FIRST UNION REAL ESTATE EQUITY & MORTGAGE INVESTMENTS

FORM 10-K
(Annual Report)

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UNITED STATES
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 12-31-02 COMMISSION FILE NUMBER 1-6249

First Union Real Estate Equity and Mortgage Investments

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Ohio	
(State or other jurisdiction of incorporation or organization)	34-6513657 (I.R.S. Employer (Identification No.)
125 Park Avenue, 14th Floor New York, New York	10017
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 949-1373

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

Title of each class:

Shares of Beneficial Interest, Par Value $1.00 per share; Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, Par Value $25.00 per share

Name of Each Exchange on Which Registered: New York Stock Exchange

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

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

Yes [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 the 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. [X]

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 February 28, 2003, 26,558,083 Shares of Beneficial Interest were held by non-affiliates, and the aggregate market value of such shares was $40,899,488.

(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.

34,814,361 Shares of Beneficial Interest were outstanding as of February 28, 2003

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.

2003 Proxy Statement

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

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PART I

ITEM 1. BUSINESS.

First Union Real Estate Equity and Mortgage Investments (the "Trust") 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 March 2001 (the "Declaration of Trust"), which has as its stated principal business activity the ownership and management of real estate investments. At December 31, 2002, the Trust qualified as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code (the "Code").

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 Trust, in 1971, caused a company to be organized pursuant to the laws of the State of Delaware under the name First Union Management, Inc. ("FUMI"). As of December 31, 2002, FUMI's only remaining operating subsidiary is VenTek International, Inc. ("VenTek"). VenTek is in the business of manufacturing, installing and providing maintenance of parking and transit ticket vending equipment.

For financial reporting purposes, the financial statements of FUMI are combined with those of the Trust.

On July 22, 1998, tax legislation was enacted limiting the "grandfathering rules" applicable to stapled REITS such as the Trust (the "Stapled REIT Legislation"). As a result, the income and activities of FUMI with respect to any real property interests acquired by the Trust and FUMI after March 26, 1998, for which there was no binding written agreement, public announcement or filing with the Securities and Exchange Commission on or before March 26, 1998, will be attributed to the Trust for purposes of determining whether the Trust qualifies as a REIT under the Code.

The Trust has been in the business of owning regional enclosed shopping malls, large downtown office buildings and parking facilities. The Trust's portfolio was diversified by type of property, geographical location, tenant mix and rental market. As of December 31, 2002, the Trust owned two real estate properties, one shopping mall and one office property, and had investments in U.S. Treasury Bills. The Trust's shopping mall is known as Park Plaza Mall and is located in Little Rock, Arkansas. The Trust's office property is known as Circle Tower and is located in Indianapolis, Indiana.

The Trust's shopping mall competes for tenants on the basis of the rent charged and location, and encounters competition from other retail properties in its market area. The principal competition for the Trust's shopping mall may come from future shopping malls locating in its market area. Additionally, the overall economic health of retail tenants impacts the Trust's shopping mall.

The Trust's office property competes for tenants principally with office buildings throughout the area in which it is located. Competition for tenants has been and continues to be intense on the basis of rent, location and age of the building. The Trust's segment data may be found in footnote 18 to the Combined Financial Statements in Item 8.

The only person employed by the Trust as of December 31, 2002, is Neil H. Koenig, Interim Chief Financial Officer. As of December 31, 2002, VenTek had 26 employees.

RISK FACTORS

THE PROPOSED TRANSACTION

On February 13, 2002, the Trust entered into a definitive Agreement and Plan of Merger and Contribution, pursuant to which the Trust agreed to merge with and into Gotham Golf Corp. ("Gotham Golf"), a Delaware corporation controlled by Gotham Partners, L.P. ("Gotham Partners"), at that time the beneficial owner of 16.8% of the Trust's outstanding common shares. If consummated, the proposed transaction would result in the Trust's common shareholders receiving as merger consideration for each Trust common share:

- $1.98 in cash;

- a choice of (a) an additional $0.35 in cash or (b) approximately 1/174th (0.0057461) of a debt instrument to be issued by Southwest Shopping Centers, Co. II, L.L.C. (a wholly-owned subsidiary of the Trust), with a face value of $100 (which is an effective price of $60.91 per face value of $100), indirectly secured by the Trust's principal real estate assets (such debt instrument referred to in this document as a note); and

- three-fiftieths (0.06) of a non-transferable uncertificated subscription right, with each whole right exercisable to purchase one Gotham Golf common share at $20.00 per share and, subject to availability and proration, additional Gotham Golf common shares at $20.00 per share, for up to an aggregate of approximately $41 million of Gotham Golf common shares.

The proposed transaction is subject to several conditions, including the approval of the Trust's common shareholders and the obtaining of certain third party consents. The Trust's common shareholders approved the proposed transaction by the requisite majority vote at a November 27, 2002 meeting of shareholders. Litigation has arisen with respect to the proposed transaction, resulting in the granting of an injunction preventing the proposed transaction from going forward. Although the injunction is being appealed by the Trust and Gotham Partners, there can be no assurance that the injunction will be lifted, that all required third party consents will be obtained and that the proposed transaction will be consummated.

THE MERGER AGREEMENT FOR THE PROPOSED TRANSACTION CONTAINS OPERATING COVENANTS

Under the merger agreement, the Trust has agreed to comply with certain restrictions in its conduct and operations. These restrictions will remain in place until either the proposed transaction is consummated or the merger agreement is terminated. Among other things, the Trust has agreed to conduct its business in the ordinary course and that, except as consented to in writing by Gotham Partners or required by law, it will;

- Not amend its Amended and Restated Declaration of Trust or other organizational documents, split or reclassify its shares, declare any dividend except for regular quarterly dividends on the preferred shares or take any action that would cause the conversion price with respect to the preferred shares to change;

- Not issue or sell any additional shares of beneficial interest or other equity securities and not redeem, purchase or acquire, or offer to purchase or acquire, any of its shares of beneficial interest;

- Not incur any indebtedness other than in the ordinary course under existing credit facilities and not make any capital or other expenditures;

- Not sell, pledge, dispose of or encumber any material assets and not discharge, settle or pay off any claims, liabilities or obligations of any kind or any nature; and

- Not enter into any contract or commitment providing for sales or purchases by the Trust and, subject to applicable law and the fiduciary duty of the Trust's trustees, take any action or refrain from taking any action, enter into any contract or refrain from entering into any contract or make any undertaking or refrain from making any undertaking, in each case as requested by Gotham Partners in its sole discretion.

These operating covenants, along with the other covenants in the merger agreement, effectively prevent the Trust from executing any business strategy other than maintenance of its current assets and pursuit of the proposed transaction with Gotham Golf, without the consent of Gotham Partners.

RISKS WITHOUT GIVING EFFECT TO THE PROPOSED TRANSACTION

An investment in the Trust's securities involves various risks without giving effect to the proposed transaction. The following factors should be carefully considered in addition to the other information set forth in this report.

ASSET SALES HAVE REDUCED OUR PORTFOLIO AND MAY ADVERSELY AFFECT OUR ABILITY TO MAINTAIN REIT STATUS

In March 2001, the Trust sold a significant portion of its remaining properties (the "Asset Sale"). As of March 1, 2003, the Trust's real estate properties consist of a shopping center in Little Rock, Arkansas and an office building in Indianapolis, Indiana. As a result, this sale limits the Trust's flexibility to engage in non-real estate related activities without adversely affecting its REIT status.

By virtue of the income generated by its real estate assets, the Trust believes that it will maintain its qualification as a REIT for 2003 if the proposed transaction is not consummated. The Trust does not anticipate having to invest in REMICs, as defined in the section "Risk Associated with Investment in REMICs," in 2003 in order to qualify as a REIT in 2003. If the Trust were to invest in additional non-real estate assets in 2003, the Trust might not qualify as a REIT in 2003.

The Trust cannot presently determine whether it will continue to qualify as a REIT after 2003. The Trust will continue to evaluate the desirability of maintaining its REIT status.

WE FACE A NUMBER OF SIGNIFICANT ISSUES WITH RESPECT TO THE PROPERTIES WE OWN WHICH MAY ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

PARK PLAZA MALL

Background. Dillard Department Stores, Inc. (referred to herein as "Dillard's"), the only anchor department store at the Trust's Park Plaza Mall located in Little Rock, Arkansas, owns its facilities (two stores at opposite ends of the mall) and has an agreement with a subsidiary of the Trust that contains an operating covenant requiring it to operate these facilities continuously as retail department stores until July 2003. The Trust has approached Dillard's to extend this covenant prior to its expiration but, to date, Dillard's has declined to do so. In the event that Dillard's ceases to operate its stores at the Park Plaza Mall, the value of the Park Plaza Mall would be materially and adversely affected. These events may result in a decline in net revenue that may trigger an event of default under the senior mortgage loan secured by the Park Plaza Mall. There can be no assurance that Dillard's will extend or renew its operating covenant on terms acceptable to the Trust or continue to operate its stores at the Park Plaza Mall. (See "Park Plaza Mall" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

Proposed New Mall and Related Litigation. The Trust is aware of the proposed construction of a new mall in the vicinity of the Park Plaza Mall, which would be developed by Dillard's and its partner, and would be anchored by Dillard's, among other department store anchors. During the first quarter of 2001, the Little Rock board of directors approved a change in zoning that would allow construction of the proposed new mall; however, as described more fully below, the approval of the zoning change was overturned by judicial order in June 2002. In the event that the new mall is built, the anchor may decline to extend or renew its operating covenant and cease operating its stores at the Park Plaza Mall.

Legal actions have been taken by local citizens to reverse the decision of the Little Rock board of directors with respect to the zoning for the development of the proposed new mall. On June 5, 2002, the court issued an opinion invalidating the decision of the Little Rock board of directors with respect to zoning of the proposed new mall and permanently enjoining the City of Little Rock from issuing any building permits or taking any other action pursuant to the invalid ordinances with respect to the proposed new mall. The decision has been appealed to the Supreme Court of Arkansas, with no decision expected before June 2003. There can be no assurance as to the length of time or potential outcome of the appeal. It is also possible that proponents of the new mall will file a new application to rezone the proposed area for a new competing retail development during the pendency of this appeal.

CIRCLE TOWER

The Trust's ownership interest in the Circle Tower office property in Indianapolis, Indiana, includes a leasehold interest in a ground lease. The original ground lease was entered into in 1910, expires in 2009 with an option for an additional 99 years which has been exercised, and contains a "gold clause" provision that may result in a rent increase if the leasehold interest is sold. The resulting rent increase could be substantial. In addition, the marketability of Circle Tower is also adversely affected by the uncertainty of the rent rate for the renewal term of the ground lease. Until the rental rates are finalized (which is not expected to occur until the period within 90 days prior to the expiration of the original term), it may be difficult to sell Circle Tower. Accordingly, it may be in the economic interest of the Trust to hold the leasehold interest indefinitely.

GENERAL PROPERTY ISSUES

Leasing Issues. With respect to its properties, the Trust is also subject to the risk that, upon expiration, leases may not be renewed, the space may not be relet, or the terms of renewal or reletting (including the cost of required renovations) may be less favorable than the current lease terms. Leases accounting for approximately 14% of the aggregate 2003 annualized base rents from the Trust's remaining properties (representing approximately 12% of the net rentable square feet at the properties) expire without penalty or premium through the end of 2003, and leases accounting for approximately 8% of aggregate 2003 annualized base rent from the properties (representing approximately 9% of the net rentable square feet at the properties) are scheduled to expire in 2004. Other leases grant their tenants early termination rights upon payment of a termination penalty. The Trust has estimated the expenditures for new and renewal leases for 2003 and 2004 but no assurances can be given that the Trust has correctly estimated such expenses. Lease expirations will require the Trust to locate new tenants and negotiate replacement leases with such tenants. Replacement leases typically require the Trust to incur tenant improvements, other tenant inducements and leasing commissions, in each case, which may be higher than the costs relating to renewal leases. If the Trust is unable to promptly relet or renew leases for all or a substantial portion of the space, subject to expiring leases, if the rental rates upon such renewal or reletting are significantly lower than expected or if the Trust's reserves for these purposes prove inadequate, the Trust's revenues and net income could be adversely affected.

Tenant Concentration. The Trust's 10 largest tenants for its two properties (based on pro forma base rent for 2003) aggregate approximately 32% of the Trust's total base rent and approximately 25% of the Trust's net rental square feet and have remaining lease terms ranging from approximately one to nine years. The Trust's largest tenant, the Gap Stores, (i.e., the GAP, GAP Kids and Banana Republic) represents approximately 10% of the pro forma aggregate annualized base rent for 2003 and 8% of the pro forma net rentable square feet at the properties. Its lease expires on April 30, 2005. Although the Trust believes that it has a good relationship with each of its principal tenants, the Trust's revenues would be disproportionately and adversely affected if a significant number of these tenants did not renew their lease or renewed their leases upon expiration on terms less favorable to the Trust.

Competition. The Trust competes with a number of real estate developers, operators, and institutions for tenants and acquisition opportunities. Many of these competitors have significantly greater resources than the Trust. No assurances can be given that such competition will not adversely affect the Trust's revenues.

VENTEK CONTINUES TO INCUR LOSSES AND THE TRUST COULD BE OBLIGATED TO MAKE SIGNIFICANT PAYMENTS ON CERTAIN CONTINGENT OBLIGATIONS.

FUMI's subsidiary, VenTek, a manufacturer of transit ticketing and parking equipment, continues to incur significant operating losses. The Trust has provided performance bond guarantees entered into with respect to two contracts of VenTek with transit authorities, which contracts are in the amounts of $6.2 million and $5.3 million. These contracts are for the manufacture, installation and maintenance of transit ticket vending equipment by VenTek. The guarantees are expected to expire within the next two years based on the commencement of contractual warranty and maintenance periods now in effect under both contracts. As of March 15, 2003, no amounts have been drawn against these guarantees. If VenTek is unable to perform in accordance with these contracts, the Trust may be responsible for payment under these guarantees. Also, in connection with one of these transit contracts, VenTek may be liable for liquidated damages (as calculated under the contract) related to delays in completion of the contracts. (See "VenTek" in Item 7 under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

THERE IS NO ASSURANCE THAT THE TRUST'S BUSINESS STRATEGY, WHEN DETERMINED, WILL BE SUCCESSFULLY IMPLEMENTED AND THAT REPLACEMENT ASSETS, IF ANY, WILL PROVIDE GREATER RETURNS

The Trust's assets are real estate properties, which have been difficult to sell at attractive prices, as well as a significant amount of cash available for distribution or investment or for use in connection with a possible business combination, as the Board of Trustees may determine. In February 2002, the Board of Trustees authorized the Trust to enter into the merger agreement with Gotham Partners and proceeded to pursue the proposed transaction, which was approved by the common shareholders in November 2002; however, the consummation of the proposed transaction has been prevented by the issuance of an injunction. There can be no assurance that the injunction will be lifted or that the proposed transaction will be consummated.

In the event that the proposed transaction with Gotham Partners is not consummated, it is the current intention of the Trustees of the Trust to continue to operate the Trust as an ongoing enterprise and to examine other strategic alternatives only if it deems it appropriate to do so. No alternative transaction would be considered without the Board first conducting a full examination of its strategic alternatives. Furthermore, the Board of Trustees of the Trust has no present intention of liquidating the Trust. In the event that the proposed transaction with Gotham Partners is not consummated, the Board of Trustees would evaluate, select and execute a new business strategy, which may involve the use of the Trust's available cash for acquisition of new investments. There can be no assurance that any such new business strategy, when determined, will be successfully implemented and that replacement assets, if any, will provide greater returns to the shareholders than either the current status or the proposed transaction.

RISK ASSOCIATED WITH INVESTMENT IN REMICS.

If the Trust desires to maintain its REIT status after 2003, while still maximizing its liquidity, the Trust may invest in REMICs. Depending on the Trust's other investments, if any, at such time, the amount of the Trust's investment in REMICs necessary to maintain REIT status could be substantial. A REMIC is a vehicle that issues multiclass mortgage-backed securities. Investing in REMICs involves certain risks, including the failure of a counter-party to meet its commitments, adverse interest rate changes and the effects of prepayments on mortgage cash flows. Further, the yield characteristics of REMICs differ from those of traditional fixed-income securities. The major differences typically include more frequent interest and principal payments (usually monthly), the adjustability of interest rates, and the possibility of prepayments of principal. The Trust may fail to recoup fully its investment in REMICs notwithstanding any direct or indirect governmental agency or other guarantee. REMICs may also be less effective than other types of U.S. government securities as a means of "locking in" interest rates.

FACTORS THAT MAY CAUSE THE TRUST TO LOSE ITS NEW YORK STOCK EXCHANGE LISTING

If the Trust were to fail to qualify as a REIT, it might lose its listing on the New York Stock Exchange. Whether the Trust would lose its NYSE listing would also depend on a number of factors besides REIT status, including the amount and composition of its assets. If the Trust loses its NYSE listing, the Trust would try to have its shares listed on another national securities exchange, such as the American Stock Exchange.

OTHER LEGISLATION COULD ADVERSELY AFFECT THE TRUST'S REIT QUALIFICATION

Other legislation (including legislation previously introduced, but not yet passed), as well as regulations, administrative interpretations or court decisions, also could change the tax law with respect to the Trust's qualification as a REIT and the federal income tax consequences of such qualification. The adoption of any such legislation, regulations or administrative interpretations or court decisions could have a material adverse effect on the results of operations, financial condition and prospects of the Trust and could restrict the Trust's ability to grow.

DEPENDENCE ON QUALIFICATION AS A REIT; TAX AND OTHER CONSEQUENCES IF REIT QUALIFICATION IS LOST

There can be no assurance that the Trust has operated in a manner to qualify as a REIT for federal income tax purposes in the past or that it will so qualify in the future. Qualification as a REIT involves the application of highly technical and complex provisions of the Code, for which there are only limited judicial or administrative interpretations. The complexity of these provisions is greater in the case of a stapled REIT such as the Trust. Qualification as a REIT also involves the determination of various factual matters and circumstances not entirely within the Trust's control. In addition, the Trust's ability to qualify as a REIT may be dependent upon its continued exemption from the anti-stapling rules of Section 269B(a)(3) of the Code, which, if they were to apply, might prevent the Trust from qualifying as a REIT. The "grandfathering" rules governing Section 269B generally provide that Section 269B(a)(3) does not apply to a stapled REIT (except with respect to new real property interests as described above "--Income and Activities of FUMI May Be Attributed to the Trust Under Recent Anti-Stapling Legislation and May Threaten REIT Status") if the REIT and its stapled operating company were stapled on June 30, 1983. On June 30, 1983, the Trust was stapled with FUMI. There are, however, no judicial or administrative authorities interpreting this "grandfathering" rule. Moreover, if, for any reason, the Trust failed to qualify as a REIT in 1983, the benefit of the "grandfathering" rule would not be available to the Trust, in which case the Trust would not qualify as a REIT for any taxable year from and after 1983.

If it is determined that the Trust did not qualify as a REIT during any of the preceding five fiscal years, the Trust potentially could incur corporate tax with respect to a year that is still open to adjustment by the Internal Revenue Service ("IRS"). If the Trust were to fail to qualify as a REIT, it would be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at corporate rates. In addition, unless entitled to relief under certain statutory provisions and subject to the discussion above regarding the impact if the Trust failed to qualify as a REIT in 1983, the Trust also would be disqualified from re-electing REIT status for the four taxable years following the year during which qualification is lost. Failure to qualify as a REIT would result in additional tax liability to the Trust for the year or years involved. In addition, the Trust would no longer be required by the Code to pay dividends to its shareholders. To the extent that dividends to shareholders would have been paid in anticipation of the Trust's qualifying as a REIT, the Trust might be required to borrow funds or to liquidate certain of its investments on disadvantageous terms to pay the applicable tax.

ADVERSE EFFECTS OF REIT MINIMUM DIVIDEND REQUIREMENTS

In order to qualify as a REIT, the Trust is generally required each year to distribute to its shareholders at least 90% of its taxable income (excluding any net capital gain). The Trust generally is subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by it with respect to any calendar year are less than the sum of:

- 85% of its ordinary income for that year,

- 95% of its capital gain net income for that year, and

- 100% of its undistributed income from prior years.

The Trust intends to comply with the foregoing minimum distribution requirements; however, due to significant tax basis net operating losses, the Trust does not anticipate that any distributions will be required in the foreseeable future. Distributions to shareholders by the Trust are determined by the Trust's Board of Trustees and depend on a number of factors, including the amount of cash available for distribution, financial condition, results of operations, any decision by the Board of Trustees to reinvest funds rather than to distribute such funds, capital expenditures, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Trustees deems relevant. For federal income tax purposes, distributions paid to shareholders may consist of ordinary income, capital gains, return of capital, or a combination thereof. The Trust provides shareholders with annual statements as to the taxability of distributions. During 2002, the Trust was not required to make any minimum distributions to its common shareholders. During the first and second quarters of 2002, the Board of Trustees paid a $0.10 per share dividend to common shareholders.

ABILITY TO OPERATE PROPERTIES DIRECTLY AFFECTS THE TRUST'S FINANCIAL CONDITION

The Trust's investments in real properties are subject to the risks inherent in owning real estate. The underlying value of the Trust's real estate investments, the results of its operations and its ability to make distributions to its shareholders and to pay amounts due on its indebtedness will depend on its ability to operate its properties and manage its other investments in a manner sufficient to maintain or increase revenues and to generate sufficient revenues in excess of its operating and other expenses.

ILLIQUIDITY OF REAL ESTATE

Real estate investments are relatively illiquid. The Trust's ability to vary its real estate portfolio in response to changes in economic and other conditions will therefore be limited. If the Trust decides to sell an investment, no assurance can be given that the Trust will be able to dispose of it in the time period it desires or that the sales price of any investment will recoup or exceed the amount of the Trust's investment.

INCREASES IN PROPERTY TAXES COULD AFFECT THE TRUST'S ABILITY TO MAKE EXPECTED SHAREHOLDER DISTRIBUTIONS

The Trust's real estate investments are all subject to real property taxes. The real property taxes on properties which the Trust owns may increase or decrease as property tax rates change and as the value of the properties are assessed or reassessed by taxing authorities. Increases in property taxes may have an adverse effect on the Trust and its ability to pay dividends to shareholders and to pay amounts due on its indebtedness.

ENVIRONMENTAL LIABILITIES

The obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation, may affect the operating costs of the Trust. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on or under the property. Environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances and whether or not such substances originated from the property. In addition, the presence of hazardous or toxic substances, or the failure to remediate such property properly, may adversely affect the Trust's ability to borrow by using such real property as collateral. The Trust maintains insurance related to potential environmental issues on its current and previously owned properties.

Certain environmental laws and common law principles could be used to impose liability for releases of hazardous materials, including asbestos-containing materials or "ACMs," into the environment. In addition, third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released ACMs or other hazardous materials. Environmental laws may also impose restrictions on the use or transfer of property, and these restrictions may require expenditures. In connection with the ownership and operation of any of the Trust's properties, the Trust, FUMI and the other lessees of these properties may be liable for any such costs. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could materially adversely affect the Trust and FUMI and their ability to pay amounts due on their indebtedness and with respect to the Trust, to pay dividends to its shareholders.

Prior to undertaking major transactions, the Trust has hired independent environmental experts to review specific properties. The Trust 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 Trust 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 Trust from all such liabilities.

An environmental assessment of the Park Plaza Mall identified the potential for asbestos to be present in the resilient vinyl floor tiles in retail tenant storage areas and service corridors and in the cooling tower fill. A third party consultant concluded that it was unlikely but possible that non-friable asbestos was present in these areas. Rather than incurring the expense of testing to eliminate the possibility of asbestos being present, the consultant recommended a standard operations and maintenance plan based on EPA guidance.

COMPLIANCE WITH THE ADA MAY AFFECT EXPECTED DISTRIBUTIONS TO THE TRUST'S SHAREHOLDERS

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. A determination that the Trust is not in compliance with the ADA could also result in the imposition of fines and/or an award of damages to private litigants. If the Trust were required to make modifications to comply with the ADA, there could be a material adverse effect on its ability to pay amounts due on its indebtedness or to pay dividends to its shareholders.

UNINSURED AND UNDERINSURED LOSSES

The Trust may not be able to insure its properties against losses of a catastrophic nature, such as terrorist acts, earthquakes and floods, because such losses are uninsurable or not economically insurable. The Trust will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its investments at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the lost investment and also may result in certain losses being totally uninsured. Inflation, changes in building codes, zoning or other land use ordinances, environmental considerations, lender imposed restrictions and other factors also might make it not feasible to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds, if any, received by the Trust might not be adequate to restore its economic position with respect to such property.

INABILITY TO REFINANCE

The Trust is subject to the normal risks associated with debt and preferred stock financings, including the risk that the Trust's cash flow will be insufficient to meet required payments of principal and interest and distributions, the risk that indebtedness on its properties, or unsecured indebtedness, will not be able to be renewed, repaid or refinanced when due or that the terms of any renewal or refinancing will not be as favorable as the terms of such indebtedness. If the Trust were unable to refinance the indebtedness on acceptable terms, or at all, the Trust might be forced to dispose of one or more of its properties on disadvantageous terms, which might result in losses to the Trust, which losses could have a material adverse effect on the Trust and its ability to pay dividends to shareholders and to pay amounts due on its indebtedness. Furthermore, if a property is mortgaged to secure payment of indebtedness and the Trust is unable to meet mortgage payments, the mortgagor could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of revenues and asset value to the Trust. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering the Trust's ability to meet the REIT distribution requirements of the Code.

RISING INTEREST RATES

The Trust has incurred and may in the future incur indebtedness that bears interest at variable rates. Accordingly, increases in interest rates would increase the Trust's interest costs (to the extent that the related indebtedness was not protected by interest rate protection arrangements), which could have a material adverse effect on the Trust and its ability to pay dividends to shareholders and to pay amounts due on its indebtedness or cause the Trust to be in default under certain debt instruments. In addition, an increase in market interest rates may cause holders to sell their shares of beneficial interest of the Trust ("Common Shares") and reinvest the proceeds thereof in higher yielding securities, which could adversely affect the market price for the Common Shares.

RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED BY FACTORS BEYOND THE TRUST'S CONTROL

Results of operations of the Trust's properties may be adversely affected by, among other things:

- changes in national economic conditions, changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics;

- changes in interest rates and in the availability, cost and terms of financing;

- the impact of present or future environmental legislation and compliance with environmental laws and other regulatory requirements;

- the ongoing need for capital improvements, particularly in older structures;

- changes in real estate tax rates and assessments and other operating expenses;

- adverse changes in governmental rules and fiscal policies;

- adverse changes in zoning and other land use laws; and

- earthquakes and other natural disasters (which may result in uninsured losses) and other factors which are beyond its control.

PAYMENT OF GOTHAM PARTNERS EXPENSES DUE TO TERMINATION OF MERGER AGREEMENT

In the event that the merger agreement is terminated due to certain circumstances (including those described below), the Trust may have to pay the expenses of Gotham Partners in connection with the proposed transaction. As provided in the merger agreement, the obligation to pay Gotham Partners expenses could be triggered by the termination of the merger agreement with respect to any one of the following circumstances:

- If the Trust's shareholders have failed to approve the merger agreement and the transactions contemplated thereunder by a majority vote of the Common Shares.

