VORNADO REALTY TRUST **2003 ANNUAL REPORT**

VORNADO
REALTY TRUST

VORNADO COMPANY PROFILE

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

Office Properties:

- all or portions of 83 office properties aggregating approximately 27.3 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia area;

Retail Properties:

- 60 retail properties in six states and Puerto Rico aggregating approximately 12.9 million square feet;

Merchandise Mart Properties:

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

Temperature Controlled Logistics:

- a 60% interest in the Vornado Crescent Portland Partnership that owns 87 cold storage warehouses nationwide with an aggregate of approximately 440.7 million cubic feet of refrigerated space leased to AmeriCold Logistics;

Other Real Estate Investments:

- 33.1% of the outstanding common stock of Alexander's, Inc.;
- the Hotel Pennsylvania in New York City consisting of a hotel portion containing 1.0 million square feet with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space;
- a 22.6% interest in The Newkirk Master Limited Partnership which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties; and
- other investments, including eight dry warehouse/industrial properties in New Jersey containing approximately 2.0 million square feet and interests in other real estate, loans and notes receivable and marketable securities.

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

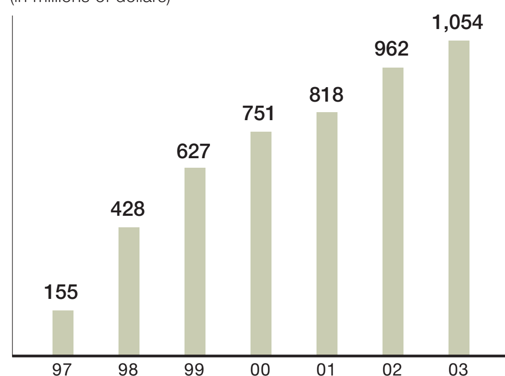
Alexander's common stock is also listed on the New York Stock Exchange and is traded under the symbol: ALX.

FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31,	2003	2002
Revenues	$ 1,503,055,000	$ 1,392,239,000
Net income	$ 439,888,000	$ 209,736,000
Net income per share—basic	$ 3.92	$ 1.98
Net income per share—diluted	$ 3.80	$ 1.91
Total assets	$ 9,518,928,000	$ 9,018,179,000
Shareholders' equity	$ 3,077,573,000	$ 2,627,356,000
Funds from Operations*	$ 518,242,000	$ 439,775,000

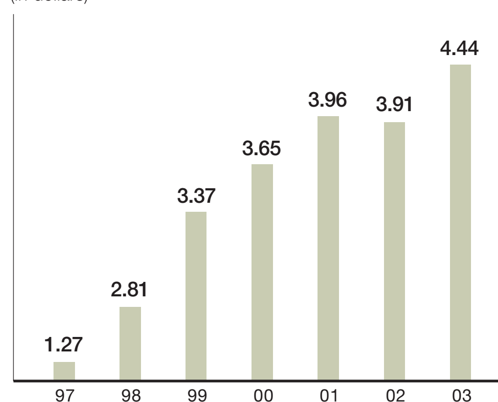
EBITDA (before Minority Interest and Gains on Sale of Real Estate)*

(in millions of dollars)



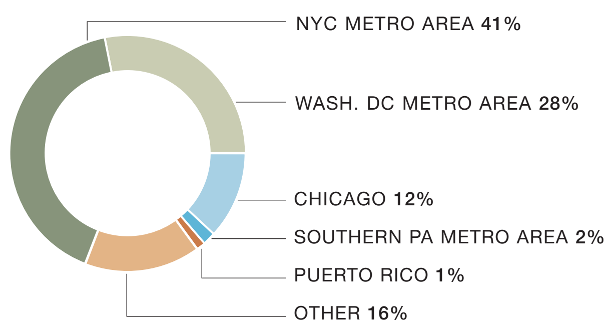
Funds From Operations Per Share*

(in dollars)



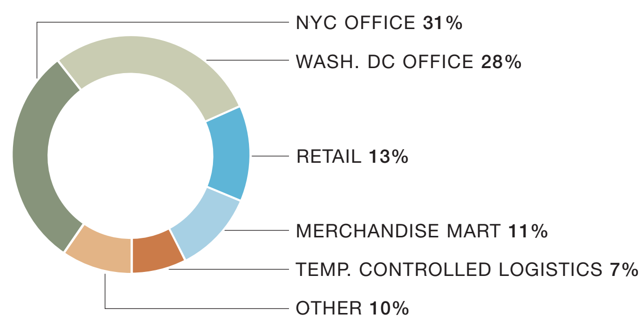
EBITDA by Region*

for the year ended December 31, 2003



EBITDA by Segment*

for the year ended December 31, 2003



* *In these financial highlights and in the letter to our shareholders which follows, we present certain non-GAAP measures including Funds from Operations ("FFO"), Funds from Operations as Adjusted for Comparability and EBITDA before minority interest and gains on sale of real estate. We have provided reconciliations of these non-GAAP measures to the applicable GAAP measure in the appendix to the Chairman's Letter on page 15 and in Management's Discussion and Analysis of Financial Condition and Results of Operations.*

To Our Shareholders

Vornado's **Funds From Operations** for the year ended December 31, 2003 was $518.2 million, $4.44 per diluted share, compared to $439.8 million, $3.91 per diluted share, for the year ended December 31, 2002.

Net Income applicable to common shares for the year ended December 31, 2003 was $439.9 million, $3.80 per diluted share, versus $209.7 million, $1.91 per diluted share, for the previous year. Here are the financial results by segment:

($ IN MILLIONS, EXCEPT PER SHARE DATA)	% of 2003 Adjusted EBITDA	**2003**	2002	Same Store
EBITDA:				
New York Office	31%	**331.2**	320.9	3.3%
CESCR	28%	**292.3**	289.7	(1.7%)
Total Office	59%	**623.5**	610.6	1.0%
Retail	13%	**138.9**	113.9	4.5%
Merchandise Mart	11%	**117.9**	108.1	4.1%
Temperature Controlled Logistics	7%	**78.0**	69.8	4.8%
Newkirk Joint Venture	7%	**76.9**	69.6	3.9%
Alexander's	3%	**23.0**	39.4	4.0%
Hotel Pennsylvania	1%	**4.6**	7.6	(39.5%)
Other	(1%)	**(9.1)**	(57.2)	
EBITDA before minority interest and gains on sale of real estate	100%	**1,053.7**	961.8	
Funds from Operations		**518.2**	439.8	
Funds from Operations per share		**$4.44**	$3.91	

Internally, at budget meetings and such, Joe Macnow uses as an earnings metric Funds from Operations *Adjusted for Comparability*. This metric allows us to focus on the core business by eliminating certain one-time items. One-timers are inevitable, can be either good or bad, but I admit we sometimes have a few too many of them. The following chart reconciles Funds from Operations as Reported to Funds from Operations Adjusted for Comparability:

This letter and this Annual Report contain forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. The Company's future results, financial condition and business may differ materially from those expressed in these forward looking statements. These forward looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see "Forward Looking Statements" and "Item 1. Business-Risk Factors" in the Company's annual report on Form 10-K for the year ended December 31, 2003.

($ IN MILLIONS, EXCEPT PER SHARE DATA)	**2003**	2002
Funds from Operations, as Reported	**518.2**	439.8
Adjustments for certain items that effect comparability:		
Alexander's stock appreciation rights compensation expense	**14.9**	—
Write-off of Series D-1 preferred unit offering costs	**2.2**	—
Gain on early extinguishment of debt of a partially-owned entity (Newkirk MLP)	**(1.6)**	—
Primestone loss on settlement of guarantees in 2003 and foreclosure and impairment losses in 2002	**1.4**	35.8
Gain on sale of condominiums	**(0.3)**	(2.2)
Amortization of officer's employment arrangement	**—**	27.5
Write-off of 20 Times Square pre-development costs	**—**	6.9
Gain on sale of marketable securities, air rights, and transfer of mortgages	**—**	(16.1)
Minority interest's share of above adjustments	**(3.1)**	(10.7)
Funds from Operations, Adjusted for Comparability	**531.7**	481.0
Funds from Operations, Adjusted for Comparability per share	$ **4.56**	$ 4.28

Mike [(1)] and I are more than satisfied with Vornado's financial performance in 2003. In a soft office market (our Company is about 60% office), we benefited greatly from the fact that our office investments are concentrated almost entirely in New York and Washington, DC, the two strongest office markets in the country (and this did not happen by chance) [(2)]. We also benefited from the fact that our office rents are still below market (see page 5 of the financial section of this Annual Report for full leasing details) and, as a stool gains strength from its multiple legs, we also benefited from 2003's strong financial performance of our retail business and Mart business.

(1) Michael Fascitelli, Vornado's President and my partner in running Vornado.

(2) As long-term Vornado watchers know, we chose our markets very carefully, investing only in high-demand, tight-supply, densely urban markets that have a history of spiking rents and values. Further, we greatly prefer to invest at a discount to replacement cost and in properties with embedded rents that are well below market rents.

In 2003, Vornado's Funds From Operations per share increased by 13.6% and FFO Adjusted for Comparability per share increased by 6.5%. EBITDA for each of our business units increased for the year and each business unit (with the exception of Washington Office [(3)]) had handsome same store increases—all this performance in a challenging market.

It is a testament to Vornado's scale and balance sheet strength that, since January 2003, we generated over $1 billion internally from the capital side of our business (not including cash flow from operations). This was accomplished while maintaining our credit rating (which we are committed to) and maintaining virtually the same credit ratios. Here is a list of cash proceeds by transaction:

Financings		
$170 million	06/03	Financing of 770 Broadway for 5 years at LIBOR plus 1.05%.
200 million	11/03	Unsecured borrowing for 7 years at 4.75%
75 million	11/03	Distribution from Newkirk MLP funded from a $525 million refinancing of a $225 million credit facility
150 million	02/04	Refinancing Two Penn Plaza's old loan of $150 million at 7.08% with $300 million for 7 years at 4.97%
135 million	02/04	Our 60% share of the net proceeds of AmeriCold's $254 million financing for 5 years at LIBOR plus 2.95%
Dispositions		
$292 million	10/03	Sale of Two Park Avenue, a 965,000 square foot office building, resulting in a gain of $156 million of which $44 million ($.32 per share) was distributed to shareholders as a capital gains dividend
8 million	01/03 11/03	Sale of Baltimore and Hagerstown Shopping Centers resulting in a gain of $4.5 million
95 million	07/04	Pending sale of the Palisades Residential Apartment Complex [(4)]

And we could have generated more. Vornado has substantial unused financial capacity that could be realized either from borrowings or from recycling existing assets. We have $10s of millions, and in some instances as much as $100 million or more, of unrealized profits in dozens and dozens of our assets.

As promised at our September 2003 investor conference, in February 2004, AmeriCold completed a $254 million financing, which was the source of Vornado's repatriating $135 million of its investment in AmeriCold. But this financing did much more—it went a long way to demonstrate the value of this business. Think about it—AmeriCold now carries $800 million of debt (recourse solely to various groups of its assets) at a weighted average interest rate of 6.1%, or about $49 million of annual interest expense, still leaving FFO of $64 million from actual cash rents. Mike and I believe that these facts support a value for this investment that is greater than most of our investors and analysts carry. [(5)]

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(3) This decrease was caused by our exiting the third-party tenant representation business, and the effect of lower purchase price lease adjustment income and straight-lining of rent.

(4) Together with a 25% development partner, we built a 538 unit rental apartment tower on a wonderful site on the New Jersey Palisades adjacent to the George Washington Bridge. The total cost of this project, which is in the final stages of rent-up, was $144 million. We have contracted to sell this property for a closing not later than third quarter 2004 for $222.5 million which will result in a gain to us of $70 million.

(5) Vornado owns 60% of AmeriCold. All of the data in this paragraph is for 100% of AmeriCold, other than $135 million of its investment repatriated.

Vornado has multiple assets that have substantial value, but are currently earning either no return or very low returns in relation to their value. Some examples of these are:

- Cash balances, which at year-end were $320 million, yielding 1%.
- Hotel Pennsylvania, which has been on a roller coaster, earning EBITDA of $13 million in 1997 when we first acquired 40% of it, peaking at $27 million in 2000, and dropping to $4.6 million last year. [(6)] Mike and I believe this asset could be sold for in excess of $250 million. Our to-do list for 2004 includes finalizing a plan for the Hotel Pennsylvania which may involve a sale, conversion to apartments or even razing the building for new construction. Any plan will involve realizing the site's great retail potential.
- Our FFO in 2003 from the Palisades apartment complex represented a 1.5% return on the $95 million of proceeds we will receive when the sale of this asset closes.
- $25 million of Prime Group Inc. common stock for which we record no income.

The totals are $690 million of capital that earned $9 million in 2003. As we harvest these values and reinvest proceeds at normalized returns, our FFO will increase. Our FFO would also increase if we refinance the $880 million portion of our preferred shares which are approaching their call date and are above market. On the flipside, a 100 basis point increase in LIBOR would reduce FFO by $.08 per share. [(7)]

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(6) It's a sign of the earning power of our business that we could suffer a diminution of $22 million of income from this one asset, and, so to speak, not miss a beat.

(7) Reflects the increased interest expense on our variable rate debt based on our current balance sheet, partially offset by the increased income from our variable rate investments.

Lease, Lease, Lease

The mission of our business is to create value for our shareholders by growing our asset base through the addition of carefully selected properties and by adding value through intensive and efficient management. As in past years, Mike and I are pleased to present leasing statistics for our businesses. In our business, leasing is what it's all about.

	Office		Retail	Merchandise Mart	
	New York	Wash. D.C.		Office	Showroom
Year Ended December 31, 2003:					
Square feet leased	925,000	2,848,000	1,046,000	270,000	1,157,000
Initial rent per square foot	$44.60	$30.26	$15.56	$21.24	$23.43
Percentage increase*	15.3%	2.5%	13.2%	-5.3%	0.6%
Occupancy rate	95.2%	93.9%	93.0%	92.6%	95.1%

* *Percentage increase over expiring escalated rent.*

Mike and I congratulate David Greenbaum, Mitchell Schear, Sandeep Mathrani and Chris Kennedy for a superb 2003. Generally speaking, most times we can only get rents that the market offers, but each of these franchise players, through aggressiveness and ability, do a marvelous job of achieving above-market occupancy, year in and year out.

David Greenbaum reports that in New York activity is increasing, occupancy rates are rising and rental rates have stabilized. David, ever measured, continues to be cautious and aggressively defensive—focusing on leasing.

Sandeep Mathrani and team give us superb skills in developing, leasing, and managing strip shopping centers, malls and New York street retail. After all, these retail businesses are our heritage. We continue to seek retail investment opportunities. In December, we acquired the Bergen Mall for $145 million, a 900,000 square foot fixer-upper on 80 acres in Paramus, New Jersey. We plan to redevelop this property into a lifestyle center and will invest at least an additional $100 million. We have owned Green Acres, a super regional mall, in Valley Stream, Long Island, New York for six years. Sandeep is now working hard on plans for a renovation and expansion of this productive property.

Chris Kennedy's Mart team is also a leasing machine. Chris keeps our showroom space at a very respectable 95% occupancy and in 2003 leased 1,157,000 square feet of showroom space in 465 separate transactions. Also in 2003, our trade show personnel rented thousands of booths to exhibitors in 29 trade shows. Importantly, Chris is also working on several large office leasing deals for our Chicago assets.

Capital Expenditures

Managing capital expenditures is an important part of our business. The table below presents capital expenditures* since 2000, in dollars on a segment basis.

($ IN MILLIONS)	**2003**	2002	2001	2000
New York Office				
Expenditures to Maintain Assets	**14.2**	16.2	21.3	15.7
Tenant Improvements & Leasing Commissions	**33.8**	11.4	39.1	38.7
Washington Office				
Expenditures to Maintain Assets	**11.0**	30.1	28.8	25.7
Tenant Improvements & Leasing Commissions	**38.6**	41.2	10.2	12.6
Retail				
Expenditures to Maintain Assets	**0.6**	1.3	1.3	0.4
Tenant Improvements & Leasing Commissions	**3.7**	2.7	0.6	3.9
Merchandise Mart				
Expenditures to Maintain Assets	**19.0**	14.6	12.4	11.4
Tenant Improvements & Leasing Commissions	**20.0**	3.4	5.5	8.7
Other	**0.4**	1.0	0.6	11.5
Total:				
Expenditures to Maintain Assets	**45.2**	63.2	64.4	64.7
Tenant Improvements & Leasing Commissions	**96.1**	58.7	55.4	63.9
Total	**141.3**	121.9	119.8	128.6

* *This data excludes expenditures for acquisitions, developments and expansions.*

Since leasing activity varies year-to-year and the term of leases fluctuate, we think per square foot numbers tell a meaningful story. In the table below, the Expenditures to Maintain Assets are presented based on total square feet in the segment. Tenant Improvements & Leasing Commissions are presented based on square feet leased in the year on a per annum basis based upon the average term of leases.

($ PER SQUARE FOOT)	**2003**	2002	2001	2000
New York Office				
Expenditures to Maintain Assets	**0.99**	1.13	1.48	1.12
Tenant Improvements & Leasing Commissions	**4.17**	3.78	3.30	4.84
Washington Office				
Expenditures to Maintain Assets	**0.82**	2.33	2.30	2.40
Tenant Improvements & Leasing Commissions	**2.82**	3.67	1.35	0.96
Retail				
Expenditures to Maintain Assets	**0.05**	0.12	0.12	0.03
Tenant Improvements & Leasing Commissions	**0.27**	0.14	0.14	1.13
Merchandise Mart				
Expenditures to Maintain Assets	**2.21**	1.70	1.53	1.68
Tenant Improvements & Leasing Commissions	**2.29**	0.37	0.84	0.89

Washington Office

Vornado's Charles E. Smith Division is the largest owner of office space in the Washington, DC area and is the largest landlord to the Federal Government. Vornado made minority investments in Smith in 1997, and then again in 1999, and acquired the remainder on January 1, 2002, so that we now own 100%. Smith today owns 14.0 million square feet, about half of which is located in 26 buildings in Crystal City, Arlington, VA, adjacent to Reagan National Airport, overlooking the Capitol. (8)

Mitchell Schear has now completed his first full year as President of Charles E. Smith. He has finished the integration of Smith and Kaempfer and is fully focused on leasing—our Washington office team leased 2,848,000 square feet in 2003. He and David have become quite a team. Mike and I are delighted.

When we acquired Smith our underwriting accounted for the fact that its largest tenant, the Patent and Trademark Office (PTO), would be relocating in late 2004 and 2005, vacating approximately 1.9 million square feet in Crystal City. Our underwriting accounted for this both in terms of price (9)—we acquired the portfolio at an above market 10.3% cap rate—and by mentally allocating $75 million for capital expenditures to re-lease these buildings.

The table below shows the move-out schedule of PTO.

		2004	2005				2006	2007
(IN THOUSANDS OF SQUARE FEET)	Total	Q4	Q1	Q2	Q3	Q4	Q1	Q4
To be left in service	1,038	247	103	101	188	98	107	194
To be taken out of service	901	690	109	64	—	38	—	—
Total	1,939	937	212	165	188	136	107	194

(8) Smith also owns 4.8 million square feet inside the Beltway, including 2.5 million square feet in the I-395 Corridor (Skyline), 1.5 million square feet in the District of Columbia and .8 million square feet in Rosslyn/Ballston and 1.7 million square feet outside the Beltway in Tysons Corner, Reston and Bethesda.

(9) Our purchase price for 100% of Smith was $2.45 billion based on a 10.3% cap rate on EBITDA. Same store EBITDA grew at the rate of 5% per annum to $278.7 million in 2003, which we believe would be valued in the current market at a cap rate in the 7s. But even at an 8% cap rate, we have a mark-to-market profit in this investment of approximately $1 billion.

It's not that simple, however. In this acquisition we issued a security convertible into 5.7 million common shares at $44 and issued 15.6 million operating partnership units at $39. In effect, the sellers who took our shares instead of cash participated to the tune of 14% in the increase in value of the Smith assets and the Vornado assets as well.

Our current financial model of the effect on Vornado's FFO of PTO's move-outs and our forecasted subsequent lease-up is based upon (i) an increase in average straight-lined escalated rent from the current $26.61 per square foot to replacement straight-lined rent of $33.50 per square foot, (ii) one year of downtime with a corresponding reduction in variable expenses, and (iii) taking 901,000 square feet out of service for 9–18 months including capitalizing applicable costs.

To summarize:

- PTO is moving out of 1,939,000 square feet over the next couple of years. (Recently, the PTO advised us they intend to retain approximately 200,000 square feet through at least 2007.)
- We will take 901,000 square feet in the four oldest buildings out of service for modernization that will take 9-18 months. Our capital budget for this is $122 million ($135 per square foot). Our capital budget for the remaining space is approximately $30 million. (10)
- We forecast FFO to decline as PTO vacates and then rebound as we lease-up as follows.

2004 Q4	($ 1,500,000)
2005	($14,300,000)*
2006	($ 5,200,000)
2007	$ 8,900,000
2008	$13,500,000

* *2005 by quarter—Q1 ($3,100,000), Q2 ($3,900,000), Q3 ($4,400,000), Q4 ($2,900,000).*

We believe our business is certainly large enough and strong enough to absorb the PTO blip in 2004–2006 without missing a beat.

At the end of the day, we forecast an increase in FFO of $13.5 million from the PTO space—the result of replacing $26.61 per square foot rents with $33.50 per square foot rents. Looking at it another way, we expect about a 9% return on the incremental capital invested.

(10) Reconciling the $75 million capital budget we underwrote at the time of this acquisition to the current budget of $152 million is a result of changed assumptions. In the original underwriting we projected leasing over one third of the PTO space at about $26 per square foot with minimal capital expenditures. The current plan is to totally modernize 901,000 square feet to new building standards with a corresponding $7.00 per square foot increase in rent.

And please remember, all this is still a forecast.

Real Estate Lending

We like the real estate lending business. From time to time, we provide real estate financing on assets that we understand as well as the assets we own.

Mike and I twice declined to buy New York's General Motors Building for about $800 million, in 1998 and again in 2000. In September 2003, the General Motors Building sold for $1.4 billion to a private New York investor. We bid $1.2 billion. This time around, we participated in the financing of this deal by lending $225 million of mezzanine debt (11) at an average rate of LIBOR plus 8.833% subordinate to $900 million of senior debt. (See Note 3 to the Financial Statements for the full details of this investment.) Recently, the borrower began discussions with us about prepaying/recasting a portion of the loan.

Alexander's

This year Alexander's deserves its own section. And this year we intend, in conjunction with Alexander's Board of Directors, to determine the end game for this investment which may include selling it, or simply leaving it to seek its natural value as a free standing, separately traded REIT, as it now is, or other options.

Vornado owns 1,654,000 shares of Alexander's, Inc., a 33% stake in this NYSE-listed REIT. The shares, which had a value of $65 on January 1, 2003 are trading now at about $150, making Vornado's equity investment worth $248 million at market (12) which, when taken together with Vornado's $124 million loan to Alexander's, represents a total investment of $372 million.

Alexander's has no corporate level employees. Vornado serves as its for-fee external manager, leasing agent, developer, etc.

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(11) In real estate, mezzanine debt is that tranche(s) of below investment grade debt which is junior to the secured debt. It is not secured by the real estate, per se, but by pledge of the partnership interests of the owning entity.

(12) Our original cost for these shares is $70 million.

Alexander's was a New York area department store chain which was rich in real estate, but long suffering as a retail operation. Alexander's is now a real estate business with a small, static collection of wonderful assets:

- Bloomberg Tower/ One Beacon Court mixed-use development at 59th Street and Lexington Avenue, NY
- Kings Plaza Regional Shopping Center, Brooklyn, NY
- Rego Park Shopping Center, Queens, NY
- Ikea Property, Paramus, NJ

Please see page 22 for the full property table.

The development of the 59th Street property—a full square block on the Upper East Side of Manhattan—has been a long, wonderful adventure. It is situated where Manhattan's Plaza District meets the Silk Stocking District, blocks from the best hotels in the world and, of course, directly across the street from Bloomingdale's. This 814-foot tower is now topped out, curtain wall is nearly complete and tenants Bloomberg, Home Depot and H&M are doing fit-out.

On behalf of Alexander's, we did some things right here.

- We had the patience to hold this great site for years until the New York market recovered. I think we got the timing right.
- David and Mike made a great 700,000 square foot anchor lease with Bloomberg. (13)
- We were able to internally finance the cost of this project (about $650 million of hard and soft costs without land) without diluting shareholders by selling stock or taking in partners. We generated the needed capital by leasing and financing Paramus, refinancing Kings Plaza, and the debt from a Hypo Bank construction loan arranged by Wendy Silverstein, our capital markets queen.
- Alexander's hired Vornado as a for-fee developer, again without suffering any dilution. (14)
- We engaged Cesar Pelli as design architect. (15) Creating a "great building" rather than a "developer's building" has paid off in spades.
- The building's grand gesture is an 11,000 square foot, open-to-the-sky, mid-block courtyard—an off street refuge available for both vehicles and pedestrians that serves as the entrance for residential tenants and Bloomberg. This six-story high, oval-shaped space is unique and quite wonderful from a design perspective, and quite wonderfully profitable too. (16)
- With a full block in Bloomingdale's country, the retail value was obvious. We discarded the idea of building a multi-story interior mall and chose instead to have all stores

(13) Luck is important. In the middle of negotiations for what was then a 400,000 square foot lease, Bloomberg, whose business is growing like wildfire, insisted we eliminate the planned hotel component so we could expand their space to 700,000 square feet. What a great trade—300,000 square feet more Bloomberg credit versus a hotel that we would have built into a deteriorating market. Luck is important.

(14) With the accomplished Mel Blum as President of our development division, Vornado has a world-class development capability. Ditto for Eli Zamek in charge of our high-rise construction.

(15) With a huge contribution from the very talented Rafael Pelli.

(16) In essence, we transferred 66,000 square feet of space worth, say, $600 per square foot from low mid-block up to the very top of the building where it has a value of over $2,000 per square foot – a fair trade indeed.

front on the wide avenues. We expanded the site by building two, twenty foot high below-grade floors (nine foot basements would not have worked), one of which Sandeep leased to The Home Depot and the other was leased to Bloomberg.

- The office component makes money, and also serves as a pedestal 475 feet in the air on which sits the 23 story apartment component, creating towering views and terrific value.

In February 2004, Alexander's completed a $400 million ten-year financing of the office portion of the 59th Street project, at a 5.33% interest rate. Thanks again Wendy.

Last year's annual letter had a section entitled "The Anti-Reality Show Called Accounting." Here's another interesting accounting quirk. Alexander's has outstanding 100,000 stock options and 850,000 stock appreciation rights (SARs) at an average strike price of about $72. Accounting requires that these SARs be marked-to-market *each quarter*. Let's look at the effect. Alexander's trading price has been bouncing around, but let's assume a price of $150 per share, a price that exceeds the strike price by about $78. Therefore, Alexander's earnings has or will be charged about $66 million and Vornado's share of this *charge* is about $22 million—all this at the same time Vornado is enjoying a $129 million mark-to-market *increase* in the value of its Alexander's investment, which under today's accounting is *not* reflected in earnings—strange.

Corporate Governance

It is our foremost priority to conduct our business with the highest level of ethics and corporate responsibility—and we do. Our trustees' refined sense of right and wrong, knowledge of our business, questioning nature, devotion to and ownership stake in Vornado are the foundation of our governance.

We have now completed codification of our Corporate Governance Program, putting us in compliance with the applicable securities laws and stock exchange requirements. This program included the adoption/amendment of charters, guidelines and codes which are all available on our website. In addition, our Board has determined that five existing trustees, constituting a majority, are independent.

Our Corporate Governance Committee and the Board have the following observations:

- Six of our nine Trustees have a nine-figure investment in Vornado and a seventh has an eight-figure investment—extraordinary. And, believe me, these Trustees really care about their investment.
- Six of our nine Trustees are life-long real estate professionals, which is very helpful. But, it should be noted that the Board believes that it would benefit from the addition of one or more generalist members.
- Our Board believes it would benefit from a dose of youth.
- Our Board thinks that it would be better to increase the current five to four ratio of independent to non-independent Trustees by adding one or two independent Trustees, and we will.
- For the moment, our Board has determined to maintain its classified structure and that it is okay for me to serve as Chairman and CEO. [17]

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(17) On another governance matter, in 1998 Vornado made a $50 million investment in Capital Trust (now reduced to $30 million through repayment), a publicly-traded mezzanine lender. In connection therewith I was elected to the Capital Trust Board representing Vornado. Because Vornado and Capital Trust from time to time compete, I have decided not to stand for re-election to the Capital Trust Board.

Further, it is our general policy that Vornado's senior officers will not serve as directors of for-profit entities unless it benefits Vornado.

State of the REIT Market

REIT stocks have outperformed the S&P and almost all other financial indices over every measuring period for the last ten years. [18] Vornado's stock has also done well. The following table presents the data.

	Total Annualized Return Through December 31, 2003		
	Vornado Realty Trust	Equity REIT Index	S&P 500
1–Year	73.45%	47.49%	39.20%
3–Year	22.63%	20.09%	(1.50%)
5–Year	17.69%	16.77%	(0.12%)
10–Year	18.70%	11.92%	11.40%
20–Year	24.20%	12.32%	10.40%

In real estate, the private market has driven cap rates [19] down to the 5s and 6s, *leading* the public market. Cap rates are sticky—they may bounce a bit, but I believe they will stay lower for longer than people seem to think. We won't see 8% cap rates again for better properties for years. This swing to lower cap rates is a secular phenomenon that will survive a bounce in interest rates.

It's obvious that for a long time now we have been in a worldwide period of easy money. The universal consensus is that America is recovering, inflation is in the wind and rates are going up. I guess I sort of agree, but I still feel that easy money is a secular phenomenon. In any event, in the current environment, we will run the business defensively with respect to rates.

As I write this letter, REIT stocks are bouncing. The logic seems to be that stronger jobs reports point to a stronger economy, which points to higher interest rates, which points to declining real estate values. I don't get it. History clearly shows that a dose of inflation and growth has been good to great for rents and the value of existing real estate. And while I don't wish for it, higher rates, if they were to happen, will take out new-builds as competition for our in-place real estate. My guess is that REIT stocks just got a little ahead of themselves.

Mike and I think that our great assets, financial might, brand recognition, and deal flow are important to our future success. While we have become a large company, we believe we still can achieve a good rate of growth. We continue to think that simplicity is a virtue and on-the-fairway investments (mainstream) are our franchise. Perhaps we should have been even more aggressive over the past couple of years—we will see. In the current environment, while it is difficult to buy assets, we have and we will continue to find our opportunities. And, our best business today seems to be working our assets while we watch the market mark them up.

(18) I admit this is a little REIT propaganda from yours truly, the just retired Chairman of NAREIT.

(19) Market value of real estate is generally determined by the quotient of the asset's EBITDA and the market determined capitalization rate (cap rate). Simply, a cap rate is the yield on the investment.

People

Mike and I appreciate and value Vornado's human capital as highly as our financial capital. Starting with the eight Executive Vice Presidents, who are division heads and our direct reports, and extending to the 108 Vice Presidents, who are so essential to the success of our businesses, they have our praise and thanks.

We welcome Alan Rice, a talented attorney as Corporation Counsel and Secretary. We also welcome Cathy Creswell, Director of Investor Relations, a talented professional well known to many of our investors, who is helping our efforts to continually improve communications and accessibility.

This year Paul Larner, EVP of Administration, resigned to pursue his private entrepreneurial instincts and Ken McVearry, long time EVP of Smith, left to pursue other interests. Paul will not be replaced, and Mitchell Schear, President of Smith, has assumed Ken's duties.

As announced in February 2004, Alec Covington, President and CEO of AmeriCold, resigned to pursue an opportunity with a food distribution company. Alec has left us with a stable business and a sound organization. We wish him well. Mike O'Connell, who has been with AmeriCold for over ten years, has been promoted to be in charge of all warehouse operations and, until a successor is in place, will report to Anthony Cossentino, Chief Financial Officer.

After 34 years, Ralph Richards, a super-duper retail leasing representative and a nice man, has retired. Thanks and Godspeed. Michelle is still always right, Clarice is some fine painter, and Sherri had a baby boy.

An important part of our business is keeping our properties very well-maintained, which involves periodic remodels and freshening, as needed. Long-time readers of Vornado's annual report may notice that this year we have freshened and updated this report's presentation—but, be assured, our culture will remain the same. Similarly, we are in the process of freshening, updating and improving our website.

Mike and I deeply believe in the future of Vornado. We thank our colleagues and shareholders.

