

FIRST UNION REAL ESTATE EQUITY & MORTGAGE INVESTMENTS

FORM 10-K405
(Annual Report (Regulation S-K, item 405))

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

FOR THE FISCAL YEAR ENDED 12-31-96 COMMISSION FILE NUMBER 1-6249

FIRST UNION REAL ESTATE AND MORTGAGE
INVESTMENTS

(Exact name of registrant as specified in its charter)

OHIO	34-6513657
----- (State or other jurisdiction of incorporation or organization)	----- (I.R.S. Employer Identification No.)
SUITE 1900, 55 PUBLIC SQUARE CLEVELAND, OHIO	44113-1937
----- (Address of principal executive offices)	----- (Zip Code)
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:	(216) 781-4030

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Shares of Beneficial Interest (Par Value \$1 Per Share) -----	New York Stock Exchange -----

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

(Title of class)

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

Yes /X/ No //

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

Yes /X/ No //

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing.

As of January 31, 1997, 20,975,213 Shares of Beneficial Interest were held by non-affiliates, and the aggregate market value of such shares was approximately \$283,165,376.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

21,558,779 Shares of Beneficial Interest were outstanding as of January 31, 1997

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes.

Proxy Statement dated March 5, 1997 for the Annual Meeting of Shareholders to be held on April 8, 1997 (Part III).

**FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS
CROSS REFERENCE SHEET PURSUANT TO ITEM G,
GENERAL INSTRUCTIONS TO FORM 10-K**

ITEM OF FORM 10-K - - - - -	LOCATION ----- (PAGE OR PAGES)
PART I	
1. Business	3 through 4
2. Properties	5 through 11
3. Legal Proceedings	12
4. Submission of Matters to a Vote of Security Holders	12
PART II	
5. Market for Registrant's Common Equity and Related Stockholder Matters	12; Exhibit 13, 1
6. Selected Financial Data	12; Exhibit 13, 2 through 3
7. Management's Discussion and Analysis of Financial Condition and Results of Operations	12; Exhibit 13, 18 through 22
8. Financial Statements	12; Exhibit 13, 4 through 17
9. Changes in and disagreements with Accountants on Accounting and Financial Disclosure	12
PART III	
10. Directors and Executive Officers of the Registrant	13 and 14; Proxy Statement, 2 through 6
11. Executive Compensation	14; Proxy Statement, 6 and 11 through 16
12. Security Ownership of Certain Beneficial Owners and Management	14; Proxy Statement, 9 and 10
13. Certain Relationships and Related Transactions	14; Proxy Statement, 10
PART IV	
14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	
(a) Financial Statements and Financial Statement Schedules	15 and 19 through 24; Exhibit 13, 4 through 17
(b) Exhibits	15 through 17; Exhibit Index, 25 and 26
(c) Reports on Form 8-K	17

PART I

ITEM 1. BUSINESS.

The registrant is an unincorporated association in the form of a business trust organized in Ohio under a Declaration of Trust dated August 1, 1961, as amended from time to time through July 25, 1986 (the "Declaration of Trust"), which has as its principal investment policy the purchase of interests in real estate equities. The registrant qualifies as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code.

In order to encourage efficient operation and management of its property, and after receiving a ruling from the Internal Revenue Service with respect to the proposed form of organization and operation, the registrant, in 1971, caused a management company to be organized pursuant to the laws of the State of Delaware under the name First Union Management, Inc. (the "Management Company"), to lease property from the registrant and to operate such property for its own account as a separate taxable entity. At December 31, 1996, the registrant net leased 35 of its properties to the Management Company. The shares of the Management Company are held in trust, with the shareholders of the registrant, as exist from time to time, as contingent beneficiaries. For financial reporting purposes, the financial statements of the Management Company are combined with those of the registrant.

The registrant owns regional enclosed shopping malls, apartment complexes and large downtown office buildings. Additionally, in 1996 the registrant invested \$30 million in a joint venture which owns eight shopping malls and 50% of another shopping mall. The registrant's Management Company manages and leases the joint venture shopping malls. The registrant's portfolio is diversified by type of property, geographical location, tenant mix and rental market. As of December 31, 1996, the registrant owned (in fee or pursuant to long-term groundleases under which the registrant is lessee) 13 shopping malls, nine apartment complexes, six office properties and a 1,100-car parking garage and a 300-car parking facility, as well as other miscellaneous properties (see Item 2 - Properties).

Currently, the registrant intends to concentrate its portfolio in retail and apartment properties while investments in office buildings will be de-emphasized. Although not presently seeking new mortgage investments, except when needed in the disposition of the registrant's office portfolio, the registrant intends to hold two of its three mortgage investments to maturity. In February 1997, the registrant accepted a payment of \$16.2 million cash and a \$1.8 million note for the other mortgage investment.

All of the registrant's shopping malls compete for tenants on the basis of the rent charged and location, and encounter competition from other retail properties in their respective market areas, and some of the registrant's shopping malls compete with other shopping malls in the environs. However, the principal competition for the registrant's shopping malls may come from future shopping malls locating in their market areas and from mail order and electronic retailers. In three markets in which the registrant competes, overbuilding of retail projects has caused occupancy levels to be negatively impacted. Additionally, the overall economic health of retail tenants impacts the registrant's shopping malls. Due to the overbuilding of retail space and a demand for large, open area, administrative service space in Denver, CO, the registrant has repositioned a former retail mall into an office property during 1995.

The registrant's apartment complexes compete with other apartments and residential housing in the immediate areas in which they are located and may compete with apartments and residential housing constructed in the same areas in the future.

The registrant's office properties compete for tenants principally with office buildings throughout the respective areas in which they are located. In most areas where the registrant's office buildings are located competition for tenants has been and continues to be intense on the basis of rent, location and age of the building. High vacancy rates in the cities in which the registrant has properties and the age of the registrant's office properties continue to negatively impact the registrant's occupancy rates and its ability to raise rental rates. Additionally, these factors also impact the ability of the registrant to dispose of its office properties.

The registrant's parking facilities compete with other parking facilities in the immediate areas in which they are located and may compete with new parking facilities constructed in the same areas in the future.

The registrant's mortgage investments are collateralized by an office building, shopping mall, partnership units of another public real estate investment trust and an apartment complex. Risks inherent with the registrant's portfolio are applicable to the collateral securing the mortgage investments. These risks may impair the realizability of the mortgage investments.

The registrant also experiences considerable competition when attempting to acquire equity interests in desirable real estate at operating yields below the registrant's cost of funds. As prices for real estate acquisitions continue to firm, purchasing properties at substantial yields above the registrant's cost of funds requires the registrant to assume an increased level of risk. The competition is provided by other real estate investment trusts, insurance companies, private pension plans and private developers. Additionally, the registrant's credit rating and leverage affect its competitive position in the public debt and equity markets.

The federal government and a number of states have adopted handicapped facilities and energy laws and regulations relative to the development and use of real estate. Such laws and regulations may operate to reduce the number and attractiveness of investment opportunities available to the registrant. The registrant has reviewed the properties which it owns or in which it has a leasehold interest to determine the extent and amount of capital expenditures to comply with the requirements for handicapped facilities. While the registrant is making and will continue to make modifications to the properties which it owns, the expenditures are not expected to be material. The registrant is not aware of any other requirements to make capital expenditures to comply with such laws and regulations. Other effects upon the registrant's investments which result from the application of such laws and regulations cannot be predicted.

Additionally, under various federal, state and local laws, ordinances and regulations, an owner of real estate generally is liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in, or emanating from, its property, as well as related costs of investigation and property damage. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the registrant's ability to sell or lease a property or to borrow using such real estate as collateral. Other federal and state laws require the removal or encapsulation of asbestos-containing material in poor condition in the event of remodeling or renovation. Other statutes may require the removal of underground storage tanks that are out of service or out of compliance.

Certain environmental laws impose liability on a previous owner of property to the extent that hazardous or toxic substances were present during the prior ownership period. A transfer of the property does not relieve an owner of such liability. Thus, the registrant may have liability with respect to properties previously sold but is not aware of any such liability.

Prior to undertaking major transactions, the registrant has hired independent environmental experts to review specific properties. Thirteen properties have been reviewed and no significant environmental hazards have been uncovered. The registrant has no reason to believe that any environmental contamination or violation of any applicable law, statute, regulation or ordinance governing hazardous or toxic substances has occurred or is occurring. However, no assurance can be given that hazardous or toxic substances are not located on any of the properties. The registrant will also endeavor to protect itself from acquiring contaminated properties or properties with significant compliance problems by obtaining site assessments and property reports at the time of acquisition when it deems such investigations to be appropriate. There is no guarantee, however, that these measures will successfully insulate the registrant from all such liabilities.

The number of persons employed by the registrant is 47.

ITEM 2. PROPERTIES

The following table sets forth certain information relating to the registrant's investments at December 31, 1996:

Direct equity investments	Location	Date of acquisition	Ownership percentage	Square feet(1) (000)	Occupancy rate(2)	Year construction completed
Shopping Malls:						
Eastern						
Mountaineer	Morgantown, WV	1/29/78	100%	676(4)	89%	1975
Fingerlakes	Auburn, NY	9/28/81	100	404	86	1980
Fairgrounds Square	Reading, PA	9/30/81	100	737(6)	96	1980
Wilkes (8)	Wilkesboro, NC	5/04/83	100	359	70	1982
Crossroads (21)	St. Cloud, MN	1/01/72	100	734(9)	98	1966
Two Rivers	Clarksville, TN	9/26/75	100	233	48	1968
Crossroads	Fort Dodge, IA	4/22/77	100	427(11)	96	1967
Westgate Towne Centre	Abilene, TX	4/22/77	100	386(12)	36(13)	1962
Kandi	Willmar, MN	3/12/79	100	451	88	1973
Woodland Commons	Buffalo Grove, IL	4/03/95	100	171	99	1991
Western						
Valley North	Wenatchee, WA	8/30/73	100	171	91	1966
Mall 205	Portland, OR	3/01/75	100	432(14)	97	1970
Plaza 205	Portland, OR	4/26/78	100	167	100	1970
Valley	Yakima, WA	5/01/80	100	426(15)	93	1972
Apartments:						
Midwestern						
Somerset Lakes	Indianapolis, IN	11/10/88	100	360 units	97	1975
Meadows of Catalpa	Dayton, OH	7/11/89	100	323 units	94	1972
Steeplechase	Cincinnati, OH	6/30/95	100	272 units	94	1987
Hunters Creek	Cincinnati, OH	12/11/96	100	146 units	97	1980
Southern						
Briarwood	Fayetteville, NC	6/30/91	100	273 units	89	1968-70
Woodfield Gardens	Charlotte, NC	6/30/91	100	132 units	94	1974
Windgate Place	Charlotte, NC	6/30/91	100	196 units	96	1974-78
Walden Village	Atlanta, GA	6/01/92	100	380 units	91	1973
Beech Lake	Durham, NC	8/19/94	100	345 units	87	1986

Mortgage Loans

Direct equity investments	Total cost (000)	Original balance(s) (000)	Balance at 12/31/96 (000)	Principal repayment for 1997 (000)	Interest rate	Year of maturity
Shopping Malls:						
Eastern						
Mountaineer	\$33,358	\$14,447(3)	\$ 8,088(5)	\$ 980(5)	--%(5)	--(5)
Fingerlakes	27,178	--	--	--	--	--
Fairgrounds Square	41,545	--	--(7)	--	--	--
Wilkes (8)	18,730	--	--	--	--	--
Crossroads (21)	31,724	50,300(3)	49,551(10)	705(10)	--(10)	--(10)
Two Rivers	8,394	--	--	--	--	--
Crossroads	12,704	--	--(7)	--	--	--
Westgate Towne Centre	9,724	--	--	--	--	--
Kandi	20,427	--	--(7)	--	--	--
Woodland Commons	21,997	12,000(3)	11,948	220	7.750	2006
	225,781	76,747	69,587	1,905		
Western						
Valley North	4,318	--	--	--	--	--
Mall 205	13,813	--	--	--	--	--
Plaza 205	4,477	1,716	451	148	8.500	1999
Valley	12,339	--	--	--	--	--
	34,947	1,716	451	148		

	260,728	78,463	70,038	2,053		
	-----	-----	-----	-----		
Apartments:						
Midwestern						
- - - - -						
Somerset Lakes	20,544	15,000(3)	14,863	218	7.650	2006
Meadows of Catalpa	10,500	8,000(3)	7,716	83	8.750	2002
Steeplechase	12,046	9,000(3)	8,915	136	7.395	2006
Hunters Creek	5,493	--	--	--	--	--
	-----	-----	-----	-----		
	48,583	32,000	31,494	437		
	-----	-----	-----	---		
Southern						
- - - - -						
Briarwood	8,306	2,542	--(7)	--	--	--
Woodfield Gardens	3,773	1,074	786	69	8.875	2005
Windgate Place	6,184	1,794	1,369(16)	103(16)	--(16)	--(16)
Walden Village	13,933	--	--(7)	--	--	--
Beech Lake	19,849	12,500(3)	12,348	176	6.869	2005
	-----	-----	-----	---		
	52,045	17,910	14,503	348		
	-----	-----	-----	---		
	100,628	49,910	45,997	785		
	-----	-----	-----	---		

**ITEM 2. PROPERTIES
-CONTINUED**

Direct equity investments	Location	Date of acquisition	Ownership percentage	Square feet(1) (000)	Occupancy rate(2)	Year construction completed
Office Buildings:						
Midwestern						
55 Public Square	Cleveland, OH	1/15/63	100%	397	94%	1959
Circle Tower	Indianapolis, IN	10/16/74	100	102	80	1930
Southern						
Henry C. Beck	Shreveport, LA	8/30/74	100	186	83	1958
Landmark Towers	Oklahoma City, OK	10/01/77	100	257	89	1967-71
Western						
North Valley						
Technical Center (17)	Denver, CO	12/03/69	100	454	60	1967
Peach Tree Center	Marysville, CA	12/19/79	100	436	50(18)	1972
Other:						
Land-Huntington Bldg	Cleveland, OH	10/25/61	100(19)	--	--	--
Parking Garage	Cleveland, OH	12/31/75	100	1,100 spcs.	--	1969
Parking Facility	Cleveland, OH	9/19/77	100	300 spcs.	--	--

