

VORNADO REALTY TRUST  
Form 10-K  
February 23, 2010

**UNITED STATES**

**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, 2009**

**OR**

o **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**  
(State or other jurisdiction of incorporation or  
organization)

**22 1657560**  
(I.R.S. Employer Identification Number)

**888 Seventh Avenue, New York, New York**

**10019**

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(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:

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
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
Cumulative Redeemable Preferred Shares of beneficial interest, no par value:	
8.5% Series B	New York Stock Exchange
8.5% Series C	New York Stock Exchange
7.0% Series E	New York Stock Exchange
6.75% Series F	New York Stock Exchange
6.625% Series G	New York Stock Exchange
6.75% Series H	New York Stock Exchange
6.625% Series I	New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  
 Non-Accelerated Filer (Do not check if smaller reporting company)

Accelerated Filer  
 Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust, was \$7,216,326,000 at June 30, 2009.

As of December 31, 2009, there were 181,214,161 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 13, 2010.

**This Annual Report on Form 10-K omits financial statements required under Rule 3-09 of Regulation S-X, for Toys R Us, Inc. and Lexington Realty Trust. An amendment to this Annual Report on Form 10-K will be filed as promptly as practicable following the availability of such financial statements.**

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(1) These items are omitted in whole or in part because the registrant will file a definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with the Securities and Exchange Commission not later than 120 days after December 31, 2009, portions of which are incorporated by reference herein. See Executive Officers of the Registrant on page 57 of this Annual Report on Form 10-K for information relating to executive officers.

## 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, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. 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 approximates, believes, expects, anticipates, estimates, intends, may or other similar expressions in this Annual Report on Form 10 K. We also note the following forward-looking statements: in the case of our development projects, the estimated completion date, estimated project cost and cost to complete; and estimates of future capital expenditures, common and preferred share dividends and operating partnership distributions. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see Item 1A. Risk Factors in this Annual Report on Form 10-K.

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 occurring after the date of this Annual Report on Form 10-K.

# PART I

## ITEM 1. BUSINESS

### The Company

Vornado Realty Trust ( Vornado ) is a fully integrated real estate investment trust ( REIT ) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership ). Vornado is the sole general partner of, and owned approximately 92.5% of the common limited partnership interest in, the Operating Partnership at December 31, 2009. All references to we, us, our, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On May 14, 2009, our Board of Trustees executed its long-planned management succession strategy and elected Michael D. Fascitelli, as our Chief Executive Officer, succeeding Steven Roth, who continues to serve as Chairman of the Board.

As of December 31, 2009, we own directly or indirectly:

### Office Properties:

(i) all or portions of 28 properties aggregating 16.2 million square feet in the New York City metropolitan area (primarily Manhattan);

(ii) all or portions of 84 properties aggregating 18.6 million square feet in the Washington, DC / Northern Virginia areas;

(iii) a 70% controlling interest in 555 California Street, a three-building complex aggregating 1.8 million square feet in San Francisco's financial district;

### Retail Properties:

(iv) 162 properties aggregating 22.6 million square feet, including 3.9 million square feet owned by tenants on land leased from us, primarily in Manhattan, the northeast states, California and Puerto Rico;



**Merchandise Mart Properties:**

(v) 8 properties aggregating 8.9 million square feet of showroom and office space, including the 3.5 million square foot Merchandise Mart in Chicago;

**Toys R Us, Inc. ( Toys ):**

(vi) a 32.7% interest in Toys which owns and/or operates 1,567 stores worldwide, including 851 stores in the United States and 716 stores internationally;

**Other Real Estate Investments:**

(vii) 32.4% of the common stock of Alexander's, Inc. (NYSE: ALX), which has seven properties in the greater New York metropolitan area;

(viii) the Hotel Pennsylvania in New York City;

(ix) mezzanine loans on real estate; and

(x) other real estate and investments, including marketable securities.

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## Objectives and Strategy

Our business objective is to maximize shareholder value. We intend to achieve this objective by continuing to pursue our investment philosophy and executing our 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, DC, where we believe there is a high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area;
- Investing in fully-integrated operating companies that have a significant real estate component; and
- Developing and redeveloping existing properties to increase returns and maximize value.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets. We may also offer Vornado common or preferred shares or Operating Partnership units in exchange for property and may repurchase or otherwise reacquire our shares or any other securities in the future.

We may also determine to raise capital for future real estate acquisitions through an institutional investment fund. We would serve as the general partner of the fund and would also expect to be a limited partner of the fund and have the potential to earn certain incentives based on the fund's performance. The fund may serve as our exclusive investment vehicle for a limited period of time for all investments that fit within the fund's investment parameters. If we determine to raise capital through a fund, the partnership interests offered would not be registered under the Securities Act of 1933 and could not be offered or sold in the United States absent registration under that act or an applicable exemption from those registration requirements.

## BUSINESS ENVIRONMENT

The economic recession and illiquidity and volatility in the financial and capital markets have negatively affected substantially all businesses, including ours. Demand for office and retail space has declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. Real estate transactions and development opportunities have significantly curtailed and capitalization rates have risen. These trends have negatively impacted our 2008 and 2009 financial results, which include losses associated with abandoned development projects, valuation allowances on

investments in mezzanine loans and impairments on other real estate investments. The details of these non-cash charges are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this annual report on Form 10-K. It is not possible for us to quantify the impact of the above trends, which may continue in 2010 and beyond, on our future financial results.

## **ACQUISITIONS and DISPOSITIONS**

We did not make any significant investments in real estate during 2009.

On September 1, 2009, we sold 1999 K Street, a newly developed 250,000 square foot office building, in Washington's Central Business District, for \$207,800,000 in cash, which resulted in a net gain of \$41,211,000. We also sold 15 retail properties during 2009 in separate transactions for an aggregate of \$55,000,000 in cash, which resulted in net gains aggregating \$4,073,000.

## Financing Activities

In April 2009, we sold 17,250,000 common shares, including underwriters' over-allotment, in an underwritten public offering pursuant to an effective registration statement at an initial public offering price of \$43.00 per share. We received net proceeds of \$710,226,000, after underwriters' discount and offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 17,250,000 Class A units of the Operating Partnership.

On September 30, 2009, we completed a public offering of \$460,000,000 principal amount of 7.875% callable senior unsecured 30-year notes (NYSE: VNOD) due October 1, 2039. The notes were sold to the public at par and may be redeemed at our option, in whole or in part, beginning in October 2014 at a price equal to the principal amount plus accrued and unpaid interest. We received net proceeds of approximately \$446,000,000 from the offering which were used to repay debt and for general corporate purposes.

During 2009, we purchased \$1,912,724,000 (aggregate face amount) of our convertible senior debentures and \$352,740,000 (aggregate face amount) of our senior unsecured notes for \$1,877,510,000 and \$343,694,000 in cash, respectively. This debt was acquired through tender offers and in the open market and has been retired. We also repaid \$650,285,000 of existing property level debt and completed \$277,000,000 of property level financings.

## Development and Redevelopment Projects

We are currently engaged in certain development/redevelopment projects for which we have budgeted approximately \$200,000,000. Of this amount, \$78,118,000 was expended prior to 2009 and \$50,513,000 was expended during 2009. Substantially all of the estimated costs to complete these projects, aggregating approximately \$71,000,000, are anticipated to be expended during 2010, of which approximately \$18,000,000 will be funded by existing construction loans. We are also evaluating other development opportunities for which final plans, budgeted costs and financing have yet to be determined. There can be no assurance that any of our development projects will commence, or if commenced, be completed on schedule or within budget.

## Segment Data

We operate in the following business segments: New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties and Toys. Financial information related to these business segments for the years ended December 31, 2009, 2008 and 2007 are set forth in Note 22 - Segment Information to our consolidated

financial statements in this Annual Report on Form 10-K. The Merchandise Mart Properties segment has trade show operations in Canada and Switzerland. The Toys segment has 716 locations internationally. In addition, we have five partially owned nonconsolidated investments in real estate partnerships located in India, which are included in the Other segment.

## **SEASONALITY**

Our revenues and expenses are subject to seasonality during the year which impacts quarterly net earnings, cash flows and funds from operations, and therefore comparisons of the current quarter to the previous quarter. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income, which we record on a one-quarter lag basis in our first quarter, accounts for more than 80% of its fiscal year net income. The New York and Washington, DC Office Properties and Merchandise Mart Properties segments have historically experienced higher utility costs in the first and third quarters of the year. The Merchandise Mart Properties segment has also experienced higher earnings in the second and fourth quarters of the year due to major trade shows occurring in those quarters. The Retail Properties segment revenue in the fourth quarter is typically higher due to the recognition of percentage rental income.

## **tenants ACCOUNTING FOR over 10% of revenues**

None of our tenants accounted for more than 10% of total revenues in any of the years ended December 31, 2009, 2008 and 2007.

## **Certain Activities**

We are not required to base our acquisitions and investments on specific allocations by type of property. We have historically held our properties for long term investment; however, it is possible that properties in the portfolio may be sold as circumstances warrant. Further, we have not adopted a policy that limits the amount or percentage of assets which could be invested in a specific property or property type. While we may seek the vote of our shareholders in connection with any particular material transaction, generally our activities are reviewed and may be modified from time to time by our Board of Trustees without the vote of shareholders.

## **Employees**

As of December 31, 2009, we have approximately 4,597 employees, of which 308 are corporate staff. The New York Office Properties segment has 128 employees and an additional 2,512 employees of Building Maintenance Services LLC, a wholly owned subsidiary, which provides cleaning, security and engineering services primarily to our New York Office and Washington, DC Office properties. The Washington, DC Office Properties, Retail Properties and Merchandise Mart Properties segments have 396, 176 and 582 employees, respectively, and the Hotel Pennsylvania has 495 employees. The foregoing does not include employees of partially owned entities, including Toys or Alexander's, in which we own 32.7% and 32.4%, respectively.

## **principal executive offices**

Our principal executive offices are located at 888 Seventh Avenue, New York, New York 10019; telephone (212) 894 7000.

## **MATERIALS AVAILABLE ON OUR WEBSITE**

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as Reports on Forms 3, 4 and 5 regarding officers, trustees or 10% beneficial owners of us, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934 are available free of charge through our website ([www.vno.com](http://www.vno.com)) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. Also available on our website are copies of our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website. Copies of these documents are also available directly from us free of charge. Our website also includes other financial information about us, including certain non-GAAP financial measures, none of which is a part of this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

Material factors that may adversely affect our business, operations and financial condition are summarized below.

### **Real Estate Investments Value and Income Fluctuate Due to Various Factors.**

The value of real estate fluctuates depending on conditions in the general economy and the real estate business. These conditions may also limit our revenues and available cash.

The factors that affect the value of our real estate investments include, among other things:

- national, regional and local economic conditions;
- competition from other available space;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- how well we manage our properties;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- whether we are able to pass some or all of any increases in operating costs through to tenants;
- changes in real estate taxes and other expenses;
- whether tenants and users such as customers and shoppers consider a property attractive;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- availability of financing on acceptable terms or at all;
- fluctuations in interest rates;
- our ability to secure adequate insurance;
- changes in taxation;
- changes in zoning laws;



- government regulation;
- consequences of any armed conflict involving, or terrorist attack against, the United States;
- natural disasters;
- potential liability under environmental or other laws or regulations; and
- general competitive factors.

The rents we receive and the occupancy levels at our properties may decline as a result of adverse changes in any of these factors. If rental revenues and/or occupancy levels decline, we generally would expect to have less cash available to pay indebtedness and for distribution to shareholders. In addition, some of our major expenses, including mortgage payments, real estate taxes and maintenance costs, generally do not decline when the related rents decline.

***Capital markets and economic conditions can materially affect our financial condition and results of operations and the value of our debt and equity securities.***

There are many factors that can affect the value of our debt and equity securities, including the state of the capital markets and the economy, which have recently negatively affected substantially all businesses, including ours. Demand for office and retail space has declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. Real estate transactions and development opportunities have significantly curtailed and capitalization rates have risen. As a result, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers, and this may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability and the ability of our tenants, to timely refinance maturing liabilities and access the capital markets to meet liquidity needs which may materially affect our financial condition and results of operations and the value of our debt and equity securities.

***Real estate is a competitive business.***

Our business segments New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties, Toys and Other operate in highly competitive environments. We have a large concentration of properties in the New York City metropolitan area and in the Washington, DC / Northern Virginia areas. We compete with a large number of property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, attractiveness of location, the quality of the property and the breadth and quality of services provided. Our success depends upon, among other factors, trends of the national, regional and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulation, legislation and population trends.

***We depend on leasing space to tenants on economically favorable terms and collecting rent from tenants who may not be able to pay.***

Our financial results depend significantly on leasing space in our properties to tenants on economically favorable terms. In addition, because a substantial majority of our income comes from renting of real property, our income, funds available to pay indebtedness and funds available for distribution to shareholders will decrease if a significant number of our tenants cannot pay their rent or if we are not able to maintain occupancy levels on favorable terms. If a tenant does not pay its rent, we may not be able to enforce our rights as landlord without delays and may incur substantial legal costs. During periods of economic adversity such as we are currently experiencing, there may be an increase in the number of tenants that cannot pay their rent and an increase in vacancy rates.

***Bankruptcy or insolvency of tenants may decrease our revenues and available cash.***

From time to time, some of our tenants have declared bankruptcy, and other tenants may declare bankruptcy or become insolvent in the future. In the case of our shopping centers, the bankruptcy or insolvency of a major tenant could cause us to suffer lower revenues and operational difficulties, including leasing the remainder of the property. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of net income and funds available for the payment of indebtedness or for distribution to shareholders. The current economic environment and market conditions may result in tenant bankruptcies and write-offs, which could, in the aggregate, be material to our results of operations in a particular period.

***We may incur costs to comply with environmental laws.***

Our operations and properties are subject to various federal, state and local laws and regulations concerning the protection of the environment, including air and water quality, hazardous or toxic substances and health and safety. Under some environmental laws, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property. The owner or operator may also 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 those parties because of the contamination. These laws often impose liability without regard to whether the owner or operator knew of the release of the substances or caused the release. The presence of contamination or the failure to remediate contamination may impair our ability to sell or lease real estate or to borrow

using the real estate as collateral. Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) and underground storage tanks are also regulated by federal and state laws. We are also subject to risks associated with human exposure to chemical or biological contaminants such as molds, pollens, viruses and bacteria which, above certain levels, can be alleged to be connected to allergic or other health effects and symptoms in susceptible individuals. We could incur fines for environmental compliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or tanks or related claims arising out of environmental contamination or human exposure to contamination at or from our properties.

Each of our properties has been subject to varying degrees of environmental assessment. The environmental assessments did not, as of this date, reveal any environmental condition material to our business. However, identification of new compliance concerns or undiscovered areas of contamination, changes in the extent or known scope of contamination, discovery of additional sites, human exposure to the contamination or changes in clean-up or compliance requirements could result in significant costs to us.

***Inflation or deflation may adversely affect our financial condition and results of operations.***

Although neither inflation nor deflation has materially impacted our operations in the recent past, increased inflation could have a pronounced negative impact on our mortgages and interest rates and general and administrative expenses, as these costs could increase at a rate higher than our rents. Inflation could also have an adverse effect on consumer spending which could impact our tenants' sales and, in turn, our percentage rents, where applicable. Conversely, deflation could lead to downward pressure on rents and other sources of income. In addition, we own 9 residential properties which are leased to tenants with one-year lease terms. Because these are short-term leases, declines in market rents will impact our residential properties faster than if the leases were for longer terms.

***Some of our potential losses may not be covered by insurance.***

We maintain general liability insurance with limits of \$300,000,000 per occurrence and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, including coverage for terrorist acts, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of \$150,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, and a \$150,000,000 annual aggregate.

Penn Plaza Insurance Company, LLC ( PPIC ), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of our earthquake insurance coverage and as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological ( NBCR ) acts, as defined by TRIPRA. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. Our coverage for NBCR losses is up to \$2 billion per occurrence, for which PPIC is responsible for a deductible of \$3,200,000 and 15% of the balance of a covered loss and the Federal government is responsible for the remaining 85% of a covered loss. We are ultimately responsible for any loss borne by PPIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years.

Our debt instruments, consisting of mortgage loans secured by our properties which are non-recourse to us, senior unsecured notes, exchangeable senior debentures, convertible senior debentures and revolving credit agreements, contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

***Because we operate a hotel, we face the risks associated with the hospitality industry.***

We own and operate the Hotel Pennsylvania in New York City. The following factors, among others, are common to the hotel industry and may reduce the revenues generated by the hotel, which would reduce cash available for distribution to our shareholders:

- our hotel competes for guests with other hotels, a number of which have greater marketing and financial resources;
- if there is an increase in operating costs resulting from inflation and other factors, we may not be able to offset such increase by increasing room rates;
- our hotel is subject to the fluctuating and seasonal demands of business travelers and tourism;
- our hotel is subject to general and local economic and social conditions that may affect demand for travel in general, including war and terrorism; and
- physical condition, which may require substantial additional capital.

***Because of the ownership structure of the Hotel Pennsylvania, we face potential adverse effects from changes to the applicable tax laws.***

Under the Internal Revenue Code, REITs like us are not allowed to operate hotels directly or indirectly. Accordingly, we lease the Hotel Pennsylvania to our taxable REIT subsidiary ( TRS ). While the TRS structure allows the economic benefits of ownership to flow to us, the TRS is subject to tax on its income from the operations of the hotel at the federal and state level. In addition, the TRS is subject to detailed tax regulations that affect how it may be capitalized and operated. If the tax laws applicable to a TRS are modified, we may be forced to modify the structure for owning the hotel, and such changes may adversely affect the cash flows from the hotel. In addition, the Internal Revenue Service, the United States Treasury Department and Congress frequently review federal income tax legislation, and we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any of such actions may prospectively or retroactively modify the tax treatment of the TRS and, therefore, may adversely affect our after-tax returns from the hotel.

***Compliance or failure to comply with the Americans with Disabilities Act or other safety regulations and requirements could result in substantial costs.***

The Americans with Disabilities Act generally requires that public buildings, including our properties, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. From time to time persons have asserted claims against us with respect to some of our properties under this Act, but to date such claims have not resulted in any material expense or liability. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations, as well as the amount of cash available for distribution to shareholders.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

**Our Investments Are Concentrated in the New York CITY METROPOLITAN AREA and Washington, DC / NORTHERN VIRGINIA Areas. Circumstances Affecting These Areas Generally Could Adversely Affect Our Business.**

***A significant portion of our properties are in the New York City / New Jersey metropolitan areas and Washington, DC / Northern Virginia areas are affected by the economic cycles and risks inherent to those areas.***

During 2009, approximately 75% of our EBITDA, excluding items that affect comparability, came from properties located in the New York City / New Jersey metropolitan areas and the Washington, DC / Northern Virginia areas. We may continue to concentrate a significant portion of our future acquisitions in these areas or in other geographic real estate markets in the United States or abroad. Real estate markets are subject to economic downturns, as they are currently and have been in the past, and we cannot predict how economic conditions will impact these markets in both the short and long term. Declines in the economy or a decline in the real estate markets in these areas could hurt our financial performance and the value of our properties. The factors affecting economic conditions in these regions include:

- financial performance and productivity of the publishing, advertising, financial, technology, retail, insurance and real estate industries;
- space needs of the United States Government, including the effect of base closures and repositioning under the Defense Base Closure and Realignment Act of 2005, as amended;

- business layoffs or downsizing;
- industry slowdowns;
- relocations of businesses;
- changing demographics;
- increased telecommuting and use of alternative work places;
- infrastructure quality; and
- any oversupply of, or reduced demand for, real estate.

It is impossible for us to assess with certainty, the future effects of the current adverse trends in the economic and investment climates of the geographic areas in which we concentrate, and more generally of the United States, or the real estate markets in these areas. If these conditions persist or if there is any further local, national or global economic downturn, our businesses and future profitability will be adversely affected.

***Terrorist attacks, such as those of September 11, 2001 in New York City and the Washington, DC area, may adversely affect the value of our properties and our ability to generate cash flow.***

We have significant investments in large metropolitan areas, including the New York, Washington, DC, Chicago, Boston and San Francisco metropolitan areas. In the aftermath of a terrorist attack, tenants in these areas may choose to relocate their businesses to less populated, lower-profile areas of the United States that may be perceived to be less likely targets of future terrorist activity and fewer customers may choose to patronize businesses in these areas. This, in turn, would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease space on less favorable terms. As a result, the value of our properties and the level of our revenues and cash flows could decline materially.

**We May Acquire or Sell Additional Assets or Entities or Develop Additional Properties. Our Failure or Inability to Consummate These Transactions or Manage the Results of These Transactions Could Adversely Affect Our Operations and Financial Results.**

*We have grown rapidly since 1998 through acquisitions. We may not be able to maintain this rapid growth and our failure to do so could adversely affect our stock price.*

We have experienced rapid growth since 1998, increasing our total assets from approximately \$4.4 billion at December 31, 1998 to approximately \$20.2 billion at December 31, 2009. We may not be able to maintain a similar rate of growth in the future or manage growth effectively. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to pay dividends to shareholders.

*We may acquire or develop properties or acquire other real estate related companies and this may create risks.*

We may acquire or develop properties or acquire other real estate related companies when we believe that an acquisition or development is consistent with our business strategies. We may not, however, succeed in consummating desired acquisitions or in completing developments on time or within budget. In addition, we may face competition in pursuing acquisition or development opportunities that could increase our costs. When we do pursue a project or acquisition, we may not succeed in leasing newly developed or acquired properties at rents sufficient to cover our costs of acquisition and development or in operating the businesses we acquired. Difficulties in integrating acquisitions may prove costly or time-consuming and could divert management's attention. Acquisitions or developments in new markets or industries where we do not have the same level of market knowledge may result in poorer than anticipated performance. We may also abandon acquisition or development opportunities that we have begun pursuing and consequently fail to recover expenses already incurred and have devoted management time to a matter not consummated. Furthermore, acquisitions of new properties or companies will expose us to the liabilities of those properties or companies, some of which we may not be aware at the time of acquisition. In addition, development of our existing properties presents similar risks.

*From time to time we have made, and in the future we may seek to make, one or more material acquisitions. The announcement of such a material acquisition may result in a rapid and significant decline in the price of our common shares.*

We are continuously looking at material transactions that we will believe will maximize shareholder value. However, an announcement by us of one or more significant acquisitions could result in a quick and significant decline in the price of our common shares and convertible and exchangeable securities.

*It may be difficult to buy and sell real estate quickly.*



Real estate investments are relatively difficult to buy and sell quickly. Consequently, we may have limited ability to vary our portfolio promptly in response to changes in economic or other conditions.

***We may not be permitted to dispose of certain properties or pay down the debt associated with those properties when we might otherwise desire to do so without incurring additional costs.***

As part of an acquisition of a property, including our January 1, 2002 acquisition of Charles E. Smith Commercial Realty L.P.'s 13.0 million square foot portfolio, we may agree, and in the case of Charles E. Smith Commercial Realty L.P. did agree, with the seller that we will not dispose of the acquired properties or reduce the mortgage indebtedness on them for a period of 12 years, unless we pay certain of the resulting tax costs of the seller. These agreements could result in us holding on to properties that we would otherwise sell and not pay down or refinance indebtedness that we would otherwise pay down or refinance.

