

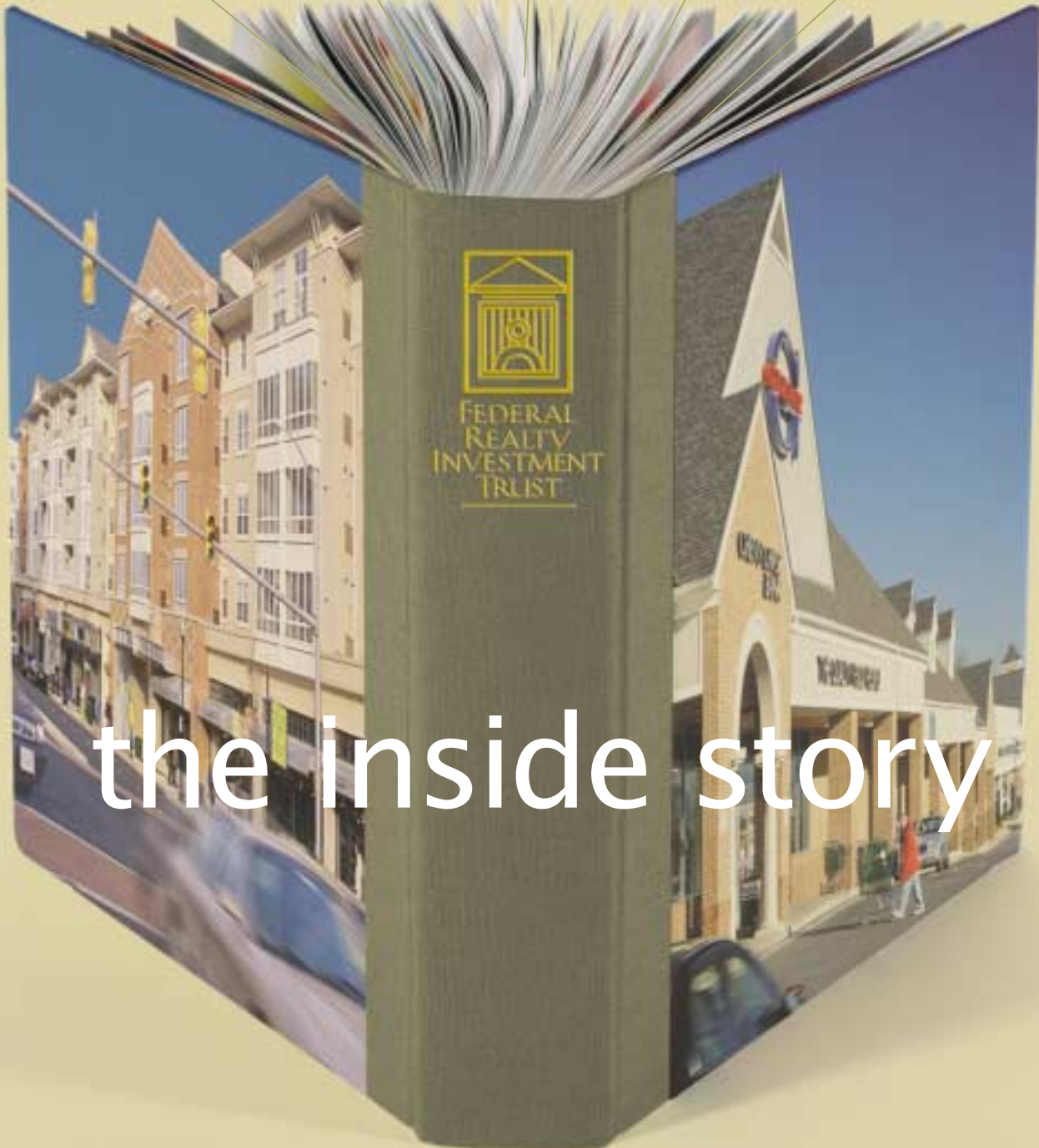
2001 return to
shareholders 32%

sector-leading
demographics

96% occupancy

limited single
tenant exposure

superior locations



the inside story

What is Federal Realty?

Federal Realty Investment Trust is an equity real estate investment trust specializing in the ownership, management, development and redevelopment of retail and mixed-use properties. At year-end 2001, Federal Realty's portfolio contained shopping centers, street retail and mixed-use properties comprising 15.1 million square feet located in major metropolitan markets within the United States. Federal Realty has paid quarterly dividends to its shareholders continuously since its founding in 1962, and has increased the dividend rate for 34 consecutive years. Shares of Federal Realty are traded on the New York Stock Exchange under the symbol: FRT.

solidity

Federal Realty is dividend growth and

quality

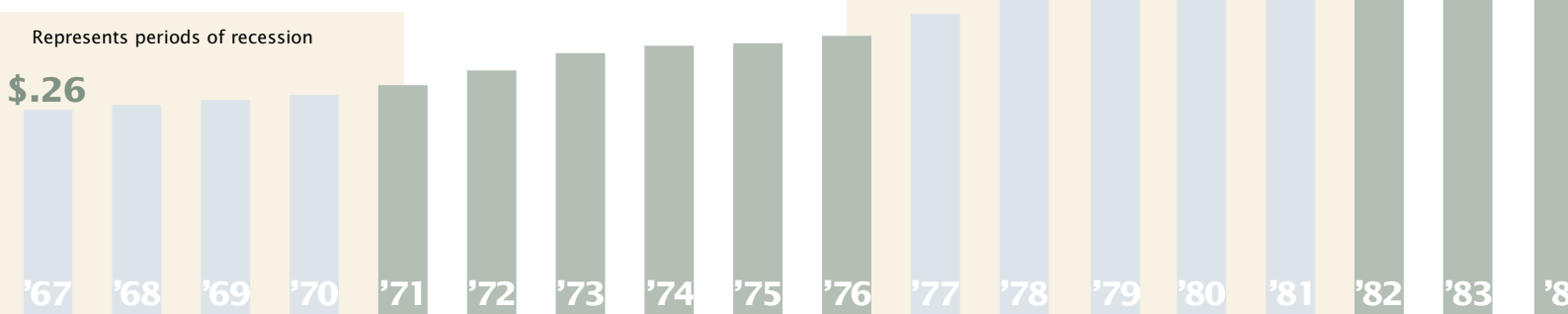
stability

long-term operating history

Dividend Growth 1967–2001

The trust has increased the dividend each and every year for the past 34 years, the longest record in the REIT industry.

growth



Financial Highlights

(in thousands, except per share amounts)

	2001	2000	1999	1998	1997
Real Estate Owned, at Cost	\$2,104,304	\$1,854,913	\$1,721,459	\$1,642,136	\$1,453,639
Revenues	300,502	279,281	264,713	238,478	204,271
Funds From Operations*	110,432	102,173	96,795	86,536	79,733
Dividends Paid per Share	1.89	1.82	1.77	1.73	1.69

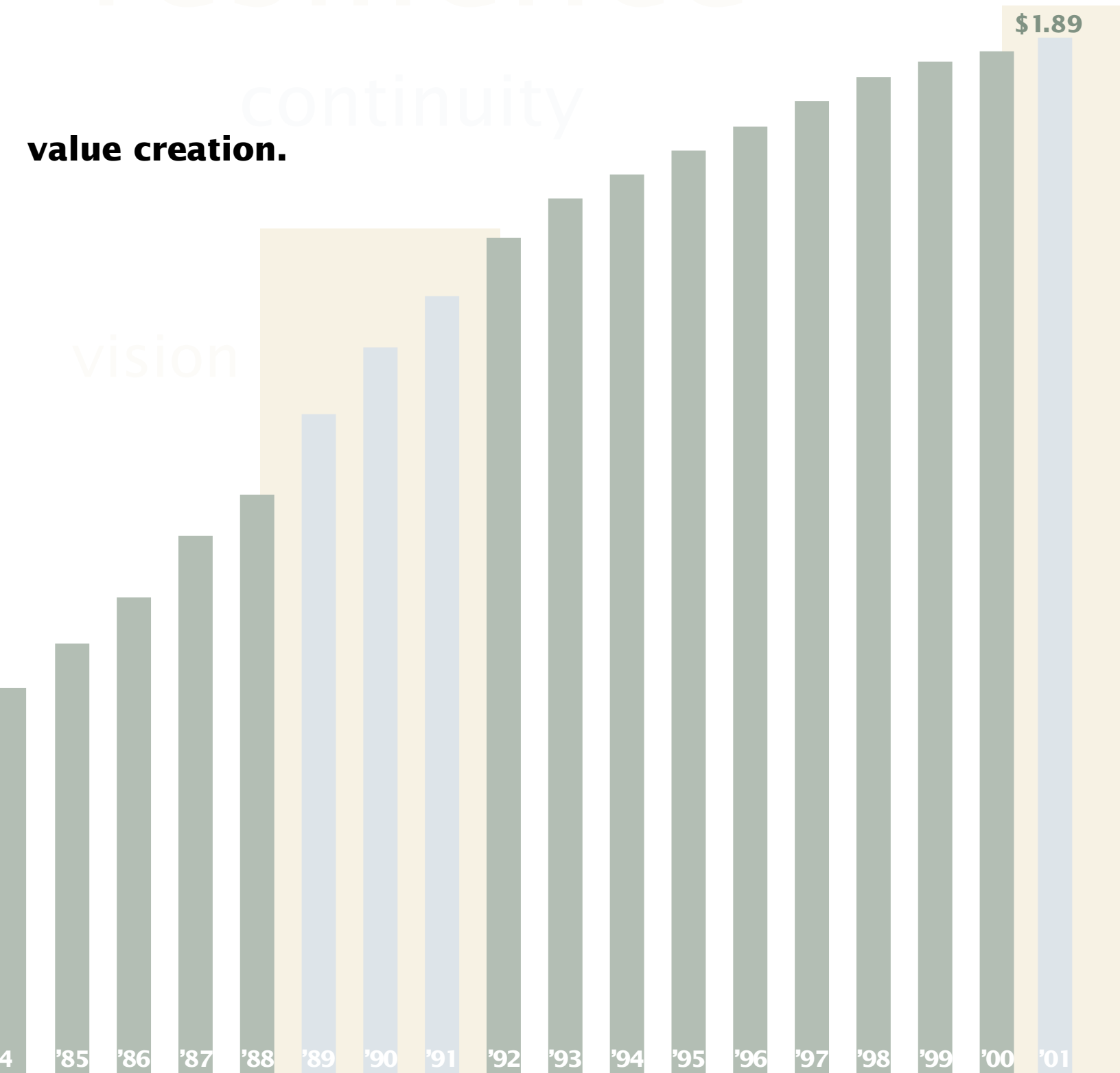
*Defined as income before depreciation and amortization of real estate assets and before extraordinary items and significant non-recurring events less gain on sale of real estate.

resilience

continuity

value creation.

vision



creating value

Dear Shareholders



Steven J. Guttman

Chairman &
Chief Executive Officer

I write this letter to you from a plane, having just taken off from San Jose International Airport after visiting Santana Row, the single largest development this company has ever undertaken. We are just months from the initial opening, and the heightened excitement, focus and confidence in this development are evident in the actions of each Santana Row team member. As we continue leasing through this recession, we realize that initial returns will not be as robust as we would like and will have a dilutive effect on 2002 earnings. However, we believe that in Santana Row, we are creating long-term value that will enhance our portfolio. As we bring Santana Row to life, I can't help but think about the superb foundation that our shopping center and the balance of our street retail portfolios provide. This foundation is evidenced by their financial performance during recession-plagued 2001.

The rock solid foundation that we have built over the last 40 years continues to deliver superior operating results regardless of economic conditions. In 2001, our real estate was once again put to the test, and once again proved its strength. As you read through this annual report, you will see how our portfolio stands apart and what differentiates Federal Realty from its peer group.

First is our exceptionally talented group of professionals. Despite numerous external factors, this motivated team made tremendous strides in improving operating results in 2001. Our diligent leasing staff and legal professionals executed leases for over one million square feet of space in both our income-generating and development portfolios. Our dedicated operations managers, development and redevelopment staff managed over 15 million square feet of space, and our tireless workforce of accountants and administrators demonstrated their integrity and conservatism in keeping everything running seamlessly.

When you cut through it all, the strongest underlying real estate fundamental is location. Our market-dominant locations, which benefit from robust demographics and limited competition, enable us

to maintain consistently strong occupancy levels. For the third straight year, portfolio occupancy at year-end stands at 96%. In fact, our occupancy has not fallen below 94% in over 10 years. Once again, strong rental increases from leases rolling over hit double digits with rents under new leases 16% higher than rents under the leases they replaced. Even in this tough economic environment, strong demand for our superior locations has helped drive revenue growth of 7%. In addition, the strength of our locations plays the most significant role in mitigating risk while driving strong and consistent operating performance. Our predominately grocery-anchored shopping centers have an extremely diversified tenant mix and continue to generate sales in excess of \$300 per square foot. This results in the Trust's ability to increase minimum rents and decreases the likelihood of our properties being impacted by selective store closings, as our spaces are typically more productive and profitable to the retailer.

We are proud of the Trust's history of creating value through development, redevelopment, retenanting and remerchandising. We continue to identify value-enhancing opportunities within our existing portfolio. We have currently identified several redevelopment opportunities, including our most exciting to date, the addition of a 146-unit apartment building on the back parcel of Congressional Plaza in Rockville, Maryland.

From a capital markets perspective, 2001 was a very productive year for the Trust. With the help of our long-term banking relationships, we arranged a \$295 million construction loan for Santana Row in the beginning of the year. We concluded the year by successfully issuing an oversubscribed \$135 million perpetual preferred stock issuance with an 8.5% dividend. Having strengthened the balance sheet, we are well positioned for the future.

Retail real estate assets of our quality are extraordinarily valuable and their value increases and becomes more sought after in difficult economic times. During these times, the true value of owning the highest quality assets shows through in higher occupancy rates,



Donald C. Wood
President &
Chief Operating Officer

“We are proud of the Trust’s history of creating value through development, redevelopment, retenanting and remerchandising.”

continued increases in net operating income and continued strong sales for our tenants.

In February of 2002, our Board of Trustees adopted a new business plan with a renewed focus on neighborhood and community shopping centers, principally through acquisitions and redevelopments. While I still believe in the long-term value creation of our pedestrian-friendly, street retail communities, the public markets have had difficulty placing an appropriate valuation on our urban, mixed-use development pipeline. The Trust remains focused on and committed to the successful opening of Santana Row as well as the ongoing operations of the balance of the street retail portfolio, including Bethesda Row and Pentagon Row. However, we will not invest additional capital in the development of future large-scale, mixed-use communities. We remain committed to maximizing the value of the Trust’s real estate and striving to increase our share price in order to generate attractive returns for our shareholders.

As part of the new business plan, I plan to retire as chief executive officer in March 2003. I’ve recommended, and the Board has endorsed, Don Wood as my successor. Don is currently president and chief operating officer and has grown tremendously since joining the Trust four years ago as its senior vice president and chief financial officer. Over the last two years, Don has concentrated on running our non-development portfolio, and the excellent results speak for themselves. I have the highest confidence in Don and I know you will as you get to know him.

Federal Realty remains on solid footing. The fundamentals that have fueled our growth for the past 40 years remain intact. Improved operating results combined with excellent locations, quality tenants and high sales, along with steady rental income growth, keep us confident in the long-term performance of the Trust.

On behalf of all of us at Federal Realty, thank you for your continued support and confidence.

Steven J. Guttman
Chairman & Chief Executive Officer



Cecily A. Ward
Former Vice President,
Chief Financial Officer
& Treasurer

Ron D. Kaplan
Former Senior Vice President
& Chief Investment Officer



As part of the new business plan adopted in late February 2002, Ron Kaplan and Cecily Ward will be leaving the Trust. Ron and Cecily have played a pivotal role in the significant growth and successful financing of our core business with Ron co-developing and running with me, the Trust’s Street Retail program.

Thanks to Ron’s capital market expertise, Federal Realty has benefited from one of the lowest costs of debt capital of any REIT. Ron and Cecily have helped grow the Trust from a \$500 million East Coast shopping center company to an over \$2.1 billion national real estate company with shopping center, street retail and mixed-use properties. I thank them for their many years of dedicated service to the Trust and for their valuable contributions not only to our company, but to the real estate industry at large.

Federal Realty is retail.

For 40 years, Federal Realty's primary business strategy has been based on three basic elements: 1) retail properties that fill a need in the community, 2) market dominant locations and 3) capitalizing on value-enhancing opportunities. This philosophy is the basis of our acquisition strategy that targets urban and suburban markets with strong retail demand and significant barriers to entry.

Today, Federal Realty's portfolio is comprised mainly of community and neighborhood shopping centers. A typical Federal Realty strip shopping center consists of between 20 and 50 stores and is anchored by one or more tenants that provide basic consumer necessities, such as a supermarket or drug store. In addition, our typical center includes "in-line" or small shop retailers that have been selected to meet the specific retailing needs of consumers in the surrounding area. Both the anchors and small shop tenants at Federal Realty centers have performed well regardless of economic environments over the past 40 years.

Federal Realty believes that the distinctive nature of its portfolio of retail operating properties at the best locations in and around selective metropolitan markets uniquely positions the Trust to differentiate itself from competitors and face the many challenges on the retail landscape today and in the future.





72% supermarket-anchored

Real Estate Assets
(at cost, in millions)

Federal Realty's real estate portfolio has expanded over the last five years to include both shopping center and street retail properties. As of December 31, 2001, the Trust's real estate assets, at cost, exceeded \$2.1 billion.



Rental Income
(in millions)

The exceptional portfolio quality produces strong rental income that is reflected in bottom-line performance.



Federal Realty is location.

Over the past 40 years, the Trust's primary objective has remained the same—to own the highest quality retail property in and around strategic markets. Today, the majority of the Trust's properties are located in close proximity to three major metropolitan areas on the East Coast: New York (including New Jersey and Connecticut), Philadelphia and Washington, D.C. (including suburban Maryland and Virginia) with smaller concentrations on the West Coast. Owning multiple properties in these regions provides Federal Realty with the critical density and requisite local knowledge to execute effective acquisition, leasing, property management and capital improvement strategies to maximize both near-term and long-term returns.



BETHESDA



CHICAGO



NORTHERN VIRGINIA



LOS ANGELES



NEW YORK



superior

Solid Demographics

Owning assets in established, densely populated communities with strong demographics provides a solid economic foundation for Federal Realty. The Trust believes that markets with superior demographics offer the greatest potential for continued consumer demand and corresponding increases in retail rents. Income and population demographics of Federal Realty's properties clearly demonstrate the quality of the locations when compared to both the Trust's peer group and national averages. In addition, owning the most desirable properties in major metropolitan markets enables the Trust to attract and retain the national, regional and local retailers that provide the merchandise and services required to adequately respond to the constantly changing demands of consumers.