April 14, 2004

APPENDIX

Below is a reconciliation of Net Income to EBITDA before minority interest and gains on sale of real estate:

($ IN MILLIONS)	**2003**	2002	2001	2000	1999	1998	1997
Net Income	**460.7**	232.9	263.7	234.0	202.5	152.9	61.0
Interest and Debt Expense	**296.1**	305.9	266.8	260.6	226.3	164.5	54.4
Depreciation, Amortization and Income Taxes	**281.1**	257.7	188.9	167.3	143.5	104.2	32.0
Cumulative effect of change in accounting principal	**—**	30.1	4.1	—	—	—	—
EBITDA	**1,037.9**	826.6	723.5	661.9	572.3	421.6	147.4
Gain on sale of real estate	**(161.8)**	—	(15.5)	(11.0)	—	(9.6)	—
Minority Interest	**178.7**	140.9	112.4	102.4	55.0	16.2	7.3
Less Office/Mart Minority interest	**(1.1)**	(5.7)	(2.5)	(2.0)	—	—	—
EBITDA before minority interest and gains on sale of real estate	**1,053.7**	961.8	817.9	751.3	627.3	428.2	154.7

Below is a reconciliation of Net Income to Funds from Operations:

($ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2001	2000	1999	1998	1997
Net Income	263.7	234.0	202.5	152.9	61.0
Preferred Share Dividends	(36.5)	(38.7)	(33.4)	(21.7)	(15.5)
Net Income applicable to common shares	227.2	195.3	169.1	131.2	45.5
Depreciation and Amortization of Real Property	119.6	97.8	82.2	58.3	22.4
Net Gains on Sale of Real Estate and insurance settlements	(15.5)	(11.0)	—	(9.6)	—
Cumulative effect of change in accounting principal	4.1	—	—	—	—
Partially-owned entity adjustments:					
Depreciation and Amortization of real property	65.6	68.8	57.1	56.8	6.4
Net gains on sale of real estate	(6.3)	—	—	—	—
Minority interest's share of above adjustments	(19.7)	(19.2)	(10.7)	(4.6)	(1.4)
Series A Preferred Dividends	19.5	21.7	16.3	—	—
Funds from Operations	394.5	353.4	314.0	232.1	72.9
Adjustments for certain items that affect comparability:					
Write-off of non-core investments, net of gains on the sales of non-real estate assets	14.7	—	—	—	—
Minority Interest	(1.8)	—	—	—	—
Amortization of officer's employment arrangement	—	—	—	—	22.9
Funds from Operations, Adjusted for Comparability	407.4	353.4	314.0	232.1	95.8
Funds from Operations per share:					
Total	$ 3.96	$ 3.65	$ 3.37	$ 2.81	$ 1.27
Adjusted for Comparability	$ 4.09	$ 3.65	$ 3.37	$ 2.81	$ 1.67

Below is a reconciliation of Hotel Pennsylvania Net Income to Hotel Pennsylvania EBITDA:

($ IN MILLIONS)	**2003**	2000	1997
Net Income (Loss)	(2.6)	9.8	5.3
Interest and Debt Expense	—	10.4	3.9
Depreciation and Amortization	7.2	6.8	3.8
EBITDA	4.6	27.0	13.0

Below is a reconciliation of the impact on Net Income and on Funds from Operations of the PTO vacating space it previously occupied and its subsequent lease up:

($ IN MILLIONS)	2008	2007	2006	2005	2004
Net Income (Loss)	5.3	1.2	(12.2)	(15.0)	(2.4)
Depreciation	8.2	7.7	7.0	.7	.9
Funds from Operations	13.5	8.9	(5.2)	(14.3)	(1.5)

PROPERTIES

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
OFFICE PROPERTIES			
NEW YORK (MANHATTAN)			
One Penn Plaza[1]	2,365,000	96.3%	Buck Consultants, Cisco Systems, First Albany, Kmart, Metropolitan Life Insurance, MWB Leasing, Parsons Brinkerhoff, Public Service Commission, Stone & Webster, United States Customs Department
Two Penn Plaza	1,529,000	95.6%	Compaq Computer, Forest Electric, Information Builders, Inc., Madison Square Garden, McGraw Hill Co., Inc., US Healthcare Service
909 Third Avenue[1]	1,307,000	90.6%	Bear Stearns, Citibank, Fischbein Badillo, Forest Laboratories, Ogilvy Public Relations, Shearman & Sterling, U.S. Post Office, Wiley Publishing
770 Broadway	1,046,000	99.6%	J. Crew, Kmart, VIACOM International Inc., V.N.U. U.S.A, Inc
Eleven Penn Plaza	1,022,000	95.8%	McCall Pattern Company, EMC Corp., Executive Office Network, Thompson Media Inc., Federated Dept Stores, General Media, Rainbow Media Holdings
90 Park Avenue	890,000	98.6%	Sterling Winthrop Inc., Sanofi-Synthelab, Inc., Alston & Bird
888 Seventh Avenue[1]	822,000	95.9%	Arista Records, New Line Realty, Soros Fund, Kaplan Educational Center, The Limited
330 West 34th Street[1]	637,000	99.9%	City of New York, Props for Today, The Bank of New York
1740 Broadway	566,000	98.7%	Davis & Gilbert, Dept. of Taxation of the State of N.Y., Mutual Life Insurance, William Douglas McAdams
150 East 58th Street[1]	521,000	87.9%	
866 United Nations Plaza	350,000	91.5%	Fross Zelnick, Mission of Japan, The United Nations
595 Madison (Fuller Building)	305,000	91.3%	Prada
640 Fifth Avenue	269,000	99.4%	Weber Shandwick Worldwide, Hennes & Mauritz
40 Fulton Street	238,000	86.6%	
689 Fifth Avenue	89,000	87.6%	
7 West 34th Street	424,000	100.0%	Fairchild Publications Inc., Health Insurance Plan of NY
330 Madison Avenue (25% Interest)	783,000	91.0%	Bank Julius Baer, BDO Seidman
20 Broad Street[1]	467,000	87.1%	N.Y. Stock Exchange
825 Seventh Avenue (50% Interest)	165,000	86.5%	Young & Rubicam
NEW JERSEY			
Paramus[1]	128,000	93.5%	
Total New York City Office Buildings	**13,923,000**	**94.9%**	
Vornado's Ownership Interest	**13,253,000**	**95.2%**	

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
OFFICE PROPERTIES *(continued)*			
WASHINGTON D.C. AND NORTHERN VIRGINIA			
Crystal Mall	1,064,000	99.9%	General Services Administration
Crystal Plaza	1,220,000	98.2%	General Services Administration
Crystal Square	1,414,000	99.4%	General Services Administration, Lockheed Martin, TKC, Batellee Memorial Institute
Crystal Gateway	1,457,000	97.5%	Boeing, General Services Administration
Crystal Park	2,166,000	90.4%	General Services Administration, Archstone Smith, Anteon, US Airways Headquarters, Boeing
Arlington Plaza	176,000	84.7%	Science Research Analysis Corp.
1919 S. Eads Street	96,000	87.5%	General Dynamics
Skyline Place	2,037,000	89.5%	General Services Administration, Axiom Resource Management, Science Applications International
One Skyline Tower	470,000	99.4%	General Services Administration
Courthouse Plaza (1)	618,000	98.1%	Arlington County
1101 17th Street	206,000	91.8%	American Federation of States
1730 M Street (1)	190,000	89.7%	General Services Administration
1140 Connecticut Avenue	179,000	96.0%	National Legal Aid & Defender Association, Elizabeth Glaser Pediatric Aid
2101 L Street	354,000	99.9%	Dickstein Shapiro, General Services Administration
1150 17th Street	226,000	95.7%	American Enterprise Institute, Unisys Corp
1750 Pennsylvania Avenue	259,000	97.9%	General Services Administration, PA Consulting Group Holdings
Democracy Plaza I (1)	218,000	95.5%	National Institute of Health
Tysons Dulles	482,000	87.3%	Keane Federal Systems, Inc.
Commerce Executive	416,000	73.7%	BT North America
Reston Executive	487,000	95.3%	Science Applications Int'l Corp., Quadremed
Fairfax Square (20% interest)	104,000	72.1%	Cineplex Odeon, Platinum Technologies
Kaempfer Properties (0.1% to 10% interests)	124,000	98.8%	Howrey Simon, American Chemistry Council, Bloomberg, General Services Administration, Sidley Austin
Total Washington D.C. and Northern Virginia Office Buildings	**13,963,000**	**93.9%**	
Total Office Properties	**27,886,000**		
Vornado's Ownership Interest	**27,216,000**		

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
RETAIL PROPERTIES			
Regional Malls			
Green Acres Mall, Valley Stream, NY (1)	1,596,000	95.6%	Macy's, Sears, National Wholesale Liquidators, Circuit City, JC Penney, Wal-Mart
Monmouth Mall, Monmouth, NJ (50% ownership)	717,000	94.9%	Boscov's(3), JC Penney(3), Loews Theatre, Lord & Taylor, Old Navy, Macy's(3)
Monteheidra Mall, Puerto Rico	554,000	90.8%	Kmart, Home Depot, Marshalls, Caribbean Theatres
Las Catalinas Mall, Puerto Rico	354,000	94.5%	Kmart
Bergen Mall, Paramus, NJ (acquired 12/12/03)	903,000	93.0%	Macy's, Value City, Marshalls, Saks Off Fifth Avenue Outlet
Total Regional Malls	**4,124,000**	**94.2%**	
Vornado's Ownership Interest	**3,765,000**	**94.1%**	
Strip Shopping Centers			
NEW JERSEY			
Bordentown	179,000	95.0%	Shop-Rite
Bricktown	263,000	96.0%	Kohl's, Foodrama Shop-Rite
Cherry Hill	264,000	91.1%	Toys "R" Us, Wal-Mart
Delran	172,000	95.5%	Sam's Wholesale
Dover	173,000	98.8%	Shop-Rite, Lowe's Home Center(2)
East Brunswick	231,000	100.0%	Kohl's, T.J. Maxx, Circuit City, Dick's Sporting Goods
East Hanover I & II	348,000	87.0%	Home Depot, Dick's Sporting Goods, Marshalls
Hackensack	269,000	98.2%	Home Depot, Pathmark, Staples
Jersey City	220,000	100.0%	Shop-Rite, Lowe's Home Center(2)
Kearny	106,000	98.2%	Pathmark, Marshalls
Lawnside	145,000	78.8%	Home Depot
Lodi	171,000	100.0%	National Wholesale Liquidators
Manalapan	198,000	100.0%	Best Buy, Bed Bath & Beyond, Babies "R" Us
Marlton	181,000	96.1%	Kohl's, Shop-Rite
Middletown	232,000	93.0%	Kohl's, Stop & Shop
Morris Plains	177,000	100.0%	Kohl's, Shop-Rite
North Bergen	62,000	100.0%	Waldbaum's
North Plainfield (1)	219,000	88.1%	Kmart, Pathmark
Totowa	317,000	100.0%	Bed Bath & Beyond, Home Depot, Marshalls
Turnersville	96,000	100.0%	Haynes Furniture
Union	279,000	95.6%	Toys "R" Us, Lowe's Home Center(2)
Watchung	166,000	96.5%	B.J.'s Wholesale
Woodbridge	228,000	85.7%	Wal-Mart, Syms

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
RETAIL PROPERTIES *(continued)*			
NEW YORK			
Albany (Menands)	140,000	74.0%	Fleet Bank, State of N.Y.
Buffalo (Amherst)[1]	297,000	81.1%	Circuit City, Media Play, Toys "R" Us, T.J. Maxx
Freeport	167,000	100.0%	Home Depot, Cablevision
New Hyde Park[1]	101,000	100.0%	Stop & Shop
North Syracuse[1]	98,000	100.0%	Reisman Properties
Rochester	205,000	100.0%	Wal-Mart
Rochester (Henrietta)[1]	148,000	58.6%	Kohl's
PENNSYLVANIA			
Allentown	623,000	97.3%	Shop-Rite, Wal-Mart, Sam's Wholesale, T.J. Maxx, Dick's Sporting Goods
Bensalem	130,000	97.6%	Kohl's
Bethlehem	159,000	74.4%	Giant Food Stores, Super Petz
Broomall	169,000	86.5%	Giant Foods
Glenolden	102,000	100.0%	Wal-Mart
Lancaster	228,000	93.6%	Weis Markets, Lowe's Home Center
Levittown	105,000	100.0%	Haynes Furniture
10th and Market Streets, Philadelphia	271,000	76.2%	Kmart
Upper Moreland	122,000	100.0%	Sam's Wholesale
York	111,000	24.6%	
MARYLAND			
Baltimore (Towson)	152,000	79.3%	Staples, Basics
Glen Burnie	121,000	100.0%	Weis Markets
CONNECTICUT			
Newington	183,000	100.0%	Wal-Mart
Waterbury	146,000	92.2%	Price Chopper
MASSACHUSETTS			
Chicopee	116,000	100.0%	Wal-Mart
Milford[1]	83,000	100.0%	Kohl's
Springfield	125,000	100.0%	Wal-Mart
Total Strip Shopping Centers	**8,798,000**	**92.3%**	

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
RETAIL PROPERTIES *(continued)*			
Other Retail			
NEW YORK (MANHATTAN)			
1135 Third Avenue	25,000	100.0%	The Gap
4 Union Square South (in development)	198,000	97.5%	Whole Foods, Forever 21, Filene's, DSW Shoe Warehouse
424 Sixth Avenue	10,000	100.0%	Citarella
435 Seventh Avenue	43,000	100.0%	Hennes & Mauritz
484 Eighth Avenue	14,000	100.0%	TGI Friday
715 Lexington Avenue (in development)	32,000	—	
825 Seventh Avenue	3,000	100.0%	
Total Retail	**13,247,000**	**93.0%**	
Vornado's Ownership Interest	**12,888,000**	**93.0%**	
ASSETS HELD FOR SALE:			
Vineland, New Jersey	143,000	5.6%	
Baltimore (Dundalk), Maryland	184,000	83.4%	A&P, Ollie's
Total Assets Held for Sale	**327,000**	**49.4%**	
WAREHOUSE/INDUSTRIAL PROPERTIES			
NEW JERSEY			
East Brunswick (in development)	326,000	—	
East Hanover	942,000	100%	
Edison	272,000	100%	
Garfield	493,000	57%	
Total Warehouse / Industrial	**2,033,000**	**88%**	

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
Merchandise Mart Properties			
ILLINOIS			
Merchandise Mart, Chicago	3,444,000	98.0%	Baker, Knapp & Tubbs, Bankers Life & Casualty, CCC Information Services, Chicago Teachers Union, Chicago Transit Authority, Holly Hunt Ltd., Navtech, Office of the Special Deputy Receiver, Steelcase, TFA/Leo Burnett Technology LLC, Royal Bank of Canada
350 North Orleans, Chicago	1,150,000	80.9%	21st Century Telecom/RCN, Ameritech, Art Institute of Illinois, Bank of America, Chicago Transit Authority, Fox Sports, Fiserv Solutions
33 North Dearborn Street, Chicago	328,000	94.6%	Attorney's Title
Other	19,000	21.3%	
WASHINGTON, D.C.			
Washington Office Center	396,000	96.6%	General Services Administration
Washington Design Center	390,000	92.3%	
Other	94,000	62.0%	District of Columbia
HIGH POINT, NORTH CAROLINA			
Market Square Complex	2,010,000	98.2%	Cambium Business, Century Furniture Company, La-Z-Boy, Progressive Furniture, Robinson & Robinson
CALIFORNIA			
L.A. Mart	774,000	91.6%	
Total Merchandise Mart Properties	**8,605,000**	**94.2%**	
Grand Total	**52,098,000**		
Grand Total Vornado's Ownership Interest	**51,069,000**		

ALEXANDER'S PROPERTIES *(A 33.1% Owned Investment)*

LOCATION	SQUARE FEET	PERCENT LEASED	PRINCIPAL TENANTS
Operating Properties			
NEW YORK:			
Kings Plaza Regional Shopping Center—Brooklyn	759,000	98%	Macy's[3], Sears
Rego Park I—Queens	351,000	100%	Bed Bath & Beyond, Circuit City, Marshalls, Sears
Flushing—Queens	177,000	—	
NEW JERSEY:			
Paramus	N/A	100%	IKEA
Development Properties			
NEW YORK:			
731 Lexington Avenue—Manhattan	1,304,000	—	Bloomberg, Hennes & Mauritz, Home Depot
Rego Park II—Queens	—	—	

THE NEWKIRK MASTER LIMITED PARTNERSHIP *(A 22.6% Owned Investment)*

The Newkirk Master Limited Partnership owns an aggregate of 19.6 million square feet of office, retail and industrial properties located throughout the United States, which are net leased primarily to credit rated tenants.

TEMPERATURE CONTROLLED LOGISTICS *(A 60% Owned Investment)*

The Temperature Controlled Logistics business owns 87 refrigerated warehouses with an aggregate capacity of approximately 440.7 million cubic feet. The warehouses are located in 32 states.

(1) 100% Ground and/or building interest, other than 150 East 58th Street and Green Acres, where approximately 10% of the ground is leased.

(2) Lease has not commenced.

(3) Tenant owns land and building.

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SELECTED FINANCIAL DATA

Year Ended December 31, (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2003	2002[2]	2001	2000	1999
Operating Data					
Revenues:					
Rentals	$1,261,042	$1,209,755	$ 813,089	$ 666,248	$ 565,462
Expense reimbursements	179,214	154,766	129,013	116,422	94,353
Other income	62,799	27,718	10,059	9,753	7,707
Total Revenues	1,503,055	1,392,239	952,161	792,423	667,522
Expenses:					
Operating	583,660	519,345	385,449	305,141	269,892
Depreciation and amortization	215,032	198,601	120,614	96,116	80,340
General and administrative	122,405	100,050	71,716	47,093	39,359
Amortization of officer's deferred compensation expense	—	27,500	—	—	—
Costs of acquisitions and development not consummated	—	6,874	5,223	—	—
Total Expenses	921,097	852,370	583,002	448,350	389,591
Operating Income	581,958	539,869	369,159	344,073	277,931
Income applicable to Alexander's	15,574	29,653	25,718	17,363	11,772
Income from partially-owned entities	67,901	44,458	80,612	86,654	78,560
Interest and other investment income	25,402	31,685	54,385	32,809	18,110
Interest and debt expense	(229,662)	(234,113)	(167,430)	(164,325)	(137,086)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	2,343	(17,471)	(8,070)	—	—
Minority interest:					
Perpetual preferred unit distributions	(72,716)	(72,500)	(70,705)	(62,089)	(19,254)
Minority limited partnership earnings	(105,132)	(64,899)	(39,138)	(38,320)	(33,904)
Partially-owned entities	(827)	(3,534)	(2,520)	(1,965)	(1,840)
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	284,841	253,148	242,011	214,200	194,289
Discontinued operations	14,073	9,884	10,342	8,826	8,230
Gains on sale of real estate (discontinued operations in 2003)	161,789	—	15,495	10,965	—
Cumulative effect of change in accounting principle	—	(30,129)	(4,110)	—	—
Net income	460,703	232,903	263,738	233,991	202,519
Preferred share dividends	(20,815)	(23,167)	(36,505)	(38,690)	(33,438)
Net income applicable to common shares	$ 439,888	$ 209,736	$ 227,233	$ 195,301	$ 169,081
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle per share—basic	$ 2.35	$ 2.17	$ 2.31	$ 2.03	$ 1.88
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle per share—diluted	$ 2.29	$ 2.09	$ 2.23	$ 1.98	$ 1.85
Income per share—basic	$ 3.92	$ 1.98	$ 2.55	$ 2.26	$ 1.97
Income per share—diluted	$ 3.80	$ 1.91	$ 2.47	$ 2.20	$ 1.94
Cash dividends declared for common shares	$ 2.91	$ 2.66	$ 2.63	$ 1.97	$ 1.80
Balance Sheet Data					
Total assets	$9,518,928	$9,018,179	$6,777,343	$6,403,210	$5,479,218
Real estate, at cost	7,748,452	7,282,651	4,426,560	4,220,307	3,790,857
Accumulated depreciation	869,849	702,686	485,447	375,730	293,497
Debt	4,184,385	4,071,320	2,477,173	2,688,308	2,048,804
Shareholders' equity	3,077,573	2,627,356	2,570,372	2,078,720	2,055,368

See notes on following page.

Year Ended December 31, (IN THOUSANDS)	2003	2002[2]	2001	2000	1999
Other Data					
Funds From Operations ("FFO")[1]:					
Net income applicable to common shares	$439,888	$209,736	$227,233	$195,301	$169,081
Cumulative effect of change in accounting principle	—	30,129	4,110	—	—
Depreciation and amortization of real property	208,624	195,808	119,568	97,744	82,216
Net gain on sale of real estate	(161,789)	—	(12,445)	(10,965)	—
Net gain from insurance settlement and condemnation proceedings	—	—	(3,050)	—	—
Proportionate share of adjustments to equity in income of partially-owned entities to arrive at funds from operations:					
Depreciation and amortization of real property	54,762	51,881	65,588	68,743	57,127
Net gains on sale of real estate	(6,733)	(3,431)	(6,298)	—	—
Minority interest's share of above adjustments	(20,080)	(50,498)	(19,679)	(19,159)	(10,702)
Dilutive effect of Series A Preferred Share dividends	3,570	6,150	19,505	21,689	16,268
FFO applicable to common shares[1]	$518,242	$439,775	$394,532	$353,353	$313,990

(1) Funds From Operations ("FFO") does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States of America and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers FFO a relevant supplemental measure of operating performance because it provides a basis for comparison among REITs. FFO is computed in accordance with NAREIT's definition, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with NAREIT's definition.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Overview

The Company owns and operates office, retail and showroom properties with large concentrations of office and retail properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. In addition, the Company has a 60% interest in a partnership that owns cold storage warehouses nationwide.

The Company's business objective is to maximize shareholder value. The Company measures its success in meeting this objective by the total return to its shareholders. Below is a table comparing the Company's performance to the Morgan Stanley REIT Index ("RMS") for the following periods ending December 31, 2003:

Total Return	Vornado	RMS
One-year	57.7%	36.7%
Three-years	74.8%	59.9%
Five-years	119.6%	93.6%
Ten-years	481.1%	181.7%[1]

(1) From inception on July 25, 1995

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

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit.
- Investing in properties in select markets, such as New York City and Washington, D.C., where we believe there is high likelihood of capital appreciation.
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents.
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area.
- Developing/redeveloping the Company's existing properties to increase returns and maximize value.

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

Overview—Leasing Activity

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

As of December 31, 2003

	Office			Merchandise Mart		
(SQUARE FEET AND CUBIC FEET IN THOUSANDS)	New York City	CESCR	Retail	Office	Showroom	Temperature Controlled Logistics
Square feet/cubic feet	13,253	13,963	12,888	2,808	5,624	17,476/440,700
Number of properties	20	63	60	9	9	87
Occupancy rate	95.2%	93.9%	93.0%	92.6%	95.1%	76.2%
Leasing Activity:						
Year Ended December 31, 2003:						
Square feet	925	2,848	1,046	270	1,157	—
Initial rent[1]	$44.60	$30.26	$15.56	$21.24	$23.43	—
Weighted average lease terms (years)	9.1	4.8	12.8	9.8	5.2	
Increase (decrease) in occupancy from December 31, 2002	(0.6%)	0.3%	4.7%	0.9%	(0.1%)	(2.3%)
Rent per square foot on relet space:						
Square feet	677	2,510	1,046	270	1,157	—
Initial rent[1]	$44.41	$30.62	$15.56	$21.24	$23.43	—
Prior escalated rent	$38.51	$29.86	$13.75	$22.44	$23.28	—
Percentage increase	15.3%	2.5%	13.2%	(5.3%)	0.6%	—
Rent per square foot on space previously vacant:						
Square feet	248	338	—	—	—	—
Initial rent[1]	$45.09	$27.58	—	—	—	—
Tenant improvements per square foot	$26.41	$10.89	$ 3.71	$29.74	$ 7.58	—
Leasing commissions per square foot	$11.59	$ 2.65	$ 0.75	$10.61	$ 0.24	—
Quarter ended December 31, 2003:						
Square feet	305	490	168	89	234	—
Initial rent[1]	$42.12	$29.28	$15.87	$19.04	$25.95	—
Weighted average lease terms (years)	8.4	4.8	8.4	9.1	4.9	—
Increase (decrease) in occupancy from September 30, 2003	(0.6%)	0.6%	2.0%	—	0.4%	(0.5%)
Rent per square foot on relet space:						
Square feet	264	388	168	89	234	—
Initial rent[1]	$42.02	$29.99	$15.87	$19.04	$25.95	—
Prior escalated rent	$36.50	$29.31	$14.07	$24.59	$26.25	—
Percentage increase (decrease)	15.1%	2.3%	12.8%	(22.6%)	(1.1%)	—
Rent per square foot on space previously vacant:						
Square feet	41	102	—	—	—	—
Initial rent[1]	$42.69	$26.58	—	—	—	—
Tenant improvements per square foot	$20.18	$12.98	$ 0.68	$14.13	$ 6.62	—
Leasing commissions per square foot	$ 8.13	$ 3.32	$ 0.45	$ 8.62	$ 0.41	—

In addition to the leasing activity in the table above, in the year ended December 31, 2003, 66,000 square feet of retail space included in the New York City Office segment was leased at an initial rent of $220.97 per square foot and in the three months ended December 31, 2003, 21,000 square feet of retail space was leased at an initial rent of $278.27 per square foot.

Overview—Leasing Activity

As of December 31, 2002

	Office			Merchandise Mart		
(SQUARE FEET AND CUBIC FEET IN THOUSANDS)	New York City	CESCR	Retail	Office	Showroom	Temperature Controlled Logistics
Square feet/cubic feet	13,957	13,395	12,528	2,838	5,528	17,509/441,500
Number of properties	21	53	62	9	9	88
Occupancy rate	95.8%	93.6%	88.3%	91.7%	95.2%	78.5%
Leasing Activity:						
Year Ended December 31, 2002:						
Square feet	579	2,342	1,960	164	911	—
Initial rent [1]	$ 44.82	$ 31.01	$ 9.73	$ 26.97	$ 18.99	—
Rent per square foot on relet space:						
Square feet	457	2,025	1,339	164	911	—
Initial rent [1]	$ 44.34	$ 31.29	$ 12.17	$ 26.97	$ 18.99	—
Prior escalated rent	$ 34.11	$ 29.66	$ 9.19	$ 26.66	$ 18.63	—
Percentage increase	30.0%	5.5%	32.4%	1.2%	2.0%	—
Rent per square foot on space previously vacant:						
Square feet	122	317	621	—	—	—
Initial rent[1]	$ 46.80	$ 29.21	$ 4.48	—	—	—
Tenant improvements per square foot	$ 12.18	$ 14.23	$ 1.18	$ 5.03	$ 1.38	—
Leasing commissions per square foot	$ 7.48	$ 3.39	$ 0.18	$ 4.04	—	—

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

Critical Accounting Policies

In preparing the consolidated financial statements management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Company's accounting policies included in Note 2 to the consolidated financial statements in this annual report.

REAL ESTATE

Real estate is carried at cost, net of accumulated depreciation and amortization. As of December 31, 2003, the Company's carrying amount of its real estate, net of accumulated depreciation is $6.9 billion. Maintenance and repairs are charged to operations as incurred. Depreciation requires an estimate by management of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. If the Company does not allocate these costs appropriately or incorrectly estimates the useful lives of its real estate, depreciation expense may be misstated.

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings, tenant improvements and beginning in 2002, identified intangibles such as acquired above and below market leases and the value of acquired in-place leases in accordance with Statements of Financial Accounting Standards ("SFAS") No. 141 and 142) and acquired liabilities, and allocates purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. The Company's properties are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If the Company incorrectly estimates the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different. The impact of the Company's estimates in connection with acquisitions and future impairment analysis could be material to the Company's consolidated financial statements.

IDENTIFIED INTANGIBLE ASSETS AND GOODWILL

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

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss for an asset group is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, unless the fair value of specific components of the reporting group are determinable without undue cost and effort.

As of December 31, 2003 and 2002, the carrying amounts of the Company's identified intangible assets are $106,281,000 and $50,487,000 and the carrying amount of goodwill is $4,345,000 (arising from the 2003 acquisition of Building Maintenance Services) and $0, respectively. Such amounts are included in other assets on the Company's consolidated balance sheet. In addition, the Company has $47,266,000 and $48,430,000, of deferred credits as of December 31, 2003 and 2002, which are included as liabilities on the Company's consolidated balance sheet. If the Company incorrectly estimates the fair value of

these assets at acquisition or in connection with impairment testing, or incorrectly estimates the useful lives of finite-life intangible assets, the impact to the Company's consolidated financial statements could be material.

NOTES AND MORTGAGE LOANS RECEIVABLE

The Company's policy is to record mortgages and notes receivable at the stated principal amount net of any discount or premiums. As of December 31, 2003, the carrying amount of Notes and Mortgage Loans receivable was $285,965,000. The Company accretes or amortizes any discounts or premiums over the life of the related loan receivable utilizing the effective interest method. The Company evaluates the collectibility of both interest and principal of each of its loans, if circumstances warrant, to determine whether it is impaired. A loan is considered to be impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis.

PARTIALLY-OWNED ENTITIES

As of December 31, 2003, the carrying amount of investments and advances to partially-owned entities, including Alexander's, was $900,600,000. The Company considers APB 18—The Equity Method of Accounting for Investments in Common Stock, SOP 78-9—Accounting for Investments in Real Estate Ventures, EITF 96-16—Investors Accounting for an Investee When the Investor has the Majority of the Voting Interest but the Minority Partners have Certain Approval or Veto Rights, to determine the method of accounting for each of its partially-owned entities. In determining whether the Company has a controlling interest in a partially-owned entity and the requirement to consolidate the accounts of that entity, it considers factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members. The Company has concluded that it does not control a partially-owned entity, despite an ownership interest of 50% or greater, if the approval of all of the partners/members is contractually required with respect to major decisions, such as operating and capital budgets, the sale, exchange or other disposition of real property, the hiring of a chief executive officer, the commencement, compromise or settlement of any lawsuit, legal proceeding or arbitration or the placement of new or additional financing secured by assets of the venture. This is the case with respect to the Company's 60% interest in Temperature Controlled Logistics, 80% interest in Starwood Ceruzzi Venture, and 50% interests in Monmouth Mall, MartParc Wells, MartParc Orleans, and 825 Seventh Avenue.

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company periodically evaluates the collectibility of amounts due from tenants and maintains an allowance for doubtful accounts ($15,246,000 as at December 31, 2003) for estimated losses resulting from the inability of tenants to make required payments under the lease agreement. The Company also maintains an allowance for receivables arising from the straight-

lining of rents ($2,830,000 as at December 31, 2003). This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. If estimates differ from actual results, this would impact reported results.

REVENUE RECOGNITION

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

- Base Rents—income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases.
- Percentage Rents—income arising from retail tenant leases which are contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with SAB 104, which states that this income is to be recognized only after the contingency has been removed (i.e., sales thresholds have been achieved).
- Hotel Revenues—income arising from the operation of the Hotel Pennsylvania which consists of rooms revenue, food and beverage revenue, and banquet revenue. Income is recognized when rooms are occupied. Food and beverage and banquet revenue are recognized when the services have been rendered.
- Trade Show Revenues—income arising from the operation of trade shows, including rentals of booths. This revenue is recognized in accordance with the booth rental contracts when the trade shows have occurred.
- Expense Reimbursements—revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Before the Company recognizes revenue, it assesses among other things, its collectibility. If the Company incorrectly determines the collectibility of its revenue, its net income and assets could be misstated.

INCOME TAXES

The Company operates in a manner intended to enable it to continue to qualify as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company intends to distribute to its shareholders 100% of its taxable income. Therefore, no provision for Federal income taxes is required. If the Company fails to distribute the required amount of income to its shareholders, it would fail to qualify as a REIT and substantial adverse tax consequences may result.

Net income and EBITDA for the years ended December 31, 2003, 2002 and 2001

Below is a summary of Net income and EBITDA[1] by segment for the years ended December 31, 2003, 2002 and 2001. On January 1, 2003, the Company revised its definition of EBITDA to comply with the Securities and Exchange Commission's Regulation G concerning non-GAAP financial measures. The revised definition of EBITDA includes minority interest, gains (losses) on the sale of depreciable real estate and income arising from the straight-lining of rent and the amortization of acquired in-place leases. Accordingly, EBITDA for all periods disclosed represents "Earnings before Interest, Taxes, Depreciation and Amortization." Management considers EBITDA a supplemental measure for making decisions and assessing the unlevered performance of its segments as it is related to the return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, management utilizes this measure to make investment decisions as well as to compare the performance of its assets to that of its peers. EBITDA is not a surrogate for net income because net income is after interest expense and accordingly, is a measure of return on equity as opposed to return on assets.

December 31, 2003

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[3]
Property rentals	$1,210,048	$ 823,302	$136,490	$197,554	$ —	$ 52,702
Straight-line rents:						
Contractual rent increases	34,023	27,031	3,108	3,875	—	9
Amortization of free rent	7,924	292	5,390	2,251	—	(9)
Amortization of acquired below market leases, net	9,047	8,007	1,040	—	—	—
Total rentals	1,261,042	858,632	146,028	203,680	—	52,702
Expense reimbursements	179,214	102,826	56,900	16,402	—	3,086
Fee and other income:						
Tenant cleaning fees	29,062	29,062	—	—	—	—
Management and leasing fees	12,812	11,427	1,290	—	—	95
Other	20,925	8,852	4,694	7,344	—	35
Total revenues	1,503,055	1,010,799	208,912	227,426	—	55,918
Operating expenses	583,660	377,500	70,462	91,033	—	44,665
Depreciation and amortization	215,032	151,994	18,835	30,125	—	14,078
General and administrative	122,405	37,251	9,783	20,215	—	55,156
Total expenses	921,097	566,745	99,080	141,373	—	113,899
Operating income	581,958	444,054	109,832	86,053	—	(57,981)
Income applicable to Alexander's	15,574	—	—	—	—	15,574
Income from partially-owned entities	67,901	2,426	3,752	(108)	18,416	43,415
Interest and other investment income	25,402	2,960	359	93	—	21,990
Interest and debt expense	(229,662)	(134,715)	(59,674)	(14,788)	—	(20,485)
Net gain on disposition of wholly-owned and partially-owned assets other than real estate	2,343	180	—	188	—	1,975
Minority interest	(178,675)	(1,119)	—	—	—	(177,556)
Income before discontinued operations and gains on sale of real estate	284,841	313,786	54,269	71,438	18,416	(173,068)
Discontinued operations	14,073	15,536	261	—	—	(1,724)
Gains on sale of real estate (discontinued operations)	161,789	157,200	4,589	—	—	—
Net income	460,703	486,522	59,119	71,438	18,416	(174,792)
Interest and debt expense[2]	296,059	138,379	62,718	15,700	24,670	54,592
Depreciation and amortization[2]	279,507	155,743	21,642	30,749	34,879	36,494
Income taxes	1,627	45	—	—	—	1,582
EBITDA[1]	$1,037,896	$ 780,689	$143,479	$117,887	$ 77,965	$ (82,124)

Included in EBITDA are gains on sale of real estate of $161,789, of which $157,200 and $4,589 relate to the Office and Retail segments, respectively.

See Notes on page 12.

December 31, 2002

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[3]
Property rentals	$1,159,002	$793,990	$120,451	$191,197	$ —	$ 53,364
Straight-line rents:						
Contractual rent increases	31,323	27,598	1,777	1,772	—	176
Amortization of free rent	6,796	2,374	3,317	1,105	—	—
Amortization of acquired below market leases, net	12,634	12,469	165	—	—	—
Total rentals	1,209,755	836,431	125,710	194,074	—	53,540
Expense reimbursements	154,766	85,420	51,008	14,754	—	3,584
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	14,800	13,317	1,450	33	—	—
Other	12,918	7,783	172	4,743	—	220
Total revenues	1,392,239	942,951	178,340	213,604	—	57,344
Operating expenses	519,345	330,585	61,500	86,022	—	41,238
Depreciation and amortization	198,601	143,021	14,957	26,716	—	13,907
General and administrative	100,050	33,334	7,640	20,382	—	38,694
Costs of acquisitions and development not consummated	6,874	—	—	—	—	6,874
Amortization of officer's deferred compensation expense	27,500	—	—	—	—	27,500
Total expenses	852,370	506,940	84,097	133,120	—	128,213
Operating income	539,869	436,011	94,243	80,484	—	(70,869)
Income applicable to Alexander's	29,653	—	—	—	—	29,653
Income from partially-owned entities	44,458	1,966	(687)	(339)	9,707	33,811
Interest and other investment income	31,685	6,472	323	507	—	24,383
Interest and debt expense	(234,113)	(138,731)	(56,643)	(22,948)	—	(15,791)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	(17,471)	—	—	2,156	—	(19,627)
Minority interest	(140,933)	(3,526)	—	(2,249)	—	(135,158)
Income before discontinued operations and cumulative effect of change in accounting principle	253,148	302,192	37,236	57,611	9,707	(153,598)
Discontinued operations	9,884	15,910	723	—	—	(6,749)
Cumulative effect of change in accounting principle	(30,129)	—	—	—	(15,490)	(14,639)
Net income	232,903	318,102	37,959	57,611	(5,783)	(174,986)
Cumulative effect of change in accounting principle	30,129	—	—	—	15,490	14,639
Interest and debt expense[2]	305,920	143,068	58,409	23,461	25,617	55,365
Depreciation and amortization[2]	257,707	149,361	17,532	27,006	34,474	29,334
EBITDA[1]	$ 826,659	$610,531	$113,900	$108,078	$69,798	$ (75,648)

See Notes on page 12.

