Eads Street | 57,000 | 33.22 |
| 1730 M Street | 45,000 | 31.14 |
| Arlington Plaza | 36,000 | 29.35 |
| Crystal Mall | 32,000 | 29.00 |
| Fairfax Square (20% interest) | 30,000 | 26.75 |
| 1101 17th Street | 20,000 | 33.63 |
| 1150 17th Street | 19,000 | 34.00 |
| 1140 Connecticut Avenue | 12,000 | 33.39 |
| Democracy Plaza | 11,000 | 33.54 |
| 1750 Pennsylvania | 10,000 | 38.00 |
| | 2,824,000 | 28.93 |

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

The following table sets forth lease expirations for the CESCR Office Properties as of December 31, 2004 for each of the next 10 years, assuming that none of the tenants exercise their renewal options.

| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of CESCR Square Feet | Annual Escalated Rent of Expiring Leases: Total | Annual Escalated Rent of Expiring Leases: Per Square Foot |
|---|---|---|---|---|---|
| 2005 | 375 | 2,909,000 | 20.5% | $ 87,280,000 | $ 30.00 |
| 2006 | 195 | 2,362,000 | 16.6% | 75,044,000 | 31.77 |
| 2007 | 157 | 1,075,000 | 7.6% | 33,134,000 | 30.83 |
| 2008 | 135 | 1,246,000 | 8.8% | 38,598,000 | 30.99 |
| 2009 | 126 | 1,305,000 | 9.2% | 37,874,000 | 29.02 |
| 2010 | 49 | 447,000 | 3.1% | 14,152,000 | 31.66 |
| 2011 | 62 | 952,000 | 6.7% | 28,391,000 | 29.81 |
| 2012 | 28 | 620,000 | 4.4% | 20,743,000 | 33.46 |
| 2013 | 24 | 361,000 | 2.5% | 12,172,000 | 33.70 |
| 2014 | 24 | 441,000 | 3.1% | 11,236,000 | 25.47 |

The above table includes 1,002,000 square feet leased to the U.S. Patent and Trademark Office ( PTO ) in the Crystal City submarket. Of this square feet, 393,000 expires in Q1 2005, 359,000 expires in Q2 2005, 145,000 expires in Q4 2005 and 105,000 expires in Q1 2006. In addition, the PTO vacated 937,000 square feet in the fourth quarter of 2004, of which 497,000 has been taken out of service, and will vacate another 1,002,000 square feet during 2005 and the first quarter of 2006. As of February 1, 2005, the Company has leased 416,000 square feet of the PTO space vacated. Of this space, 262,000 square feet was leased to the Federal Supply Service which will be relocated from 240,000 square feet in other Crystal City buildings, 122,000 square feet was leased to the Public Broadcasting Service and 32,000 square feet was leased to Lockheed Martin.

Below is a comparison of the Company s actual leasing activity to the Company s projection for the lease-up of this space:

| Period in which rent commences: | Square Feet Leased (in thousands): Projection | Square Feet Leased (in thousands): Actual Through February 1, 2005 |
|---|---|---|
| Q4 2004 | | 32 |
| Q3 2005 | | 122 |
| Q4 2005 | 247 | |
| Q1 2006 | 793 | 262 |
| Q2 2006 | 404 | |
| Q3 2006 | 252 | |
| Q4 2006 | 98 | |
| Q1 2007 | 145 | |
| | 1,939 | 416 |

Straight-line rent per square foot for the actual square feet leased is $32.34 as compared to $31.94 projected. Actual tenant improvements and leasing commissions per square foot is $45.25 as compared to $45.28 projected.

The following table sets forth the New York City Office Properties owned by the Company as of December 31, 2004

The Company s original redevelopment plans for the PTO space included taking Crystal Park One and Crystal Plaza Three and Four out of service. Plans for Crystal Plaza Three and Four have not changed. Current plans for Crystal Park One are to lease its 224,000 square feet to private sector tenants which will not require taking the building out of service, as opposed to leasing it to another government agency which would have required taking it out of service. As a result, the Company will recognize approximately $4,000,000 of expense in 2005, which under the original plan would have been capitalized as part of development costs.

The following table sets forth the CESCR Office Properties owned by the Company as of December 31, 2004:

| Location/Complex | Number of Buildings | | Approximate Leasable Building Square Feet | Percent Leased | | Encumbrances (in thousands) | |
|---|---|---|---|---|---|---|---|
| Crystal Mall | 4 | | 1,067,000 | 85.9 | % | $ | 48,618 |
| Crystal Plaza | 7 | (1) | 1,231,000 | 85.4 | % | | |
| Crystal Square | 4 | | 1,420,000 | 95.0 | % | | 185,296 |
| Crystal City Hotel | 1 | | 266,000 | 100 | % | | |
| Crystal City Shops | 1 | | 47,000 | 100 | % | | |
| Crystal Gateway | 5 | | 1,465,000 | 93.9 | % | | 203,928 |
| Crystal Park | 5 | | 2,180,000 | 89.0 | % | | 253,238 |
| 1919 S. Eads Street | 1 | | 97,000 | 98.5 | % | | 11,952 |
| Total Crystal City | 28 | | 7,773,000 | 91.0 | % | | 703,032 |
| Skyline | 8 | | 2,542,000 | 93.7 | % | | 194,897 |
| Courthouse Plaza(2) | 2 | | 624,000 | 95.7 | % | | 77,153 |
| 1101 17th Street | 1 | | 207,000 | 96.7 | % | | 25,537 |
| 1730 M Street | 1 | | 190,000 | 82.7 | % | | 15,944 |
| 1140 Connecticut Avenue | 1 | | 179,000 | 90.8 | % | | 18,888 |
| 1150 17th Street | 1 | | 227,000 | 76.6 | % | | 30,838 |
| 1750 Pennsylvania Avenue | 1 | | 259,000 | 97.9 | % | | 48,876 |
| 2101 L Street | 1 | | 354,000 | 99.5 | % | | |
| Democracy Plaza I(2) | 1 | | 210,000 | 91.2 | % | | 26,095 |
| Tysons Dulles | 3 | | 484,000 | 93.8 | % | | |
| Commerce Executive | 3 | | 382,000 | 74.9 | % | | 51,796 |
| Reston Executive | 3 | | 487,000 | 91.1 | % | | 71,197 |
| South Capitol | 3 | | 58,000 | 96.9 | % | | |
| Fairfax Square (20% interest) | 3 | | 524,000 | 90.7 | % | | 67,215 |
| Kaempfer equity interests (.1% to 10% interests) | 6 | | 3,437,000 | 99.4 | % | | 491,869 |
| | | | | | | | |
| **Total Office Buildings** | **66** | | **17,937,000** | **92.1** | **%** | **$** | **1,823,337** |
| **Vornado s Ownership Interest** | **66** | | **14,216,000** | **91.5** | **%** | **$** | **1,296,549** |
| | | | | | | | |
| **Assets Held for Sale:** | | | | | | | |
| Arlington Plaza | 1 | | 179,000 | 93.3 | % | $ | 14,691 |

(1) Includes Crystal Plaza Three and Four containing an aggregate of 497,000 square feet which have been taken out of service for redevelopment and not included in Percent Leased.

(2) Ground leased.



The following table sets forth the New York City Office Properties owned by the Company as of December 31, 2004

**Retail Segment**

The Company owns 94 retail properties, of which 51 are strip shopping centers located in the Northeast and Mid-Atlantic; 25 are supermarkets in Southern California; five are regional malls located in New York, New Jersey and San Juan, Puerto Rico; and 13 are retail properties located in New York City. The Company s strip shopping centers and malls are generally located on major regional highways in mature, densely populated areas. The Company believes these properties attract consumers from a regional, rather than a neighborhood market place because of their location on regional highways.

The Company s strip shopping centers contain an aggregate of 9.2 million square feet and are substantially (over 80%) leased to large stores (over 20,000 square feet). Tenants include destination retailers such as discount department stores, supermarkets, home improvement stores, discount apparel stores and membership warehouse clubs. Tenants typically offer basic consumer necessities such as food, health and beauty aids, moderately priced clothing, building materials and home improvement supplies, and compete primarily on the basis of price and location.

The Company s five regional malls are as follows :

The Green Acres Mall in Long Island, New York contains 1.6 million square feet, and is anchored by four major department stores: Sears, J.C. Penney and Company, Inc., Federated Department Stores, Inc. ( Federated ) doing business as Macy's and Macy s Men s Furniture Gallery (formerly Sterns ). The complex also includes The Plaza at Green Acres, a 175,000 square foot strip shopping center which is anchored by Wal-Mart and National Wholesale Liquidators. The Company plans to renovate the interior and exterior of the mall. In addition, the Company has entered into a ground lease with B.J. s Wholesale Club who will construct its own free-standing store in the mall complex. Further, the Company will construct 63,600 square feet of free-standing retail space and parking decks in the complex, subject to governmental approvals. The expansion and renovation are expected to be completed in 2006.

The Monmouth Mall in Eatontown, New Jersey, owned 50% by the Company, contains 1.4 million square feet and is anchored by four department stores; Macy s, Lord & Taylor, J.C. Penney and Boscovs, three of which own their stores aggregating 719,000 square feet.

The Bergen Mall in Paramus, New Jersey, contains 903,000 square feet. The Company has entered into agreements to terminate its lease with Macy s effective April 2005 and its lease with Value City effective January 2006. Under these agreements, in January 2005, the Company received $2,000,000 from Macy s and paid $12,000,000 to Value City, both of which were reflected in the acquisition price of the mall. The Company plans to expand, re-tenant and redevelop the mall subject to governmental approvals and anticipates taking the mall out of service in phases beginning in the second quarter of 2005.

The Montehiedra Mall in San Juan, Puerto Rico, contains 554,000 square feet and is anchored by Home Depot, Kmart, and Marshalls.

The Las Catalinas Mall in San Juan, Puerto Rico, contains 354,000 square feet and is anchored by Kmart and Sears, which owns its store.

**2004 Retail Property Acquisitions**

On February 3, 2004, the Company acquired the Forest Plaza Shopping Center for approximately $32,500,000, of which $14,000,000 was paid in cash and $18,500,000 was debt assumed.  Forest Plaza is a 165,000 square foot shopping center located in Staten Island, New York.

On March 19, 2004, the Company acquired a 62,000 square foot free-standing retail building located at 25 W. 14$^{th}$ Street in Manhattan for $40,000,000 in cash.

On July 29, 2004, the Company acquired a real estate portfolio containing 25 supermarkets for $65,000,000 in cash.  These properties, all of which are all located in Southern California and contain an aggregate of approximately 766,000 square feet, were purchased from the Newkirk MLP, in which the Company currently owns a 22.4% interest.  The supermarkets are net leased to Stater Brothers for an initial term expiring in 2008, with six 5-year extension options.  Stater Brothers is a Southern California regional grocery chain that operates 158 supermarkets and has been in business since 1936.

On August 30, 2004, the Company acquired 99-01 Queens Boulevard, a 68,000 square foot free-standing building in Forest Hills, New York for $26,500,000 in cash.

On November 2, 2004, the Company acquired a 50% joint venture interest in a 92,500 square foot property located at Broome Street and Broadway in New York City.  The Company contributed $4,462,000 of equity and provided a $24,000,000 bridge loan with interest at 10% per annum.  Upon the refinancing of the bridge loan, which is expected to close in the second quarter of 2005, the Company will be repaid $15,106,000 and the balance of $8,894,000 will remain in the venture as additional equity.

On November 12, 2004 and December 1, 2004, the Company acquired two shopping centers aggregating 185,000 square feet, in Lodi, New Jersey and Long Island (Inwood), New York, for a total purchase price of $36,600,000 in cash plus $10,900,000 of assumed debt.

In December 2004, the Company acquired two retail condominiums aggregating 12,000 square feet, located at 386 and 387 West Broadway in New York City for $16,900,000 in cash plus $4,700,000 of assumed debt.

The following table sets forth the percentage of the Retail Properties 2004 revenues by type of retailer:

| Industry | Percentage |
|---|---|
| Department Stores | 20% |
| Family Apparel | 14% |
| Supermarkets | 10% |
| Home Improvement | 8% |
| Restaurants | 6% |
| Home Entertainment and Electronics | 6% |
| Women s Apparel | 5% |
| Other | 31% |
| | 100% |

The Company s shopping center lease terms range from five years or less in some instances for smaller tenant spaces to as long as 25 years for major tenants. Leases generally provide for additional rents based on a percentage of tenants sales and pass through to tenants of the tenants share of all common area charges (including roof and structure in strip shopping centers, unless it is the tenant s direct responsibility), real estate taxes and insurance costs and certain capital expenditures. Percentage rent accounted for less than 1% of total shopping center revenues in 2004. None of the tenants in the Retail segment accounted for more than 10% of the Company s 2004 total revenues.

Below is a listing of tenants which accounted for 2% or more of the Retail properties revenues in 2004:

| Tenant | Square Feet | 2004 Revenues | Percentage of Retail Revenues | Percentage of Company Revenues |
|---|---|---|---|---|
| Wal-Mart/Sam s Wholesale | 1,561,000 | $ 13,561,000 | 5.5% | .8% |
| Stop & Shop Companies, Inc, (Stop & Shop) | 311,000 | 10,177,000 | 4.1% | .6% |
| The Home Depot, Inc | 630,000 | 9,986,000 | 4.0% | .6% |
| Kohl s | 698,000 | 7,347,000 | 3.0% | .4% |
| Hennes & Mauritz | 60,000 | 7,317,000 | 2.9% | .4% |
| Federated Department Stores | 705,000 | 6,155,000 | 2.5% | .4% |
| Shop Rite | 364,000 | 5,406,000 | 2.2% | .3% |
| The TJX Companies, Inc. | 389,000 | 5,057,000 | 2.0% | .3% |

See Item 3. Legal Proceedings for details of Stop & Shop litigation.

The aggregate occupancy rate for the 14,210,000 square feet of retail properties at December 31, 2004 is 93.9%. The following sets forth the occupancy rate and the average annual base rent per square foot for the Strip Shopping Centers and Regional Malls at the end of each of the past five years.

**Strip Shopping Centers:**

| As of December 31, | Rentable Square Feet | Occupancy Rate | Average Annual Base Rent Per Square Foot |
|---|---|---|---|
| 2004 | 9,931,000 | 94.5% | $ 12.00 |
| 2003 | 8,798,000 | 92.3% | 11.91 |
| 2002 | 9,295,000 | 85.7% | 11.11 |
| 2001 | 9,008,000 | 89.0% | 10.60 |
| 2000 | 9,000,000 | 91.1% | 10.72 |

**Regional Malls:**

| | Rentable | Occupancy | Average Annual Base Rent Per Square Foot | |
|---|---|---|---|---|
| As of December 31, | Square Feet | Rate | Mall Tenants | Total |
| 2004 | 3,766,000 | 93.1% | $ 33.05 | $ 17.32 |
| 2003 | 3,766,000 | 94.1% | 31.08 | 16.41 |
| 2002 | 2,875,000 | 95.4% | 27.79 | 17.15 |
| 2001 | 2,293,000 | 98.7% | 34.04 | 15.31 |
| 2000 | 2,293,000 | 95.5% | 32.05 | 14.84 |

**Manhattan Retail and Other:**

Manhattan retail is comprised of 13 properties containing 513,000 square feet.

The following table sets forth the lease expirations for the Retail Properties as of December 31, 2004 for each of the next 10 years assuming that none of the tenants exercise their renewal options.

| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of Retail Square Feet | Annual Rent of Expiring Leases Total | Annual Rent of Expiring Leases Per Square Foot |
|---|---|---|---|---|---|
| 2005 | 152 | 869,000 | 6.1% | $ 14,327,000 | $ 16.49 |
| 2006 | 89 | 799,000 | 5.6% | 7,593,000 | 9.50 |

| | | | | | |
|---|---|---|---|---|---|
| 2007 | 127 | 556,000 | 3.9% | 11,009,000 | 19.81 |
| 2008 | 136 | 1,495,000 | 10.5% | 16,293,000 | 10.90 |
| 2009 | 102 | 729,000 | 5.1% | 11,505,000 | 15.78 |
| 2010 | 57 | 590,000 | 4.1% | 9,048,000 | 15.34 |
| 2011 | 48 | 787,000 | 5.5% | 11,069,000 | 14.06 |
| 2012 | 43 | 416,000 | 2.9% | 6,346,000 | 15.25 |
| 2013 | 62 | 857,000 | 6.0% | 13,065,000 | 15.24 |
| 2014 | 62 | 906,000 | 6.4% | 13,029,000 | 14.38 |

During 2004, the Company leased 1,021,000 square feet of Retail space as follows:

| | 2004 Leasing Activity | |
|---|---|---|
| **Location** | **Square Feet** | **Average Initial Rent Per Square Foot(1)** |
| Green Acres Mall, Valley Stream, NY | 276,000 | $ 18.46 |
| Albany (Menands), NY | 104,000 | 9.00 |
| Woodbridge, NJ | 60,000 | 13.84 |
| Freeport, NY | 55,000 | 17.50 |
| East Hanover I, NJ | 48,000 | 19.93 |
| Dover, NJ | 46,000 | 10.79 |
| York, PA | 46,000 | 6.07 |
| Totowa, NJ | 45,000 | 13.65 |
| Towson, MD | 42,000 | 6.26 |
| Bethlehem, PA | 35,000 | 5.31 |
| Monmouth Mall, Eatontown, NJ (50%) | 33,000 | 21.10 |
| Middletown, NJ | 32,000 | 14.29 |
| Montehiedra, Puerto Rico | 25,000 | 32.83 |
| Jersey City, NJ | 21,000 | 17.43 |
| Lawnside, NJ | 20,000 | 12.50 |
| Las Catalinas, Puerto Rico | 17,000 | 47.34 |
| Cherry Hill, NJ | 16,000 | 15.67 |
| Lancaster, PA | 15,000 | 4.50 |
| Waterbury, CT | 14,000 | 14.95 |
| Bricktown, NJ | 11,000 | 20.78 |
| Union, NJ | 11,000 | 32.50 |
| Hackensack, NJ | 9,000 | 33.33 |
| Bensalem, PA | 6,000 | 16.50 |
| Chicopee, MA | 6,000 | 14.17 |
| North Plainfield, NJ | 5,000 | 22.38 |
| Bergen Mall, Paramus, NJ | 4,000 | 32.51 |
| East Hanover II, NJ | 3,000 | 18.00 |
| Turnersville, NJ | 3,000 | 7.63 |
| Watchung, NJ | 3,000 | 15.50 |
| 25 W. 14th Street, Manhattan, NY | 2,000 | 95.00 |
| Kearny, NJ | 2,000 | 28.00 |
| Manalapan, NJ | 2,000 | 57.50 |
| Staten Island, NY | 2,000 | 35.34 |
| Morris Plains, NJ | 1,000 | 90.00 |
| 4 Union Square South, Manhattan, NY | 1,000 | 136.78 |
| | 1,021,000 | 16.33 |

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

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The following table sets forth the Retail Properties owned by the Company as of December 31, 2004:

| Location | Approximate Leasable Building Square Footage<br>Owned/ Leased by Company | Owned by Tenant on Land Leased from Company | Percent Leased | | Encumbrances (in thousands) |
|---|---|---|---|---|---|
| **REGIONAL MALLS:** | | | | | |
| Green Acres Mall, Valley Stream, NY(1) | 1,517,000 | 79,000 | 95.8% | $ | 152,819 |
| Monmouth Mall, Eatontown, NJ (50% ownership) | 718,000 | | 96.1% | | 135,000 |
| Montehiedra, Puerto Rico | 554,000 | | 89.1% | | 58,019 |
| Las Catalinas, Puerto Rico | 354,000 | | 97.1% | | 65,696 |
| Bergen Mall, Paramus, NJ | 893,000 | 10,000 | 87.7% | | |
| Total Regional Malls | 4,036,000 | 89,000 | 93.4% | $ | 411,534 |
| Vornado s ownership interest | 3,677,000 | 89,000 | 93.1% | $ | 344,034 |
| **STRIP SHOPPING CENTERS:** | | | | | |
| NEW JERSEY | | | | | |
| Bordentown | 179,000 | | 95.0% | $ | 7,893(2) |
| Bricktown | 260,000 | 3,000 | 98.6% | | 15,951(2) |
| Cherry Hill | 58,000 | 206,000 | 90.5% | | 14,670(2) |
| Delran | 169,000 | 3,000 | 95.5% | | 6,288(2) |
| Dover | 173,000 | | 78.2% | | 7,190(2) |
| East Brunswick | 221,000 | 10,000 | 100.0% | | 22,273(2) |
| East Hanover I and II | 348,000 | | 99.0% | | 26,703(2) |
| Hackensack | 209,000 | 60,000 | 100.0% | | 24,470(2) |
| Jersey City | 47,000 | 173,000 | 100.0% | | 18,733(2) |
| Kearny | 40,000 | 66,000 | 92.4% | | 3,657(2) |
| Lawnside | 142,000 | 3,000 | 92.5% | | 10,366(2) |
| Lodi | 171,000 | | 100.0% | | 9,186(2) |
| Lodi II | 85,000 | | 100.0% | | 12,228 |
| Manalapan | 196,000 | 2,000 | 100.0% | | 12,260(2) |
| Marlton | 174,000 | 7,000 | 95.0% | | 11,921(2) |
| Middletown | 180,000 | 52,000 | 95.4% | | 16,092(2) |
| Montclair | 18,000 | | 100.0% | | 1,881(2) |
| Morris Plains | 176,000 | 1,000 | 100.0% | | 11,780(2) |
| North Bergen | 7,000 | 55,000 | 100.0% | | 3,878(2) |
| North Plainfield(1) | 219,000 | | 89.5% | | 10,649(2) |
| Totowa | 178,000 | 139,000 | 100.0% | | 28,898(2) |
| Turnersville | 89,000 | 7,000 | 100.0% | | 3,998(2) |
| Union | 120,000 | 159,000 | 98.4% | | 32,818(2) |
| Watchung | 50,000 | 116,000 | 98.3% | | 13,241(2) |
| Woodbridge | 88,000 | 140,000 | 96.1% | | 21,631(2) |
| Total New Jersey | 3,597,000 | 1,202,000 | 96.6% | | 348,655 |
| NEW YORK | | | | | |
| Albany (Menands) | 140,000 | | 74.0% | | 6,083(2) |
| Buffalo (Amherst)(1) | 185,000 | 112,000 | 81.1% | | 6,855(2) |
| Freeport | 167,000 | | 100.0% | | 14,480(2) |
| New Hyde Park(1) | 101,000 | | 100.0% | | 7,309(2) |
| Inwood | 100,000 | | 100.0% | | |
| North Syracuse(1) | | 98,000 | 100.0% | | |
| Rochester (Henrietta)(1) | 148,000 | | 57.9% | | |
| Rochester | | 205,000 | 100.0% | | |
| Staten Island | 165,000 | | 94.3% | | 20,923 |
| Total New York | 1,006,000 | 415,000 | 88.4% | | 55,650 |

| Location | Approximate Leasable Building Square Footage Owned/ Leased by Company | Owned by Tenant on Land Leased from Company | Percent Leased | Encumbrances (in thousands) |
|---|---|---|---|---|
| PENNSYLVANIA | | | | |
| Allentown | 269,000 | 354,000 | 96.9% | 22,741(2) |
| Bensalem | 122,000 | 8,000 | 96.1% | 6,284(2) |
| Bethlehem | 159,000 | | 98.2% | 3,977(2) |
| Broomall | 147,000 | 22,000 | 86.5% | 9,563(2) |
| Glenolden | 10,000 | 92,000 | 100.0% | 7,172(2) |
| Lancaster | 58,000 | 170,000 | 100.0% | |
| Levittown | 105,000 | | 100.0% | 3,213(2) |
| 10th and Market Streets, Philadelphia | 271,000 | | 76.2% | 8,760(2) |
| Upper Moreland | 122,000 | | 100.0% | 6,799(2) |
| York | 111,000 | | 66.1% | 4,021(2) |
| Total Pennsylvania | 1,374,000 | 646,000 | 92.5% | 72,530 |
| MARYLAND | | | | |
| Baltimore (Towson) | 152,000 | | 64.4% | 11,144(2) |
| Glen Burnie | 65,000 | 56,000 | 100.0% | 5,735(2) |
| Total Maryland | 217,000 | 56,000 | 80.2% | 16,879 |
| CONNECTICUT | | | | |
| Newington | 43,000 | 140,000 | 100.0% | 6,405(2) |
| Waterbury | 146,000 | | 92.2% | 6,038(2) |
| Total Connecticut | 189,000 | 140,000 | 96.5% | 12,443 |
| MASSACHUSETTS | | | | |
| Chicopee | | 118,000 | 100.0% | |
| Milford(1) | 83,000 | | 100.0% | |
| Springfield | 8,000 | 117,000 | 100.0% | 3,057(2) |
| Total Massachusetts | 91,000 | 235,000 | 100.0% | 3,057 |
| **SUPERMARKETS:** | | | | |
| CALIFORNIA | | | | |
| Anaheim | 26,000 | | 100.0% | |
| Barstow | 30,000 | | 100.0% | |
| Beaumont | 29,000 | | 100.0% | |
| Calimesa | 29,000 | | 100.0% | |
| Colton | 73,000 | | 100.0% | |
| Colton | 26,000 | | 100.0% | |
| Corona(1) | 33,000 | | 100.0% | |
| Costa Mesa | 18,000 | | 100.0% | |
| Costa Mesa | 17,000 | | 100.0% | |
| Desert Hot Springs | 29,000 | | 100.0% | |
| Fontana | 26,000 | | 100.0% | |
| Garden Grove | 26,000 | | 100.0% | |
| Mojave(1) | 34,000 | | 100.0% | |
| Moreno Valley | 30,000 | | 100.0% | |
| Ontario | 24,000 | | 100.0% | |
| Orange | 26,000 | | 100.0% | |
| Rancho Cucamonga | 24,000 | | 100.0% | |
| Rialto | 29,000 | | 100.0% | |
| Riverside | 42,000 | | 100.0% | |
| Riverside | 39,000 | | 100.0% | |
| San Bernadino | 40,000 | | 100.0% | |
| San Bernadino | 30,000 | | 100.0% | |
| Santa Ana | 26,000 | | 100.0% | |
| Westminister | 26,000 | | 100.0% | |
| Yucaipa | 31,000 | | 100.0% | |

| | | | | | |
|---|---|---|---|---|---|
| Total California | 763,000 | | 100.0% | | |
| **Total** | **7,237,000** | **2,694,000** | **94.5%** | **$** | **509,214** |

| Location | Approximate Leasable Building Square Footage: Owned/ Leased by Company | Approximate Leasable Building Square Footage: Owned by Tenant on Land Leased from Company | Percent Leased | | Encumbrances (in thousands) |
|---|---|---|---|---|---|
| **OTHER RETAIL:** | | | | | |
| NEW YORK (Manhattan) | | | | | |
| 1135 Third Avenue | 25,000 | | 100.0% | | |
| 4 Union Square South | 198,000 | | 97.5% | | |
| 25 W. 14th Street | 62,000 | | 89.5% | | |
| 386 W. Broadway | 3,000 | | 100.0% | | 5,084 |
| 387 W. Broadway | 9,000 | | 59.1% | | |
| 424 Sixth Avenue | 10,000 | | 100.0% | | |
| 435 Seventh Avenue | 43,000 | | 100.0% | | |
| 478-486 Broadway (50%) | 93,000 | | 83.0% | | |
| 484 Eighth Avenue | 14,000 | | 100.0% | | |
| 715 Lexington Avenue (in development)(1) | 32,000 | | | | |
| 825 Seventh Avenue | 3,000 | | 100.0% | | |
| 968 Third Avenue (50%) (in development) | | | | | |
| NEW YORK (Queens) | | | | | |
| 99-01 Queens Boulevard | 68,000 | | 55.0% | | |
| **Total Other Retail** | **560,000** | | **88.1%** | **$** | **5,084** |
| **Total Retail Space** | **11,833,000** | **2,783,000** | **94.0%** | **$** | **925,832** |
| **Vornado s Ownership Interest** | **11,427,000** | **2,783,000** | **93.9%** | **$** | **858,332** |
| | | | | | |
| **ASSETS HELD FOR SALE:** | | | | | |
| Vineland, New Jersey | **143,000** | | **0%** | **$** | |

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

(2) These encumbrances are cross collateralized under a blanket mortgage in the amount of $476,063,000 at December 31, 2004.

**Merchandise Mart Segment**

The Merchandise Mart Properties are a portfolio of 8 properties containing an aggregate of 8.6 million square feet.

Below is a breakdown of square feet by location and use as of December 31, 2004.

| | | | Showroom | | | |
|---|---|---|---|---|---|---|
| **(Amounts in thousands)** | **Total** | **Office** | **Total** | **Permanent** | **Temporary Trade Show** | **Retail** |
| Chicago, Illinois | | | | | | |
| Merchandise Mart | 3,446 | 1,029 | 2,336 | 1,950 | 386 | 81 |
| 350 West Mart Center | 1,210 | 1,066 | 144 | 144 | | |
| 33 N. Dearborn | 334 | 320 | | | | 14 |
| Other | 19 | | | | | 19 |
| Total Chicago, Illinois | 5,009 | 2,415 | 2,480 | 2,094 | 386 | 114 |
| | | | | | | |
| HighPoint, North Carolina | | | | | | |
| Market Square Complex | 1,749 | | 1,734 | 1,174 | 560 | 15 |
| National Furniture Mart | 259 | | 259 | 259 | | |
| Total HighPoint, North Carolina | 2,008 | | 1,993 | 1,433 | 560 | 15 |
| | | | | | | |
| L.A. Mart | 783 | | 783 | 729 | 54 | |
| | | | | | | |
| Washington, D.C. | | | | | | |
| Washington Design Center | 393 | 60 | 333 | 333 | | |
| Washington Office Center | 397 | 362 | | | | 35 |
| Total Washington, D.C. | 790 | 422 | 333 | 333 | | 35 |
| | | | | | | |
| Total Merchandise Mart Properties | 8,590 | 2,837 | 5,589 | 4,589 | 1,000 | 164 |
| | | | | | | |
| Occupancy rate | 96.9% | 96.0% | 97.6% | | | 89.4% |

The Merchandise Mart Properties also contain seven parking garages totaling 1,150,000 square feet (3,500 spaces). The garage space is excluded from the statistics provided in this section.

***Office Space***

The following table sets forth the percentage of the Merchandise Mart Properties 2004 office revenues by tenants industry during 2004:

| **Industry** | **Percentage** |
|---|---|
| Service | 31% |
| Government | 23% |

| | |
|---|---|
| Banking | 15% |
| Telecommunications | 12% |
| Insurance | 6% |
| Pharmaceutical | 4% |
| Publications | 4% |
| Other | 5% |
| | 100% |

The Company s Merchandise Mart properties lease terms generally range from three to seven years for smaller tenants to as long as 15 years for large tenants. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenants share of increases in real estate taxes and operating expenses for a building over a base year. Electricity is provided to tenants on a sub-metered basis or included in rent and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant s initial construction of its premises.