Mortgage Loans

Direct equity investments	Total cost (000)	Original balance(s) (000)	Balance at 12/31/96 (000)	Principal repayment for 1997 (000)	Interest rate	Year of maturity
Office Buildings:						
Midwestern						
55 Public Square	\$31,894	\$ --	\$ --- (7)	\$--	--%	--
Circle Tower	4,125	--	--	--	--	--
	36,019	--	--	--		
Southern						
Henry C. Beck	8,411	--	--	--	--	--
Landmark Towers	15,624	2,909	555	307	8.375	1998
	24,035	2,909	555	307		
Western						
North Valley						
Technical Center (17)	17,601	2,037	336	156	7.750	1999
Peach Tree Center	13,625	--	--	--	--	--
	31,226	2,037	336	156		
	91,280	4,946	891	463		

Other:

Land-Huntington Bldg	4,501	--	--	--	--	--
Parking Garage	7,021	9,300(3)	8,698	238	8.550	2014
Parking Facility	2,409	--	--	--	--	--
	-----	-----	-----	-----		
	13,931	9,300	8,698	238		
	-----	-----	-----	-----		
	466,567	142,619	125,624	3,539		
Reserve for unrealized loss on carrying value of real estate (20)	(7,004)	---	---	---		
Senior debt underlying wraparound mortgage loan investments	---	---	3,444	324		
	-----	-----	-----	-----		
Total equity investments	\$459,563	\$142,619	\$129,068	\$ 3,863		
	=====	=====	=====	=====		

- (1) The square footage shown represents gross leasable area for shopping malls and net rentable area for office buildings. The apartments are shown as number of units. The parking garage and parking facility are shown as number of parking spaces.
- (2) Occupancy rates shown are as of December 31, 1996, and are based on the total square feet at each property, except apartments which are based on the number of units and average occupancy during the year.
- (3) The registrant obtained mortgages on the following properties subsequent to acquisition: Meadows of Catalpa Apartments in the amount of \$8,000,000 in 1992; Huntington Parking Garage in the amount of \$9,300,000 in 1993; Mountaineer Mall in the amount of \$4,600,000 in 1994; Crossroads Shopping Center (St. Cloud, MN) in the amount of \$50,300,000 in 1995; Woodland Commons in the amount of \$12,000,000 in 1996; Somerset Lakes in the amount of \$15,000,000 in 1996; Steeplechase in the amount of \$9,000,000 in 1996; Beech Lake in the amount of \$12,500,000 in 1996.
- (4) The total mall contains 676,000 square feet; the registrant owns 618,000 square feet, the balance being ground leased to Giant Eagle Markets, Inc.
- (5) This property has two mortgages. Interest rates are 9.10% and 8.25%. The mortgages mature in 2001 and 2009, respectively. The 9.10% mortgage, in the principal amount of \$3,936,000, has a principal payment for 1997 of \$780,000. The 8.25% mortgage, in the principal amount of \$4,152,000, has a principal payment for 1997 of \$200,000.
- (6) The total mall contains 737,000 square feet; the registrant owns 536,000 square feet, the balance being separately ground leased to Boscov Department Store, Inc.
- (7) These properties are the collateral for the registrant's \$90 million revolving line of credit.
- (8) The registrant sold this property in January 1997.
- (9) The total mall contains 734,000 square feet; the registrant owns 625,000 square feet, the balance being separately owned by Target Stores.
- (10) This property has two mortgages. Interest rates are 7% and 7.485%. The mortgages mature in 2000 and 2002, respectively. The 7% mortgage, in the principal amount of \$692,000 has a principal repayment for 1997 of \$65,000. The 7.485% mortgage, in the principal amount of \$48,859,000, has a principal repayment for 1997 of \$640,000.
- (11) The total mall contains 427,000 square feet; the registrant owns 327,000 square feet, the balance being separately owned by an unrelated third party with Sears, Roebuck and Co. as tenant.
- (12) The total mall contains 386,000 square feet; the registrant owns 291,000 square feet, the balance being separately owned by Montgomery Ward & Co., Incorporated.
- (13) Highly competitive market conditions have made leasing space difficult. The registrant continues to seek tenants and alternative retail strategies for this property.
- (14) The total mall contains 432,000 square feet; the registrant owns 255,000 square feet, the balance being separately owned by Montgomery Ward Development Corporation.
- (15) The total mall contains 426,000 square feet; the registrant owns 308,000 square feet, the balance being separately ground leased to Sears, Roebuck and Co.
- (16) This property has two mortgages. Interest rates are 8.875% and 9.375%. The mortgages mature in 2005 and 2007, respectively. The 8.875% mortgage in the principal amount of \$760,000 has a principal repayment for 1996 of \$67,000. The 9.375% mortgage, in the principal amount of \$609,000, has a principal repayment for 1996 of \$36,000.
- (17) North Valley Technical Center was repositioned from a shopping mall to an office property during 1995.

(18) The property was inundated by a flood which occurred in February 1986. The mall was subsequently rebuilt and re-opened in November 1986. A temporary tenant occupied approximately 70,000 square feet as of December 31, 1996. The Trust is pursuing a mixed use strategy for this former retail facility.

(19) The registrant has ground leased the land until October 30, 2011, with seven, 10-year renewal options.

(20) In December 1995, the registrant recorded a \$14 million unrealized loss on the carrying value of assets identified for disposition. Subsequent to the disposition of three office buildings, this reserve was \$7,004,000 as of December 31, 1996.

(21) This property represents 11.5% of gross revenues of the registrant. The property is located in St. Cloud, MN, which is approximately 55 miles northwest from Minneapolis, MN. St. Cloud has a population of 170,000. The property is a regional, enclosed retail center of 734,000 square feet, of which 625,000 square feet is owned in fee. The retail center was renovated in 1995. Also, the mall is the only regional, enclosed mall in its primary trade area. The competition for the mall are power strip centers in the primary trade area. Additionally, the mall represents 44% of the retail square feet of its primary trade area.

MORTGAGE SECURED BY THE PROPERTY

LOAN 1

Original amount	\$49,500,000	Due Date	11/28/02
Interest rate	7.485%	Amortization period	27 years
Annual Debt Service	\$4,275,238	Amount due at maturity	\$44,354,533

LOAN 2

Original amount	\$800,000	Due Date	02/15/2000
Interest rate	7%	Amortization period	10 years
Annual Debt Service	\$111,464	Amount due at maturity	\$478,385

TENANTS OCCUPYING GREATER THAN 10% OR MORE OF THE RENTABLE SQUARE FOOTAGE OF MALL

TENANT	SQUARE FEET	MINIMUM RENT PER SQUARE FOOT	EXPIRATION DATE	LEASE EXPIRATION OF LAST OPTION PERIOD
Dayton Hudson Corporation	100,000	a)	Jan-27	n/a
Sears Roebuck & Company	79,859	a)	May-00	May-10
Dayton Hudson Corporation (DBA Target)	108,162	b)	Jul-41	n/a
JC Penney Co. Inc.	167,652	\$1.12	Jan-01	Jan-11

- a) Tenant pays percentage rent in lieu of minimum rent.
- b) Tenant owns its space.

OCCUPANCY OF CROSSROADS - ST. CLOUD FOR LAST 5 YEARS

1992	99%
1993	99%
1994	98%
1995	97%
1996	98%

BASE MINIMUM RENT PER SQUARE FOOT OF OWNED MALL EXCLUDING ANCHOR TENANTS FOR THE LAST 5 YEARS

PER SQUARE FOOT

1992	\$14.84
1993	15.09
1994	16.31
1995	17.95
1996	18.91

LEASE EXPIRATIONS FOR THE NEXT 10 YEARS

# OF TENANTS EXPIRING	SQUARE FEET EXPIRING	BASE MINIMUM RENT		% OF ANNUAL BASE RENT AS OF 12/31/96	
		AMOUNT	PER SQUARE FOOT		
1997	21	32,107	\$552,752	\$17.21	11%
1998	12	18,358	388,634	21.16	7%
1999	15	24,450	512,131	20.94	10%
2000	15	23,078	519,888	22.52	10%
2001	18	47,994	784,615	16.34	15%
2002	11	29,391	476,856	16.22	9%
2003	7	18,744	492,681	26.28	9%
2004	4	7,404	144,511	19.51	2%
2005	9	20,199	419,677	20.78	8%
2006	7	25,917	550,883	21.25	10%

DEPRECIATION OF PROPERTY	BOOK BASIS	TAX BASIS	LIFE	METHOD
Building	\$ 8,302,000	\$ 8,674,000	40 yrs	Straight line
Building improvements	14,904,000	13,972,000	40 yrs	Straight line
Tenant improvements	2,726,000	2,596,000	40 yrs	Straight line
Lease costs and equipment	740,000	637,000	10 yrs	Straight line

PROPERTY TAX RATE

\$.06 per \$1.00 of assessed value. 1996 property taxes were \$1,983,606.

As of December 31, 1996, the registrant owned in fee its interests in Crossroads Center (St. Cloud, MN), Woodland Commons, Mall 205, Crossroads Mall (Ft. Dodge, IA), Westgate Towne Centre, Mountaineer Mall, Plaza 205, Valley Mall, Fingerlakes Mall, Fairgrounds Square Mall, Wilkes Mall, 55 Public Square Building, Henry C. Beck Building, Landmark Towers, Peach Tree Center, Somerset Lakes Apartments, Meadows of Catalpa Apartments, Briarwood Apartments, Woodfield Gardens Apartments, Windgate Place Apartments, Walden Village Apartments, Beech Lake Apartments, Steeplechase Apartments, Hunter's Creek Apartments, Land - Huntington Building and the Parking Facility. The registrant holds a leasehold estate or estates, or a fee interest and one or more leasehold estates in Valley North Mall, Two Rivers Mall, Kandi Mall, Circle Tower Building and North Valley Technical Center.

RENTALS FROM NET LEASES

The following table sets forth the rentals payable to the registrant for the year ended December 31, 1996, under net leases of the properties indicated:

PROPERTY -----	ANNUAL BASE RENT -----	PERCENTAGE RENTS -----
SHOPPING MALLS:		
EASTERN		

Mountaineer (1)	\$ 705,000	45% of gross receipts in excess of \$1,506,000
Fingerlakes (1)	968,000	40% of gross receipts in excess of \$2,505,000
Fairgrounds Square (1)	3,150,000	55% of gross receipts in excess of \$3,944,000
Wilkes (1)	507,000	55% of gross receipts in excess of \$931,000
Crossroads (St. Cloud, MN.) (1)	3,300,000	60% of gross receipts in excess of \$4,868,000(2)
Two Rivers (1)	---	5% of gross receipts
Crossroads (Ft. Dodge, IA) (1)	736,000	55% of gross receipts in excess of \$1,302,000
Westgate Towne Centre (1)	---	10% of gross receipts
Kandi (1)	712,000	45% of gross receipts in excess of \$1,631,000
Woodland Commons (1)	1,500,000	25% of gross receipts in excess of \$1,280,000
WESTERN		

Valley North (1)	543,000	55% of gross receipts in excess of \$976,000
Mall 205 (1)	1,232,000	55% of gross receipts in excess of \$2,146,000
Plaza 205 (1)	276,000	60% of gross receipts in excess of \$463,000
Valley (1)	463,000	50% of gross receipts in excess of \$898,000
APARTMENTS:		
MIDWESTERN		

Somerset Lakes (1)	\$971,000	55% of gross receipts in excess of \$1,744,000
Meadows of Catalpa (1)	900,000	35% of gross receipts in excess of \$2,300,000
Steeplechase (1)	800,000	50% of gross receipts in excess of \$1,170,000
Hunter's Creek (1)	500,000	20% of gross receipts in excess of \$900,000
SOUTHERN		

Briarwood (1)	335,000	35% of gross receipts in excess of \$1,000,000
Woodfield Gardens (1)	100,000	20% of gross receipts in excess of \$500,000
Windgate Place (1)	135,000	20% of gross receipts in excess of \$700,000
Walden Village (1)	850,000	55% of gross receipts in excess of \$1,545,000
Beech Lake (1)	955,000	55% of gross receipts in excess of \$1,548,450

PROPERTY -----	ANNUAL BASE RENT -----	PERCENTAGE RENTS -----
OFFICE BUILDINGS:		
MIDWESTERN		

55 Public Square (1)	\$1,500,000	40% of gross receipts in excess of \$3,400,000 (3)
Circle Tower (1)	189,000	25% of gross receipts in excess of \$709,000
SOUTHERN		

Henry C. Beck (1)	179,000	25% of gross receipts in excess of \$784,000
Landmark Towers East (1)	75,000	15% of gross receipts in excess of \$500,000
Landmark Towers Center (1)	75,000	15% of gross receipts in excess of \$408,000
Landmark Towers West (1)	75,000	15% of gross receipts in excess of \$347,000
WESTERN		

North Valley Technical Center (1)	50,000	5% of gross receipts in excess of \$1,000,000
Peach Tree Center (1)	292,000	45% of gross receipts in excess of \$672,000
OTHER:		
Land-Huntington Building	170,000	First \$130,000 plus 50% of all additional rental, as defined, received by registrant as landlord under a net lease of the building and improvements situated on the land
Parking Garage (1)	800,000	70% of gross receipts in excess of \$1,168,000
Parking Facility (1)	217,000	70% of gross receipts in excess of \$416,000

(1) Leased to the Management Company.

(2) An additional net lease for the Stearns County Building, which is part of the Crossroads, St. Cloud, MN mall, provides for a base rent of \$14,000.

(3) An additional net lease for the 55 Public Square Building garage provides for a base rent of \$331,000 and a percentage rent of 70% of gross receipts in excess of \$537,000.

ITEM 3. LEGAL PROCEEDINGS.

REGISTRANT VS. THE STATE OF CALIFORNIA

The registrant has pursued legal action against the State of California associated with the 1986 flood of Peach Tree Mall. In September 1991, the court ruled in favor of the registrant on the liability portion of this inverse condemnation suit, which the State of California appealed. The registrant is proceeding with its damage claim in Superior Court of the State of California. No recognition of potential income has been made in the December 31, 1996 Combined Financial Statements.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET PRICE AND DIVIDEND RECORD.

"Market Price and Dividend Record" presented on page 1 of Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

"Selected Financial Data" presented on page 2 and 3 of Exhibit 13.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations" presented on pages 18 through 22 of Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS.

The "Combined Balance Sheets" as of December 31, 1996 and 1995, and the "Combined Statements of Income, Combined Statements of Changes in Cash, Combined Statements of Shareholders' Equity" for the years ended December 31, 1996, 1995 and 1994, of the registrant, "Notes to Combined Financial Statements" and "Report of Independent Public Accountants" are presented on pages 4 through 17 of Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(A) DIRECTORS.

"Election of Trustees" presented on pages 2 through 6 of registrant's 1997 Proxy Statement is incorporated herein by reference.

(B) EXECUTIVE OFFICERS.

