VORNADO REALTY TRUST
Form 10-K405
March 11, 2002

EXHIBIT INDEX ON PAGE 137

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended: DECEMBER 31, 2001

Or

| | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission File Number: 1-11954

VORNADO REALTY TRUST
(Exact name of Registrant as specified in its charter)

MARYLAND	22-1657560
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
888 SEVENTH AVENUE, NEW YORK, NEW YORK	10019
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number including area code: (212) 894-7000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of beneficial interest, $.04 par value per share	New York Stock Exchange
Series A Convertible Preferred Shares of beneficial interest, no par value	New York Stock Exchange
8.5% Series B Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange
8.5% Series C Cumulative Redeemable Preferred Shares of beneficial interest, no par value	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 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|

The aggregate market value of the voting shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust as reflected in the table in Item 12 of this Form 10-K, at February 1, 2002 was $3,613,111,000.

As of February 1, 2002, there were 103,372,574 of the registrant's common shares of beneficial interest outstanding.

Documents Incorporated By Reference

PART III: Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 29, 2002.

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(1) The Registrant will file a definitive Proxy Statement pursuant to Regulation 14A involving the election of directors with the Securities and Exchange Commission not later than 120 days after December 31, 2001, which is incorporated by reference herein. Information relating to Executive Officers of the Registrant appears on page 53 of this Annual Report on Form 10-K.

FORWARD LOOKING STATEMENTS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "believes", "expects", "anticipates", "estimates", "intends", "plans" or similar expressions in this annual report on form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include, but are not limited to, the following: (a) national, regional and local economic conditions; (b) the continuing impact of the September 11, 2001 terrorist attacks on our tenants and the national, regional and local economies, including, in particular, the New York City and Washington, D.C. metropolitan areas; (c) local conditions such as an oversupply of space or a reduction in demand for real estate in the area; (d) the financial conditions of tenants; (e) competition from other available space; (f) whether tenants consider a property attractive; (g) whether we are able to pass some or all of any increased operating costs we experience through to our tenants; (h) how well we manage our properties; (i) increased interest expense; (j) decreases in market rental rates; (k) the timing and costs associated with property improvements and rentals; (l) changes in taxation or zoning laws; (m) government regulations; (n) our failure to continue to qualify as a real estate investment trust; (o) availability of financing on acceptable terms; (p) potential liability under environmental or other laws or regulations; and (q) general competitive factors.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this annual report on Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K to reflect the occurrence of unanticipated events. Furthermore, many of these factors may be more likely to occur as a result of the September 11, 2001 terrorist attacks.

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PART I

ITEM 1. BUSINESS

THE COMPANY

Vornado Realty Trust is a fully-integrated real estate investment trust ("REIT"). Vornado conducts its business through Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Vornado is the sole general partner of, and owned approximately 79% of the common limited partnership interest in, the Operating Partnership at February 1, 2002. All references to the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

The Company currently owns directly or indirectly:

OFFICE PROPERTIES ("OFFICE"):

(i) all or portions of 73 office properties aggregating approximately 27.2 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia area;

RETAIL PROPERTIES ("RETAIL"):

(ii) 55 shopping center properties in six states and Puerto Rico aggregating approximately 11.3 million square feet, including 1.4 million square feet built by tenants on land leased from the Company;

MERCHANDISE MART PROPERTIES:

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

TEMPERATURE CONTROLLED LOGISTICS:

(iv) a 60% interest in the Vornado/Crescent partnerships that own 89 warehouse facilities nationwide with an aggregate of approximately 445 million cubic feet of refrigerated space leased to AmeriCold Logistics;

OTHER REAL ESTATE INVESTMENTS:

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

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

(vii) a 21.1% interest in The Newkirk Master Limited Partnership which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;

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

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

OBJECTIVES AND STRATEGY

The Company's business objective is to maximize shareholder value. The Company intends to achieve its business objective by continuing to pursue its investment philosophy and executing its operating strategies through:

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;
- Investing in properties in select markets, such as New York City and Washington D.C., where the Company believes there is high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select understored locations such as the New York City metropolitan area;
- Investing in fully integrated operating companies that have a significant real estate component with qualified, experienced operating management and strong growth potential which can benefit from the Company's access to efficient capital;
- Developing/redeveloping the Company's existing properties to increase returns and maximize value; and
- On occasion, providing specialty financing to real estate companies.

The Company expects to finance its growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets.

ACQUISITIONS

On January 1, 2002, the Company acquired the remaining 66% of Charles E. Smith Commercial Realty ("CESCR") it did not previously own. The consideration for the remaining 66% of CESCR was approximately $1,600,000,000, consisting of 15.7 million newly issued Vornado Operating Partnership units (valued at $608,000,000) and acquiring the assets subject to $992,000,000 of debt (66% of CESCR's total debt). CESCR owns and manages 12.9 million square feet of office properties in Washington D.C. and Northern Virginia and manages an additional 5.8 million square feet of office and other commercial properties in the Washington D.C. area.

DISPOSITIONS

In 2001, the Company sold: (i) its 50% interest in 570 Lexington Avenue for $60,000,000 resulting in a gain of $12,445,000, (ii) its leasehold interest in 550/600 Mamaroneck Avenue for $22,500,000 which approximated book value, and (iii) its 80% interest in 52 condominium units of the total 53 units at the Park Laurel residential condominium project in New York resulting in an after tax net gain of $15,657,000.

Further details of the Company's dispositions are disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II of this document.

DEVELOPMENT AND REDEVELOPMENT PROJECTS

The following table sets forth certain information for development/redevelopment projects:

($ in millions)

Projects	Estimated Completion Date	Estimated Project Cost	The Co Y Decem
COMPLETED IN 2001:			
Merchandise Mart:			
Plaza Suites on Main Street, High Point - construction of 433,000 square feet of showrooms .	Fall 2001	$ 37.2	$
Park Laurel (69% interest) - construction and sale of 119,000 square foot residential condominium tower in Manhattan (as of March 1, 2002, 52 of the 53 units have been sold for an aggregate of $139.5)	Fall 2001	109.9	
		$ 147.1	$
IN PROCESS:			
Office:			
New York City:			
Penn Plaza Area:			
435 Seventh Avenue - demolition of existing buildings and the construction of 43,000 square feet of retail space pre-leased to Hennes & Mauritz	Fall 2002	$ 19.9	$
GreenPoint site adjacent to One Penn Plaza - redevelopment of 28,000 square feet of retail space	Spring 2002	12.5	
640 Fifth Avenue - construction of additional 48,000 square feet of office space and redevelopment of existing building	Spring 2003	50.7	
175 Lexington Avenue (50% interest) - construction of a 45,000 square foot building containing approximately 2,300 square feet of commercial space and 42,700 square feet of low income residential housing to be exchanged upon completion for air rights	Spring 2002	7.7	
Merchandise Mart:			
400 North LaSalle, Chicago (85% interest) -			

construction of 378,000 square foot high rise rental apartment complex	Spring 2004	71.2
Wells Kinzie Garage - Chicago (50% interest) - 244,000 square foot parking garage adjacent to 400 North LaSalle	Spring 2002	11.1
Other:		
Fort Lee, New Jersey (75% interest) - construction of a 41-story, 800,000 square foot high rise rental apartment complex	Summer 2002	100.3
		$ 273.4

The above table does not include the capital requirements of Alexander's and Temperature Controlled Logistics which are described in Item 2: Properties.

The Company is also in the pre-development phase of a number of projects including: (i) redevelopment of retail space in the Penn Plaza area, (ii) the redevelopment of retail space in Crystal City, (iii) the redevelopment of the former Bradlees building at 14th Street and Union Square to include office and/or retail space, (iv) the refurbishment of the Hotel Pennsylvania and (v) the construction of an office tower in excess of 1,000,000 square feet at 20 Times Square (70% interest). Further, the Company is reviewing opportunities in connection with New York City's recent approval of a Penn Plaza signage district.

There can be no assurance that the above projects will be commenced or will be successful.