Below is a listing of the Merchandise Mart Properties office tenants which accounted for 2% or more of the Merchandise Mart Properties revenues in 2004:

| Tenant | Square Feet Leased | 2004 Revenues | Percentage of Segment Revenues | Percentage of Company Revenues |
|---|---|---|---|---|
| U.S. Government | 344,000 | $ 12,401,000 | 5.2% | .7% |
| SBC Ameritech | 234,000 | 6,829,000 | 2.9% | .4% |
| Bank of America | 205,000 | 5,461,000 | 2.3% | .3% |
| WPP Group | 228,000 | 5,252,000 | 2.2% | .3% |

The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the Merchandise Mart Properties office space at the end of each of the past five years.

| As of December 31, | Rentable Square Feet | Occupancy Rate | Average Annual Escalated Rent Per Square Foot |
|---|---|---|---|
| 2004 | 2,837,000 | 96.0% | $ 24.87 |
| 2003 | 2,825,000 | 92.6% | 25.23 |
| 2002 | 2,838,000 | 91.7% | 24.00 |
| 2001 | 2,841,000 | 89.2% | 23.84 |
| 2000 | 2,869,000 | 90.2% | 23.52 |

During 2004, the Company leased 568,740 square feet of Merchandise Mart Properties office space as follows:

| | 2004 Leasing Activity | |
|---|---|---|
| | Square Feet | Average Initial Rent Per Square Foot(1) |
| 350 West Mart Center | 359,339 | $ 21.38 |
| Merchandise Mart | 120,898 | 23.08 |
| 33 North Dearborn Street | 62,561 | 25.42 |
| Washington Design Center | 15,210 | 36.00 |
| Washington Office Center | 10,732 | 35.83 |
| Total | 568,740 | 22.85 |

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

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The following table sets forth lease expirations for the Merchandise Mart Properties office space as of December 31, 2004 for each of the next 10 years assuming that none of the tenants exercise their renewal options.

| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of Merchandise Mart Office Square Feet | Annual Escalated Rent of Expiring Leases Total | Annual Escalated Rent of Expiring Leases Per Square Foot |
|---|---|---|---|---|---|
| 2005 | 29 | 159,000 | 5.6% | $ 3,633,000 | $ 22.82 |
| 2006 | 18 | 166,000 | 5.8% | 4,077,000 | 24.59 |
| 2007 | 17 | 228,000 | 8.0% | 5,433,000 | 23.79 |
| 2008 | 20 | 276,000 | 9.7% | 6,394,000 | 23.15 |
| 2009 | 13 | 295,000 | 10.3% | 7,233,000 | 24.53 |
| 2010 | 4 | 364,000 | 12.8% | 12,205,000 | 33.50 |
| 2011 | 2 | 193,000 | 6.7% | 5,902,000 | 30.51 |
| 2012 | 2 | 45,000 | 1.5% | 1,167,000 | 25.70 |
| 2013 | 11 | 135,000 | 4.9% | 3,665,000 | 27.18 |
| 2014 | 4 | 85,000 | 2.9% | 2,371,000 | 27.84 |

***Showroom Space***

The showrooms provide manufacturers and wholesalers with permanent and temporary space in which to display products for buyers, specifiers and end users. The showrooms are also used for hosting trade shows for the contract furniture, casual furniture, gifts, carpet, residential furnishings, building products, crafts, apparel and design industries. Merchandise Mart Properties own and operate five of the leading furniture and gifts trade shows including the contract furniture industry s largest annual trade show, NeoCon, which attracts over 45,000 attendees each June and is hosted at the Merchandise Mart building in Chicago. The Market Square Complex co-hosts the home furniture industry s semi-annual (April and October) market weeks which occupy over 11,500,000 square feet in the High Point, North Carolina region.

The following table sets forth the percentage of the Merchandise Mart Properties 2004 showroom revenues by tenants industry:

| Industry | Percentage |
|---|---|
| Residential Design | 25% |
| Gift | 21% |
| Residential Furnishings | 17% |
| Contract Furnishings | 14% |
| Market Suites | 14% |
| Casual Furniture | 4% |
| Building Products | 3% |
| Apparel | 2% |
| | 100% |

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The following table sets forth the occupancy rate and the average escalated rent per square foot for this space at the end of each of the past five years.

| As of December 31, | Rentable Square Feet | Occupancy Rate | Average Annual Escalated Rent Per Square Foot |
|---|---|---|---|
| 2004 | 5,589,000 | 97.6% | $ 23.08 |
| 2003 | 5,640,000 | 95.1% | 22.35 |
| 2002 | 5,528,000 | 95.2% | 21.46 |
| 2001 | 5,532,000 | 95.5% | 22.26 |
| 2000 | 5,044,000 | 97.6% | 22.85 |

During 2004, the Company leased 1,037,536 square feet of Merchandise Mart Properties showroom space as follows:

| | 2004 Leasing Activity | |
|---|---|---|
| | Square Feet | Average Initial Rent Per Square Foot(1) |
| Market Square Complex | 438,740 | $ 16.31 |
| Merchandise Mart | 374,604 | 30.57 |
| L.A. Mart | 130,798 | 17.92 |
| 350 West Mart Center | 50,939 | 23.39 |
| Washington Design Center | 42,455 | 31.99 |
| Total | 1,037,536 | 22.65 |

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

The following table sets forth lease expirations for the Merchandise Mart Properties showroom space as of December 31, 2004 for each of the next 10 years assuming that none of the tenants exercise their renewal options.

| | | | | Annual Escalated Rent of Expiring Leases | |
|---|---|---|---|---|---|
| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of Merchandise Mart Showroom Square Feet | Total | Per Square Foot |
| 2005 | 239 | 576,000 | 10.6% | $ 13,269,000 | $ 23.06 |
| 2006 | 254 | 585,000 | 10.7% | 15,212,000 | 26.02 |
| 2007 | 237 | 1,004,000 | 18.4% | 21,576,000 | 21.49 |
| 2008 | 149 | 547,000 | 10.0% | 13,472,000 | 24.63 |
| 2009 | 137 | 556,000 | 10.2% | 13,233,000 | 23.78 |
| 2010 | 54 | 337,000 | 6.2% | 8,867,000 | 26.27 |
| 2011 | 31 | 167,000 | 3.1% | 4,714,000 | 28.25 |
| 2012 | 8 | 50,000 | 0.9% | 1,557,000 | 31.32 |
| 2013 | 43 | 267,000 | 4.9% | 7,854,000 | 29.42 |

| | | | | | |
|---|---|---|---|---|---|
| 2014 | 18 | 158,000 | 2.9% | 3,230,000 | 20.44 |

***Retail Space***

The Merchandise Mart Properties portfolio also contains approximately 180,000 square feet of retail space which was 89.4% occupied at December 31, 2004.

The following table sets forth the Merchandise Mart Properties owned by the Company as of December 31, 2004:

| Location | Approximate Leasable Building Square Feet | Percent Leased | Encumbrances (in thousands) |
|---|---|---|---|
| ILLINOIS | | | |
| Merchandise Mart, Chicago | 3,446,000 | 97.1% | $ |
| 350 West Mart Center, Chicago | 1,210,000 | 96.0% | |
| 33 North Dearborn Street, Chicago | 334,000 | 92.0% | |
| Other (50% interest) | 19,000 | 95.6% | 12,480 |
| Total Illinois | 5,009,000 | 96.5% | 12,480 |
| | | | |
| WASHINGTON, D.C. | | | |
| Washington Office Center | 397,000 | 99.2% | |
| Washington Design Center | 393,000 | 99.6% | 48,000 |
| Total Washington, D.C. | 790,000 | 99.2% | 48,000 |
| | | | |
| HIGH POINT, NORTH CAROLINA | | | |
| Market Square Complex | 2,008,000 | 98.9% | 108,000 |
| | | | |
| CALIFORNIA | | | |
| L.A. Mart | 783,000 | 92.2% | |
| **Total Merchandise Mart Properties** | **8,590,000** | **96.9%** | **$ 168,480** |

**Temperature Controlled Logistics Segment**

Prior to November 18, 2004, the Company owned a 60% interest in Vornado Crescent Portland Partnership ( VCPP ) which owned Americold Realty Trust ( Americold ). Americold owns 88 temperature controlled warehouses, all of which were leased to AmeriCold Logistics. On November 4, 2004, Americold purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. On November 18, 2004, the Company and its 40% partner, Crescent Real Estate Equities Company ( CEI ) collectively sold 20.7% of Americold s common shares to The Yucaipa Companies ( Yucaipa ) for $145,000,000, which resulted in a gain, of which the Company s share was $18,789,000. The sale price was based on a $1.450 billion valuation for Americold before debt and other obligations. Yucaipa is a private equity firm with significant expertise in the food distribution, logistics and retail industries. Upon closing of the sale to Yucaipa on November 18, 2004, Americold is owned 47.6% by the Company, 31.7% by CEI and 20.7% by Yucaipa. Pursuant to the sales agreement: (i) Yucaipa may earn a promote of 20% of the increase in the value of Americold through December 31, 2007, limited to 10% of the Company s and CEI s remaining interest in Americold; (ii) the annual asset management fee payable by CEI to the Company has been reduced from approximately $5,500,000 to $4,548,000, payable quarterly through October 30, 2027. CEI, at its option, may terminate the payment of this fee at any time after November 2009, by paying the Company a termination fee equal to the present value of the remaining payments through October 30, 2027, discounted at 10%. In addition, CEI is obligated to pay a pro rata portion of the termination fee to the extent it sells a portion of its equity interest in Americold; and (iii) VCPP was dissolved. The Company has the right to appoint three of the five members to Americold s Board of Trustees. Consequently, the Company is deemed to exercise control over Americold and, on November 18, 2004, the Company began to consolidate the operations and financial position of Americold into its accounts and no longer accounts for its investment on the equity method.

AmeriCold Logistics, headquartered in Atlanta, Georgia, provides the food industry with refrigerated warehousing and transportation management services. Refrigerated warehouses are comprised of production, distribution and public facilities. In addition, AmeriCold Logistics manages facilities owned by its customers for which it earns fixed and incentive fees. Production facilities typically serve one or a small number of customers, generally food processors that are located nearby. Customers store large quantities of processed or partially processed products in these facilities until they are shipped to the next stage of production or distribution. Distribution facilities primarily warehouse a wide variety of customers finished products until future shipment to end-users. Each distribution facility generally services the surrounding regional market. Public facilities generally serve the needs of local and regional customers under short-term agreements. Food manufacturers and processors use these facilities to store capacity overflow from their production facilities or warehouses. AmeriCold Logistics transportation management services include freight routing, dispatching, freight rate negotiation, backhaul coordination, freight bill auditing, network flow management, order consolidation and distribution channel assessment. AmeriCold Logistics temperature controlled logistics expertise and access to both frozen food warehouses and distribution channels enable its customers to respond quickly and efficiently to time-sensitive orders from distributors and retailers.

AmeriCold Logistics customers consist primarily of national, regional and local frozen food manufacturers, distributors, retailers and food service organizations. Below is a listing of customers which accounted for 2% or more of AmeriCold Logistics revenue in 2004:

| (Amounts in thousands) | 2004 Revenues | Percentage of Temperature Controlled Logistics Revenues |
|---|---|---|
| H.J. Heinz & Co. | $ 111,872 | 16.0% |
| Con-Agra Foods, Inc. | 79,192 | 11.3% |
| Altria Group Inc. (Kraft Foods). | 46,825 | 6.7% |
| Sara Lee Corp. | 34,913 | 5.0% |
| Tyson Foods, Inc. | 27,757 | 4.0% |
| General Mills | 27,057 | 3.9% |
| Schwan Corporation | 23,690 | 3.4% |
| McCain Foods, Inc. | 22,187 | 3.2% |

On November 18, 2004, Tony Schnug became Chief Executive Officer of Americold. Mr. Schnug is a partner of The Yucaipa Companies responsible for conducting due diligence of potential acquisitions and oversees management of portfolio companies on strategy and operational issues. Previously, Mr. Schnug was an executive officer of Yucaipa portfolio companies including Fred Meyer, Ralphs and Food 4 Less with responsibilities covering logistics, manufacturing and construction.

The following table sets forth certain information for the Temperature Controlled Logistics properties as of December 31, 2004:

| **Property** | **Cubic Feet (in millions)** | **Square Feet (in thousands)** |
|---|---|---|
| | | |
| ALABAMA | | |
| Birmingham | 2.0 | 85.6 |
| Montgomery | 2.5 | 142.0 |
| Gadsden(1) | 4.0 | 119.0 |
| Albertville | 2.2 | 64.5 |
| | 10.7 | 411.1 |
| ARIZONA | | |
| Phoenix | 2.9 | 111.5 |
| | | |
| ARKANSAS | | |
| Fort Smith | 1.4 | 78.2 |
| West Memphis | 5.3 | 166.4 |
| Texarkana | 4.7 | 137.3 |
| Russellville | 5.6 | 164.7 |
| Russellville | 9.5 | 279.4 |
| Springdale | 6.6 | 194.1 |
| | 33.1 | 1,020.1 |
| CALIFORNIA | | |
| Ontario(1) | 8.1 | 279.6 |
| Fullerton(1) | 2.8 | 107.7 |
| Pajaro(1) | 1.4 | 53.8 |
| Turlock | 2.5 | 108.4 |
| Watsonville(1) | 5.4 | 186.0 |
| Turlock | 3.0 | 138.9 |
| Ontario | 1.9 | 55.9 |
| | 25.1 | 930.3 |
| COLORADO | | |
| Denver | 2.8 | 116.3 |
| | | |
| FLORIDA | | |
| Tampa | 0.4 | 22.2 |
| Plant City | 0.8 | 30.8 |
| Bartow | 1.4 | 56.8 |
| Tampa | 2.9 | 106.0 |
| Tampa(1) | 1.0 | 38.5 |
| | 6.5 | 254.3 |
| GEORGIA | | |
| Atlanta | 11.1 | 476.7 |
| Atlanta | 2.9 | 157.1 |
| Augusta | 1.1 | 48.3 |
| Atlanta | 11.4 | 334.7 |
| Atlanta | 5.0 | 125.7 |
| Montezuma | 4.2 | 175.8 |
| Atlanta | 6.9 | 201.6 |

| | | |
|---|---|---|
| Thomasville | 6.9 | 202.9 |
| | 49.5 | 1,722.8 |
| IDAHO | | |
| Burley | 10.7 | 407.2 |
| Nampa | 8.0 | 364.0 |
| | 18.7 | 771.2 |
| ILLINOIS | | |
| Rochelle | 6.0 | 179.7 |
| East Dubuque | 5.6 | 215.4 |
| | 11.6 | 395.1 |
| INDIANA | | |
| Indianapolis | 9.1 | 311.7 |
| | | |
| IOWA | | |
| Fort Dodge | 3.7 | 155.8 |
| Bettendorf | 8.8 | 336.0 |
| | 12.5 | 491.8 |
| KANSAS | | |
| Wichita | 2.8 | 126.3 |
| Garden City | 2.2 | 84.6 |
| | 5.0 | 210.9 |
| KENTUCKY | | |
| Sebree | 2.7 | 79.4 |
| | | |
| MAINE | | |
| Portland | 1.8 | 151.6 |
| | | |
| MASSACHUSETTS | | |
| Gloucester | 1.9 | 95.5 |
| Gloucester | 0.3 | 13.6 |
| Gloucester | 2.8 | 95.2 |
| Gloucester | 2.4 | 126.4 |
| Boston | 3.1 | 218.0 |
| | 10.5 | 548.7 |
| MINNESOTA | | |
| Park Rapids (50% interest) | 3.0 | 86.8 |
| | | |
| MISSOURI | | |
| Marshall | 4.8 | 160.8 |
| Carthage | 42.0 | 2,564.7 |
| | 46.8 | 2,725.5 |
| MISSISSIPPI | | |
| West Point | 4.7 | 180.8 |
| | | |
| NEBRASKA | | |
| Fremont | 2.2 | 84.6 |
| Grand Island | 2.2 | 105.0 |
| | 4.4 | 189.6 |
| NEW YORK | | |
| Syracuse | 11.8 | 447.2 |

| Property | Cubic Feet (in millions) | Square Feet (in thousands) |
|---|---|---|
| NORTH CAROLINA | | |
| Charlotte | 1.0 | 58.9 |
| Charlotte | 4.1 | 164.8 |
| Tarboro | 4.9 | 147.4 |
| | 10.0 | 371.1 |
| OHIO | | |
| Massillon | 5.5 | 163.2 |
| | | |
| OKLAHOMA | | |
| Oklahoma City | 0.7 | 64.1 |
| Oklahoma City | 1.4 | 74.1 |
| | 2.1 | 138.2 |
| OREGON | | |
| Hermiston | 4.0 | 283.2 |
| Milwaukee | 4.7 | 196.6 |
| Salem | 12.5 | 498.4 |
| Woodburn | 6.3 | 277.4 |
| Brooks | 4.8 | 184.6 |
| Ontario | 8.1 | 238.2 |
| | 40.4 | 1,678.4 |
| PENNSYLVANIA | | |
| Leesport | 5.8 | 168.9 |
| Fogelsville | 21.6 | 683.9 |
| | 27.4 | 852.8 |
| SOUTH CAROLINA | | |
| Columbia | 1.6 | 83.7 |
| | | |
| SOUTH DAKOTA | | |
| Sioux Falls | 2.9 | 111.5 |
| | | |
| TENNESSEE | | |
| Memphis | 5.6 | 246.2 |
| Memphis | 0.5 | 36.8 |
| Murfreesboro | 4.5 | 106.4 |
| | 10.6 | 389.4 |
| TEXAS | | |
| Amarillo | 3.2 | 123.1 |
| Fort Worth | 3.4 | 102.0 |
| | 6.6 | 225.1 |
| UTAH | | |
| Clearfield | 8.6 | 358.4 |
| | | |
| VIRGINIA | | |
| Norfolk | 1.9 | 83.0 |
| Strasburg | 6.8 | 200.0 |
| | 8.7 | 283.0 |
| WASHINGTON | | |
| Burlington | 4.7 | 194.0 |

| | | |
|---|---|---|
| Moses Lake | 7.3 | 302.4 |
| Walla Walla | 3.1 | 140.0 |
| Connell | 5.7 | 235.2 |
| Wallula | 1.2 | 40.0 |
| Pasco | 6.7 | 209.0 |
| | 28.7 | 1,120.6 |
| WISCONSIN | | |
| Tomah | 4.6 | 161.0 |
| Babcock | 3.4 | 111.1 |
| Plover | 9.4 | 358.4 |
| | 17.4 | 630.5 |
| | | |
| **Total Temperature Controlled Logistics Properties** | **443.7** | **17,562.6** |

(1) Leasehold interest.

On February 5, 2004, Americold completed a $254,400,000 mortgage financing for 21 of its owned and seven of its leased temperature-controlled warehouses. The loan bears interest at LIBOR plus 2.95% (with a LIBOR floor of 1.5% with respect to $54,400,000 of the loan) and requires principal payments of $5,000,000 annually. The loan matures in April 2009 and is pre-payable without penalty after February 5, 2006. The net proceeds were approximately $225,000,000 after providing for usual escrows, closing costs and the repayment of $12,900,000 of existing mortgages on two of the warehouses, of which $135,000,000 was distributed to the Company and the remainder was distributed to its partner, CEI. As at December 31, 2004, all except two of Americold s properties are encumbered under cross-collateralized mortgage loans aggregating $733,740,000.

**Alexander s**

The Company owns 33% of Alexander s outstanding common shares. The following table shows the location, approximate size and leasing status of each of the properties owned by Alexander s as of December 31, 2004.

| Location | Land Area in Square Feet or Acreage | Building Area/ Number of Floors | | Percent Leased | Significant Tenants | Encumbrances (in thousands) |
|---|---|---|---|---|---|---|
| **Operating Properties** | | | | | | |
| New York: | | | | | | |
| 731 Lexington Avenue Manhattan: | 84,420 SF | | | | Bloomberg<br>The Home Depot<br>The Container Store | |
| Office and Retail | | 1,052,000/31 | | 84.9% | Hennes & Mauritz | $ 465,168 |
| Residential condominiums | | 248,000/24 | | | | |
| | | 1,300,000/55 | | | | |
| | | | | | | |
| Kings Plaza Regional Shopping Center-Brooklyn | 24.3 acres | 759,000/2 and 4 | (1)(2) | 98.1% | Sears | 213,699 |
| | | | | | 123 Mall Tenants | |
| | | | | | | |
| Rego Park I-Queens | 4.8 acres | 351,000/3 | (1) | 100.0% | Sears | 81,661 |
| | | | | | Circuit City<br>Bed, Bath & Beyond<br>Marshalls | |
| | | | | | | |
| Flushing-Queens(3) | 44.975 SF | 177,000/4 | (1) | 0% | | |
| | | | | | | |
| New Jersey: | | | | | | |
| Paramus-New Jersey | 30.3 acres | | | 100.0% | IKEA Property, Inc. | 68,000 |
| | | 2,587,000 | | | | |
| **Development Property** | | | | | | |
| Rego Park II-Queens | 10.0 acres | | | | | |

(1) Excludes parking garages.

(2) Excludes 339,000 square foot Macy s store, owned and operated by Federated Department Stores, Inc.

(3) Leased by Alexander s through January 2027.

***731 Lexington Avenue***

731 Lexington Avenue is a 1.3 million square foot multi-use building. The building contains approximately 885,000 net rentable square feet of office space, approximately 174,000 net rentable square feet of retail space and approximately 248,000 net saleable square feet of residential space consisting of 105 condominium units (through a taxable REIT subsidiary ( TRS )). Of the construction budget of $630,000,000 (which excludes $29,000,000 for development and guarantee fees to the Company), $489,400,000 has been expended through December 31, 2004 and an additional $23,500,000 has been committed at December 31, 2004. Construction is expected to be completed by the end of 2005.

As of December 31, 2004, Alexander s has leased 697,000 square feet of office space to Bloomberg L.P. and 144,000 square feet of retail space to, among others, The Home Depot (excluding 14,800 square feet of the mezzanine also leased to The Home Depot), Hennes & Mauritz and The Container Store. On January 25, 2005, Alexander s leased an additional 176,000 square feet of office space to Citibank N.A. As a result, 100% of the property s 885,000 square feet of office space has been leased.

The offering plan for the residential space, as amended for price increases through December 31, 2004, would produce an aggregate sale price of $500,000,000 (reflecting the value of existing contracts and the offering price for the remaining units). As of December 31, 2004, Alexander s has received deposits of $64,060,000 on sales of the condominium units. On January 24, 2005 the offering plan was declared effective by the State of New York at which time 83 units were under sales contract. Alexander s expects to close on these sales during 2005 and recognize approximately $38,000,000 of income after taxes of which $32,000,000 will be recognized in the first quarter using the percentage-of-completion method. The Company s share of the income to be recognized in the first quarter is $10,560,000.

On February 13, 2004, Alexander s completed a $400,000,000 mortgage financing on the office space of its Lexington Avenue development project. The loan bears interest at 5.33%, matures in February 2014 and beginning in the third year, provides for principal payments based on a 25-year amortization schedule such that over the remaining eight years of the loan, ten years of amortization will be paid. Of the loan proceeds, $253,529,000 was used to repay the entire amount outstanding under the construction loan. The construction loan was modified so that the remaining availability is $237,000,000, which was approximately the amount estimated to complete the Lexington Avenue development project. The interest rate on the construction loan is LIBOR plus 2.5% (4.92% at December 31, 2004) and matures in January 2006, with two one-year extensions. The collateral for the construction loan is the same, except that the office space has been removed from the lien. Further, the construction loan permits the release of the retail space for a payment of $15,000,000 and requires all proceeds from the sale of the residential condominium units to be applied to the construction loan balance until it is finally repaid.

The Company guaranteed to the 731 Lexington Avenue construction lender, the lien free, timely completion of the construction of the project and funding of project costs in excess of a stated budget, if not funded by Alexander s (the Completion Guarantee ). The $6,300,000 estimated fee payable by Alexander s to the Company for the Completion Guarantee is 1% of construction costs (as defined). Based upon the current status of construction, management does not anticipate a requirement to fund pursuant to this completion guarantee.

**The Newkirk Master Limited Partnership**

In 1998, the Company and affiliates of Apollo Real Estate Investment Fund III, L.P. ( Apollo ) formed a joint venture (30% owned by the Company and 70% owned by Apollo) ( Newkirk JV ) to acquire general and limited partnership interests in a portfolio of 104 partnerships, which own triple net leased properties. Since its formation, Newkirk JV has acquired equity interests in the above partnerships, which own approximately 19.6 million square feet of real estate and acquired certain first and second mortgages ( Contract Rights ) secured by a portion of these properties. On January 1, 2002, Newkirk JV completed a merger of 91 of the partnerships as well as the other assets it owned relating to the other 13 partnerships into The Newkirk Master Limited Partnership ( MLP ). The partnerships were merged into MLP to create a vehicle to enable the partners to have greater access to capital and future investment opportunities. In connection with the merger, the Company received limited partner interests in the MLP equal to an approximate 21.1% interest and Apollo received limited partner interests in the MLP equal to an approximate 54.5% interest. At December 31, 2004, the Company has a 22.4% interest in the MLP. Newkirk JV is the general partner of the MLP.

The Company s share of the MLP and the joint venture debt was approximately $213,688,000 at December 31, 2004.

The following table sets forth a summary of the real estate owned throughout the United States by the MLP:

| | Number of Properties | Square Feet |
|---|---|---|
| Office | 36 | 7,352,000 |
| Retail | 151 | 5,427,000 |
| Other | 21 | 5,257,000 |
| | 208 | 18,036,000 |

As of December 31, 2004, the occupancy rate of the MLP s properties is 98.6%.

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The primary lease terms range from 20 to 25 years from their original commencement dates with rents, typically above market, which fully amortize the first mortgage debt on the properties. In addition, tenants generally have multiple renewal options, with rents, on average, below market.

Below is a listing of tenants which accounted for 2% or more of the MLP s revenues in 2004:

| Tenant | Square Feet Leased | 2004 Revenues | Percentage |
|---|---|---|---|
| Raytheon | 2,287,000 | $ 40,421,000 | 15.8% |
| Albertson s Inc. | 2,810,000 | 26,683,000 | 10.4% |
| The Saint Paul Co. | 530,000 | 25,532,000 | 9.9% |
| Honeywell | 728,000 | 19,799,000 | 7.7% |
| Federal Express | 592,000 | 14,812,000 | 5.8% |
| Owens-Illinois | 707,000 | 13,363,000 | 5.2% |
| Entergy Gulf States | 489,000 | 12,212,000 | 4.8% |
| Safeway Inc. | 736,000 | 8,543,000 | 3.3% |
| Hibernia Bank | 403,000 | 8,196,000 | 3.2% |
| Nevada Power Company | 282,000 | 7,189,000 | 2.8% |
| The Kroger Company | 474,000 | 6,920,000 | 2.7% |
| Xerox | 379,000 | 5,940,000 | 2.3% |
| Cheeseborough/Ragu | 484,000 | 5,541,000 | 2.2% |
| Stater Bros Markets | 668,000 | 5,352,000 | 2.1% |

The following table sets forth lease expirations for each of the next 10 years, as of December 31, 2004, assuming that none of the tenants exercise their renewal options.

| Year | Number of Expiring Leases | Square Feet of Expiring Leases | Percentage of MLP Square Feet | Annual Escalated Rent of Expiring Leases | |
|---|---|---|---|---|---|
| | | | | Total | Per Square Foot |
| 2005 | 19 | 792,000 | 1.5% | $ 4,642,000 | $ 5.86 |
| 2006 | 28 | 2,298,000 | 10.1% | 26,726,000 | 11.63 |
| 2007 | 32 | 3,005,000 | 14.5% | 37,460,000 | 12.46 |
| 2008 | 63 | 6,791,000 | 40.7% | 103,773,000 | 15.28 |
| 2009 | 44 | 2,685,000 | 24.3% | 57,261,000 | 21.33 |
| 2010 | 5 | 1,006,000 | 1.9% | 4,542,000 | 4.52 |
| 2011 | 4 | 267,000 | 1.3% | 3,373,000 | 12.65 |
| 2012 | 9 | 395,000 | 1.2% | 3,187,000 | 8.07 |
| 2013 | 1 | 40,000 | 0.3% | 870,000 | 21.96 |
| 2014 | 1 | 282,000 | 2.7% | 7,189,000 | 25.49 |

**Hotel Pennsylvania**

The Hotel Pennsylvania is located in New York City on Seventh Avenue opposite Madison Square Garden and consists of a hotel portion containing 1,000,000 square feet of hotel space with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space. The following table presents rental information for the Hotel:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Hotel: | | | | | |
| Average occupancy rate | 78.9% | 63.7% | 64.7% | 63.0% | 76.0% |
| Average daily rate | $ 97.36 | $ 89.12 | $ 89.44 | $ 110.00 | $ 114.00 |
| Revenue per available room | $ 77.56 | $ 58.00 | $ 58.00 | $ 70.00 | $ 87.00 |
| Commercial: | | | | | |
| Office space: | | | | | |
| Average occupancy rate | 39.7% | 39.7% | 47.8% | 51.3% | 63.0% |
| Annual rent per square feet | $ 10.04 | $ 9.92 | $ 13.36 | $ 16.39 | $ 17.00 |
| Retail space: | | | | | |
| Average occupancy rate | 90.7% | 89.8% | 92.6% | 56.2% | 85.0% |
| Annual rent per square feet | $ 29.67 | $ 28.11 | $ 28.06 | $ 41.00 | $ 45.00 |

**GMH Communities L.P.**

At December 31, 2004, the Company has a 12.25% interest in GMH Communities L.P. ( GMH ), resulting from the Company s conversion of warrants into 6.7 million limited partnership units of GMH Communities LP on November 3, 2004. In addition, the Company holds warrants to purchase an additional 5.6 million limited partnership units of GMH or common shares of GMH Communities Trust ( GCT ) at a price of $8.99 per unit or share through May 2, 2006. See page 7 for further details. GMH owns 30 student housing properties, aggregating 7.8 million square feet and 19,085 beds, and manages an additional 20 properties that serve colleges and universities throughout the United States. In addition, GMH manages 51 military housing projects containing 101,216 units under long-term agreements with the United States Government. GMH has $359,276,000 of debt outstanding at December 31, 2004, of which the Company s share is $44,011,000.

**Dry Warehouse/Industrial Properties**

The Company s dry warehouse/industrial properties consist of seven buildings in New Jersey containing approximately 1.7 million square feet. The properties are encumbered by two cross-collateralized mortgage loans aggregating $48,385,000 as of December 31, 2004. Average lease terms range from three to five years. The following table sets forth the occupancy rate and average annual rent per square foot at the end of each of the past five years.

| As of December 31, | Occupancy Rate | | Average Annual Rent Per Square Foot | |
|---|---|---|---|---|
| 2004 | 88 | %(1) | $ 3.96 | (1) |
| 2003 | 88 | %(1) | 3.86 | (1) |
| 2002 | 95 | % | 3.81 | |
| 2001 | 100 | % | 3.67 | |
| 2000 | 90 | % | 3.52 | |

(1) Excludes the Company s East Brunswick industrial warehouse. In November 2002, the Company entered into an agreement to ground lease the East Brunswick industrial property to Lowe s. In connection therewith, the Company is razing the 326,000 square foot warehouse and Lowe s will construct its own retail store on the site.