NAME ----	AGE ---	POSITIONS, OFFICES AND BUSINESS EXPERIENCE -----	PERIOD OF SERVICE -----
James C. Mastandrea	53	Chairman, President and Chief Executive Officer since February 1997. Chairman, President, Chief Executive Officer and Chief Financial Officer from February 1996 to January 1997. Chairman, President and Chief Executive Officer from January 1994 to January 1996. President and Chief Operating Officer from July 1993 to December 1993. President and Chief Executive Officer of Triam Corporation, Chicago, Illinois, an investment adviser to various real estate investment funds, from 1991 to 1993. Chairman, President and Chief Executive Officer of Midwest Development Corporation, Buffalo Grove, Illinois from 1978 to 1991. Served in various capacities in the field of commercial and real estate lending from 1971 to 1978, including Vice President of Continental Bank, Chicago, Illinois, and with Mellon Bank, Pittsburgh, Pennsylvania.	1993 to date
Paul F. Levin	50	Senior Vice President, General Counsel and Secretary since December 1994. Vice President, General Counsel and Secretary from May 1989 to November 1994. Principal of Schwarzwald, Robiner, Rock & Levin, a Legal Professional Association, from 1981 to 1989. Associate of Gaines, Stern, Schwarzwald & Robiner Co., L.P.A. from 1979 to 1980. Assistant Director of Law, City of Cleveland, Ohio, from 1975 to 1978.	1989 to date
John J. Dee	45	Senior Vice President and Chief Accounting Officer since February 1996. Senior Vice President and Controller from July 1992 to February 1996. Vice President and Controller from December 1986 to July 1992, Controller from April 1981 to December 1986, Assistant Controller from December 1979 to April 1981, Accounting Manager from August 1978 to December 1979.	1978 to date

Steven M. Edelman	42	Executive Vice President-Chief Financial Officer since February 1997. Executive Vice President, Chief Investment Officer from January 1996 to January 1997. Senior Vice President, Chief Investment Officer from March 1995 to December 1995. Senior Vice President, Asset Management from July 1992 to February 1995. Vice President, Acquisitions from December 1985 to June 1992. Assistant Vice President, Acquisitions from January 1985 to November 1985. Acquisition Analyst from February 1984 to December 1985. Assistant Controller from July 1982 to January 1984. Internal Auditor from June 1980 to June 1982. Auditor with Touche Ross & Co. from 1978 to 1980.	1980 to date
Thomas T. Kmiecik	38	Senior Vice President, Treasurer since January 1996, Vice President, Treasurer from January 1994 to December 1995. Treasurer from May 1989 to December 1993. Assistant Controller from March 1984 to April 1989, Senior Auditor with Arthur Young from 1980 to 1984.	1984 to date

ITEM 11. EXECUTIVE COMPENSATION.

"Compensation of Trustees" and "Executive Compensation", presented on page 6 and pages 11 through 16, respectively, of registrant's 1997 Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

"Security Ownership of Trustees, Officers and Others" presented on pages 9 and 10 of registrant's 1997 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

"Certain Relationships and Related Transactions" presented on page 10 of registrant's 1997 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(A) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES.

(1) FINANCIAL STATEMENTS:

Combined Balance Sheets - December 31, 1996 and 1995 on page 4 of Exhibit 13.

Combined Statements of Income - For the Years Ended December 31, 1996, 1995 and 1994 on page 5 of Exhibit 13.

Combined Statements of Changes in Cash - For the Years Ended December 31, 1996, 1995 and 1994 on page 6 of Exhibit 13.

Combined Statements of Shareholders' Equity - For the Years Ended December 31, 1996, 1995 and 1994 on page 7 of Exhibit 13.

Notes to Combined Financial Statements on pages 8 to 16 of Exhibit 13.

Report of Independent Public Accountants on page 17 of Exhibit 13.

(2) FINANCIAL STATEMENT SCHEDULES:

Report of Independent Public Accountants on Financial

Statement Schedules.

Schedule III - Real Estate and Accumulated Depreciation.

Schedule IV - Mortgage Loans on Real Estate.

All Schedules, other than III and IV, are omitted, as the information is not required or is otherwise furnished.

(B) EXHIBITS.

EXHIBIT NUMBER	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO
(3)(a)	Declaration of Trust of Registrant dated August 1, 1961, as amended through July 25, 1986	Registration Statement on Form S-3 No. 33-4493
(3)(b)	By-laws of Registrant, as amended	Registration Statement on Form S-3 No. 33-4493
(4)(a)	Form of certificate for Shares of Beneficial Interest	Registration Statement on Form S-3 No. 33-2818
(4)(b)	Form of Indenture governing Debt Securities, dated February 1, 1983 between Registrant and Ameritrust Company	Registration Statement on Form S-3 No. 2-81605
(4)(c)	Form of Debt Security	Registration Statement on Form S-3 No. 33-4493
(4)(d)	Form of Indenture governing Debt Securities, dated October 1, 1993 between Registrant and Society National Bank	Registration Statement on Form S-3 No. 33-68002

EXHIBIT NUMBER	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO
(4)(e)	Form of Note	Registration Statement on Form S-3 No. 33-68002
(4)(f)	Form of Indenture governing Debt Securities	Registration Statement on Form S-3 No. 333-00953
(4)(g)	Rights Agreement between Registrant and National City Bank dated March 7, 1990	Form 8-A dated March 30, 1990 No. 0-18411
(10)(a)	Share Purchase Agreement dated as of December 31, 1989 between registrant and First Union Management, Inc.	Registration Statement No. 2-88719
(10)(b)	First Amendment to Share Purchase Agreement dated as of December 10, 1985 between registrant and First Union Management, Inc.	Registration Statement No. 33-2818
(10)(c)	Second Amendment to Share Purchase Agreement dated as of December 9, 1986 between registrant and First Union Management, Inc.	Registration Statement No. 33-11524
(10)(d)	Third Amendment to Share Purchase Agreement dated as of December 2, 1987 between registrant and First Union Management, Inc.	Registration Statement No. 33-19812
(10)(e)	Fourth Amendment to Share Purchase Agreement dated as of December 7, 1988 between registrant and First Union Management, Inc.	Registration Statement No. 33-26758
(10)(f)	Fifth Amendment to Share Purchase Agreement dated as of November 29, 1989 between registrant and First Union Management, Inc.	Registration Statement No. 33-33279
(10)(g)	Sixth Amendment to Share Purchase Agreement dated as of November 28, 1990 between registrant and First Union Management, Inc.	Registration Statement No. 33-38754
(10)(h)	Seventh Amendment to Share Purchase Agreement dated as of November 27, 1991 between registrant and First Union Management, Inc.	Registration Statement No. 33-45355
(10)(i)	Eighth Amendment to Share Purchase Agreement dated as of November 30, 1992 between registrant and First Union Management, Inc.	Registration Statement No. 33-57756
(10)(j)	Employment and Consulting Agreement with Donald S. Schofield dated September 1, 1991	1991 Form 10-K
(10)(k)	Employment Agreement with James C. Mastandrea dated July 13, 1994	June 30, 1994 Form 10-Q
(10)(l)	Employment Agreement with Gregory D. Bruhn dated July 13, 1994	June 30, 1994 Form 10-Q
(10)(m)	Credit Agreement with National City Bank dated December 5, 1994	1994 Form 10-K
(10)(n)	Credit Agreement with Society National Bank dated March 4, 1996	1995 Form 10-K

EXHIBIT NUMBER	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO
(10)(o)	1981 Employee Share Option Plan	1992 Proxy Statement
(10)(p)	1994 Long Term Incentive Performance Plan	1994 Proxy Statement
(10)(q)	Bank Credit Agreement dated September 30, 1996	September 30, 1996 Form 10-Q
(11)	Statements Re: Computation of Per Share Earnings	
(12)	Statements of Ratios of Combined Income from Operations and Combined Net Income to Fixed Charges	
(13)	1996 Annual Report	
(23)	Consent of Independent Public Accountants	
(24)	Powers of Attorney	
(27)	Financial Data Schedule	

(C) REPORTS ON FORM 8-K.
 - - - - - - - - - -

DATE ----	SUBJECT -----
June 12, 1996	Joint venture investment in nine shopping malls.
October 24, 1996	Sale of 2,300,000 preferred shares of beneficial interest.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FIRST UNION REAL ESTATE EQUITY AND
MORTGAGE INVESTMENTS**

*By: /s/ James C. Mastandrea

James C. Mastandrea, Chairman,
President and Chief Executive
Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
Principal Executive Officer /s/ James C. Mastandrea ----- James C. Mastandrea	Chairman, President, and Chief Executive Officer	March 21, 1997
Principal Financial Officer /s/ Steven M. Edelman ----- Steven M. Edelman	Executive Vice President- Chief Financial Officer	March 21, 1997
Principal Accounting Officer /s/ John J. Dee ----- John J. Dee	Senior Vice President- Chief Accounting Officer	March 21, 1997
Trustees:)	Date
*Kenneth K. Chalmers)	
*William E. Conway)	March 21, 1997
*Daniel G. DeVos)	
*Allen H. Ford)	
*Russell R. Gifford)	
*Spencer H. Heine)	
*E. Bradley Jones)	
*Herman J. Russell)	
*James C. Mastandrea)	
)	
SIGNATURE -----)	
*By: /s/ Paul F. Levin)	
Paul F. Levin, Attorney-in-fact)	

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON

FINANCIAL STATEMENT SCHEDULES

To First Union Real Estate Equity
and Mortgage Investments:

We have audited in accordance with generally accepted auditing standards, the combined financial statements included in the registrant's 1996 Annual Report included as Exhibit 13 of this form 10-K and have issued our report thereon dated February 5, 1997. Our audit was made for the purpose of forming an opinion on those combined statements taken as a whole. The schedules listed under Item 14(a)(2) on page 15 are the responsibility of management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic combined financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic combined financial statements taken as a whole.

Cleveland, Ohio,
February 5, 1997.

Schedule III

**REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1996
(IN THOUSANDS)**

Description	Encumbrances	Initial cost to Registrant		Cost capitalized subsequent to acquisition
		Land	Buildings and Improvements	Land and Improvements
Shopping Malls:				
Eastern				
Mountaineer, Morgantown, WV	\$8,088	\$1,450	\$12,693	\$19,215
Fingerlakes, Auburn, NY	--	1,300	23,698	2,180
Fairgrounds Square, Reading, PA	--	2,400	22,635	16,510
Wilkes, Wilkesboro, NC	--	1,168	13,891	3,671
Crossroads, St. Cloud, MN	49,551	1,680	8,303	21,741
Two Rivers, Clarksville, TN	--	--	3,206	5,188
Crossroads, Ft. Dodge, IA	--	1,151	2,792	8,761
Kandi, Willmar, MN	--	--	5,035	15,392
Woodland Commons, Buffalo Grove, IL	11,948	6,744	15,093	160
Westgate Towne Centre, Abilene, TX	--	1,425	3,050	5,249
	69,587	17,318	110,396	98,067
Western				
Valley North, Wenatchee, WA	--	405	2,916	997
Mall 205, Portland, OR	--	1,228	6,140	6,445
Plaza 205, Portland, OR	451	--	1,677	2,800
Valley, Yakima, WA	--	--	8,731	3,608
	451	1,633	19,464	13,850
	\$70,038	\$18,951	\$129,860	\$111,917

Description	Gross amount at which carried at close of period			Accumulated depreciation	Year construction completed	Date Acquired	Life
	Land	Buildings and Improvements	Total				
Shopping Malls:							
Eastern							
Mountaineer, Morgantown, WV	\$1,615	\$31,743	\$33,358	\$8,053	1975	01-29-78	60
Fingerlakes, Auburn, NY	1,370	25,808	27,178	7,875	1980	09-28-81	50
Fairgrounds Square, Reading, PA	2,369	39,176	41,545	7,613	1980	09-30-81	57
Wilkes, Wilkesboro, NC	1,168	17,562	18,730	4,847	1982	05-04-83	50
Crossroads, St. Cloud, MN	5,052	26,672	31,724	6,607	1966	01-01-72	64
Two Rivers, Clarksville, TN	--	8,394	8,394	3,034	1968	09-26-75	50
Crossroads, Ft. Dodge, IA	1,333	11,371	12,704	3,579	1967	04-22-77	57
Kandi, Willmar, MN	--	20,427	20,427	5,959	1973	03-12-79	55
Woodland Commons, Buffalo Grove, IL	6,807	15,190	21,997	538	1991	04-03-95	59
Westgate Towne Centre, Abilene, TX	1,485	8,239	9,724	2,501	1962	04-22-77	60
	21,199	204,582	225,781	50,606			
Western							
Valley North, Wenatchee, WA	477	3,841	4,318	2,152	1966	08-30-73	40
Mall 205, Portland, OR	1,228	12,585	13,813	4,824	1970	03-01-75	59
Plaza 205, Portland, OR	695	3,782	4,477	1,413	1970	04-26-78	47
Valley, Yakima, WA	623	11,716	12,339	3,488	1972	05-01-80	54
	3,023	31,924	34,947	11,877			
	\$24,222	\$236,506	\$260,728	\$62,483			

**Schedule III
Continued**

Description	Encum- brances	Initial cost to Registrant	
		Land	Buildings and Improvements
Apartments:			
Midwestern			
Somerset Lakes, Indianapolis, IN	\$ 14,863	\$ 2,172	\$ 16,400
Meadows of Catalpa, Dayton, OH	7,716	1,270	7,955
Hunter's Creek, Cincinnati, OH	--	1,098	4,395
Steeplechase, Cincinnati, OH	8,915	1,782	10,114
	-----	-----	-----
	31,494	6,322	38,864
	-----	-----	-----
Southern			
Briarwood, Fayetteville, NC	--	495	6,614
Woodfield Gardens, Charlotte, NC	786	171	3,087
Windgate Place, Charlotte, NC	1,369	353	4,818
Walden Village, Atlanta, GA	--	2,768	9,288
Beech Lake, Durham, NC	12,348	3,760	15,707
	-----	-----	-----
	14,503	7,547	39,514
	-----	-----	-----
	45,997	13,869	78,378
	=====	=====	=====
Office Buildings:			
Midwestern			
55 Public Square, Cleveland OH	--	2,500	19,055
Circle Tower, Indianapolis, IN	--	270	1,609
	-----	-----	-----
		2,770	20,664
	=====	=====	=====
Southern			
Henry C. Beck, Shreveport, LA	--	717	3,906
Landmark Towers, Oklahoma City, OK	555	1,940	7,234
	-----	-----	-----
	555	2,657	11,140
	=====	=====	=====
Western			
North Valley Technical Center, Denver, CO	336	--	7,666
Peach Tree Center, Marysville, CA	--	985	3,622
	-----	-----	-----
	336	985	11,288
	-----	-----	-----
	891	6,412	43,092
	=====	=====	=====
Other:			
Land-Huntington Bldg., Cleveland, OH	--	4,501	--
Parking Garage, Cleveland, OH	8,698	1,600	4,407
Parking Facility, Cleveland, OH	--	2,030	--
	-----	-----	-----
	8,698	8,131	4,407
	=====	=====	=====
Reserve on carrying value of real estate assets	--	--	--
	-----	-----	-----
Real Estate net carrying value at December 31, 1996	\$125,624	\$47,363	\$255,737
	=====	=====	=====