OPERATIONS OF VORNADO OPERATING COMPANY

In October 1998, Vornado Operating Company ("Vornado Operating") was spun off from the Company in order to own assets that the Company could not itself own and conduct activities that the Company could not itself conduct.

The Company and Vornado Operating are parties to certain agreements described below.

REVOLVING CREDIT AGREEMENT

Vornado Operating was granted a $75,000,000 unsecured revolving credit facility from the Company (the "Revolving Credit Agreement") which expires on December 31, 2004. Borrowings under the Revolving Credit Agreement bear interest at LIBOR plus 3%. The Company receives a commitment fee equal to 1% per annum on the average daily unused portion of the facility. No amortization is required to be paid under the Revolving Credit Agreement during its term. The Revolving Credit Agreement prohibits Vornado Operating from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits Vornado Operating from paying dividends. As of December 31, 2001, $31,424,000 was outstanding under the Revolving Credit Agreement.

AGREEMENT WITH VORNADO OPERATING

The Company and Vornado Operating are parties to an Agreement pursuant to which, among other things, (i) the Company will under certain circumstances offer Vornado Operating an opportunity to become the lessee of certain real property owned now or in the future by the Company (under mutually satisfactory lease terms) and (ii) Vornado Operating will not make any real estate investment or other REIT-Qualified Investment unless it first offers the Company the opportunity to make such investment and the Company has rejected that opportunity.

Under the Agreement, the Company provides Vornado Operating with certain administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating compensates the Company in an amount determined in good faith by the Company as the amount an unaffiliated third party would charge Vornado Operating for comparable services and reimburses the Company for certain costs incurred and paid to third parties on behalf of Vornado Operating. Pursuant to the Agreement, compensation for such services was approximately $371,000, $330,000 and $330,000 for the years ended December 31, 2001, 2000 and 1999.

Vornado Operating and the Company each have the right to terminate the Agreement if the other party is in material default of the Agreement or upon 90 days written notice to the other party at any time after December 31, 2003. In addition, the Company has the right to terminate the Agreement upon a change in control of Vornado Operating.

VORNADO OPERATING'S MANAGEMENT

Messrs. Roth, Fascitelli, West and Wight are directors of Vornado Operating. Mr. Roth is also Chairman of the Board and Chief Executive Officer of Vornado Operating, Mr. Fascitelli is also President of Vornado Operating, and certain other members of the Company's senior management hold corresponding positions with Vornado Operating.

TEMPERATURE CONTROLLED LOGISTICS BUSINESS

On March 11, 1999, the Vornado/Crescent Partnerships sold all of the non-real estate assets of Temperature Controlled Logistics encompassing the operations of the temperature controlled business for approximately $48,700,000 to a new partnership ("AmeriCold Logistics") owned 60% by Vornado Operating Company and 40% by Crescent Operating Inc. AmeriCold Logistics leases the underlying temperature controlled warehouses used in this business from the Vornado/Crescent Partnerships ("the Landlord") which continue to own the real estate. The leases, as amended, generally have a 15 year term with two-five year renewal options and provide for the payment of fixed base rent and percentage rent based on revenue AmeriCold Logistics receives from its customers. On February 22, 2001, the Landlord restructured the AmeriCold Logistics leases to, among other things, (i) reduce 2001's contractual rent to $146,000,000, (ii) reduce 2002's contractual rent to $150,000,000 (plus contingent rent in certain circumstances), (iii) increase the Landlord's share of annual maintenance capital expenditures by $4,500,000 to $9,500,000 effective January 1, 2000 and (iv) allow AmeriCold Logistics to defer rent to December 31, 2003 to the extent cash is not available, as defined in the leases, to pay such rent. Based on the Company's policy of recognizing rental income when earned and collection is assured or cash is received, the Company did not recognize $15,281,000 and $8,606,000 of the rent it was due in the years ended December 31, 2001 and 2000. On December 31, 2001, the Landlord released the tenant from its obligation to pay $39,812,000 of deferred rent of which the Company's share was $23,887,000. This amount equals the rent which was not recognized as income by the Company and accordingly had no profit and loss effect to the Company.

Vornado Operating has previously disclosed that its investments are not expected to generate sufficient cash flow to pay all of its expenses for the foreseeable future. As a result, to enable Vornado Operating to meet its cash requirements, the Company anticipates that the leases with Vornado Operating's investee may be restructured to provide additional cash flow and Vornado

Operating's investee may sell non-core assets.

OTHER INVESTMENTS

(amounts in thousands)

The Company's other investments at December 31, 2001 are comprised of:

Other Real Estate Investments:	
Carried at Equity*:	
Starwood Ceruzzi Joint Venture (1)	$ 25,791
The Park Laurel Joint Venture (2)	(4,745)
Consolidated:	
The Palisades Joint Venture (3)	122,000
Student Housing (4)	26,918
	$169,964
Marketable Securities, including $48,758 of Capital Trust, Inc. ("Capital Trust") preferred securities (5)	$126,774
Notes and Mortgage Loans Receivable:	
NorthStar Partnership L.P. (6)	$ 57,641
Primestone Investment Partners, L.P. (7)	106,768
Dearborn Center (8)	21,522
Commonwealth Atlantic Properties, an affiliate of Lazard Freres Real Estate Investors L.L.C. ("CAPI") (9)	41,200
Vornado Operating (see page 7 for further details)	31,424
	$258,555

* The Company does not have unilateral control over key decisions with respect to these partially-owned entities and therefore does not consolidate their operations and financial position and applies the equity method of accounting in accordance with generally accepted accounting principles. The Company includes its share of partially-owned entities debt in reporting its exposure to a change in interest rates under Item 7A "Quantitive and Qualitative Disclosures about Market Risk" and in its ratio of debt-to-enterprise value as disclosed on page 10. See Note 4 - "Investments in Partially-Owned Entities" to the Financial Statements for details by investment.

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(1) STARWOOD CERUZZI JOINT VENTURE

The Starwood Ceruzzi Joint Venture was formed in 2000 by the Company, the 80% non-managing partner, and Starwood Ceruzzi, the 20% managing partner, to acquire fee and leasehold interests in properties formerly occupied by Hechinger Inc., a home improvement retailer which was liquidated. In the first quarter of 2000, the joint venture acquired two fee interests containing 210,000 square feet and four leasehold interests containing 400,000 square feet in properties located in Pennsylvania, Virginia, Maryland and Ohio. One of the fee interests was sold in March, 2001 for

$8,000, resulting in a gain of $1,744 (of which the Company's share was $1,395). The venture is redeveloping the remaining properties for retail use and will net lease them to tenants. The venture has no debt.

(2) PARK LAUREL JOINT VENTURE

The Park Laurel Joint Venture was formed in 1997 to develop a property in Manhattan, consisting of 94,000 square feet to be owned and used by the YMCA and 119,000 square feet of residential condominiums to be sold by the Company and its joint venture partner. Vornado has a 69% interest and shares control with its partners. The total cost of the project was approximately $109,900. In the third and fourth quarters of 2001, the joint venture completed the sale of 52 condominium units of the total 53 units and received proceeds of $139,548. The Company's share of the after tax net gain was $15,657 and is after a charge of $3,953 (net of a tax benefit of $1,826) for awards accrued under the venture's incentive compensation plan. The credit balance at December 31, 2001 is a result of the above mentioned accrual.

(3) THE PALISADES JOINT VENTURE

The Palisades Joint Venture was formed in 1999 to develop an 800,000 square foot high-rise residential tower in Fort Lee, New Jersey. The joint venture agreement provides for the Company to contribute 95% of the equity and receive 75% of the net profit after a 12% preferred return. The estimated total cost of the project is $133,700. Costs incurred to date are $122,000, of which $90,500 has been funded by a construction loan, $30,000 by the Company and $1,500 by the Company's partner. The property is expected to become operational in the Summer of 2002. Upon completion, the complex will include a 41-story residential tower containing 538 apartments and an 800 space parking facility.