- If the Trust determines to enter into a definitive agreement with another party providing for an acquisition transaction other than the proposed transaction, which is deemed by the Board of Trustees to be superior to the proposed transaction.

- With respect to certain representations, warranties or covenants in the merger agreement, if the Trust materially breaches these representations, warranties or covenants except if said breaches were from failures as would not reasonably be expected to result, individually or in the aggregate, in monetary liability greater than or equal to $65 million; and, with respect to certain other representations, warranties or covenants relating to the capitalization of the Trust, the authority of the Trust to enter into the merger agreement and the Trust's non-contravention and compliance with certain agreements, if the Trust breaches these representations, warranties or covenants.

- If the Board of Trustees of the Trust has withdrawn or adversely amended in any material respect its approval or recommendation to the Trust's shareholders of the merger agreement or the transactions contemplated thereby, other than the exercise of the subscription rights or the Note election described in Item 7 below under "Management's Discussion and Analysis of Financial Condition and Results of Operations - The Proposed Transaction".

The Trust is contractually obligated under the merger agreement to pursue the proposed transaction with Gotham Partners unless a superior proposal is made; that is, an offer consisting of cash or publicly traded securities for more than 90% of the Trust's common shares or all or substantially all of the Trust's assets that would be more favorable to the holders of the common shares than the proposed transactions under the merger agreement with Gotham Partners. The pending litigation opposing the transaction does not give the Trust the contractual right under the merger agreement to terminate its obligations to complete the transaction. If the Trust were to seek to terminate its obligations solely for that reason, the Trust could incur a liability to Gotham Partners that may include responsibility for the payment of Gotham Partners' expenses for the transaction, which the Trust believes may exceed $8 million.

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

Any statements in this report, including any statements in the documents that are incorporated by reference herein that are not strictly historical are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements contained or incorporated by reference herein should not be relied upon as predictions of future events. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans, intentions or anticipated or projected events, results or conditions. Such forward-looking statements are dependent on assumptions, data or methods that may be incorrect or imprecise and they may be incapable of being realized. Such forward-looking statements include statements with respect to:

- the declaration or payment of distributions by the Trust or FUMI,

- the consummation of or the failure to consummate the proposed transaction;

- the ownership, management and operation of properties,

- potential acquisitions or dispositions of properties, assets or other businesses by the Trust or FUMI,

- the policies of the Trust or FUMI regarding investments, acquisitions, dispositions, financings and other matters,

- the qualification of the Trust as a REIT under the Code and the "grandfathering" rules under Section 269B of the Code,

- the real estate industry and real estate markets in general,

- the availability of debt and equity financing,

- interest rates,

- general economic conditions,

- supply and customer demand,

- trends affecting the Trust or FUMI,

- the effect of acquisitions or dispositions on capitalization and financial flexibility,

- the anticipated performance of the Trust or FUMI and of acquired properties and businesses, including, without limitation, statements regarding anticipated revenues, cash flows, funds from operations, earnings before interest, depreciation and amortization, property net operating income, operating or profit margins and sensitivity to economic downturns or anticipated growth or improvements in any of the foregoing,

- the ability of the Trust or FUMI and of acquired properties and businesses to grow, and

- developments in or outcomes of the Preferred Shareholder Lawsuit or the Common Shareholder Lawsuits. (See "Item 3. Legal Proceedings", below.)

Shareholders are cautioned that, while forward-looking statements reflect the respective companies' good faith beliefs, they are not guarantees of future performance and they involve known and unknown risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The information contained or incorporated by reference in this report and any amendment hereof, including, without limitation, the information set forth in "Risk Factors" above or in any risk factors in documents that are incorporated by reference in this report, identifies important factors that could cause such differences. Neither the Trust nor FUMI undertakes any obligation to publicly release the results of any revisions to these forward-looking statements that may reflect any future events or circumstances.

ITEM 2. PROPERTIES

The following table sets forth certain information relating to the Trust's investments at December 31, 2002:

Direct equity investments	Location	Date of acquisition	Ownership percentage	Square feet(1) (000)	Occupancy rate(2)	Year construction completed	Total cost (000)
Shopping Mall:							
Park Plaza	Little Rock, AR	09/01/97	100	548	86	1988	$ 64,925
Office Building:							
Circle Tower	Indianapolis, IN	10/16/74	100	102	81	1930	6,028
Total equity Investments							$ 70,953

	Mortgage Loan				
Direct equity investments	Original balance (000)	Balance at 12/31/02 (000)	Principal repayment for 2003 (000)	Interest rate	Year of maturity
Shopping Mall:					
Park Plaza	$ 42,500 (3)	$ 41,781	$ 324	8.69% (4)	2030
Office Building:					
Circle Tower	-			-	-
Total equity Investments	$ 42,500	$ 41,781	$ 324		

(1) The square footage shown represents gross leasable area for the shopping mall (including approximately 284,000 square feet for Dillard's) and net rentable area for the office building.

(2) Occupancy rates shown are as of December 31, 2002, and are based on the total square feet of each property.

(3) In 2000, the Trust obtained a $42,500,000 mortgage on the Park Plaza Mall.

(4) The Trust anticipates paying the loan on May 1, 2010. On May 1, 2010 the interest rate increases to 10.69% if the loan is then the subject of a secondary market transaction at which rated securities have been issued and 12.69% if it is not.

As of December 31, 2002, the Trust owned in fee its interest in Park Plaza Mall. The Trust holds a leasehold interest in a ground lease at Circle Tower, which ground lease expires in 2009, with an option for an additional 99 years, which has been exercised.

VenTek leases a 16,256 square foot facility located in Petaluma, CA. The annual rent was $142,000 and the lease expired in February 2003. VenTek's lease is now month to month and the landlord must give 120 days notice to terminate the lease. The facility is adequate for VenTek's needs.

The occupancy rate of Park Plaza Mall at December 31, 2002, 2001, 2000, 1999 and 1998 was 86%, 87%, 87%, 100%, and 100% , respectively.

Park Plaza Mall has one tenant (whose business is retail clothing sales), which occupies 12% of the rentable square footage of the mall. Their annual base rent is $801,292 (12%, 12% and 10% of the total base rent for 2002, 2001 and 2000, respectively). Their lease expires on April 30, 2005 and there are no renewal options.

The average effective annual rental per square foot at Park Plaza Mall for the years ended December 31, 2002, 2001 and 2000 was $30.28, $28.37, and $28.30, respectively.

The realty tax rate and annual realty taxes for Park Plaza Mall in 2002 were 6.9% and $807,000, respectively.

Year Ending December 31,	Number of Leases Expiring	Annualized Base Rent of Expiring Leases	Approximate Square Feet of Expiring Leases	Percentage of Annualized Base Rent Represented By Expiring Leases (1)

2003	13	$ 1,023,999	37,779	15.05%
2004	2	468,723	18,613	6.89%
2005	11	1,377,483	44,898	20.24%
2006	4	301,602	9,446	4.43%
2007	5	417,856	13,963	6.14%
2008	11	1,123,046	40,459	16.50%
2009	10	861,063	20,983	12.65%
2010	6	493,834	14,437	7.26%
2011	5	445,386	12,785	6.54%
2012	3	172,180	4,073	2.53%
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Total	70	$ 6,685,172	217,436	98.23%
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(1) Based upon 2003 annualized base rent of $6,805,532.

ITEM 3. LEGAL PROCEEDINGS.

PREFERRED SHAREHOLDER LAWSUITS

KIMELDORF V. FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS, ET AL., SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK (INDEX NO. 107176/02).

On April 15, 2002, the Trust was served with a complaint filed in the Supreme Court of New York in New York County on behalf of a purported holder of the Trust's convertible preferred shares. Among the allegations made by the plaintiff is that the proposed transaction with Gotham Golf was approved by the Trust's Board of Trustees in violation of fiduciary duties owed to the holders of the Trust's convertible preferred shares. The suit seeks, among other things, unspecified damages, an injunction of the proposed transaction and the court's certification of the lawsuit as a class action. Named as defendants in the lawsuit were the Trust, its five then trustees and Gotham Partners. The Trust and the other defendants filed a motion to dismiss the lawsuit. An oral argument on the motion to dismiss was held on July 15, 2002. Discovery on the case was stayed pending the ruling of the court on the motion to dismiss.

On November 1, 2002, the Trust issued a press release announcing that a special shareholders meeting was to be held November 25, 2002, for the purpose of shareholder approval of the Merger Agreement. Shortly thereafter, the plaintiff preferred shareholder in Kimeldorf filed a motion to show cause why a preliminary injunction should not be issued to enjoin the November 25, 2002 shareholder vote to consider the Merger Agreement. A hearing on the motion was held on November 20, 2002. On November 21, the New York Supreme Court of New York County issued an order granting motions for preliminary injunction and expedited discovery, denying defendant's motion to dismiss, and scheduling a hearing for November 26 to determine whether to grant further relief to plaintiff with respect to the transactions contemplated under the Merger Agreement. The special meeting of shareholders was convened as scheduled on November 25, with the vote on the proposed merger transaction tabled and the meeting adjourned until November 27, at which time the vote was held and the Trust's common shareholders approved the proposed transaction by the requisite majority vote.

The New York Supreme Court of New York County held a three-day hearing on November 26, 27 and December 3, 2002. On December 6, 2002, the New York Supreme Court for New York County issued an order reaffirming its preliminary injunction barring the proposed merger of the Trust with and into Gotham Golf. The court's order also extended indefinitely the preliminary injunction previously granted with respect to the proposed merger transaction and directed the parties to the lawsuit to attend a preliminary conference for the purpose of scheduling discovery.

The Trust filed a notice of appeal of the preliminary injunction with the Appellate Division of the New York Supreme Court. In addition, the Trust filed an auxiliary motion for expedited appeal regarding this matter with the Appellate Division, which motion was denied. The Trust, Gotham Partners and the other defendants in the Kimeldorf litigation filed joint appellate briefs in support of the reversal of the injunction. Plaintiffs filed a reply brief in support of the injunction. Oral argument with respect to the appeal was held before a judicial panel of the Appellate Division - First Department of the New York Supreme Court on March 11, 2003. There is no specific timetable for the appellate court to render its decision.

It is not possible to predict the outcome of the appellate process with respect to lifting the injunction. In the event that the Appellate Division rules that the injunction should not be lifted, the case will proceed to trial on the merits. In the event that the injunction imposed by the trial court were lifted and dissolved, it is the intention of the Trust and, to the best of the Trust's knowledge, Gotham Partners and the other Gotham Partners-affiliated parties to the proposed merger transaction, to take the steps necessary to consummate the proposed transaction. Any party to the Kimeldorf litigation may seek leave of the Appellate Division to appeal to the Court of Appeals of the State of New York an adverse ruling by the Appellate Division regarding the injunction granted by the trial court.

On or about November 8, 2002, First Carolina Investors, Inc. ("First Carolina") a holder of preferred shares, filed a separate lawsuit in New York Supreme Court for New York County, naming the same defendants as in the Kimeldorf case. On or about December 20, 2002, plaintiffs Kimeldorf and First Carolina Investors, Inc. filed a consolidated amended complaint alleging, among others, breach of contract; aiding and abetting breach of contract; tortious interference with the contract; breach of fiduciary duties; aiding and abetting of breach of fiduciary duties; and unconscionability against the defendants, styled Kimeldorf et al. v. First Union, et al. This consolidated amended complaint essentially consolidated the separate First Carolina Investors, Inc. complaint, filed on or about November 8, 2002 with the complaint of Mr. Kimeldorf filed in April 2002. The Trust regards the lawsuit as being without merit and will vigorously defend against the asserted claims.

COMMON SHAREHOLDER LAWSUITS

FINK V. FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS, ET AL., SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK (INDEX NO. 03600265)

On or about January 24, 2003, the Trust was served with a complaint filed in the Supreme Court of New York, New York County on behalf of a purported holder of the Trust's common shares, on behalf of himself and the common shareholders as a class. The lawsuit seeks a declaration that the lawsuit is maintainable as a class action and a certification that the plaintiff, Robert Fink, is the representative of the class. Named as defendants in the lawsuit are the Trust, Gotham Partners, the companies affiliated with Gotham Partners and the Trust that are parties to the Merger Agreement, William Ackman and the four current Trustees of the Trust. Among the allegations asserted are breach of fiduciary duty and aiding and abetting thereof in connection with the transactions contemplated by the Merger Agreement. The relief requested by the plaintiff includes an injunction preventing the defendants from proceeding with consummation of the merger, rescission of the merger if it occurs, an accounting for any profits realized by the defendants as a result of the actions complained of, an order permitting the creation of a shareholders' committee composed of the Trust common shareholders and their representatives to manage the affairs of the Trust, compensatory damages and the costs and disbursements of plaintiff's counsel.

On or about February 14, 2003, the parties to this lawsuit stipulated that the defendants need not answer or otherwise respond to the complaint for an indefinite period of time. The stipulation is revocable by the plaintiff at any time. The Trust believes that the purpose of the stipulation was to delay court proceedings in this lawsuit until the outcome of the appeal of the injunction entered in the Kimeldorf, et al. v. First Union Real Estate Equity and Mortgage Investments, et al. case is decided by the Appellate Division.

The Trust regards the lawsuit as without merit and plans to vigorously defend against the allegations. The Trust will oppose any attempt by the plaintiff to interfere with the transactions contemplated by the Merger Agreement, which was approved by more than 64% of the outstanding the Trust common shares of the Trust and by approximately 98% of the common shares voted at a special meeting of shareholders held on November 27, 2002.

K-A & COMPANY, LTD. V. FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS, ET AL., UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF OHIO, EASTERN DIVISION (CASE NO. 1:03 CV 0460)

On or about February 12, 2003, certain Trustees of the Trust and, later, the Trust, were served with a complaint filed in the Court of Common Pleas, Cuyahoga County, Ohio, by a purported holder of The Trust's common shares, on behalf of himself and the Trust common shareholders as a class. Named as defendants in the lawsuit are the Trust, Gotham, William Ackman and the four current Trustees of the Trust. The allegations made and the relief requested in the K-A suit are substantially identical to those of the Fink v. First Union suit referenced above. The lawsuit seeks a declaration that the lawsuit is maintainable as a class action and certification that the plaintiff, K-A & Company, Ltd., is the representative of the class. Among the allegations asserted are breach of fiduciary duty and aiding and abetting thereof in connection with the transactions contemplated by the Merger Agreement. This lawsuit was removed by notice filed by defendants to the United States District Court, Northern District of Ohio, Eastern Division (Case No. 1:03 CV 0460)

The relief requested by the plaintiff includes an injunction preventing the defendants from proceeding with consummation of the merger, rescission of the merger if it occurs, an accounting for any profits realized by the defendants as a result of the actions complained of, an order permitting the creation of a shareholders' committee composed of the Trust common shareholders and their representatives to manage the affairs of the Trust, compensatory damages and the costs and disbursements of plaintiff's counsel.

As with the Fink v. The Trust lawsuit, the Trust regards the lawsuit as without merit and plans to vigorously defend against the allegations.

OTHER LITIGATION

PEACH TREE MALL LITIGATION

The Trust, as one Plaintiff in a class action composed of numerous businesses and individuals, has pursued legal action against the State of California associated with the 1986 flood of Sutter Buttes Center, formerly Peach Tree Mall. In September 1991, the court ruled in favor of the plaintiffs on the liability portion of the inverse condemnation suit, which the State of California appealed. In the third quarter of 1999, the 1991 ruling in favor of the Trust and the other plaintiffs was reversed by the State of California Appeals Court, which remanded the case to the trial court for further proceedings. After the remand to the trial court, the Trust and the other plaintiffs determined to pursue a retrial before the court. The retrial of the litigation commenced February 2001 and was completed July 2001. In November 2001, the trial court issued a decision that generally holds in favor of the State of California. In February 2002, the Plaintiffs in the case filed a notice of appeal of the ruling of the trial court. Both the Plaintiffs and the State have filed their opening briefs in the California Court of Appeals. The Plaintiffs are scheduled to submit a reply brief in May 2003. The Trust is unable to predict at this time whether or not it will recover any amount of its damage claims in this legal proceeding.

INDEMNITY TO IMPERIAL PARKING CORPORATION

In 1999, Newcourt Financial Ltd. brought a claim in Ontario against an affiliate of the Trust and Imperial Parking Limited alleging a breach of a contract between the Trust affiliate and Newcourt Financial's predecessor-in-interest, Oracle Credit Corporation and Oracle Corporation Canada, Inc. The Trust affiliate and Imperial Parking Limited brought a separate action in British Columbia against Newcourt, Oracle Credit Corporation and Oracle Corporation Canada claiming, among other things, that the contract at issue was not properly authorized by the Trust's board of trustees and the Imperial Parking board of directors. On March 27, 2000, in connection with the spinoff of Imperial Parking Corporation (the successor in interest to Imperial Parking Limited) to the Trust's shareholders, the Trust granted a full indemnity to Imperial Parking Corporation in respect of all damages arising from the outstanding actions.

Numerous attempts to settle this matter have not been successful. The Trust has reserved $575,000 in its consolidated financial statements for this claim. The reserved amount consists of the face amount of the contract of $425,000 and estimated costs of $150,000. The amount of the claim, $825,000, includes Newcourt's calculation of interest on the amount due at the default rate under the contract. The Trust believes that, due to the failure of attempted settlement negotiations, discovery will commence, and the matter will become more actively litigated. The Trust intends to defend vigorously against the claims brought against the parties that it has indemnified and to pursue their separate claims with respect to this matter.

MOUNTAINEER MALL CLAIM

The Trust was named as a defendant in a lawsuit filed in connection with a contractor's claim relative to the construction of a portion of the Mountaineer Mall, located in Morgantown, West Virginia. The construction of the mall commenced in 1993 and was completed in 1995. The mall was sold in July 1999. A trial on the merits of the lawsuit was held in 1997.

In October 2002, the court issued findings of fact and conclusions of law providing that the claimant was entitled to recover from the Trust the principal amount of $266,076 in damages plus various interest amounts, which, when added to the principal amount, would result in an aggregate damage award of $494,382 against the Trust. The court's order provided, however, that the amount of the damage award is subject to offset by the amount of legal fees and expenses reasonably and necessarily incurred by the Trust in defending a certain mechanic's lien claim asserted by the plaintiff in the lawsuit. The court further directed that the plaintiff and the Trust negotiate in good faith as to the amount of such expense and that, if the parties are unable to agree as to the appropriate offset, the court would schedule an evidentiary hearing for the purpose of resolving the issue.

In response to the October 2002 order, the Trust's counsel in the litigation has been attempting to determine the amount of allowable offset to reduce the damages assessed against the Trust. As this matter is subject to further negotiation and possible further court proceedings to reach a final resolution, the Trust is not able to predict the final outcome of this claim. The Trust does not expect that the outcome will have a significant impact on the combined financial position of the Trust.

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

SPECIAL MEETING OF SHAREHOLDERS TO APPROVE PROPOSED TRANSACTION.

In furtherance of the transactions contemplated by the merger agreement, the parties to the merger agreement prepared a joint filing with the Securities and Exchange Commission, being a Registration Statement on Form S-4, including a proxy statement soliciting shareholder approval of the proposed transaction and a prospectus with respect to subscription rights for securities of Gotham Golf and the notes, which were included in the merger consideration with respect to the proposed transaction. The Form S-4 Registration Statement was declared effective on October 31, 2002. On November 1, 2002, the Trust issued a press release announcing that a special shareholders meeting was to be held November 25, 2002, for the purpose of shareholder approval of the proposed transaction. Shortly thereafter, the plaintiff preferred shareholder in Kimeldorf filed a motion to show cause why a preliminary injunction should not be issued to enjoin the November 25, 2002 shareholder vote with respect to the proposed transaction. A hearing on the motion was set for November 20, 2002. On November 21, the New York Supreme Court of New York County granted plaintiffs motions for preliminary injunction and expedited discovery, denied defendant's motion to dismiss, and scheduled a hearing for November 26 to determine whether to grant further relief to plaintiff with respect to the transactions contemplated under the Merger Agreement. The Trust determined that the preliminary injunction prevented the shareholder vote from proceeding at the meeting scheduled for November 25 and, after the meeting on November 25 was called to order, it was adjourned until November 27. At the November 26 hearing, the Trust requested that the court permit the shareholder meeting and the vote on the proposed transaction to proceed and the court so ruled.

The special meeting of shareholders was reconvened on November 27, at which time the vote was held and the Trust's common shareholders approved the proposed transaction by the requisite majority vote of the outstanding shares, with 22,287,091 shares, or approximately 64% of the 34,805,912 outstanding shares of the Trust voting to approve the proposed transaction, which constituted approximately 98% of the 22,631,634 shares voted with respect to that issue. Of the remaining shares, 290,319 were voted against the transaction and 54,225 abstained. In addition, a vote was held on the other issue presented to shareholders, as to whether or not to confer discretionary authority on the Board to adjourn or postpone the meeting to permit further solicitation with respect to the foregoing proposal. The Trust's common shareholders approved this proposal by the requisite majority vote of the shares represented at the meeting, with 21,670,853 shares, or approximately 96% of the shares represented at the meeting, voting in favor of the proposal. In addition, 917,691 shares were voted against the proposal and 43,090 abstained.

PART II

ITEM 5. MARKET FOR TRUST'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

MARKET PRICE AND DIVIDEND RECORD

	High	Low	Dividends Declared
2002 Quarters Ended			
December 31	$ 2.30	$ 1.60	$ -
September 30	2.30	2.14	-
June 30	2.43	2.21	0.10
March 31	2.48	2.32	0.10
			$ 0.20
2001 Quarters Ended			
December 31	$ 2.56	$ 2.20	$ -
September 30	2.75	2.23	-
June 30	2.62	2.16	-
March 31	2.85	2.38	-
			$ -

The Trust's shares are traded on the New York Stock Exchange (Ticker Symbol: FUR). As of December 31, 2002, there were 2,151 recordholders of the Common Shares. The Trust estimates the total number of beneficial owners at approximately 4,900.

During 2002, the Trust was not required to make any minimum distributions to its common shareholders to maintain its REIT status. During the first and second quarters of 2002, the Trust paid a quarterly dividend of $0.10 on cash of its Common Shares. There were no other distributions to the common shareholders.

ITEM 6. SELECTED FINANCIAL DATA

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

	2002	2001	2000	1999	1998 (2)
OPERATING RESULTS					
Revenues	$ 18,701	$ 31,391	$ 67,265	$ 120,774	$ 148,062
Loss before write-down of investment, unrealized loss on carrying value of assets identified for disposition, gains on sale of real estate, extraordinary loss and loss from discontinued operations	(5,032)	(2,266)	(10,632)	(12,494)	(27,769)
Write-down of investment (3)	-	(11,463)	-	-	-
Unrealized loss on carrying value of assets identified for disposition	-	-	(19,150)	(9,800)	(36,000)
Gains on sale of real estate	-	30,096	76,114	28,334	10,346
(Loss) income before extraordinary loss and loss from discontinued operations	(5,032)	16,367	46,332	6,040	(53,423)
Extraordinary loss from early extinguishment of debt (4)	-	(889)	(6,065)	(5,508)	(2,399)
Loss from discontinued operations (1)	-	-	-	(6,836)	(27,696)
Net (loss) income	$ (5,032)	$ 15,478	$ 40,267	$ (6,304)	$ (83,518)
Net (loss) income applicable to shares of beneficial interest	$ (7,099)	$ 13,410	$ 37,817	$ (9,137)	$ (86,517)
Dividends declared for shares of beneficial interest	$ 6,962	$ -	$ 6,583	$ 13,166	$ 3,478
Per share of beneficial interest:					
(Loss) income before extraordinary loss and loss from discontinued operations, basic	$ (0.20)	$ 0.39	$ 1.07	$ 0.08	$ (1.83)
Extraordinary loss from early extinguishment of debt, basic (4)	-	(0.02)	(0.15)	(0.14)	(0.08)
Loss from discontinued operations, basic (1)	-	-	-	(0.18)	(0.90)
Net (loss) income applicable to shares of beneficial interest, basic	$ (0.20)	$ 0.37	$ 0.92	$ (0.24)	$ (2.81)
(Loss) income before extraordinary loss and loss from discontinued operations, diluted	$ (0.20)	$ 0.39	$ 0.98	$ 0.08	$ (1.83)
Extraordinary loss from early extinguishment of debt, diluted (4)	-	(0.02)	(0.13)	(0.14)	(0.08)
Loss from discontinued operations, diluted (1)	-	-	-	(0.18)	(0.90)
Net (loss) income applicable to shares of beneficial interest, diluted	$ (0.20)	$ 0.37	$ 0.85	$ (0.24)	$ (2.81)
Dividends declared per share of beneficial interest	$ 0.20	$ -	$ 1.124	$ 0.31	$ 0.11
FINANCIAL POSITION AT YEAR END					
Total assets	$ 171,825	$ 185,669	$ 462,598	$ 502,792	$ 742,623
Long-term obligations (5)	54,319	54,616	171,310	207,589	357,580
Total equity	108,107	122,168	120,383	169,710	150,696

ITEM 6. SELECTED FINANCIAL DATA.

These Selected Financial Data should be read in conjunction with the Combined Financial Statements and Notes thereto.

(1) The results of Impark have been classified as discontinued operations for 2000, 1999 and 1998, as Impark was spun off to the shareholders of the Trust in 2000. In 1998, Impark recognized a $15.0 million reduction of goodwill.

(2) In 1998, the loss before unrealized loss on carrying value of assets identified for disposition and impaired assets, gains on sales of real estate, extraordinary loss, loss from discontinued operations and preferred dividend included expenses of $17.6 million related to the proxy contest and the resulting change in the composition of the Trust's Board of Trustees.

(3) In 2001, the Trust wrote off $11.5 million, the entire balance, of its warrants and preferred stock investment in HQ Global Holdings, Inc., including accrued dividends.

(4) In 2001, the Trust recognized a $0.9 million extraordinary loss from early extinguishment of debt relating to the first mortgage debt which was assumed as part of the sale of assets to Radiant Investors LLC. In 2000, the Trust repaid a $10.6 million deferred obligation resulting in a prepayment penalty of $3.1 million and also recognized an extraordinary loss on the early extinguishment of debt of $2.4 million in connection with the sale of Crossroads Mall and $0.6 million in connection with the sale of the Huntington Garage. In 1999, the Trust repaid $46.0 million in mortgage debt resulting in a prepayment penalty of $5.5 million. In 1998, the Trust repaid approximately $87.5 million of its 8 7/8% Senior Notes resulting in $1.6 million in unamortized issue costs and solicitation fees being expensed. Also, in 1998, the Trust renegotiated its bank agreement and a $90.0 million note payable resulting in $0.8 million of deferred costs being expensed.

(5) Included in long-term obligations are senior notes and mortgage loans.

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

2002 TRANSACTION

THE PROPOSED TRANSACTION

In April 2001, the Board of Trustees of the Trust established a Special Committee for the purpose of evaluating and advising the Board with respect to proposed transactions and other possible business alternatives that the Trust may pursue. The Special Committee, which is composed of Daniel J. Altobello and Bruce R. Berkowitz, independent Trustees of the Trust, retained Libra Securities, LLC and Duff & Phelps LLC as its financial advisors and Shaw Pittman LLP as its independent legal counsel.