***On January 1, 2002, we completed the acquisition of the 66% interest in Charles E. Smith Commercial Realty L.P. that we did not previously own. The terms of the merger restrict our ability to sell or otherwise dispose of, or to finance or refinance, the properties formerly owned by Charles E. Smith Commercial Realty L.P., which could result in our inability to sell these properties at an opportune time and increase costs to us.***

As indicated above, subject to limited exceptions, we are restricted from selling or otherwise transferring or disposing of certain properties located in the Crystal City area of Arlington, Virginia for a period of 12 years. These restrictions, which currently cover approximately 13.0 million square feet of space, could result in our inability to sell these properties at an opportune time and increase costs to us.

***From time to time we make investments in companies over which we do not have sole control. Some of these companies operate in industries that differ from our current operations, with different risks than investing in real estate.***

From time to time we make debt or equity investments in other companies that we may not control or over which we may not have sole control. These investments include but are not limited to, Alexander's, Inc., Toys R Us, Lexington Realty Trust, and equity and mezzanine investments in other entities that have significant real estate assets. Although these businesses generally have a significant real estate component, some of them operate in businesses that are different from our primary lines of business including, without limitation, operating or managing toy stores and department stores. Consequently, investments in these businesses, among other risks, subjects us to the operating and financial risks of industries other than real estate and to the risk that we do not have sole control over the operations of these businesses. From time to time we may make additional investments in or acquire other entities that may subject us to additional similar risks. Investments in entities over which we do not have sole control, including joint ventures, present additional risks such as having differing objectives than our partners or the entities in which we invest, or becoming involved in disputes, or competing with those persons. In addition, we rely on the internal controls and financial reporting controls of these entities and their failure to comply with applicable standards may adversely affect us.

***We are subject to risks that affect the general retail environment.***

A substantial portion of our properties are in the retail shopping center real estate market and we have a significant investment in retailers such as Toys. See *Our investment in Toys subjects us to risks different from our other lines of business and may result in increased seasonality and volatility in our reported earnings* below. This means that we are subject to factors that affect the retail environment generally, including the level of consumer spending and consumer confidence, the threat of terrorism and increasing competition from discount retailers, outlet malls, retail websites and catalog companies. These factors could adversely affect the financial condition of our retail tenants and the retailers in which we hold an investment and the willingness of retailers to lease space in our shopping centers, and in turn, adversely affect us.

***We depend upon our anchor tenants to attract shoppers.***

We own several regional malls and other shopping centers that are typically anchored by well-known department stores and other tenants who generate shopping traffic at the mall or shopping center. The value of our properties would be adversely affected if tenants or anchors failed to meet their contractual obligations, sought concessions in order to continue operations or ceased their operations, including as a result of bankruptcy. If the sales of stores operating in our properties were to decline significantly due to economic conditions, closing of anchors or for other reasons, tenants may be unable to pay their minimum rents or expense recovery charges. In the event of a default by a tenant or anchor, we may experience delays and costs in enforcing our rights as landlord.

***Our investment in Toys subjects us to risks that are different from our other lines of business and may result in increased seasonality and volatility in our reported earnings.***

On July 21, 2005, a joint venture that we own equally with Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys. Because Toys is a retailer, its operations subject us to the risks of a retail company that are different than those presented by our other lines of business. The business of Toys is highly seasonal. Historically, Toys fourth quarter net income accounts for more than 80% of its fiscal year net income. In addition, our fiscal year ends on December 31 whereas, as is common for retailers, Toys' fiscal year ends on the Saturday nearest to January 31. Therefore, we record our pro-rata share of Toys' net earnings on a one-quarter lag basis. For example, our financial results for the year ended December 31, 2009 include Toys' financial results for its first, second and third quarters ended October 31, 2009, as well as Toys' fourth quarter results of 2008. Because of the seasonality of Toys, our reported net income shows increased volatility. We may also, in the future and from time to time, invest in other businesses that may report financial results that are more volatile than our historical financial results.

***Our decision to dispose of real estate assets would change the holding period assumption in our valuation analyses, which could result in material impairment losses and adversely affect our financial results.***

We evaluate real estate assets for impairment based on the projected cash flow of the asset over our anticipated holding period. If we change our intended holding period, due to our intention to sell or otherwise dispose of an asset, then under generally accepted accounting principles we must reevaluate whether that asset is impaired. Depending on the carrying value of the property at the time we change our intention and the amount that we estimate we would receive on disposal, we may record an impairment loss that would adversely affect our financial results. This loss could be material to our results of operations in the period that it is recognized.

*We invest in subordinated or mezzanine debt of certain entities that have significant real estate assets. These investments involve greater risk of loss than investments in senior mortgage loans.*

We invest, and may in the future invest, in subordinated or mezzanine debt of certain entities that have significant real estate assets. These investments, which are subordinate to the mortgage loans secured by the real property, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. These investments involve greater risk of loss than investments in senior mortgage loans which are secured by real property. If a borrower defaults on debt to us or on debt senior to us, or declares bankruptcy, we may not be able to recover some or all of our investment. In addition, there may be significant delays and costs associated with the process of foreclosing on collateral securing or supporting these investments. The value of the assets securing or supporting our investments could deteriorate over time due to factors beyond our control, including acts or omissions by owners, changes in business, economic or market conditions, or foreclosure. Such deteriorations in value may result in the recognition of impairment losses and/or valuation allowances on our statements of income. As of December 31, 2009, our mezzanine debt securities have an aggregate carrying amount of \$203,286,000, net of a \$190,738,000 valuation allowance.

We evaluate the collectibility of both interest and principal of each of our loans each quarter, if circumstances warrant, in determining whether they are impaired. A loan is impaired when based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if repayment of the loan is collateral dependent. There can be no assurance that our estimates of collectible amounts will not change over time or that they will be representative of the amounts we will actually collect, including amounts we would collect if we chose to sell these investments before their maturity. If we collect less than our estimates, we will record impairment losses which could be material.

*We invest in marketable equity securities of companies that have significant real estate assets. The value of these investments may decline as a result of operating performance or economic or market conditions.*

We invest, and may in the future invest, in marketable equity securities of publicly-traded real estate companies or companies that have significant real estate assets. As of December 31, 2009, our marketable securities have an aggregate carrying amount of \$380,652,000. Significant declines in the value of these investments due to operating performance or economic or market conditions may result in the recognition of impairment losses which could be material.

## **Our Organizational and Financial Structure Gives Rise to Operational and Financial Risks.**

*We May Not Be Able to Obtain Capital to Make Investments.*

We depend primarily on external financing to fund the growth of our business. This is because one of the requirements of the Internal Revenue Code of 1986, as amended, for a REIT is that it distributes 90% of its net taxable income, excluding net capital gains, to its shareholders. There is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof. Our access to debt or equity financing depends on the willingness of third parties to lend or make equity investments and on conditions in the capital markets generally. As a result of the current capital markets and environmental conditions referred to above, we and other companies in the real estate industry are currently experiencing limited availability of financing and there can be no assurances as to when more financing will be available. Although we believe that we will be able to finance any investments we may wish to make in the foreseeable future, new financing may not be available on acceptable terms.

For information about our available sources of funds, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and the notes to the consolidated financial statements in this Annual Report on Form 10-K.

***Vornado Realty Trust depends on dividends and distributions from its direct and indirect subsidiaries. The creditors and preferred security holders of these subsidiaries are entitled to amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or distributions to Vornado Realty Trust.***

Substantially all of Vornado Realty Trust's assets are held through its Operating Partnership that holds substantially all of its properties and assets through subsidiaries. The Operating Partnership's cash flow is dependent on cash distributions to it by its subsidiaries, and in turn, substantially all of Vornado Realty Trust's cash flow is dependent on cash distributions to it by the Operating Partnership. The creditors of each of Vornado Realty Trust's direct and indirect subsidiaries are entitled to payment of that subsidiary's obligations to them, when due and payable, before distributions may be made by that subsidiary to its equity holders. Thus, the Operating Partnership's ability to make distributions to holders of its units depends on its subsidiaries' ability first to satisfy their obligations to their creditors and then to make distributions to the Operating Partnership. Likewise, Vornado Realty Trust's ability to pay dividends to holders of common and preferred shares depends on the Operating Partnership's ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to Vornado Realty Trust.

Furthermore, the holders of preferred units of the Operating Partnership are entitled to receive preferred distributions before payment of distributions to holders of Class A units of the Operating Partnership, including Vornado Realty Trust. Thus, Vornado Realty Trust's ability to pay cash dividends to its shareholders and satisfy its debt obligations depends on the Operating Partnership's ability first to satisfy its obligations to its creditors and make distributions to holders of its preferred units and then to holders of its Class A units, including Vornado Realty Trust. As of December 31, 2009, there were seven series of preferred units of the Operating Partnership not held by Vornado Realty Trust with a total liquidation value of \$340,078,000.

In addition, Vornado Realty Trust's participation in any distribution of the assets of any of its direct or indirect subsidiaries upon the liquidation, reorganization or insolvency, is only after the claims of the creditors, including trade creditors and preferred security holders, are satisfied.

***We have outstanding debt, and it and its cost may increase and refinancing may not be available on acceptable terms.***

As of December 31, 2009, we had approximately \$14.1 billion of total debt outstanding, including our pro rata share of debt of partially owned entities. Our ratio of total debt to total enterprise value was approximately 47%. When we say "enterprise value" in the preceding sentence, we mean market equity value of Vornado Realty Trust's common and preferred shares plus total debt outstanding, including our pro rata share of debt of partially owned entities. In the future, we may incur additional debt to finance acquisitions or property developments and thus increase our ratio of total debt to total enterprise value. If our level of indebtedness increases, there may be an increased risk of a credit rating downgrade or a default on our obligations that could adversely affect our financial condition and results of operations. In addition, in a rising interest rate environment, the cost of existing variable rate debt and any new debt or other market rate security or instrument may increase. Furthermore, we may not be able to refinance existing indebtedness in sufficient amounts or on acceptable terms.

***Covenants in our debt instruments could adversely affect our financial condition and our acquisitions and development activities.***

The mortgages on our properties contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. Our unsecured credit facilities, unsecured debt securities and other loans that we may obtain in the future contain, or may contain, customary restrictions, requirements and other limitations on our ability to incur indebtedness, including covenants that limit our ability to incur debt based upon the level of our ratio of total debt to total assets, our ratio of secured debt to total assets, our ratio of EBITDA to interest expense, and fixed charges, and that require us to maintain a certain level of unencumbered assets to unsecured debt. Our ability to borrow is subject to compliance with these and other covenants. In addition, failure to comply with our covenants could cause a default under the applicable debt instrument, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or may be available only on unattractive terms.

We rely on debt financing, including borrowings under our unsecured credit facilities, issuances of unsecured debt securities and debt secured by individual properties, to finance acquisitions and development activities and for working capital. If we are unable to obtain debt financing from these or other sources, or refinance existing indebtedness upon maturity, our financial condition and results of operations would likely be adversely affected. If we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, can take possession of the property securing the defaulted loan.

***Vornado Realty Trust may fail to qualify or remain qualified as a REIT and may be required to pay income taxes at corporate rates.***

Although we believe that we will remain organized and will continue to operate so as to qualify as a REIT for federal income tax purposes, we may fail to remain qualified in this way. Qualification as a REIT for federal income tax purposes is governed by highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations. Our qualification as a REIT also depends on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualifying as a REIT.

If, with respect to any taxable year, we fail to maintain our qualification as a REIT and do not qualify under statutory relief provisions, we could not deduct distributions to shareholders in computing our taxable income and would have to pay federal income tax on our taxable income at regular corporate rates. The federal income tax payable would include any applicable alternative minimum tax. If we had to pay federal income tax, the amount of money available to distribute to shareholders and pay our indebtedness would be reduced for the year or years involved, and we would no longer be required to make distributions to shareholders. In addition, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, unless we were entitled to relief under the relevant statutory provisions. Although we currently intend to operate in a manner designed to allow us to qualify as a REIT, future economic, market, legal, tax or other considerations may cause us to revoke the REIT election or fail to qualify as a REIT.

***We face possible adverse changes in tax laws, which may result in an increase in our tax liability.***

From time to time changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for payment of dividends.

***Loss of our key personnel could harm our operations and adversely affect the value of our common shares.***

We are dependent on the efforts of Steven Roth, the Chairman of the Board of Trustees of Vornado Realty Trust, and Michael D. Fascitelli, the President and Chief Executive Officer of Vornado Realty Trust. While we believe that we could find replacements for these key personnel, the loss of their services could harm our operations and adversely affect the value of our common shares.

***Vornado Realty Trust's charter documents and applicable law may hinder any attempt to acquire us.***



***Our Amended and Restated Declaration of Trust sets limits on the ownership of our shares.***

Generally, for Vornado Realty Trust to maintain its qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the outstanding shares of beneficial interest of Vornado Realty Trust may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of Vornado Realty Trust's taxable year. The Internal Revenue Code defines "individuals" for purposes of the requirement described in the preceding sentence to include some types of entities. Under Vornado Realty Trust's Amended and Restated Declaration of Trust, as amended, no person may own more than 6.7% of the outstanding common shares of any class, or 9.9% of the outstanding preferred shares of any class, with some exceptions for persons who held common shares in excess of the 6.7% limit before Vornado Realty Trust adopted the limit and other persons approved by Vornado Realty Trust's Board of Trustees. These restrictions on transferability and ownership may delay, deter or prevent a change in control of Vornado Realty Trust or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. We refer to Vornado Realty Trust's Amended and Restated Declaration of Trust, as amended, as the declaration of trust.

***We have a classified Board of Trustees and that may reduce the likelihood of certain takeover transactions.***

Vornado Realty Trust's Board of Trustees is divided into three classes of trustees. Trustees of each class are chosen for three-year staggered terms. Staggered terms of trustees may reduce the possibility of a tender offer or an attempt to change control of Vornado Realty Trust, even though a tender offer or change in control might be in the best interest of Vornado Realty Trust's shareholders.

***We may issue additional shares in a manner that could adversely affect the likelihood of certain takeover transactions.***

Vornado Realty Trust's declaration of trust authorizes the Board of Trustees to:

- cause Vornado Realty Trust to issue additional authorized but unissued common shares or preferred shares;
- classify or reclassify, in one or more series, any unissued preferred shares;
- set the preferences, rights and other terms of any classified or reclassified shares that Vornado Realty Trust issues; and
- increase, without shareholder approval, the number of shares of beneficial interest that Vornado Realty Trust may issue.

The Board of Trustees could establish a series of preferred shares whose terms could delay, deter or prevent a change in control of Vornado Realty Trust or other transaction that might involve a premium price or otherwise be in the best interest of Vornado Realty Trust's shareholders, although the Board of Trustees does not now intend to establish a series of preferred shares of this kind. Vornado Realty Trust's declaration of trust and bylaws contain other provisions that may delay, deter or prevent a change in control of Vornado Realty Trust or other transaction that might involve a premium price or otherwise be in the best interest of our shareholders.

***The Maryland General Corporation Law contains provisions that may reduce the likelihood of certain takeover transactions.***

Under the Maryland General Corporation Law, as amended, which we refer to as the MGCL, as applicable to REITs, certain business combinations, including certain mergers, consolidations, share exchanges and asset transfers and certain issuances and reclassifications of equity securities, between a Maryland REIT and any person who beneficially owns ten percent or more of the voting power of the trust's shares or an affiliate or an associate, as defined in the MGCL, of the trust who, at any time within the two-year period before the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting shares of beneficial interest of the trust, which we refer to as an interested shareholder, or an affiliate of the interested shareholder, are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. After that five-year period, any business combination of these kinds must be recommended by the board of trustees of the trust and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding voting shares of beneficial interest of the trust and (b) two-thirds of the votes entitled to be cast by holders of voting shares of beneficial interest of the trust other than shares held by the interested shareholder with whom, or with whose affiliate, the business combination is to be effected or held by an affiliate or associate of the interested shareholder. These supermajority voting requirements do not apply if the trust's common shareholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares.

The provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of trustees of the applicable trust before the interested shareholder becomes an interested shareholder, and a person is not an interested shareholder if the board of trustees approved in advance the transaction by which the person otherwise would have become an interested shareholder.

In approving a transaction, the Board may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the Board. Vornado Realty Trust's Board has adopted a resolution exempting any business combination between any trustee or officer of Vornado Realty Trust, or their affiliates, and Vornado Realty Trust. As a result, the trustees and officers of Vornado Realty Trust and their affiliates may be able to enter into business combinations with Vornado Realty Trust that may not be in the best interest of its shareholders. With respect to business combinations with other persons, the business combination provisions of the MGCL may have the effect of delaying, deferring or preventing a change in control of Vornado Realty Trust or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. The business combination statute may discourage others from trying to acquire control of Vornado Realty Trust and increase the difficulty of consummating any offer.

***We may change our policies without obtaining the approval of our shareholders.***

Our operating and financial policies, including our policies with respect to acquisitions of real estate or other companies, growth, operations, indebtedness, capitalization and dividends, are exclusively determined by our Board of Trustees. Accordingly, our shareholders do not control these policies.

## **Our Ownership Structure and Related-Party Transactions May Give Rise to Conflicts of Interest.**

*Steven Roth and Interstate Properties may exercise substantial influence over us. They and some of our other trustees and officers have interests or positions in other entities that may compete with us.*

As of December 31, 2009, Interstate Properties, a New Jersey general partnership, and its partners owned approximately 7.3% of the common shares of Vornado Realty Trust and approximately 27.2% of the common stock of Alexander's, Inc. (Alexander's), which is described below. Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the three partners of Interstate Properties. Mr. Roth is the Chairman of the Board of Vornado Realty Trust, the managing general partner of Interstate Properties and the Chairman of the Board and Chief Executive Officer of Alexander's. Messrs. Wight and Mandelbaum are trustees of Vornado Realty Trust and also directors of Alexander's.

Because of these overlapping interests, Mr. Roth and Interstate Properties and its partners may have substantial influence over Vornado Realty Trust and on the outcome of any matters submitted to Vornado Realty Trust shareholders for approval. In addition, certain decisions concerning our operations or financial structure may present conflicts of interest among Messrs. Roth, Mandelbaum and Wight and Interstate Properties and our other equity or debt holders. In addition, Mr. Roth, Interstate Properties and its partners, and Alexander's currently and may in the future engage in a wide variety of activities in the real estate business which may result in conflicts of interest with respect to matters affecting us, such as which of these entities or persons, if any, may take advantage of potential business opportunities, the business focus of these entities, the types of properties and geographic locations in which these entities make investments, potential competition between business activities conducted, or sought to be conducted, competition for properties and tenants, possible corporate transactions such as acquisitions and other strategic decisions affecting the future of these entities.

Vornado Realty Trust currently manages and leases the real estate assets of Interstate Properties under a management agreement for which it receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on 60 days' notice at the end of the term. Vornado Realty Trust earned \$782,000, \$803,000, and \$800,000 of management fees under the management agreement for the years ended December 31, 2009, 2008 and 2007. Because of the relationship among Vornado Realty Trust, Interstate Properties and Messrs. Roth, Mandelbaum and Wight, as described above, the terms of the management agreement and any future agreements between Vornado Realty Trust and Interstate Properties may not be comparable to those Vornado Realty Trust could have negotiated with an unaffiliated third party.

*There may be conflicts of interest between Alexander's and us.*

As of December 31, 2009, the Operating Partnership owned 32.4% of the outstanding common stock of Alexander's. Alexander's is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander's has seven properties, which are located in the greater New York metropolitan area. In addition to the 32.4% that they own indirectly through Vornado, Interstate Properties, which is described above, and its partners owned 27.2% of the

outstanding common stock of Alexander's as of December 31, 2009. Mr. Roth is the Chairman of the Board of Vornado Realty Trust, the managing general partner of Interstate, and the Chairman of the Board and Chief Executive Officer of Alexander's. Messrs. Wight and Mandelbaum are trustees of Vornado Realty Trust and also directors of Alexander's and general partners of Interstate. Michael D. Fascitelli is the President and Chief Executive Officer of Vornado Realty Trust and the President of Alexander's and Dr. Richard West is a trustee of Vornado and a director of Alexander's. In addition, Joseph Macnow, our Executive Vice President and Chief Financial Officer, holds the same position with Alexander's. Alexander's common stock is listed on the New York Stock Exchange under the symbol ALX.

The Operating Partnership manages, develops and leases the Alexander's properties under management and development agreements and leasing agreements under which the Operating Partnership receives annual fees from Alexander's. These agreements have a one-year term expiring in March of each year and are all automatically renewable. Because Vornado Realty Trust and Alexander's share common senior management and because certain of the trustees of Vornado Realty Trust constitute a majority of the directors of Alexander's, the terms of the foregoing agreements and any future agreements between us and Alexander's may not be comparable to those we could have negotiated with an unaffiliated third party.

For a description of Interstate Properties' ownership of Vornado Realty Trust and Alexander's, see Steven Roth and Interstate Properties may exercise substantial influence over us. They and some of our other trustees and officers have interests or positions in other entities that may compete with us above.

**The Number of Shares of Vornado Realty Trust and the Market for Those Shares Give Rise to Various Risks.**

*The trading price of our common shares has recently been volatile and may fluctuate.*

The trading price of our common shares has recently been volatile and may continue to fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common shares. Among the factors that could affect the price of our common shares are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- the reputation of REITs and real estate investments generally and the attractiveness of REIT equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities;
- continued uncertainty and volatility in the equity and credit markets;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our securities or those of other real estate investment trusts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- the extent of institutional interest in us;
- the extent of short-selling of our common shares and the shares of our competitors;
- fluctuations in the stock price and operating results of our competitors;
- general financial and economic market conditions and, in particular, developments related to market conditions for real estate investment trusts and other real estate related companies; and
- domestic and international economic factors unrelated to our performance.

A significant decline in our stock price could result in substantial losses for shareholders.

***Vornado Realty Trust has many shares available for future sale, which could hurt the market price of its shares.***

As of December 31, 2009, we had authorized but unissued, 68,785,839 common shares of beneficial interest, \$.04 par value and 76,047,676 preferred shares of beneficial interest, no par value; of which 34,058,475 common shares are reserved for issuance upon redemption of Class A Operating Partnership units, convertible securities and employee stock options and 8,000,000 preferred shares are reserved for issuance upon redemption of preferred Operating Partnership units. Any shares not reserved may be issued from time to time in public or private offerings or in connection with acquisitions. In addition, common and preferred shares reserved may be sold upon issuance in the public market after registration under the Securities Act or under Rule 144 under the Securities Act or other available exemptions from registration. We cannot predict the effect that future sales of our common and preferred shares or Operating Partnership Class A and preferred units will have on the market prices of our outstanding shares.

***Increased market interest rates may hurt the value of Vornado Realty Trust's common and preferred shares.***

We believe that investors consider the distribution rate on REIT shares, expressed as a percentage of the price of the shares, relative to market interest rates as an important factor in deciding whether to buy or sell the shares. If market interest rates go up, prospective purchasers of REIT shares may expect a higher distribution rate. Higher interest rates would likely increase our borrowing costs and might decrease funds available for distribution. Thus, higher market interest rates could cause the market price of Vornado Realty Trust's common and preferred shares to decline.

**Item 1b.    unresolved staff comments**

There are no unresolved comments from the staff of the Securities Exchange Commission as of the date of this Annual Report on Form 10-K.