**400 North LaSalle**

The 400 North LaSalle venture was formed in July 2001, to develop a 381,000 square foot, high-rise residential tower with an attached parking garage in Chicago Illinois, containing 452 apartments. Under the agreement the Company contributed 92% of the equity and is entitled to receive 85% of the profits. The development of the residential tower and garage was substantially completed and phased into service as of January 2004 and is 90.0% occupied as of December 31, 2004. As of December 31, 2004, the Company has classified this asset as held for sale on its consolidated balance sheets and the related revenues and expenses as discontinued operations on the consolidated statements of operations.

## ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in legal actions arising in the ordinary course of its business. In the opinion of management, after consultation with legal counsel, the outcome of such matters, including in respect of the matter referred to below, is not expected to have a material adverse effect on the Company s financial position or results of operation.

**Stop & Shop**

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey ( USDC-NJ ) claiming the Company has no right to reallocate and therefore continue to collect the $5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty, because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the $5,000,000 of additional rent was previously allocated. Stop & Shop asserted that a prior order of the Bankruptcy Court for the Southern District of New York dated February 6, 2001, as modified on appeal to the District Court for the Southern District of New York on February 13, 2001, froze the Company s right to re-allocate which effectively terminated the Company s right to collect the additional rent from Stop & Shop. On March 3, 2003, after the Company moved to dismiss for lack of jurisdiction, Stop & Shop voluntarily withdrew its complaint. On March 26, 2003, Stop & Shop filed a new complaint in New York Supreme Court, asserting substantially the same claims as in its USDC-NJ complaint. On April 9, 2003, the Company moved the New York Supreme Court action to the United States District Court for the Southern District of New York. Stop & Shop moved to remand and both sides moved for summary judgment. On June 30, 2003, the District Court ordered that the case be placed in suspense and ordered the parties to proceed with a motion for interpretation that the Company made in the United States Bankruptcy Court for the Southern District of New York. On July 24, 2003, the Bankruptcy Court referred the motion to mediation. The mediation concluded in June 2004 without resolving the dispute. On June 9, 2004, after reconvening the hearing on the Company s motion for interpretation, the Bankruptcy Court entered an order abstaining from hearing the Company s motion. On June 17, 2004, the Company filed a notice of appeal from the Bankruptcy Court s order to the District Court. On January 19, 2005, the District Court issued a decision affirming the Bankruptcy Court s decision and remanded the removed action to the New York Supreme Court. The Company believes that the additional rent provision of the guaranty expires at the earliest in 2012 and will vigorously oppose Stop & Shop s complaint.

**Vornado Operating Company**

In November 2004, a class action shareholder derivative lawsuit was brought in the Delaware Court of Chancery against Vornado Operating Company ( Vornado Operating ), its directors and the Company. The lawsuit sought to enjoin the dissolution of Vornado Operating, rescind the previously completed sale of AmeriCold Logistics (owned 60% by Vornado Operating) to Americold Realty Trust (owned 60% by the Company) and damages. In addition, the plaintiffs claimed that the Vornado Operating directors breached their fiduciary duties. On November 24, 2004, a stipulation of settlement was entered into under which the Company agreed to settle the lawsuit with a payment of approximately $4.5 million or about $1 per Vornado Operating share or partnership unit before litigation expenses. The proposed settlement payment would be in addition to the liquidation distribution of $2 per Vornado Operating share or unit that Vornado Operating made to its equity-holders when it dissolved on December 29, 2004. On January 20, 2005, the Delaware Court of Chancery postponed deciding upon the proposed settlement and requested further but limited information before holding an additional hearing regarding the settlement, which has been scheduled for March 2005. The Company has accrued the proposed settlement payment and related legal costs as part of general and administrative expense in the fourth quarter of 2004. The Company believes that the ultimate outcome of this matter will not have a material effect on the Company s consolidated financial statements.

**ITEM 4.** SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2004.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

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

| Name | Age | PRINCIPAL OCCUPATION, POSITION AND OFFICE (current and during past five years with Vornado unless otherwise stated) |
|---|---|---|
| Steven Roth | 63 | Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee of the Board; the Managing General Partner of Interstate Properties, an owner of shopping centers and an investor in securities and partnerships; Chief Executive Officer of Alexander s, Inc. since March 1995, a Director since 1989, and Chairman since May 2004. |
| Michael D. Fascitelli | 48 | President and a Trustee since December 1996; President of Alexander s Inc. since August 2000 and Director since December 1996; Partner at Goldman, Sachs & Co. in charge of its real estate practice from December 1992 to December 1996; and Vice President at Goldman, Sachs & Co., prior to December 1992. |
| Melvyn H. Blum | 58 | Executive Vice President-Development since January 2000; Senior Managing Director at Tishman Speyer Properties in charge of its development activities in the United States from July 1998 to January 2000; and Managing Director of Development and Acquisitions at Tishman Speyer Properties prior to July 1998. |
| Michelle Felman | 42 | Executive Vice President-Acquisitions since September 2000; Independent Consultant to Vornado from October 1997 to September 2000; Managing Director-Global Acquisitions and Business Development of GE Capital from 1991 to July 1997. |
| David R. Greenbaum | 53 | President of the New York City Office Division since April 1997 (date of the Company s acquisition); President of Mendik Realty (the predecessor to the New York City Office Properties Division) from 1990 until April 1997. |
| Christopher Kennedy | 41 | President of the Merchandise Mart Division since September 2000; Executive Vice President of the Merchandise Mart Division from April 1998 to September 2000; Executive Vice President of Merchandise Mart Properties, Inc. from 1994 to April 1998. |
| Joseph Macnow | 59 | Executive Vice President-Finance and Administration since January 1998 and Chief Financial Officer since March 2001; Vice President-Chief Financial Officer of the Company from 1985 to January 1998; Executive Vice President and Chief Financial Officer of Alexander s, Inc. since August 1995. |
| Sandeep Mathrani | 42 | |

| | | | | |
|---|---|---|---|---|
| | | | | Executive Vice President-Retail Real Estate since March 2002; Executive Vice President, Forest City Ratner from 1994 to February 2002. |
| | | | | |
| Mitchell N. Schear | | 46 | | President of Charles E. Smith Commercial Realty since April 2003; President of Kaempfer Company from 1998 to April 2003 (date acquired by the Company). |
| | | | | |
| Wendy Silverstein | | 44 | | Executive Vice President-Capital Markets since April 1998; Senior Credit Officer of Citicorp Real Estate and Citibank, N.A. from 1986 to 1998. |
| | | | | |
| Robert H. Smith | | 76 | | Chairman of Charles E. Smith Commercial Realty since January 2002 (date acquired by the Company); Co-Chief Executive Officer and Co-Chairman of the Board of Charles E. Smith Commercial Realty L.P. (the predecessor to Charles E. Smith Commercial Realty) prior to January 2002. |

**PART II**

**ITEM 5**. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Quarterly closing price ranges of the common shares and dividends paid per share for the years ended December 31, 2004 and 2003 were as follows:

| | Year Ended December 31, 2004 | | | Year Ended December 31, 2003 | | |
|---|---|---|---|---|---|---|
| **Quarter** | **High** | **Low** | **Dividends** | **High** | **Low** | **Dividends** |
| 1st | $ 60.48 | $ 53.16 | $ .87 (1) | $ 38.35 | $ 33.30 | $ .68 |
| 2nd | 60.87 | 48.09 | .71 | 45.15 | 36.17 | .68 |
| 3rd | 65.30 | 57.06 | .71 | 48.25 | 43.37 | .68 |
| 4th | 76.40 | 64.05 | .76 | 55.84 | 48.05 | .87 (1) |

(1) Comprised of a regular quarterly dividend of $.71 per share and a special capital gain cash dividend of $.16 per share.

On February 1, 2005, there were 1,626 holders of record of the Company s common shares.

*Recent Sales of Unregistered Securities*

During 2003 and 2002 the Company issued 737,212 and 176,848 common shares, respectively, upon the redemption of Class A units of the Operating Partnership held by persons who received units in private placements in earlier periods in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4(2) of that Act.

Information relating to compensation plans under which equity securities of the Company are authorized for issuance is set forth under Part III, Item 12 of this annual report on Form 10-K/A and such information is incorporated herein by reference.

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**ITEM 6.** SELECTED FINANCIAL DATA:

| (in thousands, except share and per share amounts) | Year Ended December 31, 2004(2) | 2003 | 2002(3) | 2001 | 2000 |
|---|---|---|---|---|---|
| **Operating Data:** | | | | | |
| Revenues: | | | | | |
| Property rentals | $ 1,344,812 | $ 1,256,073 | $ 1,204,349 | $ 813,089 | $ 666,248 |
| Tenant expense reimbursements | 191,059 | 179,115 | 154,727 | 129,013 | 116,422 |
| Temperature Controlled Logistics | 87,428 | | | | |
| Fee and other income | 83,963 | 62,795 | 27,718 | 10,059 | 9,753 |
| Total Revenues | 1,707,262 | 1,497,983 | 1,386,794 | 952,161 | 792,423 |
| Expenses: | | | | | |
| Operating | 679,790 | 581,550 | 517,958 | 385,449 | 305,141 |
| Depreciation and amortization | 242,914 | 213,679 | 197,704 | 120,614 | 96,116 |
| General and administrative | 145,218 | 121,857 | 100,035 | 71,716 | 47,093 |
| Amortization of officer s deferred compensation expense | | | 27,500 | | |
| Costs of acquisitions and development not consummated | 1,475 | | 6,874 | 5,223 | |
| Total Expenses | 1,069,397 | 917,086 | 850,071 | 583,002 | 448,350 |
| Operating Income | 637,865 | 580,897 | 536,723 | 369,159 | 344,073 |
| Income applicable to Alexander s | 8,580 | 15,574 | 29,653 | 25,718 | 17,363 |
| Income from partially-owned entities | 43,381 | 67,901 | 44,458 | 80,612 | 86,654 |
| Interest and other investment income | 203,995 | 25,397 | 31,678 | 54,385 | 32,809 |
| Interest and debt expense | (241,968) | (228,860) | (232,891) | (167,430) | (164,325) |
| Net gain (loss) on disposition of wholly-owned and partially-owned assets other than depreciable real estate | 19,775 | 2,343 | (17,471) | (8,070) | |
| Minority interest: | | | | | |
| Perpetual preferred unit distributions | (69,108) | (72,716) | (72,500) | (70,705) | (62,089) |
| Minority limited partnership earnings | (88,091) | (105,132) | (64,899) | (39,138) | (38,230) |
| Partially-owned entities | (109) | (1,089) | (3,534) | (2,520) | (1,965) |
| Income from continuing operations | 514,320 | 284,315 | 251,217 | 242,011 | 214,290 |
| Income from discontinued operations | 78,597 | 176,388 | 11,815 | 25,837 | 19,791 |
| Cumulative effect of change in accounting principle | | | (30,129) | (4,110) | |
| Net income | 592,917 | 460,703 | 232,903 | 263,738 | 233,991 |
| Preferred share dividends | (21,920) | (20,815) | (23,167) | (36,505) | (38,690) |
| Net income applicable to common shares | $ 570,997 | $ 439,888 | $ 209,736 | $ 227,233 | $ 195,301 |
| Income from continuing operations - basic | $ 3.93 | $ 2.35 | $ 2.15 | $ 2.31 | $ 2.03 |
| Income from continuing operations - diluted | $ 3.75 | $ 2.29 | $ 2.07 | $ 2.23 | $ 1.98 |
| Income per share-basic | $ 4.56 | $ 3.92 | $ 1.98 | $ 2.55 | $ 2.26 |

| | | | | | |
|---|---|---|---|---|---|
| Income per share-diluted | $ 4.35 | $ 3.80 | $ 1.91 | $ 2.47 | $ 2.20 |
| Cash dividends declared for common shares | $ 3.05 | $ 2.91 | $ 2.66 | $ 2.63 | $ 1.97 |
| | | | | | |
| **Balance Sheet Data:** | | | | | |
| Total assets | $ 11,580,517 | $ 9,518,928 | $ 9,018,179 | $ 6,777,343 | $ 6,403,210 |
| Real estate, at cost | 9,718,845 | 7,629,736 | 7,217,515 | 4,426,560 | 4,220,307 |
| Accumulated depreciation | 1,404,441 | 867,177 | 701,327 | 485,447 | 375,730 |
| Debt | 4,936,633 | 4,039,542 | 4,073,253 | 2,477,173 | 2,688,308 |
| Shareholders equity | 4,012,741 | 3,077,573 | 2,627,356 | 2,570,372 | 2,078,720 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **(Amounts in thousands)** | **2004(2)** | **2003** | **2002(3)** | **2001** | **2000** |
| **Other Data:** | | | | | |
| Funds From Operations ( FFO )(1): | | | | | |
| Net income | $ 592,917 | $ 460,703 | $ 232,903 | $ 263,738 | $ 233,991 |
| Cumulative effect of change in accounting principle | | | 30,129 | 4,110 | |
| Depreciation and amortization of real property | 228,298 | 208,624 | 195,808 | 119,568 | 97,744 |
| Net gain on sale of real estate | (75,755) | (161,789) | | (12,445) | (10,965) |
| Net gain from insurance settlement and condemnation proceedings | | | | (3,050) | |
| Proportionate share of adjustments to equity in net income of partially-owned entities to arrive FFO: | | | | | |
| Depreciation and amortization of real property | 49,440 | 54,762 | 51,881 | 65,588 | 68,743 |
| Net gains on sale of real estate | (3,048) | (6,733) | (3,431) | (6,298) | |
| Minority interest s share of above adjustments | (27,991) | (20,080) | (50,498) | (19,679) | (19,159) |
| FFO | 763,861 | 535,487 | 456,792 | 411,532 | 370,354 |
| Preferred dividends | (21,920) | (20,815) | (23,167) | (36,505) | (38,690) |
| FFO applicable to common shares | 741,941 | 514,672 | 433,625 | 375,027 | 331,664 |
| Series B-1 and B-2 convertible preferred unit distributions | 4,710 | | | | |
| Series A convertible preferred dividends | 1,068 | 3,570 | 6,150 | 19,505 | 21,689 |
| Series E-1 convertible preferred unit distributions | 1,581 | | | | |
| Series F-1 convertible preferred unit distributions | 743 | | | | |
| FFO applicable to common shares plus assumed conversions(1) | $ 750,043 | $ 518,242 | $ 439,775 | $ 394,532 | $ 353,353 |

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(1) FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ( NAREIT ). NAREIT defines FFO as net income or loss determined in accordance with Generally Accepted Accounting Principles ( GAAP ), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus specified non-cash items, such as real estate asset depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO and FFO per diluted share are used by management, investors and industry analysts as supplemental measures of operating performance of equity REITs. FFO and FFO per diluted share should be evaluated along with GAAP net income and income per diluted share (the most directly comparable GAAP measures), as well as cash flow from operating activities, investing activities and financing activities, in evaluating the operating performance of equity REITs. Management believes that FFO and FFO per diluted share are helpful to investors as supplemental performance measures because these measures exclude the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs which implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, these non-GAAP measures can facilitate comparisons of operating performance between periods and among other equity REITs. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs as disclosed in the Company s Statements of Cash Flows. FFO 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.

(2) Operating results for the year ended December 31, 2004, reflect the consolidation of the Company s investment in Americold Realty Trust beginning on November 18, 2004. Previously, this investment was accounted for on the equity method.

(3) Operating results for the year ended December 31, 2002, reflect the Company s January 1, 2002 acquisition of the remaining 66% of Charles E. Smith Commercial Realty L.P. ( CESCR ) and the resulting consolidation of CESCR s operations.

**ITEM 7.** MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



The discussion of cash flows in the Liquidity and Capital Resources section of Management s Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2004, 2003 and 2002 reflects a restatement of $16,740,000, $6,666,000 and $65,197,000 in the Company s consolidated statements of cash flows, respectively, to reclassify these amounts from net cash used in investing activities to net cash provided by operating activities as they relate to distributions of income received from investments in partially-owned entities accounted for on the equity method. The restatement does not affect the total net change in cash and cash equivalents for each of the three years in the period ended December 31, 2004 and has no impact on the Company s consolidated balance sheets, consolidated statements of income or the related income per share amounts. It also has no impact on the non-GAAP measure of funds from operations which is described on page 103.

**Overview**

The Company owns and operates office, retail and showroom properties with large concentrations of office and retail properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. In addition, the Company has a 47.6% interest in an entity that owns and operates 88 cold storage warehouses nationwide.

The Company s business objective is to maximize shareholder value. The Company s measures its success in meeting this objective by the total return to its shareholders. Below is a table comparing the Company s performance to the Morgan Stanley REIT Index ( RMS ) for the following periods ending December 31, 2004:

| | Total Return(1) | |
|---|---|---|
| | Vornado | RMS |
| One-year | 46.5% | 31.5% |
| Three-years | 114.8% | 86.4% |
| Five-years | 207.3% | 166.6% |
| Ten-years | 612.5% | 284.8%(2) |

(1) Past performance is not necessarily indicative of how the Company will perform in the future.

(2) From inception on July 25, 1995

The Company intends to continue to achieve its business objective by pursuing its investment philosophy and executing its operating strategies through:

Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit.

Investing in properties in select markets, such as New York City and Washington, D.C., where we believe there is high likelihood of capital appreciation.

Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents.

Investing in retail properties in select under-stored locations such as the New York City metropolitan area.

Developing/redeveloping the Company s existing properties to increase returns and maximize value.

The Company competes with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location and quality and breadth of services provided. The Company s success depends upon, among other factors, trends of the national and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends. Economic growth has been fostered, in part, by low interest rates, Federal tax cuts, and increases in government spending. To the extent economic growth stalls, the Company may experience lower occupancy rates which may lead to lower initial rental rates, higher leasing costs and a corresponding decrease in net income, funds from operations and cash flow. Alternatively, if economic growth is sustained, the Company may experience higher occupancy rates leading to higher initial rents and higher interest rates causing an increase in the Company s weighted average cost of capital and a corresponding effect on net income, funds from operations and cash flow.

**2004 Acquisitions**

During the year ended December 31, 2004, the Company completed $328,600,000 of acquisitions and investments in real estate, of which $246,600,000 related to the retail segment. In addition, the Company made $183,400,000 of mezzanine loans during 2004 which increased the outstanding balance of Notes and Mortgage Loans Receivable to $440,186,000 at December 31, 2004. Following are the details of these transactions.

On February 3, 2004, the Company acquired the Forest Plaza Shopping Center for approximately $32,500,000, of which $14,000,000 was paid in cash and $18,500,000 was debt assumed. Forest Plaza is a 165,000 square foot shopping center located in Staten Island, New York.

**Overview - continued**

On March 19, 2004, the Company acquired a 62,000 square foot free-standing retail building located at 25 W. 14th Street in Manhattan for $40,000,000 in cash.

On July 1, 2004, the Company acquired the Marriott hotel located in its Crystal City office complex from a limited partnership in which Robert H. Smith and Robert P. Kogod, trustees of the Company, together with family members own approximately 67 percent. The purchase price of $21,500,000 was paid in cash. The hotel contains 343 rooms and is leased to an affiliate of Marriott International, Inc. until July 31, 2015, with one 10-year extension option. The land under the hotel was acquired in 1999.

On July 29, 2004, the Company acquired a real estate portfolio containing 25 supermarkets for $65,000,000 in cash. These properties, all of which are all located in Southern California and contain an aggregate of approximately 766,000 square feet, were purchased from the Newkirk MLP, in which the Company currently owns a 22.4% interest. The supermarkets are net leased to Stater Brothers for an initial term expiring in 2008, with six 5-year extension options. Stater Brothers is a Southern California regional grocery chain that operates 158 supermarkets and has been in business since 1936.

On August 30, 2004, the Company acquired a 68,000 square foot free-standing building in Forest Hills, New York for $26,500,000 in cash. The property is located at 99-01 Queens Boulevard and its principal tenants are Rite Aid and Fleet Bank.

On November 2, 2004, the Company acquired a 50% joint venture interest in a 92,500 square foot property located at Broome Street and Broadway in New York City. The Company contributed $4,462,000 of equity and provided a $24,000,000 bridge loan with interest at 10% per annum. Upon the refinancing of the bridge loan, which is expected to close in the second quarter of 2005, the Company will be repaid $15,106,000 and the balance of $8,894,000 will remain in the venture as additional equity.

On November 12, 2004 and December 1, 2004, the Company acquired two shopping centers aggregating 185,000 square feet, in Lodi, New Jersey and Long Island (Inwood), New York, for a total purchase price of $36,600,000 in cash plus $10,900,000 of assumed debt.

In December 2004, the Company acquired two retail condominiums aggregating 12,000 square feet, located at 386 and 387 West Broadway in New York City for $16,900,000 in cash plus $4,700,000 of assumed debt.

*Investment in GMH Communities L.P.*

On July 20, 2004, the Company committed to make up to a $159,000,000 convertible preferred investment in GMH Communities L.P. ( GMH ), a partnership focused on the student and military housing sectors. Distributions accrued on the full committed balance of the investment, whether or not drawn, from July 20, 2004, at a rate of 16.27%. In connection with this commitment, the Company received a placement fee of $3,200,000. The Company also purchased for $1,000,000, warrants to acquire GMH common equity. These warrants entitle the Company to acquire (i) 6,666,667 limited partnership units in GMH at an exercise price of $7.50 per unit and (ii) 5,496,724 limited partnership units, through May 6, 2006, at an exercise price of $9.10 per unit. As of November 3, 2004, the Company had funded a total of $113,777,000 of the commitment.

On November 3, 2004, GCT closed its initial public offering ( IPO ) at a price of $12.00 per share. GCT is a real estate investment trust that conducts its business through GMH, of which it is the sole general partner. In connection with the IPO, the $113,777,000 previously funded by the Company under the $159,000,000 commitment was repaid, together with accrued distributions of $13,381,000. The Company also exercised warrants to purchase 6,666,667 limited partnership units at a price of $7.50 per unit, or $50,000,000 in total, which resulted in a net gain of $29,500,000. The Company accounts for its interest in the partnership units on the equity-method based on its 12.25% ownership interest and right to appoint one of its executive officers to GCT s Board of Trustees. The Company records its pro-rata share of GMH s net income or loss on a one-quarter lag basis as the Company files its financial statements on Form 10-K or 10-Q prior to the time GMH files its financial statements.

**Overview - continued**

Under the warrant agreement, the number of GMH partnership units or GCT common shares underlying the warrants is adjusted for dividends declared by GCT. On December 16, 2004, GCT declared a dividend of $.16 per common share, which increased the number of shares underlying the warrants from 5,496,724 to 5,563,417 and the exercise price was decreased from $9.10 to $8.99 per share. Because these warrants are derivatives and do not qualify for hedge accounting treatment, the gains and losses resulting from the mark-to-market of the warrants at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. In the quarter ended December 31, 2004, the Company recognized income of $24,190,000 from the mark-to-market of these warrants, which were valued using a trinomial option pricing model based on GCT s closing stock price on the NYSE of $14.10 per share on December 31, 2004.

Further, in connection with the IPO, the Company contributed its 90% interest in Campus Club Gainesville, which it acquired in 2000, in exchange for an additional 671,190 GMH limited partnership units.

Of the Company s GMH units, 6,666,667 may be converted into an equivalent number of common shares of GCT commencing on May 2, 2005 and 671,190 units may be converted commencing on November 2, 2005. The Company has agreed not to sell any common shares or units it owns or may acquire until May 2, 2005.

*Investment in Sears, Roebuck and Co.*

In July and August 2004, the Company acquired an aggregate of 1,176,600 common shares of Sears, Roebuck and Co. ( Sears ) for $41,945,000, an average price of $35.65 per share. Included in the cost is $1,361,000 for a performance-based participation. These shares are recorded as marketable securities on the Company s consolidated balance sheet and are classified as available for sale. Appreciation or depreciation in the fair market value of these shares is recorded as an increase or decrease in accumulated other comprehensive income in the shareholders equity section of the Company s consolidated balance sheet and not recognized in income. At December 31, 2004, based on Sears closing stock price of $51.03 per share, $18,105,000 of appreciation in the value of these shares was included in accumulated other comprehensive income.

In August and September 2004, the Company acquired an economic interest in an additional 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which the Company purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options have an initial weighted-average strike price of $39.82 per share, or an aggregate of $315,250,000, expire in April 2006 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points and is credited for the dividends received on the shares. The options provide the Company with the same economic gain or loss as if it had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. During the year ended December 31, 2004, the Company recorded net income of $81,730,000, comprised of (i) $88,782,000 from the mark-to-market of the options on December 31, 2004, based on Sears closing stock price of $51.03 per share and (ii) $2,295,000 for accrued dividends, partially offset by (i) $5,972,000 for a performance-based participation, (ii) $2,371,000 for the increase in strike price resulting from the LIBOR charge and (iii) $1,004,000 of professional fees.

On November 16, 2004, Kmart Holding Corporation ( Kmart ) and Sears entered into an Agreement and Plan of Merger. Upon the effective date of the merger, each share of Sears common stock will be converted into the right to receive, at the election of the holder, (i) $50.00 in cash or (ii) 0.50 shares of common stock of the merged company, subject to proration so that 55% of the Sears shares are exchanged for shares of the merged company.

Based on Sears most recent filing with the Securities and Exchange Commission, the Company s aggregate investment in Sears represents 4.2% of Sears outstanding common shares.

**Overview - continued**

**2004 Dispositions**

In anticipation of selling the Palisades Residential Complex, on February 27, 2004, the Company acquired the remaining 25% interest in the Palisades venture it did not previously own for approximately $17,000,000 in cash. On June 29, 2004, the Company sold the Palisades for $222,500,000, which resulted in a gain on sale after closing costs of $65,905,000.

On August 12, 2004, the Company sold its Dundalk, Maryland shopping center for $12,900,000, which resulted in a net gain on sale after closing costs of $9,850,000.

2004 Financings

On January 6, 2004, the Company redeemed all of its 8.375% Series D-2 Cumulative Redeemable Preferred Units at a redemption price equal to $50.00 per unit for an aggregate of $27,500,000 plus accrued distributions.

On March 17, 2004, the Company redeemed all of its Series B Preferred Shares at a redemption price equal to $25.00 per share for an aggregate of $85,000,000 plus accrued dividends. The redemption amount exceeded the carrying amount by $3,195,000, representing the original issuance costs. Upon redemption, these issuance costs were recorded as a reduction to earnings in arriving at net income applicable to common shares, in accordance with the July 2003 EITF clarification of Topic D-42.

On May 27, 2004, the Company sold $35,000,000 of 7.2% Series D-11 Cumulative Redeemable Preferred Units to an institutional investor in a private placement. These perpetual preferred units may be called without penalty at the Company s option commencing in May 2009.

On August 16, 2004, the Company completed a public offering of $250,000,000 aggregate principal amount of 4.50% senior unsecured notes due August 15, 2009. Interest on the notes is payable semi-annually on February 15, and August 15, commencing February 15, 2005. The notes were priced at 99.797% of their face amount to yield 4.546%. The notes are subject to the same financial covenants as the Company s previously issued senior unsecured debt.

On August 17, 2004, the Company sold $75,000,000 of 7.0% Series E Cumulative Redeemable Preferred Shares at a price of $25.00 per share, in a public offering pursuant to an effective registration statement. The Company may redeem the Series E Preferred Shares at a redemption price of $25.00 per share after August 20, 2009.

On November 10, 2004, the Company sold $150,000,000 of 6.75% Series F Cumulative Redeemable Preferred Shares at a price of $25.00 per share, in a public offering pursuant to an effective registration statement. The Company may redeem the Series F Preferred Shares at a redemption price of $25.00 per share after November 17, 2009.

On December 16, 2004, the Company sold $200,000,000 of 6.625% Series G Cumulative Redeemable Preferred Shares at a price of $25.00 per share, in a public offering pursuant to an effective registration statement. The Company may redeem the Series G Preferred Shares at a redemption price of $25.00 per share after January 19, 2005.

On December 17, 2004, the Company sold $20,000,000 of 6.55% Series D-12 Cumulative Redeemable Preferred Units to an institutional investor in a private offering. The Series D-12 units may be called without penalty at the option of the Company commencing in December 2009.

On December 30, 2004, the Company sold $46,700,000 of 3.0% Series D-13 Cumulative Redeemable Preferred Units to an institutional investor in a private offering. The Series D-13 units may be called without penalty at the option of the Company commencing in December 2011. The Series D-13 units may also be redeemed at the option of the holder commencing on December 2006.

On January 19, 2005, the Company redeemed all of its 8.5% Series C Cumulative Redeemable Preferred Shares and $80,000,000 of its Series D-3 Perpetual Preferred Units at the stated redemption price of $25.00 per share or $115,000,000, plus accrued distributions. The redemption amount exceeded the carrying amount by $6,052,000, representing the original issuance costs. Upon redemption in the first quarter of 2005, these issuance costs were recorded as a reduction to earnings in arriving at net income applicable to common shares, in accordance with the July 2003 EITF clarification of Topic D-42.

***Overview Leasing Activity***

The following table summarizes, by business segment, the leasing statistics which the Company views as key performance indicators.

| | Office | | | Merchandise Mart | | |
|---|---|---|---|---|---|---|
| **(Square feet and cubic feet in thousands)** | **New York City** | **CESCR** | **Retail** | **Office** | **Showroom** | **Temperature Controlled Logistics** |
| **As of December 31, 2004:** | | | | | | |
| Square feet/cubic feet | 13,412 | 14,216 | 14,210 | 2,837 | 5,589 | 17,563/443,700 |
| Number of properties | 20 | 66 | 94 | 8 | 8 | 88 |
| Occupancy rate | 95.6% | 91.5%(2) | 93.9% | 96.0% | 97.6% | 76.9% |
| | | | | | | |
| **Leasing Activity:** | | | | | | |
| **Year Ended December 31, 2004:** | | | | | | |
| Square feet | 1,502 | 2,824 | 1,021 | 569 | 1,038 | |
| Initial rent(1) | $ 43.34 | $ 28.93 | $ 16.33 | $ 22.85 | $ 22.65 | |
| Weighted average lease terms (years) | 9.4 | 6.1 | 8.0 | 12.1 | 5.2 | |
| Rent per square foot on relet space: | | | | | | |
| Square feet | 1,074 | 2,030 | 682 | 323 | 1,038 | |
| Initial Rent(1) | $ 42.54 | $ 29.38 | $ 16.64 | $ 22.92 | $ 22.65 | |
| Prior escalated rent | $ 40.02 | $ 29.98 | $ 13.99 | $ 24.80 | $ 22.92 | |
| Percentage increase | 6.3% | (2.0)% | 18.9% | (7.6)% | (1.2)% | |
| Rent per square foot on space previously vacant: | | | | | | |
| Square feet | 428 | 793 | 339 | 246 | | |
| Initial rent(1) | $ 45.35 | $ 27.77 | $ 15.71 | $ 22.76 | | |
| | | | | | | |
| Tenant improvements and leasing commissions per square foot | $ 38.63 | $ 20.03 | $ 4.89 | $ 65.50 | $ 5.38 | |
| Tenant improvements and leasing commissions per square foot per annum | $ 4.10 | $ 3.28 | $ 0.61 | $ 5.42 | $ 1.04 | |
| | | | | | | |
| **Quarter ended December 31, 2004:** | | | | | | |
| Square feet | 263 | 568 | 184 | 81 | 305 | |
| Initial rent(1) | $ 49.96 | $ 29.05 | $ 17.48 | $ 25.60 | $ 21.69 | |
| Weighted average lease terms (years) | 8.2 | 7.8 | 7.4 | 6.9 | 4.8 | |
| Rent per square foot on relet space: | | | | | | |
| Square feet | 153 | 322 | 103 | 36 | 305 | |
| Initial rent(1) | $ 46.70 | $ 29.30 | $ 21.39 | $ 30.87 | $ 21.69 | |
| Prior escalated rent | $ 40.74 | $ 30.64 | $ 17.87 | $ 32.52 | $ 22.31 | |

| | | | | | |
|---|---|---|---|---|---|
| Percentage increase (decrease) | 14.6% | (4.4)% | 19.7% | (5.1)% | (2.8)% |
| Rent per square foot on space previously vacant: | | | | | |
| Square feet | 110 | 246 | 81 | 45 | |
| Initial rent(1) | $ 54.48 | $ 28.73 | $ 12.55 | $ 21.32 | |
| | | | | | |
| Tenant improvements and leasing commissions per square foot | $ 36.67 | $ 25.82 | $ 6.54 | $ 45.57 | $ 4.15 |
| Tenant improvements and leasing commissions per square foot per annum | $ 4.47 | $ 3.31 | $ 0.89 | $ 6.64 | $ 0.87 |

In addition to the leasing activity in the table above, in the year ended December 31, 2004, 51,000 square feet of retail space included in the New York City Office segment was leased at an initial rent of $118.39 per square foot and in the three months ended December 31, 2004, 9,000 square feet of retail space was leased at an initial rent of $73.86.