On February 13, 2002, the Trust entered into a definitive agreement of merger and contribution with, among others, Gotham Partners a shareholder of the Trust that is controlled by affiliates of William A. Ackman, who was at the time Chairman of the Board of Trustees of the Trust, and Gotham Golf, a Delaware corporation controlled by Gotham Partners, pursuant to which the Trust agreed to merge with and into Gotham Golf. The merger agreement provided that the Trust's common shareholders would receive as merger consideration for each common share $2.20 in cash, subject to possible deductions on account of dividends paid to the Trust's common shareholders prior to completion of the transaction, breaches of certain representations, warranties and covenants contained in the merger agreement and costs, fees and expenses associated with obtaining certain third-party consents for the proposed transaction, a choice of an additional $0.35 in cash or a debt instrument and a subscription right to purchase common shares of Gotham Golf. The merger agreement also provided that Gotham Golf would exchange the outstanding shares of the Trust's convertible preferred shares for shares of Gotham Golf Series A Cumulative Convertible Redeemable Preferred Stock, par value $25.00 per share, having terms and conditions substantially identical to those as the Trust's convertible preferred shares had with respect to the Trust.

On April 24, 2002, the parties adopted Amendment No. 1 to the merger agreement to change the formula in which the conversion price of Gotham Golf convertible preferred shares is determined and to extend the time during which Gotham Partners can elect not to include the note option as part of the merger consideration to any time prior to the effective time of the merger.

On September 24, 2002, the parties adopted Amendment No. 2 to the merger agreement to reduce the cash merger consideration by $0.20 to reflect the amount that would have been deducted from the merger consideration at closing on account of dividends paid to the Trust's common shareholders prior to completion of the transaction and by an additional $0.02 to reflect the Trust's and Gotham Partners's agreement, based on the good faith estimate of the parties, of the amount that may result from possible breaches of certain representations, warranties and covenants contained in the merger agreement and costs, fees and expenses associated with obtaining certain third-party consents for the proposed transaction. The parties also agreed to eliminate from the merger agreement all provisions relating to any reduction in the cash merger consideration.

Finally, on October 24, 2002, in order to facilitate the listing of the Gotham Golf convertible preferred shares on the American Stock Exchange, the parties adopted Amendment No. 3 to the merger agreement to provide a right to holders of Gotham Golf convertible preferred shares to approve of, by a majority vote, the creation of, or increase in the authorized amount of, any additional class of preferred stock with a liquidation preference equal to that of the Gotham Golf convertible preferred shares.

If consummated, the proposed transaction as contemplated by the amended merger agreement will result in the Trust's common shareholders receiving as merger consideration for each common share:

- $1.98 in cash;

- a choice of (a) an additional $0.35 in cash or (b) approximately 1/174th (0.0057461) of a debt instrument to be issued by Southwest Shopping Centers, Co. II, L.L.C., with a face value of $100 (which is an effective price of $60.91 per face value of $100), indirectly secured by the Trust's principal real estate assets (such debt instrument referred to in this document as a note); and

- three-fiftieths (0.06) of a non-transferable uncertificated subscription right, with each whole right exercisable to purchase one Gotham Golf common share at $20.00 per share and, subject to availability and proration, additional Gotham Golf common shares at $20.00 per share, for up to an aggregate of approximately $41 million of Gotham Golf common shares.

The proposed transaction was approved by the Trust's common shareholders at a special meeting held on November 27, 2002. There can be no assurance that the proposed transaction approved by the Trust's common shareholders will be consummated.

Under the proposed transaction:

- The Trust will merge with and into Gotham Golf, a new corporation formed by Gotham Golf Partners, L.P. ("Gotham Golf Partners"), which is a golf course acquirer, owner and operator. As part of the transaction, Gotham Partners and certain other Gotham Golf Partners equityholders will contribute their respective limited partnership interests in Gotham Golf Partners to Gotham Golf and their respective general partnership interests in Gotham Golf Partners to a wholly owned limited liability company of Gotham Golf, in exchange for common stock of Gotham Golf. As a result, after the proposed transaction, Gotham Golf will directly and indirectly own approximately 92.5% of the equity interests in Gotham Golf Partners, and Gotham Partners and the other equityholders that contributed their equity interests in Gotham Golf Partners in the proposed transaction will own approximately 52.55% of the shares of Gotham Golf stock, assuming that (i) all of the subscription rights to receive Gotham Golf common shares are exercised and (ii) no other equity of Gotham Golf will be issued on or prior to the effective time of the proposed transaction.

- Each note will have a face amount of $100, which is equivalent to approximately $0.575 per share, and will bear interest at 11% per annum on its face amount. The notes will be secured by a pledge of two underlying loans: (1) an approximate $3.5 million first leasehold mortgage on the Circle Tower office building in Indianapolis, Indiana and (2) an approximate $16.5 million mezzanine loan on the Park Plaza Mall in Little Rock, Arkansas. Holders of notes will receive a pass-through of the economic attributes of the two underlying loans.

- Shareholders who receive their proportionate share of the notes in the transaction will have the right to require the issuer of the notes to redeem them on the 90th day after the effective time of the merger for $0.35 in cash for every approximately 1/174th of a note received as merger consideration. Gotham Partners has agreed to purchase from the issuer any redeemed notes for the same redemption price paid by the issuer to the shareholders.

- The notes will not be issued unless certain consents are obtained from the mortgage lender on the Park Plaza Mall and the rating agencies that originally rated the certificates backed by the first Park Plaza Mall mortgage. If any required consents, approvals or similar clearances with respect to the notes cannot be timely obtained, the merger consideration will be adjusted to eliminate the ability for common shareholders to elect to receive the notes in lieu of part of the cash consideration, and all shareholders will receive cash consideration of $2.33 per common share.

- Convertible preferred shareholders of the Trust will receive convertible preferred shares of Gotham Golf, as provided for in the Certificate of Designations for the convertible preferred shares of the Trust. The existing 8.875% unsecured notes will remain outstanding according to their terms and will become obligations of Gotham Golf after the closing of the transaction.

- The Trust, Gotham Partners and each of the members of the Board of Trustees have entered into a Voting Agreement, pursuant to which the parties thereto have agreed to vote a collective 7,424,943 common shares, or approximately 21.3% of the total outstanding common shares, for the approval of the proposed transaction.

- The merger is subject to certain customary closing conditions, including approval by the Trust's common shareholders and receipt of certain third-party consents. There can be no assurance that the proposed transaction will be consummated.

The Trust's approval of the merger agreement was based on the recommendation of the Special Committee. The Special Committee concluded that the transaction was in the best interests of the Trust and the Trust's common shareholders (other than Gotham Partners and its affiliates), where such shareholders elect to receive the full cash consideration in the merger. The Board of Trustees of the Trust, with Mr. Ackman not participating, unanimously voted in favor of the transaction. The Special Committee was advised by Libra Securities, LLC and Duff & Phelps, LLC, and Gotham and its affiliates were advised by Mercury Partners.

In November 2002, the plaintiff in the preferred shareholder litigation (see "Item 3. Legal Proceedings") filed with the New York Supreme Court for New York County an Order to Show Cause why the transaction should not be enjoined. The court held a hearing on that issue on November 20. On November 21, 2002, the court issued an order denying the defendant's motion to dismiss the complaint and granting motions for preliminary injunction and expedited discovery in connection with the proposed merger. The court also set a hearing for November 26, 2002 to determine whether to grant further relief to plaintiff with respect to the proposed transaction. An evidentiary hearing was held on November 26, 27 and December 2, 2002 with respect to this matter. Thereafter, the court issued an order dated December 6, 2002, reaffirming its preliminary injunction barring the proposed merger of the Trust with and into Gotham Golf. The court's order extended indefinitely the preliminary injunction previously granted with respect to the proposed merger transaction and directed the parties to the lawsuit to attend a preliminary conference for the purpose of scheduling discovery. The Trust filed a notice of appeal and began pursuit of its appeal of the court's order barring the transaction in the Appellate Division of the New York Supreme Court. The issue of the lifting of the injunction was briefed by the parties to the litigation and oral argument on the appeal was heard by the Appellate Division of the New York Supreme Court on March 11, 2003. No assurance can be given that the injunction will be lifted, that all required third party consents will be obtained and that the transaction will be consummated.

The Trust is contractually obligated under the merger agreement to pursue the proposed transaction with Gotham Partners unless a superior proposal is made; that is, an offer consisting of cash or publicly traded securities for more than 90% of the Trust's common shares or all or substantially all of the Trust's assets that would be more favorable to the holders of the common shares than the proposed transactions under the merger agreement with Gotham Partners. The pending preferred shareholder litigation opposing the transaction does not give the Trust the contractual right under the merger agreement to terminate its obligations to complete the transaction. If the Trust were to seek to terminate its obligations solely for that reason, the Trust could incur liability to Gotham Partners that may include responsibility for the payment of Gotham Partners' expenses for the transaction, which the Trust believes may exceed $8 million.

OTHER MATTERS

The Trust was not directly affected by the events of the September 11th terrorist attacks; however, the attacks have had a negative effect on the economy which was already considered to be in a recession. The Trust could be affected by declining economic conditions as a result of various factors that affect the real estate business including the financial condition of tenants, competition, and increased operating costs. The Trust's property insurance was renewed in November 2002. The rates increased 73% upon renewal. The Trust's Directors' and Officers' insurance will expire on May 30, 2003. The rates are expected to increase substantially upon renewal.

The Trust's most critical accounting policy relates to the evaluation of the carrying value of real estate. The Trust evaluates the need for an impairment loss on its real estate assets when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the asset's carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. In addition, estimates are used when accounting for the allowance for doubtful accounts, potentially excess and obsolete inventory, product warranty reserves, the percentage of completion method of recognizing revenue and contingent liabilities, among others. These estimates are susceptible to change and actual results could differ from these estimates. The effects of changes in these estimates are recognized in the period they are determined.

SHAREHOLDER LITIGATION

Three separate lawsuits have been filed seeking to block the proposed transaction between the Trust and Gotham Partners relative to the Merger Agreement of February 13, 2002 (See "Item 3. Legal Proceedings"). With respect to one of these legal proceedings, the New York Supreme Court of New York County has issued an order granting an injunction preventing the transaction from going forward. That injunction is currently under appeal. No assurance can be given that the injunction will be lifted or that the proposed transaction will be consummated.

PARK PLAZA MALL

Two Dillard's department stores are the anchor stores at Park Plaza Mall. Dillard's owns its facilities in Park Plaza Mall and has a Construction, Operation and Reciprocal Easement Agreement with a subsidiary of the Trust that contains an operating covenant requiring Dillard's to operate these facilities continuously as retail department stores until July 2003. Dillard's and its partner, Simon Property Group, own a parcel of land of nearly 100 acres in the western part of Little Rock, Arkansas and have announced, at various times over the last several years, their intention to build in this new location. During the first quarter of 2001, the Little Rock board of directors approved a change in zoning that would allow the construction of an approximately 1.3 million square foot regional enclosed mall on this site. The zoning on this site reverted to its prior status as a residential use property pursuant to a court order in 2002; however, the proponents of the regional enclosed mall have filed a notice of appeal of this ruling in the Supreme Court of Arkansas, with no decision expected before June 2003. In the event that a large-scale retail facility is built on this site, Dillard's may decline to extend or renew its operating covenant and cease operating its stores at Park Plaza Mall. In the event Dillard's closes one or both of its stores at Park Plaza Mall, it is unlikely that it would sell or lease its two stores to comparable anchor tenants. Accordingly, the value of Park Plaza Mall would be materially and adversely affected due to the decline in traffic and sales volume at Park Plaza Mall, and the likely departure of many of the tenants pursuant to early termination provisions of their leases that may be triggered by the closure of one or both of the anchor stores. The Park Plaza Mall property is financed by a mortgage loan. The loss of an anchor tenant or a significant number of other mall tenants would most likely result in an event of default under this mortgage.

Regardless of whether the proposed new mall is built at the site in question, under the terms of the operating covenant, Dillard's has no obligation to maintain its operations at Park Plaza Mall beyond July 2003. Dillard's is actively pursuing a number of alternative locations for an additional store in this market. Dillard's has been approached to extend the operating covenant at the Park Plaza Mall; however, to date, it has declined to do so. If Dillard's does not maintain its presence as an anchor store at Park Plaza Mall, the Park Plaza Mall would experience a loss of revenue and likely an event of default under the mortgage, thereby causing the value of the Park Plaza Mall to be materially and adversely affected. In such circumstances, there would be an impairment of the value of the property and a loss could be recognized. There can be no assurance that Dillard's will extend or renew its operating covenant on terms acceptable to the Trust.

With respect to capital improvements, the Trust estimates that the Park Plaza Mall will need to repair or replace its roof at a cost of approximately $0.6 million. The Trust plans to perform the repair or replacement over the next six months.

VENTEK

FUMI's subsidiary, VenTek, a manufacturer of transit ticketing and parking equipment, continues to incur significant operating losses. The Trust has provided performance bond guarantees entered into with respect to two contracts of VenTek with transit authorities, which contracts are in the amounts of $6.2 million and $5.3 million. These contracts are for the manufacture, installation and maintenance of transit ticket vending equipment by VenTek. The guarantees are expected to expire within the next two years based on the commencement of contractual warranty and maintenance periods now in effect under both contracts. As of March 14, 2003, no amounts have been drawn against these guarantees. If VenTek is unable to perform in accordance with these contracts, the Trust may be responsible for payment under these guarantees. Also, in connection with one of these transit contracts, VenTek may be liable for liquidated damages (as calculated under the contract) related to delays in completion of the contract.

LIQUIDITY AND CAPITAL RESOURCES

General

Unrestricted and restricted cash and cash equivalents increased by approximately $1.2 million (to $5.9 million from $4.7 million) when comparing the balance at December 31, 2002 to the balance at December 31, 2001.

The Trust's net cash provided by investing activities of $11.3 million was substantially offset by net cash used for operating activities of approximately $0.8 million and net cash used for financing activities of $9.3 million. Cash used for financing activities included approximately $6.9 million of cash dividends to common shareholders, $2.1 million of cash dividends to preferred shareholders and $0.3 million of mortgage amortization. Cash provided by investing activities consisted of the excess of sales over purchases of U.S. Treasury Bills of $12.0 million. Cash used for investing activities consisted of $0.7 million of improvements to properties.

The Trust declared a dividend of $0.5 million ($0.525 per share) to Series A Cumulative Preferred Shareholders in the fourth quarter of 2002. The dividend was paid January 31, 2003 to shareholders of record at the close of business on December 31, 2002. In addition, the Trust paid a dividend for the first, second and third quarter of 2002 of $0.5 million ($0.525 per share) per quarter to preferred shareholders. During 2002, the Trust was not required to make any minimum distributions to its common shareholders to maintain its REIT status. The Trust paid a dividend of $3.5 million ($0.10 per share) to the common shareholders during the first and second quarters of 2002.

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At December 31, 2002, the Trust owned $104.0 million in face value of U.S. Treasury Bills. The U.S. Treasury Bills are of maturities of less than 90 days and classified as held to maturity. The average yield for the year ended December 31, 2002 and 2001 was 1.61% and 3.64%, respectively.

A summary of the Trust's borrowings and repayment timing is as follows (in millions):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Mortgage loan payable	$41.8	$ 0.3	$ 0.7	$ 0.9	$ 39.9
Senior notes	$12.5	$ 12.5	$ -	$ -	$ -
Total	$54.3	$ 12.8	$ 0.7	$ 0.9	$ 39.9

The only lease with respect to which the Trust has an obligation for payment of rent for is for VenTek, which is month to month.

RESULTS OF OPERATIONS - 2002 VERSUS 2001

Net loss applicable to Common Shares for the year ended December 31, 2002 was $7.1 million as compared to net income of $13.4 million for the year ended December 31, 2001. Net income for the year ended December 31, 2001 included a write-down of an investment in preferred stock and warrants to purchase common shares of HQ Global Holdings Inc. ("HQ") of $11.5 million, as well as, a gain on sale of real estate of $30.1 million. The gain for the year ended December 31, 2001 related to the sale two shopping center properties, four office properties, five parking garages, one parking lot, a $1.5 million note receivable and certain assets used in operations of the properties (the "Purchased Assets"). Net income for the year ended December 31, 2001 also included a $0.9 million extraordinary loss from early extinguishment of debt relating to the first mortgage debt which was assumed as part of the sale of the Purchased Assets.

Interest and dividends decreased by $3.4 million during the year ended December 31, 2002, as compared to 2001. The decrease is a result of lower amounts invested and lower interest rates between the periods. In addition, during the first and second quarter of 2001, a $0.7 million dividend was accrued on the preferred shares of HQ.

Property net operating income, which is rent less property operating expenses and real estate taxes, decreased for the year ended December 31, 2002 to $7.7 million from $10.5 million in 2001. The decrease was attributable to the sale of the Purchased Assets in March 2001.

Property net operating income for the Trust's remaining real estate properties for the year ended December 31, 2002 increased by $1.2 million. The increase was attributable primarily to an increase in revenues of $0.7 million and a decrease in operating expenses of $0.5 million. Revenues increased by $0.7 million for the properties remaining for the year ended December 31, 2002, primarily due to an increase in rental rates at Park Plaza. This was partially offset by a decrease in occupancy at Circle Tower. Included in operating expenses are $0.2 million and $0.7 million in 2002 and 2001, respectively, of costs incurred in connection with the matters described above in the Park Plaza Mall section.

Depreciation and amortization, and mortgage loan interest expense decreased from 2001 to 2002 due to the sale of properties in March 2001. With respect to the remaining properties, depreciation and amortization expense, and interest expense remained relatively constant.

General and administrative expenses remained relatively constant when comparing the year ended December 31, 2002 to the comparable period in 2001. Included in general and administrative expenses for the years ended December 31, 2002 and 2001 are approximately $2.6 million and $0.9 million, respectively, of the Trust's transaction costs related to the Gotham proposal. During the year ended December 31, 2002, $0.8 million of costs related to the preferred shareholder lawsuit were included in general and administrative expense. Also included in general and administrative expenses are $0.8 million and $1.0 million in 2002 and 2001, respectively, to a firm that is providing management services to VenTek. Otherwise, general and administrative expenses decreased due to reduced legal, accounting, professional and management fees primarily as a result of selling the majority of its assets in March 2001. The Trust cannot predict what the professional fees may be in 2003 due to the ongoing litigation which may be substantial.

FUMI's manufacturing facility, VenTek, incurred a net loss of approximately $1.8 million for the year ended December 31, 2002, as compared to a net loss of approximately $1.6 million for the year ended December 31, 2001. Sales decreased for the year ended December 31, 2002 to $2.9 million from $7.6 million in 2001 and cost of goods sold decreased to $4.9 million from $8.8 million for the same period. The decrease in both sales and cost of goods sold is due to the winding down of current contracts and having nominal new business. During the year ended December 31, 2002, VenTek settled a claim for $0.5 million against a California transit agency. The claim arose in 1999 from a termination for convenience by the agency of a contract with VenTek. The amount recovered is included in other income for the year ended December 31, 2002. During the year ended December 31, 2002 nine employees were terminated. These employees were involved in both the transit ticketing and parking equipment, as well as administrative functions. Severance expenses of less than $0.1 million was recorded during both the years ended December 31, 2002 and 2001. The backlog for VenTek is approximately $0.5 million at December 31, 2002. Backlog represents products or services that VenTek's customers have committed by contract to purchase. VenTek's backlog is subject to fluctuations and is not necessarily indicative of future sales. A failure to replace backlog has resulted in and will continue to result in lower revenues.

RESULTS OF OPERATIONS - 2001 VERSUS 2000

Net income applicable to Common Shares for 2001 was $13.4 million as compared to net income of $37.8 million for 2000. Net income for 2001 included a write-down of an investment in preferred stock and warrants to purchase common shares of HQ of $11.5 million. Net income for 2000 included a $19.2 million impairment loss on certain of the assets which the Trust had agreed to sell to the Purchaser at a sales price that was less than net book value at December 31, 2000. The Purchased Assets were sold in March 2001. Net income for 2001 included a gain on sale of real estate of approximately $30.1 million compared to gains of $76.1 million in the comparable period of 2000. The gain for 2001 related to the sale of the Purchased Assets. The gain for 2000 included $58.7 million related to the sale of Crossroads Mall, $1.2 million from the sale of the joint venture interest in Temple Mall, $16.1 million from the sale of Huntington Garage and $0.1 million from the sale of other assets. Net income for 2001 included a $0.9 million extraordinary loss from early extinguishment of debt relating to the first mortgage debt which was assumed as part of the sale of the Purchased Assets. Net income for 2000 included a $3.1 million extraordinary loss from early extinguishment of debt relating to the payoff of the Trust's deferred obligation of $10.6 million and a $2.4 million loss from early extinguishment of debt relating to the first mortgage debt which was assumed as part of the sale of Crossroads Mall and a $0.6 million loss from early extinguishment of debt related to the sale of Huntington Garage.

Interest and dividends decreased during 2001 as compared to 2000. The decrease is a result of lower amounts, invested and lower interest rates between the periods.

Property net operating income, which is rent less property operating expenses and real estate taxes, decreased for 2001 to $10.5 million from $29.8 million in 2000. The decrease was attributable to the sale of properties in March 2001.

Property net operating income for the Trust's remaining real estate properties for 2001 decreased by $1.2 million. The decrease was attributable mainly to an increase in operating expenses at Park Plaza Mall. The increase in operating expenses was primarily due to $0.7 million of costs incurred in connection with the matters described above in the Park Plaza Mall section. Rental income remained relatively constant at both properties.

Depreciation and amortization and mortgage loan interest expense decreased when comparing 2001 to the comparable period in 2000 due to the sale of properties in March 2001. With respect to the remaining properties, depreciation and amortization expense increased slightly due to improvements to properties. Mortgage interest expense increased with respect to the remaining properties as a result of a first mortgage loan that was obtained on Park Plaza Mall in April 2000.

Interest expense relating to notes payable decreased due to the repayment of reverse repurchase agreements in January 2001.

General and administrative expenses decreased by $5.6 million from 2000 to 2001, primarily due to severance expenses incurred during 2000. Included in general and administrative expenses for 2001 are $0.9 million of transaction costs related to the Gotham proposal and $1.0 million to a firm that is providing management services to VenTek. Included in general and administrative expenses for 2000 are approximately $2.7 million of stay bonuses and severance expense. In addition, general and administrative expenses decreased due to salary and overhead savings as a result of the Trust outsourcing its management functions and a decrease in legal expense and accounting fees.

FUMI's manufacturing facility, VenTek, incurred a net loss of $1.6 million for 2001, as compared to a net loss of approximately $3.1 million for 2000. The net loss for 2001 includes approximately $0.4 million in credits estimated to be issued in connection with contracts and a $0.3 million inventory valuation adjustment, which is primarily related to discontinued parking models and FUMI's transit ticketing equipment inventory. In October 2001, VenTek decided to terminate eleven employees who were principally engaged in the production of transit ticketing equipment. Severance expense of less than $0.1 million was incurred in the fourth quarter of 2001 and stay bonuses for selected remaining employees are expected to result in a charge of approximately $0.1 million over a one year period, beginning in the fourth quarter of 2001. The backlog for VenTek was approximately $1.3 million at December 31, 2001.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 addresses accounting and reporting for intangible assets acquired, except for those acquired in a business combination. SFAS No. 142 presumes that goodwill and certain intangible assets have indefinite useful lives. Accordingly, goodwill and certain intangibles will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 also addresses accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The adoption of this statement had no impact on the Trust's combined financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting

the Results of Operations - Reporting the Effects of a Disposal of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. This statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The provisions of this statement generally are to be applied prospectively. The adoption of this statement had no impact on the Trust's combined liquidity, financial position or result of operations, although in future years sales of properties would be presented in a manner similar to discontinued operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which updates, clarifies and simplifies existing accounting pronouncements. In part, this statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." FASB No. 145 will be effective for fiscal years beginning after May 15, 2002. Upon adoption, enterprises must reclassify prior period items that do not meet the extraordinary item classification criteria in APB 30. The effect of this statement on the Trust's financial statements would be the reclassification of extraordinary loss on early extinguishment of debt to interest expense, however, this will have no effect on the Trust's net income applicable to shares of beneficial interest. The Trust intends to adopt FASB No. 145 as of January 1, 2003.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002, with earlier adoption encouraged.

In November 2002, the FASB issued Interpretation No. 45, Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this Interpretation are effective for the Trust's December 31, 2002 combined financial statements. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. This Interpretation had no effect on the Trust's combined financial statements. The Trust's guarantees are disclosed in the combined financial statements.

In January of 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of the Interpretation will be immediately effective for all variable interests in variable interest entities created after January 31, 2003, and the Trust will need to apply its provisions to any existing variable interests in variable interest entities by no later than December 31, 2004. The Trust does not anticipate that this will have an impact on its combined financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

All of the Trust's loans outstanding at December 31, 2002 have fixed interest rates. The Trust's investments in U.S. Treasury Bills mature in less than 90 days and therefore are not subject to significant interest rate risk.

ITEM 8. FINANCIAL STATEMENTS.

FIRST UNION REAL ESTATE EQUITY and MORTGAGE INVESTMENTS

Combined Balance Sheets

As of December 31, (In thousands, except share data)

	2002	2001
ASSETS		
Investments in real estate, at cost		
Land	$ 6,086	$ 6,086
Buildings and improvements	64,867	64,189
	70,953	70,275
Less - Accumulated depreciation	(12,057)	(10,108)
Investments in real estate, net	58,896	60,167
Other assets		
Cash and cash equivalents - unrestricted	3,897	2,609
- restricted	1,968	2,115
Accounts receivable and prepayments, net of allowances of $601 and $680, respectively	1,625	2,261
Investments	103,974	116,005
Inventory, net of reserve	1,033	1,971
Unamortized debt issue costs, net	278	351
Other	154	190
Total assets	$ 171,825	$ 185,669
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgage loan, including current portion of $324 and $297, respectively	$ 41,781	$ 42,078
Note payable	80	96
Senior notes	12,538	12,538
Accounts payable and accrued liabilities	8,332	7,856
Dividends payable	516	517
Deferred items	471	416
Total liabilities	63,718	63,501
Shareholders' equity		
Convertible preferred shares of beneficial interest, $25 per share liquidation preference, 2,300,000 shares authorized, 983,082 and 984,800 outstanding in 2002 and 2001	23,131	23,171
Shares of beneficial interest, $1 par, unlimited authorized, 34,814,361 and 34,805,912 shares, outstanding in 2002 and 2001	34,814	34,806
Additional paid-in capital	207,634	207,602
Accumulated distributions in excess of net income	(157,472)	(143,411)
Total shareholders' equity	108,107	122,168
Total liabilities and shareholders' equity	$ 171,825	$ 185,669

The accompanying notes are an integral part of these combined financial statements.