**Item 2.    Properties**

We operate in five business segments: New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties and Toys R Us ( Toys ). The following pages provide details of our real estate properties.



**Item 2. Properties - continued**

Property	Ownership %	Occupancy %	Annualized Rent PSF (1)	Square Feet		Undeveloped (in thousands)	Encumbrances (in thousands)	Major Tenants
				In Service Owned by Company	Out of Service Owned By Tenants			
<b>NEW YORK OFFICE:</b>								
<b>New York City:</b>								
<b>Penn Plaza:</b>								
One Penn Plaza (ground leased through 2098)	100.0%	95.6%	\$ 2,446,000	1,446,000	-	\$ -	-	BMG Columbia House, Buck Consultants, Cisco, Kmart, MWB Leasing, Parsons Brinkerhoff, United Health Care, United States Customs Department
Two Penn Plaza	100.0%	98.5%	\$ 4,577,000	1,577,000	-	\$ -	-	282,492 LMW Associates, EMC, Forest Electric, IBI, Madison Square Garden, McGraw-Hill Co., Inc.
Eleven Penn Plaza	100.0%	95.5%	\$ 5,065,000	1,065,000	-	\$ -	-	203,198 Macy's, Madison Square Garden, Rainbow Media Holdings
100 West 33rd Street	100.0%	92.4%	\$ 478,846,000	846,000	-	\$ -	-	159,361 Bank of America, Draft FCB
330 West 34th Street (ground leased through 2148)	100.0%	99.2%	\$ 346,637,000	637,000	-	\$ -	-	City of New York, Interieurs Inc., The Bank of New York
Total Penn Plaza		96.2%	\$ 4,571,000	1,571,000	-	\$ -	-	645,051
<b>East Side:</b>								
909 Third Avenue	100.0%	92.9%	\$ 583,323,000	323,000	-	\$ -	-	210,660 J.P. Morgan Securities Inc., Citibank, Forest Laboratories,

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(ground leased through 2063)							Geller & Company, Morrison Cohen LLP, Robeco USA Inc., United States Post Office, Ogilvy Public Relations, The Procter & Gamble Distributing LLC.
150 East 58th Street	100.0%	94.6%	56,526,000	536,000	-	-	- Castle Harlan, Tournesol Realty LLC. (Peter Marino), Various showroom tenants
Total East Side		93.4%	57,859,000	1,859,000	-	-	210,660
<b>West Side:</b>							
888 Seventh Avenue	100.0%	95.2%	77,857,000	857,000	-	-	318,554 Kaplan Management LLC, New Line Realty, Soros Fund, TPG-Axon Capital, Vornado Executive Headquarters
(ground leased through 2067)							
1740 Broadway	100.0%	99.3%	58,597,000	597,000	-	-	- Davis & Gilbert, Limited Brands, Dept. of Taxation of the State of N.Y.
57th Street	50.0%	91.9%	46,189,000	189,000	-	-	29,000 Various
825 Seventh Avenue	50.0%	100.0%	45,165,000	165,000	-	-	20,773 Young & Rubicam
Total West Side		96.6%	65,808,000	1,808,000	-	-	368,327
<b>Park Avenue:</b>							
350 Park Avenue	100.0%	95.3%	73,551,000	551,000	-	-	430,000 Tweedy Browne Company, M&T Bank, Veronis Suhler & Associates, Ziff Brothers Investment Inc., Kissinger Associates, Inc.
<b>Grand Central:</b>							
90 Park Avenue	100.0%	98.3%	57,992,000	902,000	-	-	- Alston & Bird, Amster, Rothstein & Ebenstein, First Manhattan Consulting,

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						Sanofi-Synthelabo Inc., STWB Inc.
330 Madison Avenue	25.0%	87.7%	517,951,000	794,000	-	- 150,000
						Acordia Northeast Inc., Artio Global Management, BDO Seidman, Dean Witter Reynolds Inc., HSBC Bank AFS
Total Grand Central		93.4%	5,696,000	1,696,000	-	- 150,000

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**Item 2. Properties - continued**

Property	Ownership	Occupancy	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					In Service Owned By	Owned By			
NEW YORK OFFICE (Continued):									
10 Fifth avenue	100.0%	82.4%	\$ 77.04	322,000	322,000	-	-\$	-	- ROC Capital Management LP, Citibank N.A., Fidelity Investments, Hennes & Mauritz, Janus Capital Group Inc., GSL Enterprises Inc., Scout Capital Management, Legg Mason Investment Counsel
105 Madison avenue	100.0%	92.7%	67.70	313,000	313,000	-	-	-	- Beauvais Carpets, Coach, Levin Capital Strategies LP, Prada, Cosmetech Mably Int'l LLC.
189 Fifth avenue	100.0%	98.9%	66.59	88,000	88,000	-	-	-	- Elizabeth Arden, Red Door Salons, Zara, Yamaha Artis Services Inc.
Total Madison/Fifth		88.9%	71.73	723,000	723,000	-	-	-	

<b>United Nations:</b>								
56 United Nations Plaza	100.0%	98.1%	54.44	357,000	357,000	-	-	44,978 Fross Zelnick, Mission of Japan, The United Nations, Mission of Finland
<b>Downtown South:</b>								
70 Broadway	100.0%	99.8%	52.32	1,059,000	1,059,000	-	-	353,000 AOL, J. Crew, Kmart, Structure Tone, VIACOM International Inc., Nielsen Company (US) Inc.
<b>Rockefeller Center:</b>								
290 Avenue of the Americas	70.0%	95.8%	59.49	2,065,000	2,065,000	-	-	434,643 AXA Equitable Life Insurance Bank of New York Mellon, Broadpoint Gleacher Securities Group, Bryan Cave LLP, Microsoft Corporation, Morrison & Foerster LLP, Warner Music Group, Cushman & Wakefield, Fitzpatrick, Cella, Harper & Scinto
<b>Downtown:</b>								
0 Broad Street	100.0%	92.1%	49.38	472,000	472,000	-	-	- New York Stock Exchange
(ground leased through 2081)								

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0 Fulton Street	100.0%	79.7%	40.00	244,000	244,000	-	-	- PBA/Health and Welfare Fund
0-42 Thompson Street	100.0%	87.7%	45.94	28,000	28,000	-	-	- Crown Management
Total Downtown		87.9%	46.18	744,000	744,000	-	-	-
Total New York City		95.2%	55.17	17,433,000	17,433,000	-	-	2,636,659
New Jersey Paramus		91.5%	20.31	132,000	132,000	-	-	- Vornado's Administrative Headquarters
Total New York City Office		<b>95.2%</b>	<b>55.00</b>	<b>17,565,000</b>	<b>17,565,000</b>	-	<b>-\$</b>	<b>2,636,659</b>
Vornado's Ownership Interest		<b>95.5%</b>	<b>55.00</b>	<b>16,173,000</b>	<b>16,173,000</b>	-	<b>-\$</b>	<b>2,368,880</b>

## Item 2. Properties - continued

Property	% Ownership	% Occupancy	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					In Service Owned by Company	Owned By Tenant			
WASHINGTON OFFICE: Crystal City: 11-2451 Crystal Drive - 5 buildings	100.0%	96.9%	\$ 39.10	2,288,000	2,288,000	-	-\$	130,711	General Services Administration, Lockheed Martin Conservation International, Boeing, Smithsonian Institution, Natl. Consumer Coop. Bank, Archstone Trust Council on Foundations, Vornado / Charles E. Smith Divisional Headquarters, KBR, General Dynamics, Scitex Corp., Food Marketing Institute
Clark Street / H Street - 5 buildings	100.0%	98.1%	39.18	1,507,000	1,507,000	-	-	149,014	General Services Administration, SAIC, Inc., Boeing, L-3 Communication, The Int'l Justice Mission
150-1750 Crystal Drive / 1-251 18th Street - 4 buildings	100.0%	93.6%	37.98	1,477,000	1,477,000	-	-	173,861	General Services Administration,  Alion Science & Technologies, Booz Allen,

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									SAIC, Inc., Arete Associates L-3 Communications Battelle Memorial Institute
00, 1851 and 01 South Bell Street - 3 buildings	100.0%	96.9%	34.46	868,000	868,000	-	-	19,339	General Services Administration,  Lockheed Martin
00 / 2200 Crystal Drive - 2 buildings	100.0%	100.0%	31.54	529,000	529,000	-	-	-	General Services Administration,  Public Broadcasting Service
3 23rd Street / 21 South Clark Street - 2 buildings	100.0%	87.7%	35.09	306,000	218,000	-	88,000	-	General Services Administration
01 Jefferson Davis Highway	100.0%	80.2%	33.99	162,000	162,000	-	-	-	Arena Stage, Institute for Psychology, Qinetiq North America
Crystal City shops at 2100	100.0%	63.0%	41.06	81,000	81,000	-	-	-	Various
Crystal Drive Retail	100.0%	88.5%	43.23	57,000	57,000	-	-	-	Various
Crystal City	100.0%	95.6%	37.57	7,275,000	7,187,000	-	88,000	472,925	
<b>Central Business District:</b>									
Arner Building 299 Pennsylvania Avenue, NW	100.0%	99.9%	64.90	604,000	604,000	-	-	292,700	Howrey LLP, Baker Botts, LL  General Electric
Universal Buildings	100.0%	98.9%	44.03	613,000	613,000	-	-	106,629	Academy for Educational Development



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1825-1875 Connecticut avenue, NW - 2 buildings									
9 3rd Street, V	100.0%	98.5%	40.63	388,000	388,000	-	-	-	General Service Administration
50 Pennsylvania avenue, NW	100.0%	95.7%	43.27	256,000	256,000	-	-	45,877	General Service Administration,  PA Consulting Group Holdings
Wen Building 75 15th Street, V	100.0%	98.4%	64.38	231,000	231,000	-	-	115,022	Paul, Hastings, Janofsky & Walker LLP, Millennium Challenge Corporation
50 17th Street, V	100.0%	85.0%	44.45	232,000	232,000	-	-	29,047	American Enterprise Institute
01 17th Street, V	100.0%	95.8%	43.57	212,000	212,000	-	-	24,054	American Federation of States
30 M Street, V	100.0%	94.2%	41.77	202,000	202,000	-	-	15,018	General Service Administration
40 Connecticut avenue, NW	100.0%	92.6%	43.23	186,000	186,000	-	-	17,791	Elizabeth Glase Pediatric AIDS Foundation, Defense Group Inc., National Legal Aid and Defender Assoc

## Item 2. Properties - continued

Property	Ownership	Occupancy	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under	Encumbrances (in thousands)	Major Tenants
					In Service Owned by	Owned By			
<b>WASHINGTON DC OFFICE (continued):</b>									
27 25th Street, V	100.0%	77.1%	\$ 52.24	133,000	133,000	-	-\$		- Epstein, Becker Green, P.C., General Service Administration
01 L Street, V	100.0%	87.3%	55.90	379,000	379,000	-	-	150,000	Greenberg Traurig, LLP, U Green Building Council, American Insurance Association, RTKL Associat Cassidy & Turle
26 M Street, V	100.0%	83.6%	37.09	89,000	89,000	-	-		- Aptima, Inc., Nelnet Corporation
<b>Tempfer Interests:</b>									
1 M Street, V	2.5%	-	-	2,100,000	-	-	2,100,000	183,742	District of Columbia (lease not commenced)
01 K Street, V	5.0%	97.2%	57.43	378,000	378,000	-	-	101,750	Sidley Austin LLP, UBS
99 New York avenue, NW	2.5%	100.0%	85.72	124,000	124,000	-	-	39,797	Bloomberg
ital Central Business District		94.6%	50.04	6,127,000	4,027,000	-	2,100,000	1,121,427	
<b>95 Corridor:</b>									
lyline Place - 7 Buildings	100.0%	93.8%	32.05	2,109,000	2,109,000	-	-	543,300	General Service Administration, SAIC, Inc.,

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										Northrop Grumman, Bo Allen, Jacer Corporati Intellidyne, Inc.
the Skyline Tower	100.0%	100.0%	32.50	518,000	518,000	-	-	134,700		General Service Administration
Capital I-395 Corridor	100.0%	95.0%	32.15	2,627,000	2,627,000	-	-	678,000		
Rosslyn / Ballston: 1000 / 2300 Arlington Blvd	100.0%	95.4%	38.47	628,000	628,000	-	-	65,133		Arlington Coun General Service Administration, AMC Theaters
Courthouse (Arlington Plaza) - 2 Buildings										
Rosslyn Plaza - Office - 4 Buildings	46.0%	84.8%	32.86	724,000	724,000	-	-	56,680		General Service Administration
Capital Rosslyn / Ballston		91.7%	38.47	1,352,000	1,352,000	-	-	121,813		
Ballston Corner: Arlington Square - Buildings	20.0%	85.1%	36.30	521,000	521,000	-	-	72,500		EDS Informatio Services, Dean Company, Womble Carlyl
Capital Tysons Corner		85.1%	36.30	521,000	521,000	-	-	72,500		
Ballston: Ballston Executive Buildings	100.0%	90.8%	33.98	490,000	490,000	-	-	93,000		SAIC, Inc., Quadramed Cor
Commerce Executive - 3 Buildings	100.0%	89.8%	28.53	417,000	394,000	-	23,000			L-3 Communication SAIC, Inc., Concert Management Services, BT

tal Reston 24	90.4%	31.61	907,000	884,000	-	23,000	93,000
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## Item 2. Properties - continued

Property	%	%	Annualized Rent PSF (1)	Total	Square Feet		Encumbrances (in thousands)	Major Tenant
					In Service	Out of Service		
Ownership	Occupancy				Owned by Company	Owned By Tenant	Under Development	
<b>WASHINGTON DC OFFICE (continued): Rockville/Bethesda:</b>								
Democracy Plaza e	100.0%	94.7%	\$ 41.53	214,000	214,000	-	-\$	- National Institutes Health
<b>Pentagon City:</b>								
Fashion Centre Mall	7.5%	98.9%	39.02	819,000	819,000	-	-	149,341 Macy's, Nordstrom
Washington Tower	7.5%	100.0%	43.20	170,000	170,000	-	-	40,000 The Rand Corporati
Capital Pentagon City		99.1%	39.75	989,000	989,000	-	-	189,341
<b>Capital Washington, DC office properties</b>		<b>94.8%</b>	<b>\$ 39.61</b>	<b>20,012,000</b>	<b>17,801,000</b>	<b>-</b>	<b>2,211,000\$</b>	<b>2,749,006</b>
<b>Vornado's Ownership Interest</b>		<b>94.9%</b>	<b>\$ 39.01</b>	<b>15,764,000</b>	<b>15,600,000</b>	<b>-</b>	<b>164,000\$</b>	<b>2,171,128</b>
<b>Other:</b>								
For rent residential: Overhouse (1,680 units)	100.0%	96.0%	\$ -	1,802,000	1,802,000	-	-\$	259,546
Masslyn Plaza (196 units)	43.7%	97.2%	-	253,000	253,000	-	-	-
West End 25 (283 units)	100.0%	27.1%	-	272,000	272,000	-	-	85,735
1000 20th Street (265 units)	100.0%	55.4%	-	271,000	271,000	-	-	75,629
Crystal City Hotel	100.0%	100.0%	-	266,000	266,000	-	-	-
Warehouses	100.0%	100.0%	-	228,000	228,000	-	-	-

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er - 3 buildings	100.0%	100.0%	-	11,000	11,000	-	-	-		
tal Other				3,103,000	3,103,000	-	-	420,910		
<b>tal Washington, C Properties</b>		<b>93.7%</b>	<b>\$</b>	<b>39.61</b>	<b>23,115,000</b>	<b>(20,904,000)</b>	<b>-</b>	<b>2,211,000</b>	<b>\$</b>	<b>3,169,916</b>
<b>rnado's wnership Interest</b>		<b>93.6%</b>	<b>\$</b>	<b>39.01</b>	<b>18,724,000</b>	<b>18,560,000</b>	<b>-</b>	<b>164,000</b>	<b>\$</b>	<b>2,592,038</b>

**Item 2. Properties - continued**

Property	Ownership %	Occupancy %	Annualized Rent PSF (1)	Total	Square Feet In Service		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					Owned by Company	Owned By Tenant			
<b>REGIONAL CENTRAL:</b> Green Acres Mall, Valley Stream, NY (100% owned and building leased through (39))	100.0%	87.6%	\$ 44.09(4)	1,871,000	1,753,000	79,000	39,000	\$ 335,000	Macy's, Sears, Wal-Mart, JCPenney, Best Buy, BJ's Wholesale Club, Kohl's (lease not commenced) Raymour & Flanigan
Southtown,	50.0%	91.7%	37.88(4)	1,467,000(5)	741,000	719,000(5)	7,000	165,000	Macy's <sup>(5)</sup> , JCPenney Lord & Taylor, Loews Theatre, Barnes & Noble
Springfield, Springfield, MA (66.8% of total square feet is in service)	97.5%	100.0%	26.36(4)	1,408,000(5)	551,000	390,000(5)	467,000	242,583	Macy's, JCPenney Target <sup>(5)</sup>
Bergen Town Center, Paramus, NJ (64.7% of total square	100.0%	100.0%	42.04(4)	1,243,000	791,000	13,000	439,000	261,903	Target, Whole Foods Market, Century 21 Nordstrom Rack, Saks Fifth Avenue O

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... is in (vice)									5th, Filene Basement, Marshalls, Nike Facto Store, Low (lease not commence
adway ll, cksville, r	100.0%	86.0%	34.33(4)	1,140,000(5)	764,000	376,000(5)	-	92,601	Macy's, I Target (5), National Amusement
ontehiedra, erto Rico	100.0%	91.2%	43.34(4)	540,000	540,000	-	-	120,000	The Home Depot, Kmart, Marshalls, Caribbean Theatres, Tiendas Capri
s alinas, erto Rico	100.0%	89.0%	52.51(4)	495,000(5)	356,000	139,000(5)	-	59,305	Kmart, Sea (5)
<b>tal gional ills</b>		<b>91.1%</b>	<b>\$ 39.33</b>	<b>8,164,000</b>	<b>5,496,000</b>	<b>1,716,000</b>	<b>952,000\$</b>	<b>1,276,392</b>	
<b>rnado's wnership erest</b>		<b>91.1%</b>	<b>\$ 39.56</b>	<b>6,376,000</b>	<b>5,112,000</b>	<b>327,000</b>	<b>937,000\$</b>	<b>1,187,827</b>	
<b>RIP OPPING ENTERS: w Jersey: rth Bergen nnelle enue)</b>	100.0%	100.0%	22.36	410,000	147,000	206,000	57,000\$		- Wal-Mart, BJ's Wholesale Club
<b>st Hanover nd II</b>	100.0%	95.9%	19.73	369,000	363,000	6,000	-		- The Home Depot, Dic Sporting Goods, Marshalls Loehmann



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Worcesterfield	100.0%	-	-	325,000	-	-	325,000	- Wal-Mart, The Home Depot (unc developed by tenants)
Worcester	100.0%	85.6%	17.61	317,000	223,000	94,000	-	- The Home Depot, Bed Bath & Beyond (6), Marshalls
Worcester	100.0%	99.1%	17.11	279,000	276,000	3,000	-	- Kohl's, ShopRite, Marshalls
Worcester (Route and Morris Avenue)	100.0%	100.0%	25.87	276,000	113,000	163,000	-	- Lowe's, Toys "R" Us
Worcester	100.0%	96.4%	21.29	275,000	209,000	66,000	-	- The Home Depot (6), Pathmark
Worcester	100.0%	98.1%	15.94	263,000	51,000	212,000	-	- Wal-Mart, Toys "R" Us
Worcester	100.0%	100.0%	20.50	236,000	66,000	170,000	-	- Lowe's
Worcester (2445 Springfield Avenue)	100.0%	100.0%	17.85	232,000	232,000	-	-	- The Home Depot
Worcester (Swinswick I 325 - 333 Route 18 South)	100.0%	100.0%	15.95	232,000	222,000	10,000	-	- Kohl's, Dick's Sporting Goods, P.O. Richard & Son, T.J. Maxx
Worcester	100.0%	84.2%	14.66	231,000	179,000	52,000	-	- Kohl's, Stop & Shop
Worcester	100.0%	100.0%	17.62	227,000	87,000	140,000	-	- Wal-Mart, Syms
Worcester	100.0%	79.7%	7.79	219,000	219,000	-	-	- Kmart, Pathmark

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arlton	100.0%	89.1%	11.40	214,000	210,000	4,000	-	- Kohl's <sup>(6)</sup> , ShopRite, PetSmart
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## Item 2. Properties - continued

Property	Ownership	Occupancy	Annualized Rent PSF (1)	Total	Square Feet In Service		Out of Service	Encumbrances (in thousands)	Major Tenants
					Owned by Company	Owned By Tenant			
Sanalapan <b>(Continued):</b>	100.0%	97.8%	\$ 15.30	208,000	206,000	2,000	-	-\$	- Best Buy, Bed Bath & Beyond, Babies "R" Us
East Lutherford	100.0%	96.7%	31.27	197,000	42,000	155,000	-	-	- Lowe's
East Brunswick II 39-341 Route 18 (South)	100.0%	83.1%	-	196,000	33,000	163,000	-	-	- Lowe's
Ordentown	100.0%	90.9%	7.11	179,000	179,000	-	-	-	- ShopRite
Morris Plains	100.0%	98.2%	19.13	177,000	176,000	1,000	-	-	- Kohl's, ShopRite
Over	100.0%	93.9%	11.21	173,000	167,000	6,000	-	-	- ShopRite, T.J. Maxx
Delran	100.0%	76.6%	4.25	171,000	168,000	3,000	-	-	- Sam's Club
odi (Route North)	100.0%	100.0%	10.29	171,000	171,000	-	-	-	- National Wholesale Liquidator
atchung	100.0%	97.3%	23.19	170,000	54,000	116,000	-	-	- BJ's Wholesale Club
awnside	100.0%	100.0%	12.82	145,000	142,000	3,000	-	-	- The Home Depot, PetSmart
azlet	100.0%	100.0%	2.44	123,000	123,000	-	-	-	- Stop & Shop

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earny	100.0%	100.0%	14.24	104,000	32,000	72,000	-	-	- Pathmark, Marshalls
arnersville	100.0%	100.0%	6.25	96,000	89,000	7,000	-	-	- Haynes Furniture Co
odi (Washington Street)	100.0%	100.0%	23.09	85,000	85,000	-	-	10,320	A&P
arlstadt (ground leased through 2050)	100.0%	95.5%	22.11	78,000	78,000	-	-	7,570	Stop & Shop
orth Bergen (Kennedy Boulevard)	100.0%	100.0%	29.78	62,000	6,000	56,000	-	-	- Waldbaum
outh ainfield (ground leased through 2039)	100.0%	100.0%	21.14	56,000	56,000	-	-	-	- Staples
nglewood	100.0%	94.8%	30.39	41,000	41,000	-	-	12,358	New York Sports Club
atontown	100.0%	100.0%	26.14	30,000	30,000	-	-	-	- Petco
ontclair	100.0%	100.0%	20.48	18,000	18,000	-	-	-	- Whole Foods Market
<b>Total New Jersey</b>				<b>6,585,000</b>	<b>4,493,000</b>	<b>1,710,000</b>	<b>382,000</b>	<b>30,248</b>	
<b>Pennsylvania:</b>									
alentown	100.0%	99.5%	14.78	626,000	269,000	357,000	-	-	- Wal-Mart, Sam's Club, ShopRite, Burlington Coat Factory, T.J. Maxx, Dick's Sporting Goods
iladelphia	100.0%	78.1%	13.20	430,000	430,000	-	-	-	-