December 31, 2001

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[3]
Property rentals	$ 769,780	$399,459	$ 116,710	$191,909	$ —	$ 61,702
Straight-line rents:						
Contractual rent increases	28,964	24,012	(45)	4,997	—	—
Amortization of free rent	14,345	11,396	2,187	762	—	—
Amortization of acquired below market leases, net	—	—	—	—	—	—
Total rentals	813,089	434,867	118,852	197,668	—	61,702
Expense reimbursements	129,013	64,097	48,708	13,801	—	2,407
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	1,472	1,404	—	68	—	—
Other	8,587	1,848	1,076	3,256	—	2,407
Total revenues	952,161	502,216	168,636	214,793	—	66,516
Operating expenses	385,449	205,408	55,200	83,107	—	41,734
Depreciation and amortization	120,614	68,726	14,218	25,397	—	12,273
General and administrative	71,716	11,569	3,572	18,081	—	38,494
Costs of acquisitions not consummated	5,223	—	—	—	—	5,223
Total expenses	583,002	285,703	72,990	126,585	—	97,724
Operating income	369,159	216,513	95,646	88,208	—	(31,208)
Income applicable to Alexander's	25,718	—	—	—	—	25,718
Income from partially-owned entities	80,612	32,746	1,914	149	17,447	28,356
Interest and other investment income	54,385	6,866	608	2,045	—	44,866
Interest and debt expense	(167,430)	(49,021)	(55,358)	(33,354)	—	(29,697)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	(8,070)	—	—	160	—	(8,230)
Minority interest	(112,363)	(2,466)	—	—	—	(109,897)
Income before gains on sales of real estate, discontinued operations and cumulative effect of change in accounting principle	242,011	204,638	42,810	57,208	17,447	(80,092)
Gains on sale of real estate	15,495	12,445	3,050	—	—	—
Discontinued operations	10,342	9,265	1,077	—	—	—
Cumulative effect of change in accounting principle	(4,110)	—	—	—	—	(4,110)
Net income	263,738	226,348	46,937	57,208	17,447	(84,202)
Cumulative effect of change in accounting principle	4,110	—	—	—	—	4,110
Interest and debt expense[2]	266,784	92,410	57,915	33,354	26,459	56,646
Depreciation and amortization[2]	188,859	91,085	18,957	25,397	33,815	19,605
EBITDA[1]	$ 723,491	$409,843	$ 123,809	$115,959	$ 77,721	$ (3,841)

Included in EBITDA are gains on sale of real estate of $15,495, of which and $12,445 and $3,050 relate to the Office and Retail segments, respectively.

(1) EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

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

(3) Other EBITDA is comprised of:

For the Year Ended December 31,

(AMOUNTS IN THOUSANDS)	2003	2002	2001
Newkirk Master Limited Partnership:			
Equity in income	$ 68,341[(A)]	$ 60,756	$ 54,695
Interest and other income	8,532	8,795	8,700
Alexander's[(B)]	23,001	39,436	19,362
Industrial warehouses	6,208	6,223	6,639
Palisades (placed in service on March 1, 2002)	5,006	161	—
Hotel Pennsylvania	4,573	7,636	16,978
Student Housing	2,000	2,340	2,428
400 North LaSalle (phased into service beginning October 2003)	(680)	—	—
	116,981	125,347	108,802
Minority interest expense	(177,556)	(135,158)	(109,897)
Corporate general and administrative expenses	(51,461)	(34,743)	(33,515)
Investment income and other	28,350	22,907	44,222
Net gain on sale of marketable securities	2,950	12,346	—
Primestone loss on settlement of guarantees (2003) and foreclosure and impairment losses (2002)	(1,388)	(35,757)	—
Amortization of officer's deferred compensation expense	—	(27,500)	—
Write-off of 20 Times Square pre-development costs (2002) and World Trade Center acquisition costs (2001)	—	(6,874)	(5,223)
Gain on transfer of mortgages	—	2,096	—
Net gain on sale of air rights	—	1,688	—
After-tax net gain on sale of Park Laurel condominium units	—	—	15,657
Write-off of net investment in Russian Tea Room	—	—	(7,374)
Write-off of investments in technology companies	—	—	(16,513)
	$ (82,124)	$ (75,648)	$ (3,841)

(A) Includes net gains of $9,200 on sales of real estate and $1,600 on the early extinguishment of debt, partially offset by a charge of $1,210 for an impairment loss and a litigation settlement.

(B) EBITDA for the year ended December 31, 2003, reflects the Company's share of Alexander's stock appreciation rights compensation expense of $14,868 and the Company's $1,589 share of EBITDA resulting from the commencement of Alexander's lease with Bloomberg (87% of the space) on November 15, 2003 at Alexander's 731 Lexington Avenue property. EBITDA for the year ended December 31, 2002 and 2001 includes $3,524 and $6,298, respectively representing the Company's share of Alexander's gain on the sale of its Third Avenue and Fordham Road properties.

The following table sets forth the percentage of the Company's EBITDA by segment for the years ended December 31, 2003, 2002 and 2001. EBITDA for the year ended December 31, 2003, includes gains on sale of real estate of $161,789,000, of which $157,200,000 and $4,589,000 relate to the New York Office and Retail segments, respectively. The pro forma column gives effect to the January 1, 2002 acquisition by the Company of the remaining 66% interest in CESCR described previously as if it had occurred on January 1, 2001.

Year Ended December 31,

	Percentage of EBITDA			
	2003	2002	2001 (Pro forma)	2001
Office:				
New York City	47%	39%	36%	44%
CESCR	28%	35%	28%	13%
Total	75%	74%	64%	57%
Retail	14%	14%	14%	17%
Merchandise Mart Properties	11%	13%	13%	16%
Temperature Controlled Logistics	8%	8%	9%	11%
Other	(8%)	(9%)	0%	(1%)
	100%	100%	100%	100%

Results Of Operations

Years Ended December 31, 2003 and December 31, 2002

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below market leases net of above market leases pursuant to SFAS No. 141 and 142, and fee income, were $1,503,055,000 for the year ended December 31, 2003, compared to $1,392,239,000 in the prior year, an increase of $110,816,000. Below are the details of the increase by segment:

(AMOUNTS IN THOUSANDS)	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Other
Rentals:						
Acquisitions:						
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	September 2002	$ 8,546	$ —	$ 8,546	$ —	$ —
Crystal Gateway One	July 2002	5,851	5,851	—	—	—
435 Seventh Avenue (placed in service)	August 2002	4,528	—	4,528	—	—
2101 L Street	August 2003	4,958	4,958	—	—	—
Bergen Mall	December 2003	602	—	602	—	—
424 Sixth Avenue	July 2002	557	—	557	—	—
(Decrease) increase in amortization of acquired below market leases, net		(3,587)	(4,462)	875	—	—
Operations:						
Hotel activity		73(1)	—	—	—	73(1)
Trade Show activity		3,807(2)	—	—	3,807(2)	—
Leasing activity		25,952	15,854(3)	5,210(4)	5,799(5)	(911)
Total increase (decrease) in rentals		51,287	22,201	20,318	9,606	(838)
Tenant expense reimbursements:						
Acquisitions		4,290	238	4,052	—	—
Operations		20,158	17,168(6)	1,840	1,648	(498)
Total increase (decrease) in tenant expense reimbursements		24,448	17,406	5,892	1,648	(498)
Fee and other income:						
Acquisitions:						
BMS tenant cleaning fees		28,968	28,968	—	—	—
Kaempfer management and leasing fees		2,441	2,441	—	—	—
Increase (decrease) in:						
Lease cancellation fee income		4,429	514	2,056	1,859	—
Management and leasing fees		(3,844)	(3,667)(7)	(160)	(17)	—
Other		3,087	(15)	2,466	726	(90)
Total increase (decrease) in fee and other income		35,081	28,241	4,362	2,568	(90)
Total increase (decrease) in revenues		$110,816	$67,848	$30,572	$13,822	$(1,426)

See Leasing Activity on page 5 for further details and corresponding changes in occupancy.

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

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

(3) Reflects increases of $12,953 from New York City Office leasing activity and $2,901 from CESCR's leasing activity. These increases resulted primarily from higher rents for space relet in 2003 and 2002 (full year impact in 2003 as compared to a partial year in 2002) and an increase in CESCR occupancy of .3% this year, partially offset by a decrease in NYC office occupancy of .6%. Initial rent for the 677 square feet of space relet in New York City was $44.41 per square foot in 2003, a 15.3% increase over prior escalated rent. Initial rent for the 2,510 square feet of space relet in CESCR portfolio was $30.62 per square foot a 2.5% increase over prior escalated rents. For further details of NYC and CESCR office leasing activity see page 5.

(4) Resulted primarily from (i) an increase in the occupancy rate from 88.3% at December 31, 2002 to 93.0% at December 31, 2003 as a result of leasing space previously vacated by Bradlees and Kmart and (ii) higher rents for space relet in 2003 and 2002 (full year impact in 2003 as compared to a partial year in 2002). Initial rent for the 1,046 square feet of space relet in 2003 was $15.56 per square foot, a 13.2% increase over prior rent. For further details of Retail leasing activity see page 5.

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

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

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

Expenses

The Company's expenses were $921,097,000 for the year ended December 31, 2003, compared to $852,370,000 in the prior year, an increase of $68,727,000. Below are the details of the increase (decrease) by segment:

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions:					
BMS	$19,789	$19,789	$ —	$ —	$ —
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	3,007	—	3,007	—	—
Crystal Gateway One	1,742	1,742	—	—	—
Bergen Mall	399	—	399	—	—
2101 L Street	1,531	1,531	—	—	—
435 Seventh Avenue	503	—	503	—	—
424 Sixth Avenue	98	—	98	—	—
Hotel activity	2,769	—	—	—	2,769(1)
Trade Shows activity	1,487	—	—	1,487(2)	—
Operations	32,990(3)	23,853(3)	4,955(3)	3,524(3)	658(3)
	64,315	46,915	8,962	5,011	3,427
Depreciation and amortization:					
Acquisitions	5,966	4,026	1,940	—	—
Operations	10,465	4,947(4)	1,938	3,409(4)	171
	16,431	8,973	3,878	3,409	171
General and administrative:					
Acquisitions	4,915	4,274	641	—	—
Operations	17,440(5)	(357)	1,502	(167)	16,462
	22,355	3,917	2,143	(167)	16,462
Costs of acquisitions and development not consummated	(6,874)	—	—	—	(6,874)
Amortization of officer's deferred compensation expense	(27,500)	—	—	—	(27,500)
Total increase (decrease) in expenses	$68,727	$59,805	$14,983	$8,253	$(14,314)

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

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

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

	Total	Office	Retail	Merchandise Mart	Other
Real estate taxes	$ 26,935	$ 20,904[(a)]	$ 1,245	$ 4,724	$ 62
Utilities	(946)	(906)	364	(483)	79
Maintenance	5,286	2,997	2,302	(33)	20
Ground rent	950	1,005	(55)	—	—
Bad debt expense	(29)	(1,541)	1,238	274	—
Other	794	1,394	(139)	(958)	497
	$ 32,990	$ 23,853	$ 4,955	$ 3,524	$ 658

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

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

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

Increase in professional fees in connection with information technology, corporate governance, insurance, and other projects	$ 4,675
Severance payments in 2003 to two senior executives ($3,211) and the non-cash charge related to the accelerated vesting of their restricted stock ($1,626)	4,837
Other severance	860
Increase in corporate payroll and fringe benefits of which $755 is due to a decrease in capitalized development payroll and $407 is due to the Company's deferred compensation plan (offset by an equal amount of investment income)	2,872
Costs in connection with the relocation of CESCR's back office operations to the Company's administrative headquarters in New Jersey	1,123
Stock compensation expense (see below)	1,898
Other	1,175
	$17,440

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

Income Applicable to Alexander's

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

Income from Partially-Owned Entities

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

For the year ended:

(AMOUNTS IN THOUSANDS)	Total	Newkirk MLP	Temperature Controlled Logistics	Monmouth Mall	Partially-Owned Office Buildings	Starwood Ceruzzi Joint Venture	Las Catalinas Mall	Other
December 31, 2003:								
Revenues	$521,210	$273,500	$119,605	$24,121	$99,590	$4,394		
Expenses:								
Operating, general and administrative	(75,887)	(15,357)	(6,905)	(10,520)	(39,724)	(3,381)		
Depreciation	(132,062)	(51,777)	(56,778)	(4,018)	(18,491)	(998)		
Interest expense	(172,697)	(97,944)	(41,117)	(6,088)	(27,548)	—		
Other, net	47,223	43,083	5,710	(3,220)	2,516	(866)		
Net income (loss)	$187,787	$151,505	$ 20,515	$ 275	$16,343	$ (851)		
Vornado's interest		22.6%	60%	50%	15%	80%		
Equity in net income (loss)	$ 51,057	$33,243[1]	$ 12,869[2]	$ 138[3]	$2,426	$ (681)		$ 3,062
Interest and other income	10,292	7,002	—	3,290	—	—		—
Fee income	6,552	—	5,547	1,005	—	—		—
Income (loss) from partially-owned entities	$ 67,901	$ 40,245	$ 18,416	$ 4,433	$ 2,426	$ (681)	N/A[4]	$ 3,062
December 31, 2002:								
Revenues	$480,363	$295,369	$117,663	$ 5,760	$50,205	$ 695	$10,671	
Expenses:								
Operating, general and administrative	(46,098)	(8,490)	(7,904)	(2,510)	(21,827)	(2,265)	(3,102)	
Depreciation	(106,287)	(34,010)	(59,328)	(943)	(9,094)	(1,430)	(1,482)	
Interest expense	(180,431)	(121,219)	(42,695)	(1,520)	(11,354)	—	(3,643)	
Other, net	(12,505)	(9,790)	(2,150)	48	389	(200)	(802)	
Net income (loss)	$135,042	$121,860	$ 5,586	$ 835	$ 8,319	$(3,200)	$ 1,642	
Vornado's interest		21.7%	60%	50%	24%	80%	50%	
Equity in net income (loss)	$ 30,664	$ 26,500	$ 4,144	$ 791[3]	$ 1,966	$(2,560)	$ 851	$ (1,028)
Interest and other income	8,000	8,000	—	—	—	—	—	—
Fee income	5,794	—	5,563	231	—	—	—	—
Income (loss) from partially-owned entities	$ 44,458	$ 34,500	$ 9,707	$ 1,022	$ 1,966	$(2,560)	$ 851	$ (1,028)
Increase (decrease) in income from partially-owned entities	$ 23,443	$ 5,745[1]	$ 8,709[2]	$ 3,411[3]	$ 460	$1,879	$ (851)[4]	$ 4,090

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

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

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

On February 23, 2004, AmeriCold Logistics announced that Alec Covington resigned as President and Chief Executive Officer effective March 31, 2004, to take an opportunity in an unrelated industry. A search to identify a successor is currently underway.

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

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

Interest and Other Investment Income

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $25,402,000 for the year ended December 31, 2003, compared to $31,685,000 in the year ended December 31, 2002, a decrease of $6,283,000. This decrease resulted primarily from (i) lower average investments at lower yields, partially offset by (ii) $5,655,000 of contingent interest income recognized in connection with the repayment of the Dearborn Center loan and (iii) $5,028,000 of interest income recognized on the $225,000,000 GM Building mezzanine loans, for the period from October 20, 2003 through December 31, 2003.

Interest and Debt Expense

Interest and debt expense was $229,662,000 for the year ended December 31, 2003, compared to $234,113,000 in the year ended December 31, 2002, a decrease of $4,451,000. This decrease was primarily comprised of a $11,285,000 savings from a 77 basis point reduction in weighted average interest rates of the Company's variable rate debt, partially offset by (i) the consolidation as of September 2002 of the Las Catalinas operations which were previously included in income from partially-owned entities, (ii) a full year of interest expense on the Company's $500,000,000 Senior Unsecured Notes due 2007 which were issued in June 2002 and (iii) a reduction in interest capitalized in connection with development projects.

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

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

For the Year Ended December 31,

(AMOUNTS IN THOUSANDS)	2003	2002
Wholly-owned assets:		
Net gain on sale of marketable securities	$ 2,950	$ 12,346
Loss on settlement of Primestone guarantees (2003) and foreclosure and impairment losses (2002)	(1,388)	(35,757)
Gain on sale of land parcels	499	—
Gain on sale of residential condominium units	282	2,156
Gain on transfer of mortgages	—	2,096
Net gain on sale of air rights	—	1,688
	$ 2,343	$(17,471)

PRIMESTONE FORECLOSURE AND IMPAIRMENT LOSSES

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

On November 19, 2001, the Company sold, pursuant to a participation agreement with a subsidiary of Cadim inc., a Canadian pension fund, a 50% participation in both loans at par for approximately $50,000,000, reducing the Company's net investment in the loans at December 31, 2001 to $56,768,000 including unpaid interest and fees of $6,790,000. The participation did not meet the criteria for "sale accounting" under SFAS 140 because Cadim was not free to pledge or exchange the assets. Accordingly, the Company was required to account for this transaction as a borrowing secured by the loan, rather than as a sale of the loan by classifying the participation as an "Other Liability" and continuing to report the outstanding loan balance at 100% in "Notes and Mortgage Loans Receivable" on the balance sheet.

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

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

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

On June 11, 2003, the Company exercised its right to exchange the 3,972,447 units it owned in Prime Group Realty L.P. for 3,972,447 common shares in Prime Group Realty Trust. Prior to the exchange, the Company accounted for its investment in the partnership on the equity method. Subsequent to the exchange, the Company is accounting for its investment in PGE as a marketable equity security-available for sale, as the Company's shares represent less than a 20% ownership interest in PGE (which is not a partnership), the Company does not have significant influence and the common shares have a readily determinable fair value. Accordingly, the carrying amount previously included in Investments and Advances to Partially-Owned Entities was reclassified to Marketable Securities on the Company's consolidated balance sheet. The Company is also

required to mark these securities to market based on the closing price of the PGE shares on the NYSE at the end of each reporting period. For the period from June 11, 2003 through December 31, 2003, the Company recorded a $6,623,000 unrealized gain, which is not included in the Company's net income, but is reflected as a component of Accumulated Other Comprehensive Loss in the Shareholders' Equity section of the consolidated balance sheet. From the date of exchange, income recognition is limited to dividends received on the PGE shares.

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

GAIN ON TRANSFER OF MORTGAGES

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

Minority Interest

Minority interest was $178,675,000 for the year ended December 31, 2003, compared to $140,933,000 for the prior year, an increase of $37,742,000. The increase is primarily due to higher income in 2003, primarily as a result of net gains on sale of real estate of $161,789,000, and an increase in preferred unit distributions of $2,187,000, representing the original issuance costs on the redemption of the Series D-1 preferred units.

Discontinued Operations

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

December 31,	**2003**	2002
Palisades	$138,629	$142,333
Baltimore (Dundalk)	2,167	2,050
Vineland	908	978
Two Park Avenue (sold on October 10, 2003)	—	123,076
Hagerstown (sold on November 3, 2003)	—	1,013
Baltimore (sold on January 9, 2003)	—	2,218
	$141,704	$271,668

Liabilities related to discontinued operations represent the Palisades mortgage payable of $120,000,000 and $100,000,000 as of December 31, 2003 and 2002 respectively.

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

December 31,	**2003**	2002
Total Revenues	$ 42,694	$ 42,831
Total Expenses	28,621	32,947
Income from discontinued operations	$ 14,073	$ 9,884

On February 2, 2004, the Palisades Venture in which the Company owns a 75% interest entered into an agreement to sell its only asset, a 538 unit high-rise residential apartment tower in Fort Lee, New Jersey, for $222,500,000. On February 27, 2004,

in order to permit a potential "like kind exchange," the Company acquired the remaining 25% interest it did not previously own for its partner's share of the net sales price (approximately $17,000,000). The Company's gain on sale after closing costs will be approximately $70,000,000. The sale, which is subject to customary closing conditions, is expected to be completed by the third quarter of 2004.

Gains on Sales of Real Estate (Discontinued Operations in 2003)

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

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square-foot office building, for $292,000,000 to SEB Immobelien-Investment GmbH, a German capital investment company, which resulted in a net gain on the sale after closing costs of $156,433,000.

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

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In September 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets* (effective January 1, 2002). SFAS No. 142 specifies that goodwill and some intangible assets will no longer be amortized but instead be subject to periodic impairment testing. In the first quarter of 2002, the Company wrote-off goodwill of approximately $30,129,000 of which (i) $15,490,000 represents its share of the goodwill arising from the Company's investment in Temperature Controlled Logistics and (ii) $14,639,000 represents goodwill arising from the Company's acquisition of the Hotel Pennsylvania. The write-off was reflected as a cumulative effect of a change in accounting principle in the 2002 consolidated statement of income.

EBITDA

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

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Year ended December 31, 2002	$ 826,659	$610,531	$113,900	$108,078	$ 69,798	$(75,648)
2003 Operations:						
Same store operations[1]		5,670	5,086	4,445	3,517[3]	
Acquisitions, dispositions and non-same store income and expenses		164,488	24,493	5,364	4,650	
Year ended December 31, 2003	$1,037,896	$780,689	$143,479	$117,887	$ 77,965	$(82,124)
% increase in same store operations		1.0%[2]	4.5%	4.1%	4.8%[3]	

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

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

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

Years Ended December 31, 2002 and December 31, 2001

Revenues

The Company's revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of above and below market leases acquired under SFAS No. 141 and 142, and other income, were $1,392,239,000 for the year ended December 31, 2002, compared to $952,161,000 in the year ended December 31, 2001, an increase of $440,078,000 of which $423,128,000 resulted from the acquisition of the remaining 66% of CESCR and the resulting consolidation of its operations. Below are the details of the increase (decrease) by segment:

(AMOUNTS IN THOUSANDS)	Date of Acquisition	Total	Office	Retail	Merchandise Mart	Other
Rentals:						
Acquisitions, dispositions and non-same store revenue:						
CESCR (acquisition of remaining 66% and consolidation vs. equity method accounting for 34%)	January 2002	$ 393,506	$393,506	$ —	$ —	$ —
715 Lexington Avenue	July 2001	976	—	976	—	—
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	September 2002	3,108	—	3,108	—	—
435 Seventh Avenue (placed in service)	August 2002	2,541	—	2,541	—	—
424 Sixth Avenue	July 2002	320	—	320	—	—
Properties taken out of service for redevelopment		(767)	—	(767)	—	—
Operations:						
Hotel activity		(7,645)[1]	—	—	—	(7,645)[1]
Trade Show activity		(3,908)[2]	—	—	(3,908)[2]	—
Leasing activity		8,535	8,058	680	314	(517)
Total increase (decrease) in property rentals		396,666	401,564	6,858	(3,594)	(8,162)
Tenant expense reimbursements:						
Increase due to acquisitions		15,319	14,398	921	—	—
Operations		10,434	6,925	1,379	953	1,177
Total increase in tenant expense reimbursements		25,753	21,323	2,300	953	1,177
Other Income:						
Increase due to acquisitions		15,235	15,224	11	—	—
Operations		2,424	2,624	535	1,452	(2,187)
Total increase (decrease) in other income		17,659	17,848	546	1,452	(2,187)
Total increase (decrease) in revenues		$ 440,078	$440,735	$ 9,704	$ (1,189)	$ (9,172)

(1) Average occupancy and REVPAR for the Hotel Pennsylvania were 65% and $58 for the year ended December 31, 2002 compared to 63% and $70 for the prior year.

(2) Reflects a decrease of $3,580 resulting from the rescheduling of two trade shows from the fourth quarter in which they were previously held to the first quarter of 2003.

See Leasing Activity on page 6, for further details and corresponding changes in occupancy.

Expenses

The Company's expenses were $852,370,000 for the year ended December 31, 2002, compared to $583,002,000 in the year ended December 31, 2001, an increase of $269,368,000 of which $202,852,000 resulted from the acquisition of the remaining 66% of CESCR and the resulting consolidation of its operations. Below are the details of the increase by segment:

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Other
Operating:					
Acquisitions:					
CESCR (acquisition of remaining 66% and consolidation vs. equity method accounting for 34%)	$ 114,438	$ 114,438	$ —	$ —	$ —
715 Lexington Avenue	588	—	588	—	—
435 Seventh Avenue	198	—	198	—	—
424 Sixth Avenue	50	—	50	—	—
Las Catalinas (acquisition of remaining 50% and consolidation vs. equity method accounting for 50%)	1,341	—	1,341	—	—
Hotel activity	503	—	—	—	503
Trade Show activity	(2,108)	—	—	(2,108)[3]	—
Operations	21,511	10,739[1]	6,748[2]	5,023[4]	(999)
	136,521	125,177	8,925	2,915	(496)
Depreciation and amortization:					
Acquisitions	68,484	67,470	1,014	—	—
Operations	9,503	6,825	(275)	1,319	1,634
	77,987	74,295	739	1,319	1,634
General and administrative:					
Acquisitions	20,944	20,944	—	—	—
Other expenses	4,765	821	1,443	2,301[5]	200
	25,709	21,765	1,443	2,301	200
Amortization of officer's deferred compensation expense	27,500	—	—	—	27,500
Costs of acquisitions and development not consummated	1,651	—	—	—	1,651[6]
Total increase in expenses	$ 269,368	$ 221,237	$ 11,107	$ 6,535	$ 30,489

(1) Results primarily from (i) a $9,725 increase in insurance, security and real estate taxes, largely reimbursed by tenants, and (ii) $2,639 for an allowance for straight-line rent receivables.

(2) Results primarily from (i) increases in insurance costs which are reimbursed by tenants, (ii) a $402 payment of Puerto Rico taxes related to the prior year, (iii) $2,280 in bad debt allowances for accounts receivable and receivables arising from the straight-lining of rents in 2002 and (iv) lease termination fees and real estate tax refunds netted against expenses in 2001, which aggregated $1,500.

(3) Results primarily from the rescheduling of two trade shows from the fourth quarter in which they were previously held to the first quarter of 2003.

(4) Reflects (i) increased insurance costs of $1,366, (ii) a charge of $312 from the settlement of a 1998 utility assessment, and (iii) an increase in real estate taxes of $1,725.

(5) Reflects a charge of $954 in connection with the termination of a contract and the write-off of related deferred costs.

(6) Reflects a charge in 2002 of $6,874 for the write-off of pre-development costs at the 20 Times Square project and a charge in 2001 of $5,223 in connection with the World Trade Center acquisition not consummated.

Income Applicable to Alexander's

Income applicable to Alexander's (interest income, management, leasing, development and commitment fees, and equity in income) was $29,653,000 in the year ended December 31, 2002, compared to $25,718,000 in the year ended December 31, 2001, an increase of $3,935,000. This increase resulted from (i) $6,915,000 of development and commitment fees in connection with Alexander's Lexington Avenue development project, (ii) the Company's $3,524,000 share of Alexander's gain on sale

of its Third Avenue property, partially offset by (iii) the Company's $6,298,000 share of Alexander's gain on the sale of its Fordham Road property in the prior year.

Income from Partially-Owned Entities

Below are the condensed statements of operations of the Company's unconsolidated subsidiaries as well as the increase (decrease) in income from these partially-owned entities for the years ended December 31, 2002 and 2001:

(AMOUNTS IN THOUSANDS)	Total	Newkirk Joint Venture	Temperature Controlled Logistics	Las Catalinas Mall[2]	Monmouth Mall[3]	Partially-Owned Office Buildings	Starwood Ceruzzi Joint Venture	CESCR[1]	Other
Year Ended December 31, 2002:									
Revenues	$480,363	$295,369	$117,663	$10,671	$5,760	$50,205	$ 695		
Expenses:									
Operating, general and administrative	(46,098)	(8,490)	(7,904)	(3,102)	(2,510)	(21,827)	(2,265)		
Depreciation	(106,287)	(34,010)	(59,328)	(1,482)	(943)	(9,094)	(1,430)		
Interest expense	(180,431)	(121,219)	(42,695)	(3,643)	(1,520)	(11,354)	—		
Other, net	(12,505)	(9,790)	(2,150)	(802)	48	389	(200)		
Net income/(loss)	$135,042	$121,860	$ 5,586	$ 1,642	$ 835	$ 8,319	$(3,200)		
Vornado's interest		21.7%	60%	50%	50%	24%	80%		
Equity in net income/(loss)	$ 30,664	$ 26,500	$ 4,144	$ 851	$ 791[4]	$ 1,966	$(2,560)		$(1,028)
Interest and other income	8,000	8,000	—	—	—	—	—		—
Fee income	5,794	—	5,563	—	231	—	—		—
Income from partially-owned entities	$ 44,458	$ 34,500	$ 9,707	$ 851	$1,022	$ 1,966	$(2,560)	$ —[1]	$(1,028)
Year Ended December 31, 2001:									
Revenues	$747,902	$179,551	$126,957	$14,377		$43,263	$1,252	$382,502	
Expenses:									
Operating, general and administrative	(180,337)	(13,630)	(8,575)	(2,844)		(19,335)	(820)	(135,133)	
Depreciation	(141,594)	(20,352)	(58,855)	(2,330)		(5,620)	(501)	(53,936)	
Interest expense	(236,996)	(65,611)	(44,988)	(5,705)		(7,997)	—	(112,695)	
Other, net	11,059	4,942	2,108	—		1,759	275	1,975	
Net income	$200,034	$ 84,900	$ 16,647	$ 3,498		$12,070	$ 206	$ 82,713	
Vornado's interest		30.0%	60%	50%		34%	80%	34%	
Equity in net income/(loss)	$ 67,679	$ 25,470	$ 9,988	$ 1,749		$ 4,093	$ 165	$ 28,653	$(2,439)
Interest and other income	7,579	5,474	2,105	—		—	—	—	—
Fee income	5,354	—	5,354	—		—	—	—	—
Income from partially-owned entities	$ 80,612	$ 30,944	$ 17,447	$ 1,749	$ —	$ 4,093	$ 165	$ 28,653	$(2,439)
(Decrease) Increase in Income from partially-owned entities	$ (36,154)	$ 3,556	$ (7,740)	$ (898)[2]	$1,022[3]	$ (2,127)[6]	$(2,725)[5]	$(28,653)[1]	$ 1,411[7]

(1) On January 1, 2002, the Company acquired the remaining 66% of CESCR it did not previously own. Accordingly, CESCR is consolidated as of January 1, 2002.

(2) On September 20, 2002, the Company acquired the remaining 50% of the Mall and 25% of the Kmart anchor store that it did not previously own. Accordingly, Las Catalinas is consolidated for the period from September 20, 2002 to December 31, 2002.

(3) On October 10, 2002, a joint venture, in which the Company has a 50% interest, acquired the Monmouth Mall.

(4) Vornado's interest in the equity in net income of the Monmouth Mall includes a preferred return of $748 for the year ended December 31, 2002.

(5) The year ended December 31, 2001 includes $1,394 for the Company's share of a gain on sale of a property.

(6) The year ended December 31, 2002 excludes 570 Lexington Avenue which was sold in May 2001.

(7) The year ended December 31, 2001 includes $2,000 for the Company's share of equity in loss of its Russian Tea Room ("RTR") investment. In the third quarter of 2001, the Company wrote-off its entire net investment in RTR based on the operating losses and an assessment of the value of the real estate.

Interest and Other Investment Income

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $31,685,000 for the year ended December 31, 2002, compared to $54,385,000 in the year ended December 31, 2001, a decrease of $22,700,000. This decrease resulted primarily from a decrease of (i) $12,347,000 due to the non-recognition of income on the mortgage loan to Primestone, which was foreclosed on April 30, 2002, (ii) $4,626,000 due to a lower yield on the investment of the proceeds received from the May 2002 repayment of the Company's loan to NorthStar Partnership L.P. (22% yield in 2001) and (iii) $2,269,000 due to the non-recognition of income on the loan to Vornado Operating.

Interest and Debt Expense

Interest and debt expense was $234,113,000 for the year ended December 31, 2002, compared to $167,430,000 in the year ended December 31, 2001, an increase of $66,683,000. This increase was comprised of (i) $100,013,000 from the acquisition of the remaining 66% of CESCR and the resulting consolidation of its operations, partially offset by (ii) a $32,035,000 savings from a 202 basis point reduction in weighted average interest rates of the Company's variable rate debt and (iii) lower average outstanding debt balances.

Net Loss on Disposition of Wholly-owned and Partially-owned Assets Other Than Depreciable Real Estate

The following table sets forth the details of net loss on disposition of wholly-owned and partially-owned assets other than depreciable real estate for the years ended December 31, 2002 and 2001:

For the Year Ended December 31,

(AMOUNTS IN THOUSANDS)	2002	2001
Wholly-owned Assets:		
Gain on transfer of mortgages	$ 2,096	$ —
Gain on sale of Kinzie Park condominium units	2,156	—
Net gain on sale of air rights	1,688	—
Net gain on sale of marketable securities	12,346	—
Primestone foreclosure and impairment losses	(35,757)	—
Write-off of investments in technology companies	—	(16,513)
Partially-owned Assets:		
After-tax net gain on sale of Park Laurel condominium units	—	15,657
Write-off of net investment in Russian Tea Room ("RTR")	—	(7,374)
Other	—	160
	$(17,471)	$ (8,070)

WRITE-OFF OF INVESTMENTS IN TECHNOLOGY COMPANIES

In 2001, the Company recorded a charge of $16,513,000 resulting from the write-off of all of its remaining equity investments in technology companies due to both the deterioration of the financial condition of these companies and the lack of acceptance by the market of certain of their products and services. The above charge is net of $1,481,000 of income resulting from the reversal of a deferred rent liability relating to the termination of an agreement permitting one of the technology companies access to its properties.

AFTER-TAX NET GAIN ON SALE OF PARK LAUREL CONDOMINIUM UNITS

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

WRITE-OFF OF NET INVESTMENT IN RTR

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

Minority Interest

Minority interest was $140,933,000 for the year ended December 31, 2002 compared to $112,363,000 for the prior year, an increase of $28,570,000. This increase is primarily due to operating partnership units issued in connection with acquisitions.