Peer Comparison	Average Household Income (3-mile ring)	Average Population Density (3-mile ring)
Federal Realty	\$84,500	131,600
FRT Street Retail	\$85,500	187,600
FRT Shopping Centers	\$84,000	104,300
Federal Realty Peer Group*	\$55,190	67,003

Source: Supplemental disclosure and Federal Realty estimates.
* PNP, REG, DDR, KIM, WRI



BOSTON



WASHINGTON, D.C.



SAN DIEGO



PHILADELPHIA



SAN FRANCISCO

Pentagon Row

Pentagon Row is a recent example of Federal Realty's trademark property profile: a prime location in a major metropolitan area, excellent access and visibility, and strong demographics. This urban, mixed-use property is located directly adjacent to the Pentagon City Mall, one of the most productive enclosed malls in the region. Pentagon Row is visible from more than 225,000 cars each day traveling along I-395. In addition to the 500 apartment homes located above the 300,000-square-foot retail pedestal at Pentagon Row, more than 620,000 people live within five miles, including more than 15,000 residents living in high-rise residential units surrounding the property. This population density, along with average annual household incomes of almost \$70,000, provides the consumer demand necessary to ensure success.



locations

Federal Realty is quality.

Federal Realty has long stood for quality—owning the most productive, highest quality retail destinations with dynamic merchants in excellent locations.

quality tenants



Premier Core Portfolio

The Trust's diversified tenant base provides a significant hedge against poor economic environments and ever-changing consumer preferences.

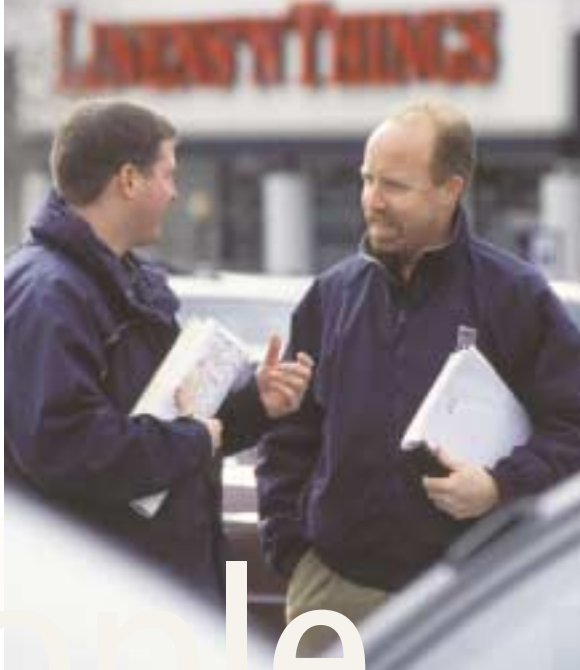
- Over 2,100 tenants
- 74% of rental income is derived from national and regional retailers
- No single tenant accounts for more than 2.7% of rental income
- Top 10 tenants represent only 16% of rental income

Federal Realty takes pride in the quality and diversification of its tenant base as demonstrated by the Trust's unique merchandising mix. The Trust strives to anticipate and stay ahead of emerging trends by recognizing the ever-changing tastes, needs and desires of consumers. Federal Realty's leasing team focuses their efforts not only on well-known national chains, but also on innovative and unique, one-of-a-kind regional and local retailers in each of its core markets.

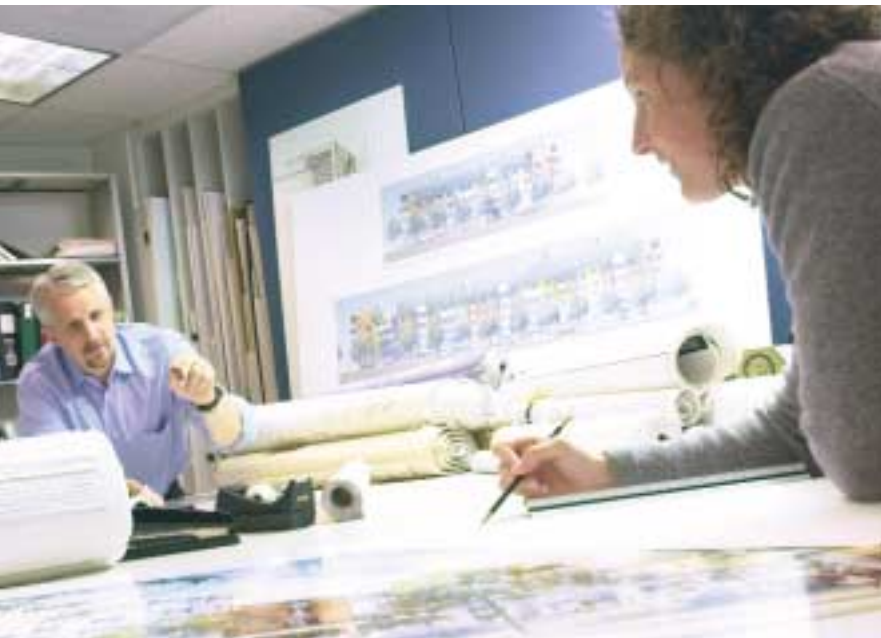
Supermarkets play a vital role in the Trust's shopping centers and urban districts, as these high-volume retailers provide the steady, daily consumer traffic necessary to ensure the success of both the grocer and the surrounding tenants. Increasingly, retailers are seeking out Federal Realty properties because of the consumer traffic generated by the anchors, as well as the synergies that are created by the dynamic tenant mix. Federal Realty works to ensure that its properties remain important and vital to the communities they serve. In providing the unique mix of anchors and small shops necessary to meet the demand of each specific community, the Trust has limited its exposure to any single tenant or group of tenants. This tenant diversification limits the impact of specific retailer bankruptcies and economic downturns on the Trust's financial results.

low exposure

leadership



quality people



Federal Realty has built a multi-disciplined employee base to execute all aspects of its business plan. Individually and as a group, the Federal Realty team pays close attention to all of the details required to effectively acquire, entitle, develop, market, lease, maintain, operate, fund and report on its real estate assets. Each of these disciplines plays a critical role in ensuring the successful operation of the Trust.

multi-disciplined

commitment



Federal Realty is performance.

Federal Realty's strong track record of superior operating performance through varied economic cycles has established the Trust as a leader in the field of retail real estate. The strength of Federal Realty's real estate and management is reflected in the Trust's strong leasing activity, high tenant sales per square foot and outstanding occupancy levels. Federal Realty's ability to achieve and maintain consistently strong operating results underscores the quality of the Trust's properties and the strength of its prime locations.

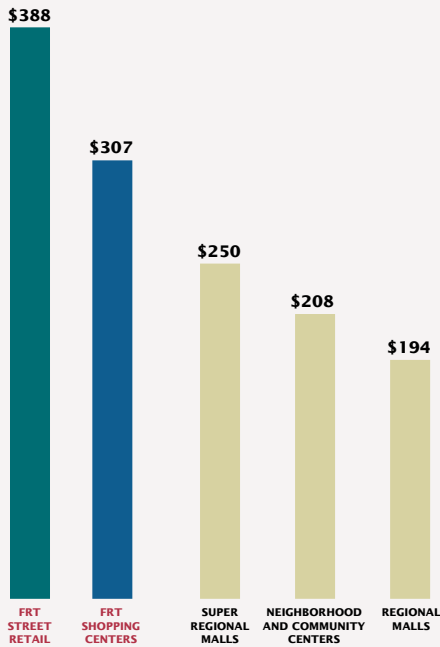


Strong Demand for Assets

Demand for Federal Realty's retail space remained strong over the past year, as the Trust finished 2001 with 96% of its retail space leased. These results are particularly noteworthy in an economic environment filled with news of retailer bankruptcies and store closings. 2001 was also an especially productive leasing year as Federal Realty signed leases for more than one million square feet of retail and office space at an average 16% increase over prior rents for the same space. The Trust's strong operating performance is a direct result of owning the highest quality assets in the strongest metropolitan markets.

Given the continued high demand by retailers for the best shopping center locations in our markets, we continue to capitalize on opportunities to diversify and enhance the quality of the retail tenant mix. We accomplish this by keeping a watchful eye on every tenant and by replacing financially weak or underperforming retailers with stronger tenants that can continue to drive consumer traffic and enhance the attractiveness of our centers.

Lease Rollovers	Square Feet Leased	Increase over Prior Rent
2001	1,000,000	16%
2000	991,000	14%
1999	1,031,000	22%
1998	1,090,000	17%
1997	1,121,000	17%
1996	1,300,000	21%
1995	1,300,000	18%
1994	770,000	24%
1993	880,000	19%
1992	851,000	26%

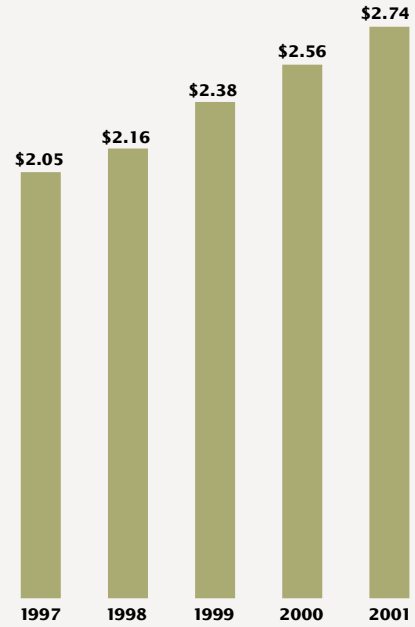


Source: ICSC and NRB.

Sales Performance

(per square foot)

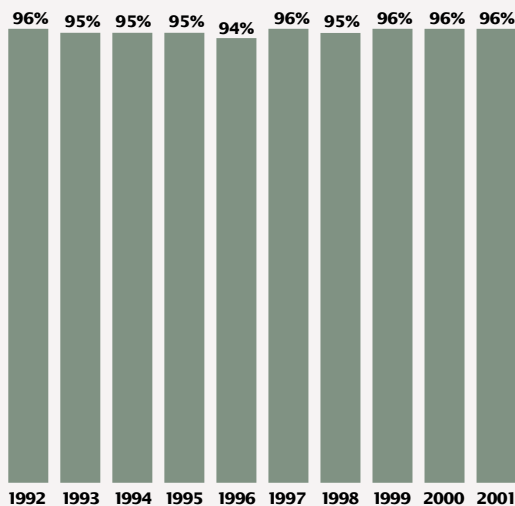
Retail sales of reporting tenants, in both our shopping center and street retail portfolios, significantly outperform national averages for shopping centers and other retail concepts.



Funds From Operations

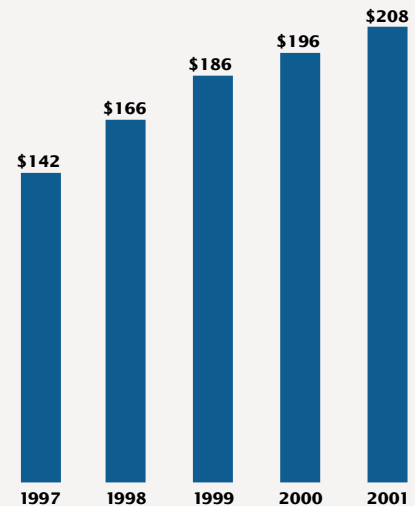
(per share)

Funds from operations is an important measure of a REIT's operating performance. In 2001, Federal Realty's funds from operations per share rose 7% to a record \$2.74. Over the past five years, the Trust's funds from operations have grown at an average annual rate of 7%.



Occupancy

Federal Realty has consistently maintained a high level of occupancy across its portfolio for more than 10 years. The Trust enjoys portfolio occupancy rates that far exceed national and peer averages.



Net Operating Income

(including interest income, in millions)

Federal Realty has consistently achieved increasing revenue and earnings growth, fueled by the positive effects of core rental rate growth and property redevelopment. Between 1997 and 2001, net operating income grew at an average rate of over 11% per year.

Federal Realty is value.

While the location, demographics and unique tenant mix of Federal Realty properties play a significant role in driving value, the Trust also strives to enhance the value of each asset. Historically, this has been accomplished through a combination of creative merchandising, strategic renovations, expansions and aggressive marketing.

Strategic redevelopment of existing properties has long been a mainstay of Federal Realty's growth and one of the most important ways to create value for shareholders. The Trust undertakes a SWOT (strengths, weaknesses, opportunities and threats) analysis with respect to each existing and prospective property in its market, which becomes the framework for developing strategic plans to improve both the property and the Trust's operating results. As a long-term owner of real estate, Federal Realty understands the importance of responsibly investing capital in our properties to maintain and improve their competitive position.

opportunity



FEDERAL PLAZA
ROCKVILLE, MD



CONGRESSIONAL APARTMENTS
ROCKVILLE, MD

Innovative Approaches to Adding Value

Key to the current and future growth of Federal Realty's portfolio is the ability to add value to its properties. Through a disciplined process of evaluating each property and what it takes to reach its maximum potential, Federal Realty identifies opportunities to improve performance and enhance the value of each property. This "value-added" approach takes many forms including creative redesign, expansion or remerchandising. When the Trust can expand a shopping center by adding leasable square footage on land it already owns, income for the property increases. This produces attractive yields on the incremental funds invested in the expansion and dramatically increases the value of the

center. Expanding a property also enables Federal Realty to bring additional dynamic tenants to the center, further strengthening the overall property.

Federal Realty developed a restaurant site in an underutilized portion of the parking lot at Federal Plaza in Rockville, Maryland. On another underutilized portion of a parking lot, this time behind Congressional Plaza, also in Rockville, Maryland, Federal Realty is developing a 146-unit apartment community. These are two examples of where the Trust is able to create value through thoughtful analysis of existing shopping center assets.

value
creating

a strong location

Santana Row— Vision Becoming Reality

Located in San Jose, California, Santana Row is an exceptional neighborhood that blends a distinctive mix of living, shopping and dining experiences. Strategically located in the heart of Silicon Valley, Phase I of Santana Row will feature:

- A 1,500-foot main street
- 538,000 square feet of retail space including luxury fashion boutiques, distinctive lifestyle shops and specialty stores and galleries, including Gucci, Escada, Borders, Anthropologie, BCBG, Tommy Bahama, Diesel, Sur La Table and CineArts Theater
- An international array of restaurants offering both fine and casual dining
- A 214-room four-star boutique hotel
- 501 unique residential offerings that range from urban lofts to three-level town homes and luxury villas
- Several parks, plazas and courtyards including a one-half acre central park with carts and kiosks

Among the largest developments in the country, Santana Row will set a new standard for urban living and shopping in one of America's most affluent and influential regions.

Construction is progressing on schedule, and Federal Realty's vision of Santana Row is quickly becoming a reality. As of March 2002, most of the buildings in Phase I have been framed, with exterior and interior finishing work underway. Despite the slowing economy, leasing activity remains strong with 83% of the first floor space directly on the main street committed, ensuring a vibrant shopping experience upon initial opening in fall 2002. Phase I of Santana Row is expected to begin generating revenue by the end of 2002.

SANTANA ROW
ARCHITECT'S RENDERING—
CONSTRUCTION PROGRESS MARCH 2002



Redevelopment Creates Value

The Trust strives to create value for shareholders through innovative redevelopment and reconfiguration at existing properties. During 2001, the Trust took second floor, formerly unusable retail space at Willow Lawn in Richmond, Virginia, and added 57,000 square feet of high-quality office space.



Sales Confirm Value

The Trust is always focused on utilizing every available tool to maximize the value of its entire portfolio, including the use of appropriately timed dispositions. In 2001, the Trust sold a street retail asset in Chicago that resulted in a gain of approximately 40% on the capital invested. The Trust believes that this profitable sale quantitatively demonstrates the inherent value of the street retail portfolio.

Property Portfolio

n Shopping Centers 1 Main Street Retail s Apartments

Property/Number of Buildings	Location	Square Feet	Year Acquired	Occupancy	Total Cost
MID-ATLANTIC OPERATING REGION					
DISTRICT OF COLUMBIA					
1 Sam's Park N Shop/1	Washington, DC	50,000	1995	100%	\$11,732,000
1 Friendship Center/1	Washington, DC	119,000	2001	100%	33,503,000
FLORIDA					
1 Winter Park/2	Winter Park, FL	28,000	1996	85%	6,873,000
MARYLAND					
1 Bethesda Row/7 blocks	Bethesda, MD	418,000	1993–1998	100%	75,497,000
n Congressional Plaza	Rockville, MD	339,000	1965	95%	47,056,000
n Courthouse Center	Rockville, MD	38,000	1997	72%	3,731,000
n Federal Plaza	Rockville, MD	247,000	1989	98%	61,477,000
n Gaithersburg Square	Gaithersburg, MD	205,000	1993	98%	23,477,000
n Governor Plaza	Glen Burnie, MD	252,000	1985	100%	17,143,000
n Laurel	Laurel, MD	386,000	1986	94%	45,237,000
n Magruder's Center	Rockville, MD	109,000	1997	100%	10,001,000
n Mid-Pike Plaza	Rockville, MD	312,000	1982	99%	16,629,000
n Perring Plaza	Baltimore, MD	412,000	1985	100%	23,916,000
n Quince Orchard	Gaithersburg, MD	237,000	1993	95%	18,394,000
s Rollingwood Apartments	Silver Spring, MD	282 units	1971	99%	6,678,000
n Wildwood	Bethesda, MD	83,000	1969	100%	15,671,000
NORTH CAROLINA					
n Eastgate	Chapel Hill, NC	159,000	1986	97%	12,694,000
VIRGINIA					
n Barracks Road	Charlottesville, VA	484,000	1985	99%	39,117,000
n Falls Plaza	Falls Church, VA	73,000	1967	100%	8,154,000
n Falls Plaza–East	Falls Church, VA	71,000	1972	100%	3,350,000
n Idylwood Plaza	Falls Church, VA	73,000	1994	95%	14,790,000
n Leesburg Plaza	Leesburg, VA	247,000	1998	100%	20,072,000
n Loehmann's Plaza	Fairfax, VA	242,000	1983	98%	24,938,000
n Old Keene Mill	Springfield, VA	92,000	1976	100%	5,042,000
n Pan Am	Fairfax, VA	218,000	1993	93%	24,400,000
n Pike 7	Tysons Corner, VA	164,000	1997	99%	33,283,000
n Tower	Springfield, VA	109,000	1998	86%	17,868,000
n Tysons Station	Falls Church, VA	50,000	1978	100%	3,257,000
1 The Village at Shirlington/1	Arlington, VA	202,000	1995	98%	31,341,000
n Willow Lawn	Richmond, VA	505,000	1983	79%	61,535,000
WESTERN OPERATING REGION					
ARIZONA					
1 Mill Avenue/2	Tempe, AZ	40,000	1998	100%	11,036,000
CALIFORNIA					
1 Colorado Boulevard/2	Pasadena, CA	69,000	1996–1998	99%	14,565,000
n Escondido Promenade	Escondido, CA	222,000	1996	97%	24,485,000
1 Fifth Avenue/4	San Diego, CA	51,000	1996–1997	94%	12,097,000
1 Hermosa Avenue/1	Hermosa Beach, CA	18,000	1997	(1)	3,988,000
1 Hollywood Boulevard/3	Hollywood, CA	160,000	1999	79%	27,221,000
n Kings Court	Los Gatos, CA	78,000	1998	99%	10,865,000
1 Old Town Center/1	Los Gatos, CA	97,000	1997	94%	32,845,000
1 Post Street/1	San Francisco, CA	103,000	1997	86%	27,769,000
1 Third Street Promenade/9	Santa Monica, CA	201,000	1996–2000	95%	69,666,000
1 580 Market Street/1	San Francisco, CA	(2)	2001	(2)	8,261,000
OREGON					
1 Uptown Properties/1	Portland, OR	100,000	1997	99%	16,460,000
TEXAS					
1 Houston Street /9	San Antonio, TX	(1)	1998	(1)	45,354,000