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									Kmart, Health Partners
Wilkes-Barre	100.0%	83.3%	13.08	329,000(5)	204,000	125,000(5)	-	20,957	Target (5), Babies "R" Us, Ross Dress For Less
Lancaster	100.0%	100.0%	4.43	228,000	58,000	170,000	-	-	Lowe's, Weis Markets
Levensalem	100.0%	100.0%	10.45	185,000	177,000	8,000	-	-	Kohl's (6), Ross Dress for Less, Staples
Brookmall	100.0%	86.5%	10.40	169,000	147,000	22,000	-	-	Giant Food (6), A.C. Moore, PetSmart
Bethlehem	100.0%	87.1%	5.64	167,000	164,000	3,000	-	-	Giant Food Superpetz

**Item 2. Properties - continued**

Property	Ownership %	Occupancy %	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					In Service Owned by Company	In Service Owned By Tenant			
<b>RETAIL (Continued):</b>									
Upper Moreland	100.0%	100.0%	\$ 9.75	122,000	122,000	-	-	-\$	- Sam's Club
York	100.0%	100.0%	8.16	110,000	110,000	-	-	-	- Ashley Furniture
Levittown	100.0%	100.0%	6.25	105,000	105,000	-	-	-	- Haynes Furniture <sup>(6)</sup>
Glenolden	100.0%	100.0%	23.13	102,000	10,000	92,000	-	-	- Wal-Mart
Wilkes-Barre  (ground and building leased through 2040)	100.0%	50.1%	4.65	81,000	81,000	-	-	-	- Ollie's Bargain Outlet
Wyomissing  (ground and building leased through 2065)	100.0%	89.0%	14.17	79,000	79,000	-	-	-	- LA Fitness, PetSmart
Total Pennsylvania				2,733,000	1,956,000	777,000	-		20,957
<b>New York:</b>									
Poughkeepsie, NY  (78.3% of total square feet in service)	100.0%	100.0%	7.55	503,000	391,000	3,000	109,000	-	- Kmart, Burlington Coat Factory, ShopRite, Hobby Lobby, Christmas Tree Shops

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Bronx (Bruckner Boulevard)	100.0%	98.5%	20.64	500,000	386,000	114,000	-	-	Bobs Discount Furniture - Kmart, Toys "R" Us, Key Food
Buffalo (Amherst) (ground leased through 2017)	100.0%	45.0%	5.59	296,000	227,000	69,000	-	-	- T.J. Maxx, Toys "R" Us
Huntington	100.0%	96.4%	13.01	208,000	208,000	-	-	15,595	Kmart
Rochester	100.0%	100.0%	-	205,000	-	205,000	-	-	- Wal-Mart
Mt. Kisco	100.0%	98.4%	21.00	189,000	72,000	117,000	-	29,703	Target, A&P
Freeport (437 East Sunrise Highway)	100.0%	100.0%	18.00	167,000	167,000	-	-	-	- The Home Depot, Cablevision
Staten Island	100.0%	93.1%	17.42	165,000	165,000	-	-	17,400	Waldbaum's
Rochester (Henrietta) (ground leased through 2056)	100.0%	89.2%	3.31	158,000	158,000	-	-	-	- Kohl's, Ollie's Bargain Outlet
Albany (Menands)	100.0%	74.0%	9.00	140,000	140,000	-	-	-	- Bank of America
New Hyde Park (ground and building leased through 2029)	100.0%	100.0%	18.73	101,000	101,000	-	-	-	- Stop & Shop
Inwood	100.0%	95.1%	20.52	100,000	100,000	-	-	-	- Stop & Shop
North Syracuse (ground and building)	100.0%	100.0%	-	98,000	-	98,000	-	-	- Wal-Mart

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leased through 2014)								
West Babylon	100.0%	84.5%	11.40	79,000	79,000	-	-	6,550 Waldbaum's
Bronx (1750-1780 Gun Hill Road)	100.0%	45.3%	45.02	83,000	55,000	-	28,000	- T.G.I. Friday's, Duane Reade
Queens	100.0%	74.4%	38.78	58,000	58,000	-	-	- New York Sports Club
Oceanside	100.0%	100.0%	27.83	16,000	16,000	-	-	- Party City
Total New York				3,066,000	2,323,000	606,000	137,000	69,248
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## Item 2. Properties - continued

Property	Ownership %	Occupancy %	Annualized Rent PSF (1)	Total	Square Feet In Service		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					Owned by Company	Owned By Tenant			
<b>Property DETAIL (Continued):</b>									
<b>Maryland:</b>									
Baltimore (Rowson)	100.0%	100.0%	\$ 14.30	150,000	150,000	-	-	-\$	- Shoppers Food Warehouse Staples, A.C. Moore, Golf Galaxy
Annapolis (ground and building leased through 2042)	100.0%	100.0%	8.99	128,000	128,000	-	-	-	- The Home Depot
Green Burnie	100.0%	78.5%	10.42	121,000	65,000	56,000	-	-	- Weis Markets
Rockville	100.0%	99.3%	23.06	94,000	94,000	-	-	13,880	Regal Cinemas
<b>Total Maryland</b>				493,000	437,000	56,000	-	13,880	
<b>Massachusetts:</b>									
Andover	100.0%	100.0%	-	224,000	-	224,000	-	-	- Wal-Mart
Springfield	100.0%	97.3%	14.86	152,000	33,000	119,000	-	-	- Wal-Mart
Wilmington (ground and building leased through 2019)	100.0%	100.0%	8.01	83,000	83,000	-	-	-	- Kohl's (6)
<b>Total Massachusetts</b>				459,000	116,000	343,000	-	-	
<b>California:</b>									
San Jose	45.0%	100.0%	29.10	646,000(5)	427,000	161,000(5)	58,000	132,570	Target (5), The Home Depot, Toys "R" Us, Be

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									Buy
(91.0% of total square feet in service)									
everly onnection, os Angeles	100.0%	100.0%	36.33	271,000	193,000	-	78,000	100,000	Marshalls, Old Navy, Sports Chalet, Loehmann Nordstrom Rack, Ross Dress for Less
(71.2% of total square feet in service)									
asadena ground leased rough 2077)	100.0%	64.1%	30.21	133,000	133,000	-	-	-	- Breakthru Fitness, Trader Joe
an Francisco (he Cannery) 801 Leavenworth reet)	95.0%	23.4%	26.37	104,000	104,000	-	-	18,013	
an Francisco 75 acramento reet)	100.0%	100.0%	31.31	76,000	76,000	-	-	-	- Open TV Inc.
an Francisco 700 Geary oulevard)	100.0%	100.0%	30.00	30,000	30,000	-	-	-	- OfficeMax
Walnut Creek 149 South ain Street)	100.0%	100.0%	39.79	29,000	29,000	-	-	-	- Barnes & Noble
Walnut Creek 556 Mt. iablo oulevard)	95.0%	-	-	-	-	-	-	-	-
Total California				1,289,000	992,000	161,000	136,000	250,583	
<b>Connecticut:</b>									
ewington	100.0%	100.0%	15.01	188,000	43,000	145,000	-	-	- Wal-Mart, Staples
Waterbury	100.0%	100.0%	14.83	148,000	143,000	5,000	-	-	- ShopRite

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Total				336,000	186,000	150,000	-	-
Connecticut								
<b>Florida:</b>								
Tampa	72.0%	75.5%	21.25	263,000	263,000	-	-	22,759 Pottery Barn, CineBistro, Brooks Brothers, Williams Sonoma, Lifestyle Family Fitness
<b>Michigan:</b>								
Roseville	100.0%	100.0%	5.26	119,000	119,000	-	-	- JC Penney
<b>Virginia:</b>								
Norfolk	100.0%	100.0%	5.85	114,000	114,000	-	-	- BJ's Wholesale Club
ground and building leased through 2069)								

**Item 2. Properties - continued**

Property	Ownership %	Occupancy %	Annualized Rent PSF (1)	Total	Square Feet In Service		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					Owned by Company	Owned By Tenant			
<b>RETAIL</b>									
<b>(Continued):</b>									
<b>Washington, DC</b>									
3040 M Street	100.0%	100.0%	\$ 46.36	42,000	42,000	-	-	-\$	- Barnes & Noble, Barneys
<b>New Hampshire:</b>									
Salem (ground leased through 2102)	100.0%	100.0%	-	37,000	-	37,000	-	-	- Babies "R" Us
<b>ACQUIRED FROM TOYS 'R' US</b>									
Wheaton, MD (ground leased through 2060)	100.0%	100.0%	13.58	66,000	66,000	-	-	-	- Best Buy
San Francisco, CA (2675 Geary Street) (ground and building leased through 2043)	100.0%	100.0%	45.76	55,000	55,000	-	-	-	- Best Buy
Cambridge, MA (ground and building leased through 2033)	100.0%	100.0%	19.84	48,000	48,000	-	-	-	- PetSmart
Battle Creek, MI	100.0%	-	-	47,000	47,000	-	-	-	-

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Commack, NY (ground and building leased through 2021)	100.0%	59.0%	22.56	47,000	47,000	-	-	- PetSmart
Lansing, IL	100.0%	-	-	47,000	47,000	-	-	-
Springdale, OH (ground and building leased through 2046)	100.0%	-	-	47,000	47,000	-	-	-
Arlington Heights, IL (ground and building leased through 2043)	100.0%	100.0%	9.00	46,000	46,000	-	-	- RVI
Bellingham, WA	100.0%	-	-	46,000	46,000	-	-	-
Dewitt, NY (ground leased through 2041)	100.0%	100.0%	18.60	46,000	46,000	-	-	- Best Buy
Ogden, UT	100.0%	-	-	46,000	46,000	-	-	-
Redding, CA	100.0%	49.7%	13.00	46,000	46,000	-	-	- PetSmart
Antioch, TN	100.0%	100.0%	6.96	45,000	45,000	-	-	- Best Buy
Charleston, SC (ground leased through 2063)	100.0%	100.0%	13.51	45,000	45,000	-	-	- Best Buy
Dorchester, MA	100.0%	100.0%	29.85	45,000	45,000	-	-	- Best Buy
Signal Hill, CA	100.0%	100.0%	21.89	45,000	45,000	-	-	- Best Buy
Tampa, FL	100.0%	100.0%	-	45,000	45,000	-	-	-

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									Nordstrom Rack (lease not commenced)
Vallejo, CA (ground leased through 2043)	100.0%	100.0%	15.92	45,000	45,000	-	-	-	Best Buy
Freeport, NY (240 West Sunrise Highway) (ground and building leased through 2040)	100.0%	100.0%	18.44	44,000	44,000	-	-	-	Bob's Discount Furniture
Fond Du Lac, WI (ground leased through 2073)	100.0%	100.0%	7.12	43,000	43,000	-	-	-	PetSmart
San Antonio, TX (ground and building leased through 2041)	100.0%	100.0%	9.06	43,000	43,000	-	-	-	Best Buy
Chicago, IL (ground and building leased through 2051)	100.0%	100.0%	10.94	41,000	41,000	-	-	-	Best Buy

**Item 2. Properties - continued**

Property DETAIL (continued):	%	%	Annualized Rent PSF (1)	Total	Square Feet		Encumbrances (in thousands)	Major Tenants
					In Service	Out of Service		
	Ownership	Occupancy			Owned by Company	Owned By Tenant	Under Development	
Springfield, PA (ground and building leased through 2025)	100.0%	100.0%	\$ 19.00	41,000	41,000	-	-\$	- PetSmart
Wheaton's Corner, VA (ground and building leased through 2035)	100.0%	100.0%	35.57	38,000	38,000	-	-	- Best Buy
Fort Lauderdale, FL (ground and building leased through 2034)	100.0%	79.9%	13.17	33,000	33,000	-	-	- Office Depot
Lexington, KY (ground and building leased through 2046)	100.0%	100.0%	6.96	32,000	32,000	-	-	- Best Buy
Des Moines, IA (ground leased through 2043)	100.0%	100.0%	9.00	31,000	31,000	-	-	- PetSmart
San Bernardino, CA	100.0%	100.0%	13.27	31,000	31,000	-	-	- PetSmart
Ann Arbor, MI (ground leased through 2043)	100.0%	83.6%	8.38	31,000	31,000	-	-	- PetSmart
Wichita, TX (ground leased through 2043)	100.0%	100.0%	4.39	31,000	31,000	-	-	- Home Zone
Total Acquired from Toys 'R' Us				1,296,000	1,296,000	-	-	-
<b>CALIFORNIA SUPERMARKETS</b>	100.0%	100.0%	4.44	73,000	73,000	-	-	-

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blton (1904 North rancho Avenue)									Stater Brothe
verside (9155 rupa Road)	100.0%	100.0%	6.00	42,000	42,000	-	-	-	Stater Brothe
n Bernadino (1522 st Highland venue)	100.0%	100.0%	7.23	40,000	40,000	-	-	-	Stater Brothe
verside (5571 ission Boulevard)	100.0%	100.0%	4.97	39,000	39,000	-	-	-	Stater Brothe
ojave (ground ased through 2079)	100.0%	100.0%	6.55	34,000	34,000	-	-	-	Stater Brothe
rona (ground ased through 2079)	100.0%	100.0%	7.76	33,000	33,000	-	-	-	Stater Brothe
caipa	100.0%	100.0%	4.13	31,000	31,000	-	-	-	Stater Brothe
urstow	100.0%	100.0%	7.15	30,000	30,000	-	-	-	Stater Brothe
oreno Valley	100.0%	-	-	30,000	30,000	-	-	-	-
n Bernadino (648 est 4th Street)	100.0%	100.0%	6.74	30,000	30,000	-	-	-	Stater Brothe
eaumont	100.0%	100.0%	5.58	29,000	29,000	-	-	-	Stater Brothe
esert Hot Springs	100.0%	100.0%	5.61	29,000	29,000	-	-	-	Stater Brothe
alto	100.0%	100.0%	5.74	29,000	29,000	-	-	-	Stater Brothe
blton (151 East alley Boulevard)	100.0%	100.0%	6.03	26,000	26,000	-	-	-	Stater Brothe
ntana	100.0%	100.0%	6.26	26,000	26,000	-	-	-	Stater Brothe
atal California permarkets				521,000	521,000	-	-	-	-
<b>Total Strip Shopping Centers</b>		<b>91.6% \$</b>	<b>15.61</b>	<b>17,353,000</b>	<b>12,858,000</b>	<b>3,840,000</b>	<b>655,000 \$</b>	<b>407,675</b>	



Vornado's  
Ownership Interest

<b>91.5%</b>	<b>\$</b>	<b>15.30</b>	<b>16,730,000</b>	<b>12,544,000</b>	<b>3,563,000</b>	<b>623,000</b>	<b>\$</b>	<b>327,488</b>
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## Item 2. Properties - continued

Property DETAIL (continued):	Ownership %	Occupancy %	Annualized Rent PSF (1)	Total Square Feet In Service	Square Feet		Encumbrances (in thousands)	Major Tenants
					Owned by Company	Owned By Tenant		
MANHATTAN BROADWAY DETAIL Manhattan Mall	100.0%	96.3%	\$ 79.30	242,000	242,000	-	-\$ 72,639	JC Penney, Charlotte Russe, Aeropostale Express
Union Square South	100.0%	100.0%	53.25	203,000	203,000	-	-	75,000 Filene's Basement, Whole Foods Market, DSW, Forever 21
40 Broadway	100.0%	100.0%	80.26	161,000	127,000	-	34,000	- Forever 21, Planet Hollywood Disney (lea not commence
(78.9% of total square feet in service)								
8-486 Broadway	100.0%	100.0%	100.53	85,000	81,000	-	4,000	- Top Shop, Madewell, Crew
West 14th Street	100.0%	100.0%	57.47	62,000	62,000	-	-	- Guitar Center, Levi's
5 Seventh Avenue	100.0%	100.0%	165.32	43,000	43,000	-	-	52,000 Hennes & Mauritz
5 Spring Street	100.0%	76.8%	100.65	43,000	43,000	-	-	- Sigrid Olse

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2 Broadway	100.0%	-	-	35,000	35,000	-	-	-
35 Third Avenue	100.0%	100.0%	98.43	25,000	25,000	-	-	- GAP
5 Lexington (ground leased through 2041)	100.0%	100.0%	155.56	23,000	23,000	-	-	- New York Company, Zales
West 34th Street	100.0%	100.0%	185.33	21,000	21,000	-	-	- Express
8-850 Madison Avenue	100.0%	100.0%	342.02	18,000	18,000	-	-	80,000 Gucci, Chloe, Cartier
4 Eighth Avenue	100.0%	100.0%	84.72	14,000	14,000	-	-	- T.G.I. Friday's
East 66th Street	100.0%	100.0%	380.08	12,000	12,000	-	-	- Dennis Basso, Nespresso USA, J. Crew (lease not commenced)
1 Seventh Avenue	100.0%	75.0%	49.38	10,000	10,000	-	-	-
7 West Broadway	100.0%	100.0%	134.42	9,000	9,000	-	-	- Reiss
7-679 Madison Avenue	100.0%	100.0%	329.89	8,000	8,000	-	-	- Anne Fontaine
8 Spring Street	100.0%	100.0%	84.88	7,000	7,000	-	-	- Briel
0 Spring Street	100.0%	100.0%	110.33	7,000	7,000	-	-	- Puma
1-217 Columbus Avenue	100.0%	100.0%	281.51	6,000	6,000	-	-	- Club Monaco
8 Third Avenue	50.0%	100.0%	161.29	6,000	6,000	-	-	- ING Bank
6 West Broadway	100.0%	100.0%	191.31	4,000	4,000	-	-	4,361 Miss Sixty

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5 Seventh Avenue	100.0%	100.0%	181.55	4,000	4,000	-	-	-	Lindy's
<b>Total Manhattan Street Retail</b>		<b>94.4%</b>	<b>\$ 96.57</b>	<b>1,048,000</b>	<b>1,010,000</b>	<b>-</b>	<b>38,000\$</b>	<b>284,000</b>	
<b>Vornado's ownership interest</b>		<b>94.4%</b>	<b>\$ 96.37</b>	<b>1,045,000</b>	<b>1,007,000</b>	<b>-</b>	<b>38,000\$</b>	<b>284,000</b>	
<b>Total Retail Space</b>		<b>91.6%</b>		<b>26,565,000</b>	<b>19,364,000</b>	<b>5,556,000</b>	<b>1,645,000\$</b>	<b>1,968,067</b>	
<b>Vornado's ownership interest</b>		<b>91.6%</b>		<b>24,151,000</b>	<b>18,663,000</b>	<b>3,890,000</b>	<b>1,598,000\$</b>	<b>1,799,315</b>	

**Item 2. Properties - continued**

	%	%	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under	Encumbrances (in thousands)	Major Tenants
					In Service Owned by Company	Owned By Tenant			
Property MERCHANDISE MART: ILLINOIS: Merchandise Mart, Chicago	100.0%	94.0%	\$ 29.58	3,494,000	3,494,000	-	-\$	550,000	American Intercontinental University (AIU), Baker, Knapp Tubbs, CCC Information Services, Ogilvy Group (WPP), Chic Teachers Un Office of the Special Dep Receiver, Publicis Groupe, Bankers Life Casualty, Ho Hunt Ltd., Merchandise Mart Headquarter Steelcase, Chicago Sch of Profession Psychology Royal Bank Canada
West Mart Center, Chicago	100.0%	81.1%	25.71	1,223,000	1,223,000	-	-	-	21st Century Telecom/RC Ameritech, Chicago Sun-Times, Comcast, Fis Solutions, Ogilvy Group (WPP), Illin Institute of A

	50.0%	79.4%	31.64	19,000	19,000	-	-	24,758	Ronin Capital	
Illinois		90.6%	28.66	4,736,000	4,736,000	-	-	574,758		
<b>WASHINGTON,</b>										
Washington Design Center	100.0%	94.2%	37.91	393,000	393,000	-	-	44,247	General Services Administration	
<b>WORTH POINT, NORTH CAROLINA</b>										
Market Square Complex	100.0%	86.5%	16.21	2,011,000	2,011,000	-	-	217,815	ART Furniture, Cambium Business, Canadel Furniture, Century Furniture Company, Classic Furniture, H Brands, La-Z-Boy, Legacy Clas Furniture, Progressive Furniture, Robinson & Vaughan Furniture	
<b>CALIFORNIA</b>										
Wal-Mart	100.0%	69.8%	19.93	781,000	781,000	-	-	-	Penstan Investments	
<b>NEW YORK</b>										
West 34th Street	100.0%	91.7%	38.17	419,000	419,000	-	-	-	Kurt Adler	
<b>MASSACHUSETTS</b>										
Boston Design Center	100.0%	97.6%	29.61	553,000	553,000	-	-	69,667	Boston Brewing/Fit Puma, Robert Allen	
ground leased (through 2060)										
		<b>88.5%</b>	<b>\$ 26.16</b>	<b>8,893,000</b>	<b>8,893,000</b>	<b>-</b>	<b>-\$</b>	<b>906,487</b>		

al Merchandise  
t  
nado's  
nership Interest

<b>88.5%</b>	<b>\$</b>	<b>26.16</b>	<b>8,884,000</b>	<b>8,884,000</b>	<b>-</b>	<b>-\$</b>	<b>894,108</b>
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## Item 2. Properties - continued

Property	% Ownership	% Occupancy	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					In Service Owned by Company	Owned By Tenant			
555 CALIFORNIA STREET: 555 California Street	70.0%	93.8%	\$ 57.35	1,502,000	1,502,000	-	-\$	664,118(7)	Bank of America, N.A., Dodge & Cox, Goldman Sachs & Co., Jones Day, Kirkland & Ellis LLP, Morgan Stanley & Co. Inc., McKinsey & Company Inc., UBS Financial Services,
315 Montgomery Street	70.0%	100.0%	42.37	228,000	228,000	-	-	-	Bank of America, N.A.
345 Montgomery Street	70.0%	100.0%	104.87	64,000	64,000	-	-	-	Bank of America, N.A.
<b>Total 555 California Street</b>		<b>94.8%</b>	<b>\$ 57.25</b>	<b>1,794,000</b>	<b>1,794,000</b>	<b>-</b>	<b>-\$</b>	<b>664,118</b>	
<b>Vornado's Ownership Interest</b>		<b>94.8%</b>	<b>\$ 57.25</b>	<b>1,256,000</b>	<b>1,256,000</b>	<b>-</b>	<b>-\$</b>	<b>472,192</b>	





## Item 2. Properties - continued

Property	% Ownership	% Occupancy	Annualized Rent PSF (1)	Total	Square Feet		Out of Service Under Development	Encumbrances (in thousands)	Major Tenants
					In Service Owned by Company	Owned By Tenant			
<b>WAREHOUSES:</b>									
<b>NEW JERSEY</b>									
East Hanover - Five Buildings	100.0%	89.4%	\$ 5.40	942,000	942,000	-	-\$	24,813	J, Leven & Company, Foremost Int'l Trading Inc., Tri-coastal Design Group Inc., Fidelity Paper & Supply Inc., Gardner Industries, Stephen Gould Paper Co., Givaudan Flavors Corp.
Edison	100.0%	-	-	272,000	272,000	-	-	-	
<b>Total Warehouses</b>		<b>69.4%</b>	<b>\$ 5.40</b>	<b>1,214,000</b>	<b>1,214,000</b>	<b>-</b>	<b>-\$</b>	<b>24,813</b>	
<b>Vornado's Ownership Interest</b>		<b>69.4%</b>	<b>\$ 5.40</b>	<b>1,214,000</b>	<b>1,214,000</b>	<b>-</b>	<b>-\$</b>	<b>24,813</b>	



## Item 2. Properties - continued

Property	Ownership	Occupancy	Annualized Rent PSF (1)	Total	Square Feet In Service		Out of Service  Under Development	Encumbrances  (in thousands)	Major Tenants
					Owned by Company	Owned By Tenant			
ALEXANDER'S INC.: New York: 31 Lexington Avenue, Manhattan Office	32.4%	100.0%	\$ 81.01	885,000	885,000	-	-	362,989	Bloomberg
Retail	32.4%	100.0%	154.61	174,000	174,000	-	-	320,000	Hennes & Mauritz, Home Depot, The Container Store
				1,059,000	1,059,000	-	-	682,989	
Kings Plaza Regional Shopping Center, Brooklyn (24.3 acres)	32.4%	92.0%	40.63	1,098,000	759,000	339,000(8)	-	183,318	Sears, Lowe's (ground lessee), Macy (8)
Rego Park I, Queens (4.8 acres)	32.4%	85.4%	32.28	351,000	351,000	-	-	78,246	Sears, Bed Bath & Beyond, Marshalls
Rego Park II adjacent to Rego Park I),  Queens (6.6 acres) (67.2% of total square feet is in service)	32.4%	100.0%	36.25	600,000	403,000	-	197,000	266,411	Century 21, Costco, Kohl's
	32.4%	100.0%	14.99	167,000	167,000	-	-	-	

Flushing, Queens <sup>(9)</sup> (1.0 acre)									New World Mall LLC
<b>New Jersey:</b>									
Paramus, New Jersey	32.4%	100.0%	-	-	-	-	-	-	68,000 IKEA (ground lessee)
(30.3 acres ground leased to IKEA through 2041)									
<b>Property to be Developed:</b>									
Rego Park III adjacent to Rego Park II), Queens, NY (3.4 acres)	32.4%	-	-	-	-	-	-	-	-
<b>Total Alexander's</b>			<b>3,275,000</b>	<b>2,739,000</b>	<b>339,000</b>		<b>197,000\$</b>	<b>1,278,964</b>	
<b>Vornado's Ownership Interest</b>			<b>1,061,000</b>	<b>887,000</b>	<b>110,000</b>		<b>64,000\$</b>	<b>414,384</b>	



**Item 2. Properties - continued**

- (1) Annualized Rent PSF excludes ground rent, storage rent and garages.
- (2) Excludes US Post Office leased through 2038 (including five five-year renewal options) for which the annual escalated rent is \$11.03 per square foot.
- (3) Excludes 918,000 square feet in two buildings owned by ground lessees on land leased from us, including Pentagon Row Retail and Residential and Ritz Carlton (7.5% interest).
- (4) Annualized base rent disclosed is for mall tenants only.
- (5) Includes square footage of anchors who own the land and building.
- (6) The leases for these former Bradlees locations are guaranteed by Stop and Shop (70% as to Totowa).
- (7) Cross-collateralized by 555 California Street and 315 and 345 Montgomery Streets.
- (8) Owned by Macy's, Inc.
- (9) Leased by Alexander's through January 2037.