FIRST UNION REAL ESTATE EQUITY and MORTGAGE INVESTMENTS
Combined Statements of Operations
For the years ended December 31, (In thousands, except per share data)

	2002	2001	2000
Revenues			
Rents	$ 13,643	$ 18,741	$ 49,603
Sales	2,924	7,554	5,556
Interest and dividends	1,659	5,091	12,108
Other income (loss)	475	5	(2)
	18,701	31,391	67,265
Expenses			
Property operating	5,043	6,981	14,448
Cost of goods sold	4,892	8,777	8,156
Real estate taxes	899	1,218	5,348
Depreciation and amortization	2,077	3,837	12,580
Interest	5,102	7,094	26,004
General and administrative	5,720	5,750	11,361
Write-down of investment	-	11,463	-
Unrealized loss on carrying value of assets identified for disposition	-	-	19,150
	23,733	45,120	97,047
Loss before gains on sales of real estate, extraordinary loss from early extinguishment of debt	(5,032)	(13,729)	(29,782)
Gains on sales of real estate	-	30,096	76,114
(Loss) income before extraordinary loss from early extinguishment of debt	(5,032)	16,367	46,332
Extraordinary loss from early extinguishment of debt	-	(889)	(6,065)
Net (loss) income	(5,032)	15,478	40,267
Preferred dividend	(2,067)	(2,068)	(2,450)
Net (loss) income applicable to shares of beneficial interest	$ (7,099)	$ 13,410	$ 37,817
Per share data			
Basic:			
(Loss) income before extraordinary loss from early extinguishment of debt	$ (0.20)	$ 0.39	$ 1.07
Extraordinary loss from early extinguishment of debt	-	(0.02)	(0.15)
Net (loss) income applicable to shares of beneficial interest	$ (0.20)	$ 0.37	$ 0.92
Diluted:			
(Loss) income before extraordinary loss from early extinguishment of debt	$ (0.20)	$ 0.39	$ 0.98
Extraordinary loss from early extinguishment of debt	-	(0.02)	(0.13)
Net (loss) income applicable to shares of beneficial interest	$ (0.20)	$ 0.37	$ 0.85
Basic weighted average shares	34,807	36,396	41,758
Diluted weighted average shares	34,807	36,396	47,499

The accompanying notes are an integral part of these combined financial statements.

FIRST UNION REAL ESTATE EQUITY and MORTGAGE INVESTMENTS
Combined Statements of Shareholders' Equity

(In thousands, except per share data)

	Number of Preferred Shares of Beneficial Interest	Amount of Preferred Shares of Beneficial Interest	Number of Shares of Beneficial Interest	Amount of Shares of Beneficial Interest
Balance December 31, 1999	1,349	$ 31,737	42,472	$ 42,472
Net income before preferred dividend				
Dividends paid or accrued on shares of beneficial interest ($0.31/share)				
Dividends paid or accrued on preferred shares ($2.10/share)				
Shares repurchased	(364)	(8,566)	(2,775)	(2,775)
Compensation on variable stock options				
Spinoff of Impark				
Deferred compensation related to restricted shares				
Balance December 31, 2000	985	23,171	39,697	39,697
Net income before preferred dividend				
Dividends paid or accrued on preferred shares ($2.10/share)				
Shares repurchased			(4,891)	(4,891)
Balance December 31, 2001	985	23,171	34,806	34,806
Net loss before preferred dividend				
Dividends paid on shares of beneficial interest ($0.20/share)				
Dividends paid or accrued on preferred shares ($2.10/share)				
Conversion of preferred shares	(2)	(40)	8	8
Balance December 31, 2002	983	$ 23,131	34,814	$ 34,814

	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income (1)	Deferred Compensation	Total Shareholders' Equity
Balance December 31, 1999	$ 218,831	$ (123,322)	$ (8)	$ 169,710
Net income before preferred dividend		40,267		40,267
Dividends paid or accrued on shares of beneficial interest ($0.31/share)		(6,583)		(6,583)
Dividends paid or accrued on preferred shares ($2.10/share)		(2,450)		(2,450)
Shares repurchased	(3,829)			(15,170)
Compensation on variable stock options	(666)			(666)
Spinoff of Impark		(64,733)		(64,733)
Deferred compensation related to restricted shares			8	8
Balance December 31, 2000	214,336	(156,821)	-	120,383
Net income before preferred dividend		15,478		15,478
Dividends paid or accrued on preferred shares ($2.10/share)		(2,068)		(2,068)
Shares repurchased	(6,734)			(11,625)
Balance December 31, 2001	207,602	(143,411)	-	122,168
Net loss before preferred dividend		(5,032)		(5,032)
Dividends paid on shares of beneficial interest ($0.20/share)		(6,962)		(6,962)
Dividends paid or accrued on preferred shares ($2.10/share)		(2,067)		(2,067)
Conversion of preferred shares	32			-
Balance December 31, 2002	$ 207,634	$ (157,472)	$ -	$ 108,107

(1) Includes the balance of accumulated distributions in excess of net income of First Union Management, Inc. of $8,588, $2,554 and $4,173 as of December 31, 2000, 2001 and 2002, respectively.

The accompanying notes are an integral part of these combined financial statements.

FIRST UNION REAL ESTATE EQUITY and MORTGAGE INVESTMENTS
Combined Statements of Cash Flows

For the years ended December 31, (In thousands)

	2002	2001	2000
Cash (used for) provided by operating activities			
Net (loss) income	$ (5,032)	$ 15,478	$ 40,267
Adjustments to reconcile net (loss) income			
to net cash (used for) provided by operating activities			
Depreciation and amortization	2,077	3,837	12,580
Write-down of investment	-	11,463	-
Extraordinary loss from early extinguishment of debt	-	889	6,065
Gains on sales of real estate	-	(30,096)	(76,114)
Loss on carrying value of assets identified for disposition	-	-	19,150
Increase (decrease) in deferred items	55	(564)	2,409
Net changes in other operating assets and liabilities	2,050	(6,285)	3,942
Net cash (used for) provided by operating activities	(850)	(5,278)	8,299
Cash provided by (used for) investing activities			
Principal received from mortgage loans and note receivable	-	7,048	3,881
Net proceeds from sales of real estate	-	43,617	23,325
Proceeds from sale of fixed assets	-	-	175
Proceeds from sale of investment in joint venture	-	-	2,410
Purchase of investments	(1,662,806)	(1,283,394)	(1,519,627)
Proceeds from maturity of investments	1,674,837	1,377,249	1,403,668
Investments in building and tenant improvements	(697)	(778)	(10,980)
Net cash provided by (used for) investing activities	11,334	143,742	(97,148)
Cash (used for) provided by financing activities			
(Decrease) increase in notes payable	(16)	(150,014)	100,982
Proceeds from mortgage loans	-	6,500	50,000
Repayment of mortgage loans - Principal payments	(297)	(422)	(1,477)
- Balloon payments	-	-	(8,613)
Mortgage prepayment penalties	-	-	(514)
Payment of deferred obligation	-	-	(10,579)
Deferred obligation repayment penalty	-	-	(3,092)
Payments for Impark spin-off	-	-	(37,087)
Repurchase of common shares	-	(11,625)	(7,431)
Repurchase of preferred shares	-	-	(7,739)
Income from variable stock options	-	-	(666)
Debt issue costs paid	-	-	(666)
Dividends paid on shares of beneficial interest	(6,962)	-	(13,166)
Dividends paid on preferred shares of beneficial interest	(2,068)	(2,068)	(2,641)
Net cash (used for) provided by financing activities	(9,343)	(157,629)	57,311
Increase (decrease) in cash and cash equivalents	1,141	(19,165)	(31,538)
Cash and cash equivalents at beginning of year	4,724	23,889	57,841
Cash and cash equivalents at end of year	5,865	4,724	26,303
Change in cash from discontinued operations	-	-	(2,414)
Cash and cash equivalents at end of year, including discontinued operations	$ 5,865	$ 4,724	$ 23,889
Supplemental Disclosure of Cash Flow Information			
Interest paid	$ 5,102	$ 7,899	$ 26,165
Supplemental Disclosure on Non-Cash Investing and Financing Activities			
Dividends accrued on preferred shares of beneficial interest	$ 516	$ 517	$ 517
Transfer of mortgage loan obligations in connection with real estate sales	$ -	$ 122,722	$ 76,189
Transfer of deferred obligation in connection with real estate sales	$ -	$ 1,775	$ -
Issuance of mortgage loan receivable in connection with real estate sales	$ -	$ 7,000	$ -
Discontinued non-cash net assets charged to dividends paid	$	$ -	$ 64,747

The accompanying notes are an integral part of these combined financial statements.

ITEM 8. FINANCIAL STATEMENTS

NOTES TO COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Union Real Estate Equity and Mortgage Investments (the "Trust") and First Union Management, Inc. ("FUMI") are in the real estate and parking and transit ticket equipment manufacturing industries with properties and operations in the United States. The accounting policies of the Trust and FUMI conform to generally accepted accounting principles and give recognition, as appropriate, to common practices within the real estate, parking and manufacturing industries. In March 2001, the Trust sold a significant portion of its remaining real estate assets. As of December 31, 2002, the Trust owned two real estate properties, a shopping mall located in Little Rock, Arkansas and an office property located in Indianapolis, Indiana.

Under a trust agreement, the common shares of FUMI are held by the Trust for the benefit of the shareholders of the Trust. Accordingly, the financial statements of FUMI and the Trust have been combined and activity between the entities has been eliminated in combination. Additionally, FUMI owned voting control of Imperial Parking Limited ("Impark"). Impark operates parking facilities throughout Canada. In March 2000, the Trust entered into a plan of settlement and a plan of reorganization with a number of its affiliated companies which resulted in a transfer of the assets of Impark to a subsidiary of the Trust, Imperial Parking Corporation, a Delaware corporation ("Imperial"). In March 2000, the Trust distributed all common stock of Imperial to its shareholders. The financial information for 2000 classifies the Canadian parking business as "discontinued operations."

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Such estimates that are particularly susceptible to change relate to management's estimate of the impairment of real estate. In addition, estimates are used when accounting for the allowance for doubtful accounts, potentially excess and obsolete inventory, product warranty reserves, the percentage of completion method and contingencies, among others. Actual results could differ from these estimates.

The Trust accounts for its leases with tenants as operating leases. 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 Trust accrues the recovery of operating costs based on actual costs incurred. For percentage rentals, the Trust follows the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force Issue No. 98-9 (EITF-98-9), "Accounting for Contingent Rent in Interim Financial Periods." EITF-98-9 requires that contingent rental income, such as percentage rent which is dependent on sales of retail tenants, be recognized in the period that a tenant exceeds its specified sales breakpoint. Consequently, the Trust accrues the majority of percentage rent income in the fourth quarter of each year in accordance with EITF-98-9. For the years ended December 31, 2002, 2001 and 2000, the accrued recovery of operating costs and percentage rent income approximated $4.5 million, $5.6 million and $11.6 million, respectively. Deferred revenue is derived primarily from revenue received in advance of its due date.

Real estate assets are stated at cost. Expenditures for repairs and maintenance are expensed as incurred. Significant renovations that extend the useful life of the properties are capitalized. Depreciation for financial reporting purposes is computed using the straight-line method. Buildings are depreciated over their estimated useful lives of 10 to 40 years, based on the property's age, overall physical condition, type of construction materials and intended use. Improvements to the buildings are depreciated over the remaining useful life of the building at the time the improvement is completed. Tenant alterations are depreciated over the life of the lease of the tenant. The Trust annually reviews its portfolio of properties for any impairment losses. The Trust records impairment losses when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the asset's carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount.

At December 31, 2002 and 2001, buildings and improvements included $0.1 million of equipment. Equipment is depreciated over useful lives of five to ten years.

The Trust accounted for its investment in a joint venture which it did not control using the equity method of accounting. This investment, which represented a 50% non-controlling ownership interest in a shopping mall, was recorded initially at the Trust's cost and was subsequently adjusted for the Trust's equity in income and cash distributions. The shopping mall was sold in August 2000.

At December 31, 2002 and 2001, $0.7 million and $0.9 million of cash was restricted, respectively, based on the terms of the mortgages. Additionally, $1.2 million of cash as of December 31, 2002 and 2001 was classified as restricted because this amount secures benefits under change of control agreements with former employees of the Trust and FUMI. The restricted cash can also be used for reimbursement of legal and other expenses incurred for claims against Trustees serving prior to the change in the majority of the Board that occurred in June 1998. The terms of the escrow agreement expire in May 2003.

The Trust has calculated earnings per share for 2002, 2001 and 2000 in accordance with SFAS 128, "Earnings Per Share." SFAS 128 requires that common share equivalents be excluded from the weighted average shares outstanding for the calculation of basic earnings per share. The reconciliation of shares outstanding for the basic and diluted earnings per share calculation is as follows (in thousands):

	2002	2001	2000
Basic weighted average shares	34,807	36,396	41,758
Convertible preferred shares	-	-	5,741
Diluted weighted average shares	34,807	36,396	47,499

The preferred shares are anti-dilutive and are not included in the weighted average shares outstanding for the diluted earnings per share for 2002 and 2001. The warrants to purchase shares of beneficial interest are anti-dilutive and are not included for any period.

The computation of basic and diluted earnings per share before extraordinary loss is as follows (in thousands, except per share data):

	2002	2001	2000
Basic			
(Loss) income before extraordinary loss from early extinguishment of debt	$ (5,032)	$ 16,367	$ 46,332
Preferred dividend	(2,067)	(2,068)	(2,450)
Discount on preferred stock redemption	-	-	827
(Loss) income before extraordinary loss from early extinguishment of debt attributable to common shares	$ (7,099)	$ 14,299	$ 44,709
Basic weighted average shares	34,807	36,396	41,758
(Loss) income per share before extraordinary loss from early extinguishment of debt	$ (0.20)	$ 0.39	$ 1.07
Diluted			
(Loss) income before extraordinary loss from early extinguishment of debt	$ (5,032)	$ 16,367	$ 44,709
Preferred dividend	(2,067)	(2,068)	-
Preferred dividend on unredeemed stock	-	-	2,068
Impact of redeemed preferred stock	-	-	(444)
(Loss) income before extraordinary loss from early extinguishment of debt and loss from attributable to common shares	$ (7,099)	$ 14,299	$ 46,333
Diluted weighted average shares	34,807	36,396	47,499
(Loss) income per share before extraordinary loss from early extinguishment of debt	$ (0.20)	$ 0.39	$ 0.98

VENTEK

FUMI's manufacturing subsidiary, VenTek International, Inc. ("VenTek"), is in the business of manufacturing, installing and providing maintenance of transit ticket vending and parking equipment. A summary of VenTek's significant accounting policies are as follows:

Inventory

Inventory is valued at the lower of weighted average cost or net realizable value and consists primarily of transit ticketing and parking equipment parts and unbilled revenue recognized under the percentage completion method. Unbilled revenue was $0.6 million and $1.1 million at December 31, 2002 and 2001, respectively. VenTek's inventory valuation reserve was $0.5 million and $0.3 million at December 31, 2002 and 2001, respectively.

Fixed Assets

Fixed assets are recorded at cost and are included as part of other assets on the accompanying combined balance sheet. Depreciation of furniture, fixtures and equipment are calculated using the declining-balance and straight-line methods over terms of three to five years. Amortization of leasehold improvements is calculated using the straight-line method over the lease term.

Revenue Recognition

Revenue from transit ticket vending equipment and maintenance contracts is recognized by the percentage completion method. Revenue in excess of billings represents the difference between revenues recognized under the percentage completion method and billings issued under the terms of the contracts and is included as part of inventory on the accompanying combined balance sheet. VenTek reviews cost performance and estimates to complete on these contracts at least quarterly. If the estimated cost to complete a contract changes from a previous estimate, VenTek records an adjustment to earnings at that time. Revenues from the sales of parking equipment are recognized upon delivery.

Product Warranty Policy

VenTek provides product warranties for both its parking and transit ticket equipment. The warranty policy for parking equipment generally provides for one year of coverage. The warranty policy for transit ticket equipment generally provides two to two and a half years of coverage. VenTek's policy is to accrue the estimated cost of warranty coverage at the time the sale is recorded. Product warranties of approximately $0.2 million and $0.3 million are included in accounts payable and accrued liabilities at December 31, 2002 and 2001, respectively.

Income Taxes

Current income taxes are recognized during the period in which transactions enter into the determination of financial statement income, with deferred income taxes being provided for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and such values as measured by income tax laws. Changes in deferred income taxes attributable to these temporary differences are included in the determination of income. A valuation allowance has been provided for the entire amount of deferred tax assets, which consists of FUMI's capital loss carryforwards, due to the uncertainty of realization of the deferred tax assets.

Share Options

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, compensation cost has not been recognized for the share option plans except for the options granted in 1999 which had an exercise price that was less than the grant date per share market price. 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 previous years, consistent with SFAS 123, the Trust's net income would be adjusted as follows (amounts in thousands, except per share data):

	2002	2001	2000
Net (loss) income applicable to shares of beneficial interest, as reported	$ (7,099)	$ 13,410	$ 37,817
Effect of stock options as calculated	-	-	(208)
Net (loss) income as adjusted	$ (7,099)	$ 13,410	$ 37,609
Per share			
Basic:			
Net (loss) income, as reported	$ (0.20)	$ 0.37	$ 0.92
Effect of stock options as calculated	-	-	-
Net (loss) income, as adjusted	$ (0.20)	$ 0.37	$ 0.92
Diluted:			
Net (loss) income, as reported	$ (0.20)	$ 0.37	$ 0.85
Effect of stock options as calculated	-	-	-
Net (loss) income, as adjusted	$ (0.20)	$ 0.37	$ 0.85

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 addresses accounting and reporting for intangible assets acquired, except for those acquired in a business combination. SFAS No. 142 presumes that goodwill and certain intangible assets have indefinite useful lives. Accordingly, goodwill and certain intangibles will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 also addresses accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The adoption of this statement had no impact on the Trust's combined financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of a Disposal of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. This statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The provisions of this statement generally are to be applied prospectively. The adoption of this statement had no impact on the Trust's combined liquidity, financial position or results of operations, although in future years sales of properties would be presented in a manner similar to discontinued operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which updates, clarifies and simplifies existing accounting pronouncements. In part, this statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." FASB No. 145 will be effective for fiscal years beginning after May 15, 2002. Upon adoption, enterprises must reclassify prior period items that do not meet the extraordinary item classification criteria in APB 30. The effect of this statement on the Trust's combined financial statements would be the reclassification of extraordinary loss on early extinguishment of debt to interest expense, however, this will have no effect on the Trust's net income applicable to shares of beneficial interest. The Trust intends to adopt FASB No. 145 as of January 1, 2003

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002, with earlier adoption encouraged.

In November 2002, the FASB issued Interpretation No. 45, Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this Interpretation are effective for the Trust's December 31, 2002 combined financial statements. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. This Interpretation had no effect on the Trust's combined financial statements. The Trust's guarantees are disclosed in the combined financial statements.

In January of 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of the Interpretation will be immediately effective for all variable interests in variable interest entities created after January 31, 2003, and the Trust will need to apply its provisions to any existing variable interests in variable interest entities by no later than December 31, 2004. The Trust does not anticipate that this will have an impact on its combined financial statements.

2. PROPOSED TRANSACTION

On February 13, 2002, the Trust entered into a definitive agreement of merger and contribution with, among others, Gotham Partners, L.P. ("Gotham Partners") a shareholder of the Trust that is controlled by affiliates of William A. Ackman, who was at the time Chairman of the Board of Trustees of the Trust, and Gotham Golf Corp. ("Gotham Golf"), a Delaware corporation controlled by Gotham Partners, pursuant to which the Trust agreed to merge with and into Gotham Golf. The parties subsequently adopted Amendment No. 1 to the merger agreement on April 24, 2002, Amendment No. 2 to the merger agreement on September 24, 2002 and Amendment No. 3 to the merger agreement on October 24, 2002. If consummated, the proposed transaction will result in the Trust's common shareholders receiving as merger consideration for each common share:

- $1.98 in cash;

- a choice of (a) an additional $0.35 in cash or (b) approximately 1/174th (0.0057461) of a debt instrument to be issued by Southwest Shopping Centers, Co. II, L.L.C. ("Southwest Shopping Centers"), with a face value of $100 (which is an effective price of $60.91 per face value of $100), indirectly secured by the Trust's principal real estate assets; and

- three-fiftieths (0.06) of a non-transferable uncertificated subscription right, with each whole right exercisable to purchase one Gotham Golf common share at $20.00 per share and, subject to availability and proration, additional Gotham Golf common shares at $20.00 per share, for up to an aggregate of approximately $41 million of Gotham Golf common shares.

The proposed transaction is subject to several conditions, including the approval of the Trust's shareholders and the obtaining of certain third party consents. The proposed transaction was approved by the Trust's common shareholders at a special meeting held on November 27, 2002. There can be no assurance that the proposed transaction approved by the Trust's common shareholders will be consummated.

In November 2002, the plaintiff in the preferred shareholder litigation (see "Footnote 17, Legal Proceedings") filed with the New York Supreme Court for New York County an Order to Show Cause why the transaction should not be enjoined. The court held a hearing on that issue on November 20. On November 21, 2002, the court issued an order denying the defendant's motion to dismiss the complaint and granting motions for preliminary injunction and expedited discovery in connection with the proposed merger. The court also set a hearing for November 26, 2002 to determine whether to grant further relief to plaintiff with respect to the proposed transaction. An evidentiary hearing was held on November 26, 27 and December 2, 2002 with respect to this matter. Thereafter, the court issued an order dated December 6, 2002, reaffirming its preliminary injunction barring the proposed merger of the Trust with and into Gotham Golf. The court's order extended indefinitely the preliminary injunction previously granted with respect to the proposed merger transaction and directed the parties to the lawsuit to attend a preliminary conference for the purpose of scheduling discovery. The Trust filed a notice of appeal and began pursuit of its appeal of the court's order barring the transaction in the Appellate Division of the New York Supreme Court. The issue of the lifting of the injunction was briefed by the parties to the litigation and oral argument on the appeal was heard by the Appellate Division of the New York Supreme Court on March 11, 2003. No assurance can be given that the injunction will be lifted, that all required third party consents will be obtained and that the transaction will be consummated.

3. DISCONTINUED OPERATIONS

In March 2000, the Trust distributed all common stock of Imperial to its shareholders. One share of Imperial common stock was distributed for every 20 Trust common shares of beneficial interest ("Common Shares") held on March 20, 2000. Approximately 2.1 million shares of Imperial common stock were distributed. As part of the spin-off, the Trust repaid Impark's bank credit facility of approximately $24.2 million, contributed to Imperial approximately $7.5 million of cash, its 14 Canadian parking properties and $6.7 million for a parking development located in San Francisco, California. The Trust had also provided a secured line of credit for $8 million to Imperial. The unused line of credit expired on September 27, 2000. FUMI retained ownership of VenTek, a former manufacturing subsidiary of Impark.

The Trust also adjusted the conversion price with respect to its Series A Cumulative Redeemable Preferred Shares of Beneficial Interest ("Preferred Shares"). The conversion price of the Preferred Shares was decreased to $5.0824 per Common Share (equivalent to a conversion rate of 4.92 Common Shares for each Preferred Share) in connection with the distribution of the Imperial shares, in accordance with the provisions of the documents establishing the terms of the Preferred Shares.

4. INVESTMENTS

Investments as of December 31, 2002 and 2001 include U.S. Treasury Bills in the face amount of $104.0 million and $116.0 million, respectively. The U.S. Treasury Bills are classified as held-to-maturity securities and are recorded at cost less unamortized discount. In addition, the Trust invested $10.0 million during 2000 in convertible preferred stock and warrants issued by HQ Global Holdings, Inc. ("HQ"). The convertible preferred stock was accounted for as an available-for-sale security and accrued a 13.5% "pay-in-kind" dividend which increased annually. The shares and accrued dividends can be converted into common shares. Management had determined that the fair value of the investment in convertible preferred stock was $7.3 million plus accrued dividends. The warrants allow the Trust to purchase shares of common stock for a nominal strike price and were originally valued at $2.7 million.

At June 30, 2001, the Trust wrote off its $2.7 million investment in HQ warrants because of a decline in center occupancy and other business setbacks disclosed by HQ. The Trust believed that the decline in estimated fair market value of the investment in warrants was other than temporary. The Trust also stopped accruing dividends at June 30, 2001. During the third and fourth quarters of 2001, the Trust wrote off its remaining $8.8 million investment in HQ preferred stock because of continued losses and recently disclosed defaults on HQ's various credit agreements, which the Trust believed had permanently impaired the value of its investment in HQ's preferred stock. On March 13, 2002, HQ filed a voluntary petition for a Chapter 11 Reorganization under the U.S. Bankruptcy Code, which they have not emerged from.

5. FINANCIAL INSTRUMENTS

Financial instruments held by the Trust and FUMI include cash and cash equivalents, accounts receivable, investments, accounts payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their current carrying amounts due to their short-term nature. Management has determined that the fair value of the Trust's investment in convertible preferred stock and the related warrants is zero at December 31, 2002 and 2001. The fair value of the Trust's mortgage loan payable, as described in Note 11 could not be estimated. The fair value of the Trust's Senior Notes approximates its carrying amount. The Trust and FUMI do not hold or issue financial instruments or derivative financial instruments for trading purposes.

6. WARRANTS TO PURCHASE SHARES OF BENEFICIAL INTEREST

In November 1998, the Trust issued 500,000 warrants that allow a third party to purchase 500,000 Common Shares at $10 per share. The current exercise price of the warrants is $8.37. The warrants expire in November 2008. The Trust issued the warrants as part of the consideration for various services provided to the Trust.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking and money market accounts.

8. 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 is evaluated on an individual property basis. In December 2000, the Trust recorded $19.2 million in losses on the carrying value of properties that the Trust agreed to sell at an allocated sales price which was below net book value. These properties were sold in March 2001. There were no assets identified for sale for the year ended December 31, 2002. The net book value of assets identified for sale for the year ended December 31, 2001 is summarized in the following table (amounts in thousands):

	2001
Net book value of assets identified for sale	$ 143,159
Additions	360
Depreciation	(1,639)
Sales of assets	(141,880)
Net book value of assets identified for sale at year end	$ -

Property net operating income, which is rents less operating expenses and real estate taxes for assets identified for sale, are summarized for the year ended December 31, 2001 in the following table (amounts in thousands):

Revenues	$ 5,921
Less - Operating expenses and real estate taxes	2,288
Property net operating income	$ 3,633

9. GAINS ON SALE OF REAL ESTATE

In March 2001, the Trust sold two shopping center properties, four office properties, five parking garages, one parking lot, a $1.5 million note receivable and certain assets used in the operations of the properties (the "Purchased Assets") to Radiant Ventures I, LLC (the "Purchaser"), a related party, for an aggregate sales price before adjustments and closing costs of $205 million. At the closing of this transaction, the sale price of $205 million was reduced by $20.6 million, which was the net sales price realized by the Trust from the sale of the Huntington Garage property which was sold in December 2000 to another party as agreed by Purchaser and which was part of the aggregate sales price of $205 million. The Trust recognized a gain on the sale of approximately $30.1 million.

In December 2000, the Trust sold a parking garage for $21.3 million, resulting in a gain on sale of real estate of $16.1 million. In April 2000, the Trust sold a shopping mall for $80.1 million, resulting in a gain on sale of real estate of $58.7 million. The Trust also recognized a gain on sale of real estate of $1.2 million from its joint venture interest in a shopping mall that was sold during 2000 and a net $0.1 million from the sale of other assets.