Property/Number of Buildings	Location	Square Feet	Year Acquired	Occupancy	Total Cost
NORTHEAST OPERATING REGION					
CONNECTICUT					
n Bristol	Bristol, CT	296,000	1995	93%	\$21,650,000
1Greenwich Avenue/4	Greenwich, CT	81,000	1995–1996	99%	29,087,000
1West Hartford/7	West Hartford, CT	126,000	1995	84%	16,026,000
1Westport/2	Westport, CT	26,000	1994–1995	94%	10,072,000
ILLINOIS					
n Crossroads	Highland Park, IL	173,000	1993	100%	21,681,000
1Evanston/2	Evanston, IL	19,000	1995	100%	4,261,000
n Finley	Downers Grove, IL	313,000	1995	82%	25,725,000
n Garden Market	Western Springs, IL	142,000	1994	85%	10,329,000
n North Lake Commons	Lake Zurich, IL	129,000	1994	88%	12,942,000
MASSACHUSETTS					
1Coolidge Corner/1	Brookline, MA	13,000	1995	74%	3,980,000
n Dedham Plaza	Dedham, MA	240,000	1993	93%	28,086,000
n Queen Anne Plaza	Norwell, MA	149,000	1994	99%	14,655,000
n Saugus Plaza	Saugus, MA	171,000	1996	100%	13,068,000
MICHIGAN					
n Gratiot Plaza	Roseville, MI	218,000	1973	100%	16,643,000
NEW JERSEY					
n Allwood	Clifton, NJ	52,000	1988	100%	4,264,000
n Blue Star	Watchung, NJ	410,000	1988	98%	38,885,000
n Brick Plaza	Brick, NJ	409,000	1989	100%	53,616,000
n Brunswick	North Brunswick, NJ	318,000	1988	97%	20,953,000
1Central Avenue/1	Westfield, NJ	11,000	1995	100%	3,263,000
n Clifton	Clifton, NJ	80,000	1988	91%	4,797,000
n Ellisburg Circle	Cherry Hill, NJ	259,000	1992	97%	25,638,000
n Hamilton	Hamilton, NJ	190,000	1988	100%	7,580,000
n Rutgers	Franklin, NJ	217,000	1988	89%	15,843,000
n Troy	Parsippany-Troy, NJ	202,000	1980	100%	20,359,000
NEW YORK					
1Forest Hills/3	Forest Hills, NY	85,000	1997	100%	23,966,000
n Fresh Meadows	Queens, NY	410,000	1997	98%	64,152,000
n Greenlawn Plaza	Greenlawn, NY	92,000	2000	81%	10,559,000
n Hauppauge	Hauppauge, NY	131,000	1998	100%	26,130,000
n Huntington	Huntington, NY	279,000	1988	100%	22,495,000
PENNSYLVANIA					
n Andorra	Philadelphia, PA	259,000	1988	93%	18,423,000
n Bala Cynwyd	Bala Cynwyd, PA	281,000	1993	100%	24,217,000
n Feasterville	Feasterville, PA	116,000	1980	84%	11,505,000
n Flourtown	Flourtown, PA	191,000	1980	100%	8,625,000
n Lancaster	Lancaster, PA	107,000	1980	94%	4,691,000
n Langhorne Square	Levittown, PA	216,000	1985	96%	17,462,000
n Lawrence Park	Broomall, PA	326,000	1980	98%	23,423,000
1Main Street/30	Manayunk, PA	213,000	1996		21,214,000 ⁽³⁾
n Northeast	Philadelphia, PA	292,000	1983	97%	21,182,000
n Willow Grove	Willow Grove, PA	215,000	1984	97%	25,717,000
n Wynnewood	Wynnewood, PA	257,000	1996	99%	34,900,000
DEVELOPMENT IN PROGRESS					
Pentagon Row	Arlington, VA	215,000	1999	98% ⁽⁴⁾	76,709,000
Santana Row	San Jose, CA		1997		229,372,000

⁽¹⁾ Under redevelopment.

⁽²⁾ This property was purchased as part of the buy-out of the minority partner at Santana Row. In January 2002, this building was exchanged for the partner's interest in Santana Row.

⁽³⁾ Convertible participating mortgage secured by properties.

⁽⁴⁾ Occupancy is based on three completed buildings. The fourth building is under development.

Executive Team



John Hannigan
Managing Director,
Santana Row Development



Kristine Warner
Director,
Corporate
Communications



Lisa F. Denson
Vice President,
Information Technology
& Special Projects



Dawn M. Becker
Vice President,
Real Estate &
Finance Counsel



Jeanne T. Connor
Senior Vice President,
Chief Operating Officer,
Eastern Region



Robin S. Mosle
Vice President,
Real Estate Development



Alex Inglese
Managing Director,
Real Estate Development



Andrew Blocher
Vice President,
Investor Relations
& Finance



Larry Finger
Senior Vice President,
Chief Financial Officer
& Treasurer



Jeffrey S. Berkes
Senior Vice President,
Strategic Transactions



Deborah Colson
Vice President,
Legal Leasing



Kenneth Shoop
Vice President,
Controller



Philip E. Altschuler
Vice President,
Human Resources



Nancy J. Herman
Senior Vice President,
General Counsel
& Secretary



Pamela Brady
Vice President,
Street Retail Leasing



Bruce Armiger
Director of Construction,
Santana Row



Christopher J. Weilminster
Vice President,
Anchor Tenant Leasing



Jonathan Kayne
Vice President,
Asset Management



John Tschiderer
Vice President,
Redevelopment



Jan Sweetnam
Vice President,
Chief Operating Officer,
Western Region



Anthony Flanagan
Vice President,
Street Retail, Inc.
Chief Development Officer,
Western Region



Nathan P. Fishkin
Senior Vice President,
Managing Director,
Street Retail Inc.

Trustees

DENNIS L. BERMAN*
General Partner
GDR Partnerships

KENNETH D. BRODY
Founding Partner
Winslow Partners LLC

KRISTIN GAMBLE*
President
Flood, Gamble & Associates, Inc.

STEVEN J. GUTTMAN
Chairman and Chief Executive Officer
Federal Realty Investment Trust

WALTER F. LOEB*
President
Loeb Associates

MARK S. ORDAN
Chief Executive Officer
Bethesda Retail Partners, LLC

* Member Audit Committee

Trustees Emeriti

A. CORNET DE WAYS RUART
Managing Director
S.A. Cogefon, N.V.
Director
Sipef, S.A.

SAMUEL J. GORLITZ
Founding Trustee
President, Gorlitz Associates

DONALD H. MISNER
General Manager
KSI Commercial, LLC

WILLIAM C. YOWELL, JR.
Retired Vice President
American Security Bank, N.A.

Selected Financial Data

(in thousands, except per share data)	Year ended December 31,				
	2001	2000	1999	1998	1997
OPERATING DATA					
Rental income	\$279,935	\$260,684	\$245,833	\$222,186	\$188,529
Income before gain (loss) on sale of real estate	59,571	56,842	55,493	44,960	40,129
Gain (loss) on sale of real estate	9,185	3,681	(7,050)	—	6,375
Net income	68,756	60,523	48,443	44,960	46,504
Net income available for common shareholders	59,722	52,573	40,493	37,010	44,627
Net cash provided by operating activities	108,545	106,146	102,183	90,427	72,170
Net cash used in investing activities	232,138	121,741	99,313	187,646	279,343
Net cash provided (used) by financing activities	129,799	15,214	(8,362)	97,406	213,175
Funds from operations	110,432	102,173	96,795	86,536	79,733
Dividends declared on common shares	75,863	72,512	71,630	69,512	66,636
Weighted average shares outstanding:					
Basic	39,164	38,796	39,574	39,174	38,475
Diluted	40,266	39,910	40,638	40,080	38,988
Per share:					
Net income, basic	\$ 1.52	\$ 1.36	\$ 1.02	\$.94	\$ 1.16
Net income, diluted	1.52	1.35	1.02	.94	1.14
Dividends declared per common share	1.90	1.84	1.78	1.74	1.70

BALANCE SHEET DATA

Real estate owned, at cost	2,104,304	1,854,913	1,721,459	1,642,136	1,453,639
Total assets	1,837,978	1,621,079	1,534,048	1,484,317	1,316,573
Mortgage and construction loans and capital lease obligations	450,336	340,152	172,573	173,480	221,573
Notes payable	174,843	209,005	162,768	263,159	119,028
Senior notes	410,000	410,000	510,000	335,000	255,000
Convertible subordinated debentures	75,289	75,289	75,289	75,289	75,289
Redeemable preferred shares	235,000	100,000	100,000	100,000	100,000
Shareholders' equity	592,388	467,654	501,827	529,947	553,810
Number of common shares outstanding	40,071	39,469	40,201	40,080	39,148

Revenues

Year ended December 31,	Retail/Mixed-Use Properties	Residential Properties	Other	Total
2001	97%	1%	2%	100%
2000	96%	1%	3%	100%
1999	96%	1%	3%	100%

Taxability of Dividends

Following is the income tax status of dividends paid during the fiscal year ended December 31,

	2001	2000	1999	1998
Ordinary income	100%	92%	91%	82%
Return of capital	—	6%	9%	18%
Long-term capital gain	—	2%	—	—

Market Quotations

Quarter ended	High	Low	Dividends Paid
December 31, 2001	\$23.67	\$21.04	\$.48
September 30, 2001	23.71	20.32	.47
June 30, 2001	21.56	18.98	.47
March 31, 2001	20.20	19.0625	.47
December 31, 2000	\$20.00	\$18.75	\$.47
September 30, 2000	21.9375	19.125	.45
June 30, 2000	22.3125	18.9375	.45
March 31, 2000	20.50	17.75	.45

The number of holders of record of Federal Realty's shares of beneficial interest at March 7, 2002 was 5,932.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Trust and its representatives may from time to time make written or oral statements that are "forward-looking", within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Trust to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among others, changes in our business strategy; general economic and business conditions which will affect the credit worthiness of tenants; financing availability and cost; retailing trends and rental rates; risks of real estate development and acquisitions, including the risk that potential acquisitions or development projects may not perform in accordance with expectations; our ability to satisfy the complex rules in order to qualify for taxation as a REIT for federal income tax purposes and to operate effectively within the limitations imposed by these rules; government approvals, actions and initiatives including the need for compliance with environmental and safety requirements, and changes in laws and regulations or the interpretation thereof; and competition with other real estate companies, real estate projects and technology.

We identify forward-looking statements by using words or phrases such as "anticipate", "believe", "estimate", "expect", "intend", "may be", "objective", "plan", "predict", "project", and "will be" and similar words or phrases, or the negatives thereof or other similar variations thereof or comparable terminology. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

The following discussion should be read together with the Consolidated Financial Statements and Notes thereto of Federal Realty Investment Trust (the "Trust").

The Trust is engaged in the ownership, management, development and redevelopment of high quality retail and mixed-use properties. The Trust, which has traditionally acquired and redeveloped community and neighborhood shopping centers, expanded its investments to the development of urban mixed-used properties, beginning in 1997. Management continually evaluates the future prospects of its real estate portfolio, not only to identify expansion and renovation opportunities, but also to identify properties that no longer fit the Trust's investment criteria and therefore, should be monetized or exchanged into other real estate assets. At December 31, 2001 the Trust owned 120 retail properties and one apartment complex.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management's best judgment, after considering past and current events. Actual results could differ from these estimates. The most significant accounting policies which involve the use of estimates and assumptions as to future uncertainties and, therefore, may result in actuals differing from estimates are as follows.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

Leases with tenants are classified as operating leases. Minimum rents are recognized on a straight-line basis over the terms of the related leases net of valuation adjustments based on management's assessment

of credit, collection and other business risk. The Trust makes estimates of the collectibility of its accounts receivable, related to base rents including straight line rentals, expense reimbursements and other revenue or income. In some cases the ultimate collectibility of these claims exceeds beyond a year. These estimates have a direct impact on the Trust's net income, because a higher bad debt reserve results in less net income.

REAL ESTATE

Land, buildings and real estate under development are recorded at cost. Depreciation is computed using the straight-line method with useful lives ranging from three to 50 years on buildings and improvements. Maintenance and repair costs are charged to operations as incurred. Tenant work and other major improvements are capitalized and depreciated over the life of the lease or their estimated useful life, respectively. Certain external and internal costs directly related to the development, redevelopment and leasing of real estate including applicable salaries and their related direct costs are capitalized. The capitalized costs associated with development, redevelopments and leasing are depreciated or amortized over the life of the improvement and lease, respectively. Unamortized leasing costs and undepreciated tenant work are charged to operations if the applicable tenant vacates before the expiration of its lease.

The Trust, when applicable as lessee, classifies its leases of land and building as operating or capital leases in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 13, "Accounting for Leases". The Trust is required to use judgment and make estimates in determining the lease term, the estimated economic life of the property and the interest rate to be used in applying the provisions of SFAS No. 13. These estimates determine whether or not the lease meets the qualification of a capital lease and is recorded as an asset.

The Trust is required to make subjective assessments as to the useful lives of its real estate for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on net income. Should the Trust lengthen the expected useful life of an asset, it would be depreciated over more years, resulting in less annual depreciation expense and higher annual net income. Likewise, the Trust must make subjective assumptions as to which costs should be capitalized. These assumptions have a direct impact on net income, because the capitalization of costs results in higher net income.

Interest costs on developments and major redevelopments are capitalized as part of the development and redevelopment. Capitalization of interest commences when development activities and expenditures begin and end upon completion, i.e. when the asset is ready for its intended use. Generally rental property is considered substantially complete and ready for its intended use upon completion of tenant improvements, but no later than one year from completion of major construction activity. The Trust makes judgments as to the time period over which to capitalize costs and these assumptions have a direct impact on net income. If the time period is extended, more interest is capitalized, thereby increasing net income.

LONG-LIVED ASSETS

The Trust evaluates the carrying value of its long-lived assets in accordance with the SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In cases where particular assets are being held for sale, impairment is based on whether the fair value (estimated sales price less costs of disposal)

of each individual property to be sold is less than the net book value. Otherwise, impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. If a property is impaired, its basis is adjusted to its fair market value.

The Trust is required to make estimates of undiscounted cash flows in determining whether there is an impairment. Actual results could be significantly different from the estimates. These estimates have a direct impact on net income, because taking an impairment results in a negative adjustment to net income.

CONTINGENCIES

The Trust is involved in various lawsuits and environmental matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the amount and likelihood of loss relating to these matters. These estimates and assumptions have a direct impact on net income, because the likelihood of loss and a higher amount of loss result in less net income.

Liquidity and Capital Resources

The Trust meets its liquidity requirements through net cash provided by operating activities, along with debt and equity funding alternatives available to it. A significant portion of cash provided by operating activities is distributed to common and preferred shareholders in the form of dividends. Accordingly, capital outlays for property acquisitions, major renovation and development projects and balloon debt repayments require debt or equity funding. At times, proceeds from the sale of selected assets may also provide an additional source of capital. From 1998 until November 2001, the Trust relied primarily on debt to fund these capital needs, and accordingly, debt as a percentage of total capitalization steadily increased over that period. In November 2001 the Trust issued \$135 million of preferred stock. In the future, the Trust will look to common, preferred and joint-venture equity in addition to debt to fund longer term growth needs.

Net cash provided by operating activities was \$108.5 million in 2001, \$106.1 million in 2000, and \$102.2 million in 1999, of which \$80.6 million, \$77.5 million, and \$76.6 million, respectively, was distributed to shareholders. Contributions from newly acquired properties and from retenanting and redeveloped properties, as more fully described below, were the primary sources of these increases.

Net cash used in investing activities was \$232.1 million in 2001, \$121.7 million in 2000, and \$99.3 million in 1999. The Trust acquired real estate assets totaling \$52.8 million in 2001, \$26.8 million in 2000, and \$26.4 million in 1999 requiring cash outlays of \$61.4 million, \$52.8 million to purchase new assets and \$8.6 million to purchase the capital lease obligation on Brick Plaza and to fund the buy-out of the minority partners' interests; \$23.6 million; and \$25.3 million, respectively. During these same three years the Trust expended an additional \$199.1 million, \$145.8 million, and \$90.8 million in capital improvements to its properties, of which \$158.0 million in 2001, \$81.0 million in 2000 and \$32.6 million in 1999 related to new development. The Trust received mortgage note repayments, net of funds invested, of \$3.3 million in 2001 and \$494,000 in 2000. The Trust invested, net of loan repayments, \$2.3 million in 1999 in mortgage notes receivable. The weighted average stated interest rate on these loans was 10.0% for the years 1999 through 2001. Certain of these mortgages also participate in the gross revenues and appreciation and are convertible into ownership interests in the properties by which they are secured. Cash of \$25.1 million in 2001, \$47.2 million in 2000 and \$19.2 million in 1999 was received from the sale of properties.

During 2001 the Trust expended cash of \$61.4 million to acquire real estate and an additional \$199.1 million to improve, redevelop and

develop its existing real estate. Of the \$199.1 million spent in 2001 on the Trust's existing real estate portfolio, approximately \$158.0 million was invested in the Trust's development projects, primarily the projects in Bethesda, Maryland; San Jose, California; and in Arlington, Virginia. The remaining \$41.0 million of capital expenditures relates to improvements to common areas, tenant work and various redevelopments, including the office expansion and retenanting of Willow Lawn Shopping Center, the renovation of Brunswick Shopping Center, the redevelopment of retail buildings in San Antonio, Texas and the redevelopment and retenanting of certain of the Trust's California street retail buildings.

On February 16, 2001 the Trust bought the fee interest underlying the capital lease obligation of \$21.4 million, thereby terminating the capital lease, on Brick Plaza in Brick, New Jersey for a purchase price of \$28 million. A mortgage note receivable of \$3.2 million owed to the Trust by the lessor and a \$3 million security deposit on the capital lease were credited to the purchase price, resulting in a cash outlay of approximately \$21.5 million.