**Overview - Leasing Activity - continued**

| (Square feet and cubic feet in thousands) | Office | | | Merchandise Mart | | Temperature Controlled Logistics |
|---|---|---|---|---|---|---|
| | New York City | CESCR | Retail | Office | Showroom | |
| **As of December 31, 2003:** | | | | | | |
| Square feet/cubic feet | 13,253 | 13,963 | 12,888 | 2,808 | 5,624 | 17,476/440,700 |
| Number of properties | 20 | 63 | 60 | 9 | 9 | 88 |
| Occupancy rate | 95.2% | 93.9% | 93.0% | 92.6% | 95.1% | 76.2% |
| | | | | | | |
| **Leasing Activity:** | | | | | | |
| **Year Ended December 31, 2003:** | | | | | | |
| Square feet | 925 | 2,848 | 1,046 | 270 | 1,157 | |
| Initial rent(1) | $ 44.60 | $ 30.26 | $ 15.56 | $ 21.24 | $ 23.43 | |
| Weighted average lease terms (years) | 9.1 | 4.8 | 12.8 | 9.8 | 5.2 | |
| Rent per square foot on relet space: | | | | | | |
| Square feet | 677 | 2,510 | 1,046 | 270 | 1,157 | |
| Initial Rent(1) | $ 44.41 | $ 30.62 | $ 15.56 | $ 21.24 | $ 23.43 | |
| Prior escalated rent | $ 38.51 | $ 29.86 | $ 13.75 | $ 22.44 | $ 23.28 | |
| Percentage increase | 15.3% | 2.5% | 13.2% | (5.3)% | 0.6% | |
| Rent per square foot on space previously vacant: | | | | | | |
| Square feet | 248 | 338 | | | | |
| Initial rent(1) | $ 45.09 | $ 27.58 | | | | |
| | | | | | | |
| Tenant improvements and leasing commissions per square foot | $ 38.00 | $ 13.54 | $ 4.46 | $ 40.35 | $ 7.82 | |
| Tenant improvements and leasingcommissions per square foot per annum | $ 4.17 | $ 2.85 | $ 0.35 | $ 4.11 | $ 1.51 | |

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

(2) Excludes Crystal Plazas 3 and 4 containing an aggregate of 497 square feet which were taken out of service for redevelopment. See discussion of Crystal City PTO space below.

**Overview - Leasing Activity - continued**

***Crystal City PTO Space***

The PTO vacated 937,000 square feet in Crystal City in the fourth quarter of 2004, of which 497,000 has been taken out of service, and will vacate another 1,002,000 square feet during 2005 and the first quarter of 2006. As of February 1, 2005, the Company has leased 416,000 square feet of the PTO space vacated. Of this space, 262,000 square feet was leased to the Federal Supply Service which will be relocated from 240,000 square feet in other Crystal City buildings, 122,000 square feet was leased to the Public Broadcasting Service and 32,000 square feet was leased to Lockheed Martin.

Below is a comparison of the Company s actual leasing activity to the Company s projection for the lease-up of this space:

| | Square Feet Leased (in thousands) | |
|---|---|---|
| **Period in which rent commences:** | **Projection** | **Actual Through February 1, 2005** |
| Q4 2004 | | 32 |
| Q3 2005 | | 122 |
| Q4 2005 | 247 | |
| Q1 2006 | 793 | 262 |
| Q2 2006 | 404 | |
| Q3 2006 | 252 | |
| Q4 2006 | 98 | |
| Q1 2007 | 145 | |
| | 1,939 | 416 |

Straight-line rent per square foot for the actual square feet leased is $32.34 as compared to $31.94 projected. Actual tenant improvements and leasing commissions per square foot is $45.25 as compared to $45.28 projected.

The Company s original redevelopment plans for the PTO space included taking Crystal Park One and Crystal Plaza Three and Four out of service. Plans for Crystal Plaza Three and Four have not changed. Current plans for Crystal Park One are to lease its 224,000 square feet to private sector tenants which will not require taking the building out of service, as opposed to leasing it to another government agency which would have required taking it out of service. As a result, the Company will recognize approximately $4,000,000 of expense in 2005, which under the original plan would have been capitalized as part of development costs.

**Critical Accounting Policies**

In preparing the consolidated financial statements 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. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Company s accounting policies included in Note 2 to the consolidated financial statements in this annual report on Form 10-K/A.

*Real Estate*

Real estate is carried at cost, net of accumulated depreciation and amortization. As of December 31, 2004, the Company s carrying amount of its real estate, net of accumulated depreciation is $8.3 billion. Maintenance and repairs are charged to operations as incurred. Depreciation requires an estimate by management of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. If the Company does not allocate these costs appropriately or incorrectly estimates the useful lives of its real estate, depreciation expense may be misstated.

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, identified intangibles such as acquired above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141: Business Combinations and SFAS No. 142: Goodwill and Other Intangible Assets, and allocates purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. The Company s properties, including any related intangible assets, are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If the Company incorrectly estimates the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different. The impact of the Company s estimates in connection with acquisitions and future impairment analysis could be material to the Company s consolidated financial statements.

*Identified Intangible Assets*

*Upon an acquisition of a business the Company records intangible assets acquired at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible assets that are determined to have finite lives which are based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset, including the related real estate when appropriate, is not recoverable and its carrying amount exceeds its estimated fair value.*

*As of December 31, 2004 and 2003, the carrying amounts of the Company s identified intangible assets are $176,314,000 and $130,875,000, respectively. Such amounts are included in other assets on the Company s consolidated balance sheet. In addition, the Company has $71,272,000 and $47,359,000, of identified intangible liabilities as of December 31, 2004 and 2003, which are included in deferred credit on the Company s consolidated balance sheets. If these assets are deemed to be impaired, or the estimated useful lives of finite-life intangibles change, the impact to the Company s consolidated financial statements could be material.*

*Notes and Mortgage Loans Receivable*

The Company s policy is to record mortgages and notes receivable at the stated principal amount net of any discount or premium. As of December 31, 2004, the carrying amount of Notes and Mortgage Loans Receivable was $440,186,000. The Company accretes or amortizes any discounts or premiums over the life of the related loan receivable utilizing the effective interest method. 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. The impact of the Company s estimates in connection with the collectibility of both interest and principal of its loans could be material to the Company s consolidated financial statements.

*Partially-Owned Entities*

As of December 31, 2004, the carrying amount of investments and advances to partially-owned entities, including Alexander s, was $605,300,000. In determining whether the Company has a controlling interest in a partially-owned entity and the requirement to consolidate the accounts of that entity, it considers factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity in which it will absorb the majority of the entity s expected losses, if they occur, or receive the majority of the expected residual returns, if they occur, or both. The Company has concluded that it does not have a controlling ownership interest with respect to the Company s 80% interest in Starwood Ceruzzi Venture, and 50% interests in Monmouth Mall, Wells Kinzie, Orleans Hubbard and 825 Seventh Avenue.

The Company consolidates entities that it is able to control. The Company accounts for investments on the equity method when its ownership interest is greater than 20% and less than 50%, and the Company does not have direct or indirect control. When partially-owned entities are in partnership form, the 20% threshold may be reduced. Equity method investments are initially recorded at cost and subsequently adjusted for the Company s share of net income or loss and cash contributions and distributions to and from these entities. All other investments are accounted for on the cost method.

On a periodic basis the Company evaluates whether there are any indicators that the value of the Company s investments in partially-owned entities are impaired. The ultimate realization of the Company s investment in partially-owned entities is dependent on a number of factors including the performance of the investee and market conditions. If the Company determines that a decline in the value of the investee is other than temporary, an impairment charge would be recorded.

*Allowance For Doubtful Accounts*

The Company periodically evaluates the collectibility of amounts due from tenants and maintains an allowance for doubtful accounts ($17,339,000 as at December 31, 2004) for estimated losses resulting from the inability of tenants to make required payments under the lease agreement. The Company also maintains an allowance for receivables arising from the straight-lining of rents ($6,787,000 as at December 31, 2004). This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. These estimates may differ from actual results, which could be material to the Company s consolidated financial statements.

*Revenue Recognition*

The Company has the following revenue sources and revenue recognition policies:

Base Rents    income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases.

Percentage Rents    income arising from retail tenant leases which are contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with Staff Accounting Bulletin No. 104: Revenue Recognition, which states that this income is to be recognized only after the contingency has been removed (i.e. sales thresholds have been achieved).

Hotel Revenues    income arising from the operation of the Hotel Pennsylvania which consists of rooms revenue, food and beverage revenue, and banquet revenue. Income is recognized when rooms are occupied. Food and beverage and banquet revenue are recognized when the services have been rendered.

Trade Show Revenues    income arising from the operation of trade shows, including rentals of booths. This revenue is recognized in accordance with the booth rental contracts when the trade shows have occurred.

Expense Reimbursements    revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Temperature Controlled Logistics revenue    income arising from the Company s investment in Americold. Storage and handling revenue is recognized as services are provided. Transportation fees are recognized upon delivery to customers.

Management, Leasing and Other Fees    income arising from contractual agreements with third parties or with partially-owned entities. This revenue is recognized as the related services are performed under the respective agreements.

*Before the Company recognizes revenue, it assesses among other things, its collectibility. If the Company s assessment of the collectibility of its revenue changes, the impact on the Company s consolidated financial statements could be material.*

*Income* Taxes

The Company operates in a manner intended to enable it to continue to qualify as a Real Estate Investment Trust ( 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 intends to distribute to its shareholders 100% of its taxable income. Therefore, no provision for Federal income taxes is required. If the Company fails to distribute the required amount of income to its shareholders, or fails to meet other REIT requirements, it may fail to qualify as a REIT and substantial adverse tax consequences may result.

**Net income and EBITDA(1) for the years ended December 31, 2004, 2003 and 2002.**

Below is a summary of Net income and EBITDA(1) by segment for the years ended December 31, 2004, 2003 and 2002. On January 1, 2003, the Company revised its definition of EBITDA to comply with the Securities and Exchange Commission s Regulation G concerning non-GAAP financial measures. The revised definition of EBITDA includes minority interest, gains (losses) on the sale of depreciable real estate and income arising from the straight-lining of rent and the amortization of acquired in-place leases. Accordingly, EBITDA for all periods disclosed represents Earnings before Interest, Taxes, Depreciation and Amortization. Management considers EBITDA a supplemental measure for making decisions and assessing the unlevered performance of its segments as it is related to the return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, management utilizes this measure to make investment decisions as well as to compare the performance of its assets to that of its peers. EBITDA is not a surrogate for net income because net income is after interest expense and accordingly, is a measure of return on equity as opposed to return on assets.

| | December 31, 2004 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in thousands)** | **Total** | **Office** | **Retail** | **Merchandise Mart** | **Temperature Controlled Logistics(3)** | **Other(4)** |
| Property rentals | $ 1,268,764 | $ 838,665 | $ 160,620 | $ 206,668 | $ | $ 62,811 |
| Straight-line rents: | | | | | | |
| Contractual rent increases | 35,214 | 27,165 | 4,882 | 3,002 | | 165 |
| Amortization of free rent | 26,264 | 10,118 | 10,998 | 5,154 | | (6) |
| Amortization of acquired below market leases, net | 14,570 | 9,697 | 4,873 | | | |
| Total rentals | 1,344,812 | 885,645 | 181,373 | 214,824 | | 62,970 |
| Expense reimbursements | 191,059 | 109,255 | 64,474 | 14,045 | | 3,285 |
| Temperature Controlled Logistics | 87,428 | | | | 87,428 | |
| Fee and other income: | | | | | | |
| Tenant cleaning fees | 31,293 | 31,293 | | | | |
| Management and leasing fees | 16,754 | 15,501 | 1,084 | 155 | | 14 |
| Other | 35,916 | 25,573 | 1,617 | 8,662 | | 64 |
| Total revenues | 1,707,262 | 1,067,267 | 248,548 | 237,686 | 87,428 | 66,333 |
| Operating expenses | 679,790 | 396,698 | 77,277 | 92,636 | 67,989 | 45,190 |
| Depreciation and amortization | 242,914 | 161,381 | 26,327 | 34,025 | 7,968 | 13,213 |
| General and administrative | 145,218 | 38,446 | 13,187 | 22,487 | 4,264 | 66,834 |
| Costs of acquisitions not consummated | 1,475 | | | | | 1,475 |
| Total expenses | 1,069,397 | 596,525 | 116,791 | 149,148 | 80,221 | 126,712 |
| Operating income (loss) | 637,865 | 470,742 | 131,757 | 88,538 | 7,207 | (60,379) |
| Income applicable to Alexander s | 8,580 | 433 | 668 | | | 7,479 |
| Income (loss) from partially-owned entities | 43,381 | 2,728 | (1,678) | 545 | 5,641 | 36,145 |
| Interest and other investment income | 203,995 | 994 | 397 | 105 | 220 | 202,279 |
| Interest and debt expense | (241,968) | (128,729) | (58,625) | (11,255) | (6,379) | (36,980) |
| Net gain on disposition of wholly-owned and partially-owned assets other than real estate | 19,775 | 369 | | | | 19,406 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Minority interest | (157,308) | | | | (158) | (157,150) |
| Income from continuing operations | 514,320 | 346,537 | 72,519 | 77,933 | 6,531 | 10,800 |
| Income from discontinued operations | 78,597 | 1,584 | 10,054 | | | 66,959 |
| Net income | 592,917 | 348,121 | 82,573 | 77,933 | 6,531 | 77,759 |
| Interest and debt expense(2) | 313,289 | 133,602 | 61,820 | 12,166 | 30,337 | 75,364 |
| Depreciation and amortization(2) | 296,980 | 165,492 | 30,121 | 34,559 | 34,567 | 32,241 |
| Income taxes | 1,664 | 406 | | 852 | 79 | 327 |
| EBITDA(1) | $ 1,204,850 | $ 647,621 | $ 174,514 | $ 125,510 | $ 71,514 | $ 185,691 |
| Percentage of EBITDA(1) by segment | 100% | 53.8% | 14.5% | 10.4% | 5.9% | 15.4% |

Included in EBITDA(1) are (i) gains on sale of real estate of $75,755, of which $9,850 and $65,905 are in the Retail and Other segments, respectively, and (ii) net gains from the mark-to-market and conversion of derivative instruments of $135,372 and certain other gains and losses that affect comparability which are in the Other segment. Excluding these items the percentages of EBITDA by segment are 63.6% for Office, 16.6% for Retail, 12.4% for Merchandise Mart, 7.0% for Temperature Controlled Logistics and 0.4% for Other.

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See Notes on page 67.

| | December 31, 2003 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in thousands) | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics(3) | Other(4) |
| Property rentals | $ 1,205,822 | $ 819,277 | $ 136,490 | $ 197,554 | $ | $ 52,501 |
| Straight-line rents: | | | | | | |
| Contractual rent increases | 34,288 | 27,296 | 3,108 | 3,875 | | 9 |
| Amortization of free rent | 7,071 | (561) | 5,390 | 2,251 | | (9) |
| Amortization of acquired below market leases, net | 8,892 | 7,852 | 1,040 | | | |
| Total rentals | 1,256,073 | 853,864 | 146,028 | 203,680 | | 52,501 |
| Expense reimbursements | 179,115 | 102,727 | 56,900 | 16,402 | | 3,086 |
| Fee and other income: | | | | | | |
| Tenant cleaning fees | 29,062 | 29,062 | | | | |
| Management and leasing fees | 12,812 | 11,427 | 1,290 | | | 95 |
| Other | 20,921 | 8,852 | 4,694 | 7,344 | | 31 |
| Total revenues | 1,497,983 | 1,005,932 | 208,912 | 227,426 | | 55,713 |
| Operating expenses | 581,550 | 376,012 | 70,462 | 91,033 | | 44,043 |
| Depreciation and amortization | 213,679 | 151,050 | 18,835 | 30,125 | | 13,669 |
| General and administrative | 121,857 | 37,229 | 9,783 | 20,215 | | 54,630 |
| Total expenses | 917,086 | 564,291 | 99,080 | 141,373 | | 112,342 |
| Operating income (loss) | 580,897 | 441,641 | 109,832 | 86,053 | | (56,629) |
| Income applicable to Alexander s | 15,574 | | 640 | | | 14,934 |
| Income (loss) from partially-owned entities | 67,901 | 2,426 | 3,752 | (108) | 18,416 | 43,415 |
| Interest and other investment income | 25,397 | 2,956 | 359 | 93 | | 21,989 |
| Interest and debt expense | (228,860) | (133,511) | (59,674) | (14,788) | | (20,887) |
| Net gain on disposition of wholly-owned and partially-owned assets other than depreciable real estate | 2,343 | 180 | | 188 | | 1,975 |
| Minority interest | (178,937) | (1,119) | | | | (177,818) |
| Income (loss) from continuing operations | 284,315 | 312,573 | 54,909 | 71,438 | 18,416 | (173,021) |
| Income (loss) from discontinued operations | 176,388 | 173,949 | 4,850 | | | (2,411) |
| Net income (loss) | 460,703 | 486,522 | 59,759 | 71,438 | 18,416 | (175,432) |
| Interest and debt expense(2) | 296,059 | 138,379 | 62,718 | 15,700 | 24,670 | 54,592 |
| Depreciation and amortization(2) | 279,507 | 155,743 | 21,642 | 30,749 | 34,879 | 36,494 |
| Income taxes | 1,627 | 45 | | | | 1,582 |
| EBITDA(1) | $ 1,037,896 | $ 780,689 | $ 144,119 | $ 117,887 | $ 77,965 | $ (82,764) |
| Percentage of EBITDA(1) by segment | 100% | 75.2% | 13.9% | 11.4% | 7.5% | (8.0)% |

Included in EBITDA are gains on sale of real estate of $161,789, of which and $157,200 and $4,589 are in the Office and Retail segments, respectively. Excluding these items, the percentages of EBITDA by segment are 69.3% for Office, 15.9% for Retail, 13.5% for Merchandise Mart, 8.9% for Temperature Controlled Logistics and (7.6)% for Other.

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See Notes on page 67.

| (Amounts in thousands) | December 31, 2002 Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics(3) | Other(4) |
|---|---|---|---|---|---|---|
| Property rentals | $ 1,154,206 | $ 789,194 | $ 120,451 | $ 191,197 | $ | $ 53,364 |
| Straight-line rents: | | | | | | |
| Contractual rent increases | 30,994 | 27,269 | 1,777 | 1,772 | | 176 |
| Amortization of free rent | 6,796 | 2,374 | 3,317 | 1,105 | | |
| Amortization of acquired below market leases, net | 12,353 | 12,188 | 165 | | | |
| Total rentals | 1,204,349 | 831,025 | 125,710 | 194,074 | | 53,540 |
| Expense reimbursements | 154,727 | 85,381 | 51,008 | 14,754 | | 3,584 |
| Fee and other income: | | | | | | |
| Tenant cleaning fees | | | | | | |
| Management and leasing fees | 14,800 | 13,317 | 1,450 | 33 | | |
| Other | 12,918 | 7,783 | 172 | 4,743 | | 220 |
| Total revenues | 1,386,794 | 937,506 | 178,340 | 213,604 | | 57,344 |
| Operating expenses | 517,958 | 329,198 | 61,500 | 86,022 | | 41,238 |
| Depreciation and amortization | 197,704 | 142,124 | 14,957 | 26,716 | | 13,907 |
| General and administrative | 100,035 | 33,319 | 7,640 | 20,382 | | 38,694 |
| Amortization of officer s deferred compensation expense | 27,500 | | | | | 27,500 |
| Costs of acquisitions and development not consummated | 6,874 | | | | | 6,874 |
| Total expenses | 850,071 | 504,641 | 84,097 | 133,120 | | 128,213 |
| Operating income (loss) | 536,723 | 432,865 | 94,243 | 80,484 | | (70,869) |
| Income applicable to Alexander s | 29,653 | | 598 | | | 29,055 |
| Income (loss) from partially-owned entities | 44,458 | 1,966 | (687) | (339) | 9,707 | 33,811 |
| Interest and other investment income | 31,678 | 6,465 | 323 | 507 | | 24,383 |
| Interest and debt expense | (232,891) | (137,509) | (56,643) | (22,948) | | (15,791) |
| Net gain (loss) disposition of wholly-owned and partially-owned assets other than depreciable real estate | (17,471) | | | 2,156 | | (19,627) |
| Minority interest | (140,933) | (3,526) | | (2,249) | | (135,158) |
| Income (loss) from continuing operations before cumulative effect of change in accounting principle | 251,217 | 300,261 | 37,834 | 57,611 | 9,707 | (154,196) |
| Income (loss) from discontinued operations | 11,815 | 17,841 | 723 | | | (6,749) |
| Cumulative effect of change in accounting principle | (30,129) | | | | (15,490) | (14,639) |
| Net income (loss) | 232,903 | 318,102 | 38,557 | 57,611 | (5,783) | (175,584) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cumulative effect of change in accounting principle | | 30,129 | | | | 15,490 | 14,639 |
| Interest and debt expense(2) | | 305,920 | 143,068 | 58,409 | 23,461 | 25,617 | 55,365 |
| Depreciation and amortization(2) | | 257,707 | 149,361 | 17,532 | 27,006 | 34,474 | 29,334 |
| EBITDA(1) | | $ 826,659 | $ 610,531 | $ 114,498 | $ 108,078 | $ 69,798 | $ (76,246) |
| Percentage of EBITDA(1) by segment | | 100% | 73.9% | 13.9% | 13.1% | 8.4% | (9.3)% |

See Notes on the following page.

**Notes to the preceding tabular information:**

(1) EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2) Interest and debt expense and depreciation and amortization included in the reconciliation of net income to EBITDA reflects the Company s share of the interest and debt expense and depreciation and amortization of its partially-owned entities.

(3) Operating results for the year ended December 31, 2004, reflect the consolidation of the Company s investment in Americold Realty Trust beginning on November 18, 2004. Previously, this investment was accounted for on the equity method. See page 92 for condensed pro forma operating results of Americold Realty Trust for the years ended December 31, 2004 and 2003, giving effect to the acquisition of its tenant, Americold Logistics, as if it had occurred on January 1, 2003.

(4) Other EBITDA is comprised of:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** | **2002** |
| Newkirk Master Limited Partnership: | | | |
| Equity in income (A) | $ 52,331 | $ 68,341 | $ 60,756 |
| Interest and other income (B) | 18,186 | 8,532 | 8,795 |
| Alexander s (C) | 25,909 | 22,361 | 38,838 |
| Industrial warehouses | 5,309 | 6,208 | 6,223 |
| Hotel Pennsylvania | 15,643 | 4,573 | 7,636 |
| GMH Communities L.P. (D) | | | |
| Student Housing | 1,440 | 2,000 | 2,340 |
| | 118,818 | 112,015 | 124,588 |
| Minority interest expense | (157,150) | (177,556) | (135,158) |
| Corporate general and administrative expenses | (62,854) | (51,461) | (34,743) |
| Investment income and other (E) | 215,639 | 28,350 | 22,907 |
| Discontinued Operations: | | | |
| Palisades | 3,792 | 5,006 | 161 |
| 400 North LaSalle | 1,541 | (680) | |
| Gain on sale of Palisades | 65,905 | | |
| Net gain on sale of marketable securities | | 2,950 | 12,346 |
| Primestone foreclosure and impairment loss | | (1,388) | (35,757) |
| Amortization of Officer s deferred compensation expense | | | (27,500) |
| Write-off of 20 Times Square pre-development costs | | | (6,874) |
| Gain on transfer of mortgages | | | 2,096 |
| Net gain on sale of air rights | | | 1,688 |
| | $ 185,691 | $ (82,764) | $ (76,246) |

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(A) EBITDA for the year ended December 31, 2004, includes the Company s $2,901 share of impairment losses recorded by Newkirk MLP, partially offset by the Company s $2,705 share of gains on sale of real estate. EBITDA for the year ended December 31, 2003, includes the Company s $9,900 share of gains on sale of real estate and early extinguishment of debt, partially offset by a charge of $1,210 for an impairment loss and a litigation settlement. The remaining decrease in EBITDA from 2003 to 2004 is due primarily to the sale of properties (primarily Stater Brothers Supermarkets).

(B) Interest and other income for the year ended December 31, 2004, includes a gain of $7,494, resulting from the exercise of an option by the Company s joint venture partner to acquire certain MLP units held by the Company. The MLP units subject to this option had been issued to the Company on behalf of the Company s joint venture partner in exchange for the Company s operating partnership units as part of the tender offers to acquire certain of the units of the MLP in 1998 and 1999.

(C) Includes Alexander s stock appreciation rights compensation expense, of which the Company s share was $25,340, $14,868 and $0 for the year ended December 31, 2004, 2003 and 2002, respectively. The year ended December 31, 2004, also includes the Company s $1,274 share of a gain on sale of land parcel and the Company s $1,010 share of Alexander s loss on early extinguishment of debt.

(D) The Company s share of EBITDA for the period from November 3, 2004 to December 31, 2004, will be recognized in the quarter ended March 31, 2005, as the investee has not published its earnings for the year ended December 31, 2004 prior to the filing of the Company s annual report on Form 10-K.

(E) See page 74 for details.

**Results Of Operations - Years Ended December 31, 2004 and December 31, 2003**

**Revenues**

The Company s revenues, which consist of property rentals, tenant expense reimbursements, Temperature Controlled Logistics revenues, hotel revenues, trade shows revenues, amortization of acquired below market leases net of above market leases pursuant to SFAS No. 141 and 142, and fee income, were $1,707,262,000 for the year ended December 31, 2004, compared to $1,497,983,000 in the prior year, an increase of $209,279,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands) | Date of Acquisition | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|---|
| Property rentals: | | | | | | | |
| Increase (decrease) due to: | | | | | | | |
| Acquisitions: | | | | | | | |
| Bergen Mall | December 2003 | $ 10,156 | $ | $ 10,156 | $ | $ | $ |
| 2101 L Street | August 2003 | 7,197 | 7,197 | | | | |
| So. California supermarkets | July 2004 | 2,217 | | 2,217 | | | |
| Marriot Hotel | July 2004 | 1,890 | 1,890 | | | | |
| 25 W. 14th Street | March 2004 | 2,212 | | 2,212 | | | |
| Forest Plaza Shopping Center | February 2004 | 2,581 | | 2,581 | | | |
| 99-01 Queens Boulevard | August 2004 | 491 | | 491 | | | |
| Lodi Shopping Center | November 2004 | 267 | | 267 | | | |
| Burnside Plaza Shopping Center | December 2004 | 166 | | 166 | | | |
| Development placed into service: | | | | | | | |
| 4 Union Square South | | 6,989 | | 6,989 | | | |
| Amortization of acquired below market leases, net | | 5,806 | 1,973 | 3,833 | | | |
| Operations: | | | | | | | |
| Hotel activity | | 13,075 (1) | | | | | 13,075 (1) |
| Trade shows activity | | 3,033 | | | 3,033 | | |
| Leasing activity | | 32,659 | 20,721 (2) | 6,433 | 8,111 | | (2,606) |
| Total increase in property rentals | | 88,739 | 31,781 | 35,345 | 11,144 | | 10,469 |
| | | | | | | | |
| Tenant expense reimbursements: | | | | | | | |
| Increase (decrease) due to: | | | | | | | |
| Acquisitions | | 7,561 | 1,157 | 6,404 | | | |
| Operations | | 4,383 | 5,371 (3) | 1,170 | (2,357) (4) | | 199 |
| Total increase (decrease) in tenant expense reimbursements | | 11,944 | 6,528 | 7,574 | (2,357) | | 199 |
| Temperature Controlled Logistics (effect of consolidating Americold from November 18, 2004 vs. equity method prior) | | 87,428 | | | | 87,428 | |
| Fee and other income: | | | | | | | |
| Increase (decrease) in: | | | | | | | |
| Acquisitions (Kaempfer Management Company) | | 3,695 | 3,695 | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Lease cancellation fee income | 8,505 | 9,829 (5) | (1,291) | (33) | | |
| BMS Cleaning fees | 2,231 | 2,231 | | | | |
| Management and leasing fees | 328 | 379 | (206) | 155 | | |
| Other | 6,409 | 6,892 (6) | (1,786) | 1,351 | | (48) |
| Total increase (decrease) in fee and other income | 21,168 | 23,026 | (3,283) | 1,473 | | (48) |
| Total increase in revenues | $ 209,279 | $ 61,335 | $ 39,636 | $ 10,260 | $ 87,428 | $ 10,620 |

See notes on following page.

See Leasing Activity on page 58 for further details and corresponding changes in occupancy.

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**Notes to preceding tabular information:**

(1) Average occupancy and REVPAR were 78.9% and $77.56 for the year ended December 31, 2004 compared to 63.7% and $58.00 for the prior year.

(2) Reflects increases of $19,845 from New York City Office primarily from higher rents for space relet.

(3) Reflects higher reimbursements from tenants resulting primarily from increases in New York City Office real estate taxes and utilities.

(4) Reflects lower reimbursements from tenants resulting primarily from a decrease in accrued real estate taxes based on the finalization of 2003 real estate taxes in September of 2004.

(5) The increase relates to early lease terminations at the Company s 888 Seventh Avenue and 909 Third Avenue office properties for approximately 175 square feet, a substantial portion of which has been re-leased at equal or higher rents (see page 58).

(6) Reflects an increase of $4,541 from New York Office, which primarily relates to an increase in Penn Plaza signage income.

**Expenses**

The Company s expenses were $1,069,397,000 for the year ended December 31, 2004, compared to $917,086,000 in the prior year, an increase of $152,311,000.