Discontinued Operations

Assets related to discontinued operations consist primarily of real estate, net of accumulated depreciation. The following table sets forth the balances of the assets related to discontinued operations as of December 31, 2002 and 2001:

December 31,	2002	2001
Palisades	$142,333	$ 66,173
Two Park Avenue (sold on October 10, 2003)	123,076	124,261
Baltimore (sold on January 9, 2003)	2,218	2,253
Baltimore (Dundalk)	2,050	2,221
Hagerstown (sold on November 3, 2003)	1,013	1,026
Vineland	978	1,071
	$271,668	$ 197,005

Liabilities related to discontinued operations represent the Palisades mortgage payable of $100,000,000 and $0 as of December 31, 2002 and 2001, respectively.

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2002 and 2001 are as follows:

For the Years Ended December 31,	2002	2001
Total revenues	$ 42,831	$ 33,612
Total expenses	32,947	23,270
Income from discontinued operations	$ 9,884	$ 10,342

Gains on Sale of Real Estate

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

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

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

Cumulative Effect of Change in Accounting Principle

Upon the adoption of SFAS No. 142—Goodwill and Other Intangible Assets, on January 1, 2002, the Company wrote-off all of the goodwill associated with the Hotel Pennsylvania and the Temperature Controlled Logistics businesses aggregating $30,129,000. This write-off was reflected as a cumulative effect of a change in accounting principle in 2002.

In 2001, the Company recorded a cumulative effect of change in accounting principle of $4,110,000 as a result of the adoption of SFAS No. 133.

EBITDA

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

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Year ended December 31, 2001	$723,491	$409,843	$123,809	$115,959	$77,721	$ (3,841)
2002 Operations:						
Same store operations[1]		18,165	(3,131)[3]	(1,354)[5]	(6,613)[6]	
Acquisitions, dispositions and non-recurring income and expenses		182,523	(6,778)[4]	(6,527)	(1,310)	
Year ended December 31, 2002	$826,659	$610,531[2]	$113,900	$108,078	$69,798	$(75,648)[7]
% increase (decrease) in same store operations		4.8%[2]	(2.6%)[3]	(1.2%)[5]	(8.4%)[6]	

(1) Represents operations which were owned for the same period in each year and excludes non-recurring income and expenses.

(2) EBITDA and the same store percentage increase was $320,874 and 5.0% for the New York City office portfolio and $289,657 and 4.1% for the CESCR portfolio.

(3) Primarily due to lower occupancy and increases in allowances for bad debt expense as a result of the K-Mart and other bankruptcies and the expiration of the Stop & Shop guarantees of several former Bradlees locations. Average occupancy for the year ended December 31, 2002 was 88.3% (84.0% excluding leases which have not commenced as described in the following sentences) as compared to 92% at December 31, 2001. The 88.3% occupancy rate includes leases for 490,000 square feet at five locations which have not commenced as of December 31, 2002.

(4) Primarily due to the Company's share of losses from the Starwood Ceruzzi venture in 2002 of $1,416 (before depreciation) from properties placed in service, as compared to a gain of $1,394 from the sale of one of the venture's assets in 2001. EBITDA aggregating $2,600 from the acquisitions in the fourth quarter of 2002 of a 50% interest in the Monmouth Mall and the remaining 50% interest in the Las Catalinas Mall the Company did not previously own, was offset by lease termination fees and other refunds in the fourth quarter of 2001.

(5) The net of a $1,685 or 1.5% same store increase in the core portfolio and a $3,300 or a 66% decline at the LA Mart as a result of rent reductions and increased marketing expenditures.

(6) The Company reflects its 60% share of Vornado Crescent Portland Partnership's ("the Landlord") rental income it receives from AmeriCold Logistics, its tenant, which leases the underlying temperature controlled warehouses used in its business. The Company's joint venture does not recognize rental income unless earned and collection is assured or cash is received. The Company did not recognize its $19,349 share of the rent the joint venture was due for the year ended December 31, 2002. The tenant has advised the Landlord that (i) its revenue for the year ended December 31, 2002 from the warehouses it leases from the Landlord, is lower than last year by .1%, and (ii) its gross profit before rent at these warehouses for the corresponding period decreased by $614 (a .001% decrease). The decrease in revenue is primarily attributable to a reduction in customer inventory turns, a rate reduction with a significant customer and temporary plant shut-downs. The decrease in gross profit is primarily attributable to higher insurance and workers' compensation. In addition, the tenant's cash requirements for capital expenditures, debt service and a non-recurring pension funding were $8,293 higher in the current year than in the prior year, which impacted the ability of the tenant to pay rent.

(7) Reflects net non-recurring items included in EBITDA (see page 13 footnote 3 for details)

Supplemental Information

Three Months Ended December 31, 2003 and December 31, 2002

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

- The third quarter of the Office and Merchandise Mart segments have historically been impacted by higher net utility costs than in each other quarter of the year;
- The fourth quarter of the Retail segment have historically been higher than each of the first three quarters due to the recognition of percentage rental income in that quarter; and
- The second and fourth quarters of the Merchandise Mart segment have historically been higher than the first and third quarters due to major trade shows occurring in those quarters.

Below is a summary of Net Income and EBITDA[1] by segment for the three months ended December 31, 2003 and 2002.

For The Three Months Ended December 31, 2003

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[3]
Property rentals	$ 310,970	$ 206,664	$ 35,442	$ 51,906	$ —	$ 16,958
Straight-line rents:						
Contractual rent increases	8,204	5,566	173	2,504	—	(39)
Amortization of free rent	1,958	(228)	1,415	780	—	(9)
Amortization of acquired below market leases, net	2,133	1,584	549	—	—	—
Total rentals	323,265	213,586	37,579	55,190	—	16,910
Expense reimbursements	45,583	28,000	14,275	2,949	—	359
Fee and other income						
Tenant cleaning fees	7,300	7,300	—	—	—	—
Management and leasing fees	3,031	2,620	347	—	—	64
Other	7,596	2,292	326	5,026	—	(48)
Total revenues	386,775	253,798	52,527	63,165	—	17,285
Operating expenses	148,800	93,258	17,153	26,391	—	11,998
Depreciation and amortization	59,535	40,211	6,322	8,924	—	4,078
General and administrative	35,763	10,434	2,177	5,872	—	17,280
Total expenses	244,098	143,903	25,652	41,187	—	33,356
Operating income	142,677	109,895	26,875	21,978	—	(16,071)
Income applicable to Alexander's	3,233	—	—	—	—	3,233
Income from partially-owned entities	13,736	358	847	(253)	7,213	5,571
Interest and other investment income	9,178	1,067	211	10	—	7,890
Interest and debt expense	(58,864)	(33,587)	(14,780)	(4,082)	—	(6,415)
Net gain on disposition of wholly-owned and partially-owned assets other than real estate	2,950	—	—	—	—	2,950
Minority interest	(67,040)	—	—	—	—	(67,040)
Income before discontinued operations and gains on sale of real estate	45,870	77,733	13,153	17,653	7,213	(69,882)
Discontinued operations	896	781	53	—	—	62
Gains on sale of real estate (discontinued operations)	158,378	156,433	1,945	—	—	—
Net income	205,144	234,947	15,151	17,653	7,213	(69,820)
Interest and debt expense[2]	72,841	34,555	15,583	4,246	6,158	12,299
Depreciation and amortization[2]	78,270	40,871	6,796	9,274	8,722	12,607
Income taxes	1,627	45	—	—	—	1,582
EBITDA[1]	$ 357,882	$ 310,418	$ 37,530	$ 31,173	$ 22,093	$ (43,332)

Included in EBITDA are gains on sale of real estate of $158,378, of which $156,433 and $1,945 relate to the Office and Retail segments, respectively.

See notes on following page.

For The Three Months Ended December 31, 2002

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[3]
Property rentals	$ 283,674	$ 188,381	$ 31,501	$ 48,909	$ —	$ 14,883
Straight-line rents:						
Contractual rent increases	7,794	7,723	1,017	(1,066)	—	120
Amortization of free rent	3,488	1,330	1,869	289	—	—
Amortization of acquired below market leases, net	12,634	12,469	165	—	—	—
Total rentals	307,590	209,903	34,552	48,132	—	15,003
Expense reimbursements	40,489	20,615	14,483	4,797	—	594
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	4,110	3,676	427	7	—	—
Other	3,755	2,935	158	636	—	26
Total revenues	355,944	237,129	49,620	53,572	—	15,623
Operating expenses	136,914	85,862	18,640	22,487	—	9,925
Depreciation and amortization	52,917	38,800	4,601	6,028	—	3,488
General and administrative	26,253	7,799	1,880	5,084	—	11,490
Costs of acquisitions and development not consummated	6,874	—	—	—	—	6,874
Amortization of officers deferred compensation expenses	6,875	—	—	—	—	6,875
Total expenses	229,833	132,461	25,121	33,599	—	38,652
Operating income	126,111	104,668	24,499	19,973	—	(23,029)
Income applicable to Alexander's	7,044	—	—	—	—	7,044
Income from partially-owned entities	14,154	92	116	(277)	3,920	10,303
Interest and other investment income	5,701	1,401	78	82	—	4,140
Interest and debt expense	(59,141)	(35,558)	(15,325)	(4,562)	—	(3,696)
Net loss on disposition of wholly-owned and partially-owned assets other than real estate	(18,524)	—	—	—	—	(18,524)
Minority interest	(32,125)	(953)	—	(1,273)	—	(29,899)
Income before discontinued operations	43,220	69,650	9,368	13,943	3,920	(53,661)
Discontinued operations	2,765	4,391	17	—	—	(1,643)
Net income	45,985	74,041	9,385	13,943	3,920	(55,304)
Interest and debt expense[2]	77,387	36,064	15,325	5,075	6,223	14,700
Depreciation and amortization[2]	69,188	41,270	5,201	6,318	8,832	7,567
EBITDA[1]	$ 192,560	$ 151,375	$ 29,911	$ 25,336	$ 18,975	$ (33,037)

(1) EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

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

(3) Other EBITDA is comprised of:

(AMOUNTS IN THOUSANDS)	2003	2002
Newkirk Joint Ventures (30% interest):		
Equity in income of limited partnerships	$ 15,119	$ 14,827
Interest and other income	2,311	2,124
Alexander's (33.1% interest)	6,058	9,096
Hotel Pennsylvania	4,023	3,057
Palisades	1,697	1,346
Industrial warehouses	1,365	1,618
Student Housing	494	547
400 North LaSalle (phased into service beginning October 2003)	(680)	—
	30,387	32,615
Minority interest expense	(67,128)	(29,814)
Corporate general and administrative expenses	(16,595)	(9,726)
Investment income and other	7,054	3,494
Gains on sale of marketable securities	2,950	—
Primestone impairment loss	—	(15,857)
Officer's deferred compensation	—	(6,875)
Write-off of 20 Times Square pre-development costs	—	(6,874)
	$ (43,332)	$ (33,037)

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2003 compared to the three months ended December 31, 2002.

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Three months ended December 31, 2002	$192,560	$151,375	$29,911	$25,336	$18,975	$(33,037)
2002 Operations:						
Same store operations[1]		3,967	2,103	963	1,454	
Acquisitions, dispositions and non-recurring income and expenses		155,076	5,516	4,874	1,664	
Three months ended December 31, 2003	$357,882	$310,418	$37,530	$31,173	$22,093	$(43,332)
% increase in same store operations		2.8% [2]	7.0%	3.5%	7.5%	

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

(2) EBITDA and same store percentage increase (decrease) was $236,952 ($80,419 excluding gains on sale of real estate of $156,533) and 7.6% (excluding such gains) for the New York City office portfolio and $73,466 and (2.1%) for the CESCR portfolio.

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2003 compared to the three months ended September 30, 2003:

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Three months ended September 30, 2003	$216,795	$156,870	$37,401	$28,794	$17,257	$(23,527)
2003 Operations:						
Same store operations[1]		1,986	1,234	995	3,900 [3]	
Acquisitions, dispositions and non-recurring income and expenses		151,562	(1,105)	1,384	936	
Three months ended December 31, 2003	$357,882	$310,418	$37,530	$31,173	$22,093	$(43,332)
% increase in same store operations		1.4% [2]	3.7%	3.6%	23.1% [3]	

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

(2) EBITDA and same store percentage increase was $ 236,952 ($80,419 excluding gains on sale of real estate of $156,533) and 2.8% (excluding such gains) for the New York City office portfolio and $73,466 and (.2%) for the CESCR portfolio.

(3) Reflects an increase in the tenant's gross profits, partially due to seasonality of tenant's operations and an increase in the tenant's cash available to pay rent in the three months ended September 30, 2003.

Below is a reconciliation of net income and EBITDA for the three months ended September 30, 2003.

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Net income (loss) for the three months ended September 30, 2003	$ 76,060	$ 84,467	$16,812	$17,478	$ 2,401	$(45,098)
Interest and debt expense	73,180	34,150	15,741	3,840	6,169	13,280
Depreciation and amortization	67,555	38,253	4,848	7,476	8,687	8,291
EBITDA for the three months ended September 30, 2003	$216,795	$156,870	$37,401	$28,794	$17,257	$(23,527)

Related Parties

LOAN AND COMPENSATION AGREEMENTS

At December 31, 2003, the loan due from Mr. Roth, in accordance with his employment arrangement, was $13,123,000 ($4,704,500 of which is shown as a reduction in shareholders' equity). The loan bears interest at 4.49% per annum (based on the applicable Federal rate) and matures in January 2006. The Company also provided Mr. Roth with the right to draw up to $15,000,000 of additional loans on a revolving basis. Each additional loan will bear interest, payable quarterly, at the applicable Federal rate on the date the loan is made and will mature on the sixth anniversary of the loan. On May 29, 2002, Mr. Roth replaced common shares of the Company securing the Company's outstanding loan to Mr. Roth with options to purchase common shares of the Company with a value of not less than two times the loan amount. In 2002, as a result of the decline in the value of the options, Mr. Roth supplemented the collateral with cash and marketable securities.

At December 31, 2003, loans due from Mr. Fascitelli, in accordance with his employment agreement, aggregated $8,600,000. The loans mature in December 2006 and bear interest, payable quarterly at a weighted average interest rate of 3.97% (based on the applicable Federal rate).

Pursuant to Mr. Fascitelli's 1996 employment agreement, Mr. Fascitelli became entitled to a deferred payment consisting of $5 million in cash and a convertible obligation payable November 30, 2001, at the Company's option, in either 919,540 common shares or the cash equivalent of their appreciated value, so long as such appreciated value is not less than $20 million. The Company delivered 919,540 shares to a rabbi trust upon execution of the 1996 employment agreement. The Company accounted for the stock compensation as a variable arrangement in accordance with Plan B of EITF No. 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" as the agreement permitted settlement in either cash or common shares. Following the guidance in EITF 97-14, the Company recorded changes in the fair value of its compensation obligation with a corresponding increase in the liability "Officer's Deferred Compensation." Effective as of June 7, 2001, the payment date was deferred until November 30, 2004. Effective as of December 14, 2001, the payment to Mr. Fascitelli was converted into an obligation to deliver a fixed number of shares (919,540 shares), establishing a measurement date for the Company's stock compensation obligation, accordingly the Company ceased accounting for the Rabbi Trust under Plan B of the EITF and began Plan A accounting. Under Plan A, the accumulated liability representing the value of the shares on December 14, 2001, was reclassified as a component of Shareholders' Equity as "Deferred compensation shares earned but not yet delivered." In addition, effective December 14, 2001 future changes in the value of the shares are no longer recognized as additional compensation expense. The fair value of this obligation was $50,345,000 at December 31, 2003. The Company has reflected this liability as Deferred Compensation Shares Not Yet Delivered in the Shareholders' Equity section of the balance sheet. For the year ended December 31, 2001, the Company recognized approximately $4,744,000 of compensation expense of which $2,612,000 represented the appreciation in value of the shares and $2,132,000 represented dividends paid on the shares.

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

Pursuant to the Company's annual compensation review in February 2002 with Joseph Macnow, the Company's Chief Financial Officer, the Compensation Committee approved a $2,000,000 loan to Mr. Macnow, bearing interest at the applicable federal rate of 4.65% per annum and due January 1, 2006. The loan, which was funded on July 23, 2002, was made in

conjunction with Mr. Macnow's June 2002 exercise of options to purchase 225,000 shares of the Company's common stock. The loan is collateralized by assets with a value of not less than two times the loan amount. In 2002, as a result of the decline in the value of the options, Mr. Macnow supplemented the collateral with cash and marketable securities.

One other executive officer of the Company has a loan outstanding pursuant to an employment agreement totaling $500,000 at December 31, 2003. The loan matures in April 2005 and bears interest at the applicable Federal rate provided (4.5% at December 31, 2003).

Transactions with Affiliates and Officers and Trustees of the Company

ALEXANDER'S

The Company owns 33.1% of Alexander's. Mr. Roth and Mr. Fascitelli are Officers and Directors of Alexander's. The Company provides various services to Alexander's in accordance with management, development and leasing agreements and the Company has made loans to Alexander's aggregating $124,000,000 at December 31, 2003. These agreements and the loans are described in Note 5. Investments in Partially-Owned Entities to the Company's consolidated financial statements in this annual report.

In 2002, the Company constructed a $16.3 million community facility and low-income residential housing development (the "30th Street Venture"), in order to receive 163,728 square feet of transferable development rights, generally referred to as "air rights". The Company donated the building to a charitable organization. The Company sold 106,796 square feet of these air rights to third parties at an average price of $120 per square foot. An additional 28,821 square feet of air rights was sold to Alexander's at a price of $120 per square foot for use at Alexander's 59th Street development project (the "59th Street Project"). In each case, the Company received cash in exchange for air rights. The Company identified third party buyers for the remaining 28,111 square feet of air rights related to the 30th Street Venture. These third party buyers wanted to use the air rights for the development of two projects located in the general area of 86th Street which was not within the required geographical radius of the construction site nor in the same Community Board as the low-income housing and community facility project. The 30th Street Venture asked Alexander's to sell 28,111 square feet of the air rights it already owned to the third party buyers (who could use them) and the 30th Street Venture would replace them with 28,111 square feet of air rights. In October 2002, the Company sold 28,111 square feet of air rights to Alexander's for an aggregate sales price of $3,058,000 (an average of $109 per square foot). Alexander's then sold an equal amount of air rights to the third party buyers for an aggregate sales price of $3,339,000 (an average of $119 per square foot).

INTERSTATE PROPERTIES

The Company manages and leases the real estate assets of Interstate Properties pursuant to a management agreement for which the Company receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on sixty days' notice at the end of the term. Although the management agreement was not negotiated at arms length, the Company believes based upon comparable fees charged by other real estate companies that its terms are fair to the Company. The Company earned $703,000, $747,000 and $1,133,000 of management fees under the management agreement for the years ended December 31, 2003, 2002 and 2001. In addition, during fiscal years 2003, 2002 and 2001, as a result of a previously existing leasing arrangement with Alexander's, Alexander's paid to Interstate $587,000, $703,000 and $522,000, respectively, for the leasing and other services actually rendered by the Company. Upon receipt of these payments, Interstate promptly paid them over to the Company without retaining any interest therein. This arrangement was terminated in 2003 and all payments by Alexander's for these leasing and other services are made directly to the Company.

BUILDING MAINTENANCE SERVICE COMPANY ("BMS")

On January 1, 2003, the Company acquired BMS, a company which provides cleaning and related services principally to the Company's Manhattan office properties for $13,000,000 in cash from the estate of Bernard Mendik and certain other individuals including David Greenbaum, one of the Company's executive officers. The Company paid BMS $53,024,000 and $51,280,000 for the years ended December 31, 2002 and 2001 for services rendered at the Company's Manhattan office properties. Although the terms and conditions of the contracts pursuant to which these services were provided were not negotiated at arms length, the Company believes based upon comparable amounts charged to other real estate companies that the terms and conditions of the contracts were fair to the Company.

VORNADO OPERATING COMPANY AND AMERICOLD LOGISTICS

In October 1998, Vornado Operating was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct. The Company granted Vornado Operating a $75,000,000 unsecured revolving credit facility which expires on December 31, 2004. Borrowings under the revolving credit facility bear interest at LIBOR plus 3%. The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the revolving credit facility during its term.

The revolving credit facility prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 2003, $21,989,000 was outstanding under the revolving credit facility.

Vornado Operating has disclosed that there is substantial doubt as to its ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. Vornado Operating has incurred losses since its inception and in the aggregate its investments do not, and for the foreseeable future are not expected to, generate sufficient cash flow to pay all of its debts and expenses. Vornado Operating estimates that it has adequate borrowing capacity under its credit facility with the Company to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. Further, Vornado Operating states that its only investee, AmeriCold Logistics ("Tenant"), anticipates that its Landlord, a partnership 60% owned by the Company and 40% owned by Crescent Real Estate Equities, will need to restructure the leases between the Landlord and the Tenant to provide additional cash flow to the Tenant (the Landlord has previously restructured the leases to provide additional cash flow to the Tenant). Management anticipates a further lease restructuring in 2004, although it is under no obligation to do so and there can be no assurance that it will do so. Vornado Operating is expected to have a source to repay the debt under this facility from the lease restructuring or other options, although not by its original due date. Since January 1, 2002, the Company has not recognized interest income on the debt under this facility.

OTHER

On December 31, 2002, the Company and Crescent Real Estate Equities formed a joint venture to acquire the Carthage, Missouri and Kansas City, Kansas quarries from AmeriCold Logistics, the Company's tenant at the cold storage warehouses (Temperature Controlled Logistics), for $20,000,000 in cash (appraised value). The Company contributed cash of $8,800,000 to the joint venture representing its 44% interest. AmeriCold Logistics used the proceeds from the sale to repay a portion of a loan to Vornado Operating. Vornado Operating then repaid $9,500,000 of the amount outstanding under the Company's revolving credit facility.

The Company owns preferred securities in Capital Trust, Inc. ("Capital Trust") with a carrying amount of $29,259,000 at December 31, 2003. Mr. Roth, the Chairman and Chief Executive Officer of Vornado Realty Trust, is a member of the Board of Directors of Capital Trust nominated by the Company.

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

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

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

In connection with the Park Laurel condominium project, in 2001 the joint venture accrued and paid $5,779,000 of awards under the venture's incentive compensation plan.

Liquidity and Capital Resources

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

CERTAIN FUTURE CASH REQUIREMENTS

For 2004 the Company has budgeted approximately $194.2 million for capital expenditures excluding acquisitions as follows:

(AMOUNTS IN THOUSANDS EXCEPT PER SQUARE FOOT DATA)	Total	New York Office	CESCR	Retail	Merchandise Mart	Other[1]
Expenditures to maintain the assets	$ 66,900	$16,200	$28,100	$ 5,800	$15,300	$1,500
Tenant improvements	98,500	19,500	52,100	15,000	11,900	—
Per square foot	—	30.00	15.50	8.00	12.50	—
Leasing Commissions	28,800	7,800	13,100	6,000	1,900	—
Per square foot	—	12.00	3.85	3.20	2.00	—
Total Capital Expenditures and Leasing Commissions	$194,200	$43,500	$93,300	$26,800	$29,100	$1,500
Square feet budgeted to be leased		650	3,365	1,875	950	

(1) Primarily Hotel Pennsylvania.

During the year ended December 31, 2003, actual capital expenditures and leasing commissions were $131,972,000, as compared to a budget of $168,000,000.

In addition to the capital expenditures reflected above, the Company is currently engaged in certain development and redevelopment projects for which it has budgeted approximately $383.5 million. Of this amount $169.0 million is estimated to be expended in 2004. Following is a description of these projects:

($ IN MILLIONS)	Estimated Completion Date	The Company's Share of Estimated Project Cost	Costs Expended in Year Ended December 31, 2003	Estimated Costs to Complete
Office:				
New York City:				
640 Fifth Avenue - construction of additional 47,000 square feet of office space and redevelopment of existing building	Summer 2004	$ 62.5	$ 29.4	$ 14.1
CESCR:				
Crystal City Office space to be vacated by the U.S. Government Patent Office ("PTO"):				
(i) Renovation of buildings (see next page)	2005-2007	90.0[1]	—	90.0
(ii) Cost to retenant	2005-2007	60.0	—	60.0
Crystal Drive Retail - construction of additional 57,000 square feet of retail space and improvements to the infrastructure including streets, signals and signs as part of "way finding" program	Fall 2004	43.0	12.5	28.7
Retail:				
4 Union Square South - redevelopment of 198,000 square feet, of which 193,000 square feet has been leased to Whole Foods, Forever 21, DSW Shoe Warehouse and Filenes	Spring 2005	54.3	14.0	34.8
Green Acres Mall - interior renovation, construction of an additional 70,000 square feet of free-standing retail space, parking decks and site-work and tenant improvements for B.J.'s Wholesale who will construct its own store [2]	2006	63.3	1.0	62.3
Strip shopping centers:				
(i) site work and/or demolition of existing buildings as part of the redevelopment of 7 properties released to Wal-Mart and Lowes, who will construct their own stores at these sites (six of these locations were previously leased to Bradlees).	2004-2005	21.3	6.4	14.9
(ii) expansion of shopping centers in Bensalem, Kearny and Marlton aggregating 120,000 square feet (2)	2004-2005	9.5	—	9.5
715 Lexington Avenue - demolition of existing building and construction of 24,000 square feet of retail space on four floors	Summer 2005	18.1	1.6	16.5
968 Third Avenue (50% interest) - demolition of existing building and construction of 8,300 square feet of retail space on three floors	Fall 2004	5.7	—	5.7
Merchandise Mart:				
350 North Orleans, Chicago - addition of 40,000 square feet at street level and new lobby	Fall 2004	18.2	1.6	16.6
Other:				
400 North LaSalle, Chicago (85% interest) - construction of 381,000 square foot high rise rental apartment complex containing 452 apartments	Spring 2004	78.9	35.7	5.6
Penn Plaza Signage District - construction of approximately 21 signs at various locations in the Penn Plaza District, of which 7 have been completed as of December 31, 2003	Fall 2006	36.9	8.9	24.8
		$ 561.7	$ 111.1	$383.5

(1) In January 2002, when the Company acquired the remaining 66% of CESCR it did not already own, it estimated that these costs would be approximately $75.0.

(2) Subject to governmental approvals.

The Company is also in the pre-development phase of a number of other projects including (i) retail space in the Penn Plaza area, (ii) repositioning of the Hotel Pennsylvania, (iii) expansion and redevelopment of the Bergen Mall, (iv) expansion of Monmouth Mall and (v) renovation of the 2101 L Street office building.

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

The Company plans to renovate the buildings occupied by the PTO as their leases expire over the next three years as follows:

	Square Feet Expiring (IN THOUSANDS)						
	Total	2004	2005				2006
		Q4	Q1	Q2	Q3	Q4	Q1
Crystal Plaza Two	181	—	—	—	181	—	—
Crystal Plaza Three	263	263	—	—	—	—	—
Crystal Plaza Four	234	234	—	—	—	—	—
Crystal Park One	224	13	109	64	—	38	—
Crystal Park Two	406	39	103	77	—	98	89
Crystal Park Three	107	67	—	24	—	—	16
Crystal Park Five	194	—	—	—	194	—	—
Crystal Mall One	180	180	—	—	—	—	—
Other Buildings	150	141	—	—	7	—	2
	1,939	937	212	165	382	136	107

Renovations to Crystal Mall One, Crystal Park One, and Crystal Plaza Three and Four totaling 901,000 square feet will include new restrooms, lobbies, corridors and elevator modernization. In Crystal Plaza Three and Four, the renovations will also include new mechanical systems. The portions of these buildings vacated by the PTO will be taken out of service during redevelopment which is expected to be completed over a 12 to 18 month period. Renovations to the remaining buildings will consist of common area and exterior renovations to upgrade the buildings that will not require the buildings to be taken out of service.

The Company is also committed to fund up to $32,420,000 in connection with its initial investment in two partially-owned entities.

No cash requirements have been budgeted for the capital expenditures of Alexander's, Newkirk MLP, or any other entity that is partially owned by the Company. These investees are expected to fund their own cash requirements.

Financing Activities and Contractual Obligations

Below is a schedule of the Company's contractual obligations and commitments at December 31, 2003.

(AMOUNTS IN THOUSANDS) Contractual Cash Obligations:	Total	Less than 1 Year	1–3 Years	3–5 Years	Thereafter
Mortgages and Notes Payable	$3,461,038	$296,184	$1,030,280	$ 661,339	$1,473,235
Senior Unsecured Notes due 2007	500,000	—	—	500,000	—
Senior Unsecured Notes due 2010	200,000	—	—	—	200,000
Operating Leases	985,438	14,666	27,906	28,075	914,791
Purchase Obligations, primarily construction commitments	48,900	44,000	4,900	—	—
Capital lease obligations	7	—	—	7	—
Total Contractual Cash Obligations	$5,195,383	$354,850	$1,063,086	$1,189,421	$2,588,026
Commitments:					
Capital commitments to partially-owned entities	$ 32,420	$ 32,420	$ —	$ —	$ —
Standby Letters of Credit	15,034	14,979	55	—	—
Other Guarantees	—	—	—	—	—
Total Commitments	$ 47,454	$ 47,399	$ 55	$ —	$ —

As of March 1, 2004, the Company repaid $227,586,000 of the debt coming due during 2004. The Company has $600,000,000 available under its revolving credit facility which matures in July 2006 and a number of properties which are unencumbered.

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

The Company carries comprehensive liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) "acts of terrorism" as defined in the Terrorism Risk Insurance Act of 2002 which expires in 2004 with a possible extension through 2005 and (v) rental loss insurance) with respect to its assets. Below is a summary of the all risk property insurance and terrorism risk insurance for each of the Company's business segments:

	Coverage Per Occurrence	
	All Risk[1]	Sub-Limits for Acts of Terrorism
New York Office	$1,000,000,000	$300,000,000
CESCR Office	$1,000,000,000	$300,000,000
Retail	$ 500,000,000	$500,000,000
Merchandise Mart	$1,000,000,000	$300,000,000
Temperature Controlled Logistics	$ 225,000,000	$225,000,000

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

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

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

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

The Company has an effective shelf registration under which the Company can offer an aggregate of approximately $822,990,000 of equity securities and Vornado Realty L.P. can offer an aggregate of $1,800,262,000 of debt securities.

Cash Flows for the Year Ended December 31, 2003

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

Cash flow provided by operating activities of $528,951,000 was primarily comprised of (i) income of $460,703,000, (ii) adjustments for non-cash items of $99,985,000, partially offset by (iii) the net change in operating assets and liabilities of $31,737,000. The adjustments for non-cash items were comprised of (i) depreciation and amortization of $219,911,000 (ii) minority interest of $178,675,000, partially offset by (iii) gains on sale of real estate of $161,789,000, (iv) gains on dispositions of wholly-owned and partially-owned assets other than real estate of $2,343,000, (v) the effect of straight-lining of rental income of $41,947,000, (vi) equity in net income of partially-owned entities and income applicable to Alexander's of $83,475,000 and (vii) amortization of below market leases, net of $9,047,000.

Net cash used in investing activities of $130,292,000 was primarily comprised of (i) capital expenditures of $120,593,000, (ii) development and redevelopment expenditures of $123,436,000, (iii) investment in notes and mortgages receivable of $230,375,000, (iv) investments in partially-owned entities of $15,331,000, (v) acquisitions of real estate and other of $216,361,000, (vi) cash restricted, primarily mortgage escrows of $101,292,000, (vii) purchases of marketable securities of $17,356,000 partially offset by, (viii) proceeds from the sale of real estate of $299,852,000 (ix) distributions from partially-owned entities of $154,643,000, (x) repayments on notes receivable of $29,421,000 and (xi) proceeds from the sale of marketable securities of $7,952,000.

Net cash used in financing activities of $286,317,000 was primarily comprised of (i) dividends paid on common shares of $327,877,000, (ii) dividends paid on preferred shares of $20,815,000, (iii) distributions to minority partners of $158,066,000,

(iv) repayments of borrowings of $752,422,000, (v) redemption of perpetual preferred shares and units of $103,243,000, partially offset by proceeds from (vi) borrowings of $812,487,000, of which $198,500,000 was from the issuance of the Company's senior unsecured notes due 2010, and (vii) the exercise of employee share options of $145,152,000.

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the year ended December 31, 2003. See page 5 for per square foot data.

(AMOUNTS IN THOUSANDS)	Total	New York Office	CESCR	Retail	Merchandise Mart	Other
Capital Expenditures (Accrual basis):						
Expenditures to maintain the assets:						
Recurring	$ 31,421	$ 14,201	$ 6,125	$ 592	$ 10,071	$ 432
Non-recurring	13,829	—	4,907	—	8,922	—
	45,250	14,201	11,032	592	18,993	432
Tenant improvements:						
Recurring	67,436	23,415	23,850	3,360	16,811	—
Non-recurring	7,150	—	7,150	—	—	—
	74,586	23,415	31,000	3,360	16,811	—
Leasing Commissions:						
Recurring	19,931	10,453	6,054	273	3,151	—
Non-recurring	1,496	—	1,496	—	—	—
	21,427	10,453	7,550	273	3,151	—
Total Capital Expenditures and Leasing Commissions (accrual basis):						
Recurring	118,788	48,069	36,029	4,225	30,033	432
Nonrecurring	22,475	—	13,553	—	8,922	—
Total	141,263	48,069	49,582	4,225	38,955	432
Adjustments to reconcile accrual basis to cash basis:						
Expenditures in the current year applicable to prior periods	47,174	10,061	17,886	11,539	7,688	—
Expenditures to be made in future periods for the current period	(56,465)	(21,172)	(26,950)	(1,830)	(6,513)	—
Total Capital Expenditures and Leasing Commissions (Cash basis)	$ 131,972	$ 36,958	$ 40,518	$ 13,934	$ 40,130	$ 432
Development and Redevelopment:						
Expenditures:						
400 North LaSalle	42,433	—	—	—	—	42,433
640 Fifth Avenue	29,138	29,138	—	—	—	—
4 Union Square South	14,009	—	—	14,009	—	—
Crystal Drive Retail	12,495	—	12,495	—	—	—
Other	25,361	5,988	—	18,851	143	379
	$ 123,436	$ 35,126	$ 12,495	$ 32,860	$ 143	$ 42,812

Capital expenditures are categorized as follows:

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

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

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

2003 Acquisitions

Acquisitions of individual properties are recorded as acquisitions of real estate assets. Acquisitions of businesses are accounted for under the purchase method of accounting. The purchase price for property acquisitions and businesses acquired is allocated to acquired assets and assumed liabilities using their relative fair values as of the acquisition date based on valuations and other studies. Initial valuations are subject to change until such information is finalized no later than 12 months from the acquisition date.

Building Maintenance Service Company ("BMS")

On January 1, 2003, the Company acquired for $13,000,000 in cash BMS, which provides cleaning, security and engineering services principally to the Company's Manhattan office properties. This company was previously owned by the estate of Bernard Mendik and certain other individuals including David R. Greenbaum, one of the Company's executive officers.

