

VORNADO REALTY TRUST  
Form 10-K  
February 23, 2010

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D. C. 20549**

**FORM 10-K**

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

**For the Fiscal Year Ended: December 31, 2009**

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

**22 1657560**  
(I.R.S. Employer Identification Number)

**888 Seventh Avenue, New York, New York**

**10019**

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(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:

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

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  
 Non-Accelerated Filer (Do not check if smaller reporting company)

Accelerated Filer  
 Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The 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, was \$7,216,326,000 at June 30, 2009.

As of December 31, 2009, there were 181,214,161 of the registrant's common shares of beneficial interest outstanding.

Documents Incorporated by Reference

**Part III:** Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 13, 2010.

**This Annual Report on Form 10-K omits financial statements required under Rule 3-09 of Regulation S-X, for Toys R Us, Inc. and Lexington Realty Trust. An amendment to this Annual Report on Form 10-K will be filed as promptly as practicable following the availability of such financial statements.**

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(1) These items are omitted in whole or in part because the registrant will file a definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with the Securities and Exchange Commission not later than 120 days after December 31, 2009, portions of which are incorporated by reference herein. See Executive Officers of the Registrant on page 57 of this Annual Report on Form 10-K for information relating to executive officers.

## 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, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. 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 approximates, believes, expects, anticipates, estimates, intends, may or other similar expressions in this Annual Report on Form 10 K. We also note the following forward-looking statements: in the case of our development projects, the estimated completion date, estimated project cost and cost to complete; and estimates of future capital expenditures, common and preferred share dividends and operating partnership distributions. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see Item 1A. Risk Factors in this Annual Report on Form 10-K.

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 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 occurring after the date of this Annual Report on Form 10-K.

# PART I

## ITEM 1. BUSINESS

### The Company

Vornado Realty Trust ( Vornado ) is a fully integrated real estate investment trust ( REIT ) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership ). Vornado is the sole general partner of, and owned approximately 92.5% of the common limited partnership interest in, the Operating Partnership at December 31, 2009. All references to we, us, our, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On May 14, 2009, our Board of Trustees executed its long-planned management succession strategy and elected Michael D. Fascitelli, as our Chief Executive Officer, succeeding Steven Roth, who continues to serve as Chairman of the Board.

As of December 31, 2009, we own directly or indirectly:

### Office Properties:

(i) all or portions of 28 properties aggregating 16.2 million square feet in the New York City metropolitan area (primarily Manhattan);

(ii) all or portions of 84 properties aggregating 18.6 million square feet in the Washington, DC / Northern Virginia areas;

(iii) a 70% controlling interest in 555 California Street, a three-building complex aggregating 1.8 million square feet in San Francisco's financial district;

### Retail Properties:

(iv) 162 properties aggregating 22.6 million square feet, including 3.9 million square feet owned by tenants on land leased from us, primarily in Manhattan, the northeast states, California and Puerto Rico;



**Merchandise Mart Properties:**

(v) 8 properties aggregating 8.9 million square feet of showroom and office space, including the 3.5 million square foot Merchandise Mart in Chicago;

**Toys R Us, Inc. ( Toys ):**

(vi) a 32.7% interest in Toys which owns and/or operates 1,567 stores worldwide, including 851 stores in the United States and 716 stores internationally;

**Other Real Estate Investments:**

(vii) 32.4% of the common stock of Alexander's, Inc. (NYSE: ALX), which has seven properties in the greater New York metropolitan area;

(viii) the Hotel Pennsylvania in New York City;

(ix) mezzanine loans on real estate; and

(x) other real estate and investments, including marketable securities.

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## 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, DC, where we believe there is a 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; and
- Developing and redeveloping existing properties to increase returns and maximize value.

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. We may also offer Vornado common or preferred shares or Operating Partnership units in exchange for property and may repurchase or otherwise reacquire our shares or any other securities in the future.

We may also determine to raise capital for future real estate acquisitions through an institutional investment fund. We would serve as the general partner of the fund and would also expect to be a limited partner of the fund and have the potential to earn certain incentives based on the fund's performance. The fund may serve as our exclusive investment vehicle for a limited period of time for all investments that fit within the fund's investment parameters. If we determine to raise capital through a fund, the partnership interests offered would not be registered under the Securities Act of 1933 and could not be offered or sold in the United States absent registration under that act or an applicable exemption from those registration requirements.

## BUSINESS ENVIRONMENT

The economic recession and illiquidity and volatility in the financial and capital markets have negatively affected substantially all businesses, including ours. Demand for office and retail space has declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. Real estate transactions and development opportunities have significantly curtailed and capitalization rates have risen. These trends have negatively impacted our 2008 and 2009 financial results, which include losses associated with abandoned development projects, valuation allowances on

Other Real Estate Investments:

investments in mezzanine loans and impairments on other real estate investments. The details of these non-cash charges are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this annual report on Form 10-K. It is not possible for us to quantify the impact of the above trends, which may continue in 2010 and beyond, on our future financial results.

## **ACQUISITIONS and DISPOSITIONS**

We did not make any significant investments in real estate during 2009.

On September 1, 2009, we sold 1999 K Street, a newly developed 250,000 square foot office building, in Washington's Central Business District, for \$207,800,000 in cash, which resulted in a net gain of \$41,211,000. We also sold 15 retail properties during 2009 in separate transactions for an aggregate of \$55,000,000 in cash, which resulted in net gains aggregating \$4,073,000.

## Financing Activities

In April 2009, we sold 17,250,000 common shares, including underwriters' over-allotment, in an underwritten public offering pursuant to an effective registration statement at an initial public offering price of \$43.00 per share. We received net proceeds of \$710,226,000, after underwriters' discount and offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 17,250,000 Class A units of the Operating Partnership.