10. EXTRAORDINARY LOSS FROM EARLY EXTINGUISHMENT OF DEBT

In 2001, the Trust recognized an extraordinary loss from early extinguishment of debt of $0.9 million relating to the first mortgage debt which was assumed as part of the sale of the Purchased Assets.

In 2000, the Trust repaid a $10.6 million deferred obligation relating to the purchase of the Huntington garage resulting in a prepayment penalty of $3.1 million. Additionally, the Trust recognized an extraordinary loss from early extinguishment of debt of $2.4 million related to the shopping mall that was sold in April 2000 and an early extraordinary loss from early extinguishment of debt of $0.6 million related to the parking garage that was sold in December 2000.

11. MORTGAGE LOAN PAYABLE

As of December 31, 2002 and 2001, the Trust had one remaining mortgage loan for $41.8 million and $42.1 million, respectively, secured by the Park Plaza Mall. The loan, obtained in April 2000, is non-recourse, and has an anticipated repayment date of May 1, 2010. The mortgage loan bears interest at a rate of 8.69% until May 1, 2010 and thereafter until its final maturity in May 2030 at a rate of 10.69% if the mortgage loan is then the subject of a secondary market transaction in which rated securities have been issued and 12.69% if it is not. The mortgage loan requires monthly payments based on a 30 year amortization schedule of approximately $0.4 million for principal, interest and escrow deposits. Prepayment of the loan is permitted prior to the anticipated repayment date (after an initial lockout period of three years or two years from securitization), only with yield maintenance or defeasance, and payable after the anticipated repayment date upon thirty days notice without payment of any penalties, as defined in the loan agreement. Principal payments due during the five years following December 31, 2002 are $0.3 million, $0.3 million, $0.4 million, $0.4 million and $0.5 million, respectively.

Management cannot estimate the fair value of the mortgage loan payable due to the contingency described in Footnote 22 relating to the Park Plaza Mall.

12. SENIOR NOTES

The Trust had approximately $12.5 million of 8 7/8% Senior Notes outstanding at December 31, 2002 and 2001. The Senior Notes are unsecured and due in full in October 2003. The fair value of the Senior Notes, based upon the latest trade, approximates its carrying amount. The Senior Notes have certain debt covenants which the Trust was in compliance with at December 31, 2002.

13. CONVERTIBLE 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 were each convertible into 3.31 Common Shares of beneficial interest. In connection with the distribution of the Impark shares, the Trust adjusted the conversion price of the preferred shares to 4.92 Common Shares for each preferred share. 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 Common Shares of beneficial interest 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 may not be redeemed for cash. The Series A Preferred Shares are redeemable at the option of the Trust at the conversion rate of one Series A Preferred Share for 4.92 Common Shares. The Trust may exercise its option only if for 20 trading days within any period of 30 consecutive trading days, the closing price of the Common Shares of beneficial interest on the New York Stock Exchange equals or exceeds the conversion price of $5.0824 per Common Share.

In December 2002, a total of 1,718 shares of Series A Preferred Shares were converted to Common Shares. Based on the conversion price of the Series A Preferred Shares, an additional 8,449 Common Shares were issued.

14. REPURCHASE OF SHARES

In April 2001, the Trust entered into separate agreements with Apollo Real Estate Investment Fund II, L.P., a related party, and with Bear Stearns International Limited, and repurchased an aggregate of approximately 4.8 million of its Common Shares at a price of $2.375 per share. The repurchases are part of the Common Share repurchase authorization program, under which the Trust had previously expended approximately $15.6 million to buy Common Shares. From June 28, 2000 through December 31, 2000, the Trust repurchased 2,775,125 Common Shares for an aggregate cash consideration of $7,430,834. The Common Share repurchase program has been suspended, pending the outcome of the proposed transaction with Gotham described in Footnote 2.

In June 2000, the Trust repurchased, in a private transaction, an aggregate of 364,200 Series A Preferred Shares from three institutional investors at a purchase price of $21.25 per share, for an aggregate cash consideration of $7,739,250.

15. SHARE OPTIONS

The Trust has the following share option plans for key personnel and Trustees:

1981 STOCK OPTION PLAN

This plan provided that option prices be at the fair market value of the shares at the date of grant and that option rights granted expire 10 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 did not affect previously issued options. In June 1998, a change in the majority of the Trust's Board of Trustees resulted in all share options not previously vested to become fully vested as of that date.

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

	2002 SHARES	WEIGHTED AVERAGE	2001 SHARES	WEIGHTED AVERAGE	2000 SHARES	WEIGHTED AVERAGE
Exercised	-	-	-	-	-	-
Canceled	-	-	-	-	22,500	$ 7.38
Expired	-	-	-	-	-	-

As of December 31, 2002 and 2001, there were no outstanding options under the 1981 plan.

LONG-TERM INCENTIVE OWNERSHIP PLAN

This plan, adopted in 1994 and amended in 1999, reserved 3,507,196 shares for the granting of incentive and nonstatutory share options and restricted shares. Because certain 1999 option grants are deemed to be variable, compensation expense is recorded when the market price of the Common Shares exceeds the option price for these shares. During 2000, the option price of the 1999 grants exceeded the market price of shares of beneficial interest and income of $0.7 million was recorded in 2000. Options granted in 1998 were canceled in March 2000. Options granted in 1999 expired unexercised in 2001.

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

	2002 SHARES	WEIGHTED AVERAGE	2001 SHARES	WEIGHTED AVERAGE	2000 SHARES	WEIGHTED AVERAGE
Share option granted	-	-	-	-	-	-
Share options canceled	-	-	-	-	1,822,334	$ 7.20
Share options expired	-	-	627,471	$ 3.69	-	-
Restricted shares granted	-	-	-	-	-	-
Restricted shares canceled	-	-	-	-	-	-
Additional shares reserved	-	-	-	-	-	-
Available share options and restricted shares	3,507,196	-	3,507,196	-	2,879,725	-

As of December 31, 2002 and 2001, there were no outstanding options under this plan.

TRUSTEE SHARE OPTION PLAN

In 1999, the shareholders approved a share option plan for members of the Board of Trustees. This plan provides compensation in the form of Common Shares and options to acquire Common Shares for Trustees who are not employees of the Trust and who are not affiliated with Apollo Real Estate Advisors or Gotham Partners. A total of 500,000 Common Shares were authorized under this plan.

The eligible Trustees serving on the Board in May 1999 were granted the lesser of 2,500 shares or the number of shares having a market price of $12,500 as of the grant date. Seven Trustees each received 2,500 shares; two Trustees later resigned in 1999 and forfeited their shares. The remaining shares vested and became non-forfeitable in December 2000. Deferred compensation, net of forfeitures, of approximately $57,000, was recorded in 1999 and $8,000 and $49,000 were recognized as amortization expense in 2000 and 1999, respectively.

Each eligible Trustee who invests a minimum of $5,000 in shares in a Service Year, as defined in the plan, will receive options, commencing in the year 2000, to purchase four times the number of shares that he has purchased. Shares purchased in excess of $25,000 in a Service Year will not be taken into account for option grants. The option prices will be the greater of fair market value on the date of grant or $6.50 for half of the options, and the greater of fair market value or $8.50 for the other half of the options. The option prices will be increased by 10% per annum beginning May 2000 and decreased by dividend distributions on Common Shares made after November 1998. The options vest and become exercisable one year after being granted.

At December 31, 2000, 28,000 options had been issued to the Trustees. The 28,000 outstanding options at December 31, 2000 were exercisable, had a weighted average exercise price of $6.52 and a five year remaining life. During 2001, 20,000 options were cancelled. At December 31, 2001, the 8,000 options outstanding were exercisable, had a weighted average unit price of $7.21 and a four year remaining life. At December 31, 2002, the 8,000 options outstanding were exercisable had a weighted average of $7.72 and a three year remaining life. The SFAS 123 impact of these options was immaterial.

16. FEDERAL INCOME TAXES

The Trust has made no provision for regular current or deferred federal and state income taxes on the basis that it qualifies under the Internal Revenue Code (the "Code") as a real estate investment trust ("REIT") and has distributed its taxable income to shareholders. Qualification as a REIT involves the application of highly technical and complex provisions of the Code, for which there are only limited judicial or administrative interpretations. The complexity of these provisions is greater in the case of a stapled REIT such as the Trust. The Trust's ability to qualify as a REIT may be dependent upon its continued exemption from the anti-stapling rules of the Code, which, if they were to apply, might prevent the Trust from qualifying as a REIT. Qualification as a REIT also involves the determination of various factual matters and circumstances. Disqualification of REIT status during any of the preceding five calendar years would cause a REIT to incur corporate tax with respect to a year that is still open to adjustment by the Internal Revenue Service. In addition, unless entitled to relief under certain statutory provisions, a REIT also would be disqualified from re-electing REIT status for the four taxable years following the year during which qualification is lost. A valuation allowance has been provided for the entire amount of deferred tax assets of FUMI, which consists of capital loss carryforwards, due to the uncertainty of realization of the deferred tax assets.

The Trust and FUMI treat certain items of income and expense differently in determining net income reported for financial and tax purposes. Such items resulted in a net increase in income for tax reporting purposes of approximately $3.6 million in 2002, a net decrease of $51.0 million in 2001 and a net increase of $12.8 million in 2000. The Trust has Federal net operating loss carryforwards of approximately $37.0 million, which expire in 2019 ($4.3 million) and 2021 ($32.7 million). The Trust does not anticipate being able to utilize the benefits of these carryforwards. The Trust and FUMI do not file consolidated tax returns.

As of December 31, 2002, net investments in real estate after accumulated depreciation for tax, reporting purposes was approximately $57.3 million as compared to financial reporting purposes of approximately $58.9 million.

The 2002 cash dividend per common share of beneficial interest for individual shareholder's income tax purposes was as follows:

	CAPITAL GAINS			
ORDINARY DIVIDENDS	20% RATE	UNRECAPTURED SECTION 1250 GAIN (25% RATE)	NONTAXABLE DISTRIBUTIONS	TOTAL DIVIDENDS PAID
$ -	$ -	$ -	$ .20	$ 0.20

The 2002 cash dividends per Series A Preferred Share for individual shareholders' income tax purposes was as follows:

	CAPITAL GAINS			
ORDINARY DIVIDENDS	20% RATE	UNRECAPTURED SECTION 1250 GAIN (25% RATE)	NONTAXABLE DISTRIBUTIONS	TOTAL DIVIDENDS PAID
$ -	$ -	$ -	$ 2.10	$ 2.10

During 2001, there were no cash dividends per Common Share.

The 2001 cash dividends per Series A Preferred Share for individual shareholders' income tax purposes was as follows:

	CAPITAL GAINS			
ORDINARY DIVIDENDS	20% RATE	UNRECAPTURED SECTION 1250 GAIN (25% RATE)	NONTAXABLE DISTRIBUTIONS	TOTAL DIVIDENDS PAID
$ 0.524	$ 1.192	$ 0.384	$ -	$ 2.10

The 2000 dividends per Common Share for individual shareholders' income tax purposes was as follows:

	CAPITAL GAINS			
ORDINARY DIVIDENDS	20% RATE	UNRECAPTURED SECTION 1250 GAIN (25% RATE)	NONTAXABLE DISTRIBUTIONS	TOTAL DIVIDENDS PAID
$ .105	$ .802	$ .217	$ -	$ 1.124

The 2000 cash dividends per Series A Preferred Share for individual shareholders' income tax purposes was as follows:

	CAPITAL GAINS			
ORDINARY DIVIDENDS	20% RATE	UNRECAPTURED SECTION 1250 GAIN (25% RATE)	NONTAXABLE DISTRIBUTIONS	TOTAL DIVIDENDS PAID
$ .196	$ 1.5000	$ .404	$ -	$ 2.100

Preferred Shareholders Lawsuit

Kimeldorf v. First Union, et al. On April 15, 2002, the Trust was served with a complaint filed in the Supreme Court of New York in New York County on behalf of a purported holder of the Trust's convertible preferred shares. Among the allegations made by the plaintiff is that the proposed transaction with Gotham Golf was approved by the Trust's Board of Trustees in violation of fiduciary duties owed to the holders of the Trust's convertible preferred shares. The suit seeks, among other things, unspecified damages, an injunction of the proposed transaction and the court's certification of the lawsuit as a class action. Named as defendants in the lawsuit were the Trust, its five then trustees and Gotham Partners. On November 21, the New York Supreme Court of New York County issued an order granting motions for preliminary injunction. On December 6, 2002, the New York Supreme Court for New York County issued an order reaffirming its preliminary injunction barring the proposed merger of the Trust with and into Gotham Golf. The court's order also extended indefinitely the preliminary injunction previously granted with respect to the proposed merger transaction and directed the parties of the lawsuit to attend a preliminary conference for the purpose of scheduling discovery.

The Trust filed a notice of appeal of the preliminary injunction with the Appellate Division of the New York Supreme Court. Oral argument with respect to the appeal was held before a judicial panel of the Appellate Division - First Department of the New York Supreme Court on March 11, 2003. There is no specific timetable for the appellate court to render its decision.

It is not possible to predict the outcome of the appellate process with respect to lifting the injunction. In the event that the Appellate Division rules that the injunction should not be lifted, the case will proceed to trial on the merits. In the event that the injunction imposed by the trial court were lifted and dissolved, it is the intention of the Trust and, to the best of the Trust's knowledge, Gotham Partners and the other Gotham Partners-affiliated parties to the proposed merger transaction, to take the steps necessary to consummate the proposed transaction, however. Any party to the Kimeldorf litigation may seek leave of the Appellate Division to appeal to the Court of Appeals of the State of New York an adverse ruling by the Appellate Division regarding the injunction granted by the trial court.

On or about November 8, 2002, First Carolina Investors, Inc. ("First Carolina") a holder of preferred shares, filed a separate lawsuit in New York Supreme Court for New York County, naming the same defendants as in the Kimeldorf case. On or about December 20, 2002, plaintiffs Kimeldorf and First Carolina Investors, Inc. filed a consolidated amended complaint alleging, among others, breach of contract; aiding and abetting breach of contract; tortuous interference with the contract; breach of fiduciary duties; aiding and abetting of breach of fiduciary duties; and unconscionability against the defendants, styled Kimeldorf et al. v. First Union, et al. This consolidated amended complaint essentially consolidated the separate First Carolina Investors, Inc. complaint, filed on or about November 8, 2002 with the complaint of Mr. Kimeldorf filed in April 2002. The Trust regards the lawsuit as being without merit and will vigorously defend against the asserted claims.

Common Shareholders Lawsuits

Fink v. First Union. On or about January 24, 2003, the Trust was served with a complaint filed in the Supreme Court of New York, New York County on behalf of a purported holder of the Trust's common shares, on behalf of himself and the common shareholders as a class. The lawsuit seeks a declaration that the lawsuit is maintainable as a class action and a certification that the plaintiff, Robert Fink, is the representative of the class. Named as defendants in the lawsuit are the Trust, Gotham Partners, the companies affiliated with Gotham Partners and the Trust that are parties to the Merger Agreement, William Ackman and the four current Trustees of the Trust. Among the allegations asserted are breach of fiduciary duty and aiding and abetting thereof in connection with the transactions contemplated by the Merger Agreement. The relief requested by the plaintiff includes an injunction preventing the defendants from proceeding with consummation of the merger, rescission of the merger if it occurs, an accounting for any profits realized by the defendants as a result of the actions complained of, an order permitting the creation of a shareholders' committee composed of the Trust common shareholders and their representatives to manage the affairs of the Trust, compensatory damages and the costs and disbursements of plaintiff's counsel.

On or about February 14, 2003, the parties to this lawsuit stipulated that the defendants need not answer or otherwise respond to the complaint for an indefinite period of time. The stipulation is revocable by the plaintiff at any time. The Trust believes that the purpose of the stipulation was to delay court proceedings in this lawsuit until the outcome of the appeal of the injunction entered in the Kimeldorf, et al. v. First Union, et al. case (see above) is decided by the Appellate Division.

The Trust regards the lawsuit as without merit and plans to vigorously defend against the allegations. The Trust will oppose any attempt by the plaintiff to interfere with the transactions contemplated by the Merger Agreement, which was approved by more than 64% of the outstanding common shares of the Trust and by approximately 99% of the common shares voted at a special meeting of shareholders held on November 27, 2002.

K-A & Company, LTD. v. First Union. On or about February 12, 2003, certain of the Trust Trustees and, later, the Trust, were served with a complaint filed in the Court of Common Pleas, Cuyahoga County, Ohio, by a purported holder of the Trust's common shares, on behalf of himself and the Trust common shareholders as a class. Named as defendants in the lawsuit are the Trust, Gotham Partners, William Ackman and the four current Trustees of the Trust. The allegations made and the relief requested in the K-A suit are substantially identical to those of the Fink v. First Union suit referenced above. The lawsuit seeks a declaration that the lawsuit is maintainable as a class action and certification that the plaintiff, K-A & Company, Ltd., is the representative of the class. Among the allegations asserted are breach of fiduciary duty and aiding and abetting thereof in connection with the transactions contemplated by the Merger Agreement. This lawsuit was removed by notice filed by defendants to the United States District Court, Northern District of Ohio, Eastern Division (Case No. 1:03 CV 0460)

The relief requested by the plaintiff includes an injunction preventing the defendants from proceeding with consummation of the merger, rescission of the merger if it occurs, an accounting for any profits realized by the defendants as a result of the actions complained of, an order permitting the creation of a shareholders' committee composed of the Trust common shareholders and their representatives to manage the affairs of the Trust, compensatory damages and the costs and disbursements of plaintiff's counsel.

As with the Fink v. First Union lawsuit, the Trust regards the lawsuit as without merit and plans to vigorously defend against the allegations.

Peach Tree Mall Litigation

The Trust, as one Plaintiff in a class action composed of numerous businesses and individuals, has pursued legal action against the State of California associated with the 1986 flood of Sutter Buttes Center, formerly Peach Tree Mall. In September 1991, the court ruled in favor of the plaintiffs on the liability portion of the inverse condemnation suit, which the State of California appealed. In the third quarter of 1999, the 1991 ruling in favor of the Trust and the other plaintiffs was reversed by the State of California Appeals Court, which remanded the case to the trial court for further proceedings. After the remand to the trial court, the Trust and the other plaintiffs determined to pursue a retrial before the court. The retrial of the litigation commenced February 2001 and was completed July 2001. In November 2001, the trial court issued a decision that generally holds in favor of the State of California. In February 2002, the Plaintiffs in the case filed a notice of appeal of the ruling of the trial court. Both the Plaintiffs and the State have filed their opening briefs in the California Court of Appeals, and the Plaintiffs are to submit a reply brief in May 2003. The Trust is unable to predict at this time whether or not it will recover any amount of its damage claims in this legal proceeding.

Indemnity to Imperial Parking Corporation

In 1999, Newcourt Financial Ltd. brought a claim in Ontario against an affiliate of the Trust and Imperial Parking Limited alleging a breach of a contract between the Trust affiliate and Newcourt Financial's predecessor-in-interest, Oracle Credit Corporation and Oracle Corporation Canada, Inc. The Trust affiliate and Imperial Parking Limited brought a separate action in British Columbia against Newcourt, Oracle Credit Corporation and Oracle Corporation Canada claiming, among other things, that the contract at issue was not properly authorized by the Trust's board of trustees and the Imperial Parking board of directors. On March 27, 2000, in connection with the spinoff of Imperial Parking Corporation (the successor in interest to Imperial Parking Limited) to the Trust's shareholders, the Trust granted a full indemnity to Imperial Parking Corporation in respect of all damages arising from the outstanding actions.

Numerous attempts to settle this matter have not been successful. The Trust has reserved $575,000 in its consolidated financial statements for this claim. The reserved amount consists of the face amount of the contract of $425,000 and estimated costs of $150,000. The amount of the claim, $825,000, includes Newcourt's calculation of interest on the amount due at the default rate under the contract. The Trust believes that, due to the failure of attempted settlement negotiations, discovery will commence, and the matter will become more actively litigated. The Trust intends to defend vigorously against the claims brought against the parties that it has indemnified and to pursue their separate claims with respect to this matter.

Mountaineer Mall Claim

The Trust was named as a defendant in a lawsuit filed in connection with a contractor's claim relative to the construction of a portion of the Mountaineer Mall, located in Morgantown, West Virginia. The construction of the mall commenced in 1993 and was completed in 1995. The mall was sold in July 1999. A trial on the merits of the lawsuit was held in 1997.

In October 2002, the court issued findings of fact and conclusions of law providing that the claimant was entitled to recover from the Trust the principal amount of $266,076 in damages plus various interest amounts, which, when added to the principal amount, would result in an aggregate damage award of $494,382 against the Trust. The court's order provided, however, that the amount of the damage award is subject to offset by the amount of legal fees and expenses reasonably and necessarily incurred by the Trust in defending a certain mechanic's lien claim asserted by the plaintiff in the lawsuit. The court further directed that the plaintiff and the Trust negotiate in good faith as to the amount of such expense and that, if the parties are unable to agree as to the appropriate offset, the court would schedule an evidentiary hearing for the purpose of resolving the issue.

In response to the October 2002 order, the Trust's counsel in the litigation has been attempting to determine the amount of allowable offset to reduce the damages assessed against the Trust. As this matter is subject to further negotiation and possible further court proceedings to reach a final resolution, the Trust is not able to predict the final outcome of this claim. The Trust does not expect that the outcome will have a significant impact on the combined financial position of the Trust.

18. BUSINESS SEGMENTS

The Trust's and FUMI's business segments at December 31, 2002 include ownership of a shopping center, an office building and a parking and transit ticket equipment manufacturing company. Management evaluates performance based upon net operating income. With respect to property assets, net operating income is property rent less property operating expense, and real estate taxes. With respect to the manufacturing company, net operating income is sales revenue less cost of goods sold. During the year ended December 31, 2001, the Trust sold two shopping center properties, four office properties, five parking garages, one parking lot, a $1.5 million note receivable and certain assets used in the operations of the properties and realized a gain of approximately $30.1 million. Corporate interest expense consists of the Trust's senior notes and borrowings collateralized by U.S. Treasury Bills. Corporate assets consist primarily of cash and cash equivalents, investments and deferred issue costs for senior notes. All intercompany transactions between segments have been eliminated (see table of business segments).

BUSINESS SEGMENTS (IN THOUSANDS)

	2002	2001	2000
RENTS AND SALES			
Shopping Centers	$ 12,098	$ 13,152	$ 25,922
Office Buildings	1,379	3,962	12,966
Parking Facilities	-	1,610	10,470
VenTek	2,924	7,554	5,556
Corporate	166	17	245
	16,567	26,295	55,159
LESS - OPERATING EXPENSES AND COSTS OF GOODS SOLD			
Shopping Centers	4,231	5,351	8,304
Office Buildings	719	1,787	5,695
Parking Facilities	-	24	418
VenTek	4,892	8,777	8,156
Corporate	93	(181)	31
	9,935	15,758	22,604
LESS - REAL ESTATE TAXES			
Shopping Centers	821	913	2,004
Office Buildings	90	287	1,187
Parking Facilities	-	347	2,157
Corporate	(12)	(329)	-
	899	1,218	5,348
NET OPERATING INCOME (LOSS)			
Shopping Centers	7,046	6,888	15,614
Office Buildings	570	1,888	6,084
Parking Facilities	-	1,239	7,895
VenTek	(1,968)	(1,223)	(2,600)
Corporate	85	527	214
	5,733	9,319	27,207
Less - Depreciation and Amortization	2,077	3,837	12,580
Less - Interest Expense	5,102	7,094	26,004
CORPORATE INCOME (EXPENSE)			
Interest and dividends	1,659	5,091	12,108
Other income (loss) (VenTek in 2002)	475	5	(2)
General and administrative	(5,720)	(5,750)	(11,361)
Write-down of investment	-	(11,463)	-

	2002	2001	2000
Loss on carrying value of real estate and impaired assets	-	-	(19,150)
Loss before Gains on Sale of Real Estate and Extraordinary Loss From Early Extinguishment of Debt	$ (5,032)	$ (13,729)	$ (29,782)
CAPITAL EXPENDITURES			
Shopping Centers	$ 374	$ 138	$ 2,608
Office Buildings	314	472	7,889
Parking Facilities	-	114	438
VenTek	9	54	45
	$ 697	$ 778	$ 10,980
IDENTIFIABLE ASSETS			
Shopping Centers	$ 58,388	$ 60,042	$ 115,587
Office Buildings	2,444	2,382	43,481
Parking Facilities	-	-	58,505
Mortgages	-	-	1,468
VenTek	2,131	3,428	5,284
Corporate	108,862	119,817	238,273
TOTAL ASSETS	$ 171,825	$ 185,669	$ 462,598

19. MINIMUM RENTS

The future minimum lease payments that are scheduled to be received under noncancellable operating leases are as follows (amounts in thousands):

2003	$ 7,735
2004	6,384
2005	5,306
2006	4,071
2007	3,597
Thereafter	8,767
	$ 35,860

If the anchor department store at the Trust's shopping mall does not renew its operating agreement in July 2003, the majority of tenants at the shopping mall can terminate their lease without incurring a substantive penalty.

20. RELATED PARTY TRANSACTIONS

The Trust engaged a law firm that has a partner who was a Trustee, to advise it on strategic matters regarding Impark and the Imperial spinoff. During 2000, approximately $0.4 million had been paid to this firm, respectively. In May 2001 the Trustee resigned from the board.

The Trust leased four of its parking facilities to an entity which is partially owned by an affiliate of a Trust shareholder, Apollo Real Estate Investment Fund II, L.P. and Apollo Real Estate Advisors. The parking facilities were sold March 7, 2001. In 2001 and 2000, the Trust received approximately $0.3 million and $4 million in rent from this third party, respectively. In April 2001, the Trust purchased all of the Common Shares of the Trust beneficially owned by this shareholder.

The Trust and FUMI paid fees of $0.5 million, $0.6 million and $0.2 million for the years ended December 31, 2002, 2001 and 2000, respectively, to the Real Estate Systems Implementations Group, LLC for financial reporting and advisory services. The managing member of this firm assumed the position of Interim Chief Financial Officer of the Trust on August 18, 2000 and is currently serving in that capacity.

Radiant Partners, LLC ("Radiant") is currently providing asset management services to the Trust's remaining real estate assets. For the years ended December 31, 2002, 2001 and 2000, the Trust paid fees to Radiant of $0.3 million, $0.5 million and $0.9 million, respectively. The principals of Radiant were formerly executive officers of the Trust. During 2001, the Trust sold the Purchased Assets to an affiliate of Radiant.

The Trust had engaged Ackman-Ziff Real Estate Group LLC ("Ackman-Ziff") to arrange for mortgage financing on several properties of the Trust. Lawrence D. Ackman, who is the father of William A. Ackman, former Chairman and Trustee of the Trust, is an equity owner of Ackman-Ziff. In 2000, $100,000 was paid to Ackman-Ziff.

The Trust believes that the terms of all such transactions were as favorable to the Trust as those that would have been obtained from unrelated third parties.