**New York Office Properties**

As of December 31, 2009, we own 28 office properties in New York City aggregating 16.2 million square feet, including 15.2 million square feet of office space, 817,000 square feet of retail space and 183,000 square feet of showroom space. In addition, the New York Office Properties segment includes 6 garages totaling 368,000 square feet (1,739 spaces) which are managed by, or leased, to third parties. The garage space is excluded from the statistics provided in this section.

***Occupancy and average annual escalated rent per square foot, excluding retail space:***

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Escalated Rent per Square Foot</b>
2009	16,173,000	95.5%	\$ 55.00
2008	16,108,000	96.7%	53.08
2007	15,994,000	97.6%	49.34
2006	13,692,000	97.5%	46.33
2005	12,972,000	96.0%	43.67

***2009 New York Office Properties rental revenue by tenants industry:***

<b>Industry</b>	<b>Percentage</b>
Retail	15%
Finance	14%
Legal Services	9%
Banking	7%
Insurance	5%
Communications	5%
Technology	5%
Publishing	4%
Government	4%
Pharmaceuticals	4%
Real Estate	4%
Advertising	3%
Not-for-Profit	3%
Engineering	2%
Service Contractors	1%



Health Services	1%
Other	14%
	100%

New York Office Properties lease terms generally range from five to seven years for smaller tenants to as long as 15 years for major tenants, and may provide for extension options at market rates. Leases typically provide for periodic step ups in rent over the term of the lease and pass through to tenants their share of increases in real estate taxes and operating expenses over a base year. Electricity is provided to tenants on a sub-metered 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.

**New York Office Properties continued*****Tenants accounting for 2% or more of 2009 New York Office Properties total revenues:***

<b>Tenant</b>	<b>Square Feet Leased</b>	<b>2009 Revenues</b>	<b>Percentage of New York Office Properties Revenues</b>	<b>Percentage of Total Company Revenues</b>
Macy's, Inc.	537,000	\$ 26,669,000	2.5%	1.0%
Madison Square Garden L.P. / Rainbow Media Holdings, Inc.	473,000	23,984,000	2.2%	0.9%
McGraw-Hill Companies, Inc.	480,000	22,558,000	2.1%	0.8%
Limited Brands	368,000	21,454,000	2.0%	0.8%

***2009 New York Office Properties Leasing Activity:***

<b>Location</b>	<b>Square Feet</b>	<b>Average Initial Rent Per Square Foot (1)</b>
909 Third Avenue	279,000	\$ 48.96
595 Madison Avenue	170,000	65.10
One Penn Plaza	161,000	52.53
770 Broadway	156,000	45.77
Two Penn Plaza	139,000	44.72
1290 Avenue of the Americas	104,000	57.63
866 United Nations Plaza	87,000	54.93
57 <sup>th</sup> Street	75,000	46.16
100 West 33 <sup>rd</sup> Street	61,000	41.41
Eleven Penn Plaza	61,000	45.00
350 Park Avenue	56,000	70.07
150 East 58 <sup>th</sup> Street	45,000	53.57
90 Park Avenue	34,000	55.99
888 Seventh Avenue	29,000	65.58
330 Madison Avenue	24,000	57.86
40 Fulton Street	20,000	34.78
689 Fifth Avenue	2,000	67.05

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Total	1,503,000	52.17
Vornado's Ownership Interest	1,417,000	52.13

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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.

In addition to the office space noted above, during 2009 we leased 43,000 square feet of retail space contained in office buildings at an average initial rent of \$188.09, a 55.7% increase over the prior escalated rent per square foot.

**New York Office Properties continued**

*Lease expirations as of December 31, 2009 assuming none of the tenants exercise renewal options:*

<b>Office Space:</b>			<b>Percentage of New York Office Properties Square Feet</b>	<b>Annual Escalated Rent of Expiring Leases</b>	
<b>Year</b>	<b>Number of Expiring Leases</b>	<b>Square Feet of Expiring Leases</b>		<b>Total</b>	<b>Per Square Foot</b>
<b>Office Space:</b>					
Month to month	75	180,000	1.1%	\$ 10,268,000	\$ 57.04
2010	106	760,000	4.7%	39,825,000	52.40
2011	83	861,000	5.4%	51,249,000	59.52
2012	96	1,727,000	10.8%	87,787,000	50.83
2013	59	868,000	(1) 5.4%	42,998,000	49.54
2014	78	733,000	4.6%	41,404,000	56.49
2015	83	2,135,000	13.3%	117,262,000	54.92
2016	46	930,000	5.8%	48,270,000	51.90
2017	33	836,000	5.2%	47,265,000	56.54
2018	30	760,000	4.7%	49,322,000	64.90
2019	26	577,000	3.6%	33,082,000	57.33
<b>Retail Space: (contained in office buildings)</b>					
Month to month	2	3,000		\$ 444,000	\$ 148.00
2010	12	31,000	0.2%	1,827,000	60.90
2011	5	37,000	0.2%	1,981,000	53.54
2012	6	21,000	0.1%	3,938,000	187.52
2013	17	51,000	0.3%	8,130,000	159.41
2014	10	86,000	0.5%	18,252,000	212.23
2015	8	32,000	0.2%	7,098,000	221.81
2016	4	319,000	2.0%	17,204,000	53.93
2017	2	22,000	0.1%	2,137,000	97.14
2018	8	115,000	0.7%	12,199,000	106.08
2019	5	33,000	0.2%	7,672,000	232.48

(1) Excludes 492,000 square feet at 909 Third Avenue leased to the U.S. Post Office through 2038 (including five 5-year renewal options) for which the annual escalated rent is \$11.03 per square foot.



**Washington, DC Office Properties**

As of December 31, 2009, we own 84 properties aggregating 18.6 million square feet in the Washington, DC / Northern Virginia area including 76 office buildings, 7 residential properties, a hotel property and 20.8 acres of undeveloped land. In addition, the Washington, DC Office Properties segment includes 51 garages totaling approximately 9.1 million square feet (29,000 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section.

As of December 31, 2009, 33% percent of the space in our Washington, DC Office Properties segment was leased to various agencies of the U.S. Government.

*Occupancy and average annual escalated rent per square foot:*

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Escalated Rent per Square Foot</b>
2009	18,560,000	94.9%	\$ 39.01
2008	17,666,000	95.0%	37.70
2007	17,483,000	93.3%	35.15
2006	17,456,000	92.6%	32.36
2005	17,112,000	90.9%	31.68

*2009 Washington, DC Office Properties rental revenue by tenants industry:*

<b>Industry</b>	<b>Percentage</b>
U.S. Government	34%
Government Contractors	23%
Legal Services	10%
Membership Organizations	7%
Manufacturing	3%
Real Estate	3%
Computer and Data Processing	3%
Business Services	3%

Communication	1%
Television Services	1%
Health Services	1%
Education	1%
Radio and Television	1%
Other	9%
	100%

Washington, DC Office Properties lease terms generally range from five to seven years, and may provide for extension options at either pre-negotiated or market rates. Leases typically provide for periodic step-ups in rent over the term of the lease and pass through to tenants, the tenants share of increases in real estate taxes and certain property operating expenses over a base year. Periodic step-ups in rent are usually 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.

**Washington, DC Office Properties** continued

*Tenants accounting for 2% or more of Washington, DC Office Properties total revenues:*

<b>Tenant</b>	<b>Square Feet Leased</b>	<b>2009 Revenues</b>	<b>Percentage of Washington, DC Office Properties Revenues</b>	<b>Percentage of Total Company Revenues</b>
U.S. Government	5,870,000	\$ 182,874,000	26.5%	6.7%
Howrey LLP	327,000	21,807,000	3.2%	0.8%
Academy for Educational Development	367,000	15,256,000	2.2%	0.6%
Boeing	387,000	15,158,000	2.2%	0.6%
SAIC, Inc.	449,000	15,126,000	2.2%	0.6%
Greenberg Traurig LLP	115,000	13,514,000	2.0%	0.5%

*2009 Washington, DC Office Properties Leasing Activity:*

<b>Location</b>	<b>Square Feet</b>	<b>Average Initial Rent Per Square Foot (1)</b>
S. Clark Street / 12 <sup>th</sup> Street	866,000	\$ 40.89
Skyline Place / One Skyline Tower	519,000	36.27
2011-2451 Crystal Drive	467,000	41.82
1800, 1851 and 1901 South Bell Street	390,000	42.41
1550-1750 Crystal Drive / 241-251 18 <sup>th</sup> Street	353,000	41.90
2001 Jefferson Davis Highway and 223 23 <sup>rd</sup> Street / 2221 South Clark Street	203,000	38.46
2200 / 2300 Clarendon Blvd (Courthouse Plaza)	71,000	39.15
1730 M Street, NW	45,000	42.45
Commerce Executive	40,000	28.74
Reston Executive	35,000	29.64
Partially Owned Entities	35,000	36.40
1227 25 <sup>th</sup> Street, NW	32,000	53.87
Democracy Plaza One	30,000	35.74
1150 17 <sup>th</sup> Street, NW	21,000	43.69
1726 M Street, NW	15,000	40.52
1101 17 <sup>th</sup> Street, NW	9,000	44.67



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Universal Buildings (1825-1875 Connecticut Avenue, NW)	8,000	42.38
2101 L Street, NW	6,000	50.00
1750 Pennsylvania Avenue, NW	4,000	48.75
Warner Building 1299 Pennsylvania Avenue, NW	4,000	64.87
1140 Connecticut Avenue, NW	3,000	39.00
1999 K Street, NW (sold in 2009)	2,000	76.50
	3,158,000	40.26

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

**Washington, DC Office Properties** continued

*Lease expirations as of December 31, 2009 assuming none of the tenants exercise renewal options:*

<b>Year</b>	<b>Number of Expiring Leases</b>	<b>Square Feet of Expiring Leases</b>	<b>Percentage of Washington, DC Office Properties Square Feet</b>	<b>Annual Escalated Rent of Expiring Leases</b>	
				<b>Total</b>	<b>Per Square Foot</b>
Month to	76	258,000	1.7%	\$ 7,387,000	\$ 28.61
2010	301	2,012,000	13.6%	74,643,000	37.11
2011	287	2,033,000	13.8%	73,957,000	36.38
2012	225	2,591,000	17.6%	96,717,000	37.32
2013	135	1,011,000	6.9%	39,558,000	39.12
2014	116	1,039,000	7.0%	36,713,000	35.33
2015	87	1,184,000	8.0%	44,342,000	37.44
2016	34	825,000	5.6%	32,124,000	38.94
2017	35	342,000	2.3%	12,505,000	36.58
2018	44	987,000	6.7%	47,038,000	47.66
2019	40	1,046,000	7.1%	40,708,000	38.92

## RETAIL PROPERTIES

As of December 31, 2009, we own 162 retail properties, of which 132 are strip shopping centers located primarily in the Northeast, Mid-Atlantic and California; 7 are regional malls located in New York, New Jersey, Virginia and San Juan, Puerto Rico; and 23 are retail properties located in Manhattan ( Manhattan Street Retail ). Our strip shopping centers and malls are generally located on major highways in mature, densely populated areas, and therefore attract consumers from a regional, rather than a neighborhood market place.

### *Strip Shopping Centers*

Our strip shopping centers contain an aggregate of 16.1 million square feet and are substantially (over 80%) leased to large stores (over 20,000 square feet). Tenants include destination retailers such as discount department stores, supermarkets, home improvement stores, discount apparel stores and membership warehouse clubs. 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 and location.

### *Regional Malls*

The Green Acres Mall in Valley Stream, Long Island, New York contains 1.8 million square feet, and is anchored by Macy's, Sears, Wal-Mart, J.C. Penney, Best Buy and a BJ's Wholesale Club.

The Monmouth Mall in Eatontown, New Jersey, in which we own a 50% interest, contains 1.5 million square feet and is anchored by Macy's, Lord & Taylor and J.C. Penney, two of which own their stores aggregating 457,000 square feet.

The Springfield Mall in Springfield, Virginia, contains 1.4 million square feet and is anchored by Macy's, J.C. Penney and Target who own their stores aggregating 390,000 square feet. We continue to evaluate plans to renovate and reposition the mall; given current economic conditions, that may require us to renegotiate the terms of the existing debt and, accordingly, we have requested that the debt be placed with the special servicer.

The Bergen Town Center in Paramus, New Jersey contains 950,000 square feet and is anchored by Century 21, Whole Foods and Target under leases aggregating 416,000 square feet. We are currently developing 250,000 square feet of retail space adjacent to the mall which will be anchored by Lowe's Home Improvement. This development is expected to be completed in 2010.

The Broadway Mall in Hicksville, Long Island, New York contains 1.1 million square feet and is anchored by Macy's, Ikea, Multiplex Cinema and Target, which owns its store containing 141,000 square feet.

The Montehiedra Mall in San Juan, Puerto Rico contains 540,000 square feet and is anchored by Home Depot, Kmart, and Marshalls.

The Las Catalinas Mall in San Juan, Puerto Rico, contains 495,000 square feet and is anchored by Kmart and Sears, which owns its 139,000 square foot store.

#### *Manhattan Street Retail*

Manhattan Street Retail is comprised of 23 properties containing 1,048,000 square feet. These properties include (i) properties in the Penn Plaza district, such as the Manhattan Mall which contains 242,000 square feet, anchored by JC Penney; (ii) 4 Union Square which contains 203,000 square feet, anchored by Whole Foods Market, Filenes Basement and DSW; (iii) 1540 Broadway in Times Square which contains 161,000 square feet, anchored by Forever 21 and Disney, which will open their flagship stores in 2010, and Planet Hollywood; and (iv) properties on Madison Avenue and in So-Ho occupied by retailers including H&M, Top Shop, Madewell, the GAP, Gucci, Chloe and Cartier. In addition, we own 817,000 square feet of retail space in certain of our New York office buildings, which is part of our New York Office Properties segment.

**RETAIL PROPERTIES CONTINUED**

*Occupancy and average annual net rent per square foot:*

As of December 31, 2009, the aggregate occupancy rate for the entire Retail Properties segment of 22.6 million square feet was 91.6%. Details of our ownership interest in the strip shopping centers, regional malls and Manhattan Street retail for the past five years are provided below.

**Strip Shopping Centers:**

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Net Rent per Square Foot</b>
2009	16,107,000	91.5%	\$ 15.30
2008	15,755,000	91.9%	14.52
2007	15,463,000	94.1%	14.12
2006	12,933,000	92.9%	13.48
2005	10,750,000	95.5%	12.07

**Regional Malls:**

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Net Rent Per Square Foot</b>	
			<b>Mall Tenants</b>	<b>Mall and Anchor Tenants</b>
2009	5,439,000	91.1%	\$ 39.56	\$ 20.67
2008	5,232,000	93.0%	37.59	20.38
2007	5,528,000	96.1%	34.94	19.11
2006	5,640,000	93.4%	32.64	18.12
2005	4,817,000	96.2%	31.83	18.24

**For the years ending December 31, 2009 and 2008, mall sales per square foot, including partially owned malls, were \$457.00 and \$487.00, respectively.**

**Manhattan Street Retail:**

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Net Rent per Square Foot</b>
2009	1,007,000	95.3%	\$ 96.37
2008	874,000	90.4%	97.18
2007	943,000	86.8%	89.86
2006	691,000	83.6%	83.53
2005	602,000	90.9%	81.94

**RETAIL PROPERTIES CONTINUED**

*2009 Retail Properties rental revenue by type of retailer:*

<b>Industry</b>	<b>Percentage</b>
Discount Stores	13%
Women s Apparel	11%
Family Apparel	10%
Supermarkets	9%
Home Entertainment and Electronics	7%
Restaurants	6%
Home Improvement	6%
Banking and Other Business Services	5%
Department Stores	5%
Personal Services	3%
Home Furnishings	3%
Membership Warehouse Clubs	2%
Jewelry	2%
Other	18%
	100%

Retail Properties lease terms generally range from five years or less in some instances for smaller tenants to as long as 25 years for major tenants. Leases generally provide for reimbursements of real estate taxes, insurance and common area maintenance charges (including roof and structure in strip shopping centers, unless it is the tenant s direct responsibility), and percentage rents based on tenant sales volume. Percentage rents accounted for less than 1% of the Retail Properties total revenues during 2009.

*Tenants accounting for 2% or more of 2009 Retail Properties total revenues:*

<b>Tenant</b>	<b>Square Feet Leased</b>	<b>2009 Revenues</b>	<b>Percentage of Retail Properties Revenues</b>	<b>Percentage of Total Company Revenues</b>
The Home Depot, Inc	990,000	\$ 18,184,000	3.3%	0.7%
Best Buy Co, Inc.	619,000	16,982,000	3.1%	0.6%
Wal-Mart/Sam s Wholesale	1,674,000	16,643,000	3.0%	0.6%
Stop & Shop Companies, Inc. (Stop & Shop)	729,000	14,055,000	2.5%	0.5%

Sears Holdings Corporation (Sears and Kmart)	1,017,000	12,172,000	2.2%	0.4%
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**RETAIL PROPERTIES CONTINUED**

*Lease expirations as of December 31, 2009 assuming none of the tenants exercise renewal options:*

<b>Year</b>	<b>Number of Expiring Leases</b>	<b>Square Feet of Expiring Leases</b>	<b>Percentage of Retail Properties Square Feet</b>	<b>Annual Net Rent of Expiring Leases Total</b>	<b>Per Square Foot</b>
<b>Strip Shopping Centers:</b>					
Month to month	17	46,000	0.2%	\$ 962,000	\$ 20.79
2010	52	490,000	2.4%	7,484,000	15.26
2011	71	949,000	4.7%	10,145,000	10.69
2012	65	872,000	4.3%	12,194,000	13.98
2013	113	1,980,000	9.7%	24,466,000	12.35
2014	104	1,191,000	5.8%	19,413,000	16.30
2015	45	598,000	2.9%	10,583,000	17.70
2016	41	688,000	3.4%	10,475,000	15.22
2017	32	323,000	1.6%	4,562,000	14.11
2018	54	932,000	4.6%	14,173,000	15.21
2019	44	930,000	4.6%	16,807,000	18.07
<b>Malls:</b>					
Month to month	51	110,000	0.5%	\$ 3,693,000	\$ 33.50
2010	89	262,000	1.3%	7,459,000	28.43
2011	61	251,000	1.2%	7,619,000	30.29
2012	47	216,000	1.1%	5,486,000	25.40
2013	72	272,000	1.3%	8,223,000	30.28
2014	48	343,000	1.7%	6,412,000	18.70
2015	53	267,000	1.3%	6,900,000	25.86
2016	43	388,000	1.9%	4,844,000	12.47
2017	43	467,000	2.3%	7,760,000	16.61
2018	45	114,000	0.6%	5,145,000	44.97
2019	45	182,000	0.9%	6,532,000	35.94
<b>Manhattan Street Retail:</b>					
Month to month	3	4,000		\$ 154,000	\$ 34.83
2010	2	7,000		1,210,000	177.26
2011	9	96,000	0.5%	6,247,000	65.06
2012	8	36,000	0.2%	2,028,000	55.91
2013	4	23,000	0.1%	2,993,000	129.24
2014	7	30,000	0.1%	4,049,000	136.37
2015	6	23,000	0.1%	2,439,000	107.27
2016	8	20,000	0.1%	4,044,000	206.03
2017	6	17,000	0.1%	2,539,000	152.43
2018	16	128,000	0.6%	20,963,000	164.00
2019	10	58,000	0.3%	8,259,000	142.85



**RETAIL PROPERTIES CONTINUED***2009 Retail Properties Leasing Activity:*

<b>Location</b>	<b>Square Feet</b>	<b>Average Initial Rent Per Square Foot (1)</b>
Bergen Town Center, Paramus, NJ	222,000	\$ 25.01
Green Acres Mall, Valley Stream, NY	190,000	15.46
Poughkeepsie, NY	130,000	4.35
Albany (Menands), NY	104,000	9.00
Tampa, FL	45,000	19.80
San Francisco (275 Sacramento Street), CA	43,000	42.50
Wilkes-Barre, PA	40,000	6.53
East Hanover I and II, NJ	35,000	21.42
Baltimore (Towson), MD	33,000	16.45
Bricktown, NJ	28,000	14.06
Huntington, NY	25,000	16.23
Las Catalinas, Puerto Rico	19,000	49.56
155 Spring Street, New York, NY	17,000	40.01
Springfield Mall, Springfield, VA	16,000	47.66
North Plainfield, NJ	13,000	9.58
Inwood, NY	12,000	29.79
York, PA	12,000	9.20
Bethlehem, PA	11,000	3.00
Totowa, NJ	11,000	34.00
Buffalo (Amherst), NY	10,000	12.25
North Bergen (Tonnelles Ave), NJ	9,000	44.86
Cherry Hill, NJ	8,000	22.60
Hackensack, NJ	8,000	30.55
Broadway Mall, Hicksville, NY	7,000	63.09
Glenolden, PA	7,000	21.50
Bronx (Bruckner Boulevard), NY	6,000	24.17
Monmouth Mall, Eatontown, NJ	6,000	43.64
Rockville, MD	6,000	28.50
San Francisco (The Cannery) (2801 Leavenworth Street), CA	6,000	25.00
148 Spring Street, New York, NY	5,000	42.16
Springfield, MA	5,000	23.39
Union (Route 22 and Morris Avenue ), NJ	5,000	29.00
Other	45,000	115.66
	1,139,000	23.28

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

## MERCHANDISE MART PROPERTIES

As of December 31, 2009, we own 8 Merchandise Mart Properties containing an aggregate of 8.9 million square feet. The Merchandise Mart Properties segment also contains 7 garages totaling 1.0 million square feet (3,312 spaces). The garage space is excluded from the statistics provided in this section.