On September 30, 2009, we completed a public offering of \$460,000,000 principal amount of 7.875% callable senior unsecured 30-year notes (NYSE: VNOD) due October 1, 2039. The notes were sold to the public at par and may be redeemed at our option, in whole or in part, beginning in October 2014 at a price equal to the principal amount plus accrued and unpaid interest. We received net proceeds of approximately \$446,000,000 from the offering which were used to repay debt and for general corporate purposes.

During 2009, we purchased \$1,912,724,000 (aggregate face amount) of our convertible senior debentures and \$352,740,000 (aggregate face amount) of our senior unsecured notes for \$1,877,510,000 and \$343,694,000 in cash, respectively. This debt was acquired through tender offers and in the open market and has been retired. We also repaid \$650,285,000 of existing property level debt and completed \$277,000,000 of property level financings.

## Development and Redevelopment Projects

We are currently engaged in certain development/redevelopment projects for which we have budgeted approximately \$200,000,000. Of this amount, \$78,118,000 was expended prior to 2009 and \$50,513,000 was expended during 2009. Substantially all of the estimated costs to complete these projects, aggregating approximately \$71,000,000, are anticipated to be expended during 2010, of which approximately \$18,000,000 will be funded by existing construction loans. We are also evaluating other development opportunities for which final plans, budgeted costs and financing have yet to be determined. There can be no assurance that any of our development projects will commence, or if commenced, be completed on schedule or within budget.

## Segment Data

We operate in the following business segments: New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties and Toys. Financial information related to these business segments for the years ended December 31, 2009, 2008 and 2007 are set forth in Note 22 - Segment Information to our consolidated

financial statements in this Annual Report on Form 10-K. The Merchandise Mart Properties segment has trade show operations in Canada and Switzerland. The Toys segment has 716 locations internationally. In addition, we have five partially owned nonconsolidated investments in real estate partnerships located in India, which are included in the Other segment.

## **SEASONALITY**

Our revenues and expenses are subject to seasonality during the year which impacts quarterly net earnings, cash flows and funds from operations, and therefore comparisons of the current quarter to the previous quarter. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income, which we record on a one-quarter lag basis in our first quarter, accounts for more than 80% of its fiscal year net income. The New York and Washington, DC Office Properties and Merchandise Mart Properties segments have historically experienced higher utility costs in the first and third quarters of the year. The Merchandise Mart Properties segment has also experienced higher earnings in the second and fourth quarters of the year due to major trade shows occurring in those quarters. The Retail Properties segment revenue in the fourth quarter is typically higher due to the recognition of percentage rental income.

## **tenants ACCOUNTING FOR over 10% of revenues**

None of our tenants accounted for more than 10% of total revenues in any of the years ended December 31, 2009, 2008 and 2007.

## **Certain Activities**

We are not required to base our acquisitions and investments on specific allocations by type of property. We have historically held our properties for long term investment; however, it is possible that properties in the portfolio may be sold as circumstances warrant. Further, we have not adopted a policy that limits the amount or percentage of assets which could be invested in a specific property or property type. While we may seek the vote of our shareholders in connection with any particular material transaction, generally our activities are reviewed and may be modified from time to time by our Board of Trustees without the vote of shareholders.

## **Employees**

As of December 31, 2009, we have approximately 4,597 employees, of which 308 are corporate staff. The New York Office Properties segment has 128 employees and an additional 2,512 employees of Building Maintenance Services LLC, a wholly owned subsidiary, which provides cleaning, security and engineering services primarily to our New York Office and Washington, DC Office properties. The Washington, DC Office Properties, Retail Properties and Merchandise Mart Properties segments have 396, 176 and 582 employees, respectively, and the Hotel Pennsylvania has 495 employees. The foregoing does not include employees of partially owned entities, including Toys or Alexander's, in which we own 32.7% and 32.4%, respectively.

## **principal executive offices**

Our 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 our 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 us, 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](http://www.vno.com)) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. Also available on our website are 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. Copies of these documents are also available directly from us free of charge. Our website also includes other financial information about us, including certain non-GAAP financial measures, none of which is a part of this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

Material factors that may adversely affect our business, operations and financial condition are summarized below.

### **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 our real estate investments include, among other things:

- national, regional and local economic conditions;
- competition from other available space;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- how well we manage our properties;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- whether we are able to pass some or all of any increases in operating costs through to tenants;
- changes in real estate taxes and other expenses;
- whether tenants and users such as customers and shoppers consider a property attractive;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- availability of financing on acceptable terms or at all;
- fluctuations in interest rates;
- our ability to secure adequate insurance;
- changes in taxation;
- changes in zoning laws;



- government regulation;
- consequences of any armed conflict involving, or terrorist attack against, the United States;
- natural disasters;
- 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 rental revenues and/or occupancy levels decline, we generally would expect to have less cash available to pay indebtedness and for distribution to 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.

***Capital markets and economic conditions can materially affect our financial condition and results of operations and the value of our debt and equity securities.***

There are many factors that can affect the value of our debt and equity securities, including the state of the capital markets and the economy, which have recently negatively affected substantially all businesses, including ours. Demand for office and retail space has declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. Real estate transactions and development opportunities have significantly curtailed and capitalization rates have risen. As a result, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers, and this may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability and the ability of our tenants, to timely refinance maturing liabilities and access the capital markets to meet liquidity needs which may materially affect our financial condition and results of operations and the value of our debt and equity securities.

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

Our business segments New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties, Toys and Other operate in highly competitive environments. We have a large concentration of properties in the New York City metropolitan area and in the Washington, DC / Northern Virginia areas. We compete with a large number of property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, attractiveness of location, the quality of the property and the breadth and quality of services provided. Our success depends upon, among other factors, trends of the national, regional 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 regulation, legislation and population trends.