21. SEVERANCE LIABILITY

During both 2002 and 2001 severance expense of less than $0.1 million was paid by VenTek due to the termination of employees. During 2000, the Trust recorded $2.3 million in severance expense as a result of the termination of the employment of Messrs. Friedman and Schonberger and Ms. Zahner, and $0.2 million in severance expense as a result of the termination of another executive.

22. CONTINGENCIES

The Trust has provided performance guarantees entered into with respect to contracts of VenTek with two transit authorities, which contracts are in the amounts of $5.3 million and $6.2 million for the manufacturing, installation and maintenance of transit ticket vending equipment manufactured by VenTek. The guarantees expire within the next two years based upon the projected completion dates anticipated by VenTek and the transit agencies. No amounts have been drawn against these guarantees. Since these projects are entering their final stages, management does not anticipate that payment will have to be made under the guarantees; however, if VenTek is unable to perform in accordance with these contracts, and subsequent change orders the Trust may be responsible for partial payment under these guarantees. Also, in connection with one of these transit contracts, VenTek may be liable for liquidated damages (as calculated under the contract) related to delays in completion of the contract.

The Trust is aware of the proposed construction of a new mall in the vicinity of Park Plaza Mall (the "Mall") by a partnership of a mall developer and the anchor department store. Legal actions have been taken by local citizens of Little Rock, Arkansas to reverse the decision of the Little Rock board of directors with respect to the zoning for the development of the proposed new mall. A trial to determine whether the property is to be re-zoned and on whether or not the voters of Little Rock can vote to overturn the decision of the board occurred at the end of February 2002. On June 5, 2002, the court issued an opinion invalidating the decision of the board of directors and as a result, the zoning of the site reverted to its prior status as a residential use property. Furthermore, the court permanently enjoined the City of Little Rock from issuing any building permits or taking any other action pursuant to the invalid ordinances with respect to the proposed new mall. The proponents of the new mall have filed a notice of appeal of the decision in the Supreme Court of Arkansas, with no decision expected before June 2003. It is also possible that proponents of the new mall will file a new application to rezone the proposed area for the new mall for commercial use and, specifically for large-scale retail use. The administrative expenses, principally legal fees related to this contingency, have been paid by the Trust.

Regardless of whether the proposed new mall is built at the site in question, under the terms of the operating covenant, Dillard's has no obligation to maintain its operations at Park Plaza Mall beyond July 2003. Dillard's is actively pursuing a number of alternative locations for an additional store in this market. Dillard's has been approached to extend the operating covenant at the Park Plaza Mall; however, to date, it has declined to do so. If Dillard's does not maintain its presence as an anchor store at Park Plaza Mall, the Park Plaza Mall would experience a loss of revenue and likely an event of default under the mortgage, thereby causing the value of the Park Plaza Mall to be materially and adversely affected. In such circumstances, there would be an impairment of the value of the property and a loss could be recognized. There can be no assurance that Dillard's will extend or renew its operating covenant on terms acceptable to the Trust.

The Trust is contractually obligated under the merger agreement to pursue the proposed transaction with Gotham Partners unless a superior proposal, as defined in the agreement, is made. The pending preferred shareholder litigation opposing the transaction does not give the Trust the contractual right under the merger agreement to terminate its obligations to complete the transaction. If the Trust were to seek to terminate its obligations solely for that reason, the Trust could incur liability to Gotham Partners that may include responsibility for the payment of Gotham Partners' expenses for the transaction, which the Trust believes may exceed $8 million.

24. 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, 2002 and 2001. In the opinion of the Trust and FUMI, all adjustments (consisting of normal recurring accruals) necessary to present fairly such interim combined results in conformity with accounting principles generally accepted in the United States of America have been included.

(IN THOUSANDS, EXCEPT PER SHARE DATA AND FOOTNOTES)	QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2002				
Revenues	$ 4,703	$ 4,490	$ 4,807	$ 4,701
Loss before extraordinary loss from early extinguishment of debt	$ (1,490)	$ (1,298)	$ (1,015)	$ (1,229)
Extraordinary loss from early extinguishment of debt	-	-	-	-
Net loss	$ (1,490)	$ (1,298)	$ (1,015)	$ (1,229)
Net loss applicable to shares of beneficial interest	$ (2,007)	$ (1,815)	$ (1,532)	$ (1,745)
Per share				
Loss applicable to shares of beneficial interest before extraordinary loss, basic	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.05)
Extraordinary loss from early extinguishment of debt, basic	-	-	-	-
Net loss applicable to shares of beneficial interest, basic	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.05)
Loss applicable to shares of beneficial interest before extraordinary loss, diluted	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.05)
Extraordinary loss from early extinguishment of debt, diluted	-	-	-	-
Net loss applicable to shares of beneficial interest, diluted	$ (0.06)	$ (0.05)	$ (0.04)	$ (0.05)

	QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2001				
Revenues	$ 13,048	$ 6,702	$ 5,798	$ 5,843
Income (loss) before extraordinary loss from early extinguishment of debt	$ 29,506	$ (2,912)	$ (5,010)	$ (5,217)
Extraordinary loss from early extinguishment of debt	(889)	-	-	-
Net income (loss)	$ 28,617	$ (2,912)	$ (5,010)	$ (5,217)
Net income (loss) applicable to shares of beneficial interest	$ 28,100 (1)	$ (3,429)(2)	$ (5,527)(2)	$ (5,734)(2)
Per share				
Income (loss) applicable to shares of beneficial interest before extraordinary loss, basic	$ 0.73	$ (0.09)	$ (0.16)	$ (0.16)
Extraordinary loss from early extinguishment of debt, basic	(0.02)	-	-	-
Net income (loss) applicable to shares of beneficial interest, basic	$ 0.71	$ (0.09)	$ (0.16)	$ (0.16)
Income (loss) applicable to shares of beneficial interest before extraordinary loss, diluted	$ 0.66	$ (0.09)	$ (0.16)	$ (0.16)
Extraordinary loss from early extinguishment of debt, diluted	(0.02)	-	-	-
Net income (loss) applicable to shares of beneficial interest, diluted	$ 0.64	$ (0.09)	$ (0.16)	$ (0.16)

(1) Includes a gain on sale of real estate of $30.1 million from the sale of the Purchased Assets.

(2) Includes a write-down of investment of $2.7 million, $4.4 million and $4.4 million for the second, third and fourth quarters, respectively.

Independent Auditors' Report

The Board of Trustees and Shareholders
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 and First Union Management, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related combined statements of operations, shareholders' equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined 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. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

New York, New York
March 28, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Securityholders And Trustees Of First Union Real Estate Equity and Mortgage Investments:

We have audited the accompanying consolidated balance sheet 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) and its subsidiaries as of December 31, 2000, and the related combined statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2000. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Imperial Parking Limited for the year ended December 31, 1999, which statements reflect total revenues of approximately 39 percent of the consolidated total. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors for 1999, 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. and its subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Cleveland, Ohio,

March 7, 2001. */s/ Arthur Andersen LLP*

* *This Report of Independent Public Accountants on Financial Statement Schedules is a copy of a previously issued report issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen. The inclusion of this previously issued report is pursuant to the "Temporary Final Rule and Final Rule Requirements for Arthur Andersen LLP Auditing Clients" promulgated by the United States Securities and Exchange Commission in March 2002.*

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

a. On September 21, 2001, the Audit Committee of the Trust's Board of Trustees proposed, and its Board of Trustees approved, the dismissal of the accounting firm of Arthur Andersen LLP as its independent accountants and the appointment of the accounting firm of KPMG LLP as its independent accountants for the Trust.

b. The reports of Arthur Andersen LLP for the fiscal years ended December 31, 1999 and December 31, 2000 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. Arthur Andersen LLP stated in its report with respect to the fiscal year ended December 31, 1999 that it did not audit the financial statements of Imperial Parking Limited for the year ended December 31, 1999, which statements reflect total assets and total revenues of approximately 12 percent and approximately 39 percent of the related consolidated totals. In its report, Arthur Andersen LLP stated that the financial statements of Imperial Parking Limited for the year ended December 31, 1999 were audited by other auditors whose report was furnished to Arthur Andersen LLP and the report of Arthur Andersen LLP, insofar as it related to the amounts included for Imperial Parking Limited, was based solely on the report of the other auditors.

c. In connection with the audits of the Trust's financial statements for the fiscal years ended December 31, 2000 and December 31, 1999, and in the subsequent interim period preceding the dismissal, there were no disagreements with Arthur Andersen LLP on any matter of accounting principals or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused it to make reference to the subject matter of the disagreements in connection with its report.

d. In connection with the audits of the Trust's financial statements for the fiscal years ended December 31, 2000 and 1999, and through the subsequent interim period preceding the dismissal, there were no "reportable events" as that term is described in Item 304(a)(1)(v) of Regulation S-K.

e. The Trust has provided Arthur Andersen LLP with a copy of the disclosures which the Trust made in item 4 of a Form 8-K filed by the Trust on September 28, 2001 and requested that Arthur Andersen LLP furnish it with a letter addressed to the Securities and Exchange Commission stating whether or not it agreed with such disclosures. A copy of such letter dated September 24, 2001 was filed as Exhibit 16.1 to the Form 8-K.

f. The Trust had not consulted with KPMG LLP during the previous two fiscal years and the interim periods prior to their appointment on any matters which were the subject of any disagreement or with respect to any "reportable event" as is defined in Item 304 of Regulation S-K or the type of audit opinion which might be rendered on the Trust's financial statements.

g. KPMG LLP (Canada) is the independent auditor for VenTek International, Inc., an affiliate of the Trust, and for Imperial Parking Corporation, formerly an affiliate of the Trust.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE TRUST.

(a) DIRECTORS.

"Election of Trustees" presented in the Trust's 2003 Proxy Statement to be filed is incorporated herein by reference.

(b) EXECUTIVE OFFICERS.

"Executive Officers" as presented in the Trust's 2003 Proxy Statement to be filed is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

"Compensation of Trustees" and "Executive Compensation", presented in the Trust's 2003 Proxy Statement to be filed are incorporated herein by reference.

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

"Security Ownership of Trustees, Officers and Others" presented in the Trust's 2003 Proxy Statement to be filed is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

"Certain Transactions and Relationships" presented in the Trust's 2003 Proxy Statement to be filed is incorporated herein by reference.

PART IV

ITEM 14. CONTROLS AND PROCEDURES

The Registrant's principal executive and financial officer has, within 90 days of the filing date of this annual report, evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Exchange Act Rules 13a - 14(c) and has determined that such disclosure controls and procedures are adequate to ensure that information required to be disclosed by the Registrant in the reports filed or submitted under the Exchange Act is recorded, processed and summarized and reported within the time periods specified by the Securities and Exchange Commission. There have been no significant changes in the Registrant's internal controls or in other factors that could significantly affect such internal controls since the date of evaluation. Accordingly, no corrective actions have been taken with regard to significant deficiencies or material weaknesses.

ITEM 15. 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, 2002 and 2001 on page 33 of Item 8.

Combined Statements of Operations and - For the Years Ended December 31, 2002, 2001 and 2000 on page 34 of Item 8.

Combined Statements of Shareholders' Equity - For the Years Ended December 31, 2002, 2001 and 2000 on page 35 of Item 8.

Combined Statements of Cash Flows - For the Years Ended December 31, 2002, 2001 and 2000 on page 36 of Item 8.

Notes to Combined Financial Statements on pages 37 through 59 of Item 8.

Independent Auditors' Reports on pages 60 through 61 of Item 8.

(2) FINANCIAL STATEMENT SCHEDULES:

Independent Auditors' Reports on Financial Statement Schedules.

Schedule III - Real Estate and Accumulated Depreciation.

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

(b) EXHIBITS.

Exhibit Number	Description	Incorporated Herein by Reference to
(2)(a)	Agreement and Plan of Merger and Contribution by and among First Union Real Estate Equity and Mortgage Investments, that certain Ohio Trust, declared as of October 1, 1996, by Adolph Posnick, Trustee, First Union Management, Inc., GGC Merger Sub, Inc., Gotham Partners, L.P., Gotham Golf Partners, L.P., Florida Golf Associates, L.P., Florida Golf Properties, Inc., and Gotham Golf Corp.	Form 8-K dated February 14, 2002
2(a)(1)	Amendment No. 1 dated as of April 30, 2002 to the Agreement and Plan of Merger and Contribution by and among First Union Real Estate Equity and Mortgage Investments, that certain Ohio Trust, declared as of October 1, 1996, by Adolph Posnick, Trustee, First Union Management, Inc., GGC Merger Sub, Inc., Gotham Partners, L.P., Gotham Golf Partners, L.P., Florida Golf Associates, L.P., Florida Golf Properties, Inc., and Gotham Golf Corp.	Appendix B to Amendment No. 4 to Form S-4, Registration Statement No. 333-88144, of Gotham Golf Corp. and Southwest Shopping Centers Co. II, L.L.C.
2(a)(2)	Amendment and Restatement dated as of October 30, 2002 of Amendment No. 2 dated as of September 27, 2002 to the Agreement and Plan of Merger and Contribution by and among First Union Real Estate Equity and Mortgage Investments, that certain Ohio Trust, declared as of October 1, 1996, by Adolph Posnick, Trustee, First Union Management, Inc., GGC Merger Sub, Inc., Gotham Partners, L.P., Gotham Golf Partners, L.P., Florida Golf Associates, L.P., Florida Golf Properties, Inc., and Gotham Golf Corp.	Appendix C to Amendment No. 4 to Form S-4, Registration Statement No. 333-88144, of Gotham Golf Corp. and Southwest Shopping Centers Co. II, L.L.C.
2(a)(3)	Amendment No. 3 dated as of October 24, 2002 to the Agreement and Plan of Merger and Contribution by and among First Union Real Estate Equity and Mortgage Investments, that certain Ohio Trust, declared as of October 1, 1996, by Adolph Posnick, Trustee, First Union Management, Inc., GGC Merger Sub, Inc., Gotham Partners, L.P., Gotham Golf Partners, L.P., Florida Golf Associates, L.P., Florida Golf Properties, Inc., and Gotham Golf Corp.	Appendix D to Amendment No. 4 to Form S-4, Registration Statement No. 333-88144, of Gotham Golf Corp. and Southwest Shopping Centers Co. II, L.L.C.
(3)(a)	By-laws of Trust as amended	1998 Form 10-K

(3)(b)	Certificate of Amendment to Amended and Restated Declaration of Trust as of March 6, 2001	2000 Form 10-K
(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 October 1, 1993 between Trust and Society National Bank	Registration Statement on Form S-3 No. 33-68002
(4)(c)	First Supplemental Indenture governing Debt securities, dated July 31, 1998 between Trust and Chase Manhattan Trust Company, National Association	2000 Form 10-K
(4)(d)	Form of Note	Registration Statement on Form S-3 No. 33-68002
(4)(e)	Certificate of Designations relating to Trust's Series A Cumulative Redeemable Preferred Shares of Beneficial Interest	Form 8-K dated October 24, 1996
(4)(f)	Warrant to purchase 500,000 shares of beneficial interest of Trust	1998 Form 10-K
(10)(a)	1999 Trustee Share Option Plan	1999 Proxy Statement for Special Meeting held May 17, 1999 in lieu of Annual Meeting
(10)(b)	1999 Long Term Incentive Performance Plan	1999 Proxy Statement for Special Meeting held May 17, 1999 in lieu of Annual Meeting
(10)(c)	Registration Rights Agreement as of November 1, 1999 by and among First Union Equity and Mortgage Investments and Gotham Partners, L.P., Gotham Partners III, L.P., and Gotham Partners International, Ltd.	1999 Form 10-K
(10)(d)	Asset Management Agreement executed March 27, 2000 with Radiant Partners, LLC. **	March 31, 2000 Form 10-Q
(10)(e)	Promissory note dated April 20, 2000 between Park Plaza Mall, LLC and First Union National Bank	Form 8-K dated May 11, 2000
(10)(f)	Mortgage and Security Agreement dated April 20, 2000 between Park Plaza Mall, LLC and First Union National Bank	Form 8-K dated May 11, 2000
(10)(g)	Cash Management Agreement dated April 20, 2000 among Park Plaza Mall, LLC, as borrower, Landau & Heymann of Arkansas, Inc., as manager and First Union National Bank, as holder	Form 8-K dated May 11, 2000]

(10)(h)	Amendment to Asset Management Agreement executed May 31, 2000 with Radiant Partners, LLC **	Form 8-K dated June 6, 2000
(10)(i)	Amendment to Asset Management Agreement **	September 30, 2000 Form 10-Q
(10)(j)	Second Amendment to Asset Management Agreement **	September 30, 2000 Form 10-Q
(10)(k)	Third Amendment to Asset Management Agreement **	September 30, 2000 Form 10-Q
(10)(l)	Fourth Amendment to Asset Management Agreement **	September 30, 2000 Form 10-Q
(10)(m)	Fifth Amendment to Asset Management Agreement **	September 30, 2000 Form 10-Q
(10)(n)	Modification to Asset Management Agreement**	2000 Form 10-K
(10)(o)	Voting Agreement dated as of February 13, 2002, by and among the Trust, Gotham and Messrs. Ackman, Altobello, Bruce R. Berkowitz, Citrin and Embry	Form 8-K dated February 14, 2002
(10)(p)	Lease, dated as of April 26, 1910, between Frank Fauvre and Lillian Fauvre as Lessors and the German American Trust Company as Lessee	Exhibit 10.1 to Amendment No. 3 to Form S-4, Registration Statement No. 333-88144, of Gotham Golf Corp. and Southwest Shopping Centers Co. II, L.L.C.
(10)(q)	Indemnification Agreement with Neil Koenig, dated as of April 29, 2002*	
(10)(r)	Extension Letter Agreement to Asset Management Agreement, dated as of January 16, 2003*	
(10)(s)	Real Estate Management Agreement between Park Plaza Mall LLC and General Growth Management Inc.*	
(23)	Consent of KPMG LLP *	
(24)	Powers of Attorney *	
(99.1)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

* Filed herewith

** Management contract or compensatory plan or arrangement

(c) REPORTS ON FORM 8-K - FILED ON OR BEFORE DECEMBER 31, 2002.

November 22, 2002

Item 5 - On November 21, 2002, the New York
Supreme Court of New York County granted motions for preliminary injunction and expedited discovery in connection with the proposed merger of the Trust and Gotham Golf Corp.

Item 7 - Press release dated November 21, 2002,
issued by the Trust.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Trust 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/Neil H. Koenig
Neil H. Koenig, Interim Chief Financial 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 Trust and in the capacities and on the dates indicated.

SIGNATURE	*TITLE*	*DATE*
/s/ Neil H. Koenig *Neil H. Koenig*	*Principal Executive and Principal Financial Officer*	*March 31, 2003*

Trustees:

	Date
*Daniel J. Altobello**	
*Bruce R. Berkowitz**	
*Jeffrey B. Citrin**	*March 31, 2003*
*Talton R. Embry**	

SIGNATURE

**By: /s/Neil H. Koenig*
Neil H. Koenig, Attorney-in-Fact

CERTIFICATIONS

I, Neil H. Koenig, in the capacities indicated below, certify that:

1. I have reviewed this annual report on Form 10-K of First Union Real Estate Equity and Mortgage Investments;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to me, particularly during the periods in which this annual report is being prepared:

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures on my evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's Board of Trustees:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ Neil H. Koenig

Neil H. Koenig
Principal Executive Officer
and Interim Chief Financial Officer

Independent Auditors' Report

The Board of Trustees and Shareholders

First Union Real Estate Equity and Mortgage Investments:

Under date of March 28, 2003, we reported on the combined balance sheets of First Union Real Estate Equity and Mortgage Investments and First Union Management, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related combined statements of operations, shareholders' equity, and cash flows for the years ended, which is included in the Annual Report on Form 10-K. In connection with our audits of the aforementioned combined financial statements, we also audited the related combined financial statement schedule listed under Item 15(a)(2) on page 64. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule for 2002 and 2001, when considered in relation to the basic combined financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

New York, New York
March 28, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Securityholders and Trustees of First Union Real Estate Equity and Mortgage Investments:

We have audited in accordance with auditing standards generally accepted in the United States, the combined financial statements included in this Form 10-K, and have issued our report thereon dated March 7, 2001. Our audit was made for the purpose of forming an opinion on those combined statements taken as a whole. The schedules listed under Item 15(a)(2) on page 64 are the responsibility of the registrant's 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.

Arthur Andersen LLP

Cleveland, Ohio,
March 7, 2001.

* This Report of Independent Public Accountants on Financial Statement Schedules is a copy of a previously issued report issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen. The inclusion of this previously issued report is pursuant to the "Temporary Final Rule and Final Rule Requirements for Arthur Andersen LLP Auditing Clients" promulgated by the United States Securities and Exchange Commission in March 2002.

Schedule III

REAL ESTATE AND ACCUMULATED DEPRECIATION
As Of December 31, 2002
(In thousands)

Description	Encumbrances	Initial cost to Registrant		Cost capitalized subsequent to acquisition	
		Land	Building and Improvements	Building and Improvements	
Shopping Mall:					
Park Plaza, Little Rock, AR	$ 41,781	$ 5,816	$ 58,037	$ 1,072	
Office Building:					
Circle Tower, Indianapolis, IN	--	270	1,609	4,149	
Real Estate net carrying value at December 31, 2002	$ 41,781	$ 6,086	$ 59,646	$ 5,221	

Description	As of December 31, 2002				Year construction completed	Date Acquired	Life
	Land	Building and Improvements	Total	Accumulated depreciation			
Shopping Mall:							
Park Plaza, Little Rock, AR	$ 5,816	$ 59,109	$ 64,925	$ 8,273	1988	9/1/1997	40
Office Building:							
Circle Tower, Indianapolis, IN	270	5,758	6,028	3,784	1930	10/16/1974	40
Real Estate net carrying value at December 31, 2002	$ 6,086	$ 64,867	$ 70,953	$ 12,057			

Aggregate cost for federal tax purposes is approximately $70,953.

Schedule III -Continued

The following is a reconciliation of real estate assets and accumulated depreciation for the years ended December 31, 2002, 2001, and 2000.

	(In thousands) Years Ended December 31, 2002	2001	2000
Asset reconciliation:			
Balance, beginning of period	$ 70,275	$ 273,383	$ 335,325
Additions during the period:			
Improvements	688	722	10,685
Equipment and appliances	-	2	250
Transfer from First Union corporate	-	-	1,453
Deductions during the period:			
Sales of real estate	-	(203,832)	(44,106)
Spinoff of Impark	-	-	(11,074)
Unrealized loss on carrying value of real estate assets	-	-	(19,150)
Other - write-off of assets and certain fully depreciated tenant alterations	(10)	-	-
Balance, end of period:	$ 70,953	$ 70,275	$ 273,383
Accumulated depreciation Reconciliation:			
Balance, beginning of period	$ 10,108	$ 68,507	$ 75,275
Additions during the period:			
Depreciation	1,959	3,553	11,064
Transfer from First Union corporate	-	-	551
Deductions during the period:			
Sales of real estate	-	(61,952)	(18,269)
Spinoff of Impark	-	-	(114)
Write-off of assets and certain fully depreciated tenants alterations	(10)	-	-
Balance, end of period	$ 12,057	$ 10,108	$ 68,507

EXHIBIT 10(q)

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made and entered into by and between Neil H. Koenig ("Koenig") and First Union Real Estate Equity and Mortgage Investments, an Ohio Real Estate Investment Trust, together with its successors, subsidiaries and parent companies (collectively, the "Company") as of April 29, 2002.

W I T N E S S E T H:

WHEREAS, the Company and Koenig wish to set forth certain understandings in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. Koenig's Services. Koenig agrees to continue to serve as the Chief Financial Officer of First Union Real Estate Equity and Mortgage Investments (the "Trust") under the same terms and conditions as he has heretofore served in that capacity, which service may be terminated at any time by either Koenig or the Trust.

2. Indemnification.

(a) The Company agrees to indemnify and hold Koenig harmless from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and attorney fees and expenses) arising out of or in connection with his services on behalf of the Trust, or the enforcement of this Agreement, and shall reimburse Koenig for any and all legal and other costs or expenses as incurred, but in no event less frequently than 30 days after each invoice is submitted, by him in connection with investigating, preparing for, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action.

(b) If any action or claim shall be brought or asserted against Koenig, he shall promptly notify the Company in writing, and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to Koenig and the payment of all expenses; provided, however, that Koenig's failure to notify the Company shall not relieve the Company from any of its obligations hereunder, but shall only relieve it from any liability to the extent the Company is prejudiced thereby. Koenig shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of Koenig unless (i) the employment thereof has been authorized by the Company in writing,
(ii) the Company has failed to assume the defense or to employ counsel reasonably satisfactory to Koenig or (iii) the named parties to any such action (including any impleaded parties) include both Koenig and the Company, and Koenig shall have been advised by such counsel that there may be one or more legal defenses available to him that

are different from or in addition to those available to the Company (in which case, if Koenig notifies the Company in writing that he elects to employ separate counsel at the expense of the Company, the Company shall not have the right to assume the defense of such action) it being understood, however, that the Company shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time and for Koenig, which firm shall be designated in writing by Koenig. Koenig, as a condition of such indemnity, shall use reasonable efforts to cooperate with the Company in the defense of any such action or claim. The Company also agrees to indemnify and hold harmless Koenig from and against any loss, claim, damage, liability or expense by reason of any settlement or judgment.

(c) Under any and all circumstances, Koenig shall have the right to participate in and oversee the defense of any action or claim to which he is a named defendant whether it involves the services of an attorney procured by the Company or by Koenig pursuant to this Agreement.

(d) The amount paid or payable by Koenig as a result of the losses, claims, damages, liabilities and expenses referred to in this Agreement shall also include, subject to the limitations set forth above, any legal or other costs or expenses reasonably incurred by Koenig in connection with investigating or defending any such action or claim.

(e) The indemnity agreements contained in this Section shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any party hereto and any termination of this Agreement.

3. No Participation in Third Party Civil Litigation. The Company agrees and promises not to voluntarily participate, without receiving the prior written approval of Koenig, in any pending or future civil case, arbitration, agency proceeding, or other legal proceeding brought against him, by a third party ("Third Party Civil Litigation") with respect to any issues whatsoever. The Company also agrees that it will not intentionally cause, encourage, or participate in any Third Party Civil Litigation maintained or instituted against Koenig. Specifically, among other things, this paragraph is intended to preclude the Company from (a) voluntarily providing any party involved in a Third Party Civil Litigation, as defined above, against him with any statement, oral or written, sworn or unsworn, to be used in connection with that Third Party Civil Litigation and/or (b) voluntarily appearing for the purpose of providing deposition or trial testimony at such party's request without the prior written approval of Koenig.

4. Entire Agreement. The parties each represent and warrant that no promise or inducement has been offered or made except as herein set forth and that the consideration stated herein is the sole consideration for this Agreement. This Agreement is a complete and entire agreement and states fully all agreements, understandings, promises and commitments as between the parties with respect to the subject matter hereof; this Agreement supersedes and cancels any and all other negotiations, understandings and agreements, oral or written, respecting the subject matter hereof; and this Agreement may not be modified except by an instrument in writing signed by the party against whom the enforcement of any waiver, change, modification or discharge is sought.