Kaempfer Company ("Kaempfer")

On April 9, 2003, the Company acquired Kaempfer which owns partial interests in six Class "A" office properties in Washington D.C. containing 1.8 million square feet, manages and leases these properties and four others for which it receives customary fees and has options to acquire certain other real estate interests, including the Waterfront project discussed below. Kaempfer's equity interest in the properties approximates 5.0%. The aggregate purchase price for the equity interests and the management and leasing business was $32,200,000 (consisting of $28,600,000 in cash and approximately 99,300 Operating Partnership units valued at $3,600,000) and may be increased by up to $9,000,000 based on the performance of the management company.

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

20 Broad Street

On May 2, 2003, the Company acquired the remaining 40% of a 78-year leasehold interest in 20 Broad Street it did not already own. The purchase price was approximately $30,000,000 in cash. 20 Broad Street contains 466,000 square feet of office space, of which 348,000 square feet is leased to the New York Stock Exchange.

2101 L Street

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

General Motors Building Mezzanine Loans

On October 20, 2003 the Company made a $200,000,000 mezzanine loan secured by partnership interests in the General Motors Building. The General Motors Building was acquired by Macklowe Properties in September 2003 for approximately $1,400,000,000. Vornado's loan is subordinate to $900,000,000 of other debt. The loan is based on a rate of LIBOR plus 8.685% (with a LIBOR floor of 1.5%) and currently yields 10.185%. Further, on October 30, 2003, the Company made an additional $25,000,000 loan, as part of a $50,000,000 loan, the balance of which was funded by an affiliate of Soros Fund Management LLC. This loan, which is junior to the $1,100,000,000 of loans noted above, is based on a rate of LIBOR plus 12.81% (with a LIBOR floor of 1.5%) and currently yields 14.31%. These loans mature in October 2005, with three one-year extensions.

Bergen Mall

On December 12, 2003, the Company acquired the Bergen Mall for approximately $145,000,000. This purchase was funded as part of a Section 1031 tax-free "like-kind" exchange with a portion of the proceeds from the sale of the Company's Two Park Avenue property. The Bergen Mall is a 903,000 square foot shopping center located on Route 4 East in Paramus, New Jersey. The center is anchored by Macy's, Value City, Marshalls and Off Saks Fifth Avenue. The Company intends to expand, re-tenant and redevelop the center in order to reposition the asset. On January 27, 2004, the Company entered into an agreement to modify the Value City lease to give the Company a one-year option to terminate the lease no earlier than one year after notification and upon payment of $12,000,000 to the tenant. The present value of this option is reflected in the acquisition price and is included in other liabilities in the Consolidated Balance Sheet.

2003 Dispositions

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

On June 13, 2003, the Company received its $5,000,000 share of a settlement with affiliates of Primestone Investment Partners of the amounts due under the guarantees of the Primestone loans. In connection therewith, the Company recognized a $1,388,000 loss on settlement of the guarantees.

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square foot office building, for $292,000,000 to SEB Immobilien-Investment GMBH, a German capital investment company, which resulted in a net gain on the sale after closing costs of $156,433,000.

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

On February 2, 2004, the Palisades Venture in which the Company owns a 75% interest entered into an agreement to sell its only asset, a 538 unit high-rise residential apartment tower in Fort Lee, New Jersey, for $222,500,000. On February 27, 2004, to permit a potential "like kind exchange," the Company acquired the remaining 25% interest it did not previously own for its partner's share of the net sales price (approximately $17,000,000). The Company's gain on sale after closing costs will be approximately $70,000,000. The sale, which is subject to customary closing conditions, is expected to be completed by the third quarter of 2004.

2003 Financings

On July 3, 2003, the Company entered into a new $600,000,000 unsecured revolving credit facility which has replaced its $1,000,000,000 unsecured revolving credit facility which was to mature in July 2003. The new facility has a three-year term, a one-year extension option and bears interest at LIBOR plus .65%. The Company also has the ability under the new facility to seek up to $800 million of commitments during the facility's term. The new facility contains financial covenants similar to the prior facility.

On November 11, 2003, the Company redeemed all of its 8.5% Series D-1 Cumulative Redeemable Preferred Units issued in 1998 at a redemption price equal to the par value of $25.00 per unit or an aggregate of $87,500,000 plus accrued distributions of $849,000. This amount exceeded the carrying amount by $2,100,000, representing the original issuance costs. Upon the redemption these issuance costs were recorded as a reduction to earnings in arriving at net income applicable to common shares in accordance with the July 2003 EITF clarification of Topic D-42.

On November 17, 2003, the Company sold $40,000,000 of 7.00% Series D-10 Cumulative Redeemable Preferred Shares to an institutional investor in a registered offering. Immediately prior to that sale, Vornado Realty L.P. sold $80,000,000 of 7.00% Series D-10 Cumulative Redeemable Preferred Units to an institutional investor in a separate private offering. Both the perpetual Preferred Units and perpetual Preferred Shares may be called without penalty at the option of the Company commencing in November 2008.

On November 25, 2003, the Company completed an offering of $200,000,000 aggregate principal amount of 4.75% senior unsecured notes due December 1, 2010. Interest on the notes is payable semi-annually on June 1st and December 1st, commencing in 2004. The notes were priced at 99.869% of their face amount to yield 4.772%. The notes contain the same financial covenants that are in the Company's notes issued in June 2002, except the maximum ratio of secured debt to total assets is now 50% (previously 55%). The net proceeds of approximately $198,500,000 were used primarily to repay existing mortgage debt.

On January 6, 2004, the Company redeemed all of its 8.375% Series D-2 Cumulative Redeemable Preferred Units issued in 1999 at a redemption price equal to $50.00 per unit or an aggregate of $27,500,000 plus accrued distributions of $19,170.

Cash Flows for the Year Ended December 31, 2002

Cash and cash equivalents were $208,200,000 at December 31, 2002, as compared to $265,584,000 at December 31, 2001, a decrease of $57,384,000.

Cash flow provided by operating activities of $499,825,000 was primarily comprised of (i) income of $232,903,000, (ii) adjustments for non-cash items of $303,869,000, partially offset by (iii) the net change in operating assets and liabilities of $36,947,000. The adjustments for non-cash items were comprised of (i) a cumulative effect of change in accounting principle of $30,129,000, (ii) amortization of Officer's deferred compensation expense of $27,500,000, (iii) depreciation and amortization of $205,826,000, (iv) minority interest of $140,933,000, (v) the write-off of $6,874,000 of 20 Times Square pre-development costs, (vi) impairment losses on Primestone of $35,757,000, partially offset by (vii) the effect of straight-lining of rental income of $38,119,000, (viii) equity in net income of partially-owned entities and income applicable to Alexander's of $74,111,000 and (ix) amortization of below market leases, net of $12,634,000.

Net cash used in investing activities of $24,117,000 was comprised of (i) recurring capital expenditures of $52,728,000, (ii) non-recurring capital expenditures of $42,227,000, (iii) development and redevelopment expenditures of $91,199,000, (iv) investment in notes and mortgages receivable of $56,935,000, (v) investments in partially-owned entities of $73,242,000, (vi) acquisitions of real estate of $23,665,000, (vii) cash restricted, primarily mortgage escrows of $21,471,000 partially offset by proceeds from (viii) distributions from partially-owned entities of $126,077,000, (ix) repayments on notes receivable of $124,500,000 and (x) proceeds from the sale of marketable securities of $87,896,000.

Net cash used in financing activities of $533,092,000 was primarily comprised of (i) dividends paid on common shares of $314,419,000, (ii) dividends paid on preferred shares of $23,167,000, (iii) distributions to minority partners of $146,358,000, (iv) repayments of borrowings of $731,238,000, (v) redemption of perpetual preferred units of $25,000,000, partially offset by proceeds from (vi) the issuance of common shares of $56,453,000, (vii) proceeds from borrowings of $628,335,000, of which $499,280,000 was from the issuance of the Company's senior unsecured notes on June 24, 2002, and (viii) the exercise of employee share options of $26,272,000.

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures for the year ended December 31, 2002.

(AMOUNTS IN THOUSANDS)	Total	New York City Office	CESCR	Retail	Merchandise Mart	Other
Capital Expenditures:						
Expenditures to maintain the assets:						
Recurring	$ 27,881	$ 9,316	$ 13,686	$ 1,306	$ 2,669	$ 904
Non-recurring	35,270	6,840	16,455	—	11,975	—
	$ 63,151	$ 16,156	$ 30,141	$ 1,306	$14,644	$ 904
Tenant improvements:						
Recurring	$ 24,847	$ 12,017	$ 5,842	$ 2,309	$ 4,679	—
Non-recurring	6,957	2,293	4,664	—	—	—
	$ 31,804	$ 14,310	$ 10,506	$ 2,309	$ 4,679	—

(AMOUNTS IN THOUSANDS)	Total	New York City Office	CESCR	Retail	Merchandise Mart	Other
Leasing Commissions:						
Recurring	$ 14,345	$ 8,854	$ 4,416	$ 353	$ 614	$ 108
Non-recurring	4,205	2,067	2,138	—	—	—
	$ 18,550	$ 10,921	$ 6,554	$ 353	$ 614	$ 108
Total Capital Expenditures and Leasing Commissions:						
Recurring	$ 67,073	$ 30,187	$ 23,944	$ 3,968	$ 7,962	$ 1,012
Non-recurring	46,432	11,200	23,257	—	11,975	—
	$113,505	$ 41,387	$ 47,201	$ 3,968	$19,937	$ 1,012
Development and Redevelopment Expenditures:						
400 North LaSalle	$ 27,600	$ —	$ —	$ —	$ —	$ 27,600
Palisades-Fort Lee, NJ	16,750	—	—	—	—	16,750
640 Fifth Avenue	16,749	16,749	—	—	—	—
435 7th Avenue	12,353	—	—	12,353	—	—
4 Union Square South	2,410	—	—	2,410	—	—
Other	15,337	10,234	1,496	(596)	1,529	2,674
	$ 91,199	$ 26,983	$ 1,496	$14,167	$ 1,529	$ 47,024

Cash Flows for the Year Ended December 31, 2001

Cash flow provided by operating activities of $387,685,000 was primarily comprised of (i) income of $263,738,000, (ii) adjustments for non-cash items of $104,393,000, and (iii) the net change in operating assets and liabilities of $19,554,000. The adjustments for non-cash items were primarily comprised of (i) a cumulative effect of change in accounting principle of $4,110,000, (ii) the write-off of the Company's remaining equity investments in technology companies of $16,513,000, (iii) the write-off of its entire net investment of $7,374,000 in the Russian Tea Room, (iv) depreciation and amortization of $123,682,000, (v) minority interest of $112,363,000, partially offset by (vi) the effect of straight-lining of rental income of $27,230,000, and (vii) equity in net income of partially-owned entities and income applicable to Alexander's of $106,330,000.

Net cash used in investing activities of $79,722,000 was primarily comprised of (i) recurring capital expenditures of $41,093,000, (ii) non-recurring capital expenditures of $25,997,000, (iii) development and redevelopment expenditures of $145,817,000, (iv) investment in notes and mortgages receivable of $83,879,000, (v) investments in partially-owned entities of $109,332,000, (vi) acquisitions of real estate of $11,574,000, offset by, (vii) proceeds from the sale of real estate of $162,045,000, and (viii) distributions from partially-owned entities of $114,218,000.

Net cash used in financing activities of $179,368,000 was primarily comprised of (i) proceeds from borrowings of $554,115,000, (ii) proceeds from the issuance of common shares of $377,193,000, (iii) proceeds from the issuance of preferred units of $52,673,000, offset by, (iv) repayments of borrowings of $835,257,000, (v) dividends paid on common shares of $201,813,000, (vi) dividends paid on preferred shares of $35,547,000, and (vii) distributions to minority partners of $98,594,000.

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

		Funded by the Company				
(AMOUNTS IN THOUSANDS)	Total	New York City Office	Retail	Merchandise Mart	Other	CESCR (34% Interest)
Capital Expenditures:						
Expenditures to maintain the assets:						
Recurring	$14,423	$ 7,684	$1,253	$5,287	$199	$3,121
Non-recurring	20,751	13,635	—	7,116	—	6,678
	$35,174	$21,319	$1,253	$12,403	$199	$9,799
Tenant Improvements:						
Recurring	$26,670	$21,452	$ 271	$4,858	$ 89	$5,979
Non-recurring	5,246	5,246	—	—	—	190
	$31,916	$26,698	$ 271	$4,858	$ 89	$6,169

		Funded by the Company				
(AMOUNTS IN THOUSANDS)	Total	New York City Office	Retail	Merchandise Mart	Other	CESCR (34% Interest)
Leasing Commissions:						
Recurring	$ 19,536	$ 18,546	$ 336	$ 381	$ 273	$ 1,142
Non-recurring	7,902	7,902	—	—	—	28
	$ 27,438	$ 26,448	$ 336	$ 381	$ 273	$ 1,170
Total Capital Expenditures and Leasing Commissions:						
Recurring	$ 60,629	$ 47,682	$ 1,860	$ 10,526	$ 561	$ 10,242
Non-recurring	33,899	26,783	—	7,116	—	6,896
	$ 94,528	$ 74,465	$ 1,860	$ 17,642	$ 561	$ 17,138
Development and Redevelopment Expenditures:						
Palisades—Fort Lee, NJ	$ 66,173	$ —	$ —	$ —	$ 66,173	$ —
Market Square on Main Street	29,425	—	—	29,425	—	—
Other	50,219	25,703	6,378	4,350	13,788	14,067
	$ 145,817	$ 25,703	$ 6,378	$ 33,775	$ 79,961	$ 14,067

Funds From Operations Applicable to Common Shares ("FFO")

FFO does not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States of America and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers FFO a relevant supplemental measure of operating performance because it provides a basis for comparison among REITs. FFO is computed in accordance with NAREIT's definition, which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with NAREIT's definition.

Year Ended December 31, 2003 vs. December 31, 2002

FFO was $518,242,000, or $4.44 per diluted share for the year ended December 31, 2003, compared to $439,775,000, or $3.91 per diluted share for the year ended December 31, 2002, an increase of $78,467,000 or $.53 per share. Income from the straight-lining of rents included in FFO amounted to $34,023,000, or $.24 per diluted share for the year ended December 31, 2003, and $27,295,000, or $.24 per diluted share for the year ended December 31, 2002. Income from the amortization of acquired below market leases net of above market leases included in FFO amounted to $9,047,000, or $.06 per diluted share for the year ended December 31, 2003 and $12,634,000, or $.11 per diluted share for the year ended December 31, 2002. Also included in FFO are certain items that affect comparability as detailed below. Before these items, the year ended December 31, 2003 FFO is 6.5% higher than the year ended December 31, 2002 on a per share basis.

For The Year Ended

	December 31, 2003		December 31, 2002	
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Amount	Per Share	Amount	Per Share
FFO as reported above	$518,242	$4.44	$439,775	$3.91
Items that affect comparability of FFO:				
Alexander's stock appreciation rights compensation expense	$ 14,868	$ .13	$ —	$ —
Gain on early extinguishment of debt of a partially-owned entity (Newkirk MLP)	(1,600)	(.01)	—	—
Primestone loss on settlement of guarantees (2003) and foreclosure and impairment losses (2002)	1,388	.01	35,757	.32
Write-off of Series D-1 preferred unit offering costs	2,187	.02	—	—
Gain on sale of condominiums	(282)	.00	(2,156)	(.02)

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	December 31, 2003		December 31, 2002	
	Amount	Per Share	Amount	Per Share
Amortization of officer's employment arrangement	—	—	27,500	.24
Write-off of 20 Times Square pre-development costs	—	—	6,874	.06
Gain on sale of marketable securities, air rights and transfer of mortgages	—	—	(16,130)	(.14)
Minority interest's share of above adjustments	(3,130)	(.03)	(10,628)	(.09)
	$ 13,431	$ .12	$ 41,217	$ .37

Fourth Quarter 2003 vs. Fourth Quarter 2002

FFO was $130,729,000, or $1.08 per diluted share for the three months ended December 31, 2003, compared to $93,507,000, or $.83 per diluted share for the three months ended December 31, 2002, an increase of $37,222,000 or $.25 per share. Income from the straight-lining of rents included in FFO, amounted to $8,204,000, or $.06 per diluted share for the three months ended December 31, 2003, and $7,794,000, or $.06 per diluted share for the three months ended December 31, 2002. Income from the amortization of acquired below market leases net of above market leases included in FFO, amounted to $2,133,000, or $.01 per diluted share for the three months ended December 31, 2003 and $12,662,000, or $.09 per diluted share for the three months ended December 31, 2002.

Also included in FFO are certain items that affect comparability as detailed below. Before these items, the three months ended December 31, 2003 FFO is 8.7% higher than the year ended December 31, 2002 on a per share basis.

For The Three Months Ended

	December 31, 2003		December 31, 2002	
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Amount	Per Share	Amount	Per Share
FFO as reported above	$130,729	$1.08	$93,507	$ .83
Items that affect comparability of FFO:				
Alexander's stock appreciation rights compensation expense	$ 5,391	$ .04	$ —	$ —
Write-off of Series D-1 preferred unit offering costs	2,187	.02	—	—
Primestone foreclosure and impairment losses	—	—	15,857	.14
Amortization of Officer's employment arrangement	—	—	6,875	.06
Write-off of 20 Times Square pre-development costs	—	—	6,874	.06
Minority interest's share of above adjustments	(1,369)	(.01)	(6,061)	(.05)
	$ 6,209	$ .05	$23,545	$ .21

The following table reconciles FFO and net income:

	For The Year Ended December 31,		For the Three Months Ended December 31,	
(AMOUNTS IN THOUSANDS)	**2003**	2002	**2003**	2002
Net income applicable to common shares	$ 439,888	$209,736	$ 200,259	$40,540
Cumulative effect of change in accounting principle	—	30,129	—	—
Depreciation and amortization of real property	208,624	195,808	58,125	51,384
Net gains on sale of real estate	(161,789)	—	(158,378)	—
Proportionate share of adjustments to equity in net income of partially-owned entities to arrive at funds from operations:				
Depreciation and amortization of real property	54,762	51,881	14,455	13,957
Net gains on sale of real estate	(6,733)	(3,431)	219	(4,104)
Minority interest's share of above adjustments	(20,080)	(50,498)	15,742	(9,448)
	514,672	433,625	130,422	92,329
Series A preferred dividends	3,570	6,150	307	1,178
FFO applicable to common shares	$ 518,242	$439,775	$ 130,729	$93,507
Weighted average shares for FFO per share	116,651	112,600	120,895	112,796

Recently Issued Accounting Standards

FASB Interpretation No. 46—Consolidation of Variable Interest Entities ("FIN 46")

In January 2003, the FASB issued FIN 46, as amended in December 2003 by FIN 46R, which deferred the effective date until the first interim or annual reporting period ending after March 15, 2004. FIN 46R requires the consolidation of an entity by an enterprise known as a "primary beneficiary," (i) if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, if they occur, receive a majority of the entity's expected residual returns, if they occur, or both and (ii) if the entity is a variable interest entity ("VIE"), as defined. An entity qualifies as a variable interest entity if (i) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) the equity investors do not have the characteristics of a controlling financial interest in the entity. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which an enterprise becomes involved with the entity and re-evaluated as of the date of triggering events, as defined. The Company has evaluated each partially-owned entity to determine whether any qualify as a VIE, and if so, whether the Company is the primary beneficiary, as defined. The Company has determined that its investment in Newkirk MLP, in which it owns a 22.6% equity interest (see Note 5—Investments in Partially-Owned Entities to the consolidated financial statements in this annual report), qualifies as a VIE. The Company has determined that it is not considered the primary beneficiary and, accordingly, consolidation is not required. The Company's maximum exposure to loss as a result of its involvement in Newkirk is limited to its equity investment of approximately $138,762,000, as of December 31, 2003. In addition, the Company has variable interests in certain other entities which are primarily financing arrangements. The Company has evaluated these entities in accordance with FIN 46R and has determined that they are not VIEs. Based on the Company's evaluations, it does not believe that the adoption of FIN 46R will have a material effect on its consolidated financial statements.

SFAS No. 150—Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150 which establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The adoption of SFAS No. 150 on July 1, 2003, required the Company to reclassify all of its Series F-1 Preferred Units ($10 million liquidation value) from minority interest to a liability on its consolidated balance sheet. In connection therewith, the Company also reclassified $225,000 of payments made to the holders of these units in the three months ended December 31, 2003 as interest expense.

On November 7, 2003, the FASB deferred, indefinitely, the application of paragraphs 9 and 10 of SFAS No. 150 as it relates to mandatory redeemable non-controlling interests in consolidated subsidiaries in order to address a number of interpretation and implementation issues. The Company has determined that one of its consolidated, finite-life joint ventures qualifies as a mandatory redeemable non-controlling interest. If the Company were required to adopt the provisions of paragraphs 9 and 10 on the statement's effective date, the Company would have to reclassify as a liability, amounts included in minority interest of approximately $1.6 million and record the minority partner's interest as a liability at its estimated settlement value which would result in a cumulative effect of change in accounting principle of approximately $15.6 million. This liability would be required to be reviewed each quarter and any changes in its settlement value would be recorded as interest expense.

CONSOLIDATED BALANCE SHEETS

December 31, (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2003	2002
ASSETS		
Real estate, at cost:		
Land	$1,503,965	$1,434,272
Buildings and improvements	6,038,275	5,694,535
Development costs and construction in progress	133,915	88,547
Leasehold improvements and equipment	72,297	65,297
Total	7,748,452	7,282,651
Less accumulated depreciation and amortization	(869,849)	(702,686)
Real estate, net	6,878,603	6,579,965
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of $30,310 and $33,393	320,542	208,200
Escrow deposits and restricted cash	161,833	263,125
Marketable securities	81,491	42,525
Investments and advances to partially-owned entities, including Alexander's of $207,872 and $193,879	900,600	961,126
Due from officers	19,628	20,643
Accounts receivable, net of allowance for doubtful accounts of $15,246 and $13,887	83,913	65,754
Notes and mortgage loans receivable	285,965	86,581
Receivable arising from the straight-lining of rents, net of allowance of $2,830 and $4,071	267,848	228,548
Other assets	376,801	290,044
Assets related to discontinued operations	141,704	271,668
	$9,518,928	$9,018,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and mortgages payable	$3,339,365	$3,437,720
Senior Unsecured Notes due 2007 and 2010	725,020	533,600
Accounts payable and accrued expenses	226,100	202,756
Officers compensation payable	23,349	16,997
Deferred credit	74,253	59,362
Other liabilities	11,982	3,030
Liabilities related to discontinued operations	120,000	100,000
Total liabilities	4,520,069	4,353,465
Minority interest of unitholders in the Operating Partnership	1,921,286	2,037,358
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 70,000,000 shares;		
Series A: liquidation preference $50.00 per share; issued and outstanding 360,705 and 5,520,435 shares	18,039	72,535
Series B: liquidation preference $25.00 per share; issued and outstanding 3,400,000 shares	81,805	81,805
Series C: liquidation preference $25.00 per share; issued and outstanding 4,600,000 shares	111,148	111,148
Series D-10: liquidation preference $25.00 per share; issued and outstanding 1,600,000 shares	40,000	—
Common shares of beneficial interest: $.04 par value per share; authorized, 200,000,000 shares; issued and outstanding 118,247,944 and 108,629,736 shares	4,739	4,320
Additional capital	2,827,789	2,481,414
Distributions in excess of net income	(57,618)	(169,629)
	3,025,902	2,581,593
Deferred compensation shares earned but not yet delivered	70,610	66,660
Deferred compensation shares issued but not yet earned	(7,295)	(2,629)
Accumulated other comprehensive loss	(6,940)	(13,564)
Due from officers for purchase of common shares of beneficial interest	(4,704)	(4,704)
Total shareholders' equity	3,077,573	2,627,356
	$9,518,928	$9,018,179

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31,

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Revenue:			
Rentals	$1,261,042	$1,209,755	$813,089
Expense reimbursements	179,214	154,766	129,013
Other income	62,799	27,718	10,059
Total revenues	1,503,055	1,392,239	952,161
Expenses:			
Operating	583,660	519,345	385,449
Depreciation and amortization	215,032	198,601	120,614
General and administrative	122,405	100,050	71,716
Amortization of officer's deferred compensation expense	—	27,500	—
Costs of acquisitions and development not consummated	—	6,874	5,223
Total expenses	921,097	852,370	583,002
Operating income	581,958	539,869	369,159
Income applicable to Alexander's	15,574	29,653	25,718
Income from partially-owned entities	67,901	44,458	80,612
Interest and other investment income	25,402	31,685	54,385
Interest and debt expense (including amortization of deferred financing costs of $5,893, $8,339 and $8,458)	(229,662)	(234,113)	(167,430)
Net gain (loss) on disposition of wholly-owned and partially-owned assets other than real estate	2,343	(17,471)	(8,070)
Minority interest:			
Perpetual preferred unit distributions	(72,716)	(72,500)	(70,705)
Minority limited partnership earnings	(105,132)	(64,899)	(39,138)
Partially-owned entities	(827)	(3,534)	(2,520)
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	284,841	253,148	242,011
Discontinued operations	14,073	9,884	10,342
Gains on sale of real estate (discontinued operations in 2003)	161,789	—	15,495
Cumulative effect of change in accounting principle	—	(30,129)	(4,110)
Net income	460,703	232,903	263,738
Preferred share dividends (including accretion of issuance expenses of $958 in 2001)	(20,815)	(23,167)	(36,505)
NET INCOME applicable to common shares	$ 439,888	$ 209,736	$227,233
INCOME PER COMMON SHARE—BASIC:			
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	$ 2.35	$ 2.17	$ 2.31
Discontinued operations	.13	.09	.12
Gains on sale of real estate (discontinued operations in 2003)	1.44	—	.17
Cumulative effect of change in accounting principle	—	(.28)	(.05)
Net income per common share	$ 3.92	$ 1.98	$ 2.55
INCOME PER COMMON SHARE—DILUTED:			
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	$ 2.29	$ 2.09	$ 2.23
Discontinued operations	.12	.09	.11
Gains on sale of real estate (discontinued operations in 2003)	1.39	—	.17
Cumulative effect of change in accounting principle	—	(.27)	(.04)
Net income per common share	$ 3.80	$ 1.91	$ 2.47

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Preferred Shares	Common Shares	Additional Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Other	Shareholders' Equity	Comprehensive Income
Balance, January 1, 2001	$481,460	$3,472	$1,709,284	$ (90,366)	$(20,426)	$ (4,704)	$ 2,078,720	$ 215,013
Net Income	—	—	—	263,738	—	—	263,738	$ 263,738
Dividends paid on Preferred Shares								
Series A Preferred Shares ($3.25 per share)	—	—	—	(19,505)	—	—	(19,505)	—
Series B Preferred Shares ($2.125 per share)	—	—	—	(7,225)	—	—	(7,225)	—
Series C Preferred Shares ($2.125 per share)	—	—	—	(9,775)	—	—	(9,775)	—
Dividends paid on common shares ($2.32 per share)	—	—	—	(201,813)	—	—	(201,813)	—
Dividends payable on common shares ($.31 per share)	—	—	—	(30,701)	—	—	(30,701)	—
Common shares issued, net of shelf registration costs of $260	—	391	376,542	—	—	—	376,933	—
Common shares issued under employees' share plan	—	12	9,947	—	—	—	9,959	—
Conversion of Series A Preferred Shares to common shares	(13,441)	15	13,426	—	—	—	—	—
Redemption of units for common shares	—	70	52,017	—	—	—	52,087	—
Accretion of issuance expenses on preferred shares	958	—	—	—	—	—	958	—
Common shares issued in connection with dividend reinvestment plan	—	1	1,296	—	—	—	1,297	—
Change in unrealized net loss on securities available for sale	—	—	—	—	18,178	—	18,178	18,178
Deferred compensation shares earned but not yet delivered	—	—	—	—	—	38,253	38,253	—
Pension obligations	—	—	—	—	(732)	—	(732)	(732)
Balance, December 31, 2001	468,977	3,961	2,162,512	(95,647)	(2,980)	33,549	2,570,372	$ 281,184
Net Income	—	—	—	232,903	—	—	232,903	$ 232,903
Dividends paid on Preferred Shares								
Series A Preferred Shares ($3.25 per share)	—	—	—	(6,167)	—	—	(6,167)	—
Series B Preferred Shares ($2.125 per share)	—	—	—	(7,225)	—	—	(7,225)	—
Series C Preferred Shares ($2.125 per share)	—	—	—	(9,775)	—	—	(9,775)	—
Net proceeds from issuance of common shares	—	56	56,397	—	—	—	56,453	—
Conversion of Series A Preferred shares to common shares	(203,489)	225	203,264	—	—	—	—	—
Deferred compensation shares	—	2	2,627	—	—	25,778	28,407	—
Dividends paid on common shares ($2.97 per share, including $.31 for 2001)	—	—	—	(314,419)	—	—	(314,419)	—
Reversal of dividends payable on common shares in 2001 ($.31 per share)	—	—	—	30,701	—	—	30,701	—
Common shares issued under employees' share plan	—	36	24,349	—	—	—	24,385	—
Redemption of units for common shares	—	38	30,380	—	—	—	30,418	—
Common shares issued in connection with dividend reinvestment plan	—	2	1,885	—	—	—	1,887	—
Change in unrealized net loss on securities available for sale	—	—	—	—	(8,936)	—	(8,936)	(8,936)
Other non-cash changes, primarily pension obligations	—	—	—	—	(1,648)	—	(1,648)	(1,648)
Balance, December 31, 2002	$265,488	$4,320	$2,481,414	$(169,629)	$(13,564)	$59,327	$ 2,627,356	$ 222,319

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Preferred Shares	Common Shares	Additional Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Other	Shareholders' Equity	Comprehensive Income
Balance, December 31, 2002	$ 265,488	$4,320	$ 2,481,414	$(169,629)	$(13,564)	$59,327	$2,627,356	$ 222,319
Net Income	—	—	—	460,703	—	—	460,703	$ 460,703
Dividends paid on Preferred Shares								
Series A Preferred Shares ($3.25 per share)	—	—	—	(3,473)	—	—	(3,473)	—
Series B Preferred Shares ($2.125 per share)	—	—	—	(7,225)	—	—	(7,225)	—
Series C Preferred Shares ($2.125 per share)	—	—	—	(9,775)	—	—	(9,775)	—
Series D-10 Preferred Shares ($1.75 per share)	—	—	—	(342)	—	—	(342)	—
Proceeds from issuance of Series D-10 Preferred Shares	40,000	—	—	—	—	—	40,000	—
Conversion of Series A Preferred shares to common shares	(54,496)	86	54,410	—	—	—	—	—
Deferred compensation shares	—	8	5,392	—	—	—	5,400	—
Dividends paid on common shares ($2.91 per share, including $.16 special cash dividend)	—	—	—	(327,877)	—	—	(327,877)	—
Common shares issued under employees' share option plan	—	183	141,036	—	—	—	141,219	—
Redemption of Class A partnership units for common shares	—	140	144,291	—	—	—	144,431	—
Common shares issued in connection with dividend reinvestment plan	—	2	1,996	—	—	—	1,998	—
Change in unrealized net gain on securities available for sale	—	—	—	—	5,517	—	5,517	5,517
Shelf registration costs	—	—	(750)	—	—	—	(750)	—
Other—primarily increase in value of Officers deferred compensation plan	—	—	—	—	1,107	(716)	391	1,107
Balance, December 31, 2003	$ 250,992	$4,739	$ 2,827,789	$ (57,618)	$ (6,940)	$58,611	$3,077,573	$ 467,327

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, (AMOUNTS IN THOUSANDS)	2003	2002	2001
Cash Flows from Operating Activities:			
Net income	$ 460,703	$ 232,903	$263,738
Adjustments to reconcile net income to net cash provided by operating activities:			
Gains on sale of real estate	(161,789)	—	(15,495)
Minority interest	178,675	140,933	112,363
Net (gain) loss on dispositions of wholly-owned and partially-owned assets other than real estate	(2,343)	17,471	8,070
Depreciation and amortization (including debt issuance costs)	219,911	205,826	123,682
Straight-lining of rental income	(41,947)	(38,119)	(27,230)
Amortization of below market leases, net	(9,047)	(12,634)	—
Equity in income of Alexander's	(15,574)	(29,653)	(25,718)
Equity in income of partially-owned entities	(67,901)	(44,458)	(80,612)
Cumulative effect of change in accounting principle	—	30,129	4,110
Amortization of officer's deferred compensation	—	27,500	—
Costs of acquisitions and development not consummated	—	6,874	5,223
Changes in operating assets and liabilities	(31,737)	(36,947)	19,554
Net cash provided by operating activities	528,951	499,825	387,685
Cash Flows from Investing Activities:			
Development costs and construction in progress	(123,436)	(91,199)	(145,817)
Acquisitions of real estate and other	(216,361)	(23,665)	(11,574)
Additions to real estate	(120,593)	(96,018)	(67,090)
Investments in partially-owned entities	(15,331)	(73,242)	(109,332)
Proceeds from sale of real estate	299,852	—	162,045
Investments in notes and mortgage loans receivable	(230,375)	(56,935)	(83,879)
Repayment of notes and mortgage loans receivable	29,421	124,500	64,206
Cash restricted, primarily mortgage escrows	101,292	(21,471)	9,896
Distributions from partially-owned entities	154,643	126,077	114,218
Purchases of marketable securities	(17,356)	—	(14,325)
Proceeds from sale of securities available for sale	7,952	87,836	1,930
Net cash used in investing activities	(130,292)	(24,117)	(79,722)
Cash Flows from Financing Activities:			
Proceeds from borrowings	812,487	628,335	554,115
Repayments of borrowings	(752,422)	(731,238)	(835,257)
Costs of refinancing debt	(1,500)	(3,970)	(3,394)
Redemption of perpetual preferred shares and units	(103,243)	(25,000)	—
Proceeds from issuance of preferred shares and units	119,967	—	52,673
Proceeds from issuance of common shares	—	56,453	377,193
Dividends paid on common shares	(327,877)	(314,419)	(201,813)
Dividends paid on preferred shares	(20,815)	(23,167)	(35,547)
Distributions to minority partners	(158,066)	(146,358)	(98,594)
Exercise of share options	145,152	26,272	11,256
Net cash used in financing activities	(286,317)	(533,092)	(179,368)
Net increase (decrease) in cash and cash equivalents	112,342	(57,384)	128,595
Cash and cash equivalents at beginning of year	208,200	265,584	136,989
Cash and cash equivalents at end of year	$ 320,542	$ 208,200	$265,584
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest (including capitalized interest of $5,407, $6,677, and $12,171)	$ 245,668	$ 247,048	$171,166
Non-Cash Transactions:			
Financing assumed in acquisitions	$ 29,056	$1,596,903	$ —
Class A units issued in connection with acquisitions	53,589	625,234	18,798
Unrealized gain on securities available for sale	5,517	860	9,495
Appreciation of securities held in officers' deferred compensation plan	1,107	—	3,023

See notes to consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Vornado Realty Trust is a fully-integrated real estate investment trust ("REIT"). Vornado conducts its business through Vornado Realty L.P., ("the Operating Partnership"). Vornado is the sole general partner of, and owned approximately 82% of the common limited partnership interest in, the Operating Partnership at February 16, 2004. All references to the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

The Company currently owns directly or indirectly:

Office Properties:

(i) all or portions of 83 office properties aggregating approximately 27.3 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia area;

Retail Properties:

(ii) 60 retail properties in six states and Puerto Rico aggregating approximately 12.9 million square feet, including 2.7 million square feet built by tenants on land leased from the Company;

Merchandise Mart Properties:

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

Temperature Controlled Logistics:

(iv) a 60% interest in the Vornado Crescent Portland Partnership that owns 87 cold storage warehouses nationwide with an aggregate of approximately 440.7 million cubic feet of refrigerated space leased to AmeriCold Logistics;

Other Real Estate Investments:

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

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

(vii) a 22.6% interest in The Newkirk Master Limited Partnership ("Newkirk MLP") which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;

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

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

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION: The accompanying consolidated financial statements include the accounts of Vornado Realty Trust and its majority-owned subsidiary, Vornado Realty L.P. All significant intercompany amounts have been eliminated. The Company accounts for its unconsolidated partially-owned entities on the equity method of accounting. See below for further details of the Company's accounting policies regarding partially-owned entities.