*Square feet by location and use as of December 31, 2009:*

(Amounts in thousands)	Showroom					
	Total	Office	Total	Permanent	Temporary Trade Show	Retail
Chicago, Illinois:						
Merchandise Mart	3,494	1,040	2,387	1,805	582	67
350 West Mart Center	1,223	1,135	88	88		
Other	10					10
Total Chicago, Illinois	4,727	2,175	2,475	1,893	582	77
High Point, North Carolina:						
Market Square Complex	1,751	32	1,691	1,227	464	28
National Furniture Mart	260		260	260		
Total High Point, North Carolina	2,011	32	1,951	1,487	464	28
Los Angeles, California:						
L.A. Mart	781	32	740	686	54	9
Boston, Massachusetts:						
Boston Design Center	553	124	424	424		5
New York, New York:						
7 West 34 <sup>th</sup> Street	419	15	404	362	42	
Washington, DC:						
Washington Design Center	393	86	307	307		
Total Merchandise Mart Properties	8,884	2,464	6,301	5,159	1,142	119
Occupancy rate	88.5%	88.9%	88.4%			87.0%

**MERCHANDISE MART PROPERTIES CONTINUED***Office Space**Occupancy and average annual escalated rent per square foot:*

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Escalated Rent Per Square Foot</b>
2009	2,464,000	88.9%	\$ 23.52
2008	2,424,000	96.5%	25.18
2007	2,358,000	96.7%	24.99
2006	2,316,000	97.2%	23.82
2005	2,703,000	96.7%	25.05

*2009 Merchandise Mart Properties office rental revenues by tenants industry:*

<b>Industry</b>	<b>Percentage</b>
Service	31%
Telecommunications	13%
Education	13%
Banking	9%
Government	7%
Publications	7%
Insurance	6%
Other	14%
	100%

Office lease terms generally range from three to seven years for smaller tenants to as long as 15 years for major tenants. Leases typically provide for periodic step-ups in rent over the term of the lease and pass through to tenants their share of increases in real estate taxes and operating expenses over a base year. Electricity is provided to tenants

on a sub-metered basis or included in rent 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 of its premises.

*Office tenants accounting for 2% or more of Merchandise Mart Properties' 2009 total revenues:*

<b>Tenant</b>	<b>Square Feet Leased</b>	<b>2009 Revenues</b>	<b>Percentage of Merchandise Mart Properties Revenues</b>	<b>Percentage of Total Company Revenues</b>
Ogilvy Group (WPP)	270,000	\$ 7,961,000	3.0%	0.3%

**MERCHANDISE MART PROPERTIES CONTINUED**

2009 leasing activity Merchandise Mart Properties office space:

	<b>Square Feet</b>	<b>Average Initial Rent Per Square Foot (1)</b>
350 West Mart Center	146,000	\$ 33.68
Merchandise Mart	42,000	34.58
Washington Design Center	15,000	45.66
Total	203,000	34.76

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

Lease expirations for Merchandise Mart Properties office space as of December 31, 2009 assuming none of the tenants exercise renewal options:

<b>Year</b>	<b>Number of Expiring Leases</b>	<b>Square Feet of Expiring Leases</b>	<b>Percentage of Merchandise Mart Properties Office Square Feet</b>	<b>Annual Escalated Rent of Expiring Leases</b>	
				<b>Total</b>	<b>Per Square Foot</b>
2010	7	33,000	1.6%	\$ 843,000	\$ 25.70
2011	17	77,000	3.8%	2,048,000	26.51
2012	8	105,000	5.2%	2,984,000	28.46
2013	19	84,000	4.2%	2,514,000	29.77
2014	5	106,000	5.2%	3,055,000	28.79
2015	9	235,000	11.6%	6,614,000	28.12
2016	5	118,000	5.8%	3,086,000	26.16
2017	5	86,000	4.2%	1,705,000	19.85

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2018	10	287,000	14.1%	8,350,000	29.06
2019	4	8,000	0.4%	326,000	39.71

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**MERCHANDISE MART PROPERTIES CONTINUED****Showroom Space**

The showrooms provide manufacturers and wholesalers with permanent and temporary space in which to display products for buyers, specifiers and end users. The showrooms are also used for hosting trade shows for the contract furniture, casual furniture, gift, carpet, crafts, apparel and design industries. Merchandise Mart Properties own and operate five of the leading furniture and gift trade shows, including the contract furniture industry's largest trade show, NeoCon, which attracts over 50,000 attendees each June and is hosted at the Merchandise Mart building in Chicago. The Market Square Complex is co-host to the home furniture industry's semi-annual (April and October) market weeks which occupy over 1.2 million square feet in the High Point, North Carolina region.

*Occupancy and average escalated rent per square foot:*

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Escalated Rent Per Square Foot</b>
2009	6,301,000	88.4%	\$ 27.17
2008	6,332,000	92.2%	26.72
2007	6,139,000	93.7%	26.16
2006	6,370,000	93.6%	25.17
2005	6,290,000	94.7%	24.04

*2009 Merchandise Mart Properties showroom rental revenues by tenants' industry:*

<b>Industry</b>	<b>Percentage</b>
Residential Design	31%
Gift	20%
Contract Furnishing	17%
Residential Furnishing	15%
Casual Furniture	6%
Apparel	5%
Building Products	4%
Art	2%
	100%

*2009 Leasing Activity Merchandise Mart Properties showroom space:*

**Square Feet**

		<b>Average Initial Rent Per Square Foot (1)</b>	
Market Square Complex	484,000	\$	12.83
Merchandise Mart	299,000		40.78
L.A. Mart	149,000		19.84
7 West 34 <sup>th</sup> Street	108,000		43.98
Washington Design Center	89,000		47.23
Boston Design Center	89,000		36.76
350 West Mart Center	20,000		28.01
Total	1,238,000		27.58

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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.

**MERCHANDISE MART PROPERTIES CONTINUED**

*Lease expirations for the Merchandise Mart Properties showroom space as of December 31, 2009 assuming none of the tenants exercise renewal options:*

Year Month to	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Merchandise Mart	Annual Escalated		Per Square Foot
			Properties Showroom Square Feet	Rent of Expiring Leases Total		
2010	35	80,000	1.8%	\$	2,091,000	\$ 26.14
2011	180	555,000	12.7%		15,477,000	27.89
2012	154	577,000	13.2%		16,685,000	28.93
2013	143	610,000	14.0%		16,180,000	26.53
2014	128	631,000	14.4%		18,507,000	29.33
2015	119	543,000	12.4%		15,469,000	28.49
2016	61	363,000	8.3%		10,493,000	28.93
2017	37	197,000	4.5%		6,537,000	33.13
2018	45	407,000	9.3%		13,736,000	33.73
2019	34	212,000	4.9%		7,705,000	36.32
	17	89,000	2.0%		3,224,000	36.04

**Retail Space**

The Merchandise Mart Properties segment also contains approximately 119,000 square feet of retail space, which was 87.0% occupied at December 31, 2009.

**TOYS R US, INC. ( TOYS )**

As of December 31, 2009 we own a 32.7% interest in Toys, a worldwide specialty retailer of toys and baby products, which has a significant real estate component. Toys had \$5.9 billion of outstanding debt at October 31, 2009, of which our pro rata share was \$1.9 billion, none of which is recourse to us.

The following table sets forth the total number of stores operated by Toys as of December 31, 2009:

	<b>Total</b>	<b>Owned</b>	<b>Building Owned on Leased Ground</b>	<b>Leased</b>
Domestic	851	300	231	320
International	514	79	26	409
Subtotal	1,365	379	257	729
Franchised stores	202			
Total	1,567			

## OTHER INVESTMENTS

### 555 California Street Complex

As of December 31, 2009, we own a 70% controlling interest in a three-building complex containing 1.8 million square feet, known as The Bank of America Center, located at California and Montgomery Streets in San Francisco's financial district ( 555 California Street ), which we acquired in 2007.

*Occupancy and average annual rent per square foot as of December 31, 2009:*

<b>As of December 31,</b>	<b>Rentable Square Feet</b>	<b>Occupancy Rate</b>	<b>Average Annual Escalated Rent Per Square Foot</b>
2009	1,794,000	94.8%	\$ 57.25
2008	1,789,000	94.0%	57.98
2007	1,789,000	95.0%	59.84

*2009 rental revenue by tenants' industry:*

<b>Industry</b>	<b>Percentage</b>
Finance	39%
Banking	42%
Legal Services	11%
Retail	1%
Others	7%
	100%

Lease terms generally range from five to seven years for smaller tenants to as long as 15 years for major tenants, and may provide for extension options at market rates. Leases typically provide for periodic step ups in rent over the term of the lease and pass through to tenants their share of increases in real estate taxes and operating expenses over a base year. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant's initial construction costs of its premises.

*Tenants accounting for 2% or more of total revenues:*

<b>Tenant</b>	<b>Square Feet Leased</b>	<b>2009 Revenues</b>	<b>Percentage of 555 California Street Complex s Revenues</b>	<b>Percentage of Total Company Revenues</b>	
Bank of America	659,000	37,712,000	36.2%	1.4	%
UBS Financial Services	134,000	8,410,000	8.1%	0.3	%
Goldman, Sachs & Co.	97,000	6,446,000	6.2%	0.2	%
Morgan Stanley & Company, Inc.	89,000	6,417,000	6.2%	0.2	%
Kirkland & Ellis LLP	125,000	5,837,000	5.6%	0.2	%
McKinsey & Company Inc.	54,000	4,256,000	4.1%	0.2	%
Dodge & Cox	62,000	3,898,000	3.7%	0.1	%

*2009 leasing activity:*

During 2009 we leased 100,000 square feet at a weighted average rent initial rent of \$52.82 per square foot.

**OTHER INVESTMENTS CONTINUED****Alexander s, Inc. ( Alexander s )**

As of December 31, 2009, we own 32.4% of the outstanding common stock of Alexander s, which has seven properties in the greater New York metropolitan area. Alexander s had \$1.3 billion of outstanding debt at December 31, 2009, of which our pro rata share was \$414 million, none of which is recourse to us.

**Hotel Pennsylvania**

We own the Hotel Pennsylvania which is located in New York City on Seventh Avenue opposite Madison Square Garden and consists of a hotel portion containing 1,000,000 square feet of hotel space with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space.

Rental information:	Year Ended December 31,				
	2009	2008	2007	2006	2005
Hotel:					
Average occupancy rate	71.5%	84.1%	84.4%	82.1%	83.7%
Average daily rate	\$ 133.20	\$ 171.32	\$ 154.78	\$ 133.33	\$ 115.74
Revenue per available room	\$ 95.18	\$ 144.01	\$ 130.70	\$ 109.53	\$ 96.85
Commercial:					
Office space:					
Average occupancy rate	30.4%	30.4%	57.0%	41.2%	38.7%
Annual rent per square foot	\$ 20.54	\$ 18.78	\$ 22.23	\$ 16.42	\$ 10.70
Retail space:					
Average occupancy rate	70.7%	69.5%	73.3%	79.9%	79.8%
Annual rent per square foot	\$ 35.05	\$ 41.75	\$ 33.63	\$ 27.54	\$ 26.02

**Lexington Realty Trust ( Lexington )**

As of December 31, 2009, we own 15.2% of the outstanding common shares of Lexington, which has interests in 259 properties, encompassing approximately 45.9 million square feet across 43 states, generally net-leased to major corporations. Lexington had approximately \$2.1 billion of outstanding debt at of December 31, 2009, of which our pro rata share was \$342 million, none of which is recourse to us.

## Warehouse/Industrial Properties

As of December 31, 2009, we own 6 warehouse/industrial properties in New Jersey containing approximately 1.2 million square feet. Average lease terms range from three to five years. The following table sets forth the occupancy rate and average annual rent per square foot at the end of each of the past five years.

As of December 31,	Occupancy Rate	Average Annual Rent	
		Per Square Foot	
2009	69.4%	\$	5.40
2008	100.0%		4.70
2007	100.0%		4.70
2006	96.9%		4.17
2005	100.0%		4.19



**Item 3. Legal Proceedings**

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters, including the matters referred to below, are not expected to have a material adverse effect on our financial position, results of operations or cash flows.

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey ( USDC-NJ ) claiming that we had no right to reallocate and therefore continue to collect the \$5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty, because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the \$5,000,000 of additional rent was previously allocated. Stop & Shop asserted that a prior order of the Bankruptcy Court for the Southern District of New York dated February 6, 2001, as modified on appeal to the District Court for the Southern District of New York on February 13, 2001, froze our right to reallocate which effectively terminated our right to collect the additional rent from Stop & Shop. On March 3, 2003, after we moved to dismiss for lack of jurisdiction, Stop & Shop voluntarily withdrew its complaint. On March 26, 2003, Stop & Shop filed a new complaint in New York State Supreme Court, asserting substantially the same claims as in its USDC-NJ complaint. We removed the action to the United States District Court for the Southern District of New York. In January 2005 that court remanded the action to the New York State Supreme Court. On February 14, 2005, we served an answer in which we asserted a counterclaim seeking a judgment for all the unpaid additional rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the additional rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. On May 17, 2005, we filed a motion for summary judgment. On July 15, 2005, Stop & Shop opposed our motion and filed a cross-motion for summary judgment. On December 13, 2005, the Court issued its decision denying the motions for summary judgment. Both parties appealed the Court's decision and on December 14, 2006, the Appellate Court division issued a decision affirming the Court's decision. On January 16, 2007, we filed a motion for the reconsideration of one aspect of the Appellate Court's decision which was denied on March 13, 2007. Discovery is now complete. On October 19, 2009, Stop & Shop filed a motion for leave to amend its pleadings to assert new claims for relief, including a claim for damages in an unspecified amount, and an additional affirmative defense. The motion was argued and submitted for decision on December 18, 2009. The course of future proceedings will depend upon the outcome of Stop & Shop's motion, but we anticipate that a trial date will be set for some time in 2010. We intend to vigorously pursue our claims against Stop & Shop. In our opinion, after consultation with legal counsel, the outcome of such matters will not have a material effect on our financial condition, results of operations or cash flows.

On May 24, 2007, we acquired a 70% controlling interest in 1290 Avenue of the Americas and the 555 California Street complex. Our 70% interest was acquired through the purchase of all of the shares of a group of foreign companies that own, through U.S. entities, the 1% sole general partnership interest and a 69% limited partnership interest in the partnerships that own the two properties. The remaining 30% limited partnership interest is owned by Donald J. Trump. In August 2005, Mr. Trump brought a lawsuit in the New York State Supreme Court against, among others, the general partners of the partnerships referred to above relating to a dispute over the sale of properties located on the former Penn Central rail yards between West 59th and 72nd Streets in Manhattan which were formerly owned by the partnerships. In decisions issued in 2006, 2007 and 2009, the New York State Supreme Court dismissed all of Mr. Trump's claims, and those decisions were affirmed by the Appellate Division. Mr. Trump cannot further appeal those decisions.

In July 2005, we acquired H Street Building Corporation ( H Street ) which has a subsidiary that owns, among other things, a 50% tenancy in common interest in land located in Arlington County, Virginia, known as "Pentagon Row,"

leased to two tenants. In April 2007, H Street acquired the remaining 50% interest in that fee. In April 2007, we received letters from those tenants, Street Retail, Inc. and Post Apartment Homes, L.P., claiming they had a right of first offer triggered by each of those transactions. On September 25, 2008, both tenants filed suit against us and the former owners. The claim alleges the right to purchase the fee interest, damages in excess of \$75,000,000 and punitive damages. We believe this claim is without merit and regardless of merit, in our opinion, after consultation with legal counsel, this claim will not have a material effect on our financial condition, results of operations or cash flows.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

The following is a list of the names, ages, principal occupations and positions with Vornado of the executive officers of Vornado and the positions held by such officers during the past five years. All executive officers of Vornado have terms of office that run until the next succeeding meeting of the Board of Trustees of Vornado following the Annual Meeting of Shareholders unless they are removed sooner by the Board.

<b>Name</b>	<b>Age</b>	<b>Principal Occupation, Position and Office (Current and during past five years with Vornado unless otherwise stated)</b>
Steven Roth	68	Chairman of the Board; Chief Executive Officer from May 1989 to May 2009; Managing General Partner of Interstate Properties, an owner of shopping centers and an investor in securities and partnerships; Chief Executive Officer of Alexander's, Inc. since March 1995, a Director since 1989, and Chairman since May 2004.
Michael D. Fascitelli	53	Chief Executive Officer since May 2009; President and a Trustee since December 1996; President of Alexander's Inc. since August 2000 and Director since December 1996; Partner at Goldman, Sachs & Co. in charge of its real estate practice from December 1992 to December 1996; and Vice President at Goldman, Sachs & Co., prior to December 1992.
Michelle Felman	47	Executive Vice President Acquisitions since September 2000; Independent Consultant to Vornado from October 1997 to September 2000; Managing Director Global Acquisitions and Business Development of GE Capital from 1991 to July 1997.
David R. Greenbaum	58	President of the New York City Office Division since April 1997 (date of our acquisition); President of Mendik Realty (the predecessor to the New York Office division) from 1990 until April 1997.
Christopher Kennedy	46	President of the Merchandise Mart Division since September 2000; Executive Vice President of the Merchandise Mart Division from April 1998 to September 2000; Executive Vice President of Merchandise Mart Properties, Inc. from 1994 to April 1998.
Joseph Macnow	64	

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Executive Vice President Finance and Administration since January 1998 and Chief Financial Officer since March 2001; Vice President and Chief Financial Officer of the Company from 1985 to January 1998; Executive Vice President and Chief Financial Officer of Alexander's, Inc. since August 1995.

Sandeep Mathrani	47	Executive Vice President Retail Real Estate since March 2002; Executive Vice President, Forest City Ratner from 1994 to February 2002.
Mitchell N. Schear	51	President of Vornado/Charles E. Smith L.P. (our Washington, DC Office division) since April 2003; President of the Kaempfer Company from 1998 to April 2003 (date acquired by us).
Wendy Silverstein	49	Executive Vice President Capital Markets since April 1998; Senior Credit Officer of Citicorp Real Estate and Citibank, N.A. from 1986 to 1998.

## PART II

### Item 5. Market for Registrant's Common Equity, Related STOCKholder Matters and issuer purchases of equity securities

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

Quarterly closing price ranges of the common shares and dividends paid per share for the years ended December 31, 2009 and 2008 were as follows:

Quarter	Year Ended December 31, 2009			Year Ended December 31, 2008		
	High	Low	Dividends	High	Low	Dividends
1st	\$ 62.33	\$ 27.01	\$ 0.95	\$ 94.54	\$ 76.64	\$ 0.90
2nd	54.00	32.00	0.95	99.70	85.94	0.90
3rd	70.23	39.65	0.65	108.15	83.00	0.90
4th	73.96	56.54	0.65	90.65	36.66	0.95

During 2009 dividends were paid in a combination of cash and Vornado common shares; first and second quarter dividends were paid 40% in cash and 60% in shares and third and fourth quarter dividends were paid 60% in cash and 40% in shares. During 2008 dividends were paid all in cash. Effective with the first quarter dividend in 2010, we have returned to an all cash dividend policy.

On February 1, 2010, there were 1,450 holders of record of our common shares.

*Recent Sales of Unregistered Securities*

During the fourth quarter of 2009, we issued 35,719 common shares upon the redemption of Class A units of the Operating Partnership held by persons who received units, in private placements in earlier periods, in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) of that Act.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Part III, Item 12 of this Annual Report on Form 10-K and such information is incorporated by reference herein.

*Recent Purchases of Equity Securities*

We did not repurchase any of our equity securities during the fourth quarter of 2009, other than 1,123,174 common shares used by officers and employees of the Company to pay for the exercise price and related withholding taxes resulting from stock option exercises.

***Performance Graph***

The following graph is a comparison of the five-year cumulative return of our common shares, the Standard & Poor's 500 Index (the S&P 500 Index) and the National Association of Real Estate Investment Trusts (NAREIT) All Equity Index (excluding health care real estate investment trusts), a peer group index. The graph assumes that \$100 was invested on December 31, 2004 in our common shares, the S&P 500 Index and the NAREIT All Equity Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below.