Description	Land and Improvements	Land	Gross amount at which carried at close of		Accumu- lated depreci- ation	Year construc- tion completed	Date Acquired	Life
			period Buildings and Improvements	Total				
Apartments:								
Midwestern								

Somerset Lakes, Indianapolis, IN	\$ 1,972	\$ 2,172	\$ 18,372	\$ 20,544	\$ 4,312	1975	11-10-88	40
Meadows of Catalpa, Dayton, OH	1,275	1,270	9,230	10,500	2,141	1972	07-11-89	40
Hunter's Creek, Cincinnati, OH	--	1,098	4,395	5,493	6	1980	12-11-96	40
Steeplechase, Cincinnati, OH	150	1,782	10,264	12,046	395	1987	06-30-95	40
	-----	-----	-----	-----	-----			
	3,397	6,322	42,261	48,583	6,854			
	-----	-----	-----	-----	-----			
Southern								
Briarwood, Fayetteville, NC	1,197	495	7,811	8,306	1,308	1968-70	06-30-91	40
Woodfield Gardens, Charlotte, NC	515	171	3,602	3,773	676	1974	06-30-91	40
Windgate Place, Charlotte, NC	1,013	353	5,831	6,184	1,151	1974-78	06-30-91	40
Walden Village, Atlanta, GA	1,877	2,768	11,165	13,933	1,518	1973	06-01-92	40
Beech Lake, Durham, NC	382	3,760	16,089	19,849	1,000	1986	08-19-94	40
	-----	-----	-----	-----	-----			
	4,984	7,547	44,498	52,045	5,653			
	-----	-----	-----	-----	-----			
	8,381	13,869	86,759	100,628	12,507			
	=====	=====	=====	=====	=====			
Office Buildings:								
Midwestern								
55 Public Square, Cleveland OH	10,339	2,500	29,394	31,894	16,461	1959	01-15-63	63
Circle Tower, Indianapolis, IN	2,246	270	3,855	4,125	2,067	1930	10-16-74	40
	-----	-----	-----	-----	-----			
	12,585	2,770	33,249	36,019	18,528			
	-----	-----	-----	-----	-----			
Southern								
Henry C. Beck, Shreveport, LA	3,788	717	7,694	8,411	3,323	1958	08-30-74	51
Landmark Towers, Oklahoma City, OK	6,450	1,940	13,684	15,624	4,581	1967-71	10-01-77	60
	-----	-----	-----	-----	-----			
	10,238	2,657	21,378	24,035	7,904			
	-----	-----	-----	-----	-----			
Western								
North Valley Technical Center, Denver, CO	9,935	--	17,601	17,601	4,683	1967	12-03-69	60
Peach Tree Center, Marysville, CA	9,018	985	12,640	13,625	3,977	1972	12-19-79	50
	-----	-----	-----	-----	-----			
	18,953	985	30,241	31,226	8,660			
	-----	-----	-----	-----	-----			
	41,776	6,412	84,868	91,280	35,092			
	=====	=====	=====	=====	=====			
Other:								
Land-Huntington Bldg., Cleveland, OH	--	4,501	--	4,501	--	--	10-25-61	--
Parking Garage, Cleveland, OH	1,014	1,600	5,421	7,021	2,280	1969	12-31-75	53
Parking Facility, Cleveland, OH	379	2,287	122	2,409	252	--	09-19-77	10
	-----	-----	-----	-----	-----			
	1,393	8,388	5,543	13,931	2,532			
	=====	=====	=====	=====	=====			
Reserve on carrying value of real estate assets	--	--	(7,004)	(7,004)	--			
	-----	-----	-----	-----	-----			
Real Estate net carrying value at December 31, 1996	\$163,467	\$52,891	\$406,672	\$459,563	\$112,614			
	=====	=====	=====	=====	=====			

Aggregate cost for federal tax purposes is \$434,641,000.

Schedule III

- Continued

The following is a reconciliation of real estate assets and accumulated depreciation for the years ended December 31, 1996, 1995 and 1994:

	(In thousands)		
	Years Ended December 31,		
	1996	1995	1994
	-----	-----	-----
Asset reconciliation:			
Balance, beginning of period	\$449,560	\$436,394	\$409,060
Additions during the period:			
Property acquisitions	5,491	35,424	20,017
Improvements	19,148	24,713	7,570
Equipment and appliances	1,116	797	787
Reduction in reserve on carrying value of real estate assets	5,575	---	---
Deductions during the period:			
Sales of real estate	(20,385)	(27,089)	---
Write-off of internal leasing costs(A)	---	(8,006)	---
Reserve on carrying value of real estate assets		(12,580)	---
Other - write-off of assets and certain fully depreciated tenant alterations	(942)	(93)	(1,040)
	-----	-----	-----
Balance, end of period	\$459,563 =====	\$449,560 =====	\$436,394 =====
Accumulated depreciation reconciliation:			
Balance, beginning of period	\$107,701	\$111,972	\$101,824
Additions during the period:			
Depreciation	12,067	11,038	11,188
Deductions during the period:			
Sales of real estate	(6,212)	(11,535)	---
Write-off of internal leasing costs(A)	---	(3,681)	---
Write-off of assets and certain fully depreciated tenant alterations	(942)	(93)	(1,040)
	-----	-----	-----
Balance, end of period	\$112,614 =====	\$107,701 =====	\$111,972 =====

(A) The registrant wrote off the unamortized balance of deferred internal leasing costs effective January 1, 1995. The registrant currently recognizes as an expense internal leasing costs in the period incurred.

Schedule IV

MORTGAGE LOANS ON REAL ESTATE

AS OF DECEMBER 31, 1996

(IN THOUSANDS, EXCEPT FOR PAYMENT TERMS AND FOOTNOTES)

Description	Current effective rate on net investment	Final maturity date	Periodic payment terms
First Mortgage Loan:			
Secured by office building in Cleveland, OH	10%	10-31-11	Interest calculated at stated rate of 9.65%, with installments of principal and interest payable monthly through maturity; \$13,013,000 due at maturity; prepayment without penalty subject to certain conditions.
Mortgage Loan:			
Secured by mall in Fairmount, WV and partnership units of Crown American Properties, L.P.	9%	1-31-98	Interest calculated at stated rate of 9%, with installments of 8% interest payable monthly through maturity; no prepayment without consent of registrant.
Wraparound Mortgage Loan:			
Secured by garden apartments in Atlanta, GA	13%	11-30-99	Monthly installments of interest payable through November 1999; difference between interest paid and interest calculated at the stated rate of 10% will increase registrant's equity investment until January 1998; equity investment and deferred interest totaling \$22,434,000 due at maturity; prepayment without penalty.
Totals, December 31, 1996			

Description	Face amount of mortgage	Carrying amount of mortgage	Prior liens	Net investment
First Mortgage Loan:				
Secured by office building in Cleveland, OH	\$11,387	\$19,103	\$ ---	\$19,103
Mortgage Loan:				
Secured by mall in Fairmount, WV and partnership units of Crown American Properties, L.P.	6,000	6,125	---	6,125
Wraparound Mortgage Loan:				
Secured by garden	18,060	17,038(A)	3,444	13,594

apartments
in Atlanta, GA

-----	-----	-----	-----
\$35,447	\$42,266(B)	\$ 3,444	\$38,822
=====	=====	=====	=====

- (A) The registrant accepted a payment of \$16.2 million cash and a \$1.8 million note in February 1997 for this mortgage investment.
- (B) Aggregate cost for federal tax purposes is \$46,689,000.

Schedule IV

- Continued

The following is a reconciliation of the carrying amounts of the mortgage loans outstanding for the years ended December 31, 1996, 1995 and 1994:

	(In thousands)		
	Years Ended December 31,		
	1996	1995	1994
Balance, beginning of period	\$42,042	\$35,761	\$35,550
ADDITIONS DURING THE PERIOD:			
Mortgage loan on mall in Fairmount, WV secured by the mall and partnership units of Crown American Properties, L.P.		6,000	
Deferred interest on:			
Wraparound mortgage on garden apartments in Atlanta, GA	332	384	357
Mortgage on mall in Fairmount, WV	68	57	
DEDUCTIONS DURING THE PERIOD:			
Collection of principal	(176)	(160)	(146)
Balance, end of period	\$42,266	\$42,042	\$35,761

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----	INCORPORATED HEREIN BY REFERENCE TO -----	PAGE ----
(3)(a)	Declaration of Trust of Registrant dated August 1, 1961, as amended through July 25, 1986	Registration Statement on Form S-3 No. 33-4493	----
(3)(b)	By-laws of Registrant, as amended	Registration Statement on Form S-3 No. 33-4493	----
(4)(a)	Form of certificate for Shares of Beneficial Interest	Registration Statement on Form S-3 No. 33-2818	----
(4)(b)	Form of Indenture governing Debt Securities, dated February 1, 1983 between Registrant and Ameritrust Company	Registration Statement on Form S-3 No. 2-81605	----
(4)(c)	Form of Debt Security	Registration Statement on Form S-3 No. 33-4493	----
(4)(d)	Form of Indenture governing Debt Securities, dated October 1, 1993 between Registrant and Society National Bank	Registration Statement on Form S-3 No. 33-68002	----
(4)(e)	Form of Note	Registration Statement on Form S-3 No. 33-68002	----
(4)(f)	Form of Indenture governing Debt Securities	Registration Statement on Form S-3 No. 333-00953	----
(4)(g)	Rights Agreement between Registrant and National City Bank dated March 7, 1990	Form 8-A dated March 30, 1990 No. 0-18411	----
(10)(a)	Share Purchase Agreement dated as of December 31, 1989 between registrant and First Union Management, Inc.	Registration Statement No. 2-88719	----
(10)(b)	First Amendment to Share Purchase Agreement dated as of December 10, 1985 between registrant and First Union Management, Inc.	Registration Statement No. 33-2818	----
(10)(c)	Second Amendment to Share Purchase Agreement dated as of December 9, 1986 between registrant and First Union Management, Inc.	Registration Statement No. 33-11524	----
(10)(d)	Third Amendment to Share Purchase Agreement dated as of December 2, 1987 between registrant and First Union Management, Inc.	Registration Statement No. 33-19812	----
(10)(e)	Fourth Amendment to Share Purchase Agreement dated as of December 7, 1988 between registrant and First Union Management, Inc.	Registration Statement No. 33-26758	----
(10)(f)	Fifth Amendment to Share Purchase Agreement dated as of November 29, 1989 between registrant and First Union Management, Inc.	Registration Statement No. 33-33279	----

EXHIBIT NUMBER -----	DESCRIPTION -----	INCORPORATED HEREIN BY REFERENCE TO -----	PAGE -----
(10)(g)	Sixth Amendment to Share Purchase Agreement dated as of November 28, 1990 between registrant and First Union Management, Inc.	Registration Statement No. 33-38754	----
(10)(h)	Seventh Amendment to Share Purchase Agreement dated as of November 27, 1991 between registrant and First Union Management, Inc.	Registration Statement No. 33-45355	----
(10)(i)	Eighth Amendment to Share Purchase Agreement dated as of November 30, 1992 between registrant and First Union Management, Inc.	Registration Statement No. 33-57756	----
(10)(j)	Employment and Consulting Agreement with Donald S. Schofield dated September 1, 1991	1991 Form 10-K	----
(10)(k)	Employment Agreement with James C. Mastandrea dated July 13, 1994	June 30, 1994 Form 10-Q	----
(10)(l)	Employment Agreement with Gregory D. Bruhn dated July 13, 1994	June 30, 1994 Form 10-Q	----
(10)(m)	Credit Agreement with National City Bank dated December 5, 1994	1994 Form 10-K	----
(10)(n)	Credit Agreement with Society National Bank dated March 4, 1996	1995 Form 10-K	----
(10)(o)	1981 Employee Share Option Plan	1992 Proxy Statement	----
(10)(p)	1994 Long Term Incentive Performance Plan	1994 Proxy Statement	----
(10)(q)	Bank Credit Agreement dated September 30, 1996	September 30, 1996 Form 10-Q	----
(11)	Statements Re: Computation of Per Share Earnings		X ----
(12)	Statements of Ratios of Combined Income from Operations and Combined Net Income to Fixed Charges		X ----
(13)	1996 Annual Report		X ----
(23)	Consent of Independent Public Accountants		X ----
(24)	Powers of Attorney		X ----
(27)	Financial Data Schedule		X ----

EXHIBIT 11

**FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS AND
FIRST UNION MANAGEMENT, INC.**

**STATEMENTS RE: COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	YEARS ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
	----	----	----	----	----
Shares Outstanding:					
For computation of primary net income per share -					
Weighted average	17,163	18,059	18,105	18,086	18,086
Share equivalents - Options	9	--	--	10	--
- Restricted shares	92	57	15	--	--
	-----	-----	-----	-----	-----
Adjusted shares outstanding	17,264	18,116	18,120	18,096	18,086
	=====	=====	=====	=====	=====
For computation of fully diluted net income per share -					
Weighted average, without regard to, exercise under share option plans, or purchase of outstanding shares	17,163	18,100	18,109	18,086	18,086
Assumption of exercise under share option plans	367	--	--	10	--
Weighted average of shares issued under long-term incentive plan	9	8	--	--	--
Weighted average of restricted shares granted	167	57	15	--	--
Weighted average of outstanding shares purchased and retired	--	(49)	(4)	--	--
	-----	-----	-----	-----	-----
Adjusted shares outstanding	17,706	18,116	18,120	18,096	18,086
	=====	=====	=====	=====	=====
Net Income:					
Net income applicable to shares of beneficial interest (used for computing primary and fully diluted net income per share)	\$ 3,291	\$ 13,891	\$ 6,485	\$13,984	\$18,432
	=====	=====	=====	=====	=====
Net income per share of beneficial interest:					
Primary and fully diluted					
Income before extraordinary loss from early extinguishment of debt and cumulative effect of accounting change	\$.21	\$ 1.06	\$.36	\$.84	\$ 1.02
Extraordinary loss from early extinguishment of debt	(.02)	(.05)	--	(.07)	--
Cumulative effect of change in accounting for internal leasing costs	--	(.24)	--	--	--
	-----	-----	-----	-----	-----
Net income	\$.19	\$.77	\$.36	\$.77	\$ 1.02
	=====	=====	=====	=====	=====