Below are the details of the increase (decrease) by segment:

| (Amounts in thousands) | Date of Acquisition | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|---|
| Operating: | | | | | | | |
| Increase (decrease) due to: | | | | | | | |
| Acquisitions: | | | | | | | |
| Bergen Mall | December 2003 | $ 6,015 | $ | $ 6,015 | $ | $ | $ |
| 2101 L Street | August 2003 | 2,431 | 2,431 | | | | |
| 25 W. 14th Street | March 2004 | 254 | | 254 | | | |
| Forest Plaza Shopping Center | February 2004 | 986 | | 986 | | | |
| 99-01 Queens Boulevard | August 2004 | 109 | | 109 | | | |
| Lodi Shopping Center | November 2004 | 36 | | 36 | | | |
| Burnside Plaza Shopping Center | December 2004 | 66 | | 66 | | | |
| Development placed into service: | | | | | | | |
| 4 Union Square South | | 1,139 | | 1,139 | | | |
| Americold effect of consolidating Americold from November 18, 2004 vs. equity method accounting prior | | 67,989 | | | | 67,989 | |
| Hotel activity | | 1,862 | | | | | 1,862 |
| Trade shows activity | | 1,946 | | | 1,946 | | |
| Operations | | 15,407 | 18,255 (1) | (1,790 )(2) | (343 )(3) | | (715 ) |
| | | | | | | | |
| Total increase in operating expenses | | 98,240 | 20,686 | 6,815 | 1,603 | 67,989 | 1,147 |
| | | | | | | | |
| Depreciation and amortization: | | | | | | | |
| Increase (decrease) due to: | | | | | | | |
| Acquisitions/Development | | 10,214 | 2,249 | 7,965 | | | |
| Americold effect of consolidating Americold from November 18, 2004 vs. equity method accounting prior | | 7,968 | | | | 7,968 | |
| Operations | | 11,053 (4) | 8,082 | (473 ) | 3,900 | | (456 ) |
| Total increase (decrease) in depreciation and amortization | | 29,235 | 10,331 | 7,492 | 3,900 | 7,968 | (456 ) |
| | | | | | | | |
| General and administrative: | | | | | | | |
| Increase due to: | | | | | | | |
| Americold effect of consolidating Americold from November 18, | | 4,264 | | | | 4,264 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2004 vs. equity method accounting prior | | | | | | | |
| Operations | | 19,097 (5) | 1,217 | 3,404 | 2,272 | | 12,204 |
| Total increase in general and administrative | | 23,361 | 1,217 | 3,404 | 2,272 | 4,264 | 12,204 |
| | | | | | | | |
| Cost of acquisitions and development not consummated | | 1,475 (6) | | | | | 1,475 (6) |
| | | | | | | | |
| Total increase in expenses | | $ 152,311 | $ 32,234 | $ 17,711 | $ 7,775 | $ 80,221 | $ 14,370 |

See notes on following page.

(1) Results primarily from (i) a $8,134 increase in real estate taxes, of which $6,700 relates to the New York Office portfolio, (ii) a $5,452 increase in utility costs, of which $2,816 and $2,636 relate to the New York Office and CESCR portfolios, respectively and (iii) a $1,192 increase due to higher of repairs and maintenance (primarily New York Office).

(2) Results primarily from a net decrease in the allowance for bad debts due to recoveries in 2004.

(3) Results primarily from (i) reversal of overaccrual of 2003 real estate taxes of $3,928, based on finalization of 2003 taxes in September 2004, offset by (ii) increase in the allowance for straight-lined rent receivables in 2004 of $3,585.

(4) Primarily due to additions to buildings and improvements during 2003 and 2004.

(5) The increase in general and administrative expenses results from:

| | | |
|---|---|---|
| Bonuses to four executive vice presidents in connection with the successful leasing, development and financing of Alexander s | $ | 6,500 |
| Costs of Vornado Operating Company litigation in 2004 (see page 95 for further details) | | 4,643 |
| Legal fees in 2004 in connection with Sears investment | | 1,004 |
| Increase in payroll and fringe benefits | | 6,555 |
| Severance payments and the non-cash charge related to the accelerated vesting of severed employees restricted stock in 2003 in excess of 2004 amounts | | (2,319) |
| Costs in 2003 in connection with the relocation of CESCR s accounting operations to the Company s administrative headquarters in New Jersey | | (1,123) |
| Other, net | | 3,837 |
| | $ | 19,097 |

(6) Results from the write-off of costs associated with the Mervyn s Department Stores acquisition not consummated.

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**Income Applicable to Alexander s**

Income applicable to Alexander s (loan interest income, management, leasing, development and commitment fees, and equity in income) was $33,920,000 before $25,340,000 of Alexander s stock appreciation rights compensation ( SAR ) expense or $8,580,000 net, in the year ended December 31, 2004, compared to income of $30,442,000 before $14,868,000 of SAR expense or $15,574,000 net, in the year ended December 31, 2003, a decrease after SAR expense of $6,994,000. This decrease resulted primarily from (i) an increase in the Company s share of Alexander s SAR expense of $10,472,000, (ii) the Company s $1,434,000 share of Alexander s loss on early extinguishment of debt in 2004, partially offset by, (iii) income in 2004 from the commencement of leases with Bloomberg on November 15, 2003 and other tenants in second half of 2004 at Alexander s 731 Lexington Avenue property and (iv) the Company s $1,274 share of gain on sale of a land parcel in the quarter ended September 30, 2004.

**Income from Partially-Owned Entities**

Below are the condensed statements of operations of the Company s unconsolidated subsidiaries as well as the increase (decrease) in income from these partially-owned entities for the years ended December 31, 2004 and 2003:

| (Amounts in thousands) For the year ended: | Total | Newkirk MLP | Temperature Controlled Logistics(2) | Monmouth Mall | Partially-Owned Office Buildings | Starwood Ceruzzi Joint Venture | Other |
|---|---|---|---|---|---|---|---|
| **December 31, 2004:** | | | | | | | |
| Revenues | | $ 239,496 | $ 131,053 | $ 24,936 | $ 118,660 | $ 1,649 | |
| Expenses: | | | | | | | |
| Operating, general and administrative | | (23,495) | (29,351) | (9,915) | (48,329) | (3,207) | |
| Depreciation | | (45,134) | (50,211) | (6,573) | (19,167) | (634) | |
| Interest expense | | (80,174) | (45,504) | (6,390) | (32,659) | | |
| Other, net | | 45,344 | (5,387) | (3,208) | 975 | (4,791) | |
| Net income (loss) | | $ 136,037 | $ 600 | $ (1,150) | $ 19,480 | $ (6,983) | |
| | | | | | | | |
| Vornado s interest | | 22.4% | 47.6% | 50% | 17% | 80% | |
| Equity in net income (loss) | $ 22,860 | $ 24,041 (1) | $ 360 | $ (576) | $ 2,935 | $ (5,586)(5) | $ 1,686 |
| Interest and other income | 14,459 | 11,396 (4) | (20) | 3,290 | (207) | | |
| Fee income | 6,062 | | 5,035 | 1,027 | | | |
| Income (loss) from partially-owned entities | $ 43,381 | $ 35,437 | $ 5,375 | $ 3,741 | $ 2,728 | $ (5,586) | $ 1,686 |
| **December 31, 2003:** | | | | | | | |
| Revenues | | $ 273,500 | $ 119,605 | $ 24,121 | $ 99,590 | $ 4,394 | |
| Expenses: | | | | | | | |
| Operating, general and administrative | | (15,357) | (6,905) | (10,520) | (39,724) | (3,381) | |
| Depreciation | | (51,777) | (56,778) | (4,018) | (18,491) | (998) | |
| Interest expense | | (97,944) | (41,117) | (6,088) | (27,548) | | |
| Other, net | | 43,083 | 5,710 | (3,220) | 2,516 | (866) | |
| Net income (loss) | | $ 151,505 | $ 20,515 | $ 275 | $ 16,343 | $ (851) | |
| | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Vornado s interest | | 22.6% | 60% | 50% | 15% | 80% | |
| Equity in net income (loss) | $ 51,057 | $ 33,243 (3) | $ 12,869 | $ 138 | $ 2,426 | $ (681)(5) | $ 3,062 (6) |
| Interest and other income | 10,292 | 7,002 | | 3,290 | | | |
| Fee income | 6,552 | | 5,547 | 1,005 | | | |
| Income (loss) from partially-owned entities | $ 67,901 | $ 40,245 | $ 18,416 | $ 4,433 | $ 2,426 | $ (681) | $ 3,062 |
| | | | | | | | |
| **Increase (decrease) in income from partially-owned entities** | $ (24,520) | $ (4,808) | $ (13,041)(2) | $ (692) | $ 302 | $ (4,905)(5) | $ (1,376)(6) |

See footnotes on following page.

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**Notes to preceding tabular information:**

(1) Includes the Company s $2,479 share of gains on sale of real estate and the Company s $2,901 share of impairment losses recorded by Newkirk MLP. Excludes the Company s $7,119 schare of the gain recognized by Newkirk MLP on the sale of its Stater Brothers real estate portfolio to the Company on July 29, 2004, which was reflected as an adjustment to the basis of the Company s investment.

(2) On November 4, 2004, Americold purchased its tenant, AmeriCold Logistics, for $47,700 in cash. In addition, on November 18, 2004 the Company and its 40% partner, CEI collectively sold 20.7% of Americold s common shares to Yucaipa for $145,000, which resulted in a gain, of which the Company s share was $18,789.Beginning on November 18, 2004, the Company is deemed to exercise control over Americold and, accordingly, began to consolidate the operations and financial position of Americold into its accounts and ceased accounting for the investment on the equity method. See page 92 for further details.

(3) Includes the Company s $9,900 share of gains on sale of real estate and early extinguishment of debt.

(4) Includes a gain of $7,494, resulting from the exercise of an option by the Company s joint venture partner to acquire certain MLP units held by the Company.

(5) Equity in income for the year ended December 31, 2004 includes the Company s $3,833 share of an impairment loss. Equity in income for the year ended December 31, 2003 includes the Company s $2,271 share of income from the settlement of a tenant bankruptcy claim, partially offset by the Company s $876 share of a net loss on disposition of leasehold improvements.

(6) Includes $5,583 for the Company s share of Prime Group Realty L.P. s equity in net income of which $4,413 was for the Company s share of Prime Group s lease termination fee income. On May 23, 2003, the Company exchanged the units it owned for common shares and no longer accounts for its investment in the partnership on the equity method.

**Interest and Other Investment Income**

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $203,995,000 for the year ended December 31, 2004, compared to $25,397,000 in the year ended December 31, 2003, an increase of $178,598,000. This increase results from:

(Amounts in thousands)

| | | |
|---|---|---|
| Income from the mark-to-market of Sears option position (see page 56 for details) | $ | 82,734 |
| Investment in GMH Communities L.P. (see page 55 for details): | | |
| Net gain on exercise of warrants for 6.7 million GMH limited partnership units | | 29,452 |
| Net gain from the mark-to-market of 5.6 million warrants at December 31, 2004 | | 24,190 |
| Distributions received on $159,000 commitment | | 16,581 |
| Increase in interest income on $275,000 GM building mezzanine loans(1) | | 22,187 |
| Interest income recognized on the repayment of the Company s loan to Vornado Operating Company in November 2004 | | 4,771 |
| Increase in interest income from mezzanine loans in 2004 | | 5,495 |
| Other, net primarily $5,655 of contingent interest income in 2003 from the Dearborn Center loan | | (6,812) |
| | $ | 178,598 |

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(1) On January 7, 2005, the Company was repaid $275,000 of loans secured by partnership interests in the General Motors Building. Vornado also received a prepayment penalty of $4,500 together with interest through January 14, 2005 on $225,000 of these loans. The $4,500 and an additional $879 of unamortized fees will be included in income in the first quarter of 2005.

**Interest and Debt Expense**

Interest and debt expense was $241,968,000 for the year ended December 31, 2004, compared to $228,860,000 in the year ended December 31, 2003, an increase of $13,108,000. This increase is primarily due to (i) $6,379,000 resulting from the consolidation of the Company s investment in Americold Realty Trust from November 18, 2004 vs. equity method accounting prior, (ii) $7,411,000 from an increase in average outstanding debt balances, primarily due to the issuance of $250,000,000 and $200,000,000 of senior unsecured notes in August 2004 and November 2003, respectively, and (iii) $1,206,000 from an increase in the weighted average interest rate on total debt of three basis points.

**Net Gain on Disposition of Wholly-owned and Partially-owned Assets other than Depreciable Real Estate**

The following table sets forth the details of net gain on disposition of wholly-owned and partially-owned assets other than depreciable real estate for the years ended December 31, 2004 and 2003:

| (Amounts in thousands) | For the Year Ended December 31, 2004 | 2003 |
|---|---|---|
| Wholly-owned Assets: | | |
| Gain on sale of residential condominiums units | $ 776 | $ 282 |
| Net (loss) gain on sale of marketable securities | (159) | 2,950 |
| Loss on settlement of Primestone guarantees | | (1,388) |
| Gain on sale of land parcels | | 499 |
| Partially-owned Assets: | | |
| Net gain on sale of a portion of investment in Americold to Yucaipa | 18,789 | |
| Other | 369 | |
| | $ 19,775 | $ 2,343 |

**Minority Interest**

Minority interest was $157,308,000 for the year ended December 31, 2004, compared to $178,937,000 for the prior year, a decrease of $21,629,000. The decrease is primarily due to lower distributions and allocations to preferred unit holders as a result of the Company s redemptions of the Series D-2 preferred units in January 2004 and Series C-1 and D-1 preferred units in the fourth quarter of 2003.

**Discontinued Operations**

Assets related to discontinued operations consist primarily of real estate, net of accumulated depreciation. The following table set forth the balances of the assets related to discontinued operations as of December 31, 2004 and 2003.

| | December 31, | |
|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** |
| 400 North LaSalle | $ 82,624 | $ 80,685 |
| Arlington Plaza | 35,127 | 36,109 |
| Palisades (sold on June 29, 2004) | | 138,629 |
| Baltimore (Dundalk) (sold on August 12, 2004) | | 2,167 |
| Vineland | 908 | 908 |
| | $ 118,659 | $ 258,498 |

The following table sets forth the balances of the liabilities related to discontinued operations (primarily mortgage notes payable) as of December 31, 2004 and 2003.

| | December 31, | |
|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** |
| Arlington Plaza | $ 15,867 | $ 16,487 |
| 400 North LaSalle | 5,187 | 3,038 |
| Palisades (sold on June 29, 2004) | | 120,000 |
| | $ 21,054 | $ 139,525 |

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2004 and 2003 are as follows:

| | December 31, | |
|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** |
| Total Revenues | $ 19,799 | $ 47,770 |
| Total Expenses | 16,957 | 33,171 |
| Net income | 2,842 | 14,599 |
| Gains on sale of real estate | 75,755 | 161,789 |
| Income from discontinued operations | $ 78,597 | $ 176,388 |

On January 9, 2003, the Company sold its Baltimore, Maryland shopping center for $4,752,000, which resulted in a net gain after closing costs of $2,644,000.

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square foot office building, for $292,000,000, which resulted in a net gain on the sale after closing costs of $156,433,000.

On November 3, 2003, the Company sold its Hagerstown, Maryland shopping center for $3,100,000, which resulted in a net gain on sale after closing costs of $1,945,000.

In anticipation of selling the Palisades Residential Complex, on February 27, 2004, the Company acquired the remaining 25% interest in the Palisades venture it did not previously own for approximately $17,000,000 in cash. On June 29, 2004, the Company sold the Palisades for $222,500,000, which resulted in a net gain on sale after closing costs of $65,905,000.

On August 12, 2004, the Company sold its Dundalk, Maryland shopping center for $12,900,000, which resulted in a net gain on sale after closing costs of $9,850,000.

**EBITDA**

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

| (Amounts in thousands) | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|
| Year ended December 31, 2003 | $ 1,037,896 | $ 780,689 | $ 144,119 | $ 117,887 | $ 77,965 | $ (82,764) |
| 2004 Operations: | | | | | | |
| Same store operations(1) | | 18,793 | 7,333 | 10,144 | | |
| Acquisitions, dispositions and non-same store income and expenses | | (151,861) | 23,062 | (2,521) | (6,451) | |
| Year ended December 31, 2004 | $ 1,204,850 | $ 647,621 | $ 174,514 | $ 125,510 | $ 71,514 | $ 185,691 |
| % increase in same store operations | | 3.1%(2) | 5.5% | 8.9%(3) | N/A(4) | |

(1) Represents operations which were owned for the same period in each year and excludes non-recurring income and expenses which are included in acquisitions, dispositions and non-same store income and expenses above.

(2) EBITDA and the same store percentage increase were $343,421 and 4.4% for the New York office portfolio and $304,200 and 1.7% for the CESCR portfolio.

(3) EBITDA and the same store percentage increase reflect the commencement of the WPP Group leases (228 square feet) in the third quarter of 2004 and the Chicago Sun Times lease (127 square feet) in the second quarter of 2004. EBITDA for the year ended December 31, 2004, exclusive of the incremental impact of these leases was $121,876 or a 5.6% same store increase over the prior year.

(4) Not comparable because prior to November 4, 2004, (date the operations of AmeriCold Logistics were combined with Americold Realty Trust), the Company reflected its equity in the rent Americold received from AmeriCold Logistics. Subsequent thereto, the Company reflects its equity in the operations of the combined company. See page 92 for condensed proforma operating results of Americold for the years ended December 31, 2004 and 2003, giving effect to the acquisition of its tenant, AmeriCold Logistics, as if it had occurred on January 1, 2003.

**Results of Operations - Years Ended December 31, 2003 and December 31, 2002**

**Revenues**

The Company s revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below market leases net of above market leases pursuant to SFAS No. 141 and 142, and fee income, were $1,497,983,000 for the year ended December 31, 2003, compared to $1,386,794,000 in the prior year, an increase of $111,189,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands) | Date of Acquisition | Total | Office | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|---|
| Property rentals: | | | | | | |
| Acquisitions: | | | | | | |
| Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%) | September 2002 | $ 8,546 | $ | $ 8,546 | $ | $ |
| Crystal Gateway One | July 2002 | 5,851 | 5,851 | | | |
| 435 Seventh Avenue (placed in service) | August 2002 | 4,528 | | 4,528 | | |
| 2101 L Street | August 2003 | 4,958 | 4,958 | | | |
| Bergen Mall | December 2003 | 602 | | 602 | | |
| 424 Sixth Avenue | July 2002 | 557 | | 557 | | |
| (Decrease) increase in amortization of acquired below market leases, net | | (3,461) | (4,336) | 875 | | |
| Operations: | | | | | | |
| Hotel activity | | 73 (1) | | | | 73 (1) |
| Trade Shows activity | | 3,807 (2) | | | 3,807 (2) | |
| Leasing activity | | 26,263 | 16,366 (3) | 5,210 (4) | 5,799 (5) | (1,112) |
| Total increase (decrease) in property rentals | | 51,724 | 22,839 | 20,318 | 9,606 | (1,039) |
| | | | | | | |
| Tenant expense reimbursements: | | | | | | |
| Acquisitions | | 4,290 | 238 | 4,052 | | |
| Operations | | 20,098 | 17,108 (6) | 1,840 | 1,648 | (498) |
| Total increase (decrease) in tenant expense reimbursements | | 24,388 | 17,346 | 5,892 | 1,648 | (498) |
| Fee and other income | | | | | | |
| Acquisitions: | | | | | | |
| BMS Tenant cleaning fees | | 28,968 | 28,968 | | | |
| Kaempfer management and leasing fees | | 2,441 | 2,441 | | | |
| Increase (decrease) in: | | | | | | |
| Lease cancellation fee income | | 4,429 | 514 | 2,056 | 1,859 | |
| Management and leasing fees | | (3,844) | (3,667) (7) | (160) | (17) | |
| Other | | 3,083 | (15) | 2,466 | 726 | (94) |
| Total increase (decrease) in fee and other income | | 35,077 | 28,241 | 4,362 | 2,568 | (94) |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total increase (decrease) in revenues | | | | $ | 111,189 | $ | 68,426 | | $ | 30,572 | $ | 13,822 | $ | (1,631 | ) |

See notes on following page.

See Leasing Activity on page 58 for further details and corresponding changes in occupancy.

**Notes to preceding tabular information:**

(1) Average occupancy and REVPAR for the Hotel Pennsylvania were 64% and $58 for the year ended December 31, 2003 compared to 65% and $58 for the prior year.

(2) Reflects an increase of $2,841 resulting from the rescheduling of two trade shows from the fourth quarter of 2002, in which they were previously held to the first quarter of 2003, and $1,400 relates to a new show held for the first time in 2003, partially offset by lower trade show revenue in 2003 primarily due to a smaller April Market show as a result of a conversion of trade show space to permanent space.

(3) Reflects increases of $12,953 from New York City Office leasing activity and $3,413 from CESCR s leasing activity. These increases resulted primarily from higher rents for space relet in 2003 and 2002 (full year impact in 2003 as compared to a partial year in 2002) and an increase in CESCR occupancy of .3% this year, partially offset by a decrease in NYC office occupancy of .6%. Initial rent for the 677 square feet of space relet in New York City was $44.41 per square foot in 2003, a 15.3% increase over prior escalated rent. Initial rent for the 2,510 square feet of space relet in CESCR portfolio was $30.62 per square foot a 2.5% increase over prior escalated rents. For further details of NYC and CESCR office leasing activity see page 58.

(4) Resulted primarily from (i) an increase in the occupancy rate from 88.3% at December 31, 2002 to 93.0% at December 31, 2003 as a result of leasing space previously vacated by Bradlees and Kmart and (ii) higher rents for space relet in 2003 and 2002 (full year impact in 2003 as compared to a partial year in 2002). Initial rent for the 1,046 square feet of space relet in 2003 was $15.56 per square foot, a 13.2% increase over prior rent. For further details of Retail leasing activity see page 58.

(5) Reflects an increase in occupancy of Merchandise Mart office space of 0.9% from 2002, higher rents for 1,157 square feet of showroom space relet in 2003 and 911 square feet relet in 2002 (full year impact in 2003 as compared to partial year impact in 2002), partially offset by a decrease in Merchandise Mart showroom occupancy of .1% from 2002 and lower rents for 270 square feet of office space relet in 2003. Initial rents for the 1,157 square feet of showroom space relet in 2003 was $23.43, a 0.6% increase over prior escalated rent. Initial rents for the 270 square feet of office space relet in 2003 was $21.24, a 5.3% decrease over prior escalated rent. For further details of Merchandise Mart leasing activity see page 58.

(6) Reflects higher reimbursements from tenants resulting primarily from increases in real estate taxes. The increases in Office and Retail were $19,383 and $3,247, before reductions of $2,215 and $1,407 in the current quarter relating to the true-up of prior year s billings.

(7) Results primarily from a $3,444 decrease in CESCR third party leasing revenue from $7,100 in 2002 to $3,656 in 2003 as a result of the closing of one of the CESCR leasing offices.

**Expenses**

The Company s expenses were $917,086,000 for the year ended December 31, 2003, compared to $850,071,000 in the prior year, an increase of $67,015,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands) | Total | | Office | | Retail | | Merchandise Mart | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating: | | | | | | | | | | |
| Acquisitions: | | | | | | | | | | |
| BMS | $ 19,789 | | $ 19,789 | | $ | | $ | | $ | |
| Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%) | 3,007 | | | | 3,007 | | | | | |
| Crystal Gateway One | 1,742 | | 1,742 | | | | | | | |
| Bergen Mall | 399 | | | | 399 | | | | | |
| 2101 L Street | 1,531 | | 1,531 | | | | | | | |
| 435 Seventh Avenue | 503 | | | | 503 | | | | | |
| 424 Sixth Avenue | 98 | | | | 98 | | | | | |
| Hotel activity | 2,769 | | | | | | | | 2,769 | (1) |
| Trade Shows activity | 1,487 | | | | | | 1,487 | (2) | | |
| Operations | 32,267 | (3) | 23,752 | (3) | 4,955 | (3) | 3,524 | (3) | 36 | (3) |
| | 63,592 | | 46,814 | | 8,962 | | 5,011 | | 2,805 | |
| Depreciation and amortization: | | | | | | | | | | |
| Acquisitions | 5,966 | | 4,026 | | 1,940 | | | | | |
| Operations | 10,009 | | 4,900 | (4) | 1,938 | | 3,409 | (4) | (238 | ) |
| | 15,975 | | 8,926 | | 3,878 | | 3,409 | | (238 | ) |
| General and administrative: | | | | | | | | | | |
| Acquisitions | 4,915 | | 4,274 | | 641 | | | | | |
| Operations | 16,907 | (5) | (364 | ) | 1,502 | | (167 | ) | 15,936 | |
| | 21,822 | | 3,910 | | 2,143 | | (167 | ) | 15,936 | |
| Costs of acquisitions and development not consummated | (6,874 | ) | | | | | | | (6,874 | ) |
| | | | | | | | | | | |
| Amortization of officer s deferred compensation expense | (27,500 | ) | | | | | | | (27,500 | ) |
| | | | | | | | | | | |
| Total increase (decrease) in expenses | $ 67,015 | | $ 59,650 | | $ 14,983 | | $ 8,253 | | $ (15,871 | ) |

See notes on following page.

**Notes to preceding tabular information:**

(1) The increase in Hotel Pennsylvania s operating expenses was primarily due to a $1,700 increase in real estate taxes and a $500 increase in utility costs over the prior year.

(2) Results primarily from the rescheduling of two trade shows from the fourth quarter of 2002, in which they were previously held to the first quarter of 2003, and due to a new trade show held for the first time in 2003.

(3) Below are the details of the increases (decreases) in operating expenses by segment:

| | Total | Office | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|
| Real estate taxes | $ 26,935 | $ 20,904(a) | $ 1,245 | $ 4,724 | $ 62 |
| Utilities | (946) | (906) | 364 | (483) | 79 |
| Maintenance | 5,286 | 2,997 | 2,302 | (33) | 20 |
| Ground rent | 950 | 1,005 | (55) | | |
| Bad debt expense | (29) | (1,541) | 1,238 | 274 | |
| Other | 71 | 1,293 | (139) | (958) | (125) |
| | $ 32,267 | $ 23,752 | $ 4,955 | $ 3,524 | $ 36 |

(a) Relates primarily to an increase in New York Office.

(4) Increases in depreciation and amortization for the Office and Merchandise Mart segments are primarily due to additions to buildings and improvements.

(5) The increase in general and administrative expenses results from:

| | |
|---|---|
| Increase in professional fees in connection with information technology, corporate governance, insurance, and other projects | $ 4,675 |
| Severance payments in 2003 to two senior executives ($3,211) and the non-cash charge related to the accelerated vesting of their restricted stock ($1,626) | 4,837 |
| Other severance | 860 |
| Increase in corporate payroll and fringe benefits of which $755 is due to a decrease in capitalized development payroll and $407 is due to the Company s deferred compensation plan (offset by an equal amount of investment income) | 2,872 |
| Costs in connection with the relocation of CESCR s back office operations to the Company s administrative headquarters in New Jersey | 1,123 |
| Stock compensation expense (see below) | 1,898 |

| | | |
|---|---|---|
| Other | | 642 |
| | $ | 16,907 |

As part of the 2002 annual compensation review, in lieu of stock options, on January 28, 2003 the Company granted 166,990 restricted shares at $34.50 per share (the then closing stock price on the NYSE) to employees of the Company. These awards vest over a 5-year period. Stock-based compensation expense is recognized on a straight-line basis over the vesting period. In the year ended December 31, 2003, the Company recognized stock-based compensation expense of $1,898,000 (excluding severance charges), of which $1,020,000 related to January 2003 restricted stock awards.

**Income Applicable to Alexander s**

Income applicable to Alexander s (interest income, management, leasing, development and commitment fees, and equity in income) was $15,574,000 for the year ended December 31, 2003, compared to $29,653,000 in the prior year, a decrease of $14,079,000. This decrease resulted primarily from (i) Alexander s stock appreciation rights compensation expense of which the Company s share was $14,868,000 in 2003 compared to zero in 2002, partially offset by (ii) Alexander s gain on the sale of its Third Avenue property of which the Company s share was $3,524,000 in 2002, and (iii) income resulting from the commencement of the lease with Bloomberg (87% of the space) on November 15, 2003 at Alexander s 731 Lexington Avenue property of which the Company s share was $1,589,000.

**Income from Partially-Owned Entities**

Below are the condensed statements of operations of the Company s unconsolidated subsidiaries as well as the increase (decrease) in income from these partially-owned entities for the years ended December 31, 2003 and 2002:

(Amounts in thousands)

| For the year ended: | Total | Newkirk MLP | Temperature Controlled Logistics | Monmouth Mall | Partially-Owned Office Buildings | Starwood Ceruzzi Joint Venture | Las Catalinas Mall | Other |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2003:** | | | | | | | | |
| Revenues | | $ 273,500 | $ 119,605 | $ 24,121 | $ 99,590 | $ 4,394 | | |
| Expenses: | | | | | | | | |
| Operating, general and administrative | | (15,357) | (6,905) | (10,520) | (39,724) | (3,381) | | |
| Depreciation | | (51,777) | (56,778) | (4,018) | (18,491) | (998) | | |
| Interest expense | | (97,944) | (41,117) | (6,088) | (27,548) | | | |
| Other, net | | 43,083 | 5,710 | (3,220) | 2,516 | (866) | | |
| Net income (loss) | | $ 151,505 | $ 20,515 | $ 275 | $ 16,343 | $ (851) | | |
| | | | | | | | | |
| Vornado s interest | | 22.6% | 60% | 50% | 15% | 80% | | |
| Equity in net income (loss) | $ 51,057 | $ 33,243 (1) | $ 12,869 (2) | $ 138 | $ 2,426 | $ (681) | | $ 3,062 |
| Interest and other income | 10,292 | 7,002 | | 3,290 (3) | | | | |
| Fee income | 6,552 | | 5,547 | 1,005 | | | | |
| Income (loss) from partially-owned entities | $ 67,901 | $ 40,245 | $ 18,416 | $ 4,433 | $ 2,426 | $ (681) | N/A (4) | $ 3,062 |
| | | | | | | | | |
| **December 31, 2002:** | | | | | | | | |
| Revenues | | $ 295,369 | $ 117,663 | $ 5,760 | $ 50,205 | $ 695 | $ 10,671 | |
| Expenses: | | | | | | | | |
| Operating, general and administrative | | (8,490) | (7,904) | (2,510) | (21,827) | (2,265) | (3,102) | |
| Depreciation | | (34,010) | (59,328) | (943) | (9,094) | (1,430) | (1,482) | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Interest expense | | (121,219) | (42,695) | (1,520) | (11,354) | | (3,643) | |
| Other, net | | (9,790) | (2,150) | 48 | 389 | (200) | (802) | |
| Net income (loss) | | $ 121,860 | $ 5,586 | $ 835 | $ 8,319 | $ (3,200) | $ 1,642 | |
| | | | | | | | | |
| Vornado s interest | | 21.7% | 60% | 50% | 24% | 80% | 50% | |
| Equity in net income (loss) | $ 30,664 | $ 26,500 | $ 4,144 | $ 791 (3) | $ 1,966 | $ (2,560) | $ 851 | $ (1,028) |
| Interest and other income | 8,000 | 8,000 | | | | | | |
| Fee income | 5,794 | | 5,563 | 231 | | | | |
| Income (loss) from partially-owned entities | $ 44,458 | $ 34,500 | $ 9,707 | $ 1,022 | $ 1,966 | $ (2,560) | $ 851 | $ (1,028) |
| | | | | | | | | |
| **Increase (decrease) in income from partially-owned entities** | $ 23,443 | $ 5,745 (1) | $ 8,709 (2) | $ 3,411 (3) | $ 460 | $ 1,879 | $ (851) (4) | $ 4,090 |

See notes on following page.