(4) STUDENT HOUSING

In January 2000, the Company and its joint venture partner acquired a 252-unit student housing complex in Gainesville, Florida, for approximately $27,000. The Company has a 90% interest in the joint venture.

(5) CAPITAL TRUST PREFERRED SECURITIES

The Company's investment at December 31, 2001 is comprised of (i) approximately $30,000 of 8.25% step-up convertible junior subordinated debentures and (ii) approximately $20,000 of 13% step-up junior subordinated debentures. The blended coupon rate was 10.16% per annum at December 31, 2001. The convertible amount is convertible into shares of Class A common stock of Capital Trust (NYSE:CT) at a conversion price of $7.00 per share. The convertible amount is redeemable by Capital Trust, in whole or in part, on or after September 30, 2004. The non-convertible amount is redeemable by Capital Trust, in whole or in part, at any time. Mr. Roth, the Chairman and Chief Executive Officer of Vornado Realty Trust, is a member of the Board of Directors of Capital Trust nominated by the Company.

(6) LOAN TO NORTHSTAR PARTNERSHIP, L.P.

On September 19, 2000, the Company acquired $75,000 of subordinated unsecured debt of NorthStar Partnership, L.P., a private real estate company, for $65,000. The loan bears interest at 11.5% per annum, requires quarterly principal payments of $2,500 and matures in May 2002. All of the quarterly principal payments have been received by the Company in accordance with the loan agreement with the exception of the payment due on September 28, 2001 which was not received until October 30, 2001.

(7) LOAN TO PRIMESTONE INVESTMENT PARTNERS, L.P.

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

On November 19, 2001 the Company sold, pursuant to a participation agreement with a subsidiary of Cadim inc., a Canadian pension fund, a 50% participation in both loans at par for approximately $50,000 reducing the Company's net investment in the loans at December 31, 2001 to $56,768, including unpaid interest and fees of $6,790. Under the terms of the participation agreement, cash payments received shall be applied (i) first, to the reimbursement of reimbursable out-of-pocket costs and expenses incurred in connection with the servicing, administration or enforcement of the loans after November 19, 2001, (ii) second, to the Company and Cadim pro rata in proportion to the amount of interest and fees owed to them (all of such fees and interest accrued through November 19, 2001 are for the account of Vornado and all of such fees and interest accrued after November 19, 2001 accrue on a 50/50 basis to the Company and Cadim) and (iii) third, 50% to the Company and 50% to Cadim. The Company has agreed that in the event the Company acquires the collateral in a foreclosure proceeding it will, upon the request of Cadim, deliver 50% of such collateral to Cadim.

For financial reporting purposes, the gross amount of the loan, $106,768, is included in "Notes and mortgage loans receivable" and Cadim's 50% participation, $50,000, is reflected in "Other liabilities". The Company did not recognize income on these loans for the period from November 19, 2001 through December 31, 2001, and will not recognize income until such time that cash is received or foreclosure proceedings have been consummated. The Company believes that the value of the collateral and the guarantees is sufficient to cover the carrying amount of the loans receivable including unpaid interest and fees (See Item. 3 - "Legal Proceedings").

(8) DEARBORN CENTER

The Company's investment of $21,522 represents a 38.5% interest in $55,901 funded of a $65,000 mezzanine loan to an entity whose sole asset is Dearborn Center, a 1.5 million square foot high-rise office tower under construction in Chicago. The entity is owned by Prime Group Realty L.P. and another investor. The Company is a member of a loan syndicate led by a money center bank. The proceeds of the loan are being used to finance the construction, and are subordinate to a $225,000 first mortgage. The loan is due January 21, 2004, three years from the date of the initial draw, and provides for a 1 year extension at the borrower's option (assuming net operating income at a specified level and a cash reserve sufficient to fund interest for the extension period). The loan bears interest at 12% per annum plus additional interest ranging from a minimum of 9.5% to a maximum of 13% if certain leasing thresholds are not met.

(9) CAPI

In March 1999, in connection with the Company's acquisition of land under certain of the CESCR office properties from CAPI, the Company made a $41,200 loan to CAPI, which matures in June 2004. Interest on the loan was 8.5% at December 31, 2001. The loan is secured by approximately 1,100,000 units of Vornado Realty, L.P. Series E-1 Convertible Preferred Units (with a liquidation value of $55,000 at December 31, 2001) issued to CAPI in connection with the acquisition. Each Series E-1 Unit is convertible into 1.1364 shares of Vornado Realty Trust.

FINANCING ACTIVITIES

On September 20, 2001, the Company sold an aggregate of $45,000,000 8.25% Series D-9 Cumulative Redeemable Preferred Units to an institutional investor resulting in net proceeds of approximately $43,875,000.

On November 19, 2001, the Company sold 9,775,000 common shares pursuant to an effective registration statement based on the closing price of $40.58 on the NYSE. The net proceeds to the Company were approximately $377,200,000. In connection therewith, the Company repaid the $285,000,000 then outstanding under its revolving credit facility.

On February 25, 2002, the Company sold 884,543 shares to a closed-end fund and 514,200 shares to a unit investment trust based on the closing price of $42.96 on the NYSE. The net proceeds to the Company were approximately $57,042,000.

In addition, the Company completed property level financings of $254,000,000 in 2001.

Further details of the Company's financing activities are disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II of this document.

At December 31, 2001, the ratio of debt-to-enterprise value (market equity value plus debt less cash) was 38% based on debt of $3.6 billion, including the Company's proportionate share of debt of partially-owned non-consolidated entities. In the future, in connection with its strategy for growth, this percentage may change. The Company's policy concerning the incurrence of debt may be reviewed and modified from time to time without the vote of shareholders.

The Company may seek to obtain funds through equity offerings, debt financings or asset sales, although there is no express policy with respect thereto. The Company may offer its shares or Operating Partnership units in exchange for property and may repurchase or otherwise re-acquire its shares or any other securities in the future.

EBITDA BY SEGMENT AND REGION

The following table sets forth the percentage of the Company's EBITDA(1) by segment and region for the years ended December 31, 2001, 2000, and 1999. The proforma column gives effect to the January 1, 2002 acquisition by the Company of the remaining 66% interest in CESCR described previously, as if it had occurred on January 1, 2001.

	PERCENTAGE OF EBITD		
	Years Ended December		
	Proforma	Histo	
	2001	2001	2
SEGMENT			
Office:			
New York	31%	38%	
CESCR	26%	10%	
Total	57%	48%	
Retail	12%	15%	
Merchandise Mart Properties	12%	14%	
Temperature Controlled Logistics	8%	10%	
Other	11%	13%	
	100%	100%	
REGION			
New York City metropolitan area	42%	52%	
Washington D.C./Northern Virginia metropolitan area	26%	11%	
Chicago	9%	11%	
Philadelphia metropolitan area	--	1%	
Puerto Rico	1%	2%	
Other (2)	22%	23%	
	100%	100%	

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(1) EBITDA represents income before interest, taxes, depreciation and amortization, extraordinary or non-recurring items, gains on sales of depreciable real estate, the effect of straight-lining of property rentals for rent escalations and minority interest. Management considers EBITDA a supplemental measure for making decisions and assessing the performance of its segments. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2) Other includes the Temperature Controlled Logistics segment which has warehouse facilities in 33 states and Alberta, Canada. See page 36 for details.

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ALEXANDER'S

The Company owns 33.1% of the outstanding shares of common stock of Alexander's. See "Interstate Properties" below for a description of Interstate's ownership of the Company and Alexander's.

Alexander's has seven properties (see Item 2. Properties--Alexander's).

At December 31, 2001, the Company had loans receivable from Alexander's of $119,000,000, including $24,000,000 drawn under the $50,000,000 line of credit the Company granted to Alexander's on August 1, 2000. The maturity date of the loan and the line of credit were extended to April 15, 2003. The interest rates on the loan and line of credit will reset on March 15, 2002, and quarterly thereafter, using the same spread to treasuries as presently exists with a 3% floor for treasuries.