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Vornado Realty Trust	100	115	174	130	93	115

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S&P 500 Index	100	105	121	128	81	102
The NAREIT All Equity Index	100	112	151	128	80	102

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**Item 6. Selected Financial Data**

(in thousands, except per share amounts)	<b>Year Ended December 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Operating Data:</b>					
Revenues:					
Property rentals	\$ 2,222,285	\$ 2,207,399	\$ 1,972,230	\$ 1,539,813	\$ 1,356,727
Tenant expense reimbursements	361,982	357,986	323,075	260,447	206,386
Fee and other income	158,311	127,301	109,938	103,587	94,603
Total revenues	2,742,578	2,692,686	2,405,243	1,903,847	1,657,716
Expenses:					
Operating	1,087,785	1,069,445	950,487	735,668	627,980
Depreciation and amortization	539,503	536,820	440,224	317,524	251,751
General and administrative	231,688	194,023	189,024	180,077	139,400
Impairment and other losses	87,823	81,447	10,375		
Total expenses	1,946,799	1,881,735	1,590,110	1,233,269	1,019,131
Operating income	795,779	810,951	815,133	670,578	638,585
Income (loss) applicable to Alexander's	53,529	36,671	50,589	(14,530)	59,022
Income (loss) applicable to Toys R Us	92,300	2,380	(14,337)	(47,520)	(40,496)
(Loss) income from partially owned entities	(73,439 )	(195,878)	31,891	60,355	34,917
Interest and other investment (loss) income, net	(116,330 )	(2,682)	226,425	255,391	164,941
Interest and debt expense	(634,283 )	(635,724)	(599,804)	(399,580)	(284,876)
Net (loss) gain on early extinguishment of debt	(25,915 )	9,820			
Net gains on disposition of wholly owned and partially owned assets other than depreciable real estate	5,641	7,757	39,493	76,073	39,042
Income before income taxes	97,282	33,295	549,390	600,767	611,135
Income tax (expense) benefit	(20,737 )	204,537	(9,179)	(491)	(2,315)
Income from continuing operations	76,545	237,832	540,211	600,276	608,820
Income from discontinued operations	51,905	173,613	67,622	33,080	61,194
Net income	128,450	411,445	607,833	633,356	670,014
Net income attributable to noncontrolling interests, including unit distributions	(22,281 )	(52,148)	(66,294)	(78,574)	(133,134)
Net income attributable to Vornado	106,169	359,297	541,539	554,782	536,880

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Preferred share dividends	(57,076 )	(57,091)	(57,177)	(57,511)	(46,501)
Net income attributable to common shareholders	\$ 49,093	\$ 302,206	\$ 484,362	\$ 497,271	\$ 490,379
Income from continuing operations - basic	\$ 0.00	\$ 0.94	\$ 2.78	\$ 3.26	\$ 3.20
Income from continuing operations - diluted	0.00	0.91	2.66	3.09	3.04
Income per share basic	0.28	1.96	3.18	3.49	3.66
Income per share diluted	0.28	1.91	3.05	3.31	3.48
Dividends per common share	3.20	(1) 3.65	3.45	3.79	3.90

**Balance Sheet Data:**

Total assets	\$ 20,185,472	\$ 21,418,048	\$ 22,478,717	\$ 17,954,384	\$ 13,637,102
Real estate, at cost	17,949,517	17,819,679	17,029,965	11,512,518	9,573,177
Accumulated depreciation	(2,494,441 )	(2,167,403)	(1,809,048)	(1,446,588)	(1,208,004)
Debt	10,939,615	12,437,923	11,718,977	8,402,955	5,489,694
Total equity	6,649,406	6,214,652	6,011,240	5,006,596	4,659,359

(1) Paid in combination of cash and Vornado common shares.

(Amounts in thousands)	Year Ended December 31,				
	2009	2008	2007	2006	2005
<b>Other Data:</b>					
Funds From Operations ( FFO ) (1):					
Net income attributable to Vornado	\$ 106,169	\$ 359,297	\$ 541,539	\$ 554,782	\$ 536,880
Depreciation and amortization of real property	508,572	509,367	451,313	337,730	276,921
Net gains on sale of real estate	(45,282 )	(57,523)	(60,811)	(33,769)	(31,614)
Proportionate share of adjustments to equity in net income of Toys to arrive at FFO:					
Depreciation and amortization of real property	65,358	66,435	85,244	60,445	12,192
Net gains on sale of real estate	(164 )	(719)	(3,012)	(2,178)	
Income tax effect of above adjustments	(22,819 )	(23,223)	(28,781)	(21,038)	(4,613)
Proportionate share of adjustments to equity in net income of partially owned entities, excluding Toys, to arrive at FFO:					
Depreciation and amortization of real property	75,200	49,513	48,770	45,184	29,860
Net gains on sale of real estate	(1,188 )	(8,759)	(12,451)	(10,988)	(2,918)
Noncontrolling interests share of above adjustments	(45,344 )	(49,683)	(46,664)	(39,809)	(31,990)
FFO	640,502	844,705	975,147	890,359	784,718
Preferred share dividends	(57,076 )	(57,091)	(57,177)	(57,511)	(46,501)
FFO attributable to common shareholders	583,426	787,614	917,970	832,848	738,217
Interest on 3.875% exchangeable senior debentures		25,261	24,958	24,671	18,029
Convertible preferred dividends	170	189	277	631	943
FFO attributable to common shareholders plus assumed conversions (1)	\$ 583,596	\$ 813,064	\$ 943,205	\$ 858,150	\$ 757,189

(1) FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ( NAREIT ). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets and GAAP extraordinary items, and to include depreciation and amortization expense from real estate assets and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flows as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies.



**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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## Overview

Vornado Realty Trust ( Vornado ) is a fully integrated real estate investment trust ( REIT ) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership ). Vornado is the sole general partner of, and owned approximately 92.5% of the common limited partnership interest in, the Operating Partnership at December 31, 2009. All references to we, us, our, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

We own and operate office, retail and showroom properties (our core operations) with large concentrations of office and retail properties in the New York City metropolitan area and in the Washington, DC / Northern Virginia areas. In addition, we have a 32.7% interest in Toys R Us, Inc. ( Toys ) which has a significant real estate component, a 32.4% interest in Alexander's, Inc., which has seven properties in the greater New York metropolitan area, as well as interests in other real estate and related investments.

On May 14, 2009, our Board of Trustees executed its long-planned management succession strategy and elected Michael D. Fascitelli, as our Chief Executive Officer, succeeding Steven Roth, who continues to serve as Chairman of the Board.

Our business objective is to maximize shareholder value, which we measure by the total return provided to our shareholders. Below is a table comparing our performance to that of the Morgan Stanley REIT Index ( RMS ) and the SNL REIT Index ( SNL ) for the following periods ending December 31, 2009 (past performance is not necessarily indicative of future performance):

	<b>Vornado</b>	<b>Total Return <sup>(1)</sup></b>	
		<b>RMS</b>	<b>SNL</b>
One-year	19.4%	28.6%	28.9%
Three-years	(36.3%)	(33.6%)	(31.2%)
Five-years	10.9%	1.1%	4.6%
Ten-years	253.9%	169.7%	182.6%

(1) Past performance is not necessarily indicative of how we will perform in the future.

We intend to achieve our business objective by continuing to pursue our investment philosophy and executing our 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, DC, where we believe there is high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select under-served locations such as the New York City metropolitan area;
- Investing in fully-integrated operating companies that have a significant real estate component; and
- Developing and redeveloping existing properties to increase returns and maximize value.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets.

We may also determine to raise capital for future real estate acquisitions through an institutional investment fund. We would serve as the general partner of the fund and would also expect to be a limited partner of the fund and have the potential to earn certain incentives based on the fund's performance. The fund may serve as our exclusive investment vehicle for a limited period of time for all investments that fit within the fund's investment parameters. If we determine to raise capital through a fund, the partnership interests offered would not be registered under the Securities Act of 1933 and could not be offered or sold in the United States absent registration under that act or an applicable exemption from those registration requirements.

## Overview - continued

We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, attractiveness of location, the quality of the property and the breadth and the quality of services provided. Our success depends upon, among other factors, trends of the national, regional and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends. See Risk Factors in Item 1A for additional information regarding these factors.

The economic recession and illiquidity and volatility in the financial and capital markets have negatively affected substantially all businesses, including ours. Demand for office and retail space has declined nationwide due to bankruptcies, downsizing, layoffs and cost cutting. Real estate transactions and development opportunities have significantly curtailed and capitalization rates have risen. These trends have negatively impacted our 2008 and 2009 financial results, which include losses associated with abandoned development projects, valuation allowances on investments in mezzanine loans and impairments on other real estate investments. The details of these non-cash charges are described below. Impairment losses and valuation allowances are based on our estimates of the amounts we may ultimately realize upon disposition. The estimation process is inherently uncertain and is based upon, among other factors, our expectations of future events, and accordingly, actual amounts received on these investments could differ materially from our estimates. It is not possible for us to quantify the impact of the above trends, which may continue in 2010 and beyond, on our future financial results.



## Overview - continued

### Year Ended December 31, 2009 Financial Results Summary

Net income attributable to common shareholders for the year ended December 31, 2009 was \$49,093,000, or \$0.28 per diluted share, versus \$302,206,000, or \$1.91 per diluted share, for the year ended December 31, 2008. Net income for the years ended December 31, 2009 and 2008 include \$46,634,000 and \$67,001,000, respectively, for our share of net gains on sale of real estate. In addition, net income for the years ended December 31, 2009 and 2008 include certain items that affect comparability which are listed in the table below. The aggregate of net gains on sale of real estate and the items in the table below, net of amounts attributable to noncontrolling interests, decreased net income attributable to common shareholders for the year ended December 31, 2009 by \$241,550,000, or \$1.39 per diluted share, and increased net income attributable to common shareholders for the year ended December 31, 2008 by \$17,621,000, or \$0.11 per diluted share.

Funds from operations attributable to common shareholders plus assumed conversions ( FFO ) for the year ended December 31, 2009 was \$583,596,000, or \$3.36 per diluted share, compared to \$813,064,000, or \$4.97 per diluted share, for the prior year. FFO for the years ended December 31, 2009 and 2008 includes certain items that affect comparability which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO for the years ended December 31, 2009 and 2008 by \$284,539,000, and \$36,216,000, or \$1.64 and \$0.22 per diluted share, respectively.

(Amounts in thousands)	<b>For the Year Ended December 31,</b>	
<b>Items that affect comparability (income) expense:</b>	<b>2009</b>	<b>2008</b>
Non-cash asset write-downs:		
Mezzanine loans loss accrual	\$ 190,738	\$ (10,300 )
Real estate development related	80,834	76,793
Partially owned entities	36,941	203,919
Marketable equity securities	3,361	76,352
Other real estate assets	6,989	4,654
Write-off of unamortized costs from the voluntary surrender of equity awards	32,588	
Net loss (gain) on early extinguishment of debt	25,915	(9,820)
Income from terminated sale of land	(27,089 )	
Our share of Toys:		
Non-cash purchase accounting adjustments	(13,946 )	14,900
Litigation settlement income	(10,200 )	
Our share of Alexander s:		
Income tax benefit	(13,668 )	
Stock appreciation rights	(11,105 )	(6,583)
Downtown Crossing, Boston lease termination payment	7,650	
Reversal of deferred taxes initially recorded in connection with H Street acquisition		(222,174)
Net gain on sale of our 47.6% interest in Americold Realty Trust		(112,690)
Net loss on mark-to-market of derivatives		33,740
Americold s FFO sold in March 2008		(6,098 )

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Other, net	413	(2,924)
	309,421	39,769
Noncontrolling interests share of above adjustments	(24,882 )	(3,553 )
Items that affect comparability, net	\$ 284,539	\$ 36,216

The percentage increase (decrease) in GAAP basis and cash basis same-store Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ) of our operating segments for the year ended December 31, 2009 over the year ended December 31, 2008 is summarized below.

<b>Year Ended:</b>	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>
December 31, 2009 vs. December 31, 2008:				
GAAP basis	0.8%	6.7%	3.7%	(11.5%)
Cash basis	5.5%	5.6%	3.8%	(8.6%)

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**Overview - continued****Quarter Ended December 31, 2009 Financial Results Summary**

Net loss attributable to common shareholders for the quarter ended December 31, 2009 was \$151,192,000, or \$0.84 per diluted share, versus \$226,951,000, or \$1.47 per diluted share, for the quarter ended December 31, 2008. Net loss for the quarters ended December 31, 2009 and December 31, 2008 include \$2,632,000 and \$1,083,000, respectively, of net gains on sale of real estate. In addition, net loss for the quarters ended December 31, 2009 and December 31, 2008 include certain other items that affect comparability which are listed in the table below. The aggregate of net gains on sale of real estate and the items in the table below, net of amounts attributable to noncontrolling interests, increased net loss attributable to common shareholders for the quarters ended December 31, 2009 and 2008 by \$184,330,000 and \$251,841,000, or \$1.03 and \$1.63 per diluted share, respectively.

FFO for the quarter ended December 31, 2009 was \$20,000, or \$0.00 per diluted share, compared to negative FFO of \$88,154,000, or \$0.57 per diluted share, for the prior year's quarter. FFO for the quarter ended December 31, 2009 and negative FFO for the quarter ended December 31, 2008 include certain items that affect comparability which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO for the quarter ended December 31, 2009 by \$189,455,000, or \$1.04 per diluted share and increased negative FFO for the quarter ended December 31, 2008 by \$253,506,000, or \$1.64 per diluted share.

(Amounts in thousands)	<b>For the Three Months</b>	
	<b>Ended December 31,</b>	
<b>Items that affect comparability (income) expense:</b>	<b>2009</b>	<b>2008</b>
Non-cash asset write-downs:		
Real estate development related	\$80,834	\$ 71,793
Mezzanine loans loss accrual	68,000	
Partially owned entities	17,820	162,544
Marketable equity securities	3,361	55,471
Other real estate assets	6,989	1,645
Net loss (gain) on early extinguishment of debt	52,911	(9,820 )
Income from terminated sale of land	(27,089)	
Alexander's reversal of stock appreciation rights compensation expense		(14,188)
Derivative positions in marketable equity securities		7,928
Other, net	2,204	8,426
	205,030	283,799
Noncontrolling interests' share of above adjustments	(15,575 )	(30,293 )
Items that affect comparability, net	\$ 189,455	\$ 253,506

The percentage increase (decrease) in GAAP basis and cash basis same-store EBITDA of our operating segments for the quarter ended December 31, 2009 over the quarter ended December 31, 2008 and the trailing quarter ended September 30, 2009 are summarized below.

<b>Quarter Ended:</b>	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>
December 31, 2009 vs. December 31, 2008:				
GAAP basis	(2.0%)	4.2%	4.2%	(11.6%)
Cash basis	4.1%	4.7%	9.7%	(14.6%)
December 31, 2009 vs. September 30, 2009:				
GAAP basis	2.1%	0.0%	4.4%	8.2%
Cash basis	2.4%	1.5%	7.6%	0.7%

Calculations of same-store EBITDA, reconciliations of net income to EBITDA and FFO and the reasons we consider these non-GAAP financial measures useful are provided in the following pages of Management's Discussion and Analysis of the Financial Condition and Results of Operations.

## Overview - continued

### Financings

In April 2009, we sold 17,250,000 common shares, including underwriters' over-allotment, in an underwritten public offering pursuant to an effective registration statement at an initial public offering price of \$43.00 per share. We received net proceeds of \$710,226,000, after underwriters' discount and offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 17,250,000 Class A units of the Operating Partnership.

On September 30, 2009, we completed a public offering of \$460,000,000 principal amount of 7.875% callable senior unsecured 30-year notes (NYSE: VNOD) due October 1, 2039. The notes were sold to the public at par and may be redeemed at our option, in whole or in part, beginning in October 2014 at a price equal to the principal amount plus accrued and unpaid interest. These notes contain financial covenants, including limitations on outstanding debt and minimum interest and fixed charge coverage ratios. We received net proceeds of approximately \$446,000,000 from the offering which were used to repay debt and for general corporate purposes.

During 2009, we purchased \$1,912,724,000 (aggregate face amount) of our convertible senior debentures and \$352,740,000 (aggregate face amount) of our senior unsecured notes for \$1,877,510,000 and \$343,694,000 in cash, respectively. This debt was acquired through tender offers and in the open market and has been retired. We also repaid \$650,285,000 of existing property level debt and completed \$277,000,000 of property level financings. In connection with the above, we recognized an aggregate net loss of \$25,915,000 from the early extinguishment of debt on our consolidated statement of income.

### Dispositions

On September 1, 2009, we sold 1999 K Street, a newly developed 250,000 square foot office building, in Washington's Central Business District, for \$207,800,000 in cash, which resulted in a net gain of \$41,211,000, which is included as a component of income from discontinued operations, on our consolidated statement of income.

During 2009, we sold 15 retail properties in separate transactions for an aggregate of \$55,000,000 in cash, which resulted in net gains aggregating \$4,073,000, which is included as a component of income from discontinued operations, on our consolidated statement of income.

**Mezzanine Loans Receivable**

On June 1, 2009, we were repaid the entire \$41,758,000 balance of the Charles Square Hotel loan including accrued interest. This loan was scheduled to mature in September 2009.

On January 28, 2010, we were repaid the entire \$99,314,000 balance of the Equinox loan including accrued interest. This loan, which we acquired in 2006 for \$57,500,000, was scheduled to mature in February 2013.

**Overview continued***Leasing Activity*

The following table sets forth certain information for the properties we own directly or indirectly, including leasing activity. The leasing activity presented below is based on leases signed during the period and is not intended to coincide with the commencement of rental revenue recognition in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Tenant improvements and leasing commissions are presented below based on square feet leased during the period, on a per square foot and per square foot per annum basis based on weighted average lease terms and as a percentage of initial rent per square foot.

(Square feet in thousands)	Washington,				
	New York	DC		Merchandise Mart	
<b>As of December 31, 2009:</b>	<b>Office</b>	<b>Office</b>	<b>Retail</b>	<b>Office</b>	<b>Showroom</b>
Square feet (in service)	16,173	18,560	22,553	2,464	6,301
Number of properties	28	84	162	8	8
Occupancy rate	95.5%	94.9%	91.6%	88.9%	88.4%
<b>Leasing Activity:</b>					
<b>Year ended December 31, 2009:</b>					
Square feet	1,417	(2) 3,158	1,139	203	1,238
Initial rent per square foot <sup>(1)</sup>	\$ 52.13	\$ 40.26	\$ 23.28	\$ 34.76	\$ 27.58
Weighted average lease terms (years)	8.7	4.3	9.7	7.1	4.2
Rent per square foot relet space:					
Square feet	1,274	2,853	472	203	1,238
Initial rent cash basis <sup>(1)</sup>	\$ 52.31	\$ 40.13	\$ 17.99	\$ 34.76	\$ 27.58
Prior escalated rent cash basis	\$ 52.03	\$ 34.59	\$ 16.67	\$ 33.75	\$ 28.90
Percentage increase (decrease):					
Cash basis	0.5%	16.0%	7.9%	3.0%	(4.6%)
GAAP basis	5.0%	18.8%	16.4%	18.0%	3.6%
Rent per square foot vacant space:					
Square feet	143	305	667		
Initial rent <sup>(1)</sup>	\$ 50.53	\$ 41.45	\$ 27.04	\$	\$
Tenant improvements and leasing commissions:					
Per square foot	\$ 47.44	\$ 9.03	\$ 8.00	\$ 34.30	\$ 3.15
Per square foot per annum	\$ 5.45	\$ 2.10	\$ 0.82	\$ 4.83	\$ 0.75
Percentage of initial rent	10.5%	5.2%	3.5%	13.9%	2.7%
<b>Quarter ended December 31, 2009:</b>					
Square feet	493	1,776	250	188	460
Initial rent per square foot <sup>(1)</sup>	\$ 51.83	\$ 40.74	\$ 32.36	\$ 33.88	\$ 30.99
Weighted average lease terms (years)	10.3	3.8	7.1	7.5	4.7
Rent per square foot relet space:					
Square feet	475	1,743	97	188	460
Initial rent cash basis <sup>(1)</sup>	\$ 51.95	\$ 40.78	\$ 30.08	\$ 33.88	\$ 30.99

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Prior escalated rent cash basis	\$ 55.39	\$ 33.41	\$ 27.19	\$ 33.34	\$ 32.25
Percentage increase (decrease):					
Cash basis	(6.2% )	22.1%	10.6%	1.6%	(3.9% )
GAAP basis	(2.6% )	23.8%	26.6%	17.0%	5.0%
Rent per square foot vacant space:					
Square feet	18	33	153		
Initial rent <sup>(1)</sup>	\$ 48.63	\$ 38.58	\$ 33.81	\$	\$
Tenant improvements and leasing commissions:					
Per square foot	\$ 55.71	\$ 5.07	\$ 18.75	\$ 32.65	\$ 3.78
Per square foot per annum	\$ 5.44	\$ 1.33	\$ 2.64	\$ 4.35	\$ 0.80
Percentage of initial rent	10.5%	3.3%	8.2%	12.8%	2.6%

See notes on following page



**Overview continued**

(Square feet in thousands) As of December 31, 2008:	Washington,			Merchandise Mart	
	New York Office	DC Office	Retail	Office	Showroom
Square feet (in service)	16,108	17,666	21,861	2,424	6,332
Number of properties	28	84	176	8	8
Occupancy rate	96.7%	95.0%	92.0%	96.5%	92.2%

**Leasing Activity:****Year ended December 31, 2008:**

Square feet	1,246	2,152	1,022	493	862
Initial rent per square foot <sup>(1)</sup>	\$ 71.69	\$ 38.52	\$ 38.34	\$ 27.50	\$ 28.07
Weighted average lease term (years)	9.1	7.3	9.0	9.7	5.1
Rent per square foot relet space:					
Square feet	1,141	1,320	559	427	839
Initial rent cash basis <sup>(1)</sup>	\$ 73.50	\$ 36.04	\$ 42.59	\$ 28.02	\$ 27.87
Prior escalated rent cash basis	\$ 48.69	\$ 30.89	\$ 28.46	\$ 32.13	\$ 28.33
Percentage increase (decrease):					
Cash basis	51.0% <sup>(3)</sup>	16.7%	49.6% <sup>(3)</sup>	(12.8%)	(1.6%)
GAAP basis	48.4% <sup>(3)</sup>	17.7%	18.1% <sup>(3)</sup>	4.3%	10.2%
Rent per square foot vacant space:					
Square feet	105	832	463	66	23
Initial rent <sup>(1)</sup>	\$ 52.10	\$ 42.46	\$ 33.19	\$ 24.17	\$ 36.51
Tenant improvements and leasing commissions:					
Per square foot	\$ 48.72	\$ 15.75	\$ 18.31	\$ 37.23	\$ 6.85
Per square foot per annum	\$ 5.35	\$ 2.16	\$ 2.03	\$ 3.84	\$ 1.33
Percentage of initial rent	7.5%	5.6%	5.3%	14.0%	4.7%

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

(2) In addition, the New York Office segment leased 43 square feet of retail space during the year ended December 31, 2009 at an average initial rent of \$188.09, a 55.7% increase over the prior escalated rent per square foot.

(3) Under GAAP, acquired below-market leases are marked-to-market at the time of their acquisition. Accordingly, when the space is subsequently re-leased, the cash basis rent increase is greater than the GAAP basis rent increase.



**Overview continued*****Impact of Retrospective Application of New Accounting Pronouncements***

During 2009, we paid quarterly dividends to our common shareholders in a combination of cash and stock and retrospectively adjusted weighted average common shares outstanding in the computations of income and FFO per share to include the additional common shares resulting from these dividends in the earliest periods presented in each of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009 and our Current Report on Form 8-K, issued on October 13, 2009, in which we elected to recast our consolidated financial statements in our Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2008. On December 2, 2009, the FASB ratified the consensus reached in EITF 09-E, *Accounting for Distribution to Shareholders with Components of Stock and Cash ( EITF 09-E )* as codified through Accounting Standards Update ( ASU ) 2010-1 to ASC 505, *Equity*. EITF 09-E requires an entity to include the additional common shares resulting from the stock portion of these distributions prospectively in the periods following their issuance in all computations of income per share rather than retrospectively as we had previously done. As a result, we have adjusted all of our computations of income and FFO per share presented herein to exclude the additional shares resulting from these dividends in periods prior to their issuance. Below is a reconciliation of previously reported income and FFO per share to the amounts presented herein.