Management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

RECLASSIFICATIONS: Certain prior year balances have been reclassified in order to conform to current year presentation.

REAL ESTATE: Real estate is carried at cost, net of accumulated depreciation and amortization. Betterments, major renewals and certain costs directly related to the acquisition, improvement and leasing of real estate are capitalized. Maintenance and repairs are charged to operations as incurred. For redevelopment of existing operating properties, the net book value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when complete. If the cost of the redeveloped property, including the undepreciated net book value of the property carried forward, exceeds the estimated fair value of redeveloped property, the excess is charged to expense. Depreciation is provided on a straight-line basis over the assets' estimated useful lives which range from 7 to 40 years. Tenant allowances are amortized on a straight-line basis over the lives of the related leases, which approximates the useful lives of the assets. Additions to real estate include interest expense capitalized during construction of $5,407,000 and $6,677,000, for the years ended December 31, 2003 and 2002 respectively.

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings, tenant improvements, and beginning in 2002, identified intangibles such as above and below market leases and acquired in-place leases in accordance with SFAS No. 141 and 142) and acquired liabilities, and allocates purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. The Company's properties are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable.

PARTIALLY-OWNED ENTITIES: The Company considers APB 18—The Equity Method of Accounting for Investments in Common Stock, SOP 78-9—Accounting for Investments in Real Estate Ventures, EITF 96-16—Investors Accounting for an Investee When the Investor has the Majority of the Voting Interest but the Minority Partners have Certain Approval or Veto Rights, to determine the method of accounting for each of its partially-owned entities. In determining whether the Company has a controlling interest in a partially-owned entity and the requirement to consolidate the accounts of that entity, it considers factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members. The Company has concluded that it does not control a partially-owned entity, despite an ownership interest of 50% or greater, if the approval of all of the partners/members is contractually required with respect to major decisions, such as operating and capital budgets, the sale, exchange or other disposition of real property, the hiring of a Chief Executive Officer, the commencement, compromise or settlement of any lawsuit, legal proceeding or arbitration or the placement of new or additional financing secured by assets of the venture. This is the case with respect to the Company's 60% interest in Temperature Controlled Logistics, 80% interest in Starwood Ceruzzi Venture, and 50% interests in Monmouth Mall, MartParc Wells, MartParc Orleans, and 825 Seventh Avenue.

IDENTIFIED INTANGIBLE ASSETS AND GOODWILL: Upon an acquisition of a business the Company records intangible assets acquired at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible

assets that are determined to have finite lives which are based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss for an asset group is allocated to the long-lived assets of the group on a pro-rata basis using the relative carrying amounts of those assets, unless the fair value of specific components of the reporting group are determinable without undue cost and effort.

As of December 31, 2003 and 2002, the carrying amounts of the Company's identified intangible assets are $106,281,000 and $50,487,000 and the carrying amounts of goodwill are $4,345,000 and $0, respectively. Such amounts are included in other assets on the Company's consolidated balance sheet. In addition, the Company has $47,266,000 and $48,430,000 of deferred credits as of December 31, 2003 and 2002, which are included as liabilities on the Company's consolidated balance sheet.

Upon adoption of SFAS 142 *"Goodwill and Other Intangible Assets"* on January 1, 2002, the Company tested the goodwill related to the Hotel Pennsylvania acquisition and the Temperature Controlled Logistics business for impairment. As the carrying amounts of the respective goodwill exceeded the fair values, the Company wrote-off all of the goodwill as an impairment loss totaling $30,129,000 and has reflected the write-off as a cumulative effect of change in accounting principle on the income statement.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents consist of highly liquid investments purchased with original maturities of three months or less. Cash and cash equivalents do not include cash escrowed under loan agreements and cash restricted in connection with an officer's deferred compensation payable.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: The Company periodically evaluates the collectibility of amounts due from tenants and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. The Company also maintains an allowance for receivables arising from the straight-lining of rents. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates.

MARKETABLE SECURITIES: The Company has classified debt and equity securities which it intends to hold for an indefinite period of time (including warrants to acquire equity securities) as securities available for sale; equity securities it intends to buy and sell on a short term basis as trading securities; and preferred stock investments as securities held to maturity. Unrealized gains and losses on trading securities are included in earnings. Unrealized gains and losses on securities available for sale are included as a component of shareholders' equity and other comprehensive income. Realized gains or losses on the sale of securities are recorded based on specific identification. A portion of the Company's preferred stock investments are redeemable and accounted for in accordance with EITF 99-20 "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." Income is recognized by applying the prospective method of adjusting the yield to maturity based on an estimate of future cash flows. If the value of the investment based on the present value of the future cash flows is less than the Company's carrying amount, the investments will be written-down to fair value through earnings. Investments in securities of non-publicly traded companies are reported at cost, as they are not considered marketable under SFAS No. 115.

At December 31, 2003 and 2002, marketable securities had an aggregate cost of $75,114,000 and $41,665,000 and an aggregate fair value of $81,491,000 and $42,525,000 (of which $0 represents trading securities; $43,527,000 and $2,020,000

represents securities available for sale; and $37,964,000 and $40,505,000 represent securities held to maturity). Gross unrealized gains and losses were $6,377,000 and $0 at December 31, 2003 and $860,000 and $0 at December 31, 2002 respectively. As of December 31, 2003, there are no marketable securities in an unrealized loss position.

NOTES AND MORTGAGE LOANS RECEIVABLE: The Company's policy is to record mortgages and notes receivable at the stated principal amount less any discount or premium. The Company accretes or amortizes any discounts or premiums over the life of the related loan receivable utilizing the effective interest method. The Company evaluates the collectibility of both interest and principal of each of its loans, if circumstances warrant, to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis.

DEFERRED CHARGES: Direct financing costs are deferred and amortized over the terms of the related agreements as a component of interest expense. Direct costs related to leasing activities are capitalized and amortized on a straight-line basis over the lives of the related leases. All other deferred charges are amortized on a straight-line basis, which approximates the effective interest rate method, in accordance with the terms of the agreements to which they relate.

FAIR VALUE OF FINANCIAL INSTRUMENTS: All financial instruments of the Company are reflected in the accompanying consolidated balance sheets at amounts which, in management's estimation, based upon an interpretation of available market information and valuation methodologies (including discounted cash flow analyses with regard to fixed rate debt) are considered appropriate. The fair value of the Company's debt is approximately $94,953,000 in excess of the aggregate carrying amount at December 31, 2003. Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition of the Company's financial instruments.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. The cumulative effect of implementing SFAS No. 133 on January 1, 2001, was $4,110,000.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

On June 27, 2002, the Company entered into interest rate swaps that effectively converted the interest rate on the $500,000,000 senior unsecured notes due 2007 from a fixed rate of 5.625% to a floating rate of LIBOR plus .7725%, based upon the trailing 3 month LIBOR rate (1.15% at December 31, 2003). These swaps were designated and effective as fair value hedges,

with a fair value of $25,780,000 at December 31, 2003, which is included in Other Assets on the Company's consolidated balance sheet. Accounting for these swaps also requires the Company to recognize changes in the fair value of the debt during each reporting period. At December 31, 2003, the fair value adjustment of $25,780,000, based on the fair value of the swaps, is included in the balance of the Senior Unsecured Notes. Because the hedging relationship qualifies for the "short-cut" method, no hedge ineffectiveness on these fair value hedges was recognized during 2003 and 2002.

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

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

Percentage Rents—income arising from retail tenant leases which are contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with SAB 104, which states that this income is to be recognized only after the contingency has been removed (i.e., sales thresholds have been achieved).

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

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

Expense Reimbursements—revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred. Contingent rents are not recognized until realized.

INCOME TAXES: The Company operates in a manner intended to enable it to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company will distribute to its shareholders 100% of its taxable income and therefore, no provision for Federal income taxes is required. Dividend distributions for the year ended December 31, 2003, were characterized for Federal income tax purposes as 94.4% ordinary income and 5.6% long-term capital gain income. Dividend distributions for the year ended December 31, 2002 and 2001 were characterized as ordinary income.

The Company owns stock in corporations that have elected to be treated for Federal income tax purposes, as taxable REIT subsidiaries ("TRS"). The value of the combined TRS stock cannot and does not exceed 20% of the value of the Company's total assets. A TRS is taxable on its net income at regular corporate tax rates. The total income tax paid for the 2003 and 2002 tax years was $2,486,000 and $1,430,000.

The following table reconciles net income to estimated taxable income for the year ended December 31, 2003.

(AMOUNTS IN THOUSANDS)	2003
Net income applicable to common shares	$439,888
Depreciation and amortization	59,015
Straight-line rent adjustments	(35,856)
Book to tax differences in gain recognition on sale of real estate	(88,155)
Book to tax differences in earnings of partially-owned entities	41,198
Stock option expense	(78,125)
Amortization of acquired below market leases, net of above market leases	(7,733)
Other	(1,727)
Estimated taxable income	$328,505

The net basis of the Company's assets and liabilities for tax purposes is approximately $2,857,619,000 lower than the amount reported for financial statement purposes. At December 31, 2003, the Company had a capital loss carryover of zero.

INCOME PER SHARE: Basic income per share is computed based on weighted average shares outstanding. Diluted income per share considers the effect of outstanding options, restricted shares warrants and convertible or redeemable securities.

STOCK-BASED COMPENSATION: In 2002 and prior years, the Company accounted for employee stock options using the intrinsic value method. Under the intrinsic value method compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to 100% of the market price of the Company's stock on the grant date. Accordingly, no compensation cost has been recognized for the Company's stock option grants. Effective January 1, 2003, the Company adopted SFAS No. 123 *"Accounting for Stock Based Compensation"* as amended by SFAS No. 148 *"Accounting for Stock—Based Compensation—Transition and Disclosure."* The Company adopted SFAS No. 123 prospectively by valuing and accounting for employee stock options granted in 2003 and thereafter. The Company utilizes a binomial valuation model and appropriate market assumptions to determine the value of each grant. Stock-based compensation expense is recognized on a straight-line basis over the vesting period for all grants subsequent to 2002. See Note 9. Stock-Based Compensation, for pro forma net income and pro forma net income per share for the years ended December 31, 2003, 2002 and 2001, assuming compensation costs for grants prior to 2003 were recognized as compensation expense based on the fair value at the grant dates.

In addition to employee stock option grants, the Company has also granted restricted shares to certain of its employees that vest over a three to five year period. The Company records the value of each restricted share award as stock-based compensation expense based on the Company's closing stock price on the NYSE on the date of grant on a straight-line basis over the vesting period. As of December 31, 2003, the Company has 246,030 restricted shares or rights to receive restricted shares outstanding to employees of the Company, excluding 626,566 shares issued to the Company's President in connection with his employment agreement. The Company recognized $1,898,000 and $1,868,000 of stock-based compensation expense in 2003 and 2002 for the portion of these shares that vested during each year. Dividends on both vested and unvested shares are charged to retained earnings and amounted to $777,700 and $210,100 for 2003 and 2002, respectively. Dividends on shares that are canceled or terminated prior to vesting are charged to compensation expense in the period they are cancelled or terminated.

Recently Issued Accounting Standards

FASB INTERPRETATION NO. 46—CONSOLIDATION OF VARIABLE INTEREST ENTITIES ("FIN 46")

In January 2003, the FASB issued FIN 46, as amended in December 2003 by FIN 46R, which deferred the effective date until the first interim or annual reporting period ending after March 15, 2004. FIN 46R requires the consolidation of an entity by an enterprise known as a "primary beneficiary," (i) if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, if they occur, receive a majority of the entity's expected residual returns, if they occur, or both and (ii) if the entity is a variable interest entity ("VIE"), as defined. An entity qualifies as a variable interest entity if (i) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) the equity investors do not have the characteristics of a controlling financial interest in the entity. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which an enterprise becomes involved with the entity and re-evaluated as of the date of triggering events, as defined. The Company has evaluated each partially-owned entity to determine whether any qualify as a VIE, and if so, whether the Company is the primary beneficiary, as defined. The Company has determined that its investment in Newkirk MLP, in which it owns a 22.6% equity interest (see Note 5—Investments in Partially-Owned Entities), qualifies as a VIE. The Company has determined that it is not considered the primary beneficiary and, accordingly, consolidation is not required. The Company's maximum exposure to loss as a result of its involvement in Newkirk is limited to its equity investment of approximately $138,762,000, as of December 31, 2003. In addition,

the Company has variable interests in certain other entities which are primarily financing arrangements. The Company has evaluated these entities in accordance with FIN 46R and has determined that they are not VIEs. Based on the Company's evaluations, it does not believe that the adoption of FIN 46R will have a material effect on its consolidated financial statements.

SFAS NO. 150—ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY

In May 2003, the FASB issued SFAS No. 150 which establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The adoption of SFAS No. 150 on July 1, 2003 caused the Company to reclassify all of its Series F-1 Preferred Units ($10 million liquidation value) from minority interest to a liability on its consolidated balance sheet, as those units may be settled by the issuance of a variable number of the Company's common shares. In connection therewith, the Company also reclassified $225,000 of payments made to the holders of these units in the three months ended December 31, 2003 as interest expense.

On November 7, 2003, the FASB deferred, indefinitely, the application of paragraphs 9 and 10 of SFAS No. 150 as it relates to mandatory redeemable non-controlling interests in consolidated subsidiaries in order to address a number of interpretation and implementation issues. The Company has determined that one of its consolidated, finite-life joint ventures qualifies as a mandatory redeemable non-controlling interest. If the Company were required to adopt the provisions of paragraphs 9 and 10 as currently written, the Company would have to reclassify as a liability, amounts included in minority interest of approximately $1.6 million and record the minority partner's interest as a liability at its estimated settlement value which would result in a cumulative effect of change in accounting principle of approximately $15.6 million. This liability would be required to be reviewed each quarter and any changes in its settlement value would be recorded as interest expense.

3. Acquisitions and Dispositions

ACQUISITIONS:

The Company completed approximately $530,400,000 of real estate acquisitions and investments in 2003 and $1,834,000,000 in 2002. These acquisitions were consummated through subsidiaries or preferred stock affiliates of the Company. Related net assets and results of operations have been included in these financial statements since their respective dates of acquisition. The pro forma effect of the individual acquisitions and in the aggregate other than Charles E. Smith Commercial Realty, were not material to the Company's historical results of operations.

Acquisitions of individual properties are recorded as acquisitions of real estate assets. Acquisitions of businesses are accounted for under the purchase method of accounting. The purchase price for property acquisitions and businesses acquired is allocated to acquired assets and assumed liabilities using their relative fair values as of the acquisition date based on valuations and other studies. Initial valuations are subject to change until such information is finalized no later than 12 months from the acquisition date.

CHARLES E. SMITH COMMERCIAL REALTY INVESTMENT ("CESCR")

On January 1, 2002, the Company completed the combination of CESCR with Vornado. Prior to the combination, Vornado owned a 34% interest in CESCR. The consideration for the remaining 66% of CESCR was approximately $1,600,000,000, consisting of 15.6 million newly issued Operating Partnership units and approximately $1 billion of debt (66% of CESCR's total debt). The purchase price paid by the Company was determined based on the weighted average closing price of the equity issued to CESCR unit holders for the period beginning two business days before and ending two business days after the date the acquisition was agreed to and announced on October 19, 2001. The Company also capitalized approximately $32,000,000 of acquisition related costs, including advisory, legal and other professional fees that were incurred in connection with the acquisition. The following table summarizes the estimated fair value of assets acquired and liabilities assumed at January 1, 2002, the date of acquisition.

(AMOUNTS IN THOUSANDS)	
Land, buildings and improvements	$1,641,000
Intangible deferred charges	76,000
Working capital	41,000
Total Assets Acquired	1,758,000
Mortgages and notes payable	1,023,000
Intangible deferred credit	62,000
Other liabilities	34,000
Total Liabilities Assumed	1,119,000
Net Assets Acquired	$ 639,000

The Company's estimate of the weighted average useful life of acquired intangibles is approximately three years. This acquisition was recorded as a business combination under the purchase method of accounting. The purchase price was allocated to acquired assets and assumed liabilities using their relative fair values as of January 1, 2002 based on valuations and other studies. The operations of CESCR are consolidated into the accounts of the Company beginning January 1, 2002. Prior to this date the Company accounted for its 34% interest on the equity method.

The unaudited pro forma information set forth below presents the Company's condensed consolidated statement of income for the year ended December 31, 2001 as if the following transactions had occurred on January 1, 2001, (i) the acquisition of CESCR described above and (ii) the Company's November 21, 2001 sale of 9,775,000 common shares and the use of proceeds to repay indebtedness.

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Revenues	$1,351,321
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	275,910
Discontinued operations	10,342
Gains on sale of real estate	15,495
Cumulative effect of change in accounting principle	(4,110)
Net income	297,637
Preferred share dividends	(36,505)
Net income applicable to common shares	261,132
Net income per common share—basic	2.64
Net income per common share—diluted	$ 2.56

CRYSTAL GATEWAY ONE

On July 1, 2002, the Company acquired a 360,000 square foot office building from a limited partnership, which was approximately 50% owned by Mr. Robert H. Smith and Mr. Robert P. Kogod, trustees of the Company, and members of the Smith and Kogod families, in exchange for approximately 325,700 newly issued Vornado Operating Partnership units (valued at $13,679,000) and the assumption of $58,500,000 of debt. The building is located in the Crystal City complex in Arlington, Virginia. The operations of Crystal Gateway One are consolidated into the accounts of the Company from the date of acquisition.

BUILDING MAINTENANCE SERVICE COMPANY ("BMS")

On January 1, 2003, the Company acquired for $13,000,000 in cash BMS, which provides cleaning, security and engineering services principally to the Company's Manhattan office properties. This company was previously owned by the estate of Bernard Mendik and certain other individuals including David R. Greenbaum, one of the Company's executive officers. This acquisition was recorded as a business combination under the purchase method of accounting. Accordingly, the operations of BMS are consolidated into the accounts of the Company beginning January 1, 2003.

KAEMPFER COMPANY (“KAEMPFER”)

On April 9, 2003, the Company acquired Kaempfer which owns partial interests in six Class “A” office properties in Washington D.C. containing 1.8 million square feet, manages and leases these properties and four others for which it receives customary fees and has options to acquire certain other real estate interests, including the Waterfront project discussed below. Kaempfer’s equity interest in the properties approximates 5.0%. The aggregate purchase price for the equity interests and the management and leasing business was $32,200,000 (consisting of $28,600,000 in cash and approximately 99,300 Operating Partnership units valued at $3,600,000) and may be increased by up to $9,000,000 based on the performance of the management company. This acquisition was recorded as a business combination under the purchase method of accounting. Accordingly, the operations of Kaempfer are consolidated into the accounts of the Company beginning April 9, 2003.

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

20 BROAD STREET

On May 2, 2003, the Company acquired the remaining 40% of a 78-year leasehold interest in 20 Broad Street it did not already own. The purchase price was approximately $30,000,000 in cash. 20 Broad Street contains 466,000 square feet of office space, of which 348,000 square feet is leased to the New York Stock Exchange. Prior to the acquisition of the remaining 40%, the Company consolidated the operations of this property and reflected the 40% interest that it did not own as a component of minority interest. Subsequent to this acquisition, the Company no longer reflects the 40% minority interest.

2101 L STREET

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

LAS CATALINAS MALL

On September 23, 2002, the Company increased its interest in the Las Catalinas Mall located in Caguas, Puerto Rico (San Juan area) to 100% by acquiring the 50% of the mall and 25% of the Kmart anchor store it did not already own. The purchase price was $48,000,000, of which $16,000,000 was paid in cash and $32,000,000 was debt assumed. The Las Catalinas Mall, which opened in 1997, contains 493,000 square feet, including a 123,000 square foot Kmart and a 138,000 square foot Sears owned by the tenant. Prior to September 23, 2002, the Company accounted for its investment on the equity method. Subsequent to this date the operations of Las Catalinas are consolidated into the accounts of the Company.

MONMOUTH MALL

On October 10, 2002, a joint venture in which the Company has a 50% interest, acquired the Monmouth Mall, an enclosed super regional shopping center located in Eatontown, New Jersey containing approximately 1.5 million square feet, including four department stores, three of which aggregating 719,000 square feet are owned by the tenants. The purchase price was approximately $164,700,000, including transaction costs of $4,400,000. The Company made a $7,000,000 cash investment in the form of common equity to the venture and provided it with cash of $23,500,000 representing preferred equity yielding 14%. The venture financed the purchase of the Mall with $135,000,000 of floating rate debt at LIBOR plus 2.05%, with a

LIBOR floor of 2.50% on $35,000,000, a three year term and two one-year extension options. The Company accounts for its investment on the equity method.

BERGEN MALL

On December 12, 2003, the Company acquired the Bergen Mall for approximately $145,000,000. This purchase was funded as part of a Section 1031 tax-free "like-kind" exchange with a portion of the proceeds from the sale of the Company's Two Park Avenue property. The Bergen Mall is a 903,000 square foot shopping center located on Route 4 East in Paramus, New Jersey. The center is anchored by Macy's, Value City, Marshalls and Off Saks Fifth Avenue. The Company intends to expand, re-tenant and redevelop the center in order to reposition the asset. On January 27, 2004, the Company entered into an agreement to modify the Value City lease to give the Company a one-year option to terminate the lease no earlier than one year after notification and upon payment of $12,000,000 to the tenant. The present value of this option is reflected in the acquisition price and is included in other liabilities in the consolidated balance sheet.

GENERAL MOTORS BUILDING MEZZANINE LOANS

On October 20, 2003 the Company made a $200 million mezzanine loan secured by partnership interests in the General Motors Building. The General Motors Building was acquired by Macklowe Properties in September 2003 for approximately $1.4 billion. Vornado's loan is subordinate to $900 million of other debt. The loan is based on a rate of LIBOR plus 8.685% (with a LIBOR floor of 1.5%) and currently yields 10.185%. Further, on October 30, 2003, the Company made an additional $25 million loan, as part of a $50 million loan, the balance of which was funded by an affiliate of Soros Fund Management LLC. This loan, which is junior to the $1.1 billion of loans noted above, is based on a rate of LIBOR plus 12.81% (with a LIBOR floor of 1.5%) and currently yields 14.31%. These loans mature in October 2005, with three one-year extensions.

FOREST PLAZA SHOPPING CENTER

On February 3, 2004, the Company acquired the Forest Plaza Shopping Center for approximately $32,500,000, of which $14,000,000 was paid in cash, and $18,500,000 was debt assumed. The purchase was funded as part of Section 1031 tax-free "like kind" exchange with the remaining portion of the proceeds from the sale of the Company's Two Park Avenue property. Forest Plaza is a 165,000 square foot shopping center located in Staten Island, New York, anchored by a Waldbaum's Supermarket.

OTHER

On December 31, 2002, the Company and Crescent Real Estate Equities formed a joint venture to acquire the Carthage, Missouri and Kansas City, Kansas quarries from AmeriCold Logistics, the Company's tenant at the cold storage warehouses (Temperature Controlled Logistics) facilities for $20,000,000 in cash (appraised value). The Company contributed cash of $8,800,000 to the joint venture representing its 44% interest. The Company accounts for its investment in the venture on the equity method.

The Company entered into an agreement to acquire a 62,000 square foot free-standing retail building located at 25 W. 14th Street in Manhattan for $40,000,000. The building, which was recently renovated, is 87% occupied as of December 31, 2003. The acquisition is expected to be completed in the second quarter of 2004.

Dispositions:

The following sets forth the details of sales, dispositions, write-offs and other similar transactions for the years ended December 31, 2003, 2002 and 2001:

GAINS ON SALES OF REAL ESTATE (DISCONTINUED OPERATIONS IN 2003):

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

On October 10, 2003, the Company sold Two Park Avenue, a 965,000 square foot office building, for $292,000,000 to SEB Immobilien-Investment GmbH, a German capital investment company, which resulted in a net gain on the sale after closing costs of $156,433,000.

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

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

On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue for $60,000,000, which resulted in a net gain on sale after closing costs of $12,445,000.

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

On February 2, 2004, the Palisades Venture in which the Company owns a 75% interest entered into an agreement to sell its only asset, a 538 unit high-rise residential apartment tower in Fort Lee, New Jersey, for $222,500,000. On February 27, 2004, the Company acquired the remaining 25% interest it did not previously own for approximately $17,000,000. The Company's gain on sale after closing costs will be approximately $70,000,000. The sale, which is subject to customary closing conditions, is expected to be completed by the third quarter of 2004.

Net gains (losses) on disposition of wholly-owned and partially-owned assets other than depreciable real estate:

For the Years Ended December 31,

(AMOUNTS IN THOUSANDS)	2003	2002	2001
Wholly-owned:			
Primestone loss on settlement of guarantees (2003) and foreclosure and impairment losses (2002)	$(1,388)	$(35,757)	$ —
Net gain on sale of marketable securities	2,950	12,346	—
Gains on sale of land parcels	499	—	—
Gain on sale of condominium units	188	2,156	—
Gain on transfer of mortgages	—	2,096	—
Net gain on sale of air rights	—	1,688	—
Write-off of investments in technology companies	—	—	(16,513)
Partially-owned:			
After-tax net gain on sale of Park Laurel condominium units	94	—	15,657
Write-off of net investment in the Russian Tea Room ("RTR")	—	—	(7,374)
Other	—	—	160
Net gain (loss) on disposition of wholly-owned and partially-owned assets other than depreciable real estate	$ 2,343	$(17,471)	$ (8,070)

PRIMESTONE SETTLEMENT OF GUARANTEES (2003) AND FORECLOSURE AND IMPAIRMENT LOSSES (2002)

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

On November 19, 2001, the Company sold, pursuant to a participation agreement with a subsidiary of Cadim Inc. ("Cadim"), a Canadian pension fund, a 50% participation in both loans at par for approximately $50,000,000 reducing the Company's net investment in the loans at December 31, 2001 to $56,768,000 including unpaid interest and fees of $6,790,000. The participation did not meet the criteria for "sale accounting" under SFAS 140 because Cadim was not free to pledge or exchange the assets. Accordingly, the Company was required to account for this transaction as a borrowing secured by the loan, rather than as a sale of the loan by classifying the participation as an "Other Liability" and continuing to report the outstanding loan balance at 100% in "Notes and Mortgage Loans Receivable" on the consolidated balance sheet.

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

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

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

On June 13, 2003, the Company received its $5,000,000 share of a settlement with affiliates of Primestone Investment Partners of the amounts due under the guarantees of the Primestone loans. In connection therewith, the Company recognized a $1,388,000 loss on settlement of the guarantees.

GAIN ON TRANSFER OF MORTGAGES

In the year ended December 31, 2002, the Company recorded a net gain of approximately $2.1 million resulting from payments to the Company by third parties that assumed certain of the Company's mortgages. Under these transactions the Company paid to the third parties that assumed the Company's obligations the outstanding amounts due under the mortgages and the third parties paid the Company for the benefit of assuming the mortgages. The Company has been released by the creditors underlying these loans.

NET GAIN ON SALE OF AIR RIGHTS

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

GAIN ON SALE OF KINZIE PARK CONDOMINIUM UNITS

The Company recognized gains of $187,500 and $2,156,000 during 2003 and 2002, from the sale of residential condos in Chicago, Illinois.

WRITE-OFF OF INVESTMENTS IN TECHNOLOGY COMPANIES

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

PARK LAUREL CONDOMINIUM PROJECT

In 2001, the Park Laurel joint venture (69% interest owned by the Company) completed the sale of 52 condominium units of the total 53 units and received proceeds of $139,548,000. The Company's share of the after-tax net gain was $15,657,000. The Company's share of the after-tax net gain reflects $3,953,000 (net of tax benefit of $1,826,000) of awards accrued under the venture's incentive compensation plan. In 2003 the Company sold the remaining unit which resulted in after-tax net gain to the Company of $94,000.

WRITE-OFF OF NET INVESTMENT IN RTR

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

4. Discontinued Operations

SFAS No. 144 requires discontinued operations presentation for disposals of a "component" of an entity. In accordance with SFAS No. 144, for all periods presented, the Company reclassified its consolidated statements of income to reflect income and expenses for properties which became held for sale subsequent to December 31, 2003, as discontinued operations and reclassified its consolidated balance sheets to reflect assets and liabilities related to such properties as assets related to discontinued operations and liabilities related to discontinued operations.

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

December 31,

(AMOUNTS IN THOUSANDS)	2003	2002
Palisades	$138,629	$142,333
Baltimore (Dundalk)	2,167	2,050
Vineland	908	978
Two Park Avenue (sold on October 10, 2003)	—	123,076
Hagerstown (sold on November 3, 2003)	—	1,013
Baltimore (sold on January 9, 2003)	—	2,218
	$141,704	$271,668

Liabilities related to discontinued operations represent the Palisades mortgage payable of $120,000,000 and $100,000,000 as of December 31, 2003 and 2002, respectively.

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2003, 2002 and 2001 are as follows:

For the Year Ended December 31,

(AMOUNTS IN THOUSANDS)	2003	2002	2001
Total revenues	$42,694	$42,831	$33,612
Total expenses	28,621	32,947	23,270
Income from discontinued operations	$14,073	$ 9,884	$10,342

See Note 3. Acquisitions and Dispositions for details of gains on sale of real estate related to discontinued operations in the year ended December 31, 2003.

5. Investments in Partially-Owned Entities

The Company's investments in partially-owned entities and income recognized from such investments are as follows:

Balance Sheet Data:

				100% of These Entities					
		Company's Investment		Total Assets		Total Liabilities		Total Equity	
(AMOUNTS IN THOUSANDS)	Percentage Ownership	2003	2002	2003	2002	2003	2002	2003	2002
Investments:									
Temperature Controlled Logistics[1]	60%	$436,225	$459,559	$1,264,390	$1,314,750	$ 557,017	$ 584,511	$707,373	$730,239
Alexander's	33.1%	207,872	193,879	$ 920,996	$ 664,912	$ 870,073	$ 596,247	$ 50,923	$ 68,665
Newkirk Joint Ventures[2]	22.6%	138,762	182,465	$1,384,094	$1,472,349	$1,276,905	$1,481,026	$107,189	$ (4,403)
Partially—Owned Office Buildings	34%	44,645	27,164						
Monmouth Mall[3]	50%	30,612	31,416						
Starwood Ceruzzi Joint Venture	80%	23,821	24,959						
Park Laurel	80%	1,206	3,481						
Prime Group Realty, L.P. and other guarantees[4]	14.9%	—	23,408						
Other		17,457	14,795						
		$900,600	$961,126						

(1) On February 5, 2004, AmeriCold Realty Trust completed a $254,400 mortgage financing for 21 of its owned and 7 of its leased temperature-controlled warehouses. The loan bears interest at LIBOR plus 2.95% (with a LIBOR floor of 1.5% with respect to $54,400 of the loan) and requires principal payments of $5,000 annually. The loan matures in April 2009 and is pre-payable without penalty after February 5, 2006. The net proceeds were approximately $225,000 after providing for usual escrows, closing costs and the repayment of $12,900 of existing mortgages on two of the warehouses, of which $135,000 was distributed to the Company and the remainder was distributed to its partner.

(2) On January 2, 2002, the Newkirk Joint Ventures' partnership interests were merged into a master limited partnership (the "MLP"). In conjunction with the merger, the MLP completed a $225,000 mortgage financing collateralized by its properties, subject to the existing first and certain second mortgages on those properties. The loan bears interest at LIBOR plus 5.5% with a LIBOR floor of 3% (8.5% at December 31, 2003) and matures on January 31, 2005, with two one-year extension options. As a result of the financing on February 6, 2002, the MLP repaid approximately $28,200 of existing debt and distributed approximately $37,000 to the Company. On November 24, 2003, Newkirk JV and the MLP obtained new financing in the amount of $525,000. Of this amount $316,527 is secured by the Contract Rights and guaranteed by the MLP and $208,473 is secured by the assets of the MLP. The loan bears interest at a rate equal to the lesser of (i) LIBOR plus 4.5% or (ii) Prime plus 2.5%. The loan matures on November 24, 2006 and has two one-year extensions. The proceeds of the loan were used primarily to repay the MLP's outstanding balance of the existing $225,000 credit facility and to distribute funds to its partners. The Company received its share of the distribution (approximately $74,106) on November 24, 2003.

(3) On October 10, 2002, a joint venture in which the Company owns a 50% interest acquired the Monmouth Mall.

(4) On June 11, 2003, the Company exercised its right to exchange the 3,972,447 units it owned in Prime Group Realty L.P. for 3,972,447 common shares in Prime Group Realty Trust (NYSE:PGE). Prior to the exchange, the Company accounted for its investment in the partnership on the equity method. Subsequent to the exchange, the Company is accounting for its investment in PGE as a marketable equity security-available for sale.

Below is a summary of the debt of partially-owned entities as of December 31, 2003 and 2002, none of which is guaranteed by the Company.