The Company manages, develops and leases the Alexander's properties under a management and development agreement (the "Management Agreement") and a leasing agreement (the "Leasing Agreement") pursuant to which the Company receives annual fees from Alexander's. These agreements have a one-year term expiring in March of each year and are automatically renewable. See Item 2 - "Properties" for a description of Alexander's properties and development and redevelopment projects.

Alexander's common stock is listed on the New York Stock Exchange under the symbol "ALX".

INTERSTATE PROPERTIES

As of December 31, 2001, Interstate Properties and its partners owned approximately 15.5% of the common shares of beneficial interest of the Company, 27.5% of Alexander's common stock and beneficial ownership of 17.8% of Vornado Operating. Interstate Properties is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the partners. Mr. Roth is the Chairman of the Board and Chief Executive Officer of the Company, the Managing General Partner of Interstate Properties, and the Chief Executive Officer and a director of both Alexander's and Vornado Operating. Mr. Wight is a trustee of the Company and is also a director of both Alexander's and Vornado Operating. Mr. Mandelbaum is a trustee of the Company and is also a director of Alexander's.

COMPETITION

The Company's business segments, Office, Retail, Merchandise Mart Properties, Temperature Controlled Logistics, and Other operate in highly competitive environments. The Company has a large concentration of properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. The Company competes with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location and the quality and breadth of services provided. The Company's success depends upon, among other factors, the trends of the national and local economies, the financial condition and operating results of current and prospective tenants and customers, the availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

ENVIRONMENTAL REGULATIONS

The Company's operations and properties are subject to a variety of environmental laws and regulations in each of the jurisdictions in which it operates governing, among other things, soil and groundwater contamination, the use, handling and disposal of hazardous substances, air emissions, wastewater discharges, and employee health and safety. Under various Federal and state laws and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous substances released at a property and may be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by the parties in connection with the contamination. These laws can impose liability without regard to whether the owner or operator knew of, or caused, the release of such substances. The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. Other Federal, state and local laws and regulations require abatement or removal of asbestos-containing materials that are damaged, decayed or distributed by demolition, renovation or remodeling. The laws also govern emissions of and exposure to asbestos fibers in the air. Air emissions, waste-water discharges, the maintenance and removal of lead paint and certain electrical equipment containing polychlorinated-biphenyls (PCBs), and the operation and subsequent removal of underground storage tanks are also regulated by Federal and state laws. In connection with the ownership, operation and management of its properties, the Company could be held liable for the costs of remedial action with respect to such regulated substances and tanks and related claims for personal injury, property damage or fines.

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

INSURANCE

The Company carries comprehensive liability and all risk property insurance (fire, flood, extended coverage and rental loss insurance) with respect to its assets. The Company's all risk insurance policies in effect before September 11, 2001 included coverage for terrorist acts, except for acts of war. Since September 11, 2001, insurance companies are excluding terrorists acts from coverage in all risk policies. In 2002, the Company has been unable to obtain all risk insurance which includes coverage for terrorists acts for policies it has renewed including the New York City Office portfolio and may not be able to obtain such coverage for any of its other properties in the future. Therefore, the risk of financial loss in the case of terrorist acts is the Company's, which loss could be material.

The Company's debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to the Company) and its revolving credit agreement, contain customary covenants requiring the Company to maintain insurance. There can be no assurance that the lenders under these instruments will not take the position that an exclusion from all risk insurance coverage for losses due to terrorist acts is a breach of these debt instruments that allows the lenders to declare an event of default and accelerate repayment of debt. In addition, if lenders insist on coverage for these risks, it could adversely affect the Company's ability to finance and/or refinance its properties and to expand its portfolio.

CERTAIN ACTIVITIES

Acquisitions and investments are not required to be based on specific allocation by type of property. The Company has historically held its properties for long-term investment; however, it is possible that properties in the portfolio may be sold in whole or in part, as circumstances warrant, from time to time. Further, the Company has not adopted a policy that limits the amount or percentage of assets which would be invested in a specific property. While the

Company may seek the vote of its shareholders in connection with any particular material transaction, generally the Company's activities are reviewed and may be modified from time to time by its Board of Trustees without the vote of shareholders.

EMPLOYEES

The Company has approximately 1,446 employees consisting of 306 in the Office Properties segment (including 210 as a result of the CESCR acquisition), 39 in the Retail Properties segment, 487 in the Merchandise Mart Properties segment, 456 at the Hotel Pennsylvania and 158 corporate staff. This does not include employees of partially-owned entities.

SEGMENT DATA

The Company operates in four business segments: Office Properties, Retail Properties, Merchandise Mart Properties and Temperature Controlled Logistics. The Company engages in no foreign operations other than one temperature controlled warehouse in Canada.

The Company's principal executive offices are located at 888 Seventh Avenue, New York, New York 10019; telephone (212) 894-7000.

ITEM 2. PROPERTIES

The Company currently owns, directly or indirectly, Office properties, Retail properties, Merchandise Mart properties and Temperature Controlled Logistics refrigerated warehouses. The Company also owns or has investments in Alexander's, Hotel Pennsylvania, The Newkirk Master Limited Partnership, and dry warehouses and industrial buildings.

OFFICE

The Company currently owns all or a portion of 73 office properties containing approximately 27.2 million square feet. Of these properties, 22 containing 14.3 million square feet are located in the New York City metropolitan area (primarily Manhattan) (the "New York City Office Properties") and 51 containing 12.9 million square feet are located in the Washington D.C. and Northern Virginia area (the "CESCR Office Properties"). Prior to January 1, 2002, the Company owned a 34% interest in CESCR. On January 1, 2002, the Company acquired the remaining 66% interest.

The following data on pages 13 to 18 covers the New York City Office Properties. The CESCR Office Properties are described on pages 19 to 22.

NEW YORK CITY OFFICE PROPERTIES:

The New York City Office Properties contain: (i) 13,149,000 square feet of office space, (ii) 812,000 square feet of retail space and (iii) 339,000 square feet of garage space (5 garages).

The following table sets forth the percentage of the New York City Office Properties 2001 revenue by tenants' industry:

Industry	Percentage

Publishing	9%
Retail	9%
Media and Entertainment	7%
Legal	6%
Insurance	6%
Government	6%
Finance	5%
Service Contractors	5%
Technology	4%
Apparel	4%
Not-for-Profit	3%
Pharmaceuticals	3%
Advertising	3%
Bank Branches	2%
Other	28%

The Company's New York City Office property lease terms generally range from 5 to 7 years for smaller tenant spaces to as long as 20 years for major tenants. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenant's share of increases in real estate taxes and operating expenses over a base year. Electricity is provided to tenants on a submetered basis or included in rent based on surveys and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction costs of its premises.

No tenant in the office segment accounted for more than 10% of the Company's total revenue. Below is a listing of tenants which accounted for 2% or more of the New York City Office Properties revenues in 2001:

Tenant	Square Feet Leased	2001 Revenues	Percentage
Sterling Winthrop, Inc.............	429,000	$18,088,000	3.4%
VNU Inc............................	515,000	16,967,000	3.2%
The McGraw-Hill Companies, Inc.....	518,000	15,407,000	2.9%
Times Mirror Company...............	519,000	12,311,000	2.3%

The following table sets forth lease expirations as of December 31, 2001, for the New York Office property leases for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet	Ren Tota
2002.....................	198	746,000	5.6%	$ 23,10
2003.....................	105	520,000(1)	3.9%	19,37

2004.....................	122	952,000	7.1%	36,81
2005.....................	109	655,000	4.9%	25,14
2006.....................	99	1,212,000	9.1%	41,06
2007.....................	50	780,000	5.9%	28,46
2008.....................	53	1,127,000	8.5%	37,75
2009.....................	48	591,000	4.4%	21,27
2010.....................	45	1,335,000	10.0%	48,22
2011.....................	26	942,000	7.1%	43,82

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(1) Excludes 492,000 square feet at 909 Third Avenue leased to the U.S. Post Office. The annual escalated rent is $3,271,000 or $6.64 per square foot. The U.S. Post Office has 7 five-year renewal options remaining.