On March 1, 2001 the limited partners in two partnerships, owning street retail properties in southern California, exercised their rights under the partnership agreements and put their interests to the Trust for \$18.1 million plus additional consideration to be determined based upon meeting certain leasing requirements in the future. The Trust paid the initial \$18.1 million, \$11.4 million in cash at closing and the \$6.7 million balance in 328,116 common shares issued to the limited partners on June 19, 2001. To date, leasing transactions have resulted in a purchase price adjustment of \$188,000; \$160,000 of which was paid by the issuance of 7,120 common shares on December 6, 2001 and the remainder paid in cash. The Trust estimates that an additional \$1.0 to \$1.2 million will be owed to the limited partners upon completion of certain other leasing transactions.

In connection with the buyout of the minority partner at Santana Row in a transaction being structured as a tax-free exchange the Trust made an equity investment of \$2.6 million and a loan of \$5.9 million to a partnership which purchased a building for \$8.5 million. Upon consummation of the exchange in January 2002, the Trust received the minority interest in Santana Row in exchange for its \$2.6 million investment in the building. The \$5.9 million loan is due to the Trust on January 12, 2003.

On April 27, 2001 the Trust sold the Williamsburg Shopping Center in Williamsburg, Virginia for \$16.7 million resulting in a gain of \$7.9 million. The proceeds from the sale were held by a qualified intermediary until the execution of a tax-free exchange for Friendship Center.

On September 21, 2001 the Trust purchased Friendship Center, a 119,000 square foot street retail property in Washington, D.C. for \$33.4 million. The purchase price was funded from the proceeds from the sale of Williamsburg Shopping Center and a \$17.0 million mortgage loan.

On December 18, 2001 the Trust sold the street retail property located at 101 E. Oak Street in Chicago, Illinois for \$6.1 million resulting in a gain of \$1.8 million. The proceeds from the sale are being held by a qualified intermediary for purposes of executing a tax-free property exchange.

On December 30, 2001 the Trust exchanged its 90% interest in a street retail building in Forest Hills, New York to the minority partner in exchange for the minority partner's 10% interest in three other street retail buildings in Forest Hills, New York resulting in an accounting loss of approximately \$500,000.

Net cash provided by financing activities, before dividend payments, was \$210.4 million in 2001, \$92.7 million in 2000, and \$68.3 million in 1999. The Trust utilized the proceeds from the sale of Williamsburg Shopping Center, its syndicated credit facility and the construction loan for Santana Row to fund acquisitions, most capital expenditures and balloon debt repayments.

On April 12, 2001 the Trust obtained a \$33 million mortgage loan secured by Brick Plaza in Brick, New Jersey. The mortgage, which bears interest at 7.415%, matures November 15, 2015. The loan provides for interest only payments for the initial 29 months, then monthly principal and interest payments based on a twenty-seven year amortization schedule until the maturity date. The proceeds from the mortgage loan were used to fund the purchase of the fee interest of Brick Plaza.

On April 17, 2001 the Trust closed on a \$295 million construction loan for Santana Row in San Jose, California, which is described below.

On May 3, 2001 the Trust refinanced the mortgage loan secured by Federal Plaza in Rockville, Maryland. The new \$36.5 million mortgage loan bears interest at 6.75% and matures on June 1, 2011. The loan provides for monthly principal and interest payments of \$236,700 based on a thirty year amortization schedule until the maturity date. The proceeds from the refinancing were first used to payoff the outstanding mortgage balance on the property of \$26.5 million. The remaining proceeds were used to pay down the Trust's syndicated credit facility.

On August 30, 2001 the Trust refinanced the mortgage loan secured by Tysons Station in Falls Church, Virginia. The new \$7.0 million mortgage bears interest at 7.4% and matures on September 1, 2011. The loan provides for monthly principal and interest payments of \$51,300 based on a twenty-five year amortization schedule until the maturity date. The proceeds from the refinancing were first used to payoff the outstanding mortgage balance on the property of \$3.9 million. The remaining proceeds were used to pay down on the Trust's syndicated credit facility.

In connection with the purchase of Friendship Center in Washington, D.C. on September 21, 2001 the Trust placed a \$17.0 million mortgage on the property. The loan, which bears interest at LIBOR plus 135 basis points, matures September 22, 2003 with three one-year extension options. The loan provides for interest only payments through maturity.

On November 19, 2001 the Trust issued 5.4 million 8.5% Series B Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, netting approximately \$130.8 million. The proceeds from the share issuance were used to pay down the Trust's syndicated credit facility.

The Trust has a \$300 million syndicated credit facility with seven banks which is due December 19, 2003. This facility requires fees and has various covenants including the maintenance of a minimum shareholders' equity and a maximum ratio of debt to net worth. At December 31, 2001, 2000 and 1999, \$44.0 million, \$78.0 million and \$34.0 million, respectively, was borrowed under the syndicated credit facility. The maximum borrowed during 2001, 2000 and 1999 was \$183.5 million, \$218.1 million and \$205.0 million, respectively. The weighted average interest rate on borrowings during 2001, 2000 and 1999 was 4.9%, 7.1% and 5.9%, respectively.

In December 1998, the Trust obtained a four-year loan of \$125 million from five institutional lenders. The loan requires fees and has the same covenants as the syndicated credit facility. In 2000, the loan was extended for an additional year to December 19, 2003. The weighted average interest rate on the term loan during 2001, 2000 and 1999 was 6.4%, 7.4% and 6.1%, respectively.

In order to minimize the risk of changes in interest rates the Trust will enter into derivative contracts, which qualify as cash flow hedges. During 2001, to hedge its exposure to interest rates on its \$125 million term loan, the Trust entered into interest rate swaps, which fixed the LIBOR interest rate on the term loan at 5.27%. The current interest rate on the term loan is LIBOR plus 95 basis points thus fixing the interest rate at 6.22% on notional amounts totaling \$125 million. The interest rate swaps mature concurrently with the \$125 million term loan on December 19, 2003. There were no open hedge agreements at December 31, 2000.

Capital requirements in 2002 will depend upon acquisition opportunities, the rate of build-out on the Trust's current developments and the level of improvements and redevelopments on existing properties. The

Trust has budgeted approximately \$240 million for 2002 for its Santana Row and Pentagon Row developments and \$52 million for redevelopments and expansions of its existing portfolio, tenant work and improvements to the core portfolio. The Trust's syndicated credit facility, with \$256 million available at December 31, 2001, and the \$295 million Santana Row construction loan are anticipated to be sufficient to fund these needs.

The Trust will need additional capital in order to fund acquisitions, expansions and any new developments, including future phases of Santana Row, if any, and to refinance its maturing debt. Sources of this future funding may be additional debt, both secured and unsecured, additional equity and joint venture relationships.

The Trust's long term debt has varying maturity dates and in a number of instances includes balloon payments or other contractual provisions that could require significant repayments during a particular period. In 2002, the \$23.2 million construction loan on Woodmont East matures, unless the options to extend are exercised, as well as the \$3.4 million note held in connection with the land held for future development in Hillsboro, Oregon and \$25.0 million of Senior Notes. The next significant maturities occur in 2003 when \$75.0 million of Senior Notes are due in October and the \$17 million Friendship Center mortgage loan, if the option to extend is not exercised, is due in September. In addition, the Trust's syndicated credit facility and its \$125 million term loan expire in December 2003.

Santana Row

In 2002, the Trust's single largest capital use is anticipated to be the development of Santana Row, a multi-phase mixed-use project being built on 42 acres in San Jose, California in the heart of Silicon Valley. The project will consist of residential, retail and hotel components, creating a community with the feel of an urban district. Phase 1 of the project includes Santana Row, the "1,500 foot long main street" and nine buildings which will contain approximately 538,000 square feet of retail space, 501 residential units, a 214 room hotel and the supporting infrastructure. Eight buildings comprising 440,000 square feet of retail space are expected to be completed during the third and fourth quarters of 2002 with the ninth building being completed twelve to eighteen months later. The total cost of Phase 1 is expected to be \$475 million. As of December 31, 2001, the Trust has incurred costs of \$229 million including the purchase of the land; the Trust estimates that it will spend approximately \$225 million in 2002 and the balance in 2003 to complete the first phase of the project.

On April 17, 2001, the Trust closed on a \$295 million construction loan. The loan, which initially bears interest at LIBOR plus 212.5 basis points, matures April 16, 2004 with two one-year extension options, subject to obtaining certain operating targets. The interest rate will decrease to LIBOR plus 187.5 basis points then to LIBOR plus 162.5 basis points upon the achievement of certain leasing, occupancy and net operating income hurdles. There is no assurance that these targets and hurdles will be met. The construction loan requires fees and has various covenants including the maintenance of a minimum shareholders' equity and a maximum ratio of debt to gross asset value. The initial funding of the construction loan took place on August 23, 2001 when the equity and pre-leasing requirements were met. As of December 31, 2001, \$62.0 million was borrowed under the loan.

The success of Santana Row will depend on many factors which cannot be assured and are not entirely within the Trust's control. These factors include among others, the demand for retail and residential space and at what rents, the ability to construct the current and later phases at reasonable costs, the cost of operations, including utilities and insurance, the availability and cost of capital and the general economy, particularly in the Silicon Valley.

The Trust has not finalized the cost and scope for all future phases of Santana Row and will not do so until the success of Phase 1 and future demand for rental space can be determined. However, as Phase 1 utilizes only part of the retail and residential entitlements of the property, and as Phase 1 contains infrastructure for further phases, the Trust expects to identify and execute economically viable additional phases to the project.

Subsequent Events

On February 28, 2002 the Trust adopted a business plan which returns the Trust's primary focus to its traditional business of acquiring and redeveloping community and neighborhood shopping centers that are anchored by supermarkets, drug stores or high volume, value oriented retailers that provide consumer necessities. Concurrent with the adoption of the business plan, the Trust adopted a management succession plan and restructured its management team.

The Trust will complete Bethesda Row, Pentagon Row and Santana Row, but does not plan any new, large-scale, mixed-use, ground-up development projects. Rather, the Trust will return its focus to community and neighborhood shopping centers. The Trust will seek to acquire income producing centers, may seek opportunities to develop ground-up grocery anchored shopping centers in and around the Metropolitan Washington, D.C., Philadelphia and New York markets and will identify and execute redevelopment opportunities in its existing portfolio.

Steven J. Guttman, the Trust's Chief Executive Officer and Chairman of the Board, will primarily devote his attention to the completion of Santana Row. Upon Mr. Guttman's planned retirement in March 2003, it is expected that Donald C. Wood will become Chief Executive Officer with Mr. Guttman remaining as Chairman of the Board. Effective March 1, 2002, the Trust combined functions of its previous Chief Investment Officer and Chief Financial Officer, and appointed Larry E. Finger, to the new executive office of Chief Financial Officer in charge of capital markets, investor relations and financial reporting. With the renewed emphasis on acquisitions, Jeffrey S. Berkes was appointed an executive officer, Senior Vice President—Strategic Transactions.

As a result of the change in the Trust's business plan, the Trust estimates it will record a charge of \$16 million to \$18 million in the first quarter of 2002. The charge includes severance and other compensation costs related to the management restructuring as well as charges to write-down the Trust's Tanasbourne and other development projects to fair value since the Trust will hold the Tanasbourne project for sale. The Trust is re-evaluating the most effective way to realize value on these assets on a risk-adjusted return basis.

Contingencies

Pentagon Row is a mixed-use project with the retail component being developed by the Trust and the residential component being developed by an unrelated developer. In October 2000 the general contractor on the project was replaced by the Trust and the residential developer, because of schedule delays and other events that caused the Trust and the residential developer to conclude that the original contractor was either unable or unwilling to comply with its contractual obligations. The Trust and the residential developer filed suit against the original contractor to recover damages that are being incurred as a result of defaults under the contract. Though not quantifiable until the project is completed, the combined damage claim is estimated to be in excess of \$40.0 million. The original contractor filed a counterclaim against the Trust and the residential developer for damages of \$7 million plus interest, attorneys' fees and litigation costs. The Trust believes that the counterclaim is generally without merit and that the outcome of the counterclaim will not have a material adverse effect on its financial

condition, results of operations or on the project. Work continues under the direction of the new general contractor. Due to the delay and other costs associated with the change in general contractor the estimated cost of the project is now \$92 million, if there is no recovery of damages from the original general contractor. The lawsuit against the original contractor is scheduled for mediation in May 2002, and, should mediation prove unsuccessful, is scheduled to go to trial in October 2002.

In addition, the Trust is involved in various other lawsuits and environmental matters arising in the normal course of business. Management believes that such matters will not have a material effect on the financial condition or results of operations of the Trust.

Under the terms of the Congressional Plaza partnership agreement, from and after January 1, 1986 Rockville Plaza Company, an unaffiliated third party, has the right to require the Trust and the two other minority partners to purchase from half to all of Rockville Plaza Company's 37.5% interest in Congressional Plaza at the interest's then-current fair market value. Based on management's current estimate of fair market value, the Trust's estimated liability upon exercise of the put option is approximately \$27.5 million. In conjunction with a redevelopment currently taking place at the property, the Trust has reached an agreement with Rockville Plaza Company to acquire an additional 7.5% interest in Congressional Plaza in exchange for funding approximately \$7 million of Rockville Plaza Company's share of the redevelopment cost. This funding will take place through 2002 and the transaction will be completed in 2003.

Under the terms of five other partnership agreements, if certain leasing and revenue levels are obtained for the properties owned by the partnerships, the limited partners may require the Trust to purchase their partnership interests at a formula price based upon net operating income. The purchase price may be paid in cash or for two of the partnerships, a limited number of common shares of the Trust at the election of the limited partners. In certain of the partnerships, if the limited partners do not redeem their interest, the Trust may choose to purchase the limited partnership interests upon the same terms.

Under the terms of other partnership agreements, the partners may redeem their 904,589 operating units for cash or exchange into the same number of common shares of the Trust, at the option of the Trust.

As of December 31, 2001 in connection with renovation and development projects, the Trust has contractual obligations of approximately \$172 million, including approximately \$154 million for Santana Row.

A subcontractor on the Trust's Santana Row project has entered into a contract with a wood supply company in which a trustee of the Trust owns an indirect 9.7% interest. The contract provides for a payment to the company of approximately \$330,000 for wood flooring. The dollar amount of the contract does not represent a material amount of business to the wood supply company. Terms of the contract were negotiated at arms-length.

The centerpiece of Santana Row is a four-star 214 room boutique hotel. The Trust has entered into a 99 year ground lease with the hotel requiring minimum rent of \$450,000 per annum with rental increases every five years and percentage rent on room, parking and other revenues. The Trust has also committed to loan \$7.2 million to the hotel. The loan bears interest at rates ranging from 12% to 15% and has a ten year term. During the first five years, interest is payable from cash flow, if available. If cash flow is not sufficient to pay interest, it will accrue and bear interest at the same rate as the initial principal. In addition, the Trust has committed approximately \$5.5 million to four restaurant joint ventures at Santana Row in lieu of tenant allowances. The Trust will participate in profits, losses and cash flow in accordance with the terms of each individual venture.

Results of Operations

The Trust's retail leases generally provide for minimum rents with periodic increases. Most retail tenants pay a majority of on-site operating expenses and real estate taxes. Many leases also contain a percentage rent clause which calls for additional rents based on gross tenant sales. These features in the Trust's leases reduce the Trust's exposure to higher costs caused by inflation and allow it to participate in improved tenant sales.

Consolidated Results

2001 vs. 2000

Rental income, which consists of minimum rent, percentage rent and cost recoveries, increased 7.4 % from \$260.7 million in 2000 to \$279.9 million in 2001. On a same center basis, rental income increased 6.4%, due primarily to the favorable impact of redeveloped and retenanted centers, as well as, increases associated with lease rollovers and increased cost recoveries. Same center basis, in 2001, excludes Williamsburg Shopping Center in Williamsburg, Virginia and Peninsula Shopping Center in Palos Verdes, California which were sold on April 27, 2001 and June 30, 2000, respectively, as well as, properties acquired and properties under development in 2000 and 2001, including Friendship Center in Washington, D.C., Woodmont East in Bethesda, Maryland, Pentagon Row in Arlington, Virginia, 214 Wilshire Boulevard in Santa Monica, California and Town & Country Shopping Center in San Jose, California, which was demolished to make way for the new Santana Row development.

Other property income includes items, which although recurring, tend to fluctuate more than rental income from period to period, such as utility reimbursements, telephone income, merchant association dues, late fees, lease termination fees and temporary tenant income. Other property income increased 26.3% from \$11.1 million in 2000 to \$14.0 million in 2001 due primarily to increases in lease termination fees of \$1.2 million and parking income. On a same center basis, other property income increased 18.4%.

Rental expenses increased 12.8% from \$56.3 million in 2000 to \$63.5 million in 2001. Increased leasing and marketing costs associated with the Trust's development projects, as well as operating costs associated with the Woodmont East project which was in service for a full year in 2001 were major components of this overall increase. Rental expense as a percentage of property income, rental income plus other property income, increased from 20.7% in 2000 to 21.6% in 2001. On a same center basis, rental expenses increased 4.4% from \$54.5 million in 2000 to \$57.0 million in 2001, primarily due to general cost increases along with increased property management costs in 2001.

Real estate taxes increased 8.1% from \$26.6 million in 2000 to \$28.8 million in 2001. On a same center basis, real estate taxes increased 9.3% due primarily to increased taxes on recently redeveloped properties.

Depreciation and amortization expenses increased 12.5% from \$53.3 million in 2000 to \$59.9 million in 2001 reflecting the impact of recent new development, tenant work and property redevelopments which were placed in service during the year.

In 2001, the Trust incurred interest expense of \$87.1 million, of which \$17.8 million was capitalized, as compared to 2000's \$79.7 million, of which \$13.3 million was capitalized. The increase in interest expense reflects the additional debt issued to fund the Trust's acquisitions and capital improvement programs. To mitigate its exposure to changes in variable interest rates, the Trust has entered into interest rate swaps on its \$125 million term loan which locks the LIBOR interest rate on this loan at 5.27%. The current interest rate on the term loan is LIBOR plus 95 basis points, thus fixing the interest rate at 6.22%. The weighted average interest rate was 7.6% in 2001 compared with 7.9% in 2000. The ratio of earnings to combined fixed charges and preferred

dividends was 1.33x in 2001 and 1.40x in 2000. The ratio of earnings to fixed charges was 1.50x both in 2001 and 2000. The ratio of funds from operations to combined fixed charges and preferred dividends was 1.9x in 2001 and 2.0x in 2000.

Administrative expenses increased from \$13.3 million in 2000 to \$14.3 million in 2001 due to increased personnel costs, legal and accounting fees. Administrative expenses as a percentage of revenue remained constant in 2001 and 2000 at 4.8%.