**Notes to preceding tabular information:**

(1) The increase reflects the Company s share of the following items from the Newkirk MLP in 2003 including (i) $7,200 of net gains on the sale of 11 properties, (ii) a gain of $1,600 on the early extinguishment of debt, partially offset by, (iii) a charge of $538 in connection with a litigation claim, (iv) a charge of $353 for an asset impairment and (v) $930 in Federal and state taxes.

(2) The Company reflects its 60% share of Vornado Crescent Portland Partnership s (the Landlord ) rental income it receives from AmeriCold Logistics, its tenant, which leases the underlying temperature controlled warehouses used in its business. The Company s joint venture does not recognize rental income unless earned and collection is assured or cash is received. The Company did not recognize $25,087 of rent it was due for the year ended December 31, 2003, which together with previously deferred rent was $49,436 at December 31, 2003. The following summarizes the increase in income for the year ended December 31, 2003 over the prior year:

| | | |
|---|---|---|
| Increase in rent from Tenant | $ | 1,220 |
| Decrease in general and administrative expenses | | 544 |
| Gain on sale of real estate in 2003 ($486) as compared to a loss on sale of real estate in 2002 ($2,026) | | 2,512 |
| Income tax refund received in 2003 | | 1,345 |
| Decrease in depreciation and interest expense and other | | 3,088 |
| | $ | 8,709 |

(3) The Company acquired a 50% interest in the Monmouth Mall on October 10, 2002. Equity in net income of the Monmouth Mall includes the Company s preferred return of $3,290 and $748 for the years ended December 31, 2003 and 2002.

(4) On September 23, 2002, the Company acquired the remaining 50% of the Mall and 25% of the Kmart anchor store it did not previously own. Accordingly, the operations of Las Catalinas are consolidated into the accounts of the Company subsequent to September 23, 2002.

**Interest and Other Investment Income**

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $25,397,000 for the year ended December 31, 2003, compared to $31,678,000 in the year ended December 31, 2002, a decrease of $6,281,000. This decrease resulted primarily from (i) lower average investments at lower yields, partially offset by (ii) $5,655,000 of contingent interest income recognized in connection with the repayment of the Dearborn Center loan and (iii) $5,028,000 of interest income recognized on the $225,000,000 GM Building mezzanine loans, for the period from October 20, 2003 through December 31, 2003.

**Interest and Debt Expense**

Interest and debt expense was $228,860,000 for the year ended December 31, 2003, compared to $232,891,000 in the year ended December 31, 2002, a decrease of $4,031,000. This decrease was primarily comprised of a $11,285,000 savings from a 77 basis point reduction in weighted average interest rates of the Company s variable rate debt, partially offset by (i) the consolidation as of September 2002 of the Las Catalinas operations which were previously included in income from partially-owned entities, (ii) a full year of interest expense on the Company s $500,000,000 Senior Unsecured Notes due 2007 which were issued in June 2002 and (iii) a reduction in interest capitalized in connection with development projects.

**Net (Loss) Gain on Disposition of Wholly-owned and Partially-owned Assets other than Depreciable Real Estate**

The following table sets forth the details of net (loss) gain on disposition of wholly-owned and partially-owned assets other than depreciable real estate for the years ended December 31, 2003 and 2002:

| | For the Year Ended December 31, | |
|---|---|---|
| **(Amounts in thousands)** | **2003** | **2002** |
| Wholly-owned Assets: | | |
| Net gain on sale of marketable securities | $ 2,950 | $ 12,346 |
| Loss on settlement of Primestone guarantees (2003) and foreclosure and impairment losses (2002) | (1,388) | (35,757) |
| Gain on sale of land parcels | 499 | |
| Gain on sale of residential condominiums units | 282 | 2,156 |
| Gain on transfer of mortgages | | 2,096 |
| Net gain on sale of air rights | | 1,688 |
| | $ 2,343 | $ (17,471) |

*Primestone Foreclosure and Impairment Losses*

On September 28, 2000, the Company made a $62,000,000 loan to Primestone Investment Partners, L.P. ( Primestone ). The loan bore interest at 16% per annum. Primestone defaulted on the repayment of this loan on October 25, 2001. The loan was subordinate to $37,957,000 of other debt of the borrower that liened the Company s collateral. On October 31, 2001, the Company purchased the other debt for its face amount. The loans were secured by 7,944,893 partnership units in Prime Group Realty, L.P., the operating partnership of Prime Group Realty Trust (NYSE:PGE) and the partnership units are exchangeable for the same number of common shares of PGE. The loans were also guaranteed by affiliates of Primestone.

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. The participation did not meet the criteria for sale accounting under SFAS 140 because Cadim was not free to pledge or exchange the assets.

On April 30, 2002, the Company and Cadim acquired the 7,944,893 partnership units at a foreclosure auction. The price paid for the units by application of a portion of Primestone s indebtedness to the Company and Cadim was $8.35 per unit, the April 30, 2002 closing price of shares of PGE on the New York Stock Exchange. On June 28, 2002, pursuant to the terms of the participation agreement, the Company transferred 3,972,447 of the partnership units to Cadim.

In the second quarter of 2002, in accordance with foreclosure accounting, the Company recorded a loss on the Primestone foreclosure of $17,671,000 calculated based on (i) the acquisition price of the units and (ii) its valuation of the amounts realizable under the guarantees by affiliates of Primestone, as compared with the net carrying amount of the investment at April 30, 2002. In the third quarter of 2002, the Company recorded a $2,229,000 write-down on its investment based on costs expended to realize the value of the guarantees. Further, in the fourth quarter of 2002, the Company recorded a $15,857,000 write-down of its investment in Prime Group consisting of (i) $14,857,000 to adjust the carrying amount of the Prime Group units to $4.61 per unit, the closing price of PGE shares on the New York Stock Exchange at December 31, 2002 and (ii) $1,000,000 for estimated costs to realize the value of the guarantees. The Company considered the decline in the value of the units which are convertible into stock to be other than temporary as of December 31, 2002, based on the fact that the market value of the stock had been less than its cost for more than six months, the severity of the decline, market trends, the financial condition and near-term prospects of Prime Group and other relevant factors.

At December 31, 2002, the Company s carrying amount of the investment was $23,908,000, of which $18,313,000 represents the carrying amount of the 3,972,447 partnership units owned by the Company ($4.61 per unit), $6,100,000 represents the amount expected to be realized under the guarantees, partially offset by $1,005,000 representing the Company s share of Prime Group s net loss through September 30, 2002, as the Company recorded its share of Prime Group s earnings on a one-quarter lag basis.

On June 11, 2003, the Company exercised its right to exchange the 3,972,447 units it owned in Prime Group Realty L.P. for 3,972,447 common shares in Prime Group Realty Trust. Prior to the exchange, the Company accounted for its investment in the partnership on the equity method. Subsequent to the exchange, the Company is accounting for its investment in PGE as a marketable equity security-available for sale, as the Company s shares represent less than a 20% ownership interest in PGE (which is not a partnership), the Company does not have significant influence and the common shares have a readily determinable fair value. Accordingly, the carrying amount previously included in Investments and Advances to Partially-Owned Entities was reclassified to Marketable Securities on the Company s consolidated balance sheet. The Company is also required to mark these securities to market based on the closing price of the PGE shares on the NYSE at the end of each reporting period. For the period from June 11, 2003 through December 31, 2003, the Company recorded a $6,623,000 unrealized gain, which is not included in the Company s net income, but is reflected as a component of Accumulated Other Comprehensive Loss in the Shareholders Equity section of the consolidated balance sheet. From the date of exchange, income recognition is limited to dividends received on the PGE shares.

On June 13, 2003, the Company received its $5,000,000 share of a settlement with affiliates of Primestone Investment Partners of the amounts due under the guarantees of the Primestone loans. In connection therewith, the Company recognized a $1,388,000 loss on settlement of the guarantees, which has been reflected as a component of net gains on disposition of wholly-owned and partially-owned assets in the Company s 2003 consolidated statement of income.

*Gain on Transfer of Mortgages*

In the year ended December 31, 2002, the Company recorded a net gain of $2,096,000 resulting from payments to the Company by third parties that assumed certain of the Company s mortgages. Under these transactions the Company paid to the third parties that assumed the Company s obligations the outstanding amounts due under the mortgages and the third parties paid the Company for the benefit of assuming the mortgages. The Company has been released by the creditors underlying these loans.

Net (Loss) Gain on Disposition of Wholly-owned and Partially-owned Assets other than Depreciable Real Estate

*Net Gain on Sale of Air Rights*

In 2002, the Company constructed a $16.3 million community facility and low-income residential housing development (the 30th Street Venture ), in order to receive 163,728 square feet of transferable development rights, generally referred to as air rights . The Company donated the building to a charitable organization. The Company sold 106,796 square feet of these air rights to third parties at an average price of $120 per square foot. An additional 28,821 square feet of air rights was sold to Alexander s at a price of $120 per square foot for use at Alexander s 59th Street development project (the 59th Street Project ). In each case, the Company received cash in exchange for air rights. The Company identified third party buyers for the remaining 28,111 square feet of air rights of the 30th Street Venture. These third party buyers wanted to use the air rights for the development of two projects located in the general area of 86th Street which was not within the required geographical radius of the construction site nor in the same Community Board as the low-income housing and community facility project. The 30th Street Venture asked Alexander s to sell 28,111 square feet of the air rights it already owned to the third party buyers (who could use them) and the 30th Street Venture would replace them with 28,111 square feet of air rights. In October 2002, the Company sold 28,111 square feet of air rights to Alexander s for an aggregate sales price of $3,059,000 (an average of $109 per square foot). Alexander s then sold an equal amount of air rights to the third party buyers for an aggregate sales price of $3,339,000 (an average of $119 per square foot).

*Net Gains on Sale of Residential Condominium Units*

The Company recognized net gains of $282,000 and $2,156,000 during 2003 and 2002, from the sale of residential condominiums.

**Minority Interest**

Minority interest was $178,937,000 for the year ended December 31, 2003, compared to $140,933,000 for the prior year, an increase of $38,040,000. The increase is primarily due to higher income in 2003, primarily as a result of net gains on sale of real estate of $161,789,000, and an increase in preferred unit distributions of $2,187,000, representing the original issuance costs on the redemption of the Series D-1 preferred units.

**Discontinued Operations**

Assets related to discontinued operations consist primarily of real estate, net of accumulated depreciation. The following table sets forth the balances of the assets related to discontinued operations as of December 31, 2003 and 2002.

| | December 31, | |
|---|---|---|
| **(Amounts in thousands)** | **2003** | **2002** |
| Palisades (sold on June 29, 2004) | $ 138,629 | $ 142,333 |
| 400 North LaSalle | 80,685 | 27,600 |
| Arlington Plaza | 36,109 | 36,666 |
| Baltimore (Dundalk) (sold on August 12, 2004) | 2,167 | 2,050 |
| Vineland | 908 | 978 |
| Two Park Avenue (sold on October 10, 2003) | | 123,076 |
| Baltimore (sold on January 9, 2003) | | 2,218 |
| Hagerstown (sold on November 3, 2003) | | 1,013 |
| | $ 258,498 | $ 335,934 |

The following table sets forth the balances of the liabilities related to discontinued operations (primarily mortgage notes payable) as of December 31, 2003 and 2002.

| | December 31, | |
|---|---|---|
| (Amounts in thousands) | 2003 | 2002 |
| Palisades (sold on June 29, 2004) | $ 120,000 | $ 100,000 |
| Arlington Plaza | 16,487 | 17,054 |
| 400 North LaSalle | 3,038 | |
| | $ 139,525 | $ 117,054 |

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2003 and 2002 are as follows:

| | December 31, | |
|---|---|---|
| (Amounts in thousands) | 2003 | 2002 |
| Total Revenues | $ 47,770 | $ 48,283 |
| Total Expenses | 33,171 | 36,468 |
| Net income | 14,599 | 11,815 |
| Net gains on sales of real estate | 161,789 | |
| Income from discontinued operations | $ 176,388 | $ 11,815 |

On January 9, 2003, the Company sold its Baltimore, Maryland shopping center for $4,752,000, which resulted in a net gain after closing costs of $2,644,000.

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square foot office building, for $292,000,000, which resulted in a net gain on the sale after closing costs of $156,433,000.

On November 3, 2003, the Company sold its Hagerstown, Maryland shopping center for $3,100,000, which resulted in a net gain on sale after closing costs of $1,945,000.

**Cumulative Effect of Change in Accounting Principle**

In September 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets* (effective January 1, 2002). 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 wrote-off goodwill of approximately $30,129,000 of which (i) $15,490,000 represents its share of the goodwill arising from the Company s investment in Temperature Controlled Logistics and (ii) $14,639,000 represents goodwill arising from the Company s acquisition of the Hotel Pennsylvania. The write-off was reflected as a cumulative effect of a change in accounting principle in the 2002 consolidated statement income.

**EBITDA**

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

| (Amounts in thousands) | Total | Office | | Retail | | Merchandise Mart | | Temperature Controlled Logistics | | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended December 31, 2002 | $ 826,659 | $ 610,531 | | $ 114,498 | | $ 108,078 | | $ 69,798 | | $ (76,246) |
| 2003 Operations: | | | | | | | | | | |
| Same store operations(1) | | 5,670 | | 5,086 | | 4,445 | | 3,517 | (3) | |
| Acquisitions, dispositions and non-same store income and expenses | | 164,488 | | 24,535 | | 5,364 | | 4,650 | | |
| Year ended December 31, 2003 | $ 1,037,896 | $ 780,689 | | $ 144,119 | | $ 117,887 | | $ 77,965 | | $ (82,764) |
| % increase in same store operations | | 1.0 | %(2) | 4.5 | % | 4.1 | % | 4.8 | %(3) | |

(1) Represents operations which were owned for the same period in each year and excludes non-recurring income and expenses which are included in acquisitions, dispositions and non-same store income and expenses above.

(2) EBITDA and the same store percentage increase (decrease) were $488,419 ($331,886 excluding gains on sale of real estate of $156,533) and 3.3% (excluding such gains) for the New York office portfolio and $292,270 and (1.7%) for the CESCR portfolio. 36% of the same store decrease at CESCR reflects a reduction in third party net leasing fees.

(3) The Company reflects its 60% share of Vornado Crescent Portland Partnership s (the Landlord ) rental income it receives from AmeriCold Logistics, its tenant, which leases the underlying temperature controlled warehouses used in its business. The Company s joint venture does not recognize rental income unless earned and collection is assured or cash is received. The Company did not recognize $25,087 of rent it was due for the year ended December 31, 2003, which together with previously deferred rent is $49,436. The tenant has advised the Landlord that (i) its revenue for the year ended December 31, 2003 from the warehouses it leases from the Landlord, is lower than last year by 1.3%, and (ii) its gross profit before rent at these warehouses for the corresponding period is higher than last year by $607 (a 0.4% increase). In addition, in 2003, the tenant and the Landlord had lower general and administrative expenses and the Landlord received $885 of EBITDA from its investment in the quarries it acquired in December 2002 which was reflected in the gross profit of the tenant in the prior year.



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**Supplemental Information**

**Three Months Ended December 31, 2004 and December 31, 2003**

Below is a summary of Net Income and EBITDA(1) by segment for the three months ended December 31, 2004 and 2003.

| | For The Three Months Ended December 31, 2004 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in thousands)** | **Total** | **Office** | **Retail** | **Merchandise Mart** | **Temperature Controlled Logistics (3)** | **Other (4)** |
| Property rentals | $ 326,684 | $ 208,933 | $ 45,025 | $ 54,787 | $ | $ 17,939 |
| Straight-line rents: | | | | | | |
| Contractual rent increases | 9,795 | 7,332 | 1,280 | 1,092 | | 91 |
| Amortization of free rent | 7,507 | 3,312 | 2,366 | 1,828 | | 1 |
| Amortization of acquired below market leases, net | 3,268 | 1,928 | 1,340 | | | |
| Total rentals | 347,254 | 221,505 | 50,011 | 57,707 | | 18,031 |
| Expense reimbursements | 49,381 | 28,545 | 18,488 | 1,434 | | 914 |
| Temperature Controlled Logistics | 87,428 | | | | 87,428 | |
| Fee and other income: | | | | | | |
| Tenant cleaning fees | 8,606 | 8,606 | | | | |
| Management and leasing fees | 3,560 | 3,278 | 296 | 5 | | (19) |
| Other | 8,485 | 4,814 | 50 | 3,607 | | 14 |
| Total revenues | 504,714 | 266,748 | 68,845 | 62,753 | 87,428 | 18,940 |
| Operating expenses | 223,575 | 102,016 | 20,561 | 23,094 | 67,989 | 9,915 |
| Depreciation and amortization | 70,521 | 42,300 | 7,410 | 9,898 | 7,968 | 2,945 |
| General and administrative | 55,062 | 9,863 | 3,681 | 6,744 | 4,264 | 30,510 |
| Total expenses | 349,158 | 154,179 | 31,652 | 39,736 | 80,221 | 43,370 |
| Operating income (loss) | 155,556 | 112,569 | 37,193 | 23,017 | 7,207 | (24,430) |
| Income applicable to Alexander s | 4,203 | 88 | 174 | | | 3,941 |
| Income from partially-owned entities | 9,739 | 749 | 556 | 64 | 37 | 8,333 |
| Interest and other investment income | 167,331 | 361 | 180 | 22 | 220 | 166,548 |
| Interest and debt expense | (65,883) | (31,212) | (14,144) | (2,799) | (6,379) | (11,349) |
| Net gain on disposition of wholly-owned and partially-owned assets other than depreciablereal estate | 18,999 | 369 | | | | 18,630 |
| Minority interest | (50,192) | | | | (158) | (50,034) |
| Income from continuing operations | 239,753 | 82,924 | 23,959 | 20,304 | 927 | 111,639 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income (loss) from discontinued operations | 201 | 252 | (189) | | | 138 |
| Net income | 239,954 | 83,176 | 23,770 | 20,304 | 927 | 111,777 |
| Interest and debt expense(2) | 78,474 | 32,473 | 15,022 | 3,025 | 7,326 | 20,628 |
| Depreciation and amortization(2) | 78,378 | 43,409 | 8,690 | 10,031 | 8,601 | 7,647 |
| Income taxes | 829 | 113 | | 573 | 79 | 64 |
| EBITDA(1) | $ 397,635 | $ 159,171 | $ 47,482 | $ 33,933 | $ 16,933 | $ 140,116 |

See notes on page 89.

| | For The Three Months Ended December 31, 2003 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in thousands) | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics (3) | Other (4) |
| Property rentals | $ 309,598 | $ 205,493 | $ 35,442 | $ 51,906 | $ | $ 16,757 |
| Straight-line rents: | | | | | | |
| Contractual rent increases | 7,740 | 5,102 | 173 | 2,504 | | (39) |
| Amortization of free rent | 2,423 | 237 | 1,415 | 780 | | (9) |
| Amortization of acquired below market leases, net | 2,189 | 1,640 | 549 | | | |
| Total rentals | 321,950 | 212,472 | 37,579 | 55,190 | | 16,709 |
| Expense reimbursements | 45,476 | 27,893 | 14,275 | 2,949 | | 359 |
| Fee and other income: | | | | | | |
| Tenant cleaning fees | 7,300 | 7,300 | | | | |
| Management and leasing fees | 3,031 | 2,620 | 347 | | | 64 |
| Other | 7,592 | 2,292 | 326 | 5,026 | | (52) |
| Total revenues | 385,349 | 252,577 | 52,527 | 63,165 | | 17,080 |
| Operating expenses | 147,766 | 92,839 | 17,153 | 26,391 | | 11,383 |
| Depreciation and amortization | 58,892 | 39,969 | 6,322 | 8,924 | | 3,677 |
| General and administrative | 35,324 | 10,426 | 2,177 | 5,872 | | 16,849 |
| Total expenses | 241,982 | 143,234 | 25,652 | 41,187 | | 31,909 |
| Operating income (loss) | 143,367 | 109,343 | 26,875 | 21,978 | | (14,829) |
| Income applicable to Alexander s | 3,233 | | 161 | | | 3,072 |
| Income (loss) from partially-owned entities | 13,736 | 358 | 847 | (253) | 7,213 | 5,571 |
| Interest and other investment income | 9,176 | 1,066 | 211 | 10 | | 7,889 |
| Interest and debt expense | (58,575) | (33,288) | (14,780) | (3,637) | | (6,870) |
| Net loss on disposition of wholly-owned and partially-owned assets other than depreciable real estate | 2,950 | | | | | 2,950 |
| Minority interest | (67,284) | | | | | (67,284) |
| Income (loss) from continuing operations | 46,603 | 77,479 | 13,314 | 18,098 | 7,213 | (69,501) |
| Income (loss) from discontinued operations | 158,541 | 157,468 | 1,998 | | | (925) |
| Net income (loss) | 205,144 | 234,947 | 15,312 | 18,098 | 7,213 | (70,426) |
| Interest and debt expense(2) | 72,841 | 34,555 | 15,583 | 3,854 | 6,158 | 12,691 |
| Depreciation and amortization(2) | 78,270 | 40,871 | 6,796 | 9,282 | 8,722 | 12,599 |
| Income taxes | 1,627 | 45 | | | | 1,582 |
| EBITDA(1) | $ 357,882 | $ 310,418 | $ 37,691 | $ 31,234 | $ 22,093 | $ (43,554) |

See notes on following page.

**Notes to preceding tabular information:**

(1) EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2) Interest and debt expense and depreciation and amortization included in the reconciliation of net income to EBITDA reflects amounts which are netted in income from partially-owned entities.

(3) Operating results for the year ended December 31, 2004, reflect the consolidation of the Company s investment in Americold beginning on November 18, 2004. Previously, this investment was accounted for on the equity method. See page 92 for condensed proforma operating results of Americold for the three months ended December 31, 2004 and 2003, giving effect to the acquisition of its tenant, AmeriCold Logistics, as if it had occurred on January 1, 2003.

(4) Other EBITDA is comprised of:

| | For the Three Months Ended December 31, | |
|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** |
| Newkirk: | | |
| Equity in income of MLP | $ 13,746 | $ 15,119 |
| Interest and other income | 2,540 | 2,311 |
| Alexander s | 8,839 | 5,896 |
| Hotel Pennsylvania | 7,680 | 4,023 |
| Industrial warehouses | 1,506 | 1,365 |
| Student Housing | 186 | 494 |
| | 34,497 | 29,208 |
| Minority interest expense | (50,034) | (67,284) |
| Corporate general and administrative expenses | (29,488) | (16,758) |
| Investment income and other (a) | 184,311 | 7,069 |
| Discontinued Operations: | | |
| Palisades | (7) | 1,697 |
| 400 North LaSalle | 837 | (436) |
| Gains on sale of marketable securities | | 2,950 |
| | $ 140,116 | $ (43,554) |

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(a) The three months ended December 31, 2004 includes (i) $81,730 of income from the mark-to-market of the Sears option position, (ii) $29,452 of net gain on exercise of GMH warrants for limited partnership units, (iii) $24,190 of income from the mark-to-market of the remaining GMH warrants, (iv) $11,081 of interest income on $159,000 GMH commitment, (v) $8,861 of interest income on the GM building mezzanine loans and (vi) $4,771 of interest income on the repayment of the Company s loan to Vornado Operating.

In comparing the financial results of the Company s segments on a sequential quarterly basis, the following should be noted:

The third quarter of the Office and Merchandise Mart segments have historically been impacted by higher net utility costs than in each other quarter of the year;

The fourth quarter of the Retail segment has historically been higher than each of the first three quarters due to the recognition of percentage rental income; and

The second and fourth quarter of the Merchandise Mart segment have historically been higher than the first and third quarters due to major trade shows occurring in those quarters.

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2004 compared to the three months ended December 31, 2003.

| (Amounts in thousands) | Total | Office | | Retail | Merchandise Mart | | Temperature Controlled Logistics | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| Three months ended December 31, 2003 | $ 357,882 | $ 310,418 | | $ 37,691 | $ 31,234 | | $ 22,093 | | $ (43,554 | ) |
| 2004 Operations: | | | | | | | | | | |
| Same store operations(1) | | 2,872 | | 2,223 | 2,829 | (3) | | | | |
| Acquisitions, dispositions and non-recurring income and expenses | | (154,119 | ) | 7,568 | (130 | ) | (5,160 | ) | | |
| Three months ended December 31, 2004 | $ 397,635 | $ 159,171 | | $ 47,482 | $ 33,933 | | $ 16,933 | | $ 140,116 | |
| % increase in same store operations | | 1.9 | %(2) | 6.2 % | 9.7 | %(3) | N/A | %(4) | | |

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

(2) EBITDA and same store percentage increase (decrease) was $87,445 and 4.8% for the New York City office portfolio and $71,726 and (1.2%) for the CESCR portfolio.

(3) EBITDA and the same store percentage increase reflect the commencement of leases with WPP Group (228,000 square feet) in the third quarter of 2004 and the Chicago Sun Times (127,000 square feet) in the second quarter of 2004. EBITDA for the year ended December 31, 2004, exclusive of the incremental impact of these leases was $31,844, representing a 2.5% same store percentage increase.

(4) Not comparable because prior to November 4, 2004, (date the operations of AmeriCold Logistics were combined with Americold), the Company reflected its equity in the rent Americold received from AmeriCold Logistics. Subsequent thereto, the Company reflects its equity in the operations of the combined company. See page 92 for condensed proforma operating results of Americold for the three months ended December 31, 2004 and 2003, giving effect to the acquisition of its tenant, AmeriCold Logistics, as if it had occurred on January 1, 2003.

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2004 compared to the three months ended September 30, 2004:

| (Amounts in thousands) | Total | Office | | Retail | | Merchandise Mart | | Temperature Controlled Logistics | | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| Three months ended September 30, 2004 | $ 263,759 | $ 165,704 | | $ 52,148 | | $ 30,591 | | $ 19,191 | | $ (3,875) |
| 2004 Operations: | | | | | | | | | | |
| Same store operations(1) | | 1,948 | | 3,721 | | 1,998 | (4) | | | |
| Acquisitions, dispositions and non-recurring income and expenses | | (8,481) | | (8,387) | (3) | 1,344 | | (2,258) | | |
| Three months ended December 31, 2004 | $ 397,635 | $ 159,171 | | $ 47,482 | | $ 33,933 | | $ 16,933 | | $ 140,116 |
| % increase in same store operations | | 1.3 | %(2) | 9.0 | % | 6.7 | %(4) | N/A | (5) | |

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

(2) EBITDA and same store percentage increase (decrease) was $ 87,282 and 4.7% for the New York City office portfolio and $70,766 and (2.4%) for the CESCR portfolio.

(3) EBITDA for the three months ended September 30, 2004 includes a gain on the sale of the Company s Dundalk Shopping Center of $9,850.

(4) Primarily due to seasonality of trade shows operations.

(5) Not comparable because prior to November 4, 2004, (date the operations of AmeriCold Logistics were combined with Americold), the Company reflected its equity in the rent Americold received from AmeriCold Logistics. Subsequent thereto, the Company reflects its equity in the operations of the combined company. See page 92 for condensed proforma operating results of Americold for the three months ended December 31, 2004 and 2003, giving effect to the acquisition of its tenant, AmeriCold Logistics, as if it had occurred on January 1, 2003.

Below is a reconciliation of net income and EBITDA for the three months ended September 30, 2004.

| (Amounts in thousands) | Total | Office | Retail | Merchandise Mart | Temperature Controlled Logistics | Other |
|---|---|---|---|---|---|---|
| Net income (loss) for the three months ended September 30, 2004 | $ 108,523 | $ 88,666 | $ 29,648 | $ 19,299 | $ 2,781 | $ (31,871) |
| Interest and debt expense | 80,335 | 34,092 | 15,720 | 3,013 | 7,796 | 19,714 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Depreciation and amortization | 74,294 | 42,673 | 6,780 | 8,000 | 8,614 | 8,227 |
| Income Taxes | 607 | 273 | | 279 | | 55 |
| EBITDA for the three months ended September 30, 2004 | $ 263,759 | $ 165,704 | $ 52,148 | $ 30,591 | $ 19,191 | $ (3,875) |

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**Investment in Americold Realty Trust**

Prior to November 18, 2004, the Company owned a 60% interest in Vornado Crescent Portland Partnership ( VCPP ) which owned Americold Realty Trust ( Americold ). Americold owns 88 temperature controlled warehouses, all of which were leased to AmeriCold Logistics. On November 4, 2004, Americold purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. On November 18, 2004, the Company and its 40% partner, Crescent Real Estate Equities Company ( CEI ) collectively sold 20.7% of Americold s common shares to The Yucaipa Companies ( Yucaipa ) for $145,000,000, which resulted in a gain, of which the Company s share was $18,789,000. The sale price was based on a $1.450 billion valuation for Americold before debt and other obligations. Yucaipa is a private equity firm with significant expertise in the food distribution, logistics and retail industries. Upon closing of the sale to Yucaipa on November 18, 2004, Americold is owned 47.6% by the Company, 31.7% by CEI and 20.7% by Yucaipa. Pursuant to the sales agreement: (i) Yucaipa may earn a promote of 20% of the increase in the value of Americold through December 31, 2007, limited to 10% of the Company s and CEI s remaining interest in Americold; (ii) the annual asset management fee payable by CEI to the Company has been reduced from approximately $5,500,000 to $4,548,000, payable quarterly through October 30, 2027. CEI, at its option, may terminate the payment of this fee at any time after November 2009, by paying the Company a termination fee equal to the present value of the remaining payments through October 30, 2007, discounted at 10%. In addition, CEI is obligated to pay a pro rata portion of the termination fee to the extent it sells a portion of its equity interest in Americold; and (iii) VCPP was dissolved. The Company has the right to appoint three of the five members to Americold s Board of Trustees. Consequently, the Company is deemed to exercise control over Americold and, on November 18, 2004, the Company began to consolidate the operations and financial position of Americold into its accounts and no longer accounts for its investment on the equity method.

The following is a pro forma presentation of the results of operations of Americold for the three months and years ended December 31, 2004 and 2003, giving effect to the acquisition of AmeriCold Logistics as if it had occurred on January 1, 2003.

| | For the Year Ended December 31, | | For the Three Months Ended December 31, | |
|---|---|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** | **2004** | **2003** |
| Revenue | $ 701,707 | $ 655,286 | $ 191,595 | $ 176,610 |
| Cost of operations | 545,971 | 482,284 | 146,694 | 128,390 |
| Gross margin | 155,736 | 173,002 | 44,901 | 48,220 |
| Depreciation, depletion and amortization | 72,059 | 71,860 | 17,666 | 17,950 |
| Interest expense | 52,285 | 41,634 | 13,799 | 10,440 |
| General and administrative expense | 32,940 | 35,355 | 6,946 | 10,426 |
| Other expense (income), net | 11,137 | (601) | 5,879 | (1,778) |
| Net (loss) income | (12,685) | 24,754 | 611 | 11,182 |
| Depreciation and amortization | 71,622 | 71,386 | 17,567 | 17,836 |
| Interest expense | 52,285 | 41,634 | 13,799 | 10,440 |
| Income taxes | 4,640 | 1,989 | 775 | (1,344) |
| EBITDA | $ 115,867 | $ 139,763 | $ 32,752 | $ 38,114 |
| Same store % increase (decrease) | (5.3)% | | .8% | |

Revenue was $701,707,000 for the year ended December 31, 2004, compared to $655,286,000 for the year ended December 31, 2003, an increase of $46,421,000. The increase in revenue for the year ended December 31, 2004 was primarily due to (i) $36,406,000 from Americold s transportation management services business from both new and existing customers, (ii) $6,692,000 from new managed warehouse contracts, net of a contract termination in the fourth quarter of 2004 and (iii) an increase in handling and accessorial services.