EXHIBIT 12

**FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS AND
FIRST UNION MANAGEMENT, INC.
STATEMENTS OF RATIOS OF COMBINED INCOME FROM
OPERATIONS AND COMBINED NET
INCOME TO FIXED CHARGES
(IN THOUSANDS, EXCEPT RATIOS)**

	YEARS ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
	----	----	----	----	----
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change	\$4,422	\$ 3,256	\$ 6,485	\$10,276	\$12,657
Add fixed charges, exclusive of construction interest capitalized	24,018	22,987	21,865	19,103	19,469
Income from operations, as defined	28,440	26,243	28,350	29,379	32,126
Capital gains	---	29,870	---	4,948	5,775
Reduction for unrealized loss on carrying value of assets identified for disposition	---	(14,000)	---	---	---
Net income, as defined	\$ 28,440	\$ 42,113	\$28,350	\$34,327	\$37,901
	=====	=====	=====	=====	=====
Fixed charges:					
Interest					
- - - Mortgage loans	\$ 8,877	\$ 7,670	\$ 7,335	\$ 5,777	\$ 6,182
- - - Senior notes	9,090	9,305	9,305	5,779	4,199
- - - 10.25% debentures	---	---	---	3,214	3,858
- - - Bank loans and other	5,459	5,422	4,640	3,747	4,694
- - - Capitalized interest	121	169	---	---	---
Amortization of debt issue costs	196	184	168	162	122
Rents (1)	396	406	417	424	414
Fixed charges, as defined	\$24,139	\$ 23,156	\$21,865	\$19,103	\$19,469
	=====	=====	=====	=====	=====
Preferred dividend accrued	\$ 845	\$ ---	\$ ---	\$ ---	\$ ---
	=====	=====	=====	=====	=====
Ratio of income from operations, as defined, to fixed charges	1.18	1.13	1.30	1.54	1.65
Ratio of net income, as defined, to fixed charges	1.18	1.82	1.30	1.80	1.95
	=====	=====	=====	=====	=====
Ratio of net income from operations, as defined, to fixed charges and preferred dividend	1.14	1.82	1.30	1.80	1.95
	=====	=====	=====	=====	=====

(1) The interest portion of rentals is assumed to be one-third of all ground rental and net lease payments.

EXHIBIT 13

FINANCIAL HIGHLIGHTS

YEARS ENDED DECEMBER 31, (IN THOUSANDS, EXCEPT PER SHARE DATA AND FOOTNOTES)

	1996	1995
Revenues	\$81,867	\$79,205
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change	4,422	3,256
Net income before preferred dividend(1)	4,136	13,891
Net income applicable to shares of beneficial interest(1)	3,291	13,891
Funds from operations before preferred dividend(2)	17,935	15,157
Funds from operations after preferred dividend(2)	17,090	15,157
Dividends declared	7,684	7,542
Per share		
Income applicable to shares of beneficial interest before capital gain or loss, extraordinary loss and cumulative effect of accounting change	\$.21	\$.18
Net income applicable to shares of beneficial interest(1)	.19	.77
Dividends declared	.44	.41

MARKET PRICE AND DIVIDEND RECORD

1996 QUARTERS ENDED	High	Low	Dividends Declared
-----	----	---	-----
December 31	\$12 1/2	\$ 6 3/8	\$.11
September 30	7	6 3/8	.11
June 30	7 3/8	6 3/8	.11
March 31	8 1/8	6 7/8	.11

			\$.44
			=====
1995 QUARTERS ENDED			

December 31	\$ 7 5/8	\$ 6 7/8	\$.11
September 30	7 7/8	7 1/8	.10
June 30	8	7	.10
March 31	8 5/8	6 1/2	.10

			\$.41
			=====

The Trust's shares are traded on the New York Stock Exchange (Ticker Symbol: FUR). As of December 31, 1996, there were 4,582 recordholders of the Trust's shares of beneficial interest. The Trust estimates the number of beneficial owners at approximately 15,000.

- (1) In 1996, the Trust expensed \$286,000 of unamortized costs relating to a prior bank credit agreement. In 1995, the Trust recognized a capital gain of \$29.9 million, a \$14 million noncash unrealized loss on the carrying value of certain assets identified for disposition, \$910,000 of unamortized costs and prepayment premiums related to the early repayment of mortgage debt and a \$4.3 million noncash charge for the cumulative effect of a change in accounting method.
- (2) The amount of funds from operations (FFO) is calculated as income before capital gain or loss, extraordinary loss and cumulative effect of accounting change, both before and after the preferred dividend, plus noncash charges for depreciation and amortization for both First Union and the joint venture. A new definition of FFO, adopted by the National Association of Real Estate Investment Trusts, excludes depreciation and amortization of debt issue costs and other corporate assets. First Union adds back all expenses included in depreciation and amortization. FFO does not replace net income (determined in accordance with generally accepted accounting principles) as a measure of performance or net cash flows as a measure of liquidity. FFO should be considered a supplemental measure of operating performance used by real estate investment trusts.

SELECTED FINANCIAL DATA

For the years ended December 31, (In thousands, except per share data and footnotes)

	1992	1993	1994	1995	1996
	----	----	----	----	----
OPERATING RESULTS					
Revenues	\$ 74,567	\$ 74,339	\$ 76,339	\$ 79,205	\$ 81,867
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change(1)	12,657	10,276	6,485	3,256	4,422
Unrealized loss on carrying value of assets identified for disposition				(14,000)	
Capital gains	5,775	4,948		29,870	
Income before extraordinary loss and cumulative effect of accounting change	18,432	15,224	6,485	19,126	4,422
Extraordinary loss from early extinguishment of debt(2)		(1,240)		(910)	(286)
Cumulative effect of change in accounting method(3)				(4,325)	
Net income before preferred dividend	18,432	13,984	6,485	13,891	4,136
Net income applicable to shares of beneficial interest	18,432	13,984	6,485	13,891	3,291
Dividends declared for shares of beneficial interest	13,022	13,031	7,273	7,542	7,684

Per share of beneficial interest:					
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change(1)	\$.70	\$.57	\$.36	\$.18	\$.21
Income before extraordinary loss and cumulative effect of accounting change	1.02	.84	.36	1.06	.21
Extraordinary loss from early extinguishment of debt(2)		(.07)		(.05)	(.02)
Cumulative effect of change in accounting method(3)				(.24)	
Net income applicable to shares of beneficial interest	1.02	.77	.36	.77	.19
Dividends declared per share of beneficial interest	.72	.72	.40	.41	.44

FINANCIAL POSITION AT YEAR END					
Total assets	\$ 353,455	\$ 393,621	\$ 376,189	\$ 400,999	\$ 440,530
Long-term obligations(4)	109,733	257,355	238,296	258,454	254,868
Total equity	102,672	103,766	102,940	102,355	152,553
OTHER DATA					
Net cash provided by or (used for)					
Operations	\$ 21,591	\$ 19,649	\$ 19,053	\$ 12,989	\$ 11,085
Investing	1,662	(6,911)	(26,507)	(28,345)	(47,002)
Financing	(35,621)	24,793	(28,094)	15,783	35,466
Funds from operations before preferred dividend(5)	21,836	20,039	17,040	15,157	17,935
Funds from operations after preferred dividend(5)	21,836	20,039	17,040	15,157	17,090

See footnotes on the following page

This selected financial data should be read in conjunction with the Combined Financial Statements and notes thereto.

- (1) Included in income before capital gain or loss, extraordinary loss and cumulative effect of accounting change in 1995 was \$1.6 million of litigation and proxy expenses related to a minority shareholder lawsuit and proxy contest.
- (2) In 1996, the Trust renegotiated its bank credit agreements, resulting in a \$286,000 charge related to the write-off of unamortized costs. In November 1995, the Trust repaid approximately \$36 million of mortgage debt resulting in a \$910,000 charge for the write-off of unamortized costs and prepayment premiums. In November 1993, the Trust repaid prior to their maturity dates \$45 million of senior notes and \$37.6 million of convertible debentures resulting in a \$1.2 million charge for the write-off of unamortized issue costs and payment of a redemption premium.
- (3) In December 1995, the Trust changed its accounting method to directly expense internal leasing costs and recorded a \$4.3 million noncash charge for the cumulative effect of the accounting change as of the beginning of 1995. Funds from operations for previous years have been restated for the change in accounting method on a basis comparable to 1995.
- (4) Included in long-term obligations are senior notes, mortgage loans and bank loans along with any current portion. Before 1993, bank loans were not included.
- (5) The amount of funds from operations (FFO) is calculated as income before capital gain or loss, extraordinary loss and cumulative effect of accounting change, both before and after preferred dividend, plus noncash charges for depreciation and amortization of First Union and the joint venture. A new definition of FFO, adopted by the National Association of Real Estate Investment Trusts, excludes depreciation and amortization of debt issue costs and other corporate assets. First Union adds back all expenses included in depreciation and amortization. FFO does not replace net income (determined in accordance with generally accepted accounting principles) as a measure of performance or net cash flows as a measure of liquidity. FFO should be considered a supplemental measure of operating performance used by real estate investment trusts.

COMBINED BALANCE SHEETS

As of December 31, (In thousands)

	1996	1995
	----	----
ASSETS		
Investments in real estate		
Land	\$ 52,891	\$ 54,403
Buildings and improvements	406,672	395,157
	-----	-----
	459,563	449,560
Less - Accumulated depreciation	(112,614)	(107,701)
	-----	-----
Total investments in real estate	346,949	341,859
INVESTMENT IN JOINT VENTURE	30,776	
MORTGAGE LOANS RECEIVABLE, including current portion of \$194,000	42,266	42,042
OTHER ASSETS		
Cash and cash equivalents	2,951	3,402
Accounts receivable and prepayments	8,440	4,536
Deferred charges and other, net	5,225	4,873
Unamortized debt issue costs	3,923	4,287
	-----	-----
Total assets	\$ 440,530	\$ 400,999
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Mortgage loans, including current portion of \$3,863,000	\$ 129,068	\$ 83,854
Senior notes	100,000	105,000
Bank loans	25,800	69,600
Accounts payable and accrued liabilities	14,549	21,779
Deferred obligations	10,825	10,670
Deferred capital gains and other deferred income	7,735	7,741
	-----	-----
Total liabilities	287,977	298,644
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred shares of beneficial interest, \$25 liquidation preference, 2,300,000 shares authorized and outstanding	54,109	
Shares of beneficial interest, \$1 par, unlimited authorization, outstanding	17,622	17,485
Additional paid-in capital	53,443	53,098
Undistributed income from operations	12,430	16,823
Undistributed capital gains	14,949	14,949
	-----	-----
Total shareholders' equity	152,553	102,355
	-----	-----
	\$ 440,530	\$ 400,999
	=====	=====

The accompanying notes are an integral part of these statements.

COMBINED STATEMENTS OF INCOME

For the years ended December 31, (In thousands, except per share data)

	1996	1995	1994
REVENUES			
Rents	\$ 75,555	\$ 74,176	\$71,079
Interest- Mortgage loans	4,732	4,447	3,928
- Short-term investments	80	409	1,211
Equity in income from joint venture	528		
Management fees	617		
Other income	355	173	121
	-----	-----	-----
	81,867	79,205	76,339
	-----	-----	-----
EXPENSES			
Property operating	25,786	25,982	25,318
Real estate taxes	8,297	8,555	7,930
Depreciation and amortization	13,149	11,901	10,555
Interest- Mortgage loans	8,877	7,670	7,335
- Senior notes	9,090	9,305	9,305
- Bank loans and other	5,459	5,422	4,640
General and administrative	6,787	7,114	4,771
	-----	-----	-----
	77,445	75,949	69,854
	-----	-----	-----
INCOME BEFORE CAPITAL GAIN OR LOSS, EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE			
Unrealized loss on carrying value of assets identified for disposition	4,422	3,256	6,485
Capital gains		(14,000)	
		29,870	
	-----	-----	-----
INCOME BEFORE EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE			
Extraordinary loss from early extinguishment of debt	4,422	19,126	6,485
Cumulative effect of change in accounting for internal lease costs	(286)	(910)	
		(4,325)	
	-----	-----	-----
NET INCOME BEFORE PREFERRED DIVIDEND			
Preferred dividend	4,136	13,891	6,485
	(845)		
	-----	-----	-----
NET INCOME APPLICABLE TO SHARES OF BENEFICIAL INTEREST			
	\$ 3,291	\$ 13,891	\$ 6,485
	=====	=====	=====
PER SHARE DATA			
Income applicable to shares of beneficial interest before capital gain or loss, extraordinary loss and cumulative effect of accounting change	\$.21	\$.18	\$.36
	-----	-----	-----
Income before extraordinary loss and cumulative effect of accounting change	.21	1.06	.36
Extraordinary loss from early extinguishment of debt	(.02)	(.05)	
Cumulative effect of change in accounting for internal lease costs		(.24)	
	-----	-----	-----
NET INCOME APPLICABLE TO SHARES OF BENEFICIAL INTEREST			
	\$.19	\$.77	\$.36
	=====	=====	=====
ADJUSTED SHARES OF BENEFICIAL INTEREST			
	17,264	18,116	18,120

The accompanying notes are an integral part of these statements.