Investors' share of operations represents the minority interest in the income of certain properties. The overall \$1.3 million decrease from \$6.5 million in 2000 to \$5.2 million in 2001 is due to the Trust's buy-out of the minority partners' in nine street retail buildings in southern California, thereby increasing the Trust's ownership to 100%.

On April 27, 2001, the Trust sold the Williamsburg Shopping Center in Williamsburg, Virginia for \$16.7 million, resulting in a gain of \$7.9 million. On December 18, 2001 the Trust sold the street retail property located at 101 E. Oak Street in Chicago, Illinois for \$6.1 million, resulting in a gain of \$1.8 million. On December 30, 2001 the Trust exchanged its 90% interest in a street retail building in Forest Hills, New York to the minority partner in exchange for the minority partner's 10% interest in three other street retail buildings in Forest Hills, New York resulting in an accounting loss of approximately \$500,000. On June 30, 2000, the Trust sold the 296,000 square foot Peninsula Shopping Center located in Palos Verdes, California for \$48.6 million resulting in a gain of \$3.7 million.

As a result of the foregoing items, net income before gain on the sale of real estate increased from \$56.8 million in 2000 to \$59.6 million in 2001, while net income increased from \$60.5 million in 2000 to \$68.8 million in 2001 and net income available for common shareholders increased from \$52.6 million to \$59.7 million.

Growth in net income in 2002 will continue to be primarily dependent on contributions from the core portfolio. Growth of net income from the core portfolio is, in part, dependent on the financial health of the Trust's tenants and on controlling expenses, some of which are beyond the complete control of the Trust, such as snow removal, insurance and real estate tax assessments and the general economy. The current weakening of the retail and overall economic environment could adversely impact the Trust by increasing vacancies and decreasing rents. In past weak retail and real estate environments, however, the Trust has been able to replace weak and bankrupt tenants with stronger tenants; management believes that due to the quality of the Trust's properties there will continue to be demand for its space. Growth in the core portfolio, however, will be offset by expenses at Santana Row. Leasing, marketing and pre-opening expenses at Santana Row prior to its scheduled opening in fall 2002 and additional depreciation and interest expense as the project is phased into operations will have a dilutive effect on 2002 earnings.

Growth in net income is also dependent on the amount of leverage and interest rates. The Trust's leverage is increasing as it finances its development projects. In addition, to the extent variable-rate debt is unhedged, the Trust will continue to have exposure to changes in market interest rates. If interest rates increase, net income and funds from operations, as well as the ultimate cost of the Trust's development projects, will be negatively impacted. Net income available for common shareholders and funds from operations will also be reduced by the issuance of the 8.5% Series B Cumulative Redeemable Preferred Shares.

2000 vs. 1999

Rental income, which consists of minimum rent, percentage rent and cost recoveries, increased 6.0 % from \$245.8 million in 1999 to \$260.7 million in 2000. On a same center basis, rental income increased 7.7%, due primarily to the favorable impact of redeveloped and retenanted centers,

as well as increases associated with lease rollovers. Same center basis, in 2000, excludes properties acquired in 2000 and 1999, Peninsula Shopping Center in Palos Verdes, California and Northeast Plaza in Atlanta, Georgia which were sold on June 30, 2000 and October 18, 1999, respectively and properties developed in 2000 and 1999, including Bethesda Row Phase 3 in Bethesda, Maryland, Old Town in Los Gatos, California and Town & Country Shopping Center in San Jose, California which was vacated as the Santana Row development began.

Other property income includes items which, although recurring, tend to fluctuate more than rental income from period to period, such as utility reimbursements, telephone income, merchant association dues, late fees, lease termination fees and temporary tenant income. Other property income remained constant in 2000 compared to 1999. On a same center basis, other property income decreased \$473,000 in 2000 compared to 1999, due mostly to decreases in lease termination fees.

Rental expenses increased 4.8% from \$53.7 million in 1999 to \$56.3 million in 2000. Rental expense as a percentage of property income, rental income plus other property income, remained constant in both periods at 21%. On a same center basis, rental expenses increased 6.0% from \$49.6 million in 1999 to \$52.6 million in 2000, primarily due to general cost increases along with increased snow removal and utility costs in 2000.

Real estate taxes increased 6.4% from \$25.0 million in 1999 to \$26.6 million in 2000. On a same center basis, real estate taxes increased 5.9% due primarily to increased taxes on recently redeveloped properties.

Depreciation and amortization expenses increased 6.5% from \$50.0 million in 1999 to \$53.3 million in 2000 reflecting the impact of recent tenant work and property improvements.

In 2000, the Trust incurred interest expense of \$79.7 million, of which \$13.3 million was capitalized, as compared to 1999's \$68.4 million, of which \$6.9 million was capitalized. The increase in interest expense reflects the additional debt issued to fund the Trust's share repurchase and capital improvement programs and increased borrowing costs. The weighted average interest rate was 7.9% in 2000 compared with 7.6% in 1999. The ratio of earnings to combined fixed charges and preferred dividends was 1.40x in 2000 and 1.52x in 1999. The ratio of earnings to fixed charges was 1.50x in 2000 and 1.70x in 1999. The ratio of funds from operations to combined fixed charges and preferred dividends was 2.0x in 2000 and 2.2x in 1999.

Administrative expenses decreased from \$15.1 million in 1999 to \$13.3 million in 2000. In 1999 the Trust incurred expenses of approximately \$2.8 million related to a terminated merger transaction. The decrease in these costs was offset by increased personnel costs and several key new hires. The tight labor market in the Trust's operating regions resulted in higher compensation costs both to existing and new employees.

Investors' share of operations represents the minority interest in the income of certain properties. The majority of the \$2.6 million increase from \$3.9 million in 1999 to \$6.5 million in 2000 is due to the allocation of operating losses to minority owners in 1999 and 1998 in accordance with the respective partnership agreements. The remainder of the increase represents the minority partners' share of increased earnings in certain shopping center and street retail assets.

On June 30, 2000, the Trust sold the 296,000 square foot Peninsula Shopping Center located in Palos Verdes, California for \$48.6 million resulting in a gain of \$3.7 million. During the second quarter of 1999, the Trust recorded a \$7.1 million charge, representing the estimated loss on a potential sale of certain assets, principally Northeast Plaza in Atlanta, Georgia, thereby valuing the assets at their estimated fair value less estimated costs to sell. On October 18, 1999, the Trust sold Northeast Plaza for \$19.6 million, realizing a loss of \$6.3 million.

As a result of the foregoing items, net income before gain (loss) on the sale of real estate increased from \$55.5 million in 1999 to \$56.8 million in 2000, while net income increased from \$48.4 million in 1999 to \$60.5 million in 2000 and net income available for common shareholders increased from \$40.5 million to \$52.6 million.

Segment Results

The Trust's operating structure is organized on an asset management model, where small focused teams are responsible for a portfolio of assets. The Trust has divided its portfolio of properties into three geographic operating regions: Northeast, Mid-Atlantic and West. Each region is operated under the direction of a chief operating officer, with dedicated leasing, property management and financial staff and operates largely autonomously with respect to day to day operating decisions. Incentive compensation, throughout the regional teams, is tied to the net operating income of the respective portfolios.

Historical operating results for the three regions are as follows (in thousands):

	2001	2000	1999
Rental Income			
Northeast	\$120,313	\$113,078	\$102,452
Mid-Atlantic	124,765	114,371	111,624
West	<u>34,857</u>	<u>33,235</u>	<u>31,757</u>
Total	<u>\$279,935</u>	<u>\$260,684</u>	<u>\$245,833</u>
Net Operating Income			
Northeast	\$86,512	\$79,685	\$74,276
Mid-Atlantic	92,086	84,346	81,425
West	<u>23,061</u>	<u>24,818</u>	<u>22,665</u>
Total	<u>\$201,659</u>	<u>\$188,849</u>	<u>\$178,366</u>

The Northeast

The Northeast region is comprised of 52 assets, extending from suburban Philadelphia north to New York and its suburbs into New England and west to Illinois and Michigan. A significant portion of this portfolio has been held by the Trust for many years although acquisitions, redevelopment and retenanting remain major components to the current and future performance of the region. Several redevelopment projects were completed in 2000 and 2001, which enhanced revenues and net operating income in 2001.

When comparing 2001 with 2000, rental income, on an overall and same center basis, increased 6.4% from \$113.1 million in 2000 to \$120.3 million in 2001, primarily due to increases at recently redeveloped and retenanted shopping centers and street retail properties, such as Greenlawn, Blue Star, Brunswick, Ellisburg, Fresh Meadows and Austin Street.

Net operating income increased 8.6% from \$79.7 million in 2000 to \$86.5 million in 2001, primarily due to increases at the recently redeveloped and retenanted shopping centers and street retail properties, as well as, increased lease termination fees of \$1.0 million in 2001 over 2000's \$265,000.

When comparing 2000 with 1999, rental income increased 10% from \$102.5 million in 1999 to \$113.1 million in 2000. Excluding Greenlawn Plaza in Greenlawn, New York which was acquired on January 5, 2000, on a same center basis, rental income also increased 10%, primarily due to increases at the recently redeveloped and retenanted shopping centers such as, Bala Cynwyd, Lawrence Park, Gratiot, Langhorne Square, and Wynnewood.

Net operating income increased 7% from \$74.3 million in 1999 to \$79.7 million in 2000. Excluding Greenlawn Plaza in Greenlawn, New York which was acquired on January 5, 2000, on a same center basis, net operating income also increased 7%, primarily due to increases at the recently redeveloped and retenanted Bala Cynwyd, Lawrence Park, Gratiot, Langhorne Square, and Wynnewood shopping centers.

The Mid-Atlantic

The Mid-Atlantic region is comprised of 32 assets, including Pentagon Row, the final phase of which is currently under development, extending from Baltimore south to metropolitan Washington, D.C. and further south through Virginia and North Carolina into Florida. As with the Northeast region, a significant portion of this portfolio has been held by the Trust for many years although acquisitions, new development, redevelopment and retenanting remain major components to its current and future performance.

When comparing 2001 with 2000, rental income increased 9.1% from \$114.4 million in 2000 to \$124.8 million in 2001 reflecting the contribution from the recently completed Woodmont East project in Bethesda, Maryland, the rental income generated from the first three buildings at the Pentagon Row project in Arlington, Virginia and the September 21, 2001 acquisition of Friendship Center in Washington, D.C. On a same center basis, which excludes Woodmont East, Pentagon Row, Friendship Center and Williamsburg Shopping Center, which was sold on April 27, 2001, rental income increased 4.3% from \$112.4 million in 2000 to \$117.2 million in 2001.

Net operating income increased 9.2% from \$84.3 million in 2000 to \$92.1 million in 2001. On a same center basis as defined above, net operating income increased 5.2% from \$82.9 million in 2000 to \$87.1 million in 2001 due primarily to successful anchor, small shop and office leasing.

When comparing 2000 with 1999, rental income increased 3% from \$111.6 million in 1999 to \$114.4 million in 2000. On a same center basis, excluding Northeast Plaza in Atlanta, Georgia which was sold in 1999 and the recently developed Phase 3 of the Bethesda Row project in Bethesda, Maryland, rental income increased 4%, due in part to new anchor leases at several centers. Net operating income increased 4% from \$81.4 million in 1999 to \$84.3 million in 2000. On a same center basis as above, net operating income increased 5%, due primarily to new anchor leases and lease termination fees.

The West

The West region is comprised of 37 assets, including Santana Row which is currently under development, extending from Texas to the West Coast. Unlike the Northeast and Mid-Atlantic regions, this portfolio is relatively new to the Trust and is part of a deliberate expansion west over the past several years. This region is the fastest growing at the Trust and includes the Trust's largest new development project, Santana Row in San Jose, California. Several redevelopment projects were completed in 2000 and 2001 which contributed to revenues and net operating income in 2001 and will for future years as well.

When comparing 2001 with 2000, on a same center basis, which excludes properties acquired and sold in 2001 and 2000 and Santana Row, which is currently under development, rental income increased 14.9% from \$28.9 million in 2000 to \$33.2 million in 2001, due primarily to increases from recently redeveloped and retenanted properties in Los Angeles and San Francisco, California. On an overall basis, which includes the impact of the sale of Peninsula Shopping Center on June 30, 2000, rental income increased 4.9% from \$33.2 million in 2000 to \$34.9 million in 2001.

On a same center basis as defined above, net operating income increased 10.9% from \$22.0 million in 2000 to \$24.4 million in 2001, primarily due to the recently redeveloped and retenanted properties in Los Angeles and San Francisco, California. Overall net operating income decreased 7.1% from \$24.8 million in 2000 to \$23.1 million in 2001, again reflecting the sale of Peninsula Shopping Center and the marketing and leasing costs associated with the Santana Row development.

When comparing 2000 with 1999 on a same center basis, which excludes newly developed properties, Santana Row, which is currently under development, and properties sold and acquired since January 1,

1999, rental income increased 20% from \$19.7 million in 1999 to \$23.5 million in 2000, due primarily to recently redeveloped and retenanted properties in the Los Angeles and San Francisco, California areas. On an overall basis, which includes the impact of the sale of Peninsula Shopping Center on June 30, 2000 and the temporary reduction in earnings caused by the demolition of the old Town & Country Shopping Center to make way for the new Santana Row development, rental income increased 5% from \$31.8 million in 1999 to \$33.2 million in 2000.

On the same center basis as defined above, net operating income increased 25% from \$14.2 million in 1999 to \$17.8 million in 2000, due to increases from the recently redeveloped and retenanted properties in the Los Angeles and San Francisco, California areas. Overall net operating income increased 10% from \$22.7 million in 1999 to \$24.8 million in 2000, again reflecting the sale of Peninsula Shopping Center and the temporary reduction in earnings caused by the Santana Row development.

Funds from Operations

The Trust has historically reported its funds from operations in addition to its net income and net cash provided by operating activities. Funds from operations is a supplemental measure of real estate companies' operating performance. As of January 1, 2000, the National Association of Real Estate Investment Trusts (NAREIT) defines funds from operations as follows: income available for common shareholders before depreciation and amortization of real estate assets and before extraordinary items less gains (losses) on sale of real estate. Prior to January 1, 2000, funds from operations also excluded significant nonrecurring events. Funds from operations does not replace net income as a measure of performance or net cash provided by operating activities as a measure of liquidity. Rather, funds from operations has been adopted by real estate investment trusts to provide a consistent measure of operating performance in the industry. Nevertheless, funds from operations, as presented by the Trust, may not be comparable to funds from operations as presented by other real estate investment trusts.

The reconciliation of net income to funds from operations is as follows (in thousands):

	Year ended December 31,		
	2001	2000	1999
Net income available for common shareholders	\$ 59,722	\$ 52,573	\$ 40,493
Depreciation and amortization of real estate assets	54,350	48,456	45,388
Amortization of initial direct costs of leases	4,161	3,514	3,033
Income attributable to operating partnership units	1,384	1,311	831
(Gain) loss on sale of real estate	(9,185)	(3,681)	7,050
Funds from operations for common shareholders	<u>\$110,432</u>	<u>\$102,173</u>	<u>\$ 96,795</u>

Quantitative and Qualitative Disclosures about Market Risk

The Trust's primary financial market risk is the fluctuation in interest rates. At December 31, 2001, the Trust had \$97.0 million of variable rate debt, not including \$62.0 million in variable rate construction loans of which the interest is capitalized to the development project. Based upon this balance of variable operating debt, if interest rates increased 1%, the Trust's earnings and cash flows would decrease by approximately \$1.0 million. If interest rates decreased 1%, the Trust's earnings and cash flows would increase by approximately \$1.0 million. The Trust believes that the change in the fair value of its financial instruments resulting from a foreseeable fluctuation in interest rates would be immaterial to its total assets and total liabilities.

Consolidated Balance Sheets

	December 31, 2001	December 31, 2000
	(in thousands, except share data)	
ASSETS		
Real estate, at cost		
Operating	\$ 1,782,318	\$ 1,679,289
Development	<u>321,986</u>	<u>175,624</u>
	2,104,304	1,854,913
Less accumulated depreciation and amortization	<u>(395,767)</u>	<u>(351,258)</u>
	1,708,537	1,503,655
Other Assets		
Cash	17,563	11,357
Mortgage notes receivable	35,607	47,360
Accounts and notes receivable	18,580	13,092
Prepaid expenses and other assets, principally property taxes and lease commissions	50,739	38,140
Debt issue costs, net of accumulated amortization of \$4,840 and \$3,982, respectively	<u>6,952</u>	<u>7,475</u>
	<u>\$ 1,837,978</u>	<u>\$ 1,621,079</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Obligations under capital leases	\$ 100,293	\$ 121,611
Mortgages and construction loans payable	350,043	218,541
Notes payable	174,843	209,005
Accounts payable and accrued expenses	64,014	36,810
Dividends payable	21,664	19,892
Security deposits	6,026	5,537
Prepaid rents	10,400	8,819
Senior notes and debentures	410,000	410,000
5¼% Convertible subordinated debentures	75,289	75,289
Investors' interest in consolidated assets	33,018	47,921
Commitments and contingencies		
Shareholders' equity		
Preferred stock, authorized 15,000,000 shares, \$.01 par		
7.95% Series A Cumulative Redeemable Preferred Shares, (stated at liquidation preference \$25 per share), 4,000,000 shares issued in 1997	100,000	100,000
8.5% Series B Cumulative Redeemable Preferred Shares, (stated at liquidation preference \$25 per share), 5,400,000 shares issued in 2001	135,000	—
Common shares of beneficial interest, \$.01 par, 100,000,000 shares authorized, 41,524,165 and 40,910,972 issued, respectively	417	410
Additional paid in capital	730,835	723,078
Accumulated dividends in excess of Trust net income	<u>(322,428)</u>	<u>(306,287)</u>
	643,824	517,201
Less: 1,452,926 and 1,441,594 common shares in treasury—at cost, respectively	(27,990)	(27,753)
Deferred compensation on restricted shares	(15,005)	(17,254)
Notes receivable from employee stock plans	(4,148)	(4,540)
Accumulated other comprehensive income (loss)	<u>(4,293)</u>	<u>—</u>
	<u>592,388</u>	<u>467,654</u>
	<u>\$ 1,837,978</u>	<u>\$ 1,621,079</u>