5. Severability. If any provision or clause of this Agreement is found to be invalid by a court of competent jurisdiction, then such provision or clause shall be severed here from and such invalidity shall not affect any other provision or clause of this Agreement, the balance of which shall remain and have its intended full force and effect.

6. Assignability, Choice of Law and Forum Selection. This Agreement is personal to the parties and neither party may assign, pledge, delegate or otherwise transfer any of the rights, obligations or duties under this Agreement. This Agreement shall be governed by, construed in accordance with, and enforced pursuant to the laws of the State of New York without regard to principles of conflict of laws which might result in the application of the laws of another jurisdiction. The parties hereto waive any defense of lack of personal jurisdiction or improper venue, and hereby specifically authorize and require any action brought by either party to this Agreement to be instituted and prosecuted exclusively in either the Supreme Court of the State of New York, County of New York, or in the United States District Court for the Southern District of New York, at the election of the party bringing such action.

7. Counterparts. This Agreement may be executed in counterparts, each of which together constitute one and the same instrument.

8. Notices. Any notice to be given hereunder may be delivered (a) in the case of the Company, by first class mail addressed to its Chairman at 125 Park Avenue, New York, New York 10017, and (b) in the case of Koenig, either to him personally or by first class mail to his last known residence address, with a copy to Dan L. Goldwasser, Esq. Vedder, Price, Kaufman & Kammholz, 805 Third Avenue, New York, New York 10022. Notices served by mail shall be deemed given when they are mailed.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Indemnification Agreement as of the date first written above.

FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS

By: /s/ William A. Ackman
Name: William A. Ackman
Title: Chairman of the Board

/s/ Neil H. Koenig
Neil H. Koenig

EXHIBIT 10(r)

January 16, 2003

Daniel Friedman
Radiant Partners, LLC
1212 Avenue of the Americas
18th Floor
New York, NY 10036

Dear Dan:

We would like to extend the Asset Management Agreement between Radiant Partners, LLC and First Union Real Estate Equity and Mortgage Investments, modified on March 7, 2001, on a month-to-month basis commencing March 8, 2003.

Either party may terminate the agreement with 30 days prior notice. All other terms and conditions will remain in effect.

If this is agreeable, please acknowledge by signing below.

Very truly yours,

/s/Neil Koenig

Neil Koenig

/s/Daniel Friedman

Daniel Friedman

EXHIBIT 10(s)

REAL ESTATE MANAGEMENT AGREEMENT

THIS AGREEMENT, made as of the 1St day of October, 2002, between PARK PLAZA MALL, LLC, having an office at do First Union Real Estate Equity and Mortgage Investments, 125 Park Avenue 14th Floor, New York, New York 10017, ("Owner"), and GENERAL GROWTH MANAGEMENT, INC., having a principal address 110 North Wacker Drive, Chicago, Illinois, 60606 ("AGENT").

W I T N E S S E T H

In consideration of the Covenants herein contained, the parties hereto agree as follows:

ARTICLE I
APPOINTMENT AND AUTHORITY OF AGENT

1.1 Owner owns a shopping center (referred to as the `Premises"), identified on Exhibit A attached hereto and made a part hereof: Owner hereby appoints Agent as the sole and exclusive managing and leasing agent for the Premises, and hereby authorizes Agent to exercise such powers with respect to the Premises as may be necessary for the performance of Agent's obligations under Article II, arid Agent accepts such appointment on the terms and conditions hereinafter set forth for a term as provided in Article V and agrees to manage, operate and maintain the Property in a faithful and diligent manner, subject to the terms and conditions in this Agreement. Agent shall have no right or authority, express or implied, to commit or otherwise obligate Owner in any manner whatsoever except to the extent specifically provided herein.

ARTICLE II
AGENT'S AGREEMENT

2.1 Agent, on behalf of Owner, shall implement, or cause to be implemented, the decisions of Owner and shall conduct the ordinary and usual business affairs of Owner as provided in this Agreement. Agent shall at all times use reasonable efforts to conform to the policies and programs established by Owner and identified to Agent, and the scope of Agent's authority shall be limited to said policies. All undertakings incurred by Agent on behalf of Owner under this Agreement shall be at the cost and expense of Owner unless otherwise provided for herein. Agent agrees to use its best efforts in the management and operation of the Premises, and to comply with Owner's instructions. If Owner has or creates a Managing Agent's Manual ("the Manual") which summarizes the instructions, then the "Manual" furnished by Owner to Agent shall be made a part hereof. In the event of any inconsistency or conflict between the terms and provisions of this Agreement and the Manual or the policies and programs established by Owner, the terms and provisions of this Agreement shall govern and be binding. Agent shall perform the following duties in connection with the management and operation of the Premises:

(a) Contract, for periods limited to Owner's possession of the Premises, but not in excess of one (1) year, in the name of Owner, for gas, electricity, water and such other services as are being currently furnished to the Premises. Service contracts shall be written to include a thirty (30) day notice of cancellation by Owner wherever possible. All service contracts in effect at the date hereof in respect of the Premises, including the terms thereof (with cancellation right, if any), the services provided

thereunder and the charges called for thereby, should be detailed in the Annual Budget. No such contract, other than a contract for an item specified in the Annual Budget or for water or utilities, which involves an expenditure in excess of the amount set forth in paragraph 3 of Exhibit A attached hereto shall hereinafter be entered into by Agent without the prior approval of Owner.

(b) Select, employ, pay, supervise, train, direct and discharge all employees necessary for the operation and maintenance of the Premises, including the payment of all related expenses, compensation, salary, bonuses, fringe and fringe-related costs in accordance with industry practices and, where applicable, the Annual Budget, carry Worker's Compensation Insurance (and, when required by law, compulsory Non-Occupational Disability Insurance) covering such employees, and use reasonable care in the selection and supervision of such employees. Owner agrees to reimburse Agent for any reasonable relocation costs associated with the relocation of exempt level employees to the Premises. Agent will keep bi-weekly time sheets which shall be available for inspection by Owner. Agent shall prepare or cause to be prepared and timely filed and paid, all necessary returns, forms and payments in connection with unemployment insurance, medical and life insurance policies, pensions, withholding and social security taxes and all other taxes relating to said employees which are imposed by any federal, state or municipal authority. Agent shall also provide usual management services in connection with labor relations and shall prepare, maintain and file all necessary reports with respect to the Fair Labor Standards Act and all other required statements and reports pertaining to labor employed at the Premises. Agent shall use its best efforts to comply with all laws and regulations and collective bargaining agreements, if any, affecting such employment. Agent will be and will continue throughout the term of this Agreement to be an Equal Opportunity Employer. All persons employed in connection with the operation and maintenance of the Premises shall be employees of Agent.

Owner warrants and represents that as of the date of this Agreement, the employees of the current manager of the Premises that the Agent has been asked to retain have never been employed by Owner nor participated in any retirement plan offered by Owner, are not presently or in the past been represented by a labor union in their employment at the Premises and that the Agent will not incur any unfunded vested retirement plan liability arising out of these employees' employment, by any previous manager at the Premises.

(c) Keep the Premises, or cause the Premises to be kept in a safe, clean and sightly condition and make and contract for all repairs, alterations, replacements, and installations, do or cause to be done all decorating and landscaping, and purchase all supplies necessary for the proper operation and maintenance of the Premises as a first-class regional shopping mall and the fulfillment of Owner's obligations under any. lease, operating agreement or other agreement or compliance with all governmental and insurance requirements, provided that, except as provided in Section 2.4 hereof, Agent shall not make any purchase or do any work, the cost of which shall exceed the approved budget or the amount set forth in paragraph 3 of Exhibit A attached hereto, without obtaining in each instance, the prior approval of Owner, except in circumstances which Agent shall deem to constitute an emergency requiring immediate action for the protection of the Premises or of tenants or other persons or to avoid the suspension of necessary services or in order to cure any violation or other condition which would subject Owner or Agent to any criminal penalty or civil fine. Agent shall promptly notify Owner immediately of the necessity for, the nature of, and the cost of, any such emergency repairs or any action to cure any such violation or other condition. Agent shall arrange for and supervise, on behalf of Owner, the performance of all alterations and other work to prepare or alter space in the Premises for occupancy by tenants thereof. Agent shall submit a list of contracts and subcontractors performing tenant work, repairs, alterations or services at the Premises, under Agent's direction for Owner's approval before such subcontractors commence any work at the Premises.

It is understood that Agent shall not be required to undertake the making or supervision of

extensive reconstruction of the Premises or any part thereof except after written agreement by the parties hereto as to any additional fee to be paid for such services.

Owner shall receive the benefit of all discounts and rebates obtainable by Agent in its operation of the Premises. Owner is entitled to discounts from various contractors and suppliers under National Agreements; Agent, if informed by Owner of such National Agreements, agrees to take advantage of such National Agreements wherever feasible. Agent agrees to obtain a minimum of three (3) competitive bids for the performance of any work at the Premises exceeding $15,000.00, to furnish copies of such bids to Owner and to accept such bid as Owner may direct.

If Agent desires to contract for repair, construction or other service described in this paragraph (c) (other than work done at the request of a tenant and at the tenant's sole cost and expense, hereinafter referred to as "Tenant's Work") with a party with respect to which any partner or shareholder of Agent holds a. beneficial interest, or with any subsidiary, affiliate or related corporation in which Agent shall have a financial interest, such interest shall be disclosed to, and approved by Owner in writing before such services are procured. The cost of any such services shall likewise be at competitive rates, notwithstanding that tenants of the Premises may be required to pay such costs. Agent, or the general contractor working under the supervision of Agent, is authorized to make and install Tenant Work, and Agent may collect from such tenant or such general contractor, for its sole account, its charge for supervisory overhead on all such Tenant Work; provided in each instance Owner is notified, in advance, in writing of the scope of such work and the identities of the tenant and contractors involved in such work. Agent shall hold Owner harmless from any claims which may be advanced by any such tenant in connection with Tenant Work performed by Agent or under Agent's supervision. Agent, however, shall not require any tenant to use Agent, its subsidiary, affiliate or related corporation or its general contractor to perform such Tenant Work.

(d) Handle promptly complaints and requests from tenants and parties to reciprocal easement agreements, notify Owner of any major complaint made by any such tenant or party and notify owner promptly (together with copies of supporting documentation), of: the receipt of any notice of violation of any governmental requirements; and known orders or requirements of insurers, insurance rating organizations, Board of Fire Underwriters or similar bodies; any known defect in the Premises; any known fire or other damage to the Premises, and complete customary loss reports in connection with fire or other damage to the Premises.

(e) Notify Owner's General Liability Insurance carrier and Owner promptly of any personal injury or property damage known to Agent occurring to or claimed by any tenant or third party on or with respect to the Premises and promptly forward to the carrier, with copies to the Owner, any summons, subpoena, or other like legal document served upon Agent relating to actual or alleged potential liability of Owner, Agent, or the Premises, with copies to Owner of all such documents.

(f) Advise Owner of those exceptions in leases, operating agreements and other agreements in which the tenants or parties to such agreements do not agree to hold Owner harmless with respect to liability from any accidents and/or to replace broken glass.

(g) Subject to Agent entering into cash management agreements in form and content acceptable to Owner's mortgage and mezzanine lenders, receive and collect rent and all other monies payable to Owner by all tenants and licensees in the Premises and by all other parties including department stores under ground leases and reciprocal easement agreements and tenants under leases of free-standing stores. In this connection, Agent shall calculate all amounts due to Owner from such tenants, licensees and other parties, including annual or periodic adjustments where applicable, and shall, when appropriate, submit statements or invoices to such tenants, licensees and parties. Agent shall deposit

the same promptly in the bank named on Exhibit A attached hereto (the "Bank") in an account with a title including a distinctive portion of Agent's name and " " or such other designation as Owner may direct (the "Bank Account"), which account shall be used exclusively for such funds. Owner's representative will be a signatory on all bank accounts maintained by Agent. Agent shall pay the operating expenses of the Premises and any other payments relative to the Premises as required by the terms of this Agreement out of the Bank Account. All amounts received by Agent for or on behalf of Owner shall be and remain the property of Owner. Checks may be drawn on the above-mentioned Bank Account only for purposes authorized under this Agreement. Copies of the monthly statements for each such Bank Account shall be sent to Owner. No funds of Agent or others shall be commingled with funds in any such Bank Account. Owner has the right to control the types of cash management accounts and dictate the specifics of said accounts with respect to disbursement and management of funds.

(h) Serve notices of default upon tenants of space in the Premises and other parties which are in default in performing obligations under their leases, reciprocal easement agreements or other agreements, with copies sent simultaneously to Owner, and attempt to cause such defaults to be cured. Agent shall, subject to Owner's consent with respect to any tenant who occupies more than 2,000 square feet, utilizing counsel theretofore approved by Owner, institute all necessary legal action or proceedings for the collection of rent or other income from the Premises, or the ousting or dispossessing of tenants or other persons therefrom, and all other matters requiring legal attention. Agent agrees to use its best efforts to collect rent and other charges from tenants in a timely manner and to pursue Owner's legal remedies for non-payment of same. Owner reserves the right to designate or approve counsel and to control litigation of any character affecting or arising out of the operation of the Premises and the settlement of such litigation.

(i) Bond Agent arid/or all of Agent's employees who may handle or be responsible for monies or property of Owner with a "comprehensive 3-D" or "Commercial Blanket" bond, in an amount of $100,000.

(j) Notify Owner immediately of any known fire, accident or other casualty, condemnation proceedings, rezoning or other governmental order, lawsuit or threat thereof involving the Premises; and the receipt of any notice of violations relative to the leasing, use, repair and maintenance of the Premises under governmental laws, rules, regulations, ordinances or like provisions.

(k) If Owner so directs, make timely payment of real estate and personal property taxes and assessments levied or assessed against the Premises or personal property used in connection therewith. Agent shall promptly furnish Owner with copies of all assessment notices and receipted tax bills.

(1) Cooperate with Owner's national energy conservation policies, and submit energy consumption reports for the Premises as required in accordance with Owner's program for property energy audits and review reports.

(m) Cooperate with Owner in attaining certain corporate objectives, i.e., purchase and reporting of goods and services furnished or supplied by minority groups.

(n) Promptly comply in all material respects with all present and future laws, ordinances, orders, rules, regulations and requirements of all Federal, state and local governments, courts, departments, commissions, boards and offices, any national or local Board of Fire Underwriters or Insurance Services offices having jurisdiction, or any other body exercising functions similar to those of any of the foregoing which may be applicable to the Premises or any part thereof or to the leasing, use, repair, operation and management thereof, but only to the extent that such compliance is reasonably

capable of being carried out and complied with by Agent and Agent has available the necessary funds therefor from collections or advances by Owner. Agent shall give prompt notice to Owner of any known violation or the receipt of notice of alleged violation of such laws. As and when directed by Owner, Agent shall institute in its name, or in the name of Owner, using counsel selected by Owner, appropriate actions or proceedings to contest any such law, ordinance, rule, regulation, order, determination or requirement.

(o) Promote the Premises and participate as Owner's representative in any Merchant's Associations or Promotional Organizations (collectively, the "Promotional Organizations") established to promote the Premises, and in connection therewith, employ (via a property level reimbursement or tenant reimbursement) and direct the activities of a marketing director for the Premises.

(p) Consent to and approve tenant alteration work and installations which are performed by tenants of space in the Premises and are provided for in the leases of such tenants. Agent is authorized to approve tenant alteration work and installations not provided for in leases if (i) such alteration work and installations are made solely at the expense of the tenant, and (ii) such alteration work and installations do not affect the structural integrity of any building and (iii) such alteration work and installations are consistent with the overall leasing plan for the Premises and do not interfere with any other tenant's use of the Premises.

(q) Provide, upon Owner's request and in accordance with the provisions of section 7 and section 9 of Exhibit A, general contracting and construction management services ("Development Services") and consultation to Owner for the Premises which shall include, without limitation, the management, supervision and administration of, and provisions for services for the improvement, expansion (and in the event of damage Or condemnation, the reconstruction thereof) of the Premises, including advice, expertise and support of Agent provided and/or retained and/or coordinated by home office and on-site personnel including, without limitation, executive personnel, design and engineering personnel, clerical personnel, legal and accounting personnel. Such personnel will perform consultation and various functions involved with Development Services including, without limitation, the following: design, planning, architectural,. engineering, acquisition and negotiation, negotiations with department stores for site acquisition and operation in the Premises; permits and licenses; pre-opening advertising and publicity; market research; site work; negotiations with public authorities, public hearings; project management and all other activities necessary to accomplish the improvement, expansion or reconstruction of the Premises.

(r) If Owner so directs, pay when due (i) all debt service and other amounts due under any mortgages which encumber the Premises or any part thereof, and give Owner notice of the making of each payment, and (ii) all rent and other charges payable under any ground lease of land included in the Premises under which Owner is the tenant.

(s) Cause the requirements on the part of Owner under all such mortgages and ground leases, all leases of space in the Premises, all ground leases and reciprocal easement agreements with department stores and all other agreements affecting or relating to the Premises which are known or made known to Agent, including, without limitation, the furnishing of all services and utilities called for therein, to be carried out and complied with in all material respects, but only to the extent that such requirements are at the time reasonably capable of being carried out by Agent and complied with and Agent has available the necessary funds therefor from collections or advances by Owner. Agent shall notify Owner promptly of any default under any such mortgage, lease, ground lease, reciprocal easement or other agreement on the part of Owner, the tenant or other party thereto, of which Agent becomes aware.

(t) Use its reasonable efforts to require compliance with the requirements of leases of

space in the Premises, ground leases, reciprocal easement agreements and all other agreements affecting or relating to the Premises which are known or made known to Agent on the part of tenants, department stores and other parties thereto and enforce compliance with the rules and regulations, sign criteria and like standards for the Premises adopted by Owner from time to time.

(u) Cause Owner to be furnished with an executed copy of each lease, lease renewal, lease amendment, service contract and other agreement entered into on or after the date of this Agreement in connection with the operation, management and leasing of the Premises, and use reasonable efforts to secure from tenants and parties to reciprocal easement agreements, and furnish to Owner, any certificates of insurance, and renewals thereof, required to be furnished by the terms of their leases or agreements.

(v) Inspect the Premises periodically and submit reports of findings and recommendations to Owner which shall include, without limitation, recommendations as to required repairs, replacements or maintenance.

(w) Erect barriers or chains for the purpose of blocking access to the common areas of and buildings included in the Premises as local law may require, or, directed in writing by Owner, in order to avoid the dedication of the same for public use and furnish appropriate evidence of same to Owner. Agent shall give any advance notice of the erection of such barriers or chains which may be required under reciprocal easement agreements or ground leases with department stores.

(x) Use its reasonable efforts to obtain from tenants of the Premises and department stores which are parties to reciprocal easement agreements or ground leases waivers of their insurers' rights of subrogation in respect to policies of fire and extended coverage and other property damage insurance carried by them in favor of Owner, Agent and any department store or tenant for which Owner is obligated to attempt to obtain such waivers under a ground lease, reciprocal easement agreement or space lease.

(y) Provide and prepare standard quarterly statements and other required reports to be submitted by Owner to its lenders.

(z) Perform its duties in the renting, management, operation and maintenance of the Premises applying prudent and reasonable business practices, using reasonable care and diligence in carrying out its responsibilities under this Agreement. Agent shall maintain those portions of the common areas of the Premises which are Owner's obligation to maintain in a clean and attractive first-class condition, use reasonable efforts to enforce the provisions of applicable leases, ground leases and reciprocal easement agreements so as to cause tenants and department stores to maintain their premises and common areas, if any, in similar condition, arrange for necessary security for the Premises and their common areas and arrange for cleaning and snow removal for the parking areas and roadways of the Premises. Agent shall recommend to Owner from time to time such procedures with respect to the Premises as Agent may deem advisable for the more efficient and economic management and operation thereof.

Owner recognizes and understands that Environmental Services (as hereinafter defined) are not actions or services that Agent is required to perform under this Agreement and Owner further recognizes and understands that Agent is not a consultant or a contractor that performs Environmental Services. Upon Owners request, Agent agrees to obtain and coordinate for and on behalf of Owner, such Environmental Services that Owner may request or require. Owner shall reimburse Agent for its administrative costs in connection with the coordination of such Environmental Services. In addition, Owner shall reimburse Agent for the costs of outside professionals retained to perform Environmental Services.

Environmental Services is defined

to be those acts or actions involving the presence, use, exposure, removal, restoration, or introduction of Hazardous Materials (as hereinafter defined) and the investigation of and compliance with any and all applicable rules, laws, or regulations of local state or federal authorities which apply or regulate Hazardous Materials. Hazardous Materials means any. hazardous, radioactive or toxic substance, material or waste listed in the United States Department of Transportation Hazardous Materials Table; or by the Environmental Protective Agency as hazardous substances; or such substances, material and waste which are or become regulated under applicable local, state or federal law including materials which are petroleum products, asbestos, polychlorinated biphenyls, or designated as hazardous substances under the Clean Water Act; or defined as hazardous waste under the Resource Conservation and Recovery Act; or defined as hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act.

(aa) Agent agrees that, unless specifically agreed to in writing by the Owner, all contracts executed by 3rd party vendors, suppliers, contractors, etc. will have a provision whereby said vendor, supplier or contractor indemnifies Owner for the vendor's, supplier's, or contractor's negligence.

2.2 Agent agrees to render monthly, quarterly and annual reports relating to the management and operation of the Premises for the preceding calendar month, quarter and year, as the case may be; on or before the fifteenth
(15th) day of the month following the end of the month, quarter or year, as the case may be, in form satisfactory to Owner in accordance with Exhibit B. At Owner's request, Agent shall update Owner's Argus reports up to twice per year. Agent shall have the option to provide any and all such reports electronically. Agent agrees that Owner shall have the right to require the transfer to Owner at any time of any funds in the Bank Account considered by Owner to be in excess of an amount reasonably required by Agent for disbursement purposes in connection with the Premises. Agent agrees to keep records with respect to the management and operation of the Premises as prescribed by Owner, and to retain those records for periods specified by Owner, but not to exceed a period of the greater of two (2) years after the expiration or earlier termination of this Agreement or any applicable period that is required by law for the retention of such records. Owner shall have the right to inspect such records and audit the reports required by this Section during business hours for the life of this Agreement and thereafter during the period such records are to be retained pursuant to this Section. In addition, Agent agrees that such records may be examined from time to time during the period by said regulatory authorities having jurisdiction over Owner.

2.3 Agent shall ensure such control over accounting and financial transactions as is reasonably required to protect Owner's assets from loss or diminution.

2.4 Agent shall establish and prepare, or as otherwise authorized by Owner, operating and capital improvement budgets for the promotion, operation, repair and maintenance of the Premises for each calendar year (Annual Budget) with the exception of the Annual Budget for 2002 that has been delivered to Agent and Agent shall adhere to in the performance of its duties under this Agreement. Preliminary and final budgets will be due 120 and 75 days, respectively, prior to commencement of the calendar year to which they relate, except for the first year of this Agreement, when preliminary budgets will be delivered to Owner by November ~ and final budgets will be delivered to Owner by December 1st. Such budgets shall be prepared on both an accrual basis and a cash basis showing a month-by-month projection of income and expenses and capital expenditures and contain all necessary supporting data, including bids for capital items. Such budgets shall be subject to Owner's approval.

(a) Agent shall meet, at Agent's expense, with Owner at the Premises or Owner's office, not less frequently than semi-annually, to review the operations of the Premises, to review and, if appropriate, revise in light of actual experience the operating and capital improvement budgets theretofore

approved by Owner as hereinafter provided and to consider other matters which Owner may raise. One of such meetings each year (the "Budget Meeting") shall be held before the close of the then current calendar year for the purpose of reviewing and approving the operating and capital improvement budgets for the ensuing calendar year.

(b) Upon approval of the operating budget by Owner, and unless and until revoked or revised by Owner, Agent shall have the right, without further consent or approval by Owner to incur and pay the operating expenses set forth in the approved operating budget.

(c) At the request of Owner from time to time Agent shall prepare and submit to Owner (i) operating projections for the Premises for the ensuing five (5) years, such projections to be made on a year-by-year basis and to be based on Agent's best judgment as to the future, taking into consideration known circumstances and circumstances Agent can reasonably anticipate are likely to occur, and (ii) a schedule in reasonable detail of capital improvements, repairs and replacements not provided or in the current capital improvement budget which Agent reasonably anticipates will be required or should be made in the foreseeable future, with Agent's opinion as to the relative priority and cost of each thereof.

2.5 Agent shall bear the full cost and expenses incurred by its home office or regional office personnel in connection with their travel to the Premises to the extent such travel is required by the Agent for the normal supervision of the management and leasing of the Premises.

2.6 Agent agrees to use all reasonable efforts to have the Premises rented to desirable tenants, satisfactory to Owner, considering the nature of the Premises, and in connection therewith:

(a) Negotiate, as the exclusive agent of Owner, all leases and renewals of leases at the appropriate time, it being understood that all inquiries to Owner with respect to leasing any portion of the Premises shall be referred to Agent. All leases, renewals and amendments for lease terms in excess of ninety (90) days must be prepared in accordance with Exhibit C by Agent in accordance with the Annual Budget and be submitted to Owner's representative for execution by Owner. Agent is authorized to negotiate and execute leases with lease terms of one (1) year or less (temporary tenant leases). If Agent shall have or receive a prospective tenant reference from a property other than the Premises in which Agent or any subsidiary or affiliate thereof has a beneficial interest or which Agent or any subsidiary or affiliate thereof manages (other than a property managed by Agent for Owner), Agent shall promptly declare its potential conflict of interest to Owner and Owner shall determine if negotiations with such prospective tenant shall be undertaken by Agent, Owner or a third party approved by Owner. ~gent also is authorized to negotiate and execute on Owner's behalf lease amendments which change a tenant's commencement date by sixty (60) days or less. Notwithstanding the foregoing, Owner acknowledges that the actual negotiation and drafting of lease and lease-related documentation shall be performed by Owner's outside counsel, at Owner's sole cost and expense.

(b) Owner acknowledges and understands that Agent manages properties for third parties, including properties that may be owned by affiliates of Agent or owned by persons, that also own Agent. Owner further acknowledges and understands that Agent routinely and customarily negotiates tenant leases for multiple locations involving two or more properties (one or more of which may be the Premises and one or more of which may be properties owned by others). Agent conducts such multiple location negotiations in good faith for the benefit and interests of Owner and other property owners. Agent shall be entitled to assume that such leasing practices are approved and acceptable to Owner, unless and until Owner specifically disapproves the practice and so notifies Agent.

(c) With Owner's prior approval, advertise the Premises or portions thereof for rent, by means of periodicals, signs, plans, brochures and other means appropriate to the Premises.

(d) In no event shall Agent engage or utilize the services of an outside broker in connection with any lease without Owner's prior written consent. In any case in which Owner requests' or gives such consent, Agent shall cause such broker to enter into a written agreement with Owner, on terms reasonably satisfactory to Owner, with respect to such broker's commission and Owner shall be responsible for the payment of such commission if earned pursuant to the terms of said agreement.