Gross margin from owned warehouses was $150,515,000 or 34.4%, for the year ended December 31, 2004, compared to $159,909,000, or 36.9%, for the year ended December 31, 2003, a decrease of $9,394,000. This decrease was primarily attributable to (i) lower productivity related to new business at the Atlanta warehouses, (ii) lower average occupancy at the Carthage warehouse and (iii) a change in revenue mix as higher margin storage revenues declined and lower margin handling revenues increased.

Gross margin from other operations (i.e., transportation, management services and managed warehouses) was $5,221,000 for the year ended December 31, 2004, compared to $13,093,000 for the year ended for the year ended December 31, 2003, a decrease of $7,872,000. This decrease was primarily the result of (i) a $5,062,000 change in the estimate of unbilled transportation revenue, (ii) lower margins in the transportation management services business due to tightened truck supply in 2004 as a result of new legislation reducing the hours that drivers are permitted to drive in a day, partially offset by (iii) an increase in gross margin from new and existing managed warehouse customers.

Interest expense was $52,285,000 for the year ended December 31, 2004, compared to $41,634,000 for the year ended December 31, 2003, an increase of $10,651,000. The increase was primarily due to higher average debt outstanding as Americold obtained a mortgage financing on 28 of its unencumbered properties in February 2004.

General and administrative expense was $32,940,000 for the year ended December 31, 2004, compared to $35,355,000 for the prior year, a decrease of $2,415,000. This decrease resulted primarily from a lower bonus provision.

Other expense, net, was $11,137,000 for the year ended December 31, 2004, compared to other income, net, of $601,000 for the year ended December 31, 2003, a decrease of $11,738,000. This decrease resulted primarily from (i) $7,569,000 for the write-off of the remaining net book value of two vacant warehouse facilities and assets related to a managed warehouse contract that was terminated 2004, (ii) $2,241,000 of income in 2003 resulting from a tax refund, and (iii) a gain of $850,000 in 2003 resulting from a sale of warehouse.

**Related Party Transactions**

***Loan and Compensation Agreements***

In accordance with the terms of the employment arrangement with Steven Roth, the Company s Chief Executive Officer, and subject to a letter agreement dated November 1999, Mr. Roth may draw up to $15,000,000 of loans on a revolving basis. Each loan bears interest, payable quarterly, at the applicable Federal rate on the date the loan is made and matures on the sixth anniversary of such loan. Loans are collateralized by assets with a value of not less than two times the amount outstanding. At December 31, 2004, the outstanding balance under this arrangement was $13,122,500 (of which $4,704,500 is shown as a reduction in shareholders equity). The amount outstanding matures in January 2006 and bears interest at a weighted average rate of 4.49% per annum.

At December 31, 2004, the balance of the loan due from Michael Fascitelli, the Company s President, in accordance with his employment agreement was $8,600,000. The loan matures in December 2006 and bears interest, payable quarterly, at a weighted average rate of 3.97% (based on the applicable Federal rate).

Effective January 1, 2002, the Company extended its employment agreement with Mr. Fascitelli for a five-year period through December 31, 2006. Pursuant to the extended employment agreement, Mr. Fascitelli is entitled to receive a deferred payment on December 31, 2006 of 626,566 Vornado common shares which are valued for compensation purposes at $27,500,000 (the value of the shares on March 8, 2002, the date the extended employment agreement was executed). The shares are held in a rabbi trust for the benefit of Mr. Fascitelli and vested 100% on December 31, 2002. The extended employment agreement does not permit diversification, allows settlement of the deferred compensation obligation by delivery of these shares only, and permits the deferred delivery of these shares. The value of these shares was amortized ratably over the one-year vesting period as compensation expense.

Pursuant to the Company s annual compensation review in February 2002 with Joseph Macnow, the Company s Chief Financial Officer, the Compensation Committee approved a $2,000,000 loan to Mr. Macnow, bearing interest at the applicable federal rate of 4.65% per annum and due in June 2007. The loan was funded on July 23, 2002 and is collateralized by assets with a value of not less than two times the loan amount.

On March 11, 2004, the Company loaned $2,000,000 to Melvyn Blum, an executive officer of the Company, pursuant to the revolving credit facility contained in his January 2000 employment agreement. The loan bears interest at 1.57% per annum (the Federal rate) and is due in March 2007.

On February 22, 2005, the Company and Sandeep Mathrani, Executive Vice President Retail Division, entered into a new employment agreement. Pursuant to the agreement, the Company granted Mr. Mathrani (i) 16,836 restricted shares of the Company s stock, (ii) stock options to acquire 300,000 of the Company s common shares at an exercise price of $71.275 per share and (iii) the right to receive 200,000 stock options over the next two years at the then prevailing market price. In addition, Mr. Mathrani repaid the $500,000 loan the Company provided him under his prior employment agreement.

***Transactions with Affiliates and Officers and Trustees of the Company***

Alexander s

The Company owns 33% of Alexander s. Mr. Roth and Mr. Fascitelli are Officers and Directors of Alexander s, the Company provides various services to Alexander s in accordance with management, development and leasing agreements and the Company has made loans to Alexander s aggregating $124,000,000 at December 31, 2004. These agreements and the loans are described in Note 5 - Investments in Partially-Owned Entities to the Company s consolidated financial statements in this annual report on Form 10-K/A. In addition, in 2002, the Company sold air rights to Alexander s, details of which are provided in Note 3 Acquisitions and Dispositions to the Company s consolidated financial statements in this annual report on Form 10-K/A.

Interstate Properties

As of December 31, 2004, Interstate Properties and its partners beneficially owned approximately 10.8% of the common shares of beneficial interest of the Company and 27.4% of Alexander s common stock. Interstate Properties is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the 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 also directors of Alexander s.

The Company manages and leases the real estate assets of Interstate Properties pursuant to a management agreement for which the Company receives an annual fee equal to 4% of base rent and percentage rent. 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. The Company believes based upon comparable fees charged by other real estate companies that its terms are fair to the Company. The Company earned $726,000, $703,000 and $747,000 of management fees under the management agreement for the years ended December 31, 2004, 2003 and 2002. In addition, during fiscal years 2003 and 2002, as a result of a previously existing leasing arrangement with Alexander s, Alexander s paid to Interstate $587,000 and $703,000, respectively, for the leasing and other services actually rendered by the Company. Upon receipt of these payments, Interstate promptly paid them over to the Company without retaining any interest therein. This arrangement was terminated at the end of 2003 and all payments by Alexander s thereafter for these leasing and other services are made directly to the Company.

Vornado Operating Company ( Vornado Operating )

In October 1998, 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. Vornado Operating s primary asset was its 60% investment in AmeriCold Logistics, which leased 88 refrigerated warehouses from Americold, owned 60% by the Company. The Company granted Vornado Operating a $75,000,000 unsecured revolving credit facility that was to expire on December 31, 2004. Borrowings under the revolving credit facility bore interest at LIBOR plus 3%. The Company received a commitment fee equal to 1% per annum on the average daily unused portion of the facility. At the time of its dissolution referred to below, Vornado Operating had outstanding 4,068,924 shares and its operating partnership had outstanding 447,017 units. At such time, trustees and officers of the Company held approximately 24.3% of the common shares and units of Vornado Operating. In addition, Messrs. Roth, Fascitelli, Macnow, Wight and West each served as an officer and/or director of Vornado Operating.

On December 31, 2002, the Company and Crescent Real Estate Equities formed a joint venture to acquire the Carthage, Missouri and Kansas City, Kansas quarries from AmeriCold Logistics for $20,000,000 in cash (appraised value). The Company contributed cash of $8,800,000 to the joint venture representing its 44% interest. AmeriCold Logistics used the proceeds from the sale to repay a portion of a loan to Vornado Operating. Vornado Operating then repaid $9,500,000 of the amount outstanding under the Company s revolving credit facility. In addition, during 2004 and 2003, this joint venture acquired $21,930,000 and $5,720,000 of trade receivables from AmeriCold Logistics for $21,500,000 and $5,606,000, respectively. These receivables were subsequently collected in full.

On November 4, 2004, Americold purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. As part of this transaction, Vornado Operating repaid the $21,989,000 balance of the loan to the Company as well as $4,771,000 of unpaid interest. Because the Company fully reserved for the interest income on this loan beginning in January 2002, it recognized $4,771,000 of income upon collection in the fourth quarter 2004.

In November 2004, a class action shareholder derivative lawsuit was brought in the Delaware Court of Chancery against Vornado Operating Company ( Vornado Operating ), its directors and the Company. The lawsuit sought to enjoin the dissolution of Vornado Operating, rescind the previously completed sale of AmeriCold Logistics (owned 60% by Vornado Operating) to Americold Realty Trust (owned 60% by the Company) and damages. In addition, the plaintiffs claimed that the Vornado Operating directors breached their fiduciary duties. On November 24, 2004, a stipulation of settlement was entered into under which the Company agreed to settle the lawsuit with a payment of approximately $4.5 million or about $1 per Vornado Operating share or partnership unit before litigation expenses. The proposed settlement payment would be in addition to the liquidation distribution of $2 per Vornado Operating share or unit that Vornado Operating made to its equity-holders when it dissolved on December 29, 2004. On January 20, 2005, the Delaware Court of Chancery postponed deciding upon the proposed settlement and requested further but limited information before holding an additional hearing regarding the settlement, which has been scheduled for March 2005. The Company has accrued the proposed settlement payment and related legal costs as part of general and administrative expense in the fourth quarter of 2004. The Company believes that the ultimate outcome of this matter will not have a material effect on the Company s consolidated financial statements.

Other

On January 1, 2003, the Company acquired BMS, a company which provides cleaning and related services principally to the Company s Manhattan office properties, for $13,000,000 in cash from the estate of Bernard Mendik and certain other individuals including David R. Greenbaum, an executive officer of the Company. The Company paid BMS $53,024,000, for the year ended December 31, 2002 for services rendered to the Company s Manhattan office properties. Although the terms and conditions of the contracts pursuant to which these services were 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 the contracts were fair to the Company.

On August 4, 2003, the Company completed the acquisition of 2101 L Street, a 370,000 square foot office building located in Washington D.C. The consideration for the acquisition consisted of approximately 1.1 million newly issued Operating Partnership units (valued at approximately $49,517,000) and the assumption of existing mortgage debt and transaction costs totaling approximately $32,000,000. Robert H. Smith and Robert P. Kogod, trustees of Vornado, together with family members owned approximately 24 percent of the limited partnership that sold the building and Mr. Smith was a general partner. On August 5, 2003, the Company repaid the mortgage of $29,056,000.

On October 7, 2003, the Company acquired a 2.5% interest in the planned redevelopment of Waterfront, located at 401 M Street, a mixed-use project in Washington D.C. for $2,171,000, of which the Company paid $1,545,000 in cash and issued 12,500 Vornado Realty L.P. partnership units valued at $626,000. The partnership units were issued to Mitchell N. Schear, one of the partners in the Waterfront interest, and the President of the Company s CESCR division.

On July 1, 2004, the Company acquired the Marriott hotel located in its Crystal City office complex from a limited partnership in which Robert H. Smith and Robert P. Kogod, trustees of the Company, together with family members own approximately 67 percent. The purchase price of $21,500,000 was paid in cash. The hotel contains 343 rooms and is leased to an affiliate of Marriott International, Inc. until July 31, 2015, with one 10-year extension option. The land under the hotel was acquired in 1999.

On October 1, 2004, the Company increased its ownership interest in the Investment Building in Washington, D.C. to 5% by acquiring an additional 2.8% interest for $2,240,000 in cash. The Company s original interest in the property was acquired in connection with the acquisition of the Kaempfer Company in April 2003. Mitchell N. Schear, President of the Company s CESCR division and other former members of Kaempfer management were also partners in the Investment Building partnership.

During 2002, the Company paid approximately $147,000 for legal services to a firm in which one of the Company s trustees is a member.

**Liquidity and Capital Resources**

***The Company anticipates that cash from continuing operations over the next twelve months will be adequate to fund its business operations, dividends to shareholders and distributions to unitholders of the Operating Partnership and recurring capital expenditures, and together with existing cash balances will be greater than its anticipated cash requirements including development and redevelopment expenditures and debt amortization. Capital requirements for significant acquisitions may require funding from borrowings or equity offerings.***

As at December 31, 2004, the Company has an effective shelf registration under which the Company can offer an aggregate of approximately $397,990,000 of equity securities and Vornado Realty L.P. can offer an aggregate of $1,550,770,000 of debt securities. On January 26, 2005, the Company filed a registration statement to increase the amount of equity and debt securities that can be offered to up to $2.5 billion and $5.0 billion, respectively. On February 3, 2005, the registration statement was declared effective.

***Certain Future Cash Requirements***

For 2005 the Company has budgeted approximately $180,000,000 for capital expenditures excluding acquisitions as follows:

| (Amounts in millions except square foot data) | Total | | New York Office | | CESCR Office | | Retail | | Merchandise Mart | | Other(1) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Expenditures to maintain assets | $ | 57.5 | $ | 16.0 | $ | 21.0 | $ | 4.0 | $ | 10.0 | $ | 6.5 |
| Tenant improvements | | 101.5 | | 22.0 | | 60.5 | | 6.0 | | 13.0 | | |
| Leasing commissions | | 24.5 | | 7.0 | | 13.0 | | 1.5 | | 3.0 | | |
| Total Tenant Improvements and Leasing Commissions | | 126.0 | | 29.0 | | 73.5 | | 7.5 | | 16.0 | | |
| *Per square foot* | | | $ | 40.00 | $ | 28.25 | $ | 9.10 | $ | 13.60 | $ | |
| *Per square foot per annum* | | | $ | 4.20 | $ | 5.65 | $ | 0.90 | $ | 2.25 | $ | |
| Total Capital Expenditures and Leasing Commissions | $ | 183.5 | $ | 45.0 | $ | 94.5 | $ | 11.5 | $ | 26.0 | $ | 6.5 |
| | | | | | | | | | | | | |
| *Square feet budgeted to be leased (in thousands)* | | | | 725 | | 2,600 | | 825 | | 1,175 | | |
| *Weighted average lease term* | | | | 9.5 | | 5.0 | | 10.0 | | 6.0 | | |

(1) Hotel Pennsylvania, Paramus Office and Warehouses.

During the year ended December 31, 2004, actual cash basis capital expenditures and leasing commissions were $186,850,000, as compared to a budget of $194,200,000.

In addition to the capital expenditures reflected above, the Company is currently engaged in certain development and redevelopment projects for which it has budgeted approximately $470,000,000. Of this amount $310,000,000 is estimated to be expended in 2005.

The table above excludes Americold s 2005 budget of $23,000,000 for capital expenditures as Americold is expected to fund these expenditures without contributions from the Company. In addition, no cash requirements have been budgeted for the capital expenditures of Alexander s, Newkirk MLP, or any other entity that is partially owned by the Company. These investees are also expected to fund their own cash requirements.

***Financing Activities and Contractual Obligations***

Below is a schedule of the Company s contractual obligations and commitments at December 31, 2004.

| (Amounts in thousands) | Total | Less than 1 Year | 1 3 Years | 3 5 Years | Thereafter |
|---|---|---|---|---|---|
| Contractual Cash Obligations: | | | | | |
| Mortgages and Notes Payable (principal and interest) | $ 5,464,579 | $ 402,556 | $ 1,302,976 | $ 1,405,875 | $ 2,353,172 |
| Senior Unsecured Notes due 2007 | 544,916 | 12,850 | 532,066 | | |
| Senior Unsecured Notes due 2009 | 302,026 | 11,250 | 22,500 | 268,276 | |
| Senior Unsecured Notes due 2010 | 256,779 | 9,500 | 19,000 | 19,000 | 209,279 |
| Operating leases | 1,030,448 | 20,427 | 40,902 | 40,900 | 928,219 |
| Purchase obligations, primarily construction commitments | 49,200 | 49,200 | | | |
| Capital lease obligations | 69,658 | 17,722 | 18,288 | 13,741 | 19,907 |
| Total Contractual Cash Obligations | $ 7,717,606 | $ 523,505 | $ 1,935,732 | $ 1,747,792 | $ 3,510,577 |
| | | | | | |
| Commitments: | | | | | |
| Capital commitments to partially-owned entities | $ 9,696 | $ 9,696 | $ | $ | $ |
| Standby Letters of Credit | 32,306 | 31,986 | 320 | | |
| Other Guarantees | | | | | |
| Total Commitments | $ 42,002 | $ 41,682 | $ 320 | $ | $ |

At December 31, 2004, the Company has $567,851,000 available under its $600,000,000 revolving credit facility ($32,149,000 was utilized for letters of credit), which matures in July 2006. Further, the Company has a number of properties that 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 that 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 ((i) fire, (ii) flood, (iii) extended coverage, (iv) acts of terrorism as defined in the Terrorism Risk Insurance Act of 2002 which expires in 2005 and (v) rental loss insurance) with respect to its assets. In April 2004, the Company reviewed its all risk policies and increased its coverage for Acts of Terrorism for each of its New York Office, CESCR Office, Retail and Merchandise Mart divisions. Below is a summary of the all risk property insurance and terrorism risk insurance for each of the Company s business segments:

| | Coverage Per Occurrence |
|---|---|

| | All Risk(1) | Sub-Limits for Acts of Terrorism |
|---|---|---|
| New York Office | $ 1,400,000,000 | $ 750,000,000 |
| CESCR Office | 1,400,000,000 | 750,000,000 |
| Retail | 500,000,000 | 500,000,000 |
| Merchandise Mart | 1,400,000,000 | 750,000,000 |
| Temperature Controlled Logistics | 225,000,000 | 225,000,000 |

(1) Limited as to terrorism insurance by the sub-limit shown in the adjacent column.

In addition to the coverage above, the Company carries lesser amounts of coverage for terrorist acts not covered by the Terrorism Risk Insurance Act of 2002.

The Company s debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to the Company), its senior unsecured notes due 2007, 2009 and 2010 and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. Although the Company believes that it has adequate insurance coverage under these agreements, the Company may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further if lenders insist on greater coverage than the Company is able to obtain, or if the Terrorism Risk Insurance Act of 2002 is not extended; it could adversely affect the Company s ability to finance and/or refinance its properties and expand its portfolio.

In conjunction with the closing of Alexander s Lexington Avenue construction loan on July 3, 2002, the Company agreed to guarantee to the construction lender, the lien free, timely completion of the construction of the project and funding of all project costs in excess of a stated budget, as defined in the loan agreement, if not funded by Alexander s.

***Cash Flows for the Year Ended December 31, 2004***

Cash and cash equivalents were $599,282,000 at December 31, 2004, as compared to $320,542,000 at December 31, 2003, an increase of $278,740,000.

Cash flows provided by operating activities of $681,433,000 was primarily comprised of (i) net income of $592,917,000, (ii) adjustments for non-cash items of $53,699,000, (iii) distributions of income from partially-owned entities of $16,740,000, and (iv) a net change in operating assets and liabilities of $18,077,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $253,822,000 (ii) minority interest of $156,608,000, partially offset by (iii) net gains on mark-to-market of derivatives of $135,372,000 (Sears option shares and GMH warrants), (iv) net gains on sale of real estate of $75,755,000, (v) net gains on dispositions of wholly-owned and partially-owned assets other than real estate of $19,775,000, (vi) the effect of straight-lining of rental income of $61,473,000, (vii) equity in net income of partially-owned entities and income applicable to Alexander s of $51,961,000, and (viii) amortization of below market leases, net of $14,570,000.

Net cash used in investing activities of $367,469,000 was primarily comprised of (i) capital expenditures of $117,942,000, (ii) development and redevelopment expenditures of $139,669,000, (iii) investment in notes and mortgages receivable of $330,101,000, (iv) investments in partially-owned entities of $158,467,000, (v) acquisitions of real estate and other of $286,310,000, (vi) purchases of marketable securities of $59,714,000 partially offset by, (vii) proceeds from the sale of real estate of $233,005,000 (viii) distributions of capital from partially-owned entities of $287,005,000, (ix) repayments on notes receivable of $174,276,000, (x) cash received upon consolidation of Americold Realty Trust of $21,694,000 and (xi) cash restricted primarily for mortgage escrows of $8,754,000.

Net cash used in financing activities of $35,224,000 was primarily comprised of (i) dividends paid on common shares of $379,488,000, (ii) dividends paid on preferred shares of $21,920,000, (iii) distributions to minority partners of $131,142,000, (iv) repayments of borrowings of $702,823,000, (v) redemption of perpetual preferred shares and units of $112,467,000, partially offset by, proceeds from (vi) borrowings of $745,255,000, (vii) proceeds from the issuance of preferred shares and units of $510,739,000 and (viii) the exercise of employee share options of $61,935,000.

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the year ended December 31, 2004. See page 58 for per square foot data.

| (Amounts in thousands) | Total | New York Office | CESCR | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|---|
| Capital Expenditures (Accrual basis): | | | | | | |
| Expenditures to maintain the assets: | | | | | | |
| Recurring | $ 50,963 | $ 11,673 | $ 16,272 | $ 2,344 | $ 18,881 | $ 1,793 |
| Non-recurring | | | | | | |
| | 50,963 | 11,673 | 16,272 | 2,344 | 18,881 | 1,793 |
| Tenant improvements: | | | | | | |
| Recurring | 101,026 | 41,007 | 22,112 | 3,346 | 34,561 | |
| Non-recurring | 7,548 | | 7,548 | | | |
| Total | 108,574 | 41,007 | 29,660 | 3,346 | 34,561 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Leasing Commissions: | | | | | | |
| Recurring | 33,118 | 18,013 | 6,157 | 671 | 8,277 | |
| Non-recurring | 1,706 | | 1,706 | | | |
| | 34,824 | 18,013 | 7,863 | 671 | 8,277 | |
| Total Capital Expenditures and Leasing Commissions (accrual basis) | 194,361 | 70,693 | 53,795 | 6,361 | 61,719 | 1,793 |
| Adjustments to reconcile accrual basis to cash basis: | | | | | | |
| Expenditures in the current year applicable to prior periods | 61,137 | 29,660 | 26,463 | 1,518 | 3,496 | |
| Expenditures to be made in future periods for the current period | (68,648) | (27,562) | (22,186) | (2,172) | (16,728) | |
| Total Capital Expenditures and Leasing Commissions (Cash basis) | $ 186,850 | $ 72,791 | $ 58,072 | $ 5,707 | $ 48,487 | $ 1,793 |

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| (Amounts in thousands) | Total | New York Office | CESCR | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|---|
| Development and Redevelopment: | | | | | | |
| Expenditures: | | | | | | |
| Crystal Plazas (PTO) | $ 10,993 | $ | $ 10,993 | $ | $ | $ |
| 640 Fifth Avenue | 15,067 | 15,067 | | | | |
| 4 Union Square South | 28,536 | | | 28,536 | | |
| Crystal Drive Retail | 25,465 | | 25,465 | | | |
| Other | 59,608 | 4,027 | 220 | 33,851 | 21,262 | 248 |
| | $ 139,669 | $ 19,094 | $ 36,678 | $ 62,387 | $ 21,262 | $ 248 |

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.

***Cash Flows for the Year Ended December 31, 2003***

Cash and cash equivalents were $320,542,000 at December 31, 2003, as compared to $208,200,000 at December 31, 2002, an increase of $112,342,000.

Cash flow provided by operating activities of $535,617,000 was primarily comprised of (i) net income of $460,703,000, (ii) adjustments for non-cash items of $99,985,000, (iii) distributions of income from partially-owned entities of $6,666,000, partially offset by (iv) the net change in operating assets and liabilities of $31,737,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $219,911,000, (ii) minority interest of $178,675,000, partially offset by, (iii) gains on sale of real estate of $161,789,000, (iv) the effect of straight-lining of rental income of $41,947,000, (v) equity in net income of partially-owned entities and Alexander s of $83,475,000 and (vi) amortization of below market leases, net of $9,047,000.

Net cash used in investing activities of $136,958,000 was comprised of (i) investment in notes and mortgages receivable of $230,375,000, (ii) acquisitions of real estate of $216,361,000, (iii) development and redevelopment expenditures of $123,436,000, (iv) capital expenditures of $120,593,000, (v) investments in partially-owned entities of $15,331,000, (vi) purchases of marketable securities of $17,356,000, partially offset by, (vii) proceeds received from the sale of real estate of $299,852,000, (viii) distributions of capital from partially-owned entities of $147,977,000, (ix) restricted cash, primarily mortgage escrows of $101,292,000, (x) repayments on notes receivable of $29,421,000 and (xi) proceeds from the sale of marketable securities of $7,952,000.

Net cash used in financing activities of $286,317,000 was primarily comprised of (i) repayments of borrowings of $752,422,000, (ii) dividends paid on common shares of $327,877,000, (iii) distributions to minority partners of $158,066,000, (iv) redemption of perpetual preferred shares and units of $103,243,000, (v) dividends paid on preferred shares of $20,815,000, partially offset by (vi) proceeds from borrowings of $812,487,000, (vi) proceeds from the issuance of preferred shares and units of $119,967,000, and (viii) proceeds from the exercise of employee share options of $145,152,000.

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures for the year ended December 31, 2003.

| (Amounts in thousands) | Total | New York Office | CESCR | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|---|
| Capital Expenditures (Accrual basis): | | | | | | |
| Expenditures to maintain the assets: | | | | | | |
| Recurring | $ 31,421 | $ 14,201 | $ 6,125 | $ 592 | $ 10,071 | $ 432 |
| Non-recurring | 13,829 | | 4,907 | | 8,922 | |
| | 45,250 | 14,201 | 11,032 | 592 | 18,993 | 432 |
| Tenant improvements: | | | | | | |
| Recurring | 67,436 | 23,415 | 23,850 | 3,360 | 16,811 | |
| Non-recurring | 7,150 | | 7,150 | | | |
| | 74,586 | 23,415 | 31,000 | 3,360 | 16,811 | |
| Leasing Commissions: | | | | | | |
| Recurring | 19,931 | 10,453 | 6,054 | 273 | 3,151 | |
| Non-recurring | 1,496 | | 1,496 | | | |
| | 21,427 | 10,453 | 7,550 | 273 | 3,151 | |
| Total Capital Expenditures and Leasing Commissions (accrual basis): | | | | | | |
| Recurring | 118,788 | 48,069 | 36,029 | 4,225 | 30,033 | 432 |
| Nonrecurring | 22,475 | | 13,553 | | 8,922 | |
| Total | 141,263 | 48,069 | 49,582 | 4,225 | 38,955 | 432 |
| Adjustments to reconcile accrual basis to cash basis: | | | | | | |
| Expenditures in the current year applicable to prior periods | 47,174 | 10,061 | 17,886 | 11,539 | 7,688 | |
| Expenditures to be made in future periods for the current period | (56,465) | (21,172) | (26,950) | (1,830) | (6,513) | |
| Total Capital Expenditures and Leasing Commissions (Cash basis) | $ 131,972 | $ 36,958 | $ 40,518 | $ 13,934 | $ 40,130 | $ 432 |

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(1) Includes reimbursements from tenants for expenditures incurred in the prior year.

| (Amounts in thousands) | Total | New York Office | CESCR | Retail | Merchandise Mart | Other |
|---|---|---|---|---|---|---|
| Development and Redevelopment: | | | | | | |
| Expenditures: | | | | | | |
| 400 North LaSalle | $ 42,433 | $ | $ | $ | $ | $ 42,433 |
| 640 Fifth Avenue | 29,138 | 29,138 | | | | |
| 4 Union Square South | 14,009 | | | 14,009 | | |
| Crystal Drive Retail | 12,495 | | 12,495 | | | |
| Other | 25,361 | 5,988 | | 18,851 | 143 | 379 |
| | $ 123,436 | $ 35,126 | $ 12,495 | $ 32,860 | $ 143 | $ 42,812 |

***Cash Flows for the Year Ended December 31, 2002***

Cash flow provided by operating activities of $565,022,000 was primarily comprised of (i) net income of $232,903,000, (ii) adjustments for non-cash items of $303,869,000, (iii) distributions of income from partially-owned entities of $65,197,000, partially offset by, (iv) the net change in operating assets and liabilities of $36,947,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $205,826,000, (ii) minority interest of $140,933,000, (iii) net loss on dispositions of wholly-owned and partially-owned assets other than depreciable real estate of $17,471,000, (iv) a cumulative effect of change in accounting principle of $30,129,000, (v) amortization of officer s deferred compensation of $27,500,000, (vi) costs of acquisitions not consummated of $6,874,000, partially offset by (vii) the effect of straight-lining of rental income of $38,119,000, and (vii) equity in net income of partially-owned entities and Alexander s of $74,111,000, (viii) amortization of below market leases, net of $12,634,000.

Net cash used in investing activities of $89,314,000 was primarily comprised of (i) capital expenditures of $96,018,000, (ii) development and redevelopment expenditures of $91,199,000, (iii) investment in notes and mortgages receivable of $56,935,000, (v) investments in partially-owned entities of $73,242,000, (vi) acquisitions of real estate of $23,665,000, (v) restricted cash, primarily mortgage escrows of $21,471,00, partially offset by, (vii) proceeds from the repayment of notes and mortgage loans receivable of $124,500,000, (viii) distributions of capital from partially-owned entities of $60,880,000, and (ix) proceeds from sales of marketable securities of $87,836,000.

Net cash used in financing activities of $533,092,000 was primarily comprised of (i) repayments on borrowings of $731,238,000, (ii) dividends paid on common shares of $314,419,000, (iii) distributions to minority partners of $146,358,000, (iv) redemptions of perpetual preferred shares and units of $25,000,000, (v) dividends paid on preferred shares of $23,167,000, partially offset by, (vi) proceeds from borrowings of $628,335,000, (vii) proceeds from the issuance of common shares of $56,453,000 and (viii) proceeds from employee share option exercises of $26,272,000.