COMBINED STATEMENTS OF CHANGES IN CASH

For the years ended December 31, (In thousands)

	1996	1995	1994
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income before preferred dividend	\$ 4,136	\$13,891	\$6,485
Adjustments to reconcile net income before preferred dividend to net cash provided by operations -			
Depreciation and amortization	13,149	11,901	10,555
Extraordinary loss from early extinguishment of debt	286	910	
Cumulative effect of change in accounting for internal lease costs		4,325	
Capital gains		(29,870)	
Unrealized loss on carrying value of assets identified for disposition		14,000	
Increase in deferred charges and other, net	(963)	(1,711)	(1,608)
Increase in deferred interest on mortgage investments	(400)	(441)	(357)
Increase in deferred obligations	155	148	128
Net changes in other assets and liabilities	(5,278)	(164)	3,850
	-----	-----	-----
Net cash provided by operations	11,085	12,989	19,053
	-----	-----	-----
CASH PROVIDED BY (USED FOR) INVESTING			
Principal received from mortgage investments	176	160	146
Investments in properties	(5,491)	(35,424)	(19,050)
Investment in joint venture	(30,248)		
Investments in capital and tenant improvements	(20,264)	(24,881)	(7,603)
Proceeds from sales of properties	8,825	31,800	
	-----	-----	-----
Net cash used for investing	(47,002)	(28,345)	(26,507)
	-----	-----	-----
CASH PROVIDED BY (USED FOR) FINANCING			
(Decrease) increase in bank loans	(43,800)	27,100	(17,500)
Issuance of preferred shares of beneficial interest, net of costs	54,109		
Increase in mortgage loans	48,500	49,500	4,600
Repayment of mortgage loans - Normal payments	(3,286)	(3,651)	(3,934)
- Balloon payments		(48,967)	(2,225)
Repayment of medium term notes	(5,000)		
Proceeds from sale of interest rate cap	1,025		
Purchase of First Union shares	(7,125)		(57)
Sale of First Union shares	252	75	
Debt issue costs paid	(1,414)	(656)	(226)
Dividends paid to shares of beneficial interest	(7,789)	(7,341)	(8,707)
Other	(6)	(277)	(45)
	-----	-----	-----
Net cash provided by (used for) financing	35,466	15,783	(28,094)
	-----	-----	-----
(Decrease) increase in cash and cash equivalents	(451)	427	(35,548)
Cash and cash equivalents at beginning of year	3,402	2,975	38,523
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 2,951	\$ 3,402	\$ 2,975
	=====	=====	=====

The accompanying notes are an integral part of these statements.

COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except footnotes)

	Preferred Shares of Beneficial Interest -----	Shares of Beneficial Interest -----	Additional Paid-In Capital(1) -----	Undistributed Income From Operations(2) -----	Undistributed Capital Gains -----
BALANCE DECEMBER 31, 1993		\$18,109	\$59,446	\$20,732	\$5,479
Net income				6,485	
Dividends paid or accrued (\$.40/share)				(7,273)	
Restricted shares issued		162	873		
Deferred compensation related to restricted shares, net of amortization			(971)		
Shares purchased		(8)	(49)		
Other			(45)		
		-----	-----	-----	-----
BALANCE DECEMBER 31, 1994		18,263	59,254	19,944	5,479
Net income				(1,979)	15,870
Dividends paid or accrued (\$.41/share)				(1,142)	(6,400)
Shares purchased		(950)	(6,175)		
Shares sold under long-term incentive ownership plan		10	65		
Restricted shares issued		162	1,097		
Deferred compensation related to restricted shares, net of amortization			(1,012)		
Other			(131)		
		-----	-----	-----	-----
BALANCE DECEMBER 31, 1995		17,485	53,098	16,823	14,949
Net income before preferred dividend				4,136	
Dividends paid or accrued on shares of beneficial interest (\$.44/share)				(7,684)	
Dividends accrued on preferred shares (\$.3674/share)				(845)	
Sale of 2,300,000 preferred shares of beneficial interest, \$25 per share, net	\$54,109				
Shares sold under long-term incentive ownership plan and share option agreements		31	221		
Restricted shares issued		142	1,603		
Deferred compensation related to restricted shares, net of amortization			(1,246)		
Restricted shares forfeited		(36)	(226)		
Other			(7)		
		-----	-----	-----	-----
BALANCE DECEMBER 31, 1996	\$54,109	\$17,622	\$53,443(3)	\$12,430	\$14,949
	=====	=====	=====	=====	=====

(1) Includes cumulative balance of unamortized compensation related to restricted shares of \$971,000, \$1,983,000 and \$3,475,000 at December 31, 1994, 1995 and 1996, respectively.

(2) Includes the balance of cumulative undistributed net loss of First Union Management, Inc. of \$71,000, \$1,071,000, \$5,825,000 and \$6,621,000 as of December 31, 1993, 1994, 1995 and 1996, respectively.

(3) Cumulative distributions in excess of the Trust's net income from inception are \$11,330,000.

The accompanying notes are an integral part of these statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Union Real Estate Investments ("Trust") and First Union Management, Inc., ("Company") are in the real estate industry and do not have operations outside this industry. The accounting policies of the Trust and Company conform to generally accepted accounting principles and give recognition, as appropriate, to common practices within the real estate industry.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting periods.

Under a trust agreement, the shares of the Company are held for the benefit of the shareholders of the Trust. Accordingly, the financial statements of the Company and the Trust have been combined.

The Trust's properties are currently leased to the Company except for one. That remaining property is leased to another party under a net lease with original terms expiring in 2011 and with renewal options available thereafter.

At December 31, 1996 and 1995, buildings and improvements included equipment and appliances of \$6.4 million and \$5.3 million, respectively.

Tenant leases generally provide for billings of certain operating costs and retail tenant leases generally provide for percentage rentals, in addition to fixed minimum rentals. The Company accrues the recovery of operating costs based on actual costs incurred and accrues percentage rentals based on current estimates of each retail tenant's sales. For the years ended December 31, 1996, 1995 and 1994, such additional income approximated \$15.7 million, \$16.1 million and \$16.9 million, respectively.

Depreciation for financial reporting purposes is computed using the straight-line method. Buildings and improvements are depreciated over their estimated useful lives of 40 to 64 years and equipment and appliances over five to 10 years. Routine maintenance and repairs, including replacements, are charged to expense; however, replacements which improve or extend the lives of existing properties are capitalized.

The Trust accounts for its investment in a joint venture which it does not control using the equity method of accounting. This investment, which represents a 26% non-controlling ownership interest, was recorded initially at the Trust's cost and subsequently adjusted for the Trust's net equity in income and cash distributions.

Net income per share of beneficial interest has been computed based on weighted average shares and share equivalents outstanding for the applicable period. The preferred shares of beneficial interest are anti-dilutive and are not included in the weighted average shares outstanding for 1996.

Certain reclassifications have been made to prior year balances so that they are comparable to 1996.

2. COMBINED STATEMENTS OF CHANGES IN CASH

The Trust considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents. The Trust paid interest expense of \$24.1 million, \$22.3 million and \$21.1 million in 1996, 1995 and 1994, respectively. During 1996 and 1995, \$121,000 and \$169,000, respectively, of interest related to construction projects was capitalized.

3. UNREALIZED LOSS ON CARRYING VALUE OF ASSETS IDENTIFIED FOR DISPOSITION

Management reviews the net realizable value of the Trust's portfolio periodically to determine whether an allowance for possible losses is necessary. The carrying value of the Trust's investments in real estate are evaluated on an individual property basis in accordance with SFAS 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of). In December 1995, the Trust recorded a \$14 million noncash unrealized loss on the carrying value of certain assets which were identified for disposition. The noncash adjustment represents the difference between the estimated fair value and net book value of the assets. Assets identified for disposition as of December 31, 1996, had a net book value of \$28.3 million, net of the \$7 million remaining balance of the asset reserve as of December 31, 1996.

In February 1996, the Trust sold two office buildings and an attached parking garage in Cleveland, OH for \$1.8 million in cash and a \$7 million, 8% note secured by the properties. The note was repaid in June 1996. This sale resulted in a capital loss of \$5.6 million which was provided for as part of a \$14 million noncash unrealized loss on the carrying value of certain assets that was recorded in December 1995.

In January 1997, the Trust sold a shopping center for \$9 million in cash. The sale resulted in a capital loss of \$5 million which was provided for as part of a \$14 million noncash unrealized loss on the carrying value of certain assets that was recorded in December 1995.

4. CAPITAL GAINS

In January 1995, the Trust sold its 50% interests in two malls located in Wilkes-Barre, PA and Fairmount, WV for \$35.5 million and the assumption by the purchaser of \$4.7 million of existing mortgage loans on the properties. Proceeds from the transaction were received as a \$2 million cash payment in 1994, \$27.5 million of cash in 1995 that was deposited into a tax intermediary escrow account and a \$6 million note with an interest rate of 9% due in January 1998. The \$27.5 million of proceeds were subsequently used in 1995 to acquire a retail center and an apartment complex in a tax-free exchange. The capital gain recognized for financial reporting purposes was \$29.9 million.

5. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING METHOD

Prior to 1995, the Company accounted for internal leasing costs by deferring and amortizing such costs as part of depreciation and amortization expense over the life of consummated leases. In the fourth quarter of 1995, the Company changed this method of accounting to recognize internal leasing costs in the period in which they are incurred. Accordingly, the Company wrote off the balance of its deferred internal leasing costs of \$4.3 million effective January 1, 1995 and expensed those leasing costs that were deferred throughout 1995. The effect of this change in accounting method decreased income by \$0.6 million in 1995 as a result of reducing depreciation and amortization expense \$1.4 million and increasing general and administrative expense \$2 million. A reclassification has been made between depreciation and amortization and general and administrative expense for 1994 so that the prior year amounts are on a comparable basis to 1995.

6. EXTRAORDINARY LOSS FROM EARLY EXTINGUISHMENT OF DEBT

In 1996, the Trust renegotiated its bank credit agreements. As a result, \$286,000 of deferred costs relating to its prior bank credit agreements was written off.

In November 1995, the Trust repaid prior to their maturity dates three mortgage loans totaling approximately \$36 million, resulting in prepayment premiums and the write-off of unamortized mortgage costs of \$910,000.

7. INVESTMENTS IN MORTGAGE LOANS

As of December 31, 1996, the Trust had the following investments in mortgage loans (dollar amounts in thousands):

	CURRENT EFFECTIVE RATE ON NET INVESTMENT -----	LOAN AMOUNT -----	PRIOR LIENS ----	NET INVESTMENT -----
Mortgage loan secured by a mall in Fairmount, WV, maturing in 1998 and partnership units of Crown American Properties, L.P.	9%	\$6,125	---	\$6,125
First mortgage loan secured by an office building in Cleveland, OH, maturing in 2011.	10%	19,103	---	19,103
Wraparound mortgage loan secured by an apartment complex in Atlanta, GA, maturing in 1999.	13%	17,038	3,444	13,594
		----- \$42,266 =====	----- \$3,444 =====	----- \$38,822 =====

The fair value of the mortgage investments at December 31, 1996 approximates book value based on current interest rates and market conditions.

8. BANK LOANS

As of December 31, 1996, there was \$25.8 million outstanding under a fully secured \$90 million credit agreement at an interest rate of 7.73%. This credit agreement matures on September 30, 1998. Interest under this agreement is calculated, at the option of the Trust, based on a Eurodollar rate plus 200 basis points or the prime interest rate. As the bank loans are at market interest rates, the fair value is the carrying amount of the loans.

Commitment fees not greater than 3/8% per annum are payable on the unused portion of the revolving credit agreement. The agreement contains certain requirements including maintaining minimum funds from operations (income from operations plus depreciation and amortization), net worth, leverage and interest coverage. The Trust was in compliance with all the above requirements as of December 31, 1996.

The Trust currently has a rate guarantee contract in the notional amount of approximately \$45 million which is tied to LIBOR and has a maximum rate of 9%. This rate contract is used by the Trust to reduce the impact of changes in interest rates on its floating rate bank loans. The contract expires in October 1998 and the cost is being amortized over the life of the contract.

9. MORTGAGE LOANS PAYABLE

As of December 31, 1996, the Trust had outstanding \$129.1 million of mortgage loans due in installments extending to the year 2014. Interest rates on fixed rate mortgages range from 6.869% to 9.375%. Principal payments due during the five years following December 31, 1996 are \$3.9 million, \$6.0 million, \$3.8 million, \$4.4 million and \$3.5 million, respectively. The fair value of the mortgage loans payable at December 31, 1996 is approximates book value based on current market interest rates and market conditions.

10. SENIOR NOTES

As of December 31, 1996, the Trust had \$100 million in senior notes outstanding. The interest rate is 8.875% and the notes mature in October 2003. The senior notes are noncallable, limit future borrowings by the Trust and require maintenance of a minimum net worth. The Trust was in compliance with all requirements as of December 31, 1996. The fair value of the senior notes at December 31, 1996 is the carrying value based on current market quotations. In July 1996, the \$5 million, 8.6% medium term notes were repaid.

11. PREFERRED SHARES OF BENEFICIAL INTEREST

In October 1996, the Trust issued \$57.5 million of Series A cumulative convertible redeemable preferred shares of beneficial interest ("Series A Preferred Shares"). The 2,300,000 Series A Preferred Shares were issued at a par value of \$25 per share and are each convertible into 3.31 shares of beneficial interest (Shares). The distributions on the Series A Preferred Shares are cumulative and equal to the greater of \$2.10 per share (equivalent to 8.4% of the liquidation preference per annum) or the cash distributions on the Shares into which the Series A Preferred Shares are convertible (determined on each of the quarterly distribution payment dates for the Series A Preferred Shares). The Series A Preferred Shares are not redeemable prior to October 29, 2001, and at no time will they be redeemable for cash.

12. INVESTMENT IN JOINT VENTURE

The following presents summarized financial information for the Trust's investment in a joint venture which owns eight regional shopping malls and a 50% interest in another mall at December 31, 1996. The Trust entered into this joint venture on September 30, 1996.

	1996

	(In thousands)
ASSETS	
Investments in real estate at cost	
less accumulated depreciation	\$303,047
Cash and cash equivalents	10,523
Other assets	13,474

Total assets	327,044
	=====
LIABILITIES AND PARTNERS' EQUITY	
Mortgage notes payable	204,419
Other liabilities	10,359

Total liabilities	214,778
Preferred stock	73,500
PARTNERS' EQUITY	38,766

Total liabilities and equity	\$327,044
	=====
GROSS REVENUES FROM REAL ESTATE	\$15,072
EXPENSES	
Property operating expenses	5,441
Mortgage and other interest expense	5,672
Depreciation and amortization	1,398
Preferred dividends	2,731

NET LOSS	\$(170)
	=====

Management fees of \$.6 million were paid to the Trust's affiliated management company for property management services. Additionally, lease commissions may be earned by the Trust's affiliated management company for new or renewal leases.

Depreciation for financial reporting purposes is computed using the straight line method. Buildings, tenant improvements and equipment are depreciated over useful lives of 10 to 50 years using the straight-line method of depreciation.

Mortgage notes payable which are secured by the related properties are due in installments extending to the year 2017 with interest rates ranging from 8.43% to 12.25%. A \$40 million mortgage at 12.25% requires participation in the cash flow of the secured property over predefined levels. Principal payments due during the five years following December 31, 1996 are \$2.0 million, \$2.1 million, \$2.3 million, \$2.6 million and \$21.3 million.

The members of the joint venture are the Trust and two other entities. The Trust's \$30 million investment in the joint venture is comprised of \$3.5 million in common and \$26.5 million in preferred equity. The aggregate equity investment of the other parties is \$83.5 million which is comprised of \$10 million in common and \$73.5 million in preferred equity as described below.