100% of Partially-Owned Entities Debt

(AMOUNTS IN THOUSANDS)	December 31, 2003	December 31, 2002
Alexander's (33.1% interest):		
Due to Vornado on January 3, 2006 with interest at 12.48% (prepayable without penalty)	$124,000	$119,000
Lexington Avenue construction loan payable, due on January 3, 2006, plus two one-year extensions, with interest at LIBOR plus 2.50% (3.64% at December 31, 2003)	240,899	55,500
Rego Park mortgage payable, due in June 2009, with interest at 7.25%	82,000	82,000
Kings Plaza Regional Shopping Center mortgage payable, due in June 2011, with interest at 7.46% (prepayable with yield maintenance)	216,587	219,308
Paramus mortgage payable, due in October 2011, with interest at 5.92% (prepayable without penalty)	68,000	68,000
Temperature Controlled Logistics (60% interest):		
Mortgage notes payable collateralized by 58 temperature controlled warehouses, due from 2004 to 2023, requires amortization based on a 25-year term with interest at 6.91% (prepayable with yield maintenance)	512,506	537,716
Other notes and mortgages payable	36,315	37,789
Newkirk Joint Ventures (22.6% interest):		
Portion of first mortgages collateralized by the partnerships' real estate, due from 2004 to 2024, with a weighted average interest rate of 6.78% at December 31, 2003 (various prepayment rights)	1,069,545	1,432,438
Prime Group Realty L.P. (14.9% interest):		
24 mortgages payable[(1)]	—	868,374
Partially Owned Office Buildings:		
330 Madison Avenue (25% interest) mortgage note payable, due in April 2008, with interest at 6.52% (prepayable with yield maintenance)	60,000	60,000
Fairfax Square (20% interest) mortgage note payable due in August 2009, with interest at 7.50%	68,051	68,900
825 Seventh Avenue (50% interest) mortgage payable, due in October 2014, with interest at 8.07% (prepayable with yield maintenance)	23,060	23,295
Orleans Hubbard (50% interest) mortgage note payable, due in March 2009, with interest at 7.03%	9,799	9,961
Wells/Kinzie Garage (50% interest) mortgage note payable, due in May 2009, with interest at 7.03%	15,606	15,860
Kaempfer Equity Interests (.1% to 10% interests in 6 partnerships):		
Mortgage notes payable, collateralized by the partnerships' real estate, due from 2007 to 2031, with a weighted average interest rate of 6.45% at December 31, 2003 (various prepayment terms)	361,263	—
Monmouth Mall (50% interest):		
Mortgage note payable, due in November 2005, with interest at LIBOR + 2.05% (3.53% at December 31, 2003)	135,000	135,000

(1) On May 23, 2003, the Company converted its investment in Prime Group Realty L.P. into common shares of Prime Group Realty Trust and from that date forward the investment is accounted for as a marketable equity security.

Based on the Company's ownership interest in the partially-owned entities above, the Company's share of the debt of these partially-owned entities was $930,567,000 and $1,048,108,000 as of December 31, 2003 and 2002.

Income Statement Data:

	Company's Equity in Income (Loss) from Partially Owned Entities			100% of These Entities					
				Total Revenues			Net Income (loss)		
(AMOUNTS IN THOUSANDS)	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Alexander's:									
Equity in (loss) income[1]	$ (6,254)	$ 7,556	$ 8,465	$ 87,162	$ 76,800	$ 67,792	$ (17,742)	$ 23,584	$ 27,386
Interest income[2]	10,554	10,401	11,899						
Development and guarantee fees[2]	6,935	6,915	—						
Management and leasing fee income[1]	4,339	4,781	5,354						
	$ 15,574	$29,653	$25,718						
Temperature Controlled Logistics:									
Equity in net income	$ 12,869	$ 4,144	$12,093	$119,605	$117,663	$126,957	$ 20,514	$ (20,231)	$ 16,647
Management fees	5,547	5,563	5,354						
	18,416	9,707	17,447						
Newkirk MLP:									
Equity in income	33,243	26,499	25,470	$273,500	$295,369	$179,551	$ 151,504	$ 121,860	$ 84,900
Interest and other income	7,002	8,001	5,474						
	40,245	34,500	30,944						
Partially-Owned Office Buildings[4]	2,426	1,966	4,093						
Monmouth Mall	4,433	1,022	—						
CESCR[3]	—	—	28,653	—[3]	—[3]	$382,502	—[3]	—[3]	$ 82,713
Prime Group Realty LP[5]	—	(1,005)	—						
Other	2,381	(1,732)	(525)						
	$ 67,901	$44,458	$80,612						

(1) 2003 includes the Company's $14,868 share of Alexander's stock appreciation rights compensation expense. 2002 includes the Company's $3,431 share of Alexander's gain on sale of its Third Avenue property. Equity in income in 2001 includes (i) the Company's $6,298 share of Alexander's gain on sale of its Fordham Road property, (ii) a charge of $1,684 representing the Company's share of abandoned development costs and (iii) $1,170 representing the Company's share of Alexander's gain on the early extinguishment of debt on its Fordham Road property. Management and leasing fee income include $350 and $520 paid to the Company in 2002 and 2001 in connection with sales of real estate.

(2) Alexander's capitalizes the fees and interest charged by the Company. Because the Company owns 33.1% of Alexander's, the Company recognizes 66.9% of such amounts as income and the remainder is reflected as a reduction of the Company's carrying amount of the investment in Alexander's.

(3) The Company owned a 34% interest in CESCR. On January 1, 2002, the Company acquired the remaining 66% of CESCR it did not previously own. Accordingly, CESCR is consolidated as of January 1, 2002.

(4) Represents the Company's interests in 330 Madison Avenue (24.8%), 825 Seventh Avenue (50%), Fairfax Square (20%), Kaempfer equity interests in six office buildings (.1% to 10%) and 570 Lexington Avenue (50%). On May 17, 2001, the Company sold its 50% interest in 570 Lexington Avenue for $60,000, resulting in a gain of $12,445 which is not included in income in the table above.

(5) On June 11, 2003, the Company exercised its right to exchange the 3,972,447 units it owned in Prime Group Realty L.P. for 3,972,447 common shares in Prime Group Realty Trust (NYSE:PGE). Prior to the exchange, the Company accounted for its investment in the partnership on the equity method. Subsequent to the exchange, the Company is accounting for its investment in PGE as a marketable equity security-available for sale.

Alexander's

The Company owns 1,655,000 common shares or 33.1% of the outstanding common stock of Alexander's at December 31, 2003. Alexander's is managed by and its properties are leased and developed by the Company pursuant to management, leasing and development agreements with one-year terms expiring in March of each year, which are automatically renewable. In conjunction with the closing of the Alexander's Lexington Avenue construction loan on July 3, 2002, these agreements were revised to cover the Alexander's Lexington Avenue property separately. Further, the Lexington Avenue management and development agreements were amended to provide for a term lasting until substantial completion of the development of the property, with automatic renewals, and for the payment of the development fee upon the earlier of January 3, 2006, or the payment in full of the construction loan encumbering the property. The Company is entitled to a development fee estimated to

be approximately $26,300,000, based on 6% of construction costs, as defined, of which $6,935,000 and $6,915,000 has been recognized as income during the years ended December 31, 2003 and 2002.

At December 31, 2003, the Company had loans receivable from Alexander's of $124,000,000, including $29,000,000 drawn under a $50,000,000 line of credit. The maturity date of the loans is the earlier of January 3, 2006 or the date the Alexander's Lexington Avenue construction loan is finally repaid. The Company accrues interest at 12.48% on the loans, which resets quarterly using a 9.48% spread to one-year treasuries with a 3% floor for treasuries.

On February 13, 2004, Alexander's completed a $400,000,000 mortgage financing on the Office Space of its Lexington Avenue development project placed by German American Capital Corporation, an affiliate of Deutsche Bank. The loan bears interest at 5.33%, matures in February 2014 and beginning in the third year, provides for principal payments based on a 25-year amortization schedule such that over the remaining eight years of the loan, ten years of amortization will be paid. Of the loan proceeds, $253,529,000 was used to repay the entire amount outstanding under the Construction Loan with HVB Real Estate Capital (Hypo). The Construction Loan was modified so that the remaining availability is $237,000,000, which is approximately the amount estimated to complete the Lexington Avenue development project. The interest rate on the Construction Loan is LIBOR plus 2.5% (currently 3.64%) and matures in January 2006, with two one-year extensions. The collateral for the Construction Loan is the same, except that the Office Space has been removed from the lien. Further, the Construction Loan permits the release of the retail space for $15,000,000 and requires all proceeds from the sale of the residential condominiums units to be applied to the Construction Loan balance until it is finally repaid. In connection with reducing the principal amount of the Construction loan Alexander's will write-off $3,050,000 of unamortized deferred financing costs in the first quarter of 2004, of which the Company's share is $1,010,000.

The Company has agreed to guarantee to the construction lender, the lien free, timely completion of the construction of the project and funding of project costs in excess of a stated loan budget, if not funded by Alexander's (the "Completion Guarantee"). The $6,300,000 estimated fee payable by Alexander's to the Company for the Completion Guarantee is 1% of construction costs (as defined). Based upon the current status of construction, Management does not anticipate the need to fund pursuant to the Completion Guarantee.

AGREEMENTS WITH ALEXANDER'S

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

The leasing agreement provides for the Company to generally receive a fee of (i) 3% of sales proceeds and (ii) 3% of lease rent for the first ten years of a lease term, 2% of lease rent for the 11th through the 20th years of a lease term and 1% of lease rent for the 21st through 30th years of a lease term, subject to the payment of rents by Alexander's tenants. Such amount is receivable annually in an amount not to exceed $2,500,000 until the present value of such installments (calculated at a discount rate of 9% per annum) equals the amount that would have been paid at the time the transactions which gave rise to the commissions occurred. At December 31, 2003, $14,450,000 is due to the Company under this agreement.

PROPERTY SALES

On August 30, 2002, Alexander's sold its Third Avenue property, located in the Bronx, New York, which resulted in a gain of $10,366,000. On January 12, 2001, Alexander's sold its Fordham Road property located in the Bronx, New York, for $25,500,000, which resulted in a gain of $19,026,000. In addition, Alexander's paid off the mortgage on its Fordham Road property at a discount, which resulted in a gain from early extinguishment of debt of $3,534,000 in the first quarter of 2001.

6. Notes and Mortgage Loans Receivable

GENERAL MOTORS BUILDING MEZZANINE LOANS

On October 20, 2003, the Company made a $200,000,000 mezzanine loan secured by partnership interests in the General Motors Building. The Company's loan is subordinate to $900,000,000 of other debt. The loan is based on a rate of LIBOR plus 8.685% (with a LIBOR floor of 1.5%) and currently yields 10.185%. On October 30, 2003, the Company made an additional $25,000,000 loan, as part of a $50,000,000 loan, the balance of which was funded by an affiliate of Soros Fund Management LLC. This loan, which is junior to the $1,100,000,000 of loans noted above, is based on a rate of LIBOR plus 12.81% (with a LIBOR floor of 1.5%) and currently yields 14.31%. The loans mature in October 2005, with three one-year extensions.

LOAN TO COMMONWEALTH ATLANTIC PROPERTIES ("CAPI")

On March 4, 1999, the Company made an additional $242,000,000 investment in CESCR by contributing to CESCR the land under certain CESCR office properties in Crystal City, Arlington, Virginia and partnership interests in certain CESCR subsidiaries. The Company acquired these assets from CAPI, an affiliate of Lazard Freres Real Estate Investors L.L.C., for $242,000,000, immediately prior to the contribution to CESCR. In addition, the Company acquired from CAPI for $8,000,000 the land under a Marriott Hotel located in Crystal City. The Company paid the $250,000,000 purchase price to CAPI by issuing 4,998,000 of the Company's Series E-1 convertible preferred units. In connection with these transactions, the Company agreed to make a five-year $41,200,000 loan to CAPI with interest at 8%, increasing to 9% ratably over the term. The loan is secured by approximately 1.1 million of the Company's Series E-1 convertible preferred units issued to CAPI. Each Series E-1 convertible preferred unit is convertible into 1.1364 of the Company's common shares. As of December 31, 2003, the balance of the loan was $38,500,000. In February 2004, CAPI converted all of its Series E-1 units into 5,679,727 Vornado common shares. Subsequent to the conversion the loan is secured by 1,250,000 Vornado common shares.

LOAN TO VORNADO OPERATING COMPANY ("VORNADO OPERATING")

At December 31, 2003, the amount outstanding under the revolving credit agreement with Vornado Operating was $21,989,000. Vornado Operating has disclosed that there is substantial doubt as to its ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. Vornado Operating has incurred losses since its inception and in the aggregate its investments do not, and for the foreseeable future are not expected to, generate sufficient cash flow to pay all of its debts and expenses. Vornado Operating estimates that it has adequate borrowing capacity under its credit facility with the Company to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. Further, Vornado Operating states that its only investee, AmeriCold Logistics ("Tenant"), anticipates that its Landlord, a partnership 60% owned by the Company and 40% owned by Crescent Real Estate Equities, will need to restructure the leases between the Landlord and the Tenant to provide additional cash flow to the Tenant (the Landlord has previously restructured the leases to provide additional cash flow to the Tenant). Management anticipates a further lease restructuring in 2004, although the Landlord is under no obligation to do so and there can be no assurance that it will do so. Vornado Operating is expected to have a source to repay the debt under this facility from the lease restructuring or other options, although not by its original due date. Since January 1, 2002, the Company has not recognized interest income on the debt under this facility. The Company has assessed the collectibility of this loan as of December 31, 2003 and determined that it is not impaired.

DEARBORN CENTER MEZZANINE CONSTRUCTION LOAN

On March 19, 2003, the outstanding amount of $29,401,000 was received from Dearborn representing the full satisfaction of the mezzanine construction loan. The loan bore interest at 12% per annum plus additional interest of $5,655,000 which was received upon repayment.

OTHER

On September 11, 2003, the Company made a loan of $7,300,000 to a non-affiliated party. The loan was collateralized by the borrower's ownership of the 150,067 shares of Vornado Series C-1 convertible preferred operating partnership units and 202,411 Vornado Class A operating partnership units. On November 18, 2003, the Company acquired the units for $15,998,000 (equivalent to 373,952 Class A at $42.78 per unit) from the borrower for $8,698,000 in cash and the balance through the repayment of the loan.

7. Debt

Following is a summary of the Company's debt:

		Interest Rate as at December 31,	Balance as at December 31,	
(AMOUNTS IN THOUSANDS)	Maturity	2003	2003	2002
Notes and Mortgages Payable:				
Fixed Interest:				
Office:				
NYC Office:				
Two Penn Plaza[1]	3/04	7.08%	$ 151,420	$ 154,669
888 Seventh Avenue	2/06	6.63%	105,000	105,000
Eleven Penn Plaza	5/07	8.39%	49,304	50,383
866 UN Plaza[1]	4/04	7.79%	33,000	33,000
CESCR Office:				
Crystal Park 1–5	7/06–8/13	6.66%–7.08%	258,733	264,441
Crystal Gateway 1–4 Crystal Square 5	7/12–1/25	6.75%–7.09%	214,323	215,978
Crystal Square 2, 3 and 4	10/10–11/14	6.82%–7.08%	143,854	146,081
Skyline Place	8/06–12/09	6.60%–6.93%	135,955	139,212
1101 17th, 1140 Connecticut, 1730 M and 1150 17th	8/10	6.74%	95,860	97,318
Courthouse Plaza 1 and 2	1/08	7.05%	78,848	80,062
Crystal Gateway N., Arlington Plaza and 1919 S. Eads	11/07	6.77%	71,508	72,721
Reston Executive I, II & III	1/06	6.75%	72,769	73,844
Crystal Plaza 1–6	10/04	6.65%	68,654	70,356
One Skyline Tower	6/08	7.12%	64,818	65,764
Crystal Malls 1–4	12/11	6.91%	60,764	65,877
1750 Pennsylvania Avenue	6/12	7.26%	49,346	49,794
One Democracy Plaza	2/05	6.75%	26,900	27,640
Retail:				
Cross collateralized mortgages on 42 shopping centers	3/10	7.93%	481,902	487,246
Green Acres Mall	2/08	6.75%	148,386	150,717
Montehiedra Town Center	5/07	8.23%	58,855	59,638
Las Catalinas Mall	11/13	6.97%	66,729	67,692
Merchandise Mart:				
Washington Design Center	11/11	6.95%	48,012	48,542
Market Square Complex	7/11	7.95%	46,816	48,213
Furniture Plaza	2/13	5.23%	45,775	—
Washington Office Center	1/04	6.80%	43,166	44,924
Other	10/10–6/13	7.71%–7.52%	18,434	18,703
Other:				
Industrial Warehouses	10/11	6.95%	48,917	49,423
Student Housing Complex	11/07	7.45%	18,777	19,019
Other	8/21	9.90%	6,920	6,937
Total Fixed Interest Notes and Mortgages Payable		7.19%	2,713,745	2,713,194

See notes on following page

(AMOUNTS IN THOUSANDS)	Maturity	Spread over LIBOR	Interest Rate as at December 31, 2003	Balance as at December 31, 2003	Balance as at December 31, 2002
Notes and Mortgages Payable:					
Variable Interest:					
Office:					
NYC Office:					
One Penn Plaza[6]	6/04	L+125	2.48%	$ 275,000	$ 275,000
770 Broadway[2]	6/06	L+105	2.18%	170,000	83,314
595 Madison Avenue[3]	—	—	—	—	70,345
909 Third Avenue[3]	8/06	L+70	1.89%	125,000	105,837
CESCR Office:					
Tyson Dulles Plaza	—	—	—	—	69,507
Commerce Executive III, IV & V[4]	7/05	L+150	2.64%	42,582	53,307
Commerce Executive III, IV & V B[4]	7/05	L+85	1.99%	10,000	—
Merchandise Mart:					
Furniture Plaza	—	—	—	—	48,290
33 North Dearborn Street[2]	—	—	—	—	18,926
Other:					
400 North LaSalle	2/05	L+250	4.75%	3,038	—
Total Variable Interest Notes and Mortgages Payable			2.29%	625,620	724,526
Total Notes and Mortgages Payable			6.42%	3,339,365	3,437,720
Liabilities related to discontinued operations:					
Palisades construction loan	1/05	L+175	2.91%	120,000	100,000
			6.30%	$3,459,365	$3,537,720
Senior unsecured notes due 2007 at fair value (Accreted face amount of $499,499 and $499,355)[5]	06/07	L+77	2.15 %	$ 525,279	$ 533,600
Senior unsecured notes due 2010[7]	12/10		4.77%	$ 199,741	$ —
Unsecured revolving credit facility[8]	07/06	L+65	—	$ —	$ —

(1) On February 5, 2004, the Company completed a $300,000 refinancing of Two Penn Plaza. The loan bears interest at 4.97% and matures in February 2011. The Company retained net proceeds of $39,000 after repaying the existing $151,000 loan, $75,000 of the $275,000 mortgage loan on its One Penn Plaza property and the $33,000 mortgage loan on 866 U.N. Plaza.

(2) On June 9, 2003, the Company completed a $170,000 mortgage of its 770 Broadway property. The loan bears interest at LIBOR plus 1.05% is pre-payable after one year without penalty and matures in June 2006 with two-one year extension options. The proceeds of the new loan were used primarily to repay (i) a $18,926 mortgage loan on 33 North Dearborn, (ii) a $69,507 mortgage loan on Tysons Dulles Plaza, and (iii) $40,000 of borrowing under the Company's unsecured revolving credit facility. In connection with the closing of the 770 Broadway loan, the Company purchased an interest rate cap, and simultaneously sold an interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are the same, the effects of a revaluation of these instruments is expected to substantially offset one another. Simultaneously with the completion of the 770 Broadway loan, the Company used cash from its mortgage escrow account to repay $133,659 of the $153,659 of debt previously cross-collateralized by its 770 Broadway and 595 Madison Avenue properties.

(3) On August 4, 2003, the Company completed a refinancing of its 909 Third Avenue mortgage loan. The new $125,000 mortgage loan is for a term of three years and bears interest at LIBOR plus .70% and has two one-year extension options. Simultaneously with the completion of the 909 Third Avenue loan, the Company used cash from its mortgage escrow account to repay the balance of $20,000 of debt previously cross-collateralized by its 770 Broadway and 595 Madison Avenue properties. In connection with the closing of the 909 Third Avenue loan, the Company purchased an interest rate cap and simultaneously sold an interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are the same, the effects of a revaluation of these instruments is expected to substantially offset one another.

(4) On July 31, 2003, the Company replaced the mortgage on the Commerce Executive property with (i) a new $43,000 non-recourse mortgage loan at LIBOR plus 1.50% with a two-year term and one-year extension option and (ii) a $10,000 unsecured loan for three years at LIBOR plus .65% with a one-year extension option.

(5) On June 24, 2002, the Company completed an offering of $500,000 aggregate principal amount of 5.625% senior unsecured notes due June 15, 2007. Interest on the notes is payable semi-annually on June 15th and December 15th, commencing December 15, 2002. The notes were priced at 99.856% of their face amount to yield 5.659%. The net proceeds of approximately $496,300 were used to repay the mortgages payable on 350 North Orleans, Two Park Avenue, the Merchandise Mart and Seven Skyline. On June 27, 2002, the Company entered into interest rate swaps that effectively converted the interest rate on the $500,000 senior unsecured notes due 2007 from a fixed rate of 5.625% to a floating rate of LIBOR plus .7725%, based upon the trailing 3 month LIBOR rate (2.15% if set on December 31, 2002). As a result of the hedge accounting for the interest rate swap on the Company's senior unsecured debt, the Company recorded a fair value adjustment of $34,245, as of December 31, 2002 which is equal to the fair value of the interest rate swap asset. The fair value of the swap was $25,780 on December 31, 2003.

(6) On June 21, 2002, one of the lenders purchased the other participant's interest in the loan. At the same time, the loan was extended for one year, with certain modifications, including (i) making the risk of a loss due to terrorism (as defined) not covered by insurance recourse to the Company and (ii) the granting of two 1-year renewal options to the Company.

(7) On November 25, 2003, the Company completed an offering of $200,000, aggregate principal amount of 4.75% senior unsecured notes due December 1, 2010. Interest on the notes is payable semi-annually on June 1st and December 1st, commencing in 2004. The notes were priced at 99.869% of their face amount to yield 4.772%. The notes contain the same financial covenants that are in the Company's notes issued in June 2002, except the maximum ratio of secured debt to total assets is now 50% (previously 55%). The net proceeds of approximately $198,500 were used primarily to repay existing mortgage debt.

(8) On July 3, 2003, the Company entered into a new $600,000 unsecured revolving credit facility which has replaced its $1 billion unsecured revolving credit facility which was to mature in July 2003. The new facility has a three-year term, a one-year extension option and bears interest at LIBOR plus .65%. The Company also has the ability under the new facility to seek up to $800,000 of commitments during the facility's term. The new facility contains financial covenants similar to the prior facility.

The net carrying amount of properties collateralizing the notes and mortgages amounted to $4,557,065,000 at December 31, 2003. As at December 31, 2003, the principal repayments required for the next five years and thereafter are as follows:

(AMOUNTS IN THOUSANDS)

Year Ending December 31,	Amount
2004	$ 296,184
2005	357,171
2006	551,539
2007	807,784
2008	378,841
Thereafter	1,672,866

8. Shareholders' Equity

COMMON SHARES OF BENEFICIAL INTEREST

On February 25, 2002, the Company sold 1,398,743 common shares based on the closing price of $42.96 on the NYSE. The net proceeds to the Company were approximately $56,453,000.

SERIES A PREFERRED SHARES OF BENEFICIAL INTEREST

Holders of Series A Preferred Shares of beneficial interest are entitled to receive dividends in an amount equivalent to $3.25 per annum per share. These dividends are cumulative and payable quarterly in arrears. The Series A Preferred Shares are convertible at any time at the option of their respective holders at a conversion rate of 1.38504 common shares per Series A Preferred Share, subject to adjustment in certain circumstances. In addition, upon the satisfaction of certain conditions the Company, at its option, may redeem the $3.25 Series A Preferred Shares at a current conversion rate of 1.38504 common shares per Series A Preferred Share, subject to adjustment in certain circumstances. At no time will the Series A Preferred Shares be redeemable for cash.

SERIES B PREFERRED SHARES OF BENEFICIAL INTEREST

Holders of Series B Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 8.5% of the liquidation preference, or $2.125 per Series B Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series B Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. However, subject to certain limitations relating to the source of funds used in connection with any such redemption, on or after March 17, 2004 (or sooner under limited circumstances), the Company, at its option, may redeem Series B Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series B Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by the Company.

On February 17, 2004, the Company has called for the redemption of all of the outstanding Series B Preferred Shares. The shares will be redeemed on March 17, 2004 at the redemption price of $25.00 per share, aggregating $85,000,000 plus accrued dividends. The redemption amount exceeds the carrying amount by $2,100,000, representing original issuance costs.

These costs will be recorded as a reduction to earnings in arriving at net income applicable to common shares, in accordance with the July 2003 EITF clarification of Topic D-42.

SERIES C PREFERRED SHARES OF BENEFICIAL INTEREST

Holders of Series C Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 8.5% of the liquidation preference, or $2.125 per Series C Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series C Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. However, subject to certain limitations relating to the source of funds used in connection with any such redemption, on or after May 17, 2004 (or sooner under limited circumstances), the Company, at its option, may redeem Series C Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series C Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by the Company.

SERIES D-10 PREFERRED SHARES OF BENEFICIAL INTEREST

Holders of Series D-10 Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 7.0% of the liquidation preference, or $1.75 per Series D-10 Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series D-10 Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company at the election of the holders. On or after November 17, 2008 (or sooner under limited circumstances), the Company, at its option, may redeem Series D-10 Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series D-10 Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by the Company.

9. Stock-based Compensation

The Company's Share Option Plan (the "Plan") provides for grants of incentive and non-qualified stock options, restricted stock, stock appreciation rights and performance shares to certain employees and officers of the Company.

Restricted stock awards are granted at the market price on the date of grant and vest over a 3 to 5 year period. The Company recognizes the value of restricted stock as compensation expense based on the Company's closing stock price on the NYSE on the date of grant on a straight-line basis over the vesting period. As of December 31, 2003, there are 246,030 restricted shares outstanding, excluding 626,566 shares issued to the Company's President in connection with his employment agreement. The Company recognized $2,599,000 and $1,868,000 of compensation expense in 2003 and 2002 for the portion of these shares that vested during each year. Dividends paid on both vested and unvested shares are charged directly to retained earnings and amounted to $777,700 and $210,100 for 2003 and 2002, respectively. Dividends on shares that are cancelled or terminated prior to vesting are charged to compensation expense in the period of the cancellation or termination.

Stock options are granted at an exercise price equal to 100% of the market price of the Company's stock on the date of grant, vest pro-rata over three years and expire 10 years from the date of grant. As of December 31, 2003 there are 14,153,587 options outstanding, of which 125,000 were granted during 2003. On January 1, 2003, the Company elected to adopted SFAS 123—Accounting for Stock Based Compensation, on a prospective basis covering all grants subsequent to 2002. Under SFAS 123, the Company recognizes compensation expense for the fair value of options granted on a straight-line basis over the vesting period. For the year ended December 31, 2003, the Company recognized $77,200 of compensation expense related to the options granted during 2003. Grants prior to 2003 are accounted for under the intrinsic value method under which compensation expense is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. As the Company's policy is to grant options with an exercise price equal to 100% of the quoted market price on the grant date, no compensation expense has been recognized for options granted prior to 2003. If compensation cost for grants prior to 2003 were recognized as compensation expense based on the fair value at the grant dates, net income and income per share would have been reduced to the pro-forma amounts below:

December 31, (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2003	2002	2001
Net income applicable to common shares:			
As reported	$ 439,888	$ 209,736	$ 227,233
Stock-based compensation cost, net of minority interest	4,460	8,171	10,606
Pro-forma	$ 435,428	$ 201,565	$ 216,627
Net income per share applicable to common shares:			
Basic:			
As reported	$ 3.92	$ 1.98	$ 2.55
Pro-forma	3.88	1.90	2.43
Diluted:			
As reported	$ 3.80	$ 1.91	$ 2.47
Pro forma	3.76	1.84	2.35

The fair value of each option grant is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions used for grants in the periods ending December 31, 2003, 2002 and 2001.

December 31,	2003	2002	2001
Expected volatility	17%	17%	17%
Expected life	5 years	5 years	5 years
Risk-free interest rate	2.9%	3.0%	4.4%
Expected dividend yield	6.0%	6.0%	6.0%

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

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	18,796,366	$34.60	15,453,100	$ 32.25	15,861,260	$ 32.25
Granted	125,000	36.46	3,655,500	42.14	26,000	35.88
Exercised	(4,613,579)	30.53	(114,181)	28.17	(314,965)	31.91
Cancelled	(154,200)	42.57	(198,053)	39.64	(119,195)	34.12
Outstanding at December 31	14,153,587	35.84	18,796,366	34.60	15,453,100	32.25
Options exercisable at December 31	11,821,382		13,674,177		11,334,124	
Weighted-average fair value of options granted during the year ended December 31 (per option)	$2.50		$3.06		$3.46	

The following table summarizes information about options outstanding under the Plan at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2003	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2003	Weighted-Average Exercise
$12–$19	26,500	2.0	$18.28	26,500	$18.28
$19–$24	2,130,000	2.9	$23.47	2,130,000	$23.47
$24–$27	66,074	3.1	$26.28	66,074	$26.28
$27–$32	3,253,080	6.1	$30.78	3,253,080	$30.78
$32–$36	2,241,258	5.1	$33.61	2,241,258	$33.61
$36–$40	246,330	7.0	$37.80	117,700	$39.24
$40–$44	3,532,453	7.7	$42.20	1,342,078	$42.34
$44–$46	2,392,892	4.0	$45.31	2,379,692	$45.31
$46–$49	265,000	4.1	$48.41	265,000	$48.41
$ 0–$49	14,153,587	5.5	$35.84	11,821,382	$34.66

Shares available for future grant under the Plan at December 31, 2003 were 9,728,792, of which 2,500,000 are subject to shareholder approval.

10. Retirement Plan

The Company has two defined benefit pension plans (the "Plans"), a Vornado Realty Trust Retirement Plan ("Vornado Plan") and a Merchandise Mart Properties Pension Plan ("Mart Plan"). Benefits under the Plans were primarily based on the employee's years of service and compensation during employment. The Company's funding policy for the Plans is based on contributions at the minimal amounts required by law. The benefits under the Vornado Plan and the Mart Plan were frozen in December 1997 and June 1999, respectively.

The Company uses a December 31 measurement date for the Vornado Plan and the Mart Plan.

OBLIGATIONS AND FUNDED STATUS

The following table sets forth the Plans' funded status and amounts recognized in the Company's balance sheets:

Year Ended December 31,

(AMOUNTS IN THOUSANDS)	**2003**	2002	2001
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 19,853	$ 18,585	$17,963
Service cost	—	—	—
Interest cost	1,244	1,260	1,226
Actuarial loss	229	1,482	679
Benefits paid	(1,082)	(1,474)	(1,283)
Benefit obligation at end of year	20,244	19,853	18,585
Change in plan assets:			
Fair value of plan assets at beginning of year	16,909	17,667	18,026
Employer contribution	1,361	667	821
Benefit payments	(1,082)	(1,474)	(1,283)
Actual return on assets	1,339	49	102
Fair value of plan assets at end of year	18,527	16,909	17,666
Funded status	(1,717)	(2,944)	(919)
Unrecognized net actuarial loss	3,455	3,653	1,192
Unrecognized prior service cost (benefit)	—	—	—
Net amount recognized	$ 1,738	$ 709	$ 273
Amounts recognized in the consolidated balance sheets consist of:			
Pre-paid benefit cost	$ 633	$ 86	$ 976
Accrued benefit liability	(2,350)	(3,030)	(1,895)
Intangible assets	—	—	—
Accumulated other comprehensive loss	3,455	3,653	1,192
Net amount recognized	$ 1,738	$ 709	$ 273

Year Ended December 31, (AMOUNTS IN THOUSANDS)	2003	2002	2001
Information for the Company's plans with an accumulated benefit obligation in excess of plans assets:			
Projected benefit obligation	$ 9,186	$ 9,018	$ 7,950
Accumulated benefit obligation	9,186	9,018	7,950
Fair value of plan assets	6,836	5,988	6,055
Components of Net Periodic Benefit Cost:			
Service cost	$ —	$ —	$ —
Interest cost	1,244	1,260	1,226
Expected return on plan assets	(1,115)	(1,142)	(1,194)
Amortization of prior service cost	—	—	—
Amortization of net (gain) loss	203	114	(5)
Net periodic benefit cost	$ 332	$ 232	$ 27
Assumptions:			
Weighted-average assumptions used to determine benefit obligations:			
Discount rate	6.00%-6.50%	6.25%-6.50%	6.50%-7.25%
Rate of compensation increase	N/A	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	6.25%-6.50%	6.50%-7.25%	6.50%-7.75%
Expected long-term return on plan assets	6.50%-7.00%	6.50%-7.00%	6.50%-7.00%
Rate of compensation increase	N/A	N/A	N/A

The Company periodically reviews its assumptions for the rate of return on each Plan's assets. The assumptions are based primarily on the long-term historical performance of the assets of the Plans. Differences in the rates of return in the near term are recognized as gains or losses in the periods that they occur.

Plan Assets

The Company has consistently applied what it believes to be a conservative investment strategy for the Vornado Plan, investing primarily in cash and cash equivalents and fixed income funds, including money market funds, United States treasury bills, government bonds and mortgage back securities. Vornado Plan's weighted-average asset allocations by asset category are as follows:

Year Ended December 31,	2003	2002	2001
U.S. Treasury Bills	81%	—	—
US Government Securities	14%	17%	17%
Money Market Funds	4%	81%	81%
Mortgage backed pass-through securities	1%	2%	2%
Total	100%	100%	100%

The Company has consistently applied what it believes to be an appropriate investment strategy for the Mart Plan, by investing in mutual funds and funds held by insurance companies. Mart Plan's weighted average asset allocations by asset category are as follows:

Year Ended December 31,	2003	2002	2001
Asset Category			
Mutual Funds	57%	56%	65%
Funds Held By Insurance Companies	42%	43%	34%
Other	1%	1%	1%
Total	100%	100%	100%

Cash Flows

The Company expects to contribute $959,000 to the Plans in 2004.

11. Leases

AS LESSOR:

The Company leases space to tenants under operating leases. Most of the leases provide for the payment of fixed base rentals payable monthly in advance. Shopping center leases provide for the pass-through to tenants of real estate taxes, insurance and maintenance. Office building leases generally require the tenants to reimburse the Company for operating costs and real estate taxes above their base year costs. Shopping center leases also provide for the payment by the lessee of additional rent based on a percentage of the tenants' sales. As of December 31, 2003, future base rental revenue under non-cancelable operating leases, excluding rents for leases with an original term of less than one year and rents resulting from the exercise of renewal options, is as follows:

(AMOUNTS IN THOUSANDS)

Year Ending December 31:	
2004	$1,084,934
2005	968,162
2006	846,345
2007	770,228
2008	680,267
Thereafter	3,423,083

These amounts do not include rentals based on tenants' sales. These percentage rents approximated $3,662,000, $1,832,000, and $2,157,000, for the years ended December 31, 2003, 2002, and 2001.