As of February 1, 2002, the occupancy rate of the Company's New York City Office properties was 97%. The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the New York City Office properties at the end of each of the past four years.

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2001..................	14,300,000	97%	$ 35.53
2000..................	14,396,000	96%	$ 32.18
1999..................	14,028,000	95%	$ 30.16
1998..................	12,437,000	91%	$ 28.14

The Company launched PowerSpace flexible shared office space in September 2000. Offices range in size from 80 to 1,200 square feet. Lease terms range from one month to a year. The PowerSpace product line includes individual offices, group rooms and multi-room suites. The following table sets forth the PowerSpace locations in the Company's office buildings and the average occupancy rates for 2001:

Location	Square Feet	Average Occupancy Rate
330 Madison Avenue (commenced operations - 11/15/00)......	75,231	75%
770 Broadway (commenced operations - 2/1/01)........	23,896	50%
909 Third Avenue (commenced operations - 4/1/01)........	17,359	40%

In 2001, 1,636,000 square feet of New York City office space was leased at a weighted average initial rent per square foot of $46.05. The Company's ownership interest in the leased square footage is 1,479,000 square feet at a weighted average initial rent per square foot of $47.05, a 57.6% increase over the weighted average escalated rent per square foot of $29.85 for the expiring leases. Following is the detail by building:

	2001 Leases	
Location	Square Feet	Average Initial Rent Per Square Foot(1)
One Penn Plaza	385,000	$ 54.23
20 Broad Street (60%)	361,000	35.29
330 West 34th Street	166,000	37.62
Two Park Avenue	152,000	53.08
Eleven Penn Plaza	139,000	53.54
150 East 58th Street	98,000	47.31
770 Broadway	51,000	40.00
1740 Broadway	45,000	58.00
595 Madison Avenue	37,000	60.29
909 Third Avenue	30,000	60.00
Two Penn Plaza	27,000	47.31
7 West 34th Street	26,000	28.50
866 UN Plaza	25,000	37.76
40 Fulton Street	24,000	32.41
640 Fifth Avenue	20,000	43.50
Paramus	15,000	19.79
90 Park Avenue	12,000	58.00
330 Madison Avenue (25%)	11,000	53.00
570 Lexington Avenue (50%) (2)	5,000	48.00
550/600 Mamaroneck Avenue (2)	5,000	22.27
888 Seventh Avenue	2,000	52.00
Total	1,636,000	46.05
Vornado's Ownership Interest	1,479,000	47.05

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

(2) These buildings were sold during 2001.

In addition to the office space noted above, the Company leased 38,000 square feet of retail space, primarily on grade, at a weighted average initial rent of $179.34 per square foot. Further, the Company leased 177,000 square feet of new space (first generation space or space which has been vacant for nine months or more) at a weighted average initial rent per square foot of $49.70.

New York City Office Properties

The following table sets forth certain information for the New York City Office Properties owned by the Company as of December 31, 2001.

LOCATION	YEAR ORIGINALLY DEVELOPED OR ACQUIRED	LAND AREA (SQ. FT.)	APPROXIMATE LEASABLE BUILDING SQUARE FEET	NUMBER OF TENANTS
NEW YORK				
MANHATTAN				
One Penn Plaza (3)	1998	128,000	2,502,000	209
Two Penn Plaza	1997	117,000	1,521,000	52
909 Third Avenue (3)	1999	82,000	1,304,000	21
770 Broadway	1998	63,000	1,046,000	9
Eleven Penn Plaza	1997	56,000	1,021,000	57

LOCATION	ANNUALIZED BASE RENT PER SQ. FT. (1)	ANNUALIZED ESCALATED RENT PER SQ. FT. (2)	PERCENT LEASED (1)	PRINCIPAL TENANTS (50,000 SQUARE FEET OR MORE)
NEW YORK				

MANHATTAN				
One Penn Plaza (3)	$ 33.65	$ 36.32	99%	Buck Consultants Cisco Systems First Albany General Motors Acceptance Corp. Kmart (5) Metropolitan Life MWB Leasing Parsons Brinkerhoff Public Service Commission Stone & Webster The United States of America
Two Penn Plaza	30.83	31.83	98%	Compaq Computer Forest Electric Information Builders, Inc. Madison Square Garden McGrawHill Co., Inc. US Healthcare Service
909 Third Avenue (3)	27.97	29.93	99%	Bear Stearns Citibank Fischbein Badillo Forest Laboratories IDG Books Ogilvy Public Relations Shearman & Sterling U.S. Post Office (4)
770 Broadway	30.30	30.92	100%	J. Crew Kmart (5) MTVN Online V.N.U. U.S.A, Inc
Eleven Penn Plaza	31.66	33.60	96%	Crowthers McCall EMC Corp. Executive Office Network Faulkner & Gray Federated Dept Stores General Media Rainbow Media Holdings

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LOCATION	YEAR ORIGINALLY DEVELOPED OR ACQUIRED	LAND AREA (SQ. FT.)	APPROXIMATE LEASABLE BUILDING SQUARE FEET	NUMBER OF TENANTS
Two Park Avenue	1997	44,000	964,000	43

90 Park Avenue	1997	38,000	884,000	25
888 Seventh Avenue (3)	1999	32,000	875,000	43
330 West 34th Street (3)	1998	46,000	634,000	10
1740 Broadway	1997	30,000	563,000	14
150 East 58th Street	1998	21,000	557,000	112
866 United Nations Plaza	1997	90,000	391,000	85
595 Madison (Fuller Building)	1999	13,000	303,000	76
640 Fifth Avenue	1997	22,000	266,000	9
40 Fulton Street	1998	18,000	235,000	24
689 Fifth Avenue	1998	6,000	89,000	8
7 West 34th Street	2000	35,000	425,000	4
715 Lexington Avenue (3)	2001	7,000	36,000	22
330 Madison Avenue (25% Ownership)	1997	33,000	777,000	48

LOCATION	ANNUALIZED BASE RENT PER SQ. FT. (1)	ANNUALIZED ESCALATED RENT PER SQ. FT. (2)	PERCENT LEASED (1)	PRINCIPAL TENANTS (50,000 SQUARE FEET OR MORE)
Two Park Avenue	32.50	32.30	99%	Hartford Insurance Herrick Feinstein Medical Liability Mutual Ins Schiefflin & Somerset Times Mirror Company

				United Way
90 Park Avenue	34.16	40.06	100%	HQ Global Workplace Sterling Winthrop Inc. Warnaco (5)
888 Seventh Avenue (3)	35.86	38.23	92%	Golden Books New Line Realty Soros Fund Kaplan Educational Center The Limited
330 West 34th Street (3)	11.56	18.94	100%	City of New York Props for Today The Bank of NewYork
1740 Broadway	33.35	39.98	100%	Davis & Gilbert Mutual Life Insurance William Douglas McAdams
150 East 58th Street	39.86	41.39	90%	
866 United Nations Plaza	34.45	35.91	98%	Fross Zelnick Mission of Japan The United Nations
595 Madison (Fuller Building)	70.19	72.06	90%	
640 Fifth Avenue	65.57	69.20	94%	Weber Shandwick Worldwide
40 Fulton Street	29.51	29.95	89%	
689 Fifth Avenue	51.96	58.41	74%	
7 West 34th Street	35.27	39.81	100%	Capital Cities Media Health Insurance Plan of NY
715 Lexington Avenue (3)	56.48	56.95	92%	
330 Madison Avenue (25% Ownership)	39.78	40.65	97%	Bank Julius Baer BDO Seidman PowerSpace & Services

LOCATION	YEAR ORIGINALLY DEVELOPED OR ACQUIRED	LAND AREA (SQ. FT.)	APPROXIMATE LEASABLE BUILDING SQUARE FEET	NUMBER OF TENANTS
20 Broad Street (3) (60% Ownership)	1998	20,000	466,000	15

825 Seventh Avenue (50% Ownership)	1996	18,000	165,000	3
NEW JERSEY				
Paramus (3)	1987	148,000	128,000	23
TOTAL OFFICE BUILDINGS		1,067,000	15,152,000	912
VORNADO'S OWNERSHIP INTEREST		1,018,000	14,300,000	

LOCATION	ANNUALIZED BASE RENT PER SQ. FT. (1)	ANNUALIZED ESCALATED RENT PER SQ. FT. (2)	PERCENT LEASED (1)	PRINCIPAL TENANTS (50,000 SQUARE FEET OR MORE)
20 Broad Street (3) (60% Ownership)	33.43	33.81	100%	N.Y. Stock Exchange
825 Seventh Avenue (50% Ownership)	29.32	31.19	100%	Young & Rubicam
NEW JERSEY				
Paramus (3)	18.01	18.59	89%	
TOTAL OFFICE BUILDINGS	$ 33.16	$ 35.53	97%	
VORNADO'S OWNERSHIP INTEREST				

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(1) Represents annualized monthly base rent for tenants excluding rent for leases which had not commenced as of December 31, 2001, which are included in percent leased.