2.7 Agent agrees, for itself and all persons retained or employed by Agent in performing its services, to hold in confidence and not to use or disclose to others any confidential or proprietary information of Owner heretofore or hereafter disclosed to Agent and identified in writing by Owner as confidential or proprietary, including, but not limited to, any financial data, information plans, programs, processes, costs, operations or tenants which may come within the knowledge of Agent in the performance of, or as a result of, its services, except where required by judicial or administrative order, or where Owner specifically authorizes Agent to disclose any of the foregoing to others or such disclosure reasonably results from the performance of Agent's duties hereunder.

2.8 If at any time there shall be insufficient funds available to Agent from collections to pay any obligations of Owner required to be paid under this Agreement, Agent shall promptly notify Owner and Agent shall not be obligated to pay such obligations unless Owner furnishes Agent with funds therefor.

2.9 General Growth Marketing Services ("GGMS"), an unincorporated division of Agent, will direct, under Agent's supervision, the marketing and promotional activities for the Premises, including those set forth in Section 2.1(o). Agent shall cause GGMS to continue to provide such services to the Premises during the terms of this Agreement. Incident to such services, GGMS recommends appropriate staffing to effectively market the Premises and manages the development and execution of the property and marketing plan for the Premises. Owner acknowledges that GGMS may retain, for these services, $35,000.00 per year, payable in equal monthly installments of $2,916.67 per month. Owner additionally acknowledges that GGMS or Center Advertising Agency, an unincorporated division of Agent, may retain the customary trade discounts or rebates incident to its contracting for advertising for the Promotional Organizations, the cost of which advertising is borne by the Promotional Organizations. Moreover, Owner agrees that Agent or GGMS shall additionally be entitled to receive the fee set forth in Exhibit A attached hereto for its services incident to contracting and managing revenue-producing transactions, contracts, ancillary programs, events and activities.

2.10 Except as otherwise provided in this Agreement, Agent assumes no responsibility under this Agreement other than to render the services called for hereunder in good faith and in accordance with the standards required under this Agreement.

2.11 Owner recognizes and understands that Security Services (as hereinafter defined) Are not actions or services that Agent is required to perform under this Agreement and Owner further recognizes and. understands that Agent is not a consultant or a contractor that performs Security Services. Upon Owner's request, Agent agrees to obtain and coordinate for and on behalf of Owner, such Security Services that Owner may request or require in accordance with the Annual Budget and Agent shall be responsible for supervision and enforcement of any such contract. Owner shall reimburse Agent for the costs of professionals should they be retained to perform Security Services. Security Services is defined to be those acts or actions involving the analysis of the existing security operations, including that of staffing levels, training, equipment procurement and use; recommendations regarding proposed staffing levels, training and equipment including recommendation, selection and procurement of third party or proprietary security vendors, and coordination and ongoing administration and monitoring of such third party or proprietary security vendors.

ARTICLE 111
OWNER'S AGREEMENTS

3.1. Owner, at its option, may pay directly all taxes, special assessments, ground rents, insurance premiums and mortgage payments. If Owner makes such election, Agent shall advise Owner of the due dates of such taxes assessments, insurance premiums and mortgage payments. Otherwise, Agent shall make such payments promptly so as to avoid late fees, penalties or other charges

3.2 At Owner's option, Owner shall self-insure or carry insurance upon the Premises and shall look solely to such insurance for indemnity against any loss or damage to the Premises, except to the extent provided in Section 3.3 of this Agreement. Owner shall obtain waivers of subrogation against the Agent under all such policies. Owner shall provide and maintain at Owner's sole cost and expense commercial general liability insurance, including bodily injury, contractual liability (with respect to the indemnity set forth in Section 3.3 hereof) and broad form property damage liability, in connection with the ownership, use and occupancy of the Premises, in the amount of not less that $100,000,000. Agent shall be named in the commercial general liability policies as an additional insured, with a restrictive endorsement, which means Agent is an additional insured with respect to the locations specified in this Agreement only.

3.3 Except as herein expressly provided, Owner agrees to indemnify and save harmless Agent and its shareholders, directors, officers and employees from and against all claims, losses and liabilities resulting from: (I) damage to property or injury to, or death of, persons from any cause whatsoever when Agent's intent is as to carrying out the provisions of this Agreement or acting under the direction of Owner in or about the Premises (ii) claims for personal injury, including but not limited to defamation and false arrest, when Agent IS carrying out the provisions of this Agreement or acting under the direction of Owner, and (iii) claims occasioned by or in connection with or arising out of acts or omissions, other than criminal acts, of the Agent when Agent's intent is as to carrying out the provisions of this Agreement or acting under the direction of Owner and to defend or cause to be defended, at no expense to Agent or such persons, any claim, action or proceeding brought against Agent or such persons or Agent and Owner, jointly or severally, arising out of the foregoing, and to hold Agent and such persons harmless from any judgments loss or settlement on account thereof.

Notwithstanding the foregoing, Owner shall not be responsible for indemnifying or defending Agent and Agent agrees to indemnify and save harmless Owner and its shareholders, directors, officers and employees, from and against claims, losses and liabilities resulting from (i) any acts or omissions that constitute gross negligence, misconduct or fraud on the part of Agent, its employees or contractors, (ii) any acts or omissions that are outside the scope of Agent' S authority or responsibility under this Agreements and (iii) the default by Agent under this Agreement (collectively, clauses (i), (ii) and (iii) are hereinafter referred to as "Agent Indemfliflcati0n Events").

Notwithstanding the foregoing, Agent shall not be responsible for indemnifying or defending Owner in respect of any matter, claim or liability which is covered by any commercial general liability insurance policies carried by Owner and under which Agent is named as an additional insured unless such matter, claim or liability arises from Agent Indemnificati0n Events. In the event of such Agent Indemnification Events, Agent shall indemnify and defend Owner as provided above and shall look to Agent's own insurance, not Owner's policy of insurance in which Agent is named as an additional insured, as the primary insurance with respect to such acts of Agent without right of contribution from Owner's insurance except to the extent Owner has been contribut0~Y negligent. The indemnification obligations of Owner and Agent under this Section 3.3 shall in each case be conditioned upon (a) prompt

notice from the other party after such party learns of any claim or basis therefor which is covered by such indemnity, (b) such party's not taking any steps which would bar Owner or Agent, as the case may be, from obtaining recovery under applicable insurance policies or would prejudice the defense of the claim in question, and (c) such party's taking of all necessary steps which if not taken would result in Owner or Agent, as the case may be, being barred from obtaining recovery under applicable insurance policies or would prejudice the defense of the claim in question. The provisions of this Section 3.3 shall survive the expiration or termination of this Agreement. Owner's liability under this Section 3.3 shall in no event exceed the amount of insurance available to Owner with respect to such liability.

3.4 Owner shall provide such office space on the Premises as may be necessary for Agent to properly perform its functions under this Agreement. Agent shall not be required to pay for utilities, telephone service or rent for the office area on the Premises occupied by Agent. Agent shall have the right to use the fixtures, furniture, furnishings and equipment, if any, which are the property of Owner in said office space. Owner shall also provide space' on the Premises for use as community rooms and information and service centers where the use of such space is determined by Owner to be in the best interest of the Premises- All income derived from the utilization and/or operation of such community rooms and/or information or service centers shall belong to the Owner and all expenses relating thereto shall be borne by Owner.

3.5 Owner agrees, at its own cost and expense, to provide Agent with the information in its possession regarding the rent rolls, and lease profiles of all tenants of the Property, including outparcel tenants and department store tenants. Such profile will include, but not be limited to information regarding rent, charges, key business terms such as termination rights, exclusives, abatements, relocation rights, kiosk restrictions, options to extend, rights of first refusal, recapture rights, cotenancy and operating covenants. Upon receipt of the information, Agent will verify the accuracy of the billing and lease profiles often non-anchor tenants selected by Owner. If such verification results in a finding that such information is incorrect in any material matter, Owner will engage a third party to review and report on the billing of all existing tenants. If such information is not provided to Agent within 30 days of the effective date of this Agreement, Agent may, at its option: (i) without any liability to Agent, rely on the billing methodology used by the Owner and/or previous Agent for Owner; or (ii) retain, at Owner's cost, outside personnel and/or firms to provide said information to Agent, and Agent may rely upon said information as if it were provided by Owner.

3.6 Except as otherwise provided in this Agreement, everything done by Agent in the performance of its obligations under this Agreement and all expenses incurred pursuant hereto shall be for and on behalf of Owner and for its account. Except as otherwise provided herein, all debts and liabilities incurred to third parties in the ordinary course of business of managing the Premises are and shall be obligations of Owner, and Agent shall not be liable for any such obligations by reason of its management, supervision or operation of the Premises for Owner.

ARTICLE IV
COMPENSATION

4.1 In addition to any other compensation provided to be paid to Agent under this Agreement, Owner agrees to pay to Agent as compensation for its management services hereunder, a fee at the rate specified in paragraph 5 of Exhibit A attached hereto. Said fee shall be payable monthly in arrears, on the 10th day of each calendar month, and shall be based on receipts from the preceding calendar month. Agent shall-withdraw said fee from the Bank Account and shall account for same as provided for in Section 2.2 hereof. It is understood that there shall be excluded there from (i) fire loss proceeds, (ii) capital improvements, remodeling and tenant change costs (including any overhead factor payable by Tenants), (iii) amortization for tenant work, (iv) security deposits, and (v) all utility and service charges

and payments not included in the basic rent, received from tenants.

4.2 In recognition that Agent, through its Purchasing Services division acquires furniture and other personal property for the benefit of Owner on attractive terms and/or pricing, Owner agrees to pay Manager a fee equal to the lesser of one-half of the savings achieved and five percent (5%) of the costs of such furniture and personal property (excluding supplies and equipment used primarily in the common areas of the Premises) acquired for the Owner, excluding taxes, licenses, shipping and parking charges.

4.3 For leases secured pursuant to Section' 2.6, Agent shall be entitled to fees and commissions provided in Exhibit A, section 6.

4.4 Agent will utilize electronic data processing as it determines appropriate or necessary in preparing or issuing reports required by this Agreement. Nothing contained in this Agreement shall be construed as obligating Owner without its express consent to reimburse Agent for the cost of electronic data processing reports or services (i) if such reports or services are required by Agent to fulfill any of its obligations under this Agreement or to furnish to Owner in a timely fashion any reports provided for herein, or (ii) if Agent utilizes data processing facilities or services in performing its obligations under this Agreement.

Notwithstanding the foregoing, Owner acknowledges that Agent currently uses MRI DOS for its accounting needs and will be `migrating to JD Edwards Suite of Accounting Products. Any unique software required by Owner to be used at Agent's home office shall be reimbursed by Owner to Agent. In addition, Owner agrees to reimburse Agent for the cost of any computer equipment and software residing at the Premises which is necessary to administer, maintain and communicate data which is required by Owner and Manager. At the termination of this Agreement, such equipment and software will remain the property of Owner.

The following expenses or costs incurred by or on behalf of Agent in connection with the management and leasing of the Premises shall be the sole cost and expense of Agent and shall not be reimbursable by Owner:

(a) cost of gross salary and wages, payroll taxes, insurance, worker's compensation, pension benefits and any other fringe benefits and fringe benefits-related costs of Agent's personnel except such cost pertaining to personnel employed by Agent in accordance with Paragraph 2.1(b) hereof;

(b) general accounting and reporting services, as such services are considered to be within the reasonable scope of Agent's responsibility to Owner;

(c) costs of forms, stationery, ledgers and other supplies and equipment used in Agent's home office or regional home office;

(d) cost or pro rata cost of Agent's standard electronic data processing equipment located at Agent's home or regional offices;

(e) cost or prorata cost of electronic data processing, for data processing provided by computer service companies when provided in lieu of item (d) above;

(f) cost of all related expenses, compensation, salary, bonuses, fringe and fringe-related costs by Agent to Agent's employees, except such costs pertaining to employees employed by. Agent in accordance with Paragraph 2.1(b) hereof;

(g) cost attributable to losses arising from criminal acts or from gross negligence or fraud on the part of Agent's associates or employees;

(h) cost for meals, travel and hotel accommodations for Agent's home office or regional office personnel who travel to and from the Premises or Owner's office, except as provided in Section 2.5;

(I) cost of automobile purchase and/or rental, except if furnished or approved by Owner;

(j) except as otherwise provided in Exhibit A attached hereto, expenses incurred in connection with the leasing of the Premises, it is being understood and agreed, however, that Agent shall be reimbursed for advertising expenses incurred in connection with the leasing of the Premises up to the amount approved in the Annual Budget; and

(k) fees and expenses of consultants and counsel retained without Owner's prior approval.

ARTICLE V
DURATION, TERMINATION, DEFAULT

5.1 This agreement shall become effective on the date hereof, subject to receipt of approval by Owner's lender.

5.2 Subject to earlier termination-as hereinafter provided, this Agreement shall terminate on the first anniversary of the date hereof (the "Initial Term"). At the conclusion of the Initial Term, this Agreement shall be automatically renewed on a year-to-year basis (subject to the termination rights provided in this Agreement) unless either party gives notice to the other of its election not to renew the term of this Agreement for the next and succeeding annual periods. Such notice of termination must be given to the other party at least sixty (60) days (in the case of a termination by Owner) or one hundred eighty (180) days (in the case of a termination by Agent) prior to the expiration of the then-current term of this Agreement. In addition, Owner may terminate this Agreement at any time upon sixty (60) days prior written notice and the Agent may terminate this. Agreement at any time upon ninety (90) days prior written notice.

5.3 AGENT DEFAULT; OWNER TERMINATION: It shall be an Event of Default under this Agreement on the part of Agent if Agent shall default in any material respect in performing any of its obligations under this Agreement and such default shall not be cured within 30 days after written notice thereof is given by Owner to Agent (or, if the default in question is curable but is of such nature that it cannot reasonably be completely cured within such 30-day period, if Agent does not promptly after receiving such notice commence to cure such default and thereafter proceed with reasonable diligence to complete the curing thereof). If an Event of Default by Agent shall occur, Owner shall have the right to terminate this Agreement by written notice given to Agent, and upon the giving of such notice this Agreement and the term hereof shall terminate without any obligation on the part of Owner to make any payments to Agent hereunder except as hereinafter provided.

5.3 (a) If at any time during the term of this Agreement any involuntary petition in bankruptcy or similar proceeding shall be filed against Agent seeking its reorganization, liquidation or appointment of a receiver, trustee or liquidator for it or for all or substantially all of its assets, and such petition shall not be dismissed within 90 days after the filing thereof, or if Agent shall:

(i) apply for or consent in writing to the appointment of a receiver, trustee or liquidator of all or substantially all of its assets;

(ii) file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they become due;

(iii) make a general assignment for the benefit of creditors;

(iv) file a petition or an answer seeking reorganization or an arrangement with creditors or take advantage of any insolvency law; or

(v) file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceedings;

(vi) itself or one of its agents or employees shall engage in any fraud, gross negligence or willful misconduct in the performance of the Agent's duties under this Agreement,

then upon the occurrence of any of the above described events, Owner, at its option, may terminate this Agreement by written notice given to Agent, and upon the giving of such notice this Agreement and the term hereof shall terminate without any obligation on the part of Owner to make any payments to Agent hereunder except as hereinafter provided.

5.3 (b) Owner shall have the additional right to terminate this Agreement on at least 10 days' written notice to Agent if (a) except as otherwise provided in Article VI Agent, without Owner's prior written consent, shall assign or attempt to assign its rights or obligations under this Agreement or subcontract (except for normal service agreements or as otherwise specified in this Agreement) any of the services to be performed by Agent' hereunder or
(b) the premises shall be damaged or destroyed to the extent of 25% or more by fire or other casualty and Owner elects not to restore or repair the premises, or (c) there shall be a condemnation or deed in lieu thereof of 10% or more of the premises.

5.3 (c) This Agreement shall terminate at the election of the Owner upon thirty (30) days written notice to the Agent if the Premises are sold by the Owner to a non-affiliated third party purchaser or automatically if the Premises were acquired by the Owner on foreclosure of a mortgage and are subsequently redeemed. In the event the Premises are sold by the Owner to a non-affiliated third party purchaser and this agreement is `not thereby terminated by the Owner, the Agent shall have the right to terminate this Agreement upon sixty (60) days prior written notice which notice must be given within (90) days after the date such sale is consummated. If the Premises are sold, Agent will not be entitled to any sales commission unless the Agent has been retained by the Owner pursuant to a separate commission arrangement.

5.4 OWNER DEFAULT; AGENT TERMINATION: It shall be an Event of Default under this Agreement on the part of Owner if Owner shall default in any material respect in performing any of its obligations under this Agreement and such default shall not be cured within 30 days after written notice thereof is given by Agent to Owner (or, if the default in question is curable but is of such nature that it cannot reasonably be completely cured within such 30-day period, if Owner does not promptly after receiving such notice commence to cure such default and thereafter proceed with reasonable diligence to complete the curing thereof). If an Event of Default by Owner shall occur, Agent shall have the right to terminate this Agreement by written notice given to Owner, and upon the giving of such notice this Agreement and the term hereof shall terminate and Owner shall remain obligated to make the payments to Agent hereunder as provided in. Section 5.9 hereof.

5.4 (a) If at any time during the term of this Agreement any involuntary petition in bankruptcy or similar proceeding shall be filed against Owner seeking its reorganization, liquidation or appointment of a receiver, trustee or liquidator for it or for all or substantially all of its assets, and such petition shall not be dismissed within 90 days after the filing thereof, or if Owner shall:

(i) apply for or consent in writing to the appointment of a receiver, trustee or liquidator of all or substantially all of its assets; *

(ii) file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they become due;

(iii) make a general assignment for the benefit of creditors;

(iv) file a petition or an answer seeking reorganization or an arrangement with creditors or take advantage of any insolvency law; or

(v) file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceedings; then, upon the occurrence of any such event Agent, at its option, may terminate this Agreement by written notice given to Owner, and upon the giving of such notice this Agreement and the term hereof shall terminate and Owner shall remain obligated to make any accrued payments to Agent hereunder as well as those provided in Section 5.5.

5.4 (b) Agent shall have the additional right to terminate this Agreement on at least sixty (60) days written notice to Owner if at any time Owner assigns this Agreement and its rights and obligations hereunder.

5.5 Upon any termination of this Agreement pursuant to the provisions of this Article V, Owner shall remain obligated to pay to Agent fees and other amounts due to Agent hereunder which accrued prior to the effective date of such termination, as well as the severance costs paid by Agent to all employees of Agent employed on a full time basis at the Premises who are not offered a position of comparable salary and comparable duties by the successor agent of the Premises; such severance costs in accordance with Agent's customary severance policy, but in no event to exceed one week per year of service. Without limiting the foregoing, Agent shall be entitled to leasing commissions in accordance with the terms of this Agreement on all transactions originated during the Term (or any extension or renewal thereof) on documents signed by any tenant and delivered to Owner within four (4) months after the effective date of expiration or earlier termination of the Term, and then subsequently signed by Owner. As evidence of transactions originating during the Term, Agent shall submit to Owner, within twenty (20) days after the effective date or earlier termination of the Term, a list containing names of only those specific prospective tenants from whom Agent has, prior to the effective date of expiration or earlier termination of the Term, received written evidence of interest for space, or whom Agent has shown space at the Premises. Nothing contained in this Section 5.5 shall be deemed to waive, affect or impair (a) Owner's rights to seek recourse against Agent for damages or other relief in the event of the termination of this Agreement by Owner pursuant to Section 5.3 hereof, and (b) Agent's right to seek recourse against Owner for damages or other relief in the event of the termination of this Agreement by Agent pursuant to Section 5.4 hereof.

5.6 Upon the expiration or earlier termination of this Agreement, Agent shall forthwith surrender and deliver to Owner any space in the Premises occupied by Agent and shall make delivery to Owner or to Owner's designee or agent, at Agent's home or regional offices or at its offices at the Premises, of the following:

(a) a final accounting, reflecting the balance of income from and expenses of the Premises as at the date of expiration or termination of this Agreement;

(b) any funds of Owner or tenant security or advance rent deposits, or both, held by Agent with respect to the Premises; and

(c) all records, contracts, leases, ground leases, reciprocal easement agreements, receipts for deposits, unpaid bills, lease summaries, canceled checks, bank statements, paid bills and all other records, papers and documents and any microfilm and/or computer disk of any of the' foregoing which relate to the Premises and the operation, maintenance, management and leasing thereof (but specifically excluding any proprietary software of Agent); all such data, information and documents being at all `times the property of the Owner.

In addition, Agent shall furnish all such information and take all such action as Owner shall reasonably require to effectuate an orderly and systematic termination of Agent's duties and activities under this Agreement.

5.7 The provisions of this Article V shall survive the expiration or termination of this Agreement.

ARTICLE VI
ASSIGNMENT

6.1 Except for a transfer to a "Permissible Transferee", Agent shall not assign its rights or obligations under this Agreement, either directly or by a transfer of stock or voting control either voluntarily or by operation of law. Any assignment or transfer other than to a "Permissible Transferee" shall constitute a breach of this Agreement by Agent and Owner may terminate this Agreement in accordance with Section 5.5. A "Permissible Transferee" shall mean any corporation, partnership, limited liability company, trust or other entity, more than 50% of the outstanding stock of which, or more than 50% interest in which, is owned or controlled by GGPLP L.L.C., GGP Limited Partnership, Bob Michaels, John Bucksbaun, employees of Agent or any combination thereof and (a) has a tangible net worth equal to or greater than thereof Agent on the date of this Agreement and at the time of transfer, (b) employs in comparable positions substantially all of the individuals on whom Owner has relied directly or indirectly for the performance of Agent's duties hereunder and (c) has information, management and reporting systems and national contracts for the purchase of services and goods equal to or better than those of Agent at the time of assignment.

ARTICLE VII
MISCELLANEOUS

7.1 Owner's Representative ("Owners Representative") whose name and address are set forth in paragraph 2 of Exhibit A attached hereto shall be the duly authorized representative of Owner for the purpose of this Agreement. Agent shall be entitled to rely on the verbal or oral instructions of Owner's Representative as the authority of Owner until Agent is instructed in writing as to any change in Owner's Representative. Any statement, notice, recommendation, request, demand, consent of approval under this Agreement shall be in writing and shall be deemed given by Owner when made or given by Owner's Representative or any officer of Owner and delivered personally to an officer of Agent or mailed, addressed to Agent, at his address first above set forth in Exhibit A attached hereto. Either party may, by

notice to the other, designate a different address for the receipt of the aforementioned communications and Owner may, by notice to Agent, from time to time, designate a different Owner's Representative to act as such. All communications mailed by one party to another shall be sent by first class mail, postage prepaid or Express Mail Service or other commercial overnight delivery service, except that notices of default shall be sent by registered or certified mail, return receipt requested, postage prepaid, Express Mail Service or other commercial overnight delivery service with receipt acknowledged in writing. Communications so mailed shall be deemed given or served on the date mailed. Notwithstanding the foregoing, any notice, requests, consent, approvals and other communications, other than notices of default or approvals of Annual Budgets, and other communications, approvals or agreements which are required by the express terms of other provisions of this Agreement to be in writing, may be given by telegram, telephonic communication or orally in person. Agent and Owner shall furnish to the other the names and telephone numbers of one or more persons who can be reached at any time during the term of this Agreement in the event of an emergency.

7.2 Agent shall, at its own expense, qualify to do business and obtain and maintain such licenses as may be required for the performance by Agent of its services.

7.3 Each provision of this Agreement is intended to be severable. If any term or provision hereof shall be determined by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such provision shall be severed from this Agreement and shall not affect the validity of the remainder of this Agreement.

7.4 In the event either of the parties hereto shall institute any action or proceeding against the other party relating to this Agreement, the unsuccessful party in such action or proceeding shall reimburse the successful party for its disbursements incurred in connection therewith and for its reasonable attorney's fees as fixed by the court.

7.5 No consent or waiver, express or implied, by either party hereto or of any breach of default by the other party in the performance by the other of its obligations hereunder shall be valid unless in writing, and no such consent or waiver shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party of the same or any other obligations of such party hereunder. Failure on the part of either party to complain of any act or failure to act of the other party or to declare the other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder. The granting of any consent or approval in any one instance by or on behalf of Owner shall not be construed to waive or limit the need for such consent in any other or subsequent instance.

7.6 The venue of any action or proceeding brought by either party against the other arising out of this Agreement shall, to the extent legally permissible, be in the state in which the Premises are located.

7.7 This Agreement may not be changed or modified except by an agreement in writing executed by each of the parties hereto. This Agreement constitutes all of the understandings and agreements between the parties in connection with the `agency herein created.

7.8 Intentionally Deleted.

7.9 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their permitted successors and assigns, but shall not inure to the benefit of, or be enforceable by, any other person or entity.

7.10 Nothing contained in this Agreement shall be construed as making Owner and Agent partners

or joint venturers or as making either of such parties liable for the debts or obligations of the other, except as in this Agreement is expressly provided.

7.11 This Agreement and the rights of Agent hereunder shall be subject and subordinate to the right of Owner's mortgage lender and mezzanine lender and upon the request of Owner, the Agent shall enter into subordination agreement with Owner's mortgage lender and mezzanine lender containing such terms and conditions as are required by such lenders.

7.12 Agent shall offer employment on a provisional basis to the five (5) employees of the current property manage who are based at the Premises effective on the date of this Agreement on substantially the same terms as they currently employed.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

OWNER:
PARK PLAZA MALL, LLC, A Delaware limited liability company

By: PARK PLAZA 3, LLC, A Delaware limited liability company, it general manager

By: /s/ Anne Zahner

Its: EVP

AGENT:
GENERAL GROWTH MANAGEMENT, INC.

By: /s/ Robert Michaels

Exhibit 23

Independent Auditors' Consent

The Board of Trustees
First Union Real Estate Equity and Mortgage Investments:

We consent to the incorporation by reference in the registration statement Nos. 33-57756, 333-00953 and 333-63547 on Form S-3, No. 333-90107 on Form S-8 and No. 333-88144 on Form S-4 of First Union Real Estate Equity and Mortgage Investments of our reports dated March 28, 2003, with respect to the combined balance sheets of First Union Real Estate Equity and Mortgage Investments and First Union Management, Inc. as of December 31, 2002 and 2001, and the related combined statements of operations, shareholders' equity, and cash flows for the years then ended, and the related financial statement schedule, which reports appear in the December 31, 2002, annual report on Form 10-K of First Union Real Estate Equity and Mortgage Investments.

/s/ KPMG LLP

New York, New York
March 28, 2003

Exhibit 24

FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2002

Power of Attorney - Trustees

Each of the undersigned, a 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 fiscal year ended December 31, 2002 (the "Form 10-K"), does hereby constitute and appoint Neil H. Koenig, with full power of substitution and resubstitution, as 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 attorney and any such substitute.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his hand this 28 day of March, 2003.

/s/ Daniel J. Altobello

Daniel J. Altobello

/s/ Bruce R. Berkowitz

Bruce R. Berkowitz

/s/ Jeffrey B. Citrin

Jeffrey B. Citrin

/s/ Talton R. Embry

Talton R. Embry

EXHIBIT 99.1

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Union Real Estate Equity and Mortgage Investments (the "Company") on Form 10-K for the annual period ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2003

/s/ Neil H. Koenig
---------- Neil H. Koenig
Principal Executive Officer

Date: March 31, 2003

/s/ Neil H. Koenig
---------- Neil H. Koenig
Interim Chief Financial Officer