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Operations

	Year ended December 31,		
	2001	2000	1999
	(in thousands, except per share data)		
Revenue			
Rental income	\$279,935	\$260,684	\$245,833
Interest and other income	6,590	7,532	7,649
Other property income	<u>13,977</u>	<u>11,065</u>	<u>11,231</u>
	300,502	279,281	264,713
Expenses			
Rental	63,481	56,280	53,677
Real estate taxes	28,772	26,620	25,021
Interest	69,313	66,418	61,492
Administrative	14,281	13,318	15,120
Depreciation and amortization	<u>59,914</u>	<u>53,259</u>	<u>50,011</u>
	<u>235,761</u>	<u>215,895</u>	<u>205,321</u>
Operating income before investors' share of operations	64,741	63,386	59,392
Investors' share of operations	<u>(5,170)</u>	<u>(6,544)</u>	<u>(3,899)</u>
Income before gain (loss) on sale of real estate	59,571	56,842	55,493
Gain (loss) on sale of real estate	<u>9,185</u>	<u>3,681</u>	<u>(7,050)</u>
Net income	68,756	60,523	48,443
Dividends on preferred stock	<u>(9,034)</u>	<u>(7,950)</u>	<u>(7,950)</u>
Net income available for common shareholders	<u>\$ 59,722</u>	<u>\$ 52,573</u>	<u>\$ 40,493</u>
Earnings per common share, basic			
Income before gain (loss) on sale of real estate	\$ 1.29	\$ 1.26	\$ 1.20
Gain (loss) on sale of real estate	<u>0.23</u>	<u>0.10</u>	<u>(0.18)</u>
	<u>\$ 1.52</u>	<u>\$ 1.36</u>	<u>\$ 1.02</u>
Weighted average number of common shares, basic	<u>39,164</u>	<u>38,796</u>	<u>39,574</u>
Earnings per common share, diluted			
Income before gain (loss) on sale of real estate	\$ 1.29	\$ 1.26	\$ 1.19
Gain (loss) on sale of real estate	<u>0.23</u>	<u>0.09</u>	<u>(0.17)</u>
	<u>\$ 1.52</u>	<u>\$ 1.35</u>	<u>\$ 1.02</u>
Weighted average number of common shares, diluted	<u>40,266</u>	<u>39,910</u>	<u>40,638</u>

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Common Shareholders' Equity

	Year ended December 31,								
	2001			2000			1999		
(in thousands, except share data)	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Additional Paid-in Capital
Common Shares of Beneficial Interest									
Balance, beginning of year	40,910,972	\$ 410	\$723,078	40,418,766	\$ 404	\$713,354	40,139,675	\$ 707,724	—
Adjustment to reflect change in par value	—	—	—	—	—	—	—	(707,324)	\$707,323
Shares issued to purchase partnership interests	335,236	3	6,919	—	—	—	—	—	—
Exercise of stock options	22,066	—	459	67,684	1	1,398	52,667	1	1,092
Shares issued under dividend reinvestment plan	159,234	2	3,277	153,713	2	3,136	165,770	2	3,566
Performance and Restricted Shares granted, net of Restricted Shares retired	96,657	2	1,877	270,809	3	5,190	60,654	1	1,373
Cost of 8.5% Series B Cumulative Preferred Shares	—	—	(4,775)	—	—	—	—	—	—
Balance, end of year	<u>41,524,165</u>	<u>\$ 417</u>	<u>\$730,835</u>	<u>40,910,972</u>	<u>\$ 410</u>	<u>\$723,078</u>	<u>40,418,766</u>	<u>\$ 404</u>	<u>\$713,354</u>
Accumulated Dividends in Excess of Trust Net Income									
Balance, beginning of year		\$(306,287)			\$(286,348)			\$(255,211)	
Net income		68,756			60,523			48,443	
Dividends declared to common shareholders		(75,863)			(72,512)			(71,630)	
Dividends declared to preferred shareholders		(9,034)			(7,950)			(7,950)	
Balance, end of year		<u>\$(322,428)</u>			<u>\$(306,287)</u>			<u>\$(286,348)</u>	
Common Shares of Beneficial Interest in Treasury									
Balance, beginning of year	(1,441,594)	\$ (27,753)		(217,644)	\$ (4,334)		(59,425)	\$ (1,376)	
Performance and Restricted Shares forfeited	(11,332)	(237)		(38,550)	(787)		(17,719)	(393)	
Purchase of treasury shares	—	—		(1,185,400)	(22,632)		(140,500)	(2,565)	
Balance, end of year	<u>(1,452,926)</u>	<u>\$ (27,990)</u>		<u>(1,441,594)</u>	<u>\$ (27,753)</u>		<u>(217,644)</u>	<u>\$ (4,334)</u>	
Deferred Compensation on Restricted Shares									
Balance, beginning of year	(735,875)	\$ (17,254)		(599,427)	\$ (15,219)		(582,910)	\$ (14,892)	
Performance and Restricted Shares issued, net of forfeitures	(61,369)	(830)		(218,771)	(4,151)		(31,660)	(730)	
Vesting of Performance and Restricted Shares	130,588	3,079		82,323	2,116		15,143	403	
Balance, end of year	<u>(666,656)</u>	<u>\$ (15,005)</u>		<u>(735,875)</u>	<u>\$ (17,254)</u>		<u>(599,427)</u>	<u>\$ (15,219)</u>	
Subscriptions receivable from employee stock plans									
Balance, beginning of year	(242,638)	\$ (4,540)		(317,606)	\$ (6,030)		(337,111)	\$ (6,298)	
Subscription loans issued	(3,333)	(70)		(5,500)	(115)		(9,083)	(190)	
Subscription loans paid	27,416	462		80,468	1,605		28,588	458	
Balance, end of year	<u>(218,555)</u>	<u>\$ (4,148)</u>		<u>(242,638)</u>	<u>\$ (4,540)</u>		<u>(317,606)</u>	<u>\$ (6,030)</u>	
Accumulated other comprehensive income (loss)									
Balance, beginning of year		—			—			—	
Change due to recognizing gain on securities		\$ 49			—			—	
Change in valuation on interest rate swap		(4,342)			—			—	
Balance, end of year		<u>\$ (4,293)</u>			<u>\$ —</u>			<u>\$ —</u>	
Other comprehensive income									
Net income		\$ 68,756			—			—	
Change due to recognizing gain on securities		49			—			—	
Change in valuation on interest rate swap		(4,342)			—			—	
Total other comprehensive income		<u>\$ 64,463</u>			<u>\$ —</u>			<u>\$ —</u>	

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

	2001	Year ended December 31, 2000	1999
	(in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 68,756	\$ 60,523	\$ 48,443
Items not requiring cash outlays			
Depreciation and amortization	59,914	53,259	50,011
(Gain) loss on sale of real estate	(9,185)	(3,681)	7,050
Other, net	1,041	1,634	2,395
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(5,544)	323	(5,257)
Increase in prepaid expenses and other assets before depreciation and amortization	(18,305)	(6,834)	(2,183)
Increase (decrease) in operating accounts payable, security deposits and prepaid rent	4,132	3,342	(1,202)
Increase (decrease) in accrued expenses	<u>7,736</u>	<u>(2,420)</u>	<u>2,926</u>
Net cash provided by operating activities	108,545	106,146	102,183
INVESTING ACTIVITIES			
Acquisition of real estate	(61,415)	(23,554)	(25,337)
Capital expenditures—development	(158,048)	(81,023)	(32,589)
Capital expenditures—other	(41,013)	(64,815)	(58,207)
Repayments (issuance) of mortgage notes receivable, net	3,275	494	(2,341)
Proceeds from sale of real estate, net of costs	<u>25,063</u>	<u>47,157</u>	<u>19,161</u>
Net cash used in investing activities	(232,138)	(121,741)	(99,313)
FINANCING ACTIVITIES			
Borrowing (repayment) of short-term debt, net	(34,000)	47,400	(100,147)
Proceeds from mortgage and construction financing, net of costs	145,427	166,383	—
(Repayment) issuance of senior notes, net of costs	—	(100,000)	172,193
Issuance of Series B Preferred shares, net of costs	130,225	—	—
Issuance of common shares	1,301	3,428	2,243
Common shares repurchased	—	(22,632)	(2,565)
Payments on mortgages, capital leases and notes payable	(31,550)	(2,169)	(1,151)
Dividends paid	(80,593)	(77,499)	(76,617)
(Decrease) increase in minority interest, net	<u>(1,011)</u>	<u>303</u>	<u>(2,318)</u>
Net cash provided by (used in) financing activities	<u>129,799</u>	<u>15,214</u>	<u>(8,362)</u>
Increase (decrease) in cash	6,206	(381)	(5,492)
Cash at beginning of year	<u>11,357</u>	<u>11,738</u>	<u>17,230</u>
Cash at end of year	<u>\$ 17,563</u>	<u>\$ 11,357</u>	<u>\$ 11,738</u>

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

December 31, 2001, 2000 and 1999

Summary of Significant Accounting Policies

Federal Realty Investment Trust (the "Trust") is a full-service real estate company, which owns and operates community and neighborhood shopping centers and owns and develops main street retail properties, retail buildings and mixed-use properties located in densely developed urban and suburban areas.

The Trust operates in a manner intended to enable it to qualify as a real estate investment trust for federal income tax purposes. A trust which distributes at least 90% of its real estate investment trust taxable income 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. Therefore, no provision for Federal income taxes is required.

The consolidated financial statements of the Trust include the accounts of the Trust, its wholly owned corporate subsidiaries, several corporations where the Trust has a majority ownership, numerous partnerships and a joint venture, all of which it controls. The equity interests of other investors are reflected as investors' interest in consolidated assets. All significant intercompany transactions and balances are eliminated in consolidation.

Revenue Recognition. Leases with tenants are classified as operating leases. Minimum rents are recognized on a straight-line basis over the terms of the related leases net of valuation adjustments based on management's assessment of credit, collection and other business risk. Percentage rents, which represent additional rents based on gross tenant sales, are recognized at the end of the lease year or other period in which tenant sales' thresholds have been reached and the percentage rents are due. Real estate tax and other cost reimbursements are recognized on an accrual basis over the periods in which the expenditures occurred.

Real Estate. Land, buildings and real estate under development are recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives range from three to 25 years on apartment buildings and improvements, and from three to 50 years on retail properties and improvements. Maintenance and repair costs are charged to operations as incurred. Tenant work and other major improvements are capitalized and depreciated over the life of the lease or their estimated useful life, respectively. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 66, "Accounting for Sales of Real Estate", sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and the Trust has no significant continuing involvement. The gain or loss resulting from the sale of properties is included in net income at the time of sale. Upon termination of a lease, undepreciated tenant improvement costs are charged to operations if the assets are replaced and the asset and the corresponding accumulated depreciation are retired.

The Trust evaluates the carrying value of its long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In cases where particular assets are being held for sale, impairment is based on whether the fair value (estimated sales price less costs of disposal) of each individual property to be sold is less than the net book value. Otherwise, impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. If a property is impaired, its basis is adjusted to its fair market value.

In August 2001 the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective for the Trust on January 1, 2002). SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly-acquired, and broadens the presentation of discontinued operations to include more disposal transactions.

The Trust, when applicable as lessee, classifies its leases of land and buildings as operating or capital leases in accordance with the provisions of SFAS No. 13, "Accounting for Leases".

Certain external and internal costs directly related to the development, redevelopment and leasing of real estate including applicable salaries and their related direct costs are capitalized. The capitalized costs associated with developments, redevelopments and leasing are depreciated or amortized over the life of the improvement and lease, respectively. Unamortized leasing costs are charged to operations if the applicable tenant vacates before the expiration of their lease.

Interest costs on developments and major redevelopments are capitalized as part of the development and redevelopment. Capitalization of interest commences when development activities and expenditures begin and end upon completion, i.e. when the asset is ready for its intended use. Generally rental property is considered substantially complete and ready for its intended use upon completion of tenant improvements, but no later than one year from the completion of major construction activity.

Debt Issue Costs. Costs related to the issuance of debt instruments are capitalized and are amortized as interest expense over the life of the related issue using the effective interest method. Upon conversion or in the event of redemption, applicable unamortized costs are charged to shareholders' equity or to operations, respectively.

Cash and Cash Equivalents. The Trust defines cash as cash on hand, demand deposits with financial institutions and short term liquid investments with an initial maturity under three months. Cash balances in individual banks may exceed insurable amounts from time to time.

Risk Management. Upon adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" on January 1, 2001, the Trust had no derivatives and thus there was no transition adjustment upon adoption. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge of the exposure to certain risks. The Trust enters into derivative contracts, which qualify as cash flow hedges, in order to manage interest rate risk. Derivatives are not purchased for speculation. During 2001, to hedge its exposure to interest rates on its \$125 million term loan, the Trust entered into interest rate swaps, which fixed the LIBOR interest rate on the term loan at 5.27%. The current interest rate on the term loan is LIBOR plus 95 basis points, thus fixing the interest rate at 6.22% on notional amounts totaling \$125 million. The Trust is exposed to credit loss in the event of non-performance by the counterparties to the interest rate protection agreement should interest rates exceed the cap. However, management does not anticipate non-performance by the counterparties. The counterparties have long-term debt ratings of A- or above by S&P and AA2 or above by Moody's. Although the Trust's cap is not exchange-traded, there are a number of financial institutions which enter into these types of transactions as part of their day-to-day activities. The interest rate swaps mature concurrently with the \$125 million term loan on December 19, 2003. The swaps were documented as cash flow hedges and designated as effective at

inception of the swap contract. Consequently, the unrealized gain or loss upon measuring the swaps at their fair market value is recorded as a component of other comprehensive income within stockholders' equity and either a derivative instrument asset or liability is recorded on the balance sheet. At December 31, 2001, an unrealized loss of \$4,342,000, representing the difference between the current market value and the 6.22% fixed interest rate on the swap, was recorded in other comprehensive income with a corresponding derivative liability on the balance sheet. Interest expense of approximately \$2,217,000 will be reclassified from other comprehensive income into current earnings over the next twelve months to bring the effective interest rate up to 6.22%. There were no open derivative contracts at December 31, 2000 or 1999.

Acquisition, Development and Construction Loan Arrangements. The Trust has made certain mortgage loans that, because of their nature, qualify as loan receivables. At the time the loans were made the Trust did not intend for the arrangement to be anything other than a financing and did not contemplate a real estate investment. Using guidance set forth in the Third Notice to Practitioners issued by the AICPA in February 1986 entitled "ADC Arrangements" ("the Third Notice"), the Trust evaluates each investment to determine whether the loan arrangement qualifies under the Third Notice as a loan, joint venture or real estate investment and the appropriate accounting thereon; such determination affects the Trust's balance sheet classification of these investments and the recognition of interest income derived therefrom. Generally, the Trust receives additional interest on these loans, however the Trust never receives in excess of 50% of the residual profit in the project (as defined in the Third Notice) and because the borrower has either a substantial investment in the project or has guaranteed all or a portion of the Trust's loan (or a combination thereof) the loans qualify for loan accounting. The amounts under ADC arrangements at December 31, 2001 and 2000 are \$35.6 million and \$47.4 million, respectively and interest income recognized thereon was \$4.1 million and \$5.0 million, respectively.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are prepared using management's best judgment, after considering past and current events. Actual results could differ from these estimates.

Comprehensive Income. The Trust's interest rate swaps were documented as cash flow hedges and designated as effective at inception of the swap contract, therefore, the unrealized gain or loss upon measuring the swaps at their fair market value is recorded as a component of other comprehensive income within stockholders' equity. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", investments purchased in connection with the Trust's nonqualified deferred compensation plan are classified as available for sale securities and reported at fair value. Unrealized gains or losses on these investments purchased to match the Trust's obligation to the participants is also recorded as a component of other comprehensive income. At December 31, 2001 these investments consisted of mutual funds and are stated at market value.

Earnings Per Share. The Trust calculates basic and diluted earnings per share in accordance with SFAS No. 128, "Earnings Per Share". Basic EPS excludes dilution and is computed by dividing net income available for common shareholders by the weighted number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares and then shared in the earnings of the Trust.

The following table sets forth the reconciliation between basic and diluted EPS (in thousands, except per share data):

	2001	2000	1999
<i>Numerator</i>			
Net income available for common shareholders—basic	\$59,722	\$52,573	\$40,493
Income attributable to operating partnership units	<u>1,384</u>	<u>1,311</u>	<u>831</u>
Net income available for common shareholders—diluted	<u>\$61,106</u>	<u>\$53,884</u>	<u>\$41,324</u>
<i>Denominator</i>			
Denominator for basic EPS—weighted average shares	39,164	38,796	39,574
Effect of dilutive securities			
Stock options and awards	197	155	214
Operating partnership units	<u>905</u>	<u>959</u>	<u>850</u>
Weighted average shares—diluted	<u>\$40,266</u>	<u>39,910</u>	<u>40,638</u>
Earnings per common share—basic	<u>\$ 1.52</u>	<u>\$ 1.36</u>	<u>\$ 1.02</u>
Earnings per common share—diluted	<u>\$ 1.52</u>	<u>\$ 1.35</u>	<u>\$ 1.02</u>

Stock options are accounted for in accordance with APB 25, as interpreted, whereby if options are priced at fair market value or above at the date of grant, no compensation expense is recognized.

Reclassifications. Certain components of real estate, mortgages and construction loans payable and notes payable on the December 31, 2000 Balance Sheet have been reclassified to assure comparability of all periods presented.

Note 1. Real Estate and Encumbrances

A summary of the Trust's properties at December 31, 2001 and 2000 is as follows (in thousands):

	Cost	Accumulated Depreciation and Amortization	Encumbrances
2001			
Retail properties	\$1,928,554	\$329,911	\$350,043
Retail properties under capital leases	169,072	59,967	100,293
Apartments	<u>6,678</u>	<u>5,889</u>	<u>—</u>
	<u>\$2,104,304</u>	<u>\$395,767</u>	<u>\$450,336</u>
2000			
Retail properties	\$1,633,448	\$276,982	\$218,541
Retail properties under capital leases	214,805	68,564	121,611
Apartments	<u>6,660</u>	<u>5,712</u>	<u>—</u>
	<u>\$1,854,913</u>	<u>\$351,258</u>	<u>\$340,152</u>

During 2001 the Trust expended cash of \$61.4 million to acquire real estate and an additional \$199.1 million to improve, redevelop and develop its existing real estate. Of the \$199.1 million spent in 2001 on the Trust's existing real estate portfolio, approximately \$158.0 million was invested in the Trust's development projects, primarily the projects in Bethesda, Maryland; San Jose, California; and in Arlington, Virginia. The remaining \$41.0 million of capital expenditures relates to improvements to common areas, tenant work and various redevelopments, including the office expansion and retenanting of Willow Lawn Shopping Center, the renovation of Brunswick Shopping Center, the redevelopment of retail buildings in San Antonio, Texas and the redevelopment and retenanting of certain of the Trust's California street retail buildings.

On February 16, 2001 the Trust bought the fee interest underlying the capital lease obligation of \$21.4 million, thereby terminating the capital lease, on Brick Plaza in Brick, New Jersey for a purchase price of \$28 million. A mortgage note receivable of \$3.2 million owed to the Trust by the lessor and a \$3 million security deposit on the capital lease were credited to the purchase price, resulting in a cash outlay of approximately \$21.5 million.