(2) Represents annualized monthly escalated rent for tenants including tenant pass-throughs of operating expenses (exclusive of tenant electricity costs) and real estate taxes.

(3) These properties are 100% ground leased. Below is a summary of the terms:

Location	Lease Expiration/ Option Expiration	Current Annual Rent
One Penn Plaza..............	2023/2098	$ 3,179,000*
909 Third Avenue............	2018/2063	2,650,000
888 Seventh Avenue..........	2067	3,350,000*
330 West 34th Street........	2020/2148	2,924,000*
715 Lexington Avenue........	2023	239,000
20 Broad Street.............	2003/2081	461,000
Paramus.....................	2026	40,000

* Rent during option periods is based on the greater of the rent for the previous period or 6% or 7% of the fair market value of the land.

(4) The U.S. Post Office leases approximately 492,000 square feet at this location at annualized escalated rent per square foot of $6.64.

(5) These tenants have filed for protection under Chapter 11 of the U.S. Bankruptcy Code. To date, Warnaco has rejected a lease for approximately 30,000 square feet at 90 Park Avenue, no other leases have been assumed or rejected.

CHARLES E. SMITH COMMERCIAL REALTY ("CESCR") OFFICE PROPERTIES:

CESCR owns 51 office buildings in the Washington D.C. and Northern Virginia area containing 12.9 million square feet. As of December 31, 2001, 47 percent of CESCR's property portfolio is leased to various agencies of the U.S. government (General Services Administration "GSA").

During 2001, CESCR completed the development of a 398,000 square foot office building at a cost of $72,100,000 in its Skyline Complex leased to the GSA.

CESCR office leases are typically for 3 to 5 year terms, and may provide for extension options at prenegotiated rates. Most leases provide for annual rental escalations throughout the lease term, plus recovery of increases in real estate taxes and certain property operating expenses. Annual rental escalations are typically based upon either fixed percentage increases or the consumer price index. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction costs of its premises.

The following table sets forth the percentage of CESCR's Office properties 2001 revenue by tenants' industry:

Industry	Percentage
United States Government ("GSA")..........	47%
Government Consultants...................	31%
Transportation...........................	4%
Communication............................	3%
Legal....................................	3%
Retail...................................	2%
Real Estate..............................	2%
Business Services........................	2%
Trade Associations.......................	1%
Printing/Publishing......................	1%
Health Services..........................	1%
Other....................................	3%

Below is a listing of tenants which accounted for 2% or more of the CESCR Office properties revenues during 2001:

Tenant	Square Feet Leased	2001 Revenues	Percentage
GSA (105 separate leases)..................	5,277,000	$179,776,000	47.0%
US Airways, Inc............................	340,000	$ 10,807,000	3.2%
Science Applications International Corp.....	377,000	$ 10,258,000	3.0%

The following table sets forth as of December 31, 2001 CESCR lease expirations for each of the next 10 years, assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet	Re Tota
2002.....................	291	2,006,000(1)	16.4%	$ 56,5
2003.....................	240	2,250,000	18.4%	67,0
2004.....................	180	3,127,000	25.6%	87,2
2005.....................	113	1,323,000	10.8%	37,4
2006.....................	97	1,134,000	9.3%	33,7
2007.....................	25	278,000	2.3%	8,0
2008.....................	17	497,000	4.1%	16,3
2009.....................	23	459,000	3.8%	10,9
2010.....................	20	218,000	1.8%	7,0
2011.....................	27	796,000	6.5%	22,1

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(1) Of the square feet expiring in 2002, 1,282,000 square feet has been renewed or is currently in negotiations to be renewed.

Included in the above table are 30 U.S. Patent Trade Office leases expiring from 2002 through 2005 as follows: 182,000 square feet in 2002, 139,000 square feet in 2003, 1,151,000 square feet in 2004 and 394,000 square feet in 2005. The U.S. Patent Trade Office is scheduled to relocate their offices beginning in the second half of 2004. The Company expects that all leases expiring prior to 2004 will be extended or renewed to 2004 or 2005.

As of February 1, 2002, the occupancy rate of the CESCR office portfolio was 95%. The following table sets forth the occupancy rate and the average annual escalated rent per square foot for the CESCR properties at the end of each of the past four years:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2001..................	12,899,000	95%	$ 28.59
2000..................	12,495,000	98%	27.38

1999..................	10,657,000	99%	26.46
1998..................	10,657,000	98%	25.22

In 2001, CESCR leased 1,575,000 square feet of space at a weighted average initial rent per square foot of $31.30, a 22.3% increase over the weighted average escalated rent per square foot of $25.59 for the expiring leases. Following is the detail by building:

Location	Square Feet	Average Initial Rent Per Square Foot(1)
Crystal Mall.....................	675,000	$ 31.40
Courthouse Plaza.................	166,000	28.83
Skyline Place....................	165,000	27.49
Crystal Gateway..................	134,000	31.51
Crystal Square...................	90,000	33.12
Commerce Executive...............	73,000	34.51
1101 17th Street.................	47,000	35.60
Crystal Park.....................	38,000	34.03
Democracy Plaza I................	43,000	36.34
Tysons Dulles....................	25,000	33.84
1919 S. Eads Street..............	24,000	30.65
Crystal Plaza....................	22,000	32.18
Arlington Plaza..................	19,000	26.40
1140 Connecticut Avenue..........	17,000	33.03
1150 17th Street.................	15,000	31.48
1730 M Street....................	14,000	32.21
Skyline Tower....................	8,000	32.78
Total............................	1,575,000	31.30

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

CESCR manages an additional 5.8 million square feet of office and other commercial properties in the Washington D.C. area for third parties.

CESCR Office Properties

The following table sets forth certain information for the CESCR Office Properties as of December 31, 2001.

	YEAR ORIGINALLY	APPROXIMATE LEASABLE	NUMBER

LOCATION	DEVELOPED OR ACQUIRED	NUMBER OF BUILDINGS	BUILDING SQUARE FEET	OF TENANTS
Crystal Mall	1968	4	1,068,000	13
Crystal Plaza	1964-1969	7	1,223,000	123
Crystal Square	1974-1980	4	1,388,000	172
Crystal Gateway	1983-1987	4	1,081,000	99
Crystal Park	1984-1989	5	2,154,000	104
Arlington Plaza	1985	1	174,000	18
1919 S. Eads Street	1990	1	93,000	8
Skyline Place	1973-1984, 2001	7	1,999,000	172
One Skyline Tower	1988	1	477,000	7
Courthouse Plaza (3)	1988-1989	2	609,000	53
1101 17th Street	1963	1	204,000	47
1730 M Street (3)	1963	1	190,000	32
1140 Connecticut Avenue	1966	1	175,000	37

1150 17th Street	1970	1	226,000	31
1750 Pennsylvania Avenue	2000	1	262,000	11
Democracy Plaza I (3)	2000	1	203,000	23
Tysons Dulles	2000	3	474,000	43
Commerce Executive	2000	3	412,000	26
Reston Executive	2000	3	487,000	23
		51	12,899,000	1,042