Below are the details of 2002 capital expenditures, leasing commissions and development and redevelopment expenditures.

| **(Amounts in thousands)** | **Total** | **New York City Office** | **CESCR** | **Retail** | **Merchandise Mart** | **Other** |
|---|---|---|---|---|---|---|
| Capital Expenditures: | | | | | | |
| Expenditures to maintain the assets: | | | | | | |
| Recurring | $ 27,881 | $ 9,316 | $ 13,686 | $ 1,306 | $ 2,669 | $ 904 |
| Non-recurring | 35,270 | 6,840 | 16,455 | | 11,975 | |
| | $ 63,151 | $ 16,156 | $ 30,141 | $ 1,306 | $ 14,644 | $ 904 |
| Tenant improvements: | | | | | | |
| Recurring | $ 24,847 | $ 12,017 | $ 5,842 | $ 2,309 | $ 4,679 | |
| Non-recurring | 6,957 | 2,293 | 4,664 | | | |
| | $ 31,804 | $ 14,310 | $ 10,506 | $ 2,309 | $ 4,679 | |
| Leasing Commissions: | | | | | | |
| Recurring | $ 14,345 | $ 8,854 | $ 4,416 | $ 353 | $ 614 | $ 108 |
| Non-recurring | 4,205 | 2,067 | 2,138 | | | |
| | $ 18,550 | $ 10,921 | $ 6,554 | $ 353 | $ 614 | $ 108 |
| Total Capital Expenditures and Leasing Commissions: | | | | | | |
| Recurring | $ 67,073 | $ 30,187 | $ 23,944 | $ 3,968 | $ 7,962 | $ 1,012 |
| Non-recurring | 46,432 | 11,200 | 23,257 | | 11,975 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | $ 113,505 | $ 41,387 | $ 47,201 | $ 3,968 | $ 19,937 | $ 1,012 |
| Development and Redevelopment Expenditures: | | | | | | |
| 400 North LaSalle | $ 27,600 | $ | $ | $ | $ | $ 27,600 |
| Palisades-Fort Lee, NJ | 16,750 | | | | | 16,750 |
| 640 Fifth Avenue | 16,749 | 16,749 | | | | |
| 435 7th Avenue | 12,353 | | | 12,353 | | |
| 4 Union Square South | 2,410 | | | 2,410 | | |
| Other | 15,337 | 10,234 | 1,496 | (596) | 1,529 | 2,674 |
| | $ 91,199 | $ 26,983 | $ 1,496 | $ 14,167 | $ 1,529 | $ 47,024 |

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**Funds From Operations ( FFO )**

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ( NAREIT ). NAREIT defines FFO as net income or loss determined in accordance with Generally Accepted Accounting Principles ( GAAP ), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus specified non-cash items, such as real estate asset depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO and FFO per diluted share are used by management, investors and industry analysts as supplemental measures of operating performance of equity REITs. FFO and FFO per diluted share should be evaluated along with GAAP net income and income per diluted share (the most directly comparable GAAP measures), as well as cash flow from operating activities, investing activities and financing activities, in evaluating the operating performance of equity REITs. Management believes that FFO and FFO per diluted share are helpful to investors as supplemental performance measures because these measures exclude the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs which implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, these non-GAAP measures can facilitate comparisons of operating performance between periods and among other equity REITs. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs as disclosed in the Company s Statements of Cash Flows. FFO 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. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 16 - Income per Share, in the Company s notes to consolidated financial statements on page 153 of this Annual Report on Form 10-K/A.

FFO applicable to common shares plus assumed conversions was $750,043,000, or $5.63 per diluted share for the year ended December 31, 2004, compared to $518,242,000, or $4.44 per diluted share for the year ended December 31, 2003, an increase of $231,801,000 or $1.19 per share. FFO applicable to common shares plus assumed conversions was $299,441,000 or $2.22 per diluted share for the three months ended December 31, 2004, compared to $130,729,000, or $1.08 per diluted share for the three months ended December 31, 2003, an increase of $168,712,000 or $1.14 per share.

| | For The Year Ended December 31, | | For The Three Months Ended December 31, | |
|---|---|---|---|---|
| **(Amounts in thousands except per share amounts)** | **2004** | **2003** | **2004** | **2003** |
| Reconciliation of Net Income to FFO: | | | | |
| Net income | $ 592,917 | $ 460,703 | $ 239,954 | $ 205,144 |
| Depreciation and amortization of real property | 228,298 | 208,624 | 63,367 | 58,125 |
| Net gains on sale of real estate | (75,755) | (161,789) | | (158,378) |
| Proportionate share of adjustments to equity in net income of partially-owned entities to arrive at FFO: | | | | |
| Depreciation and amortization of real property | 49,440 | 54,762 | 9,817 | 14,455 |
| Net gains (loss) on sale of real estate | (3,048) | (6,733) | (226) | 219 |
| Minority interests share of above adjustments | (27,991) | (20,080) | (9,159) | 15,742 |
| FFO | 763,861 | 535,487 | 303,753 | 135,307 |
| Preferred dividends | (21,920) | (20,815) | (6,351) | (4,885) |
| FFO applicable to common shares | 741,941 | 514,672 | 297,402 | 130,422 |
| Series B-1 and B-2 convertible preferred unit distributions | 4,710 | | 1,522 | |
| Series E-1 convertible preferred unit distributions | 1,581 | | | |
| Series A convertible preferred dividends | 1,068 | 3,570 | 263 | 307 |
| Series F-1 convertible preferred unit distributions | 743 | | 254 | |

| | | | | |
|---|---|---|---|---|
| FFO applicable to common shares plus assumed conversions | $ 750,043 | $ 518,242 | $ 299,441 | $ 130,729 |
| | | | | |
| Reconciliation of Weighted Average Shares: | | | | |
| Weighted average common shares outstanding | 125,241 | 112,343 | 127,071 | 115,685 |
| Effect of dilutive securities: | | | | |
| Employee stock options and restricted share awards | 5,515 | 2,786 | 6,604 | 4,686 |
| Series A convertible preferred shares | 457 | 1,522 | 448 | 524 |
| Series B-1 and B-2 convertible preferred units | 1,102 | | 873 | |
| Series E-1 convertible preferred units | 637 | | | |
| Series F-1 convertible preferred units | 183 | | 146 | |
| Denominator for diluted FFO per share | 133,135 | 116,651 | 135,142 | 120,895 |
| | | | | |
| Diluted FFO per share | $ 5.63 | $ 4.44 | $ 2.22 | $ 1.08 |

Included in FFO are certain items that affect comparability as detailed below. Before these items, the year ended December 31, 2004 is 5.3% higher than the prior year on a per share basis and the three months ended December 31, 2004 is 8.8% higher than the prior year s quarter on a per share basis.

| (Amounts in thousands, except per share amounts) | For The Year Ended December 31, | | | | For The Three Months Ended, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| | Amount | Per Share | Amount | Per Share | Amount | Per Share | Amount | Per Share |
| FFO applicable to common shares plus assumed conversions | $ 750,043 | $ 5.63 | $ 518,242 | $ 4.44 | $ 299,441 | $ 2.22 | $ 130,729 | $ 1.08 |
| | | | | | | | | |
| Items that affect comparability: | | | | | | | | |
| Net gain on mark-to-market of Sears option shares | $ (81,730) | | $ | | $ (81,730) | | $ | |
| Net gain on exercise of GMH warrants | (29,452) | | | | (29,452) | | | |
| Net gain on mark-to-market of remaining GMH warrants | (24,190) | | | | (24,190) | | | |
| Net gain on sale of a portion of investment in Americold to Yucaipa | (18,789) | | | | (18,789) | | | |
| Distributions received from GMH on the portion of the $159 million commitment funded for a shorter period of time or not funded at all | (7,809) | | | | (7,809) | | | |
| Net gain on sale of Newkirk MLP option units | (7,494) | | | | | | | |
| Interest income recognized upon collection of loan to Vornado Operating Company | (4,771) | | | | (4,771) | | | |
| Net gain on sale of land parcel Alexander s | (1,274) | | | | | | | |
| Net gains on sale of condominiums | (776) | | (282) | | | | | |
| Alexander s stock appreciation rights compensation expense | 25,340 | | 14,868 | | 4,460 | | 5,391 | |
| Bonuses to four executive vice presidents in connection with Alexander s | 6,500 | | | | 6,500 | | | |
| Accrued expenses in connection with Vornado Operating Company litigation | 4,516 | | | | 4,516 | | | |
| Write-off of perpetual Company preferred share and unit issuance costs | 3,895 | | 2,187 | | | | 2,187 | |
| Impairment loss Starwood Ceruzzi | 3,833 | | | | | | | |
| Impairment losses Newkirk MLP | 2,901 | | | | | | | |
| Costs of acquisition not consummated | 1,475 | | | | | | | |
| Loss (gain) on early extinguishment of debt of partially-owned entities | 1,434 | | (1,600) | | | | | |
| Loss on settlement of Primestone guarantees | | | 1,388 | | | | | |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Minority interests share of above adjustments | | 15,404 | | | | 3,115 | ) | | | 17,523 | | | | (1,369 | ) | |
| | | | | | | | | | | | | | | | | |
| | $ | (110,987 | ) | $ | (.83 | ) | $ | 13,446 | $ | .12 | $ | (133,742 | ) | $ | (.99 | ) |

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company has exposure to fluctuations in market interest rates. Market interest rates are highly sensitive to many factors, beyond the control of the Company. Various financial vehicles exist which would allow management to mitigate the impact of interest rate fluctuations on the Company s cash flows and earnings.

As of December 31, 2004, the Company has an interest rate swap as described in footnote 1 to the table below. In addition, during 2003 the Company purchased two interest rate caps with notional amounts aggregating $295,000,000, and simultaneously sold two interest rate caps with the same aggregate notional amount on substantially the same terms as the caps purchased. As the significant terms of these arrangements are the same, the effects of a revaluation of these instruments are expected to substantially offset one another. Management may engage in additional hedging strategies in the future, depending on management s analysis of the interest rate environment and the costs and risks of such strategies.

The Company s exposure to a change in interest rates on its consolidated and non-consolidated debt (all of which arises out of non-trading activity) is as follows:

| | 2004 | | | 2003 | |
|---|---|---|---|---|---|
| **($ in thousands, except per share amounts)** | **December 31, Balance** | **Weighted Average Interest Rate** | **Effect of 1% Change In Base Rates** | **December 31, Balance** | **Weighted Average Interest Rate** |
| Consolidated debt: | | | | | |
| Variable rate(1) | $ 1,114,981 | 3.45% | $ 11,150 | $ 1,270,899 | 2.22% |
| Fixed rate | 3,841,530 | 6.68% | | 2,906,566 | 7.19% |
| | $ 4,956,511 | 5.95% | 11,150 | $ 4,177,465 | 5.68% |
| Debt of non-consolidated entities: | | | | | |
| Variable rate | $ 122,007 | 4.67% | 1,220 | $ 153,140 | 3.64% |
| Fixed rate | 547,935 | 6.73% | | 777,427 | 7.07% |
| | $ 669,942 | 6.36% | 1,220 | $ 930,567 | 6.51% |
| Minority interest | | | (1,583) | | |
| Total change in the Company s annual net income | | | $ 10,787 | | |
| Per share-diluted | | | $ .08 | | |

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(1) Includes $512,791 and $525,279, respectively, for the Company s senior unsecured notes due 2007, as the Company entered into interest rate swap agreements that effectively converted the interest rate from a fixed rate of 5.625% to a floating rate of LIBOR plus .7725%, based upon the trailing 3 month LIBOR rate (2.57% at December 31, 2004). In accordance with SFAS No. 133: Accounting for Derivative Instruments and Hedging Activities, as amended, accounting for these swaps requires the Company to fair value the debt at each reporting period. At December 31, 2004 and 2003, the fair value adjustment was $13,148 and $25,780, and is included in the balance of

the senior unsecured notes above.

The fair value of the Company s debt, based on discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt, exceeds the aggregate carrying amount by approximately $256,518,000 at December 31, 2004.

As of December 31, 2004, the Company has mezzanine loans receivable of $440,186,000. The Company receives interest on these loans based on a floating rate (a fixed spread plus 30, 60 or 90 day LIBOR). The Company believes that a portion of its exposure to a change in interest rates on its floating rate debt, as illustrated above, is mitigated by the outstanding balances of these loans receivable.

***Derivative Instruments***

As of December 31, 2004, the Company has the following derivative instruments that do not qualify for hedge accounting treatment:

The Company has an economic interest in 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which the Company purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options have an initial weighted-average strike price of $39.82 per share, or an aggregate of $315,250,000, expire in April 2006 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points and is credited for the dividends received on the shares. The options provide the Company with the same economic gain or loss as if it had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. During the year ended December 31, 2004, the Company recorded net income of $81,730,000, comprised of (i) $88,782,000 from the mark-to-market of the options on December 31, 2004, based on Sears closing stock price of $51.03 per share and (ii) $2,295,000 for accrued dividends, partially offset by (i) $5,972,000 for a performance-based participation, (ii) $2,371,000 for the increase in strike price resulting from the LIBOR charge and (iii) $1,004,000 of professional fees.

Under a warrant agreement with GMH Communities L.P., the Company s holds 5.6 million warrants to purchase partnership units of GMH at an adjusted exercise price of $8.99 per share. Because these warrants are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the warrants at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. In the quarter ended December 31, 2004, the Company recognized income of $24,190,000 from the mark-to-market of these warrants based on GCT s closing stock price on the NYSE of $14.10 per share on December 31, 2004.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO FINANCIAL STATEMENTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have audited the accompanying consolidated balance sheets of Vornado Realty Trust (the Company ) as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedules included in Item 15. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2002, the Company applied the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

As discussed in Note 21, the accompanying consolidated statements of cash flows for each of the three years in the period ended December 31, 2004 have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2005 (June 8, 2005 as to the effects of the material weakness described in Management's Report on Internal Control Over Financial Reporting (as revised)) expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an adverse opinion on the effectiveness of the Company s internal control over financial reporting because of a material weakness.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey

February 24, 2005

(June 8, 2005 as to the effects
of the restatement discussed in Note 21)

**VORNADO REALTY TRUST**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| **(Amounts in thousands, except share and per share amounts)** | **2004** | **2003** |
| **ASSETS** | | |
| Real estate, at cost: | | |
| Land | $ 1,681,792 | $ 1,488,255 |
| Buildings and improvements | 7,548,425 | 5,936,786 |
| Development costs and construction in progress | 180,968 | 132,668 |
| Leasehold improvements and equipment | 307,660 | 72,027 |
| Total | 9,718,845 | 7,629,736 |
| Less accumulated depreciation and amortization | (1,404,441) | (867,177) |
| Real estate, net | 8,314,404 | 6,762,559 |
| Cash and cash equivalents, including U.S. government obligations under repurchase agreements of $23,110 and $30,310 | 599,282 | 320,542 |
| Escrow deposits and restricted cash | 229,193 | 161,833 |
| Marketable securities | 185,394 | 81,491 |
| Investments and advances to partially-owned entities, including Alexander s of $204,762 and $207,872 | 605,300 | 900,600 |
| Due from officers | 21,735 | 19,628 |
| Accounts receivable, net of allowance for doubtful accounts of $17,339 and $15,246 | 164,524 | 83,913 |
| Notes and mortgage loans receivable | 440,186 | 285,965 |
| Receivable arising from the straight-lining of rents, net of allowance of $6,787 and $2,830 | 324,266 | 267,269 |
| Other assets | 577,574 | 376,630 |
| Assets related to discontinued operations | 118,659 | 258,498 |
| | $ 11,580,517 | $ 9,518,928 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Notes and mortgages payable | $ 3,974,537 | $ 3,314,522 |
| Senior unsecured notes | 962,096 | 725,020 |
| Accounts payable and accrued expenses | 413,923 | 226,023 |
| Officers compensation payable | 32,506 | 23,349 |
| Deferred credit | 102,387 | 72,728 |
| Other liabilities | 113,402 | 18,902 |
| Liabilities related to discontinued operations | 21,054 | 139,525 |
| Total liabilities | 5,619,905 | 4,520,069 |
| Minority interest, including unitholders in the Operating Partnership | 1,947,871 | 1,921,286 |
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Preferred shares of beneficial interest: | | |
| no par value per share; authorized 70,000,000 shares; | | |
| Series A: liquidation preference $50.00 per share; issued and outstanding 320,604 and 5,520,435 shares | 16,034 | 18,039 |
| Series B: liquidation preference $25.00 per share; issued and outstanding 0 and 3,400,000 shares | | 81,805 |
| | 111,148 | 111,148 |

| | | |
|---|---|---|
| Series C: liquidation preference $25.00 per share; issued and outstanding 4,600,000 shares | | |
| Series D-10: liquidation preference $25.00 per share; issued and outstanding 1,600,000 shares | 40,000 | 40,000 |
| Series E: liquidation preference $25.00 per share; issued and outstanding 3,000,000 and 0 shares | 72,248 | |
| Series F: liquidation preference $25.00 per share; issued and outstanding 6,000,000 and 0 shares | 144,771 | |
| Series G: liquidation preference $25.00 per share; issued and outstanding 8,000,000 and 0 shares | 193,253 | |
| Common shares of beneficial interest: $.04 par value per share; authorized, 200,000,000 shares; issued and outstanding 127,478,903 and 118,247,944 shares | 5,128 | 4,739 |
| Additional capital | 3,257,731 | 2,883,078 |
| Earnings in excess (less than) distributions | 133,899 | (57,618) |
| | 3,974,212 | 3,081,191 |
| Common shares issued to officer s trust | (65,753) | (65,753) |
| Deferred compensation shares earned but not yet delivered | 70,727 | 70,610 |
| Deferred compensation shares issued but not yet earned | (9,523) | (7,295) |
| Accumulated other comprehensive income | 47,782 | 3,524 |
| Due from officers for purchase of common shares of beneficial interest | (4,704) | (4,704) |
| Total shareholders equity | 4,012,741 | 3,077,573 |
| | $ 11,580,517 | $ 9,518,928 |

See notes to consolidated financial statements.

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**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| **(Amounts in thousands, except per share amounts)** | **2004** | **2003** | **2002** |
| **Revenues:** | | | |
| Property rentals | $ 1,344,812 | $ 1,256,073 | $ 1,204,349 |
| Tenant expense reimbursements | 191,059 | 179,115 | 154,727 |
| Temperature Controlled Logistics | 87,428 | | |
| Fee and other income | 83,963 | 62,795 | 27,718 |
| Total revenues | 1,707,262 | 1,497,983 | 1,386,794 |
| Expenses: | | | |
| Operating | 679,790 | 581,550 | 517,958 |
| Depreciation and amortization | 242,914 | 213,679 | 197,704 |
| General and administrative | 145,218 | 121,857 | 100,035 |
| Amortization of officer s deferred compensation expense | | | 27,500 |
| Costs of acquisitions and development not consummated | 1,475 | | 6,874 |
| Total expenses | 1,069,397 | 917,086 | 850,071 |
| Operating income | 637,865 | 580,897 | 536,723 |
| Income applicable to Alexander s | 8,580 | 15,574 | 29,653 |
| Income from partially-owned entities | 43,381 | 67,901 | 44,458 |
| Interest and other investment income | 203,995 | 25,397 | 31,678 |
| Interest and debt expense (including amortization of deferred financing costs of $7,072, $5,893 and $8,339) | (241,968) | (228,860) | (232,891) |
| Net gain (loss) on disposition of wholly-owned and partially-owned assets other than depreciable real estate | 19,775 | 2,343 | (17,471) |
| Minority interest: | | | |
| Perpetual preferred unit distributions | (69,108) | (72,716) | (72,500) |
| Minority limited partnership earnings | (88,091) | (105,132) | (64,899) |
| Partially-owned entities | (109) | (1,089) | (3,534) |
| Income from continuing operations | 514,320 | 284,315 | 251,217 |
| Income from discontinued operations | 78,597 | 176,388 | 11,815 |
| Cumulative effect of change in accounting principle | | | (30,129) |
| Net income | 592,917 | 460,703 | 232,903 |
| Preferred share dividends | (21,920) | (20,815) | (23,167) |
| **NET INCOME applicable to common shares** | $ 570,997 | $ 439,888 | $ 209,736 |
| | | | |
| **INCOME PER COMMON SHARE BASIC:** | | | |
| Income from continuing operations | $ 3.93 | $ 2.35 | $ 2.15 |
| Income from discontinued operations | .63 | 1.57 | .11 |
| Cumulative effect of change in accounting principle | | | (.28) |
| Net income per common share | $ 4.56 | $ 3.92 | $ 1.98 |
| | | | |
| **INCOME PER COMMON SHARE DILUTED** | | | |
| Income from continuing operations | $ 3.75 | $ 2.29 | $ 2.07 |
| Income from discontinued operations | .60 | 1.51 | .11 |

| | | | | |
|---|---|---|---|---|
| Cumulative effect of change in accounting principle | | | | (.27) |
| Net income per common share | $ 4.35 | $ 3.80 | $ 1.91 | |

See notes to consolidated financial statements.

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

| (Amounts in thousands, except per share amounts) | Preferred Shares | Common Shares | Additional Capital | Earnings in Excess (less than) Distributions | Accumulated Other Comprehensive Income (Loss) | Other | Shareholders Equity | Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2002** | $ 468,977 | $ 3,961 | $ 2,190,301 | $ (95,647) | $ 7,484 | $ (4,704) | $ 2,570,372 | $ 281,184 |
| Net Income | | | | 232,903 | | | 232,903 | $ 232,903 |
| Dividends paid on Preferred Shares | | | | | | | | |
| Series A Preferred Shares ($3.25 per share) | | | | (6,167) | | | (6,167) | |
| Series B Preferred Shares ($2.125 per share) | | | | (7,225) | | | (7,225) | |
| Series C Preferred Shares ($2.125 per share) | | | | (9,775) | | | (9,775) | |
| Net proceeds from issuance of common shares | | 56 | 56,397 | | | | 56,453 | |
| Conversion of Series A Preferred shares to common shares | (203,489) | 225 | 203,264 | | | | | |
| Deferred compensation shares | | 2 | 30,127 | | | (1,722) | 28,407 | |
| Dividends paid on common shares ($2.97 per share, including $.31 for 2001) | | | | (314,419) | | | (314,419) | |
| Reversal of dividends payable on common shares in 2001 ($.31 per share) | | | | 30,701 | | | 30,701 | |
| Common shares issued under employees share option plan | | 36 | 24,349 | | | | 24,385 | |
| Redemption of Class A partnership units for common shares | | 38 | 30,380 | | | | 30,418 | |
| Common shares issued in connection with dividend | | 2 | 1,885 | | | | 1,887 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| reinvestment plan | | | | | | | | |
| Change in unrealized net loss on securities available for sale | | | | | (8,936) | | (8,936) | (8,936) |
| Other non-cash changes, primarily pension obligations | | | | | (1,648) | | (1,648) | (1,648) |
| **Balance, December 31, 2002** | $ 265,488 | $ 4,320 | $ 2,536,703 | $ (169,629) | $ (3,100) | $ (6,426) | $ 2,627,356 | $ 222,319 |
| Net Income | | | | 460,703 | | | 460,703 | $ 460,703 |
| Dividends paid on Preferred Shares | | | | | | | | |
| Series A Preferred Shares ($3.25 per share) | | | | (3,473) | | | (3,473) | |
| Series B Preferred Shares ($2.125 per share) | | | | (7,225) | | | (7,225) | |
| Series C Preferred Shares ($2.125 per share) | | | | (9,775) | | | (9,775) | |
| Series D-10 preferred shares ($1.75 per share) | | | | (342) | | | (342) | |
| Proceeds from issuance of Series D-10 Preferred Shares | 40,000 | | | | | | 40,000 | |
| Conversion of Series A Preferred shares to common shares | (54,496) | 86 | 54,410 | | | | | |
| Deferred compensation shares | | 8 | 5,392 | | | | 5,400 | |
| Dividends paid on common shares ($2.91 per share, including $.16 special cash dividend) | | | | (327,877) | | | (327,877) | |
| Common shares issued under employees share option plan | | 183 | 141,036 | | | | 141,219 | |
| Redemption of Class A partnership units for common shares | | 140 | 144,291 | | | | 144,431 | |
| Common shares issued in connection with dividend reinvestment plan | | 2 | 1,996 | | | | 1,998 | |
| Change in unrealized net gain on securities available for sale | | | | | 5,517 | | 5,517 | 5,517 |
| Shelf registration costs | | | (750) | | | | (750) | |
| Other primarily changes in deferred | | | | | 1,107 | (716) | 391 | 1,107 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| compensation plan | | | | | | | | |
| **Balance, December 31, 2003** | $ 250,992 | $ 4,739 | $ 2,883,078 | $ (57,618) | $ 3,524 | $ (7,142) | $ 3,077,573 | $ 467,327 |

See notes to consolidated financial statements.

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY - continued**

| (Amounts in thousands, except per share amounts) | Preferred Shares | Common Shares | Additional Capital | Earnings in Excess (less than) Distributions | Accumulated Other Comprehensive Income (Loss) | Other | Shareholders Equity | Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2003** | $ 250,992 | $ 4,739 | $ 2,883,078 | $ (57,618) | $ 3,524 | $ (7,142) | $ 3,077,573 | $ 467,327 |
| Net Income | | | | 592,917 | | | 592,917 | $ 592,917 |
| Dividends paid on Preferred Shares | | | | | | | | |
| Series A Preferred Shares ($3.25 per share) | | | | (1,066) | | | (1,066) | |
| Series B Preferred Shares ($2.125 per share) | | | | (1,525) | | | (1,525) | |
| Series C Preferred Shares ($2.125 per share) | | | | (9,775) | | | (9,775) | |
| Series D-10 preferred shares ($1.75 per share) | | | | (2,800) | | | (2,800) | |
| Series E Preferred Shares ($1.75 per share) | | | | (1,925) | | | (1,925) | |
| Series F Preferred Shares ($1.6875 per share) | | | | (1,266) | | | (1,266) | |
| Series G Preferred Shares ($1.65625 per share) | | | | (368) | | | (368) | |
| Redemption of Series B Preferred Shares | (81,805) | | | (3,195) | | | (85,000) | |
| Proceeds from issuance of Series E, F and G Preferred Shares | 410,272 | | | | | | 410,272 | |
| Conversion of Series A Preferred shares to common shares | (2,005) | 2 | 2,003 | | | | | |
| Deferred compensation shares | | 24 | 6,835 | | | | 6,859 | |
| Dividends paid on common shares ($3.05 per share, including $.16 | | | | (379,480) | | | (379,480) | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| special cash dividend) | | | | | | | | |
| Common shares issued under employees share option plan | | 67 | 55,042 | | | | 55,109 | |
| Redemption of Class A partnership units for common shares | | 294 | 308,038 | | | | 308,332 | |
| Common shares issued in connection with dividend reinvestment plan | | 2 | 2,109 | | | | 2,111 | |
| Change in unrealized net gain on securities available for sale | | | | | 43,643 | | 45,003 | 45,003 |
| Shelf registration costs | | | 626 | | | | 626 | |
| Other changes in deferred compensation plan | | | | | 615 | (2,111) | (2,856) | (745) |
| **Balance, December 31, 2004** | $ 577,454 | $ 5,128 | $ 3,257,731 | $ 133,899 | $ 47,782 | $ (9,253) | $ 4,012,741 | $ 637,175 |

See notes to consolidated financial statements.

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**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** | **2002** |
| | | **(as restated - See Note 21)** | |
| **Cash Flows from Operating Activities:** | | | |
| Net income | $ 592,917 | $ 460,703 | $ 232,903 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization (including debt issuance costs) | 253,822 | 219,911 | 205,826 |
| Minority interest | 156,608 | 178,675 | 140,933 |
| Net gains on mark-to-market of derivatives (Sears option shares and GMH Communities L.P. warrants) | (105,920) | | |
| Net gains on sale of real estate | (75,755) | (161,789) | |
| Straight-lining of rental income | (61,473) | (41,947) | (38,119) |
| Equity in income of partially-owned entities, including Alexander s | (51,961) | (83,475) | (74,111) |
| Distributions of income from partially-owned entities | 16,740 | 6,666 | 65,197 |
| Net gain on exercise of GMH Communities L.P. warrants | (29,452) | | |
| Net (gain) loss on dispositions of wholly-owned and partially-owned assets other than real estate | (19,775) | (2,343) | 17,471 |
| Amortization of below market leases, net | (14,570) | (9,047) | (12,634) |
| Costs of acquisitions and development not consummated | 1,475 | | 6,874 |
| Write-off preferred unit issuance costs | 700 | | |
| Cumulative effect of change in accounting principle | | | 30,129 |
| Amortization of officer s deferred compensation | | | 27,500 |
| Changes in operating assets and liabilities | 18,077 | (31,737) | (36,947) |
| Net cash provided by operating activities | 681,433 | 535,617 | 565,022 |
| **Cash Flows from Investing Activities:** | | | |
| Investments in notes and mortgage loans receivable | (330,101) | (230,375) | (56,935) |
| Distributions of capital from partially-owned entities | 287,005 | 147,977 | 60,880 |
| Acquisitions of real estate and other | (286,310) | (216,361) | (23,665) |
| Proceeds from sale of real estate | 233,005 | 299,852 | |
| Repayment of notes and mortgage loans receivable | 174,276 | 29,421 | 124,500 |
| Investments in partially-owned entities | (158,467) | (15,331) | (73,242) |
| Development costs and construction in progress | (139,669) | (123,436) | (91,199) |
| Additions to real estate | (117,942) | (120,593) | (96,018) |
| Purchases of marketable securities | (59,714) | (17,356) | |
| Cash received upon consolidation of Americold Realty Trust | 21,694 | | |
| Cash restricted, primarily mortgage escrows | 8,754 | 101,292 | (21,471) |
| Proceeds from sale of securities available for sale | | 7,952 | 87,836 |
| Net cash used in investing activities | (367,469) | (136,958) | (89,314) |
| **Cash Flows from Financing Activities:** | | | |
| Proceeds from borrowings | 745,255 | 812,487 | 628,335 |
| Repayments of borrowings | (702,823) | (752,422) | (731,238) |
| Proceeds from issuance of preferred shares and units | 510,439 | 119,967 | |

| | | | |
|---|---|---|---|
| Dividends paid on common shares | (379,480) | (327,877) | (314,419) |
| Distributions to minority partners | (131,142) | (158,066) | (146,358) |
| Redemption of perpetual preferred shares and units | (112,467) | (103,243) | (25,000) |
| Exercise of share options | 61,935 | 145,152 | 26,272 |
| Dividends paid on preferred shares | (21,920) | (20,815) | (23,167) |
| Costs of refinancing debt | (5,021) | (1,500) | (3,970) |
| Proceeds from issuance of common shares | | | 56,453 |
| Net cash used in financing activities | (35,224) | (286,317) | (533,092) |
| Net increase (decrease) in cash and cash equivalents | 278,740 | 112,342 | (57,384) |
| Cash and cash equivalents at beginning of year | 320,542 | 208,200 | 265,584 |
| Cash and cash equivalents at end of year | $ 599,282 | $ 320,542 | $ 208,200 |

See notes to consolidated financial statements.

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF CASH FLOWS - continued**

| | Year Ended December 31, | | |
|---|---|---|---|
| **(Amounts in thousands)** | **2004** | **2003** | **2002** |
| | | **(as restated See Note 21)** | |
| **Supplemental Disclosure of Cash Flow Information:** | | | |
| Cash payments for interest (including capitalized interest of $8,718, $5,407, and $6,677) | $ 253,791 | $ 245,668 | $ 247,048 |
| | | | |
| **Non-Cash Transactions:** | | | |
| Increases in assets and liabilities on November 18, 2004 resulting from the consolidation of the Company s investment in Americold Realty Trust: | | | |
| Real estate, net | $ 1,177,160 | $ | $ |
| Accounts receivable, net | 74,657 | | |
| Other assets | 68,735 | | |
| Notes and mortgages payable | 733,740 | | |
| Accounts payable and accrued expenses | 100,554 | | |
| Other liabilities | 47,362 | | |
| Minority interest | 284,764 | | |