On March 1, 2001 the limited partners in two partnerships, owning street retail properties in southern California, exercised their rights under the partnership agreements and put their interests to the Trust for \$18.1 million plus additional consideration to be determined upon meeting certain leasing requirements in the future. The Trust paid the initial \$18.1 million, \$11.4 million in cash at closing, and the \$6.7 million balance in 328,116 common shares issued to the limited partners on June 19, 2001. To date, leasing transactions have resulted in a purchase price adjustment of \$188,000; \$160,000 of which was paid by the issuance of 7,120 common shares on December 6, 2001 and the remainder paid in cash. The Trust estimates that an additional \$1.0 to \$1.2 million will be owed to the limited partners upon completion of certain other leasing transactions.

In connection with the buyout of the minority partner at Santana Row in a transaction being structured as a tax-free exchange the Trust made an equity investment of \$2.6 million and a loan of \$5.9 million to a partnership which purchased a building for \$8.5 million. Upon consummation of the exchange in January 2002, the Trust received the minority interest in Santana Row in exchange for its \$2.6 million investment in the building. The \$5.9 million loan is due to the Trust on January 12, 2003.

On April 27, 2001 the Trust sold the Williamsburg Shopping Center in Williamsburg, Virginia for \$16.7 million resulting in a gain of \$7.9 million. The proceeds from the sale were held by a qualified intermediary until the execution of a tax-free exchange for Friendship Center.

On September 21, 2001 the Trust purchased Friendship Center, a 119,000 square foot street retail property in Washington, D.C. for \$33.4 million. The purchase was funded from the proceeds from the sale of Williamsburg Shopping Center and a \$17.0 million mortgage loan.

On December 18, 2001 the Trust sold the street retail property located at 101 E. Oak Street in Chicago, Illinois for \$6.1 million resulting in a gain of \$1.8 million. The proceeds from the sale are being held by a qualified intermediary for purposes of executing a tax-free property exchange.

On December 30, 2001 the Trust exchanged its 90% interest in a street retail building in Forest Hills, New York to the minority partner in exchange for the minority partner's 10% interest in three other street

retail buildings in Forest Hills, New York resulting in an accounting loss of approximately \$500,000.

The Trust's 120 retail properties at December 31, 2001 are located in 15 states and the District of Columbia. There are approximately 2,100 tenants providing a wide range of retail products and services. These tenants range from sole proprietorships to national retailers; no one tenant or corporate group of tenants accounts for more than 2.7% of revenue.

Mortgage notes receivable of \$35.6 million are due over various terms from January 2002 to May 2021 and have an average weighted interest rate of 10.0%. Under the terms of certain of these mortgages, the Trust will receive additional interest based upon the gross income of the secured properties and, upon sale of the properties, the Trust will share in the appreciation of the properties.

Mortgages and construction loans payable and capital lease obligations are due in installments over various terms extending to 2016 and 2060, respectively, with interest rates ranging from 4.1% to 11.25%. Certain of the capital lease obligations require additional interest payments based upon property performance. The Trust refinanced two maturing mortgages totaling \$30.5 million during 2001 by placing new mortgage notes totaling \$43.5 million on these properties. In addition the Trust placed new mortgage loans on two properties, Brick Plaza and Friendship Center, totaling \$50.0 million. There were no maturing mortgages in 2000 or 1999.

On April 17, 2001 the Trust closed on a \$295 million construction loan for Santana Row in San Jose, California. The loan, which initially bears interest at LIBOR plus 212.5 basis points, matures April 16, 2004 with two one-year extension options, subject to obtaining certain operating targets. The interest rate will decrease to LIBOR plus 187.5 basis points and then to LIBOR plus 162.5 basis points upon the achievement of certain leasing, occupancy and net operating income hurdles. There is no assurance that these targets and hurdles will be met. The construction loan requires fees and has various covenants including the maintenance of a minimum shareholders' equity and a maximum ratio of debt to gross asset value. The initial funding of the construction loan took place on August 23, 2001 when the equity and pre-leasing requirements were met. As of December 31, 2001, \$62.0 million was borrowed under the loan. No principal payments are due until maturity. The property secures the construction loan facility.

At December 31, 2001 there was \$23.2 million borrowed under the construction loan for the Trust's Woodmont East development in Bethesda, Maryland. The loan, which has a floating interest rate of LIBOR plus 120 to 150 basis points, depending on occupancy levels, matures August 29, 2002 with two one-year extension options. No principal payments are due until maturity. The property secures the construction loan facility.

Scheduled principal payments on mortgage and construction loan indebtedness, assuming the option to extend the Woodmont East construction loan is exercised, as of December 31, 2001 are as follows (in thousands):

Year ending December 31,	
2002	\$ 498
2003	17,709
2004	87,826
2005	2,896
2006	3,227
Thereafter	<u>237,887</u>
	<u>\$350,043</u>

Future minimum lease payments and their present value for property under capital leases as of December 31, 2001, are as follows (in thousands):

Year ending December 31,	
2002	\$ 9,394
2003	9,324
2004	9,539
2005	9,539
2006	9,539
Thereafter	<u>375,012</u>
	422,347
Less amount representing interest	<u>(322,054)</u>
Present value	<u>\$ 100,293</u>

LEASING ARRANGEMENTS

The Trust's leases with retail property and apartment tenants are classified as operating leases. Leases on apartments are generally for a period of one year, whereas retail property leases generally range from three to 10 years (certain leases with anchor tenants may be longer), and usually provide for contingent rentals based on sales and sharing of certain operating costs.

The components of rental income are as follows (in thousands):

	Year ended December 31,		
	2001	2000	1999
Retail and mixed-use properties			
Minimum rents	\$223,515	\$208,474	\$197,299
Cost reimbursements	47,328	43,056	39,574
Percentage rent	6,107	6,364	6,277
Apartments—rents	<u>2,985</u>	<u>2,790</u>	<u>2,683</u>
	<u>\$279,935</u>	<u>\$260,684</u>	<u>\$245,833</u>

The components of rental expense are as follows (in thousands):

	Year ended December 31,		
	2001	2000	1999
Repairs and maintenance	\$17,383	\$16,590	\$15,347
Management fees and costs	11,995	9,831	10,635
Utilities	8,129	8,096	7,120
Payroll—properties	4,709	4,510	4,440
Ground rent	3,698	3,190	2,933
Insurance	3,150	2,900	2,774
Other operating	<u>14,417</u>	<u>11,163</u>	<u>10,428</u>
	<u>\$63,481</u>	<u>\$56,280</u>	<u>\$53,677</u>

Minimum future retail property rentals on noncancelable operating leases, before any reserve for uncollectible amounts, on operating properties as of December 31, 2001 are as follows (in thousands):

Year ending December 31,	
2002	\$ 231,787
2003	221,169
2004	200,241
2005	179,164
2006	153,902
Thereafter	<u>898,538</u>
	<u>\$1,884,801</u>

Note 2. Fair Value of Financial Instruments

The following disclosure of estimated fair value was determined by the Trust, using available market information and appropriate valuation methods. Considerable judgment is necessary to develop estimates of fair value. The estimates presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments.

The Trust estimates the fair value of its financial instruments using the following methods and assumptions: (1) quoted market prices, when available, are used to estimate the fair value of investments in marketable debt and equity securities; (2) quoted market prices are used to estimate the fair value of the Trust's marketable convertible subordinated debentures; (3) discounted cash flow analyses are used to estimate the fair value of mortgage notes receivable and payable, using the Trust's estimate of current interest rates for similar notes; (4) carrying amounts in the balance sheet approximate fair value for cash, accounts payable, accrued expenses and short term borrowings. Notes receivable from officers are excluded from fair value estimation since they have been issued in connection with employee stock ownership programs.

(in thousands)	December 31, 2001		December 31, 2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash & equivalents	\$ 17,563	\$ 17,563	\$ 11,357	\$ 11,357
Investments	2,739	2,739	2,356	2,356
Mortgage notes receivable	35,607	36,427	47,360	48,039
Mortgages and construction loans and notes payable	524,886	559,179	427,546	427,937
Convertible debentures	75,289	70,696	75,289	71,058
Senior notes	410,000	425,970	410,000	411,934

Note 3. Notes Payable

The Trust's notes payable consist of the following (in thousands):

	2001	2000
Revolving credit facilities	\$ 44,000	\$ 78,000
Term note with banks	125,000	125,000
Other	<u>5,843</u>	<u>6,005</u>
	<u>\$174,843</u>	<u>\$209,005</u>

In December 1997 the Trust obtained a five year syndicated revolving credit facility for \$300 million due December 2002. The syndicated facility requires fees and has various covenants including the maintenance of a minimum shareholders' equity and a maximum ratio of debt to net worth. In June 2000, the Trust modified certain covenants and extended the maturity date to December 19, 2003. The current borrowing rate on the syndicated credit facility is LIBOR plus 80 basis points.

In December 1998 the Trust obtained a four year loan of \$125 million from five institutional lenders. The loan was originally due December 2002 and was extended to December 19, 2003 along with the syndicated credit facility. The loan requires the payment of certain fees and has the same covenants as the syndicated credit facility. The current borrowing rate on the term loan is LIBOR plus 95 basis points.

The maximum amount drawn under these facilities during 2001, 2000 and 1999 was \$308.5 million, \$343.1 million and \$330.0 million, respectively. In 2001, 2000 and 1999 the weighted average interest rate on borrowings was 5.6%, 7.2% and 5.9%, respectively, and the average amount outstanding was \$269.7 million, \$283.2 million and \$296.4 million, respectively.

In connection with the land held for future development in Hillsboro, Oregon, the Trust issued a \$3.4 million note which was originally due June 30, 2001. The note has been extended one year to June 30, 2002. The loan bears interest at LIBOR plus 125 basis points. The property secures the loan facility.

Note 4. 5¼% Convertible Subordinated Debentures

In October 1993, the Trust issued \$75.0 million of 5¼% convertible subordinated debentures, realizing cash proceeds of approximately \$73.0 million. The debentures were not registered under the Securities Act of 1933 and were not publicly distributed within the United States. The debentures, which mature in 2003, are convertible into shares of beneficial interest at \$36 per share. The debentures are redeemable by the Trust, in whole, at any time after October 28, 1998 at 100% of the principal amount plus accrued interest.

At December 2001 and 2000 the Trust had outstanding \$289,000 of 5¼% convertible subordinated debentures due 2002. The debentures which are convertible into shares of beneficial interest at \$30.625 were not registered under the Securities Act of 1933 and were not publicly distributed within the United States.

There are no significant financial covenants on these debentures. The Trust is in compliance with the terms and covenants of these borrowings. No principal is due on these notes prior to maturity.

Note 5. Senior Notes and Debentures

Unsecured senior notes and debentures at December 31, 2001 and 2000 consist of the following (in thousands):

	2001	2000
8% Notes due April 21, 2002	\$ 25,000	\$ 25,000
6.74% Medium-Term Notes due March 10, 2004	39,500	39,500
6.625% Notes due December 1, 2005	40,000	40,000
6.99% Medium-Term Notes due March 10, 2006	40,500	40,500
6.82% Medium-Term Notes due August 1, 2027, redeemable at par by holder August 1, 2007	40,000	40,000
7.48% Debentures due August 15, 2026, redeemable at par by holder August 15, 2008	50,000	50,000
8.75% Notes due December 1, 2009	<u>175,000</u>	<u>175,000</u>
	<u>\$410,000</u>	<u>\$410,000</u>

On January 17, 2000 the Trust's \$100 million of 8.875% Notes matured and were paid with borrowings from the Trust's syndicated credit facilities.

The loan agreements contain various covenants, including limitations on the amount of debt and minimum debt service coverage ratios. The Trust is in compliance with all covenants. No principal is due on these notes prior to maturity.

In September 1998 the Trust filed a \$500 million shelf registration statement with the Securities and Exchange Commission which allows the issuance of debt securities, preferred shares and common shares. As of December 31, 2001, \$190 million is available under the shelf registration.

The Trust plans to pay-off the 8% Notes due April 21, 2002 through borrowings from its syndicated credit facility.

Note 6. Dividends

On November 1, 2001 the Trustees declared a quarterly cash dividend of \$.48 per common share, payable January 15, 2002 to common shareholders of record January 2, 2002. For the years ended December 31, 2000 and 1999 \$.11 and \$.16, of dividends paid per common share, respectively, represented a return of capital. There was no return of capital in 2001.

On November 1, 2001 the Trustees declared a quarterly cash dividend of \$.49687 per share on its Series A Cumulative Redeemable Preferred Shares, payable on January 31, 2002 to shareholders of record on January 15, 2002.

On January 2, 2002 the Trustees declared a quarterly cash dividend of \$.3778 per share on its Series B Cumulative Redeemable Preferred Shares, payable January 31, 2002 to shareholders of record on January 15, 2002.

For the year ended December 31, 2000, \$.04 of dividends paid per common share and per preferred share represent a capital gain. There were no capital gains in 2001 or 1999.

Note 7. Commitments and Contingencies

Pentagon Row is a mixed-use project with the retail component being developed by the Trust and the residential component being developed by an unrelated developer. In October 2000 the general contractor on the project was replaced by the Trust and the residential developer, because of schedule delays and other events that caused the Trust and the residential developer to conclude that the original contractor was either unable or unwilling to comply with its contractual obligations. The Trust and the residential developer filed suit against the original contractor to recover damages that are being incurred as a result of defaults under the contract. Though not quantifiable until the project is completed, the combined damage claim is estimated to be in excess of \$40.0 million. The original contractor filed a counterclaim against the Trust and the residential developer for damages of \$7 million plus interest, attorneys' fees and litigation costs. The Trust believes that the counterclaim is generally without merit and that the outcome of the counterclaim will not have a material adverse effect on its financial condition, results of operations or on the project. Work continues under the direction of the new general contractor. Due to the delay and other costs associated with the change in general contractor the estimated cost of the project is now \$92 million, if there is no recovery of damages from the original general contractor. The lawsuit against the original contractor is scheduled for mediation in May 2002, and, should mediation prove unsuccessful, is scheduled to go to trial in October 2002.

In addition, the Trust is involved in various other lawsuits and environmental matters arising in the normal course of business. Management believes that such matters will not have a material effect on the financial condition or results of operations of the Trust.

Under the terms of the Congressional Plaza partnership agreement, from and after January 1, 1986 Rockville Plaza Company, an unaffiliated third party, has the right to require the Trust and the two other minority partners to purchase from half to all of Rockville Plaza Company's 37.5% interest in Congressional Plaza at the interest's then-current fair market value. Based on management's current estimate of fair market value, the Trust's estimated liability upon exercise of the put option is approximately \$27.5 million. In conjunction with a redevelopment currently taking place at the property, the Trust has reached an agreement with Rockville Plaza Company to acquire an additional 7.5% interest in Congressional Plaza in exchange for funding approximately \$7 million of Rockville Plaza Company's share of the redevelopment cost. The funding will take place through 2002 and the transaction will be completed in early 2003.

Under the terms of five other partnership agreements, if certain leasing and revenue levels are obtained for the properties owned by the partnerships, the limited partners may require the Trust to purchase their partnership interests at a formula price based upon net operating income. The purchase price may be paid in cash or for two of the partnerships, a limited number of common shares of the Trust at the election of the limited partners. In certain of the partnerships, if the limited partners do not redeem their interest, the Trust may choose to purchase the limited partnership interests upon the same terms.

Under the terms of other partnership agreements, the partners may redeem their 904,589 operating units for cash or exchange into the same number of common shares of the Trust, at the option of the Trust.

As of December 31, 2001 in connection with renovation and development projects, the Trust has contractual obligations of approximately \$172 million, including approximately \$154 million for Santana Row.

A subcontractor on the Trust's Santana Row project has entered into a contract with a wood supply company in which a trustee of the Trust owns an indirect 9.7% interest. The contract provides for a payment to the company of approximately \$330,000 for wood flooring. The dollar amount of the contract does not represent a material amount of business to the wood supply company. Terms of the contract were negotiated at arms-length.

The centerpiece of Santana Row is a four-star, 214 room boutique hotel. The Trust has entered into a 99 year ground lease with the hotel requiring minimum rent of \$450,000 per annum with rental increases every five years and percentage rent on room, parking and other revenues. The Trust has also committed to loan \$7.2 million to the hotel. The loan bears interest at rates ranging from 12% to 15% and has a ten year term. During the first five years, interest is payable from cash flow, if available. If cash flow is not sufficient to pay interest, it will accrue and bear interest at the same rate as the initial principal. In addition, the Trust has committed approximately \$5.5 million to four restaurant joint ventures at Santana Row in lieu of tenant allowances. The Trust will participate in profits, losses and cash flow in accordance with the terms of each individual venture.

The Trust is obligated under ground lease agreements on several shopping centers requiring minimum annual payments as follows (in thousands):

2002	\$ 3,909
2003	3,910
2004	3,921
2005	3,930
2006	3,977
Thereafter	<u>252,229</u>
	<u>\$271,876</u>

Note 8. Shareholders' Equity

In May 1999, the Trust reorganized as a Maryland real estate investment trust by amending and restating its declaration of trust and bylaws. The Amended Declaration of Trust changed the number of authorized shares of common and preferred shares from unlimited to 100,000,000 and 15,000,000, respectively. In addition, all common shares of beneficial interest, no par value, which were issued and outstanding were changed to common shares of beneficial interest, \$0.01 par value per share and all Series A Cumulative Redeemable Preferred Shares of beneficial interest, no par value, which were issued and outstanding were changed to Series A Cumulative Redeemable Preferred Shares of beneficial interest, \$0.01 par value per share.

On October 6, 1997 the Trust issued four million 7.95% Series A Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, realizing cash proceeds of approximately \$96.6 million after costs of \$3.4 million. The Series A Preferred Shares are not redeemable prior to October 6, 2002. On or after that date, the Preferred Shares may be redeemed, in whole or in part, at the option of the Trust, at a redemption price of \$25 per share plus all accrued and unpaid dividends. The redemption price is payable solely out of proceeds from the sale of other capital shares of the Trust. Dividends on the Preferred Shares are payable quarterly in arrears on the last day of January, April, July and October.

On November 19, 2001 the Trust issued 5.4 million 8.5% Series B Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, realizing cash proceeds of approximately \$130.2 million after costs of \$4.8 million. The Series B Preferred Shares are not redeemable prior to November 27, 2006. On or after that date, the Preferred Shares may be redeemed, in whole or in part, at the option of the Trust, at a redemption price of \$25 per share plus all accrued and unpaid dividends. The redemption price is payable solely out of proceeds from the sale of other capital shares of the Trust. Dividends on the Preferred Shares are payable quarterly in arrears on the last day of January, April, July and October.

The Trust has a Dividend Reinvestment Plan, whereby shareholders may use their dividends and make optional cash payments to purchase shares. In 2001, 2000 and 1999, 159,234 shares, 153,713 shares and 165,770 shares, respectively, were issued under the Plan.