The preferred equity is divided into three series, of which the Trust is the most junior in distribution and liquidation priority. The Trust's preferred equity is entitled to distributions at a fixed rate of 10% for the first five years and 4% thereafter. The two senior series of preferred equity consist of a \$35 million series (the "Senior Preferred") and a \$38.5 million series (the "Series B Preferred"). The Senior Preferred is entitled to distributions at a floating rate equal to LIBOR plus 500 basis points (which increases by 50 basis points after each three month period). The joint venture has the right to redeem the Senior Preferred at any time. The Trust and the holder of the Series B Preferred are seeking an investment by a third party to replace the Senior Preferred and common equity as soon as practicable. The Series B Preferred is entitled to distributions at a floating rate equal to LIBOR plus 600 basis points. The joint venture has purchased an interest rate cap that limits its exposure to LIBOR increasing above 7%. Generally, additional income and cash, if any, after preferred distributions will be allocated and distributed proportionately to the joint venture members according to their common equity ownership.

The Trust has call options on all of the preferred equity held by the other joint venture members, commencing immediately with respect to the Senior Preferred and commencing after six months with respect to the Series B Preferred. The call price of the Senior Preferred is equal to 100% of its face amount plus accumulated distributions thereon, with interest but without any additional premium. The call price of the Series B Preferred is equal to 100% of its face amount plus the amount necessary to provide the holder thereof with a 15.75% annualized internal rate of return, after taking into account distributions previously made on the Series B Preferred.

The holders of the Senior Preferred and the Series B Preferred have put options back to the joint venture with respect to their preferred equity commencing after two years in the aggregate amount of \$10 million; put options on the remainder of the preferred equity are exercisable in the third and fourth years. The Trust has the right to contribute capital to the joint venture in order to enable the joint venture to satisfy those puts. Any such capital contributed by the Trust will constitute additional amounts of the Trust's series of preferred equity. The put prices are identical to the call prices, as described above.

If the Trust is unable or unwilling to contribute capital to the joint venture so that the put options can be satisfied, the other entities have the right to offset the dollar amount of such put option by transferring an equivalent amount of capital from the Trust's capital account and increasing their own accounts by such amount. As long as the Trust has any capital balance remaining in the joint venture, it has the right to subsequently have its capital account restored by meeting the put and paying certain additional amounts. There can be no assurance that the Trust will have sufficient funds available to make the capital contributions which may be required to satisfy the put options of the other joint venture members or that the Trust will choose to make such capital contributions at that time. The failure to make such capital contributions would have a material adverse effect on the financial condition of the Trust.

Once all the Senior Preferred and the Series B Preferred have been acquired, the Trust will have call options on all of the common equity of the other joint venture members as well. The call price of the common equity is equal to 100% of the face amount plus the amount necessary to provide the holder thereof with a 20% annualized internal rate of return, after taking into account distributions previously made on the common equity. In addition, for so long as the Senior Preferred holder's common equity is outstanding, the Senior Preferred holder is entitled to receive \$75,000 per month. There are no put options on the common equity.

13. SHARE OPTIONS

The Trust has the following share option plans for key personnel.

1981 STOCK OPTION PLAN

This plan provides that option prices be at the fair market value of the shares at the date of grant and that option rights granted expire ten years after the date granted. Adopted in 1981, the plan originally reserved 624,000 shares for the granting of incentive and nonstatutory share options. Subsequently, the shareholders approved amendments to the plan reserving an additional 200,000 shares, for a total of 824,000 shares, for the granting of options and extending the expiration date to December 31, 1996. The amendments do not affect previously issued options.

The activity of the plan is summarized for the years ended December 31 in the following table:

	1996	1995	1994
	----	----	----
Granted	409,500	-	75,000
Exercised	9,455	-	-
Canceled	118,090	28,910	121,317
Expired	23,427	-	-
Available	-	314,837	285,927

As of December 31, 1996, options on 644,625 shares were outstanding at prices ranging from \$7.375 to \$17.55 per share.

Separately, the Trust and Company have an agreement whereby, as of December 31, 1996, the Company may purchase up to 63,540 shares from the Trust at prices ranging from \$8.25 to \$17.55 per share to satisfy the Company's obligations to deliver shares to certain of its key employees pursuant to options previously granted. The option agreements with the Company's employees provide that option prices be at the fair market value of the Trust shares at the date of grant and that option rights granted expire ten years after the date granted.

1994 LONG-TERM INCENTIVE OWNERSHIP PLAN

This plan, adopted in 1994, reserved 1,629,785 shares for the granting of incentive and nonstatutory share options and restricted shares. The share options expire eight years after being granted. The price of the options is the fair market value of the shares at the date of grant. The restricted shares receive dividends and have voting rights but may not be sold or transferred until the restriction period lapses after eight years from the date of grant, or earlier if the Trust's share price equals or exceeds \$21 for 20 consecutive days or upon a change in control as defined in the plan. Additional restricted shares will be granted when defined levels of funds from operations and net capital gains are achieved during any four consecutive calendar quarters. Deferred compensation of \$1.7 million in 1996, \$1.3 million in 1995 and \$1 million in 1994 was recorded in connection with the issuance of the restricted shares and is being amortized over an eight-year period on a straight-line basis. Amortization of \$498,000, \$248,000 and \$65,000, respectively, was recognized in 1996, 1995 and 1994.

The activity of this plan is summarized for the years ended December 31 in the following table:

	1996 ----	1995 ----	1994 ----
Share options granted	79,000	242,450	229,850
Share options canceled	18,400	11,300	16,000
Restricted shares granted	142,500	162,500	162,500
Restricted shares canceled	37,007	-	-
Shares purchased by employees	11,094	9,812	-
Exercised	10,700	20	-
Available share options and restricted shares	652,786	849,973	1,253,435

As of December 31, 1996, options on 494,880 shares at prices ranging from \$6.375 to \$7.75 and 427,500 restricted shares were outstanding.

The Trust accounts for stock option awards in accordance with APB 25 and has adopted the disclosure-only provisions of SFAS 123 (Accounting for Stock-Based Compensation). Consequently, no compensation cost has been recognized for the share option plans. If compensation expense for the Trust's two share option plans had been recorded based on the fair value at the grant date for awards in 1996 consistent with SFAS No. 123, the Trust's net income applicable to shares of beneficial interest would have been reduced by \$430,000 or \$.02 per share. The fair value of each option was calculated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield of 3.5%, expected volatility of 30%, risk-free interest rate of 6.35% and expected option life of 10 years.

14. SHAREHOLDER RIGHTS PLAN

In March 1990, the Board of Trustees declared a dividend consisting of one right to purchase one share of beneficial interest of the Trust with respect to each share of beneficial interest. The rights may be exercised only if a person or group acquires 15% or more of the outstanding shares of beneficial interest, makes a tender offer for at least 15% of the outstanding shares of beneficial interest, or is declared to be an "adverse person." The exercise price of each right is \$50. If a person or group acquires 15% or more of the outstanding shares of beneficial interest (except in a tender offer approved by the Board of Trustees), is declared to be an "adverse person," or engages in certain self-dealing transactions with the Trust ("flip-in events"), each right (other than rights owned by a 15% owner of an "adverse person") entitles the holder to purchase one share of beneficial interest of the Trust for par value (now \$1 per share). If the Trust is acquired in a merger or other business combination ("flip-over events"), each right entitles the holder to purchase, for \$1, shares of the acquiring company having a market value equal to the market value of one share of beneficial interest of the Trust. The rights may be redeemed by the Trust at a price of \$0.01 per right at any time prior to the earlier of a "flip-in" or "flip-over" event or the expiration of the rights on March 30, 2000.

15. FEDERAL INCOME TAXES

No provision for current or deferred income taxes has been made by the Trust on the basis that it qualified under Sections 856-860 of the Internal Revenue Code as a real estate investment trust and has distributed all of its taxable income to shareholders.

In accordance with Section 1031 of the Internal Revenue Code, the Trust is treating the sale of its 50% interest in two malls in Wilkes-Barre, PA and Fairmount, WV as a like-kind exchange for Woodland Commons Shopping Center and Steeplechase Apartments. As a result, the Trust is deferring for tax purposes the capital gain realized in the transaction except for \$6 million related to the mortgage note received as part of the sale and the \$2 million payment received in 1994.

The Trust and Company treat certain items of income and expense differently in determining net income reported for financial reporting and tax purposes. Such items resulted in a net decrease in income for tax reporting purposes of approximately \$1.1 million for 1996 and \$5 million for 1995, and a net increase of approximately \$.5 million for 1994.

As of December 31, 1996, net investments in real estate for financial reporting purposes were approximately \$69 million greater than for tax purposes.

The 1996 quarterly allocation of cash dividends per share of beneficial interest for individual shareholders' income tax purposes was as follows:

DATE PAID -----	LONG-TERM CAPITAL GAINS -----	ORDINARY INCOME -----	TOTAL PAID -----
February 1, 1996	\$.018	\$.092	\$.11
April 30, 1996	---	.110	.11
July 31, 1996	---	.110	.11
October 31, 1996	---	.110	.11
	-----	-----	-----
	\$.018	\$.422	\$.44
	-----	-----	-----

For the year ended December 31, 1995, the cash dividends paid of \$0.40 consisted of \$.074 per share of ordinary income and \$.326 per share of capital gains, and for the year ended December 31, 1994, \$0.48 per share was ordinary income.

16. LEGAL CONTINGENCY

The Trust has pursued legal action against the State of California associated with the 1986 flood of Peach Tree Center. In September 1991, the court ruled in favor of the Trust on the liability portion of this inverse condemnation suit, which the State of California appealed. The Trust is proceeding with its damage claim. No recognition of potential income has been made in the accompanying financial statements.

17. LITIGATION AND PROXY EXPENSE

During 1995, the Trust was involved in a lawsuit and proxy contest with a minority shareholder. The initial lawsuit filed by the Trust alleged several violations of Securities and Exchange Commission rules and regulations by the minority shareholder and other associated parties. Extensive discovery was undertaken and numerous motions and pleadings were filed by the various parties throughout most of 1995. Certain professional fees related to the litigation and proxy contest of \$1.6 million were incurred and have been included in general and administrative expenses in the accompanying Combined Financial Statements. All litigation was resolved on December 13, 1995 by a settlement and standstill agreement. The Trust purchased 950,000 shares of beneficial interest at the average 1995 trading price through December 8, 1995 of \$7.50 per share in January 1996. This transaction was recorded in the 1995 Combined Financial Statements. Additionally, as part of this agreement, the minority shareholder will not acquire additional shares of the Trust.

18. PROFORMA EARNINGS PER SHARE FOR THE JANUARY 1997 SALE OF 3,910,000 SHARES OF BENEFICIAL INTEREST

In January 1997, the Trust sold 3,910,000 shares of beneficial interest. The net proceeds of \$46.1 million are to be used to repay \$20.5 million in short-term bank loans and \$13.8 million of mortgage debt. Had the shares been sold in the beginning of 1996 and the proceeds been used to repay the indebtedness indicated, 1996 net income per share would have been \$.29 on a proforma basis.

19. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is an unaudited condensed summary of the combined results of operations by quarter for the years ended December 31, 1996 and 1995. In the opinion of the Trust and Company, all adjustments (consisting of normal recurring accruals) necessary to present fairly such interim combined results in conformity with generally accepted accounting principles have been included.

	MARCH 31	QUARTERS ENDED		
		JUNE 30	SEPTEMBER 30	DECEMBER 31
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
1996				
Revenues	\$19,897	\$19,363	\$19,735	\$22,872
Income (loss) before preferred dividend and extraordinary loss	(877)	973	1,044	3,282
Extraordinary loss from early extinguishment of debt	-----	-----	-----	(286)
Net income (loss) before preferred dividend	\$(877)	\$973	\$1,044	\$2,996
Net income (loss) applicable to shares of beneficial interest	\$(877)(1)	\$973	\$1,044	\$2,151(2)
Per share				
Income (loss) applicable to shares of beneficial interest before extraordinary loss	\$(.05)	\$.06	\$.06	\$.14
Extraordinary loss from early extinguishment of debt	-----	-----	-----	(.02)
Net income (loss) applicable to shares of beneficial interest	\$(.05)	\$.06	\$.06	\$.12

(1) Included a noncash charge for the write-off of a tenant allowance and the termination of an employment contract.

(2) Included a lease termination fee of \$1.1 million.

	MARCH 31	QUARTERS ENDED		
		JUNE 30	SEPTEMBER 30	DECEMBER 31
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
1995				
Revenues	\$19,347	\$19,576	\$19,871	\$ 20,411
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change	567	1,312	325	1,052
Unrealized loss on carrying value of assets identified for disposition				(14,000)
Capital gains	29,870	-----	-----	-----
Income (loss) before extraordinary loss and cumulative effect of accounting change	30,437	1,312	325	(12,948)
Extraordinary loss from early extinguishment of debt				(910)
Cumulative effect of change in accounting method	(4,325)	-----	-----	-----
Net income (loss)	\$26,112	\$1,312	\$ 325	\$(13,858)
Per share				
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change	\$.03	\$.07	\$.02	\$.06
Income (loss) before extraordinary loss and cumulative effect of accounting change	1.67	.07	.02	(.72)
Extraordinary loss from early extinguishment of debt				(.05)
Cumulative effect of change in accounting method	(.24)	-----	-----	-----
Net income (loss)	\$1.43	\$.07	\$.02	\$(.77)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SECURITYHOLDERS AND TRUSTEES OF FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS:

We have audited the accompanying combined balance sheets of First Union Real Estate Equity and Mortgage Investments (an unincorporated Ohio business trust, also known as First Union Real Estate Investments) and First Union Management, Inc. (a Delaware corporation) as of December 31, 1996 and 1995, and the related combined statements of income, shareholders' equity and changes in cash for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of First Union Real Estate Equity and Mortgage Investments and First Union Management, Inc. as of December 31, 1996 and 1995, and the results of their operations and their changes in cash for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Cleveland, Ohio,

February 5, 1997. ARTHUR ANDERSEN LLP

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

Financial Condition

In February 1996, the Trust sold two office buildings and an attached parking garage in Cleveland, OH for \$1.8 million in cash and a \$7 million, 8% note secured by the properties. This sale resulted in a capital loss of \$5.6 million which was previously provided for by the Trust as part of a \$14 million noncash unrealized loss on the carrying value of certain assets identified for disposition, which was recorded in December 1995.

During 1996, the Trust obtained four mortgage loans totaling \$48.5 million at a weighted average interest rate of 7.5%, most of which have a term of 10 years. The mortgage loans are individually secured by three apartment complexes and a shopping center. The proceeds repaid loans outstanding under the bank credit agreements.