LOCATION	ANNUALIZED BASE RENT PER SQ. FT. (1)	ANNUALIZED ESCALATED RENT PER SQ. FT. (2)	PERCENT LEASED (1)	PRINCIPAL TENANTS (50,000 SQUARE FEET OR MORE)
Crystal Mall	$ 28.96	$ 29.33	99%	General Services Administration
Crystal Plaza	25.23	25.95	99%	General Services Administration
Crystal Square	28.72	29.69	96%	General Services Administration Lockheed Martin Oblon Spivak
Crystal Gateway	29.44	29.80	96%	Boeing General Services Administration Lockheed Martin Science Applications Int'l Corp.
Crystal Park	29.07	30.81	96%	CESCR Headquarters General Services Administration Techmatics US Airways Headquarters
Arlington Plaza	25.02	25.55	100%	Georgetown University Science Research Analysis

				Corp.
1919 S. Eads Street	30.53	30.70	67%	General Dynamics
Skyline Place	25.04	25.36	88%	Electronic Data Services Science Applications Int'l Corp. Science Research Analysis Corp. General Services Administration
One Skyline Tower	23.27	24.37	99%	General Services Administration Science Research Analysis Corp.
Courthouse Plaza (3)	26.73	28.99	89%	Arlington County
1101 17th Street	32.28	32.93	96%	American Iron and Steel Institute
1730 M Street (3)	27.29	28.62	95%	MHI DC Inc
1140 Connecticut Avenue	30.91	31.21	88%	Michaels & Wishner, P.C.
1150 17th Street	29.34	30.81	97%	American Enterprise Institute Arthur Andersen LLP
1750 Pennsylvania Avenue	34.48	34.69	98%	General Services Administration PA Consulting Group Holdings
Democracy Plaza I (3)	31.41	31.95	100%	Astrolink International
Tysons Dulles	27.81	28.32	94%	Keane Federal Systems, Inc.
Commerce Executive	24.38	26.16	93%	BAE Systems Mission Solutions Concert Management Services
Reston Executive	28.55	28.81	96%	Science Applications Int'l Corp.
	$ 27.71	$ 28.59	95%	

NOTES:

(1) Represents annualized monthly base rent excluding rent for leases which had not commenced as of December 31, 2001, which are included in percent leased.

(2) Represents annualized monthly escalated rent for office properties including tenant pass-throughs of operating expenses (exclusive of tenant

electricity costs) and real estate taxes.

(3) These properties are 100% ground leased with lease terms expiring from 2061 to 2084 and no extension options.

RETAIL

The Company owns 55 shopping center properties of which 52 are strip shopping centers primarily located in the Northeast and Mid-Atlantic states, two are regional malls located in San Juan, Puerto Rico and one, the Green Acres Mall, is a super-regional mall located in Nassau County, Long Island, New York. The Company's shopping centers are generally located on major regional highways in mature, densely populated areas. The Company believes its shopping centers attract consumers from a regional, rather than a neighborhood market place because of their location on regional highways.

The following table sets forth the percentage of the Retail Portfolio rentals by tenants' industry:

Industry	Percentage
Discount Department Stores........	16%
Supermarkets......................	8%
Family Apparel....................	5%
Home Improvement..................	4%
Electronic Stores.................	4%
Restaurants.......................	3%
Women's Apparel...................	3%
Other.............................	57%

As of February 1, 2002, the occupancy rate of the retail properties was 91%. The following tables set forth the occupancy rate and the average annual base rent per square foot (excluding the Green Acres Mall) for the retail properties at the end of each of the past five years.

Year End	Rentable Square Feet	Occupancy Rate	Average Annual Base Rent Per Square Foot
2001..............	11,301,000	91%	$ 11.38
2000..............	11,293,000	92%	11.31
1999..............	10,505,000	92%	10.89
1998..............	10,625,000	92%	10.53
1997..............	10,550,000	91%	9.78

The average annual base rent per square foot for the Green Acres Mall was $13.98 and $13.97 including the anchor tenants, and $35.98 and $35.91 for mall tenants only, at December 31, 2001 and 2000, respectively.

The Company's shopping center lease terms range from 5 years or less in some instances, for smaller tenant spaces to as long as 25 years for major tenants. Leases generally provide for additional rents based on a percentage of tenants' sales and pass through to tenants of the tenants' share of all common area charges (including roof and structure in strip shopping centers, unless it is the tenant's direct responsibility), real estate taxes and insurance costs and certain capital expenditures. Percentage rent accounted for less than 2% of total shopping center revenues in 2001. None of the tenants in the Retail Segment accounted for more than 10% of the Company's total revenues.

Below is a listing of tenants which accounted for 2% or more of the Retail property revenues in 2001:

Tenant	Square Feet Leased	2001 Property Rentals	Percentage
Bradlees, Inc. ("Bradlees")/Stop & Shop Companies, Inc. (Stop & Shop).........	1,485,000	$12,200,000	10.2%
The Home Depot, Inc......................	409,000	5,408,000	4.5%
Wal-Mart/Sam's Wholesale.................	959,000	4,080,000	3.4%
Kohl's...................................	421,000	3,548,000	3.0%
The Gap..................................	104,000	3,248,000	2.7%
The TJX Companies, Inc...................	328,000	3,052,000	2.6%
Staples, Inc.............................	199,000	2,866,000	2.4%
Toys "R" Us/Kids "R" Us..................	330,000	2,840,000	2.4%
Circuit City.............................	157,000	2,498,000	2.1%

In February 2001, Bradlees, which was in Chapter 11, closed all of its stores including the 16 locations it leased from the Company. Three of the former Bradlees leases were assigned and 13 were rejected. Of the 16 locations, the leases for 13 are fully guaranteed (6 of these guarantees expire in 2002) and one is guaranteed as to 70% by Stop & Shop, under a Master Agreement and Guaranty dated May 1, 1992. Stop & Shop is a wholly-owned subsidiary of KoninKlijke Ahold NV (formerly Royal Ahold NV), a leading international food retailer. In addition, Stop & Shop also guarantees four other leases which were rejected in a prior Bradlees bankruptcy (three of which have been assigned). The effectiveness of Stop & Shop's guarantee is not affected by Bradlees' bankruptcy or subsequent lease assignments. Annual property rentals at December 31, 2001, include an aggregate of $4,000,000 of additional rent allocated to the former Bradlees locations in East Brunswick, Jersey City, Middletown, Union and Woodbridge in accordance with the Master Agreement and Guaranty. This rent will be reallocated to other locations guaranteed by Stop & Shop at or prior to the applicable expiration dates of such leases.

The following table sets forth as of December 31, 2001 lease expirations for each of the next 10 years assuming that none of the tenants exercise their renewal options.

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Total Leased Square Feet

2002......................	140	1,054,000	10.3%
2003......................	62	478,000	4.7%
2004......................	85	794,000	7.8%
2005......................	102	532,000	5.2%
2006......................	65	871,000	8.5%
2007......................	97	851,000	8.3%
2008......................	57	392,000	3.8%
2009......................	45	475,000	4.7%
2010......................	30	509,000	5.0%
2011......................	30	818,000	8.0%

In 2001, approximately 417,000 square feet of retail space was leased at a weighted average base rent per square foot of $16.54, a 21.8% increase over the weighted average escalated rent per square foot of $13.58 for the expiring leases. Following is the detail by property:

	2001 Leases	
Location	Square Feet	Average Initial Rent Per Square Foot (1)
Space Leases:		
Waterbury	71,000	$ 14.60
Valley Stream	62,000	30.13
Manalapan	50,000	14.25
Union	35,000	16.25
Kearny	30,000	12.00
Hagerstown	31,000	3.50
Dover	15,000	10.38
Morris Plains	15,000	26.34
Middletown	13,000	12.46
North Plainfield	11,000	13.43
Hanover	11,000	13.57
Delran	10,000	10.00
Jersey City	10,000	18.28
East Hanover	9,000	18.50
Hackensack	7,000	20.00
Dundalk	7,000	15.80
Woodbridge	7,000	19.80
Allentown	5,000	19.80
Bordentown	4,000	12.00
Bethlehem	4,000	11.57
Watchung	3,000	19.08
Bensalem	2,000	15.00
Cherry Hill	2,000	16.00
Towson	2,000	25.62
Marlton	1,000	22.00
Total	417,000	16.54
Land Leases:		
Kearny	3,000	$ 20.00

Towson	7,000	26.00

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

The Company's strip shopping centers are substantially (over 80%) leased to large stores (over 20,000 square feet). Tenants include destination retailers such as discount department stores, supermarkets, home improvements stores, discount apparel stores, membership warehouse clubs and "category killers." Category killers are large stores which offer a complete selection of a category of items (e.g., toys, office supplies, etc.) at low prices, often in a warehouse format. Tenants typically offer basic consumer necessities such as food, health and beauty aids, moderately priced clothing, building materials and home improvement supplies, and compete primarily on the basis of price.