In December 1999, the Trustees authorized a share repurchase program for calendar year 2000 of up to an aggregate of 4 million of the Trust's common shares. During 2000 a total of 1,325,900 shares were repurchased, at a cost of \$25.2 million. The Trust did not repurchase shares in 2001.

In 2001 and 2000, 96,657 common shares and 270,809 common shares, respectively, were awarded to the Trust's Chief Executive Officer and other key employees under various incentive compensation programs designed to directly link a significant portion of their current and long term compensation to the prosperity of the Trust and its shareholders. The shares vest over terms from 3 to 8 years.

In 1999, 65,660 common shares were awarded, and 5,006 shares were forfeited and retired, to the Trust's Chief Executive Officer and other key employees under various incentive compensation programs. Fifteen thousand shares vested upon award, and the balance vest over terms from 5 to 13 years.

In January 1994 under the terms of the 1993 Long Term Incentive Plan, an officer of the Trust purchased 40,000 common shares at \$25 per share with the assistance of a \$1.0 million loan from the Trust. The loan, which has a term of 12 years and a current balance of \$500,000, bears interest at 6.24%. Forgiveness of up to 75% of the loan is subject to the future performance of the Trust. One eighth of the loan was forgiven on January 31, 1995 and an additional one sixteenth has been forgiven each January 31 since then as certain performance criteria of the Trust were met.

In January 1991 the Trustees adopted the Federal Realty Investment Trust Share Purchase Plan. Under the terms of this plan, officers and certain employees of the Trust purchased 446,000 common shares at \$15.125 per share with the assistance of loans of \$6.7 million from the Trust. Originally, the Plan called for one sixteenth of the loan to be forgiven each year for eight years, as long as the participant was still employed by the Trust. The loans for all

participants, but two, were modified in 1994 to extend the term an additional four years and to tie forgiveness in 1995 and thereafter to certain performance criteria of the Trust. One sixteenth of the loan has been forgiven during each year of the plan. At December 31, 2001 the Trust has outstanding purchase loans to participants of \$1.3 million. The purchase loans bear interest at 9.39%. The shares purchased under the plan may not be sold, pledged or assigned until both the purchase and tax loans associated with the plan are satisfied and the term has expired, without the consent of the Compensation Committee of the Board of Trustees.

Tax loans with a balance of \$3.1 million in 2001, \$2.2 million in 2000 and \$1.3 million in 1999 have been made in connection with restricted share grants to the Trust's Chief Executive Officer, President and Chief Investment Officer and in connection with the Share Purchase Plans. The loans, which bear interest ranging from 6.36% to 9.39%, are due over periods ranging from 8 to 13 years from the date of the loan.

On April 13, 1999, the Shareholder Rights Plan adopted in 1989 expired. On March 11, 1999 the Trust entered into an Amended and Restated Rights Agreement with American Stock Transfer and Trust Company, pursuant to which (i) the expiration date of the Trust's shareholder rights plan was extended for an additional ten years to April 24, 2009, (ii) the beneficial ownership percentage at which a person becomes an "Acquiring Person" under the plan was reduced from 20% to 15%, and (iii) certain other amendments were made.

Note 9. Stock Option Plan

The 1993 Long Term Incentive Plan ("Plan") has been amended to authorize the grant of options and other stock based awards for up to 5.5 million shares. Options granted under the Plan have ten year terms and vest in one to five years. Under the Plan, on each annual meeting date during the term of the Plan, each nonemployee Trustee will be awarded 2,500 options.

In May 2001 the Trust's shareholders' approved the 2001 Long Term Incentive Plan ("2001 Plan") which authorized an additional 1,750,000 shares for future option and other stock based awards.

The option price to acquire shares under the 2001 Plan and previous plans is required to be at least the fair market value at the date of grant. As a result of the exercise of options, the Trust had outstanding from its officers and employees notes for \$2.5 million, \$2.6 million and \$3.6 million at December 31, 2001, 2000 and 1999, respectively. The notes issued under the 1993 Plan bear interest at the lesser of (i) the Trust's borrowing rate on the date of exercise or (ii) the dividend rate on the date of exercise divided by the purchase price of such shares. The notes issued under the previous plans bear interest at the lesser of (i) the Trust's borrowing rate or (ii) the current indicated annual dividend rate on the shares acquired pursuant to the option, divided by the purchase price of such shares. The notes are collateralized by the shares and are with recourse. The loans have a term extending to the employee's or officer's retirement date.

SFAS No. 123, "Accounting for Stock-Based Compensation" requires pro forma information regarding net income and earnings per share as if the Trust accounted for its stock options under the fair value method of that Statement. The fair value for options issued in 2001, 2000 and 1999 has been estimated as \$350,000, \$549,000 and \$434,000, respectively, as of the date of grant, using a binomial model with the following weighted-average assumptions for 2001, 2000 and 1999, respectively: risk-free interest rates of 4.9%, 5.2% and 5.4%; volatility

factors of the expected market price of the Trust's shares of 20%, 14% and 15%; and a weighted average expected life of the option of 6.9 years, 5.7 years and 6.6 years. The Trust's assumed weighted average dividend yield used to estimate the fair value of the options issued was 9.598% in 2001.

Because option valuation models require the input of highly subjective assumptions, such as the expected stock price volatility, and because changes in these subjective input assumptions can materially affect the fair value estimate, the existing model may not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options are amortized to expense over the options' vesting period. The pro forma information is as follows (in thousands except for earnings per share):

	2001	2000	1999
Pro forma net income	\$68,076	\$59,445	\$46,368
Pro forma earnings per share, basic	\$ 1.51	\$ 1.33	\$.97
Pro forma earnings per share, diluted	\$ 1.50	\$ 1.32	\$.97

A summary of the Trust's stock option activity for the years ended December 31, is as follows:

	Shares Under Option	Weighted Average Exercise Price
January 1, 1999	3,608,816	\$25.00
Options granted	720,000	21.12
Options exercised	(52,667)	20.73
Options forfeited	<u>(380,635)</u>	25.29
December 31, 1999	3,895,514	24.31
Options granted	737,500	19.75
Options exercised	(67,684)	20.50
Options forfeited	<u>(847,049)</u>	24.27
December 31, 2000	3,718,281	23.46
Options granted	417,500	19.80
Options exercised	(27,566)	20.81
Options forfeited	<u>(351,834)</u>	22.88
December 31, 2001	<u>3,756,381</u>	23.12

At December 31, 2001 and 2000, options for 2.7 million and 2.3 million shares, respectively, were exercisable. The average remaining contractual life of options outstanding at December 31, 2001 and 2000 was 5.8 years and 8.1 years, respectively. The weighted average grant date fair value per option for options granted in 2001 and 2000 was \$1.04 and \$.72, respectively. The exercise price of options outstanding at December 31, 2001 ranged from \$18.00 per share to \$27.13 per share.

Note 10. Savings and Retirement Plans

The Trust has a savings and retirement plan in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Employees' contributions range, at the discretion of each employee, from 1% to 20% of compensation up to a maximum of \$10,500. Under the plan, the Trust, out of its current net income, contributes 50% of each employee's first 5% of contributions. In addition, the Trust may make discretionary contributions within the limits of deductibility set forth by the Code. Employees of the Trust are immediately eligible to become plan participants. Employees are not eligible to receive matching contributions until their first anniversary of employment. The

Trust's expense for the years ended December 31, 2001, 2000 and 1999 was \$243,000, \$216,000 and \$223,000, respectively.

A nonqualified deferred compensation plan for Trust officers and directors was established in 1994. The plan allows the participants to defer future income until the earlier of age 65 or termination of employment with the Trust. As of December 31, 2001, the Trust is liable to participants for approximately \$2.4 million under this plan. Although this is an unfunded plan, the Trust has purchased certain investments with which to match this obligation.

Note 11. Interest Expense

The Trust incurred interest expense totaling \$87.1 million, \$79.7 million and \$68.4 million in 2001, 2000 and 1999, respectively, of which \$17.8 million, \$13.3 million, and \$6.9 million respectively, was capitalized. Interest paid was \$84.1 million in 2001, \$83.1 million in 2000 and \$67.0 million in 1999.

Note 12. Subsequent Events

On January 31, 2002 the Trust received repayment of \$1,152,000 of mortgage notes receivable.

On February 1, 2002, to complete the buyout of the minority partner at Santana Row, the Trust received the minority partner's interest in Santana Row in exchange for a \$2.6 million investment in a partnership which had purchased a building. A \$5.9 million loan made by the Trust to the partnership as part of the original purchase is due January 12, 2003.

As has been the practice over the past four years, under a Restricted Share Agreement designed to link his compensation with the prosperity of the shareholders, the Trust's Chief Executive Officer elected to accept stock in lieu of cash for his 2002 salary and 2001 bonus. As a result, in 2002, 28,913 common shares were awarded to the Chief Executive Officer in lieu of his 2002 cash salary and 14,908 shares in lieu of his 2001 bonus.

Pursuant to the 2001 Incentive Bonus Plan, vice presidents and certain key employees receive part of their 2001 bonus in Federal Realty shares which vest over three years. Consequently, on February 28, 2002, 23,168 shares were awarded under this plan.

In February 2002, 415,000 options and 30,000 performance shares were granted to certain officers and key employees.

Note 13. Subsequent Events—Change in Business Plan (unaudited)

On February 28, 2002 the Trust adopted a business plan which returns the Trust's primary focus to its traditional business of acquiring and redeveloping community and neighborhood shopping centers that are anchored by supermarkets, drug stores or high volume, value oriented retailers that provide consumer necessities. Concurrent with the adoption of the business plan, the Trust adopted a management succession plan and restructured its management team.

The Trust will complete Bethesda Row, Pentagon Row and Santana Row, but does not plan any new, large-scale, mixed-use, ground-up development projects. Rather, the Trust will return its focus to community and neighborhood shopping centers. The Trust will seek to acquire income producing centers, may seek opportunities to develop ground-up grocery anchored shopping centers in and around the Metropolitan Washington, D.C., Philadelphia and New York Markets and will identify and execute redevelopment opportunities in its existing portfolio.

Steven J. Guttman, the Trust's Chief Executive Officer and Chairman of the Board, will primarily devote his attention to the completion of Santana Row. Upon Mr. Guttman's planned retirement in March 2003, it is expected that Donald C. Wood will become Chief Executive Officer with Mr. Guttman remaining as Chairman of the Board. Effective March 1, 2002, the Trust combined functions of its previous Chief Investment Officer and Chief Financial Officer, and appointed Larry E. Finger, to the new executive office of Chief Financial Officer in charge of capital markets, investor relations and financial reporting. With the renewed emphasis on acquisitions, Jeffrey S. Berkes was appointed an executive officer, Senior Vice-President—Strategic Transactions.

As a result of the change in the Trust's business plan, the Trust estimates it will record a charge of \$16 million to \$18 million in the first quarter of 2002. The charge includes severance and other compensation costs related to the management restructuring as well as charges to write-down the Trust's Tanasbourne and other development projects to fair value since the Trust will hold the Tanasbourne project for sale. The Trust is re-evaluating the most effective way to realize value on these assets on a risk-adjusted return basis.

Note 14. Segment Information

The Trust operates its portfolio of assets in three geographic operating regions: Northeast, Mid-Atlantic and West.

A summary of the Trust's operations by geographic region is presented below (in thousands):

2001	Northeast	Mid-Atlantic	West	Other	Consolidated
Rental income	\$ 120,313	\$ 124,765	\$ 34,857	\$ —	\$ 279,935
Other income	5,659	5,715	2,603	—	13,977
Rental expense	(23,597)	(28,443)	(11,441)	—	(63,481)
Real estate tax	<u>(15,863)</u>	<u>(9,951)</u>	<u>(2,958)</u>	—	<u>(28,772)</u>
Net operating income	86,512	92,086	23,061	—	201,659
Interest income	—	—	—	6,590	6,590
Interest expense	—	—	—	(69,313)	(69,313)
Administrative expense	—	—	—	(14,281)	(14,281)
Depreciation and amortization	<u>(27,576)</u>	<u>(23,921)</u>	<u>(7,383)</u>	<u>(1,034)</u>	<u>(59,914)</u>
Income before investors' share of operations and gain on sale of real estate	<u>\$ 58,936</u>	<u>\$ 68,165</u>	<u>\$ 15,678</u>	<u>\$(78,038)</u>	<u>\$ 64,741</u>
Capital expenditures	<u>\$ 15,386</u>	<u>\$ 87,706</u>	<u>\$169,278</u>	<u>\$ —</u>	<u>\$ 272,370</u>
Real estate assets	<u>\$760,849</u>	<u>\$793,566</u>	<u>\$549,889</u>	<u>\$ —</u>	<u>\$2,104,304</u>
2000	Northeast	Mid-Atlantic	West	Other	Consolidated
Rental income	\$ 113,078	\$ 114,371	\$ 33,235	\$ —	\$ 260,684
Other income	4,215	3,900	2,950	—	11,065
Rental expense	(23,261)	(24,766)	(8,253)	—	(56,280)
Real estate tax	<u>(14,347)</u>	<u>(9,159)</u>	<u>(3,114)</u>	—	<u>(26,620)</u>
Net operating income	79,685	84,346	24,818	—	188,849
Interest income	—	—	—	7,532	7,532
Interest expense	—	—	—	(66,418)	(66,418)
Administrative expense	—	—	—	(13,318)	(13,318)
Depreciation and amortization	<u>(25,169)</u>	<u>(21,915)</u>	<u>(5,242)</u>	<u>(933)</u>	<u>(53,259)</u>
Income before investors' share of operations and gain on sale of real estate	<u>\$ 54,516</u>	<u>\$ 62,431</u>	<u>\$ 19,576</u>	<u>\$(73,137)</u>	<u>\$ 63,386</u>
Capital expenditures	<u>\$ 38,696</u>	<u>\$ 60,783</u>	<u>\$ 83,205</u>	<u>\$ —</u>	<u>\$ 182,684</u>
Real estate assets	<u>\$754,048</u>	<u>\$720,208</u>	<u>\$380,657</u>	<u>\$ —</u>	<u>\$1,854,913</u>
1999	Northeast	Mid-Atlantic	West	Other	Consolidated
Rental income	\$ 102,452	\$ 111,624	\$ 31,757	\$ —	\$ 245,833
Other income	5,672	3,903	1,656	—	11,231
Rental expense	(20,702)	(25,096)	(7,879)	—	(53,677)
Real estate tax	<u>(13,146)</u>	<u>(9,006)</u>	<u>(2,869)</u>	—	<u>(25,021)</u>
Net operating income	74,276	81,425	22,665	—	178,366
Interest income	—	—	—	7,649	7,649
Interest expense	—	—	—	(61,492)	(61,492)
Administrative expense	—	—	—	(15,120)	(15,120)
Depreciation and amortization	<u>(22,648)</u>	<u>(22,473)</u>	<u>(4,101)</u>	<u>(789)</u>	<u>(50,011)</u>
Income before investors' share of operations and loss on sale of real estate	<u>\$ 51,628</u>	<u>\$ 58,952</u>	<u>\$ 18,564</u>	<u>\$(69,752)</u>	<u>\$ 59,392</u>
Capital expenditures	<u>\$ 32,547</u>	<u>\$ 26,444</u>	<u>\$ 62,512</u>	<u>\$ —</u>	<u>\$ 121,503</u>
Real estate assets	<u>\$715,772</u>	<u>\$663,019</u>	<u>\$342,668</u>	<u>\$ —</u>	<u>\$1,721,459</u>

There are no transactions between geographic areas.

Note 15. Quarterly Data (unaudited)

The following summary represents the results of operations for each quarter in 2001 and 2000 (in thousands, except per share data):

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$71,703	\$73,398	\$75,524	\$79,877
Net income available for common shares	12,245	20,180 ⁽¹⁾	13,194	14,103 ⁽²⁾
Earnings per common share—basic	.32	.51	.34	.35
Earnings per common share—diluted ⁽⁴⁾	.32	.51	.33	.35

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$69,104	\$68,806	\$68,581	\$72,790
Net income available for common shares	12,151	16,087 ⁽³⁾	12,433	11,902
Earnings per common share—basic	.31	.42	.32	.31
Earnings per common share—diluted	.31	.41	.32	.31

(1) Net income includes a \$7.9 million gain on sale of real estate (\$.20 gain per share—basic and diluted).

(2) Net income includes a net \$1.3 million gain on sale of real estate (\$.03 gain per share—basic and \$.02 gain per share—diluted).

(3) Net income includes a \$3.7 million gain on sale of real estate (\$.10 gain per share—basic and \$.09 gain per share—diluted).

(4) The sum of quarterly earnings per common share—diluted, \$1.51 differs from the annual earnings per common share—diluted, \$1.52, due to rounding.

Report of Independent Public Accountants

To the Trustees and Shareholders of Federal Realty
Investment Trust:

We have audited the accompanying consolidated balance sheets of Federal Realty Investment Trust (a Maryland real estate investment trust) and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, common shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federal Realty Investment Trust and subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Vienna, Virginia
February 11, 2002

Corporate Information

Corporate Office

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Independent Auditors

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Vienna, VA

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(800) 937-5449
www.amstock.com

Common Stock Listing

New York Stock Exchange
Symbol: FRT

SEC Form 10-K

Copies of Federal Realty's Annual Report filed with the Securities and Exchange Commission on Form 10-K are available, without charge, upon written request to the Investor Relations department at the Trust.

Memberships

National Association of Real Estate Investment Trusts
International Council of Shopping Centers
Association of Foreign Investors in U.S. Real Estate
Urban Land Institute

Annual Meeting

Federal Realty Investment Trust will hold its Annual Shareholder Meeting at 10:00 a.m. on May 1, 2002 at Woodmont Country Club, 1201 Rockville Pike, Rockville, Maryland.

Dividend Reinvestment and Share Purchase Plan

The Trust offers a Dividend Reinvestment and Share Purchase Plan (DRP) which enables its shareholders to automatically reinvest dividends as well as make voluntary cash payments towards the purchase of additional shares. Information and enrollment forms regarding the Plan and automatic cash investment can be obtained by calling (888) 378-8727. Shareholders may enroll on-line at www.amstock.com.

Direct Deposit

Federal Realty now offers shareholders direct deposit of dividends. Interested shareholders should call (888) 378-8727 to request the appropriate enrollment forms. Shareholders may sign up on-line at www.amstock.com.

Voice and Fax on Demand

As a service to our shareholders and other interested parties, copies of the Trust's recent news releases can be transmitted, at no charge, via fax by calling Federal Realty Shareholder Direct at (888) 378-8727. This service also allows callers to hear recordings of earnings and dividend releases, current news and shareholder programs, retrieve stock quotes, and can connect callers directly to American Stock Transfer or to Federal Realty's Investor Relations department.

Internet

www.federalrealty.com
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