In June 1996, the Trust received repayment of the \$7 million mortgage investment, which was part of the consideration received in the Trust's sale of the two office buildings and an attached parking garage discussed above. The proceeds of this mortgage investment were used to repay short-term bank loans and the \$5 million, 8.6% medium term note which was due in July 1996.

The Trust in September of 1996 combined and expanded its revolving credit agreements. The new \$90 million credit agreement is secured by the same collateral that secured the former \$80 million facilities. The new agreement is at a variable interest rate and requires defined levels of funds from operations, net worth, leverage and interest coverage. The term of the \$90 million credit agreement is two years and can be extended thereafter each year upon request of the Trust and consent of the bank group.

Also in late September 1996, the Trust invested \$30 million from its bank credit facility, in a joint venture. The joint venture acquired eight regional shopping malls and a 50% interest in another mall totaling 5,800,000 square feet of gross leasable area. These shopping malls are the dominant retail facilities located primarily in regional markets in Louisiana, Arkansas, Texas, Oklahoma and New Mexico. The purchase price paid by the joint venture was \$311.7 million which included the assumption of \$50 million in existing mortgage debt. The Trust's property management affiliate will manage the properties for the joint venture. The Trust has recorded this joint venture investment using the equity method of accounting, as the Trust owns 26% of the common equity of the joint venture.

In late October 1996, the Trust issued 2,300,000 shares of 8.4% Series A cumulative convertible redeemable preferred shares of beneficial interest at \$25 per share. The net proceeds of \$54.1 million were used to repay borrowings under the Trust's bank line of credit.

The Trust in December of 1996 purchased an apartment complex for \$5.5 million in Cincinnati, Ohio. The purchase was funded from the bank line of credit.

Liquidity and Capital Resources

Net cash provided by operations for 1996 of \$11.1 million was approximately \$1.9 million less than the prior year primarily due to the increase in accounts receivable when comparing 1996 to 1995. Dividends paid in 1996 of \$7.8 million represented 70% of net cash from operating activities.

Net cash used for investing of \$47.0 million for 1996 included \$8.8 million in proceeds received from the sale of two office buildings and an attached parking garage. The Trust in September 1996 invested \$30 million in a joint venture which has ownership interests in nine regional shopping malls. Additionally, the Trust in 1996 invested approximately \$20.3 million in its existing portfolio. These improvements included the completion of the renovation of two shopping malls in St. Cloud, MN and Reading, PA, the addition of an anchor tenant building in Reading, PA and the conversion of 86,000 square feet to office space of a former retail facility in Denver, CO. In December 1996, as noted previously, the Trust purchased an apartment complex in Cincinnati, OH for \$5.5 million.

Net cash provided by financing of \$35.5 million during 1996 included four mortgage loans secured by three apartment complexes and a shopping center. Additionally, the Trust sold 2,300,000 preferred shares of beneficial interest for \$54.1 million of net proceeds. The mortgage proceeds and the net proceeds from the sale of preferred shares were used to repay amounts outstanding under the bank credit agreement.

In 1997, the Trust has \$3.9 million in mortgage principal payments due and \$20 million in planned tenant and building improvements. These requirements will be funded through available bank lines of credit and approximately \$46 million of net proceeds from the sale of 3,910,000 shares of beneficial interest in January 1997.

Results of Operations

Net income applicable to shares of beneficial interest was \$3.3 million for 1996, as compared to \$13.9 million for 1995.

Net income applicable to shares of beneficial interest in 1996 included an accrued preferred dividend of \$845,000, two non-recurring, noncash charges totaling \$1.3 million for the write-off of a tenant allowance and the termination of an employment contract, a lease termination fee of \$1.1 million and an extraordinary loss of \$286,000 from the write-off of deferred costs related to former bank credit agreements which were negotiated into a new agreement.

Net income for 1995 included a capital gain of \$29.9 million, a \$14 million noncash unrealized loss on the carrying value of certain assets which were identified for disposition, a \$4.3 million noncash charge for the cumulative effect of a change in accounting method, an extraordinary loss of \$910,000 from the early repayment of debt and \$1.6 million of litigation and proxy expenses.

The \$29.9 million capital gain in 1995 resulted from the sale of the Trust's 50% interests in two malls in Wilkes-Barre, PA and Fairmount, WV for \$29.5 million in cash, a \$6 million mortgage at an interest rate of 9% secured by one of the malls and also secured by partnership units of Crown American Properties L.P., and the assumption by the purchaser of \$4.7 million of mortgage debt. The proceeds from this sale were invested in short-term securities until properties were acquired in 1995 in a tax-free exchange.

In 1995, the Trust recorded a noncash charge of \$4.3 million for the cumulative effect of the change in accounting method for internal leasing costs. Previously, the Trust deferred internal leasing costs and amortized these costs over the lives of the consummated leases. Capitalizing these leasing costs is generally done in the real estate industry; however, the Trust adopted a more conservative practice by expensing these costs in the period incurred. This change in the method of accounting was made retroactive to January 1995 and consequently, 1995 amounts were restated to reflect this change.

The extraordinary loss of \$910,000 in 1995 primarily represented the write-off of unamortized mortgage costs and prepayment premiums from the repayment of mortgage loans prior to their maturity dates in conjunction with the \$49.5 million refinancing of Crossroads Center in St. Cloud, MN.

Litigation and proxy expenses of \$1.6 million were incurred during 1995. These professional fees resulted from litigation and a proxy contest with a minority shareholder. The litigation was resolved in December 1995 by a settlement and standstill agreement.

Income from property operations for 1996, which is rents less property operating expenses and real estate taxes, was \$1.8 million greater than 1995. However, on a comparable property basis, the retail properties in the portfolio for all of 1996 and 1995 increased income from property operations by \$2.2 million primarily due to increased occupancy of small shop space, the addition of two anchor tenants and the recognition of a termination fee from an anchor tenant for \$1.1 million in December 1996. The office portfolio on a comparable property basis for 1996 and 1995 increased income from property operations by \$.3 million primarily due to increased occupancy at the Oklahoma City, OK office property. The comparable parking portfolio produced an additional \$.3 million in income from property operations due primarily to an increase in the guaranteed minimum rent paid by the operator of the parking facilities. The 1996 full year impact of the apartment complex purchased in June 1995 and the shopping center purchased in April 1995 is offset by the sale in 1996 of two office buildings and an attached parking garage and the sales in 1995 of an office building and two shopping malls.

Income from property operations increased by \$1.8 million when comparing 1995 to 1994. The retail properties in the portfolio for all 12 months of 1995 and 1994 increased income from property operations by \$.4 million when comparing 1995 to 1994 primarily due to increased occupancy. The comparable apartment portfolio income from operations increased \$.6 million primarily due to increased rental rates. The office property portfolio increased income from operations by approximately \$.4 million from real estate tax refunds in 1995. The parking portfolio produced an additional \$.4 million in income from operations due to an increase in the guaranteed rent paid by the operator of the parking facilities and reduced real estate tax expense when comparing 1995 to 1994. The apartment complexes acquired in June 1995 and August 1994 and the shopping center acquired in April 1995 increased income from property operations when comparing 1995 to 1994. However, this increase was offset by the sale of the two malls in January 1995.

As noted previously, the Trust invested \$30 million in a joint venture in September 1996. During the fourth quarter of 1996, the joint venture produced \$528,000 in investment income and \$617,000 in management fees for the Trust's affiliated management company.

Short-term investment income declined when comparing 1996 to 1995 because during the first half of 1995, the Trust had an average of \$13 million in short-term investments from the proceeds of the January 1995 sale of its 50% interest in two malls. These funds were used to purchase a shopping center and an apartment complex in April and June of 1995, respectively. Also, short-term investment income declined when comparing 1995 to 1994 because short-term investments averaged \$6.4 million in 1995 as compared to \$30 million in 1994. In 1994, the Trust had short-term investments until it purchased an apartment complex for \$19 million in August and repaid \$17 million on a bank line of credit.

Mortgage investment income increased when comparing 1995 to 1994 due to the \$6 million mortgage note receivable which was part of the consideration received in January 1995 from the sale of the two malls.

Mortgage interest expense increased when comparing 1996 to 1995 due to the four new mortgage loans totaling \$48.5 million obtained during 1996. However, the Trust's refinancing in the fourth quarter of 1995 of four other mortgage loans at an average interest rate of 9.25% for one mortgage loan at 7.49% partially offset the full effect of the increase in mortgage interest expense from the addition of the four mortgage loans in 1996.

Depreciation and amortization expense for 1996 increased over 1995 by approximately \$1.2 million. This increase was caused by a non-recurring, noncash \$680,000 write-off of a tenant allowance due to the Trust replacing an anchor tenant at one of its malls. The remaining increase in depreciation expense was attributable to the Trust's capital improvement program during the last half of 1995 and continuing in 1996. The increase in depreciation and amortization expense when comparing 1995 to 1994 was primarily the result of the newly acquired shopping center and apartment complex in 1995 and additional tenant improvements.

Interest on bank loans increased when comparing 1995 to 1994 due to an increase of approximately 260 basis points in short-term interest rates. The Trust's interest rates on its bank lines of credit fluctuate based on short-term market rates. The increase in interest rates was partially offset by a decrease in borrowings during 1995. During 1995, the Trust's weighted average interest rate was 7.8% on an average outstanding balance of \$50.8 million; whereas, during 1996, the Trust had an average outstanding balance of \$50.9 million at a weighted average interest rate of 7.6%.

General and administrative expenses for 1996 included a non-recurring, noncash charge of \$650,000 for the termination of an employment contract of a former executive. Also in 1996, additional expenses were incurred in the fourth quarter to manage the nine properties acquired in the joint venture. Litigation and proxy expenses of \$1.6 million were included in general and administrative expenses in 1995, but were previously disclosed separately.

General and administrative costs increased when comparing 1995 to 1994. Expenses increased in 1995 as a result of litigation and proxy costs, changing the method of accounting to directly expense internal leasing costs rather than continue to capitalize and amortize these costs over the term of tenant leases and an increase in leasing personnel.

The Trust in late October 1996 issued 2,300,000 of convertible preferred shares of beneficial interest at 8.4%. Consequently, the preferred dividend of \$845,000 is non-comparable to 1995.

Funds From Operations and Dividends Declared

Funds from operations (FFO) is calculated as income before capital gain or loss, extraordinary loss and cumulative effect of accounting change, both before and after preferred dividend, plus noncash charges for depreciation and amortization for both the Trust and a joint venture. A new definition of FFO, adopted by the National Association of Real Estate Investment Trusts, excludes depreciation and amortization of debt issue costs and other corporate assets. FFO presented by the Trust adds back the entire amount of depreciation and amortization including \$1,080,000, \$866,000 and \$568,000 for debt issue costs and other corporate assets for the years ended December 31, 1996, 1995 and 1994, respectively.

The table below shows the calculation of FFO, dividends declared to holders of shares of beneficial interest and the payout ratio.

(AMOUNTS IN THOUSANDS)	1996	1995	1994
-----	----	----	----
Net income before preferred dividend	\$ 4,136	\$13,891	\$ 6,485
Depreciation and amortization	13,149	11,901	10,555
Depreciation and amortization of joint venture	364		
Cumulative effect of accounting change		4,325	
Extraordinary loss from debt extinguishment	286	910	
Unrealized loss on carrying value of assets identified for disposition		14,000	
Capital gains		(29,870)	
	-----	-----	-----
Funds from operations before preferred dividend	17,935	15,157	17,040
Preferred dividend	(845)		
	-----	-----	-----
Funds from operations after preferred dividend	\$17,090	\$15,157	\$17,040
Dividends declared for shares of beneficial interest	\$ 7,684	\$ 7,542	\$ 7,273
Payout ratio of dividends for shares of beneficial interest to FFO	45%	50%	43%

The payout ratio of dividends declared to funds from operations was 45%, 50% and 43% for 1996, 1995, and 1994 respectively. The payout ratio, compared to the equity REIT industry average of approximately 80%, reflects the Trust's policy of reinvesting in its present portfolio and increasing its portfolio through acquisitions so that dividend increases will be supported by future operating results.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-k into the registrant's previously filed Registration Statements on Form S-3 (Registration Nos. 2-88719, 33-2818, 33-11524, 33-19812, 33-26758, 33-33279, 33-38754, 33-45355, 33-57756 and 333-953).

ARTHUR ANDERSEN LLP

Cleveland, Ohio,
March 21, 1997

Exhibit 24

FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1996

Power of Attorney of Officers and Trustees

The undersigned, an Officer or Trustee or both an Officer and Trustee of First Union Real Estate Equity and Mortgage Investments, an Ohio business trust (the "Trust") which anticipates filing with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the year ended December 31, 1996 (hereinafter called the "Form 10-K"), does hereby constitute and appoint James C. Mastandrea and Paul F. Levin, and either of them, with full power of substitution and resubstitution, as attorneys or attorney to sign for him and in his name the Form 10-K and any and all amendments and exhibits thereto, and any and all other documents to be filed with the Securities and Exchange Commission pertaining to the Form 10-K, with full power and authority to do and perform any and all acts and things whatsoever required or necessary to be done in the premises, as fully to all intents and purposes as he could do if personally present, hereby ratifying and approving the acts of said attorneys and any of them and any such substitute.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this fifth day of March, 1997.

/s/ Kenneth K. Chalmers

/s/ William E. Conway

/s/ Daniel G. DeVos

/s/ Allen H. Ford

/s/ Russel R. Gifford

/s/ Spencer H. Heine

/s/ Herman J. Russel

/s/ E. Bradley Jones

/s/ James C. Mastandrea

ARTICLE 5

CIK: 0000037008

NAME: FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS

MULTIPLIER: 1

CURRENCY: DOLLARS

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
EXCHANGE RATE	1
CASH	2,951,000
SECURITIES	0
RECEIVABLES	8,440,000
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	11,391,000
PP&E	459,563,000
DEPRECIATION	(112,614,000)
TOTAL ASSETS	440,530,000
CURRENT LIABILITIES	14,549,000
BONDS	254,868,000
COMMON	98,444,000
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	0
TOTAL LIABILITY AND EQUITY	440,530,000
SALES	75,555,000
TOTAL REVENUES	81,867,000
CGS	0
TOTAL COSTS	77,445,000
OTHER EXPENSES	54,019,000
LOSS PROVISION	0
INTEREST EXPENSE	23,426,000
INCOME PRETAX	4,422,000
INCOME TAX	0
INCOME CONTINUING	4,422,000
DISCONTINUED	0
EXTRAORDINARY	(286,000)
CHANGES	0
NET INCOME	3,291,000
EPS PRIMARY	.19
EPS DILUTED	.19

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