Except for the U.S. Government, which accounted for 12.7% of the Company's revenue, none of the Company's tenants represented more than 10% of total revenues for the year ended December 31, 2003.

FORMER BRADLEES LOCATIONS

Property rentals for the year ended December 31, 2003, include $5,000,000 of additional rent which, effective December 31, 2002, was re-allocated to the former Bradlees locations in Marlton, Turnersville, Bensalem and Broomall and is payable by Stop & Shop, pursuant to the Master Agreement and Guaranty, dated May 1, 1992. This amount is in addition to all other rent guaranteed by Stop & Shop for the former Bradlees locations. On January 8, 2003, Stop & Shop filed a complaint with the United States District Court claiming the Company has no right to reallocate and therefore continue to collect the $5,000,000 of annual rent from Stop & Shop because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the $5,000,000 of additional rent was previously allocated. The Company believes the additional rent provision of the guaranty expires at the earliest in 2012 and will vigorously oppose Stop & Shop's complaint.

In February 2003, Koninklijke Ahold NV, parent of Stop & Shop, announced that it overstated its 2002 and 2001 earnings by at least $500 million and is under investigation by the U.S. Justice Department and Securities and Exchange Commission. The Company cannot predict what effect, if any, this situation may have on Stop & Shop's ability to satisfy its obligation under the Bradlees guarantees and rent for existing Stop & Shop leases aggregating approximately $10.5 million per annum.

AS LESSEE:

The Company is a tenant under operating leases for certain properties. These leases will expire principally during the next thirty years. Future minimum lease payments under operating leases at December 31, 2003, are as follows:

(AMOUNTS IN THOUSANDS)	
2004	$13,823
2005	13,944
2006	13,962
2007	14,022
2008	14,050
2009	14,096
Thereafter	900,696

Rent expense was $15,593,000, $17,157,000, and $15,433,000 for the years ended December 31, 2003, 2002, and 2001.

12. Commitments and Contingencies

At December 31, 2003, the Company's $600,000,000 revolving credit facility had a zero balance, and the Company utilized $15,034,000 of availability under the facility for letters of credit.

In conjunction with the closing of Alexander's Lexington Avenue construction loan on July 3, 2002, the Company agreed to guarantee to the construction lender, the lien free, timely completion of the construction of the project and funding of all project costs in excess of a stated budget, as defined in the loan agreement, if not funded by Alexander's (see Note 5 —Investments in Partially-Owned Entities).

The Company is also committed to fund up to $32,420,000 in connection with its initial investment in two partially-owned entities.

Each of the Company's properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites, or changes in cleanup requirements would not result in significant costs to the Company.

The Company carries comprehensive liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) "acts of terrorism" as defined in the Terrorism Risk Insurance Act of 2002 which expires in 2004 with a possible extension through 2005 and (v) rental loss insurance) with respect to its assets. Below is a summary of the all risk property insurance and terrorism risk insurance for each of the Company's business segments:

	Coverage Per Occurrence	
	All Risk[1]	Sub-Limits for Acts of Terrorism
New York Office	$1,000,000,000	$300,000,000
CESCR Office	$1,000,000,000	$300,000,000
Retail	$ 500,000,000	$500,000,000
Merchandise Mart	$1,000,000,000	$300,000,000
Temperature Controlled Logistics	$ 225,000,000	$225,000,000

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

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

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

From time to time, the Company has disposed of substantial amounts of real estate to third parties for which, as to certain properties, it remains contingently liable for rent payments or mortgage indebtedness that cannot be quantified by the Company.

There are various legal actions against the Company in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the outcome of such matters will not have a material effect on the Company's financial condition, results of operations or cash flow.

The Company enters into agreements for the purchase and resale of U.S. government obligations for periods of up to one week. The obligations purchased under these agreements are held in safekeeping in the name of the Company by various money center banks. The Company has the right to demand additional collateral or return of these invested funds at any time the collateral value is less than 102% of the invested funds plus any accrued earnings thereon. The Company had $30,310,000 and $33,393,000 of cash invested in these agreements at December 31, 2003 and 2002,

13. Related Party Transactions

LOAN AND COMPENSATION AGREEMENTS

At December 31, 2003, the loan due from Mr. Roth in accordance with his employment arrangement was $13,123,000 ($4,704,500 of which is shown as a reduction in shareholders' equity). The loan bears interest at 4.49% per annum (based on the applicable Federal rate) and matures in January 2006. The Company also provided Mr. Roth with the right to draw up to $15,000,000 of additional loans on a revolving basis. Each additional loan will bear interest, payable quarterly, at the applicable Federal rate on the date the loan is made and will mature on the sixth anniversary of the loan. On May 29, 2002, Mr. Roth replaced common shares of the Company securing the Company's outstanding loan to Mr. Roth with options to purchase common shares of the Company with a value of not less than two times the loan amount. In 2002, as a result of the decline in the value of the options, Mr. Roth supplemented the collateral with cash and marketable securities.

At December 31, 2003, loans due from Mr. Fascitelli, in accordance with his employment agreement, aggregated $8,600,000. The loans mature in December 2006 and bear interest, payable quarterly, at a weighted average interest rate of 3.97% (based on the applicable Federal rate).

Pursuant to Mr. Fascitelli's 1996 employment agreement, Mr. Fascitelli became entitled to a deferred payment consisting of $5 million in cash and a convertible obligation payable November 30, 2001, at the Company's option, in either 919,540 common shares or the cash equivalent of their appreciated value, so long as such appreciated value is not less than $20 million. The Company delivered 919,540 shares to a rabbi trust upon execution of the 1996 employment agreement. The Company accounted for the stock compensation as a variable arrangement in accordance with Plan B of EITF No. 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" as the agreement permitted settlement in either cash or common shares. Following the guidance in EITF 97-14, the Company recorded changes in the fair value of its compensation obligation with a corresponding increase in the liability "Officer's Compensation Payable." Effective as of June 7, 2001, the payment date was deferred until November 30, 2004. Effective as of December 14, 2001, the payment to Mr. Fascitelli was converted into an obligation to deliver a fixed number of shares (919,540 shares) establishing a measurement date for the Company's stock compensation obligation; accordingly the Company ceased accounting for the Rabbi Trust under Plan B of the EITF and began Plan A accounting. Under Plan A, the accumulated liability representing the value of the shares on December 14, 2001, was reclassified as a component of Shareholders' Equity as "Deferred compensation shares

earned but not yet delivered." In addition, future changes in the value of the shares are no longer recognized as additional compensation expense. The fair value of this obligation was $50,345,000 at December 31, 2003. The Company has reflected this liability as Deferred Compensation Shares Not Yet Delivered in the Shareholders' Equity section of the balance sheet. For the year ended December 31, 2001, the Company recognized approximately $4,744,000 of compensation expense of which $2,612,000 represented the appreciation in value of the shares and $2,132,000 represented dividends paid on the shares.

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

Pursuant to the Company's annual compensation review in February 2002 with Joseph Macnow, the Company's Chief Financial Officer, the Compensation Committee approved a $2,000,000 loan to Mr. Macnow, bearing interest at the applicable federal rate of 4.65% per annum and due January 1, 2006. The loan, which was funded on July 23, 2002, was made in conjunction with Mr. Macnow's June 2002 exercise of options to purchase 225,000 shares of the Company's common stock. The loan is collateralized by assets with a value of not less than two times the loan amount. In 2002, as a result of the decline in the value of the options, Mr. Macnow supplemented the collateral with cash and marketable securities.

One other executive officer of the Company has a loan outstanding pursuant to an employment agreement totaling $500,000 at December 31, 2003. The loan matures in April 2005 and bears interest at the applicable Federal rate provided (4.5% at December 31, 2003).

Transactions with Affiliates and Officers and Trustees of the Company

ALEXANDER'S

The Company owns 33.1% of Alexander's. Mr. Roth and Mr. Fascitelli are Officers and Directors of Alexander's and the Company provides various services to Alexander's in accordance with management, development and leasing agreements and the Company has made loans to Alexander's aggregating $124,000,000 at December 31, 2003. See Note—5 Investments in Partially-Owned Entities for further details.

In 2002, the Company constructed a $16.3 million community facility and low-income residential housing development (the "30th Street Venture"), in order to receive 163,728 square feet of transferable development rights, generally referred to as "air rights". The Company donated the building to a charitable organization. The Company sold 106,796 square feet of these air rights to third parties at an average price of $120 per square foot. An additional 28,821 square feet of air rights was purchased by Alexander's at a price of $120 per square foot for use at Alexander's 59th Street development project (the "59th Street Project"). In each case, the Company received cash in exchange for air rights. The Company identified third party buyers for the remaining 28,111 square feet of air rights related to the 30th Street Venture. These third party buyers wanted to use the air rights for the development of two projects located in the general area of 86th Street which was not within the required geographical radius of the construction site nor in the same Community Board as the low-income housing and community facility project. The 30th Street Venture asked Alexander's to sell 28,111 square feet of the air rights it already owned to the third party buyers (who could use them) and the 30th Street Venture would replace them with 28,111 square feet of air rights. In October 2002, the Company sold 28,111 square feet of air rights to Alexander's for an aggregate purchase price of $3,058,000

(an average of $109 per square foot). Alexander's then sold an equal amount of air rights to the third party buyers for an aggregate purchase price of $3,339,000 (an average of $119 per square foot).

VORNADO OPERATING COMPANY

In October 1998, Vornado Operating Company ("Vornado Operating") was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct. The Company granted Vornado Operating a $75,000,000 unsecured revolving credit facility (the "Revolving Credit Agreement") which expires on December 31, 2004. Borrowings under the Revolving Credit Agreement bear interest at LIBOR plus 3%. The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the Revolving Credit Agreement during its term. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 2003 and 2002, $21,989,000 was outstanding under this facility.

Vornado Operating has disclosed that there is substantial doubt as to its ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. Vornado Operating has incurred losses since its inception and in the aggregate its investments do not, and for the foreseeable future are not expected to, generate sufficient cash flow to pay all of its debts and expenses. Vornado Operating estimates that it has adequate borrowing capacity under its credit facility with the Company to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. Further, Vornado Operating states that its only investee, AmeriCold Logistics ("Tenant"), anticipates that its Landlord, a partnership 60% owned by the Company and 40% owned by Crescent Real Estate Equities, will need to restructure the leases between the Landlord and the Tenant to provide additional cash flow to the Tenant (the Landlord has previously restructured the leases to provide additional cash flow to the Tenant). Management anticipates a further lease restructuring in 2004, although it is under no obligation to do so and there can be no assurance that it will do so. Vornado Operating is expected to have a source to repay the debt under this facility from the lease restructuring or other options, although not by its original due date. Since January 1, 2002, the Company has not recognized interest income on the debt under this facility.

INTERSTATE PROPERTIES

The Company manages and leases the real estate assets of Interstate Properties pursuant to a management agreement for which the Company receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on sixty days' notice at the end of the term. Although the management agreement was not negotiated at arm's length, the Company believes based upon comparable fees charged by other real estate companies, that its terms are fair to the Company. The Company earned $703,000, $747,000 and $1,133,000 of management fees under the management agreement for the years ended December 31, 2003, 2002 and 2001. In addition, during fiscal years 2003, 2002 and 2001, as a result of a previously existing leasing arrangement with Alexander's, Alexander's paid to Interstate $587,000, $703,000 and $522,000, respectively, for the leasing and other services actually rendered by the Company. Upon receipt of these payments, Interstate promptly paid them over to the Company without retaining any interest therein. This arrangement was terminated in 2003 and all payments by Alexander's for these leasing and other services are made directly to the Company.

Building Maintenance Service Company ("BMS")

On January 1, 2003, the Company acquired BMS, a company which provides cleaning and related services principally to the Company's Manhattan office properties, for $13,000,000 in cash from the estate of Bernard Mendik and certain other individuals including David R. Greenbaum, an executive officer of the Company. The Company paid BMS $53,024,000, and $51,280,000, for the years ended December 31, 2002 and 2001 for services rendered to the Company's Manhattan office properties. Although the terms and conditions of the contracts pursuant to which these services were provided were not negotiated at arm's length, the Company believes based upon comparable amounts charged to other real estate companies that the terms and conditions of the contracts were fair to the Company.

Other

On December 31, 2002, the Company and Crescent Real Estate Equities formed a joint venture to acquire the Carthage, Missouri and Kansas City, Kansas quarries from AmeriCold Logistics, the tenant of the Temperature Controlled Logistics facilities for $20,000,000 in cash. The Company contributed cash of $8,800,000 to the joint venture representing its 44% interest. AmeriCold Logistics used the proceeds from the sale to repay a portion of a loan to Vornado Operating. Vornado Operating then repaid $9,500,000 of the amount outstanding under the Company's Revolving Credit Facility. On December 31, 2003, the joint venture purchased $5,720,000 of trade receivables from AmeriCold Logistics at a 2% discount, of which the Company's share was $2,464,000.

The Company owns preferred securities in Capital Trust, Inc. ("Capital Trust") with a carrying amount of $29,259,000 at December 31, 2003. Mr. Roth, the Chairman and Chief Executive Officer of Vornado Realty Trust, is a member of the Board of Directors of Capital Trust.

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

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

On October 7, 2003, the Company acquired a 2.5% interest in the planned redevelopment of Waterfront (described in Note 3) for $2,171,000, of which the Company paid $1,545,000 in cash and issued 12,500 Operating Partnership units valued at $626,000. The partnership units were issued to Mitchell N. Schear, one of the partners in the Waterfront interest, and the President of the Company's CESCR division.

In connection with the Park Laurel condominium project, in 2001 the joint venture accrued and paid $5,779,000 of awards under the venture's incentive compensation plan.

14. Minority Interest

The minority interest represents limited partners', other than the Company, interests in the Operating Partnership and are comprised of:

Units Series	Outstanding Units at December 31, 2003	Outstanding Units at December 31, 2002	Per Unit Liquidation Preference	Preferred or Annual Distribution Rate	Conversion Rate Into Class A Units
Common:					
Class A[1]	19,223,465	20,956,446	—	$ 2.72	N/A
Convertible Preferred:					
5.0% B-1 Convertible Preferred	844,894	899,566	$50.00	$ 2.50	.914
8.0% B-2 Convertible Preferred	445,576	449,783	$50.00	$ 4.00	.914
6.5% C-1 Convertible Preferred	—	747,912	$50.00	$ 3.25	1.1431
6.5% E-1 Convertible Preferred[2]	4,998,000	4,998,000	$50.00	$ 3.25	1.1364
9.00% F-1 Preferred[3]	400,000	400,000	$25.00	$ 2.25	(4)
Perpetual Preferred:[4]					
8.5% D-1 Cumulative Redeemable Preferred[5]	—	3,500,000	$25.00	$ 2.125	N/A
8.375% D-2 Cumulative Redeemable Preferred[6]	549,336	549,336	$50.00	$4.1875	N/A
8.25% D-3 Cumulative Redeemable Preferred	8,000,000	8,000,000	$25.00	$2.0625	N/A
8.25% D-4 Cumulative Redeemable Preferred	5,000,000	5,000,000	$25.00	$2.0625	N/A
8.25% D-5 Cumulative Redeemable Preferred	6,480,000	6,480,000	$25.00	$2.0625	N/A
8.25% D-6 Cumulative Redeemable Preferred	840,000	840,000	$25.00	$2.0625	N/A
8.25% D-7 Cumulative Redeemable Preferred	7,200,000	7,200,000	$25.00	$2.0625	N/A
8.25% D-8 Cumulative Redeemable Preferred	360,000	360,000	$25.00	$2.0625	N/A
8.25% D-9 Cumulative Redeemable Preferred	1,800,000	1,800,000	$25.00	$2.0625	N/A
7.00% D-10 Cumulative Redeemable Preferred	3,200,000	—	$25.00	$ 1.75	N/A

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

(2) In February 2004, all of the Series E-1 units were converted into 5,679,727 Vornado common shares.

(3) The holders of the Series F-1 preferred units have the right to require the Company to redeem the units for cash equal to the liquidation preference or, at the Company's option, by issuing a variable number of Vornado common shares with a value equal to the liquidation value. On July 1, 2003, upon the adoption of SFAS No. 150—Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, the Company was required to include the liquidation value of these F-1 preferred units as a liability on the consolidated balance sheet as opposed to their prior classification as minority interest because of the possible settlement of this obligation by issuing a variable number of Vornado common shares. In addition, from July 1, 2003, distributions to the holders of the F-1 preferred units are included as a component of interest expense as opposed to their prior classification as minority interest expense.

(4) Convertible at the option of the holder for an equivalent amount of the Vornado preferred shares and redeemable at the Company's option after the 5th anniversary of the date of issuance (ranging from December 1998 to September 2001).

(5) The Company redeemed all of its 8.5% Series D-1 Cumulative Redeemable Preferred Units on November 11, 2003 at a redemption price equal to the par value of $25.00 per unit or an aggregate of $87.5 million. This amount exceeded the carrying amount by $2,100,000 representing the original issuance costs. Upon redemption, these issuance costs were recorded as a reduction to earnings in arriving at net income applicable to common shares in accordance with the July 2003 EITF clarification of Topic D-42.

(6) The Company redeemed all of its 8.375% Series D-2 Cumulative Redeemable Preferred Units on January 6, 2004 at a redemption price equal to $50 per unit or an aggregate of $27.5 million.

15. Income Per Share

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share—which utilizes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted income per common share—which includes the weighted average common shares and dilutive share equivalents. Potential dilutive share equivalents include the Company's Series A Convertible Preferred shares as well as Vornado Realty L.P.'s convertible preferred units.

Year Ended December 31, (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
Numerator:			
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	$284,841	$253,148	$242,011
Discontinued operations	14,073	9,884	10,342
Gains on sale of real estate (discontinued operations in 2003)	161,789	—	15,495
Cumulative effect of change in accounting principle	—	(30,129)	(4,110)
Net income	460,703	232,903	263,738
Preferred share dividends	(20,815)	(23,167)	(36,505)
Numerator for basic income per share—net income applicable to common shares	439,888	209,736	227,233
Impact of assumed conversions:			
Series A convertible preferred share dividends	3,570	—	—
Numerator for diluted income per share—net income applicable to common shares	$443,458	$209,736	$227,233
Denominator:			
Denominator for basic income per share—weighted average shares	112,343	105,889	89,109
Effect of dilutive securities:			
Series A convertible preferred shares	1,522	—	—
Employee stock options and restricted share awards	2,786	3,780	2,964
Denominator for diluted income per share—adjusted weighted average shares and assumed conversions	116,651	109,669	92,073
INCOME PER COMMON SHARE—BASIC:			
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	$ 2.35	$ 2.17	$ 2.31
Discontinued operations	0.13	.09	.12
Gains on sale of real estate (discontinued operations in 2003)	1.44	—	.17
Cumulative effect of change in accounting principle	—	(.28)	(.05)
Net income per common share	$ 3.92	$ 1.98	$ 2.55
INCOME PER COMMON SHARE—DILUTED:			
Income before discontinued operations, gains on sale of real estate and cumulative effect of change in accounting principle	$ 2.29	$ 2.09	$ 2.23
Discontinued operations	0.12	.09	.11
Gains on sale of real estate (discontinued operations in 2003)	1.39	—	.17
Cumulative effect of change in accounting principle	—	(.27)	(.04)
Net income per common share	$ 3.80	$ 1.91	$ 2.47

16. Summary of Quarterly Results (Unaudited)

The following summary represents the results of operations for each quarter in 2003, 2002 and 2001:

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)	Revenue	Net Income Applicable to Common Shares	Income Per Common Share[1] Basic	Income Per Common Share[1] Diluted
2003				
March 31	$364,977	$ 86,317	$0.79	$0.77
June 30	371,129	82,331	0.74	0.71
September 30	380,174	70,981	0.63	0.60
December 31	386,775	200,259 [2]	1.73	1.66
2002				
March 31	$349,199	$ 45,396	$0.44	$0.42
June 30	344,727	64,553	0.61	0.58
September 30	352,983	59,247	0.55	0.54
December 31	345,331	39,434	0.37	0.36
2001				
March 31	$233,959	$ 46,836	$0.54	$0.52
June 30	237,973	56,920	0.65	0.64
September 30	241,026	67,876	0.76	0.74
December 31	239,462	55,601	0.59	0.57

(1) The total for the year may differ from the sum of the quarters as a result of weighting.

(2) Includes gains on sale of real estate of $158,378.

17. Costs of Acquisitions and Development Not Consummated

In 2002, the Company had a 70% interest in a joint venture to develop an office tower over the Port Authority Bus Terminal in New York City. Market conditions existing in 2002 resulted in the joint venture writing off $9,700,000, representing all pre-development costs capitalized to date, of which the Company's share is $6,874,000.

In 2001, the Company was unable to reach a final agreement with the Port Authority of NY & NJ to conclude a net lease of the World Trade Center. Accordingly, in 2001 the Company wrote off costs of $5,223,000 primarily associated with the World Trade Center.

18. Segment Information

The Company has four business segments: Office, Retail, Merchandise Mart Properties and Temperature Controlled Logistics. In 2003, the Company revised how it presents EBITDA, a measure of performance of its segments, and has revised the disclosure for all periods presented. EBITDA as disclosed represents "Earnings before Interest, Taxes, Depreciation and Amortization." This change is consistent with the Securities and Exchange Commission's Regulation G.

December 31, 2003

(AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[2]
Property rentals	$1,210,048	$ 823,302	$136,490	$197,554	$ —	$ 52,702
Straight-line rents:						
Contractual rent increases	34,023	27,031	3,108	3,875	—	9
Amortization of free rent	7,924	292	5,390	2,251	—	(9)
Amortization of acquired below market leases, net	9,047	8,007	1,040	—	—	—
Total rentals	1,261,042	858,632	146,028	203,680	—	52,702
Expense reimbursements	179,214	102,826	56,900	16,402	—	3,086
Fee and other income:						
Tenant cleaning fees	29,062	29,062	—	—	—	—
Management and leasing fees	12,812	11,427	1,290	—	—	95
Other	20,925	8,852	4,694	7,344	—	35
Total revenues	1,503,055	1,010,799	208,912	227,426	—	55,918
Operating expenses	583,660	377,500	70,462	91,033	—	44,665
Depreciation and amortization	215,032	151,994	18,835	30,125	—	14,078
General and administrative	122,405	37,251	9,783	20,215	—	55,156
Total expenses	921,097	566,745	99,080	141,373	—	113,899
Operating income	581,958	444,054	109,832	86,053	—	(57,981)
Income applicable to Alexander's	15,574	—	—	—	—	15,574
Income from partially-owned entities	67,901	2,426	3,752	(108)	18,416	43,415
Interest and other investment income	25,402	2,960	359	93	—	21,990
Interest and debt expense	(229,662)	(134,715)	(59,674)	(14,788)	—	(20,485)
Net gain on disposition of wholly-owned and partially-owned assets other than real estate	2,343	180	—	188	—	1,975
Minority interest	(178,675)	(1,119)	—	—	—	(177,556)
Income before discontinued operations and gains on sale of real estate	284,841	313,786	54,269	71,438	18,416	(173,068)
Discontinued operations	14,073	15,536	261	—	—	(1,724)
Gains on sale of real estate (discontinued operations)	161,789	157,200	4,589	—	—	—
Net income	460,703	486,522	59,119	71,438	18,416	(174,792)
Interest and debt expense[3]	296,059	138,379	62,718	15,700	24,670	54,592
Depreciation and amortization[3]	279,507	155,743	21,642	30,749	34,879	36,494
Income taxes	1,627	45	—	—	—	1,582
EBITDA[1]	$1,037,896	$ 780,689	$143,479	$117,887	$ 77,965	$ (82,124)
Balance sheet data:						
Real estate, net	$6,878,603	$4,966,074	$730,443	$904,546	$ —	$277,540
Investments and advances to partially-owned entities	900,600	44,645	57,317	6,063	426,773	365,802
Capital expenditures:						
Acquisitions	249,954	95,420	154,534	—	—	—
Other	239,222	108,230	45,707	36,341	5,700	43,244

See notes on page 89

December 31, 2002 (AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[2]
Property rentals	$1,159,002	$793,990	$120,451	$191,197	$ —	$ 53,364
Straight-line rents:						
Contractual rent increases	31,323	27,598	1,777	1,772	—	176
Amortization of free rent	6,796	2,374	3,317	1,105	—	—
Amortization of acquired below market leases, net	12,634	12,469	165	—	—	—
Total rentals	1,209,755	836,431	125,710	194,074	—	53,540
Expense reimbursements	154,766	85,420	51,008	14,754	—	3,584
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	14,800	13,317	1,450	33	—	—
Other	12,918	7,783	172	4,743	—	220
Total revenues	1,392,239	942,951	178,340	213,604	—	57,344
Operating expenses	519,345	330,585	61,500	86,022	—	41,238
Depreciation and amortization	198,601	143,021	14,957	26,716	—	13,907
General and administrative	100,050	33,334	7,640	20,382	—	38,694
Amortization of officer's deferred compensation expense	27,500	—	—	—	—	27,500
Costs of acquisitions and development not consummated	6,874	—	—	—	—	6,874
Total expenses	852,370	506,940	84,097	133,120	—	128,213
Operating income	539,869	436,011	94,243	80,484	—	(70,869)
Income applicable to Alexander's	29,653	—	—	—	—	29,653
Income from partially-owned entities	44,458	1,966	(687)	(339)	9,707	33,811
Interest and other investment income	31,685	6,472	323	507	—	24,383
Interest and debt expense	(234,113)	(138,731)	(56,643)	(22,948)	—	(15,791)
Net loss on disposition of wholly-owned and partially-owned assets other than real estate	(17,471)	—	—	2,156	—	(19,627)
Minority interest	(140,933)	(3,526)	—	(2,249)	—	(135,158)
Income before discontinued operations, and cumulative effect of change in accounting principle	253,148	302,192	37,236	57,611	9,707	(153,598)
Discontinued operations	9,884	15,910	723	—	—	(6,749)
Cumulative effect of change in accounting principle	(30,129)	—	—	—	(15,490)	(14,639)
Net income	232,903	318,102	37,959	57,611	(5,783)	(174,986)
Cumulative effect of change in accounting principle	30,129	—	—	—	15,490	14,639
Interest and debt expense[3]	305,920	143,068	58,409	23,461	25,617	55,365
Depreciation and amortization[3]	257,707	149,361	17,532	27,006	34,474	29,334
EBITDA[1]	$ 826,659	$ 610,531	$113,900	$108,078	$ 69,798	$ (75,648)
Balance sheet data:						
Real estate, net	6,579,965	4,880,885	569,015	891,701	—	238,364
Investments and advances to partially-owned entities	961,126	29,421	56,375	5,912	448,295	421,123
Capital expenditures:						
Acquisitions	2,739,746	2,650,298	89,448	—	—	—
Other	164,162	114,375	3,019	20,852	5,588	20,328

See notes on page 89

December 31, 2001 (AMOUNTS IN THOUSANDS)	Total	Office	Retail	Merchandise Mart	Temperature Controlled Logistics	Other[2]
Property rentals	$ 769,780	$ 399,459	$116,710	$191,909	$ —	$ 61,702
Straight-line rents:						
Contractual rent increases	28,964	24,012	(45)	4,997	—	—
Amortization of free rent	14,345	11,396	2,187	762	—	—
Amortization of acquired below market leases, net	—	—	—	—	—	—
Total rentals	813,089	434,867	118,852	197,668	—	61,702
Expense reimbursements	129,013	64,097	48,708	13,801	—	2,407
Fee and other income:						
Tenant cleaning fees	—	—	—	—	—	—
Management and leasing fees	1,472	1,404	—	68	—	—
Other	8,587	1,848	1,076	3,256	—	2,407
Total revenues	952,161	502,216	168,636	214,793	—	66,516
Operating expenses	385,449	205,408	55,200	83,107	—	41,734
Depreciation and amortization	120,614	68,726	14,218	25,397	—	12,273
General and administrative	71,716	11,569	3,572	18,081	—	38,494
Costs of acquisitions not consummated	5,223	—	—	—	—	5,223
Total expenses	583,002	285,703	72,990	126,585	—	97,724
Operating income	369,159	216,513	95,646	88,208	—	(31,208)
Income applicable to Alexander's	25,718	—	—	—	—	25,718
Income from partially-owned entities	80,612	32,746	1,914	149	17,447	28,356
Interest and other investment income	54,385	6,866	608	2,045	—	44,866
Interest and debt expense	(167,430)	(49,021)	(55,358)	(33,354)	—	(29,697)
Net (loss) gain on disposition of wholly-owned and partially-owned assets other than real estate	(8,070)	—	—	160	—	(8,230)
Minority interest	(112,363)	(2,466)	—	—	—	(109,897)
Income before discontinued operations and gains on sale of real estate	242,011	204,638	42,810	57,208	17,447	(80,092)
Discontinued operations	10,342	9,265	1,077	—	—	—
Gains on sale of real estate	15,495	12,445	3,050	—	—	—
Cumulative effect of change in accounting principle	(4,110)	—	—	—	—	(4,110)
Net income	263,738	226,348	46,937	57,208	17,447	(84,202)
Cumulative effect of change in accounting principle	4,110	—	—	—	—	4,110
Interest and debt expense[3]	266,784	92,410	57,915	33,354	26,459	56,646
Depreciation and amortization[3]	188,859	91,085	18,957	25,397	33,815	19,605
EBITDA[1]	$ 723,491	$ 409,843	$123,809	$115,959	$ 77,721	$ (3,841)
Balance sheet data:						
Real estate, net	$4,068,390	$2,337,407	$497,454	$911,067	$ —	$ 322,462
Investments and advances to partially-owned entities	1,270,195	374,371	28,213	9,764	474,862	382,985
Capital expenditures:						
Acquisitions	11,574	11,574	—	—	—	—
Other	158,343	79,117	7,597	51,036	5,700	14,893

See notes on following page

(1) Management considers EBITDA a supplemental measure for making decisions and assessing the performance of its segments. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2) Other EBITDA is comprised of:

For the Year Ended December 31, (AMOUNTS IN THOUSANDS)	2003	2002	2001
Newkirk Joint Ventures:			
Equity in income of limited partnerships	$ 68,341	$ 60,756	$ 54,695
Interest and other income	8,532	8,795	8,700
Alexander's	23,001	39,436	19,362
Industrial warehouses	6,208	6,223	6,639
Palisades	5,006	161	—
Hotel Pennsylvania	4,573	7,636	16,978
Student housing	2,000	2,340	2,428
400 North LaSalle (phased into service beginning October 2003)	(680)	—	—
	116,981	125,347	108,802
Minority interest expense	(177,556)	(135,158)	(109,897)
Corporate general and administrative expenses	(51,461)	(34,743)	(33,515)
Investment income and other	28,350	22,907	44,222
Net gain on sale of marketable securities	2,950	12,346	—
Primestone foreclosure and impairment loss	(1,388)	(35,757)	—
Amortization of Officer's deferred compensation expense	—	(27,500)	—
Write-off of 20 Times Square pre-development costs (2002) and World Trade Center acquisition costs (2001)	—	(6,874)	(5,223)
Gain on transfer of mortgages	—	2,096	—
Net gain on sale of air rights	—	1,688	—
After-tax net gain on sale of Park Laurel condominium units	—	—	15,657
Write-off of net investment in Russian Tea Room	—	—	(7,374)
Write-off of investments in technology companies	—	—	(16,513)
	$ (82,124)	$ (75,648)	$ (3,841)

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Vornado Realty Trust as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Vornado Realty Trust at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142 *"Goodwill and Other Intangible Assets."* As discussed in Note 4 to the consolidated financial statements, the Company applied the provisions of Statement of Financial Accounting Standards No. 144 *"Accounting for the Impairment or Disposal of Long-Lived Assets."*

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 2, 2004

MARKET PRICE OF VORNADO COMMON STOCK AND RELATED INFORMATION

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

Quarterly closing price ranges of the common shares and dividends paid per share for the years ended December 31, 2003 and 2002 were as follows:

Year Ended December 31,

	2003			2002		
Quarter	High	Low	Dividends	High	Low	Dividends
1st	$38.35	$33.30	$ .68	$44.90	$41.78	$ .66
2nd	45.15	36.17	.68	47.10	43.02	.66
3rd	48.25	43.37	.68	45.38	37.65	.66
4th	55.84	48.05	.87 (1)	39.21	34.41	.68

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

On March 1, 2004, there were 1,707 holders of record of the Company's common shares.

Recent Sales of Unregistered Securities

During 2003, 2002, and 2001 the Company issued 737,212, 176,848, and 6,002 common shares, respectively, upon the redemption of Class A units of the Operating Partnership held by persons who received units in private placements in earlier periods in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4(2) of that Act.

VORNADO CORPORATE INFORMATION

Trustees

STEVEN ROTH
Chairman of the Board
Managing Partner, Interstate Properties

MICHAEL D. FASCITELLI
President

ROBERT P. KOGOD

DAVID M. MANDELBAUM
Partner, Interstate Properties

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

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

RONALD G. TARGAN*
President, Malt Products Corporation

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

RUSSELL B. WIGHT, JR.
Partner, Interstate Properties

** Members of the Audit Committee*

Officers

STEVEN ROTH
Chairman of the Board and
Chief Executive Officer

MICHAEL D. FASCITELLI
President

MELVYN H. BLUM
Executive Vice President—
Development

ANTHONY COSSENTINO
Acting Chief Executive Officer and
Senior Vice President—
Chief Financial Officer
Temperature Controlled Logistics

MICHELLE FELMAN
Executive Vice President—
Acquisitions

DAVID R. GREENBAUM
President of the New York Office Division

CHRISTOPHER KENNEDY
President of the
Merchandise Mart Division

JOSEPH MACNOW
Executive Vice President—
Finance and Administration and
Chief Financial Officer

SANDEEP MATHRANI
Executive Vice President—
Retail Real Estate Division

MITCHELL N. SCHEAR
President of Charles E. Smith Commercial Realty,
a division of Vornado Realty Trust

WENDY SILVERSTEIN
Executive Vice President—
Capital Markets

Design: Loren Associates, New York

Company Data

EXECUTIVE OFFICES
888 Seventh Avenue
New York, New York 10019

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Parsippany, New Jersey

GENERAL COUNSEL
Sullivan & Cromwell
New York, New York

TRANSFER AGENT AND REGISTRAR
Wachovia Bank, N.A.
Charlotte, North Carolina

REPORT 10-K
Shareholders may obtain a copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission free of charge (except for exhibits), by writing to the Secretary, Vornado Realty Trust, 888 Seventh Avenue, New York, New York 10019; or, visit the Company's website at www.vno.com and refer to the Company's SEC Filings.

ANNUAL MEETING
The annual meeting of shareholders of Vornado Realty Trust, will be held at 12:30 PM on Thursday, May 27, 2004 at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663.

VORNADO
REALTY TRUST