The Company has two regional malls in Puerto Rico, both of which are in the San Juan area. The Montehiedra Mall contains 525,000 square feet and is anchored by Home Depot, Kmart and Marshalls. The Las Catalinas Mall contains 482,000 square feet and is anchored by Kmart and Sears. The Company has a 50% interest in 343,000 square feet of the mall (excludes Sears space).

The Green Acres Mall is a 1.6 million square foot super-regional enclosed shopping mall complex situated in Nassau County, Long Island, New York, approximately one mile east of the borough of Queens, New York. The Green Acres Mall is anchored by four major department stores: three of which, Sears, Roebuck and Co., J.C. Penney Company, Inc. and Federated Department Stores, Inc. ("Federated") doing business as Macy's, are operating and the fourth, also leased to Federated (previously occupied by Stern's), is currently dark, however, Federated continues to pay the rent. The complex also includes The Plaza at Green Acres, a 188,000 square foot strip shopping center which is anchored by Kmart and Waldbaums. Kmart, which filed for protection under Chapter 11 of the U.S. Bankruptcy Code, has announced the closing of this store.

RETAIL PROPERTIES

The following table sets forth certain information for the Retail Properties as of December 31, 2001.

			APPROXIMATE LEASABLE BUILDING SQUARE FOOTAGE					
LOCATION	YEAR ORIGINALLY DEVELOPED OR ACQUIRED	LAND AREA (ACRES)	OWNED/ LEASED BY COMPANY	OWNED BY TENANT ON LAND LEASED FROM COMPANY	NUMBER OF TENANTS	ANNUALIZED BASE RENT PER SQ. FT. (1)	PERCENT LEASED (1)	PRINC TENANTS SQUARE OR MO
NEW JERSEY								
Bordentown	1958	31.2	179,000	--	5	$ 7.16	100%	(2) Shop-Rit

Bricktown	1968	23.9	260,000	3,000	19	10.66	96%	Kohl's Foodrama
Cherry Hill	1964	37.6	231,000	64,000	14	8.94	86%	(2) Shop & B Toys "R"
Delran	1972	17.5	169,000	3,000	6	6.05	100%	Sam's Wh
Dover	1964	19.6	173,000	--	13	7.15	98%	Ames Shop-Rit
East Brunswick	1957	19.2	216,000	10,000	6	14.25	98%	(2) Shoppers T.J. Max Circuit
East Hanover I	1962	24.6	271,000	--	17	11.91	99%	Home Dep Marshall Pathmark Today's
East Hanover II	1979	8.1	91,000	--	9	14.89	46%	
Hackensack	1963	21.3	207,000	60,000	22	16.36	99%	(2) Pathmark Staples
Jersey City	1965	16.7	223,000	3,000	11	13.16	100%	(2) Shop-Rit
Kearny	1959	35.3	39,000	66,000	6	12.35	100%	Pathmark Marshall
Lawnside	1969	16.4	142,000	3,000	3	10.50	100%	Home Dep Drug Emp

LOCATION	YEAR ORIGINALLY DEVELOPED OR ACQUIRED	LAND AREA (ACRES)	APPROXIMATE LEASABLE BUILDING SQUARE FOOTAGE: OWNED/ LEASED BY COMPANY	APPROXIMATE LEASABLE BUILDING SQUARE FOOTAGE: OWNED BY TENANT ON LAND LEASED FROM COMPANY	NUMBER OF TENANTS	ANNUALIZED BASE RENT PER SQ. FT. (1)	PERCENT LEASED (1)	PRINC TENANTS SQUARE OR MO
Lodi	1975	8.7	171,000	--	2	10.52	100%	National Wholes Liquid

Manalapan	1971	26.3	194,000	2,000	5	9.37	83%	(2) Best Buy
Marlton	1973	27.8	173,000	7,000	8	8.46	87%	Kohl's (Shop-Rit
Middletown	1963	22.7	180,000	52,000	20	12.53	96%	(2) Stop & S
Morris Plains	1985	27.0	172,000	1,000	17	11.27	96%	Kohl's Shop-Rit
North Bergen	1959	4.6	7,000	55,000	2	26.00	95%	Waldbaum
North Plainfield(3)	1989	28.7	217,000	--	15	9.25	98%	Kmart (8 Pathmark
Totowa	1957	40.5	178,000	139,000	7	16.91	100%	Bed Bath Home Dep Marshall Circuit
Turnersville	1974	23.3	89,000	7,000	3	5.98	100%	(2)
Union	1962	24.1	264,000	--	12	18.75	99%	(2) Toys "R" Cost Cut
Vineland	1966	28.0	143,000	--	2	4.82	15%	--
Watchung	1959	53.8	50,000	116,000	6	18.57	97%	B.J.'s W
Woodbridge	1959	19.7	233,000	3,000	10	14.59	92%	(2) A&P Syms
NEW YORK								
Albany (Menands)	1965	18.6	141,000	--	2	8.94	74%	Fleet Ba People o State

LOCATION	YEAR ORIGINALLY DEVELOPED OR ACQUIRED	LAND AREA (ACRES)	APPROXIMATE LEASABLE BUILDING SQUARE FOOTAGE: OWNED/ LEASED BY COMPANY	APPROXIMATE LEASABLE BUILDING SQUARE FOOTAGE: OWNED BY TENANT ON LAND LEASED FROM COMPANY	NUMBER OF TENANTS	ANNUALIZED BASE RENT PER SQ. FT. (1)	PERCENT LEASED (1)	PRINC TENANTS SQUARE OR MO
Buffalo	1968	22.7	185,000	112,000	9	9.50	81%	Circuit

(Amherst)(3)								Media Pl Toys "R" T.J. Max
Freeport	1981	12.5	167,000	--	3	13.43	100%	Home Dep Cablevis
New Hyde Park(3)	1976	12.5	101,000	--	1	15.77	100%	Stop & S
North Syracuse	1976	29.4	98,000	--	1	2.74	100%	Reisman Proper
Rochester (Henrietta)(3)	1971	15.0	148,000	--	--	--	0%	
Rochester	1966	18.4	--	--	1	--	100%	Wal*Mart
Valley Stream (Green Acres) (3)	1958	100.0	1,517,000	79,000	142	(5)	99%	Macy's Sterns (JC Penne Sears Kmart (8 Dime Sav Circuit GreenPoi Waldbaum
PENNSYLVANIA								
Allentown	1957	86.8	267,000	354,000	20	10.90	100%	(4) Shop-Rit Burlingt Factor Wal*Mart Sam's Wh T.J. Max
Bensalem	1972	23.2	118,000	8,000	12	9.38	100%	Kohl's(2
Bethlehem	1966	23.0	157,000	3,000	12	5.61	78%	Pathmark Super Pe
Broomall	1966	21.0	146,000	22,000	5	9.75	100%	Giant Fo
Glenolden	1975	10.0	101,000	--	2	17.64	10%	

	APPROXIMATE LEASABLE BUILDING SQUARE FOOTAGE	
YEAR		OWNED BY TENANT