	<b>For the Year Ended December 31, 2008</b>		
	<b>As Reported</b>	<b>EITF 09-E</b>	<b>As Adjusted</b>
Income per common share basic:			
Income from continuing operations	\$ 0.92	\$ 0.02	\$ 0.94
Net income	1.89	0.07	1.96
Income per common share diluted:			
Income from continuing operations	0.90	0.01	0.91
Net income	1.84	0.07	1.91
FFO attributable to common shareholders plus assumed conversions per diluted share	4.80	0.17	4.97
	<b>For the Year Ended December 31, 2007</b>		
	<b>As Reported</b>	<b>EITF 09-E</b>	<b>As Adjusted</b>
Income per common share basic:			
Income from continuing operations	\$ 2.70	\$ 0.08	\$ 2.78
Net income	3.07	0.11	3.18
Income per common share diluted:			
Income from continuing operations	2.59	0.07	2.66
Net income	2.95	0.10	3.05



## Overview - continued

On January 1, 2009, we adopted the provisions of ASC 470-20, *Debt with Conversion and Other Options*, which was required to be applied retrospectively. The adoption affected the accounting for our convertible and exchangeable senior debentures by requiring the initial proceeds from their sale to be allocated between a debt component and an equity component in a manner that results in interest expense on the debt component at our nonconvertible debt borrowing rate on the date of issue. The initial debt components of our \$1.4 billion Convertible Senior Debentures, \$1 billion Convertible Senior Debentures and \$500 million Exchangeable Senior Debentures were \$1,241,286,000, \$926,361,000 and \$457,699,000, respectively, based on the fair value of similar nonconvertible instruments issued at that time. The aggregate initial debt discount of \$216,655,000 after original issuance costs allocated to the equity component was recorded in additional capital in our consolidated statement of changes in equity. The discount is amortized using the effective interest method over the period the debt is expected to remain outstanding (i.e., the earliest date the holders may require us to repurchase the debentures), which resulted in \$39,546,000 and \$30,418,000 of additional interest expense in the years ended December 31, 2008 and 2007, respectively.

In December 2007, the FASB issued an update to ASC 810, *Consolidation*, which requires a noncontrolling interest in a subsidiary to be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest to be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. The amended guidance became effective on January 1, 2009 and resulted in (i) the reclassification of minority interests in consolidated subsidiaries to noncontrolling interests in consolidated subsidiaries, a component of permanent equity on our consolidated balance sheets, (ii) the reclassification of minority interest expense to net income attributable to noncontrolling interests, on our consolidated statements of income, and (iii) additional disclosures, including a consolidated statement of changes in equity in quarterly reporting periods.

In December 2007, the FASB issued an update to ASC 805, *Business Combinations*, which applies to all transactions and other events in which one entity obtains control over one or more other businesses. It also broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and acquisition related costs will generally be expensed rather than included as part of the basis of the acquisition. The amended guidance also expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. The amended guidance became effective for all transactions entered into on or after January 1, 2009. The adoption of this guidance on January 1, 2009 did not have any effect on our consolidated financial statements because there have been no acquisitions during 2009.

In March 2008, the FASB issued an update to ASC 815, *Derivatives and Hedging*, which requires enhanced disclosures related to derivative instruments and hedging activities, including disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and the impact of derivative instruments and related hedged items on an entity's financial position, financial performance and cash flows. It also provided a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock. The amended guidance became effective on January 1, 2009. The adoption of this guidance on January 1, 2009 did not have a material effect on our consolidated financial statements.

In June 2008, the FASB issued an update to ASC 260, *Earnings Per Share*, which requires companies to treat unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as participating securities and include such securities in the computation of earnings per share pursuant to the two-class method as described in ASC 260. The amended guidance became effective on January 1, 2009 and required all prior period earnings per share data presented, to be adjusted retroactively. The adoption of this guidance on January 1, 2009 did not have a material effect on our computation of income per share.

In April 2009, the FASB issued an amendment to the guidance for other than temporary impairments ( OTTI ) of investments in debt securities, which changes the presentation of OTTI in financial statements. Under this guidance, if an OTTI debt security is intended to be sold or required to be sold prior to the recovery of its carrying amount, the full amount of the impairment loss is charged to earnings. Otherwise, losses on debt securities must be separated into two categories, the portion which is considered credit loss, which is charged to earnings, and the portion due to other factors, which is charged to other comprehensive income (loss), a component of balance sheet equity. When an unrealized loss on a fixed maturity security is not considered OTTI, the unrealized loss continues to be charged to other comprehensive income (loss) and not to earnings. The adoption of this guidance on April 1, 2009 did not have any effect on our consolidated financial statements.

In June 2009, the FASB issued an update to ASC 810, *Consolidation*, which modifies the existing quantitative guidance used in determining the primary beneficiary of a variable interest entity ( VIE ) by requiring entities to qualitatively assess whether an enterprise is a primary beneficiary, based on whether the entity has (i) power over the significant activities of the VIE, and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The adoption of this guidance on January 1, 2010 did not have a material effect on our consolidated financial statements.

## Critical Accounting Policies

In preparing the consolidated financial statements we have made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that we believe are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of our accounting policies included in Note 2 to the consolidated financial statements in this Annual Report on Form 10-K.

### *Real Estate*

Real estate is carried at cost, net of accumulated depreciation and amortization. As of December 31, 2009 and 2008, the carrying amounts of real estate, net of accumulated depreciation, were \$15.455 billion and \$15.652 billion, respectively. Maintenance and repairs are expensed as incurred. Depreciation requires an estimate by management of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. If we do not allocate these costs appropriately or incorrectly estimate the useful lives of our real estate, depreciation expense may be misstated.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles such as acquired above and below-market leases and acquired in-place leases and tenant relationships) and acquired liabilities and we allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known trends and market/economic conditions.

Our properties, including any related intangible assets, are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

### *Identified Intangibles*

As of December 31, 2009 and 2008, the carrying amounts of identified intangible assets (including acquired above-market leases, tenant relationships and acquired in-place leases), a component of other assets on our consolidated balance sheets, were \$442,510,000 and \$522,719,000, respectively. The carrying amounts of identified intangible liabilities, a component of deferred credit on our consolidated balance sheets, were \$633,492,000 and \$719,822,000, respectively. Identified intangibles are recorded at fair value on the acquisition date, separate and apart from goodwill. Identified intangibles that are determined to have finite lives are amortized over the period in which they are expected to contribute directly or indirectly to the future cash flows of the property or business acquired.

Intangible assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset, including related real estate, if appropriate, is not recoverable and the carrying amount exceeds the estimated fair value. If intangible assets are impaired or estimated useful lives change, the impact to our consolidated financial statements could be material.



**Critical Accounting Policies continued***Mezzanine Loans Receivable*

We invest in mezzanine loans to entities that have significant real estate assets. These investments, which are subordinate to the mortgage loans secured by the real property, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. We record investments in mezzanine loans at the stated principal amount net of any unamortized discount or premium. As of December 31, 2009 and 2008, the carrying amounts of mezzanine loans receivable, net were \$203,286,000 and \$472,539,000, respectively. We accrete or amortize any discounts or premiums over the life of the related receivable utilizing the effective interest method, or straight-line method if the result is not materially different. We evaluate the collectibility of both interest and principal of each of our loans each quarter, if circumstances warrant, in determining whether they are impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. If our estimates of the collectibility of both interest and principal or the fair value of our loans change based on market conditions or otherwise, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements.

*Partially Owned Entities*

As of December 31, 2009 and 2008, the carrying amounts of investments and advances to partially owned entities, including Alexander's and Toys R Us, were \$1.209 billion and \$1.083 billion, respectively. In determining whether we have a controlling interest in a partially owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity in which we have the power over significant activities of the entity and the obligation to absorb a majority of the entity's expected losses, if they occur, or receive a majority of the expected residual returns, if they occur, or both. We account for investments on the equity method when the requirements for consolidation are not met and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions. Investments that do not qualify for consolidation or equity method accounting are accounted for on the cost method.

Our investments in partially owned entities are reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of our investments may not be recoverable. The ultimate realization of our investments in partially owned entities is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment is other-than-temporary. If our estimates of the projected future cash flows, the nature of development activities for properties for which such activities are planned and the estimated fair value of the investment change based on market conditions or otherwise, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and

is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results.

*Allowance For Doubtful Accounts*

We periodically evaluate the collectibility of amounts due from tenants and maintain an allowance for doubtful accounts (\$46,708,000 and \$32,834,000 as of December 31, 2009 and 2008) for estimated losses resulting from the inability of tenants to make required payments under their lease agreements. We also maintain an allowance for receivables arising from the straight-lining of rents (\$4,680,000 and \$5,773,000 as of December 31, 2009 and 2008, respectively). This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. These estimates may differ from actual results, which could be material to our consolidated financial statements.

**Critical Accounting Policies** continued

*Revenue Recognition*

We have the following revenue sources and revenue recognition policies:

- **Base Rent** income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances where we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease.
- **Percentage Rent** income arising from retail tenant leases that is contingent upon sales of the tenants exceeding defined thresholds. These rents are recognized only after the contingency has been removed (i.e., sales thresholds have been achieved).
- **Hotel Revenue** income arising from the operation of the Hotel Pennsylvania which consists of rooms revenue, food and beverage revenue, and banquet revenue. Income is recognized when rooms are occupied. Food and beverage and banquet revenue are recognized when the services have been rendered.
- **Trade Shows Revenue** income arising from the operation of trade shows, including rentals of booths. This revenue is recognized when the trade shows have occurred.
- **Expense Reimbursements** revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.
- **Management, Leasing and Other Fees** income arising from contractual agreements with third parties or with partially owned entities. This revenue is recognized as the related services are performed under the respective agreements.

Before we recognize revenue, we assess, among other things, its collectibility. If our assessment of the collectibility of revenue changes, the impact on our consolidated financial statements could be material.

*Income Taxes*

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

## Net income and EBITDA <sup>(1)</sup> by Segment for the Years Ended December 31, 2009, 2008 and 2007.

(Amounts in thousands)

	For the Year Ended December 31, 2009						
	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other <sup>(3)</sup>
Property rentals	\$2,058,811	\$758,557	\$538,882	\$365,379	\$236,761	\$	\$159,232
Straight-line rents:							
Contractual rent increases	54,945	28,423	11,942	12,596	1,891		93
Amortization of free rent	36,048	8,382	12,257	14,631	402		376
Amortization of acquired below-market leases, net	72,481	40,129	3,891	23,081	89		5,291
Total rentals	2,222,285	835,491	566,972	415,687	239,143		164,992
Tenant expense reimbursements	361,982	136,541	64,441	135,178	15,984		9,838
Fee and other income:							
Tenant cleaning fees	58,512	80,237					(21,725 )
Management and leasing fees	11,456	4,211	8,183	1,731	88		(2,757 )
Lease termination fees	5,525	1,840	2,224	464	858		139
Other	82,818	14,180	47,830	2,677	9,677		8,454
Total revenues	2,742,578	1,072,500	689,650	555,737	265,750		158,941
Operating expenses	1,087,785	452,370	228,740	206,590	135,385		64,700
Depreciation and amortization	539,503	173,923	144,317	102,210	56,171		62,882
General and administrative	231,688	22,820	26,219	30,433	31,587		120,629
Impairment and other losses	87,823		24,875	23,649			39,299
Total expenses	1,946,799	649,113	424,151	362,882	223,143		287,510
Operating income (loss)	795,779	423,387	265,499	192,855	42,607		(128,569)
Income applicable to Alexander's	53,529	770		791			51,968
Income applicable to Toys	92,300					92,300	
(Loss) income from partially owned entities	(73,439 )	5,047	4,850	3,937	151		(87,424 )
Interest and other investment (loss) income, net	(116,330 )	876	789	85	96		(118,176)
Interest and debt expense	(634,283 )	(133,647 )	(129,380)	(90,068 )	(51,959 )		(229,229)
Net (loss) gain on early extinguishment of debt	(25,915 )			769			(26,684 )
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	5,641						5,641
Income (loss) before income taxes	97,282	296,433	141,758	108,369	(9,105 )	92,300	(532,473)
Income tax expense	(20,737 )	(1,332 )	(1,577 )	(319 )	(2,140 )		(15,369 )
Income (loss) from continuing operations	76,545	295,101	140,181	108,050	(11,245 )	92,300	(547,842)
Income from discontinued operations	51,905		46,004	5,901			
Net income (loss)	128,450	295,101	186,185	113,951	(11,245 )	92,300	(547,842)
Net (income) loss attributable to noncontrolling interests, including	(22,281 )	(9,098 )		915			(14,098 )

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unit distributions

Net income (loss) attributable to Vornado	106,169	286,003	186,185	114,866	(11,245 )	92,300	(561,940)
Interest and debt expense <sup>(2)</sup>	826,827	126,968	132,610	95,990	52,862	127,390	291,007
Depreciation and amortization <sup>(2)</sup>	728,815	168,517	152,747	105,903	56,702	132,227	112,719
Income tax expense (benefit) <sup>(2)</sup>	10,193	1,332	1,590	319	2,208	(13,185 )	17,929
EBITDA <sup>(1)</sup>	\$1,672,004	\$582,820	\$473,132	\$317,078	\$100,527	\$338,732	\$(140,285)
Percentage of EBITDA by segment	100.0	% 34.9	% 28.3	% 19.0	%6.0	%20.3	%(8.5

Excluding items that affect comparability, which are described in the Overview, the percentages of EBITDA by segment are 30.3% for New York Office, 22.1% for Washington, DC Office, 17.7% for Retail, 5.2% for Merchandise Mart, 16.3% for Toys and 8.4% for Other.

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See notes on page 78.

## Net income and EBITDA <sup>(1)</sup> by Segment for the Years Ended December 31, 2009, 2008 and 2007 continued

(Amounts in thousands)

For the Year Ended December 31, 2008

	Washington,						Other <sup>(3)</sup>
	Total	New York Office	DC Office	Retail	Merchandise Mart	Toys	
Property rentals	\$2,020,369	\$722,445	\$509,377	\$346,057	\$45,400	\$	\$197,090
Straight-line rents:							
Contractual rent increases	57,953	28,023	6,764	16,416	5,954		796
Amortization of free rent	32,901	14,743	10,778	4,156	2,703		521
Amortization of acquired below- market leases, net	96,176	60,355	4,423	26,765	161		4,472
Total rentals	2,207,399	825,566	531,342	393,394	254,218		202,879
Tenant expense reimbursements	357,986	135,788	61,448	128,120	18,567		14,063
Fee and other income:							
Tenant cleaning fees	56,416	71,833					(15,417 )
Management and leasing fees	13,397	6,411	8,940	1,673	349		(3,976 )
Lease termination fees	8,634	3,088	2,635	2,281	630		
Other	48,854	15,699	22,360	2,601	7,059		1,135
Total revenues	2,692,686	1,058,385	626,725	528,069	280,823		198,684
Operating expenses	1,069,445	439,012	220,103	200,760	137,971		71,599
Depreciation and amortization	536,820	190,925	137,255	91,746	51,833		65,061
General and administrative	194,023	20,217	26,548	29,862	29,254		88,142
Impairment and other losses	81,447			595			80,852
Total expenses	1,881,735	650,154	383,906	322,963	219,058		305,654
Operating income (loss)	810,951	408,231	242,819	205,106	61,765		(106,970)
Income applicable to Alexander's	36,671	763		650			35,258
Income applicable to Toys	2,380					2,380	
(Loss) income from partially owned entities	(195,878 )	5,319	6,173	9,721	1,106		(218,197)
Interest and other investment (loss) income, net	(2,682 )	2,288	2,116	494	356		(7,936 )
Interest and debt expense	(635,724 )	(139,146 )	(126,508 )	(86,787 )	(52,148 )		(231,135 )
Net gain on early extinguishment of debt	9,820						9,820
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	7,757						7,757
Income (loss) before income taxes	33,295	277,455	124,600	129,184	11,079	2,380	(511,403)
Income tax benefit (expense)	204,537		220,973	(82 )	(1,206 )		(15,148 )
Income (loss) from continuing operations	237,832	277,455	345,573	129,102	9,873	2,380	(526,551)
Income from discontinued operations	173,613		59,107	2,594			111,912
Net income (loss)	411,445	277,455	404,680	131,696	9,873	2,380	(414,639)
Net (income) loss attributable to noncontrolling interests, including unit distributions	(52,148 )	(4,762 )		157	(125 )		(47,418 )
Net income (loss) attributable to Vornado	359,297	272,693	404,680	131,853	9,748	2,380	(462,057)
Interest and debt expense <sup>(2)</sup>	821,940	132,406	130,310	102,600	53,072	147,812	255,740
Depreciation and amortization <sup>(2)</sup>	710,526	181,699	143,989	98,238	52,357	136,634	97,609

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Income tax (benefit) expense <sup>(2)</sup>	(142,415 )		(220,965)	82	1,260	59,652	17,556
EBITDA <sup>(1)</sup>	\$1,749,348	\$586,798	\$458,014	\$332,773	\$16,437	\$346,478	\$(91,152 )
Percentage of EBITDA by segment	100.0	% 33.5	% 26.2	% 19.0	% 6.7	% 19.8	%(5.2 )%

Excluding items that affect comparability, which are described in the Overview, the percentages of EBITDA by segment are 30.5% for New York Office, 20.6% for Washington, DC Office, 17.2% for Retail, 6.1% for Merchandise Mart, 18.0% for Toys and 7.6% for Other.

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See notes on page 78.



## Net income and EBITDA <sup>(1)</sup> by Segment for the Years Ended December 31, 2009, 2008 and 2007 continued

(Amounts in thousands)

For the Year Ended December 31, 2007

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other <sup>(3)</sup>
Property rentals	\$1,812,139	\$640,739	\$454,563	\$325,205	\$237,199	\$	\$154,433
Straight-line rents:							
Contractual rent increases	42,215	13,281	11,863	12,034	4,193		844
Amortization of free rent	34,602	15,935	14,115	1,138	1,836		1,578
Amortization of acquired below-market leases, net	83,274	47,861	4,597	25,960	193		4,663
Total rentals	1,972,230	717,816	485,138	364,337	243,421		161,518
Tenant expense reimbursements	323,075	125,940	45,046	120,379	19,570		12,140
Fee and other income:							
Tenant cleaning fees	46,238	58,837					(12,599 )
Management and leasing fees	15,713	4,928	12,539	1,770	7		(3,531 )
Lease termination fees	7,453	3,500	453	2,823	677		
Other	40,534	16,239	16,286	2,259	6,997		(1,247 )
Total revenues	2,405,243	927,260	559,462	491,568	270,672		156,281
Operating expenses	950,487	395,357	183,278	171,960	131,332		68,560
Depreciation and amortization	440,224	150,268	117,118	77,679	47,105		48,054
General and administrative	189,024	17,252	27,612	27,476	28,168		88,516
Impairments and other losses	10,375						10,375
Total expenses	1,590,110	562,877	328,008	277,115	206,605		215,505
Operating income (loss)	815,133	364,383	231,454	214,453	64,067		(59,224 )
Income applicable to Alexander's	50,589	757		812			49,020
Loss applicable to Toys 'R Us	(14,337 )					(14,337 )	
Income from partially owned entities	31,891	4,799	8,728	9,041	1,053		8,270
Interest and other investment income, net	226,425	2,888	5,982	534	390		216,631
Interest and debt expense	(599,804 )	(133,804)	(126,163)	(78,234 )	(52,237 )		(209,366)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	39,493						39,493
Income (loss) before income taxes	549,390	239,023	120,001	146,606	13,273	(14,337 )	44,824
Income tax expense	(9,179 )		(2,909 )	(185 )	(969 )		(5,116 )
Income (loss) from continuing operations	540,211	239,023	117,092	146,421	12,304	(14,337 )	39,708
Income (loss) from discontinued operations	67,622		62,557	9,497			(4,432 )
Net income (loss)	607,833	239,023	179,649	155,918	12,304	(14,337 )	35,276
Net (income) loss attributable to noncontrolling interests, including unit distributions	(66,294 )	(3,583 )		96			(62,807 )
Net income (loss) attributable to Vornado	541,539	235,440	179,649	156,014	12,304	(14,337 )	(27,531 )
Interest and debt expense <sup>(2)</sup>	853,448	131,418	131,013	89,537	53,098	174,401	273,981
Depreciation and amortization <sup>(2)</sup>	676,660	147,340	132,302	82,002	47,711	155,800	111,505
Income tax expense (benefit) <sup>(2)</sup>	4,234		6,738	185	969	(10,898 )	7,240

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EBITDA <sup>(1)</sup>	\$2,075,881	\$514,198	\$449,702	\$327,738	\$114,082	\$304,966	\$365,195
Percentage of EBITDA by segment	100.0	% 24.8	% 21.7	% 15.8	% 5.5	% 14.7	% 17.5

Excluding items that affect comparability, which are described in the Overview, the percentages of EBITDA by segment are 27.9% for New York Office, 20.9% for Washington, DC Office, 17.4% for Retail, 6.2% for Merchandise Mart, 16.4% for Toys and 11.2% for Other.

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See notes on the following page.

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## Net income and EBITDA <sup>(1)</sup> by Segment for the Years Ended December 31, 2009, 2008 and 2007 continued

### Notes to the preceding tabular information:

(1) EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortization. We consider EBITDA a supplemental measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered as an alternative to net income or cash flows and may not be comparable to similarly titled measures employed by other companies.

(2) Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income to EBITDA include our share of these items from partially owned entities.

(3) Other EBITDA is comprised of:

(Amounts in thousands)	For the Year Ended December 31,		
	2009	2008	2007
Alexander s	\$ 81,703	\$ 64,683	\$ 78,375
Lexington	50,024	35,150	24,539
555 California Street (acquired 70% interest in May 2007)	44,757	48,316	34,073
Hotel Pennsylvania	15,108	42,269	37,941
GMH (sold in June 2008)			22,604
Industrial warehouses	4,737	5,264	4,881
Other investments	6,981	6,321	7,322
	203,310	202,003	209,735
Investment income and other (1)	67,571	101,526	180,137
Corporate general and administrative expenses (1)	(79,843 )	(91,967)	(75,659)
Net income attributable to noncontrolling interests, including unit distributions	(14,098 )	(47,418)	(62,807)
Write-off of unamortized costs from the voluntary surrender of equity awards	(20,202 )		
Net loss on early extinguishment of debt	(26,684 )		
Non-cash asset write-downs:			

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Mezzanine loans receivable	(190,738 )	10,300	(57,000)
Investment in Lexington	(19,121 )	(107,882 )	
Marketable equity securities	(3,361 )	(76,352)	
Real estate primarily development projects:			
Wholly owned entities (including costs of acquisitions not consummated)	(39,299 )	(80,852)	(10,375)
Partially owned entities	(17,820 )	(96,037 )	
Derivative positions in marketable equity securities		(33,740)	113,503
Discontinued operations of Americold (including a \$112,690 net gain on sale in 2008)		129,267	67,661
	\$ (140,285 )	\$ (91,152 )	\$ 365,195

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(1) The amounts in these captions (for this table only) exclude the mark-to-market of our deferred compensation plan assets and offsetting liability.

## Results of Operations - Year Ended December 31, 2009 Compared to December 31, 2008

### Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below-market leases, net of above-market leases, and fee and other income, were \$2,742,578,000 for the year ended December 31, 2009, compared to \$2,692,686,000 in the prior year, an increase of \$49,892,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

Increase (decrease) due to:	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
<b>Property rentals:</b>						
Acquisitions (including the transfer of an asset from other to the retail segment)	\$ 13,135	\$	\$	\$ 11,309	\$ 5,430	\$(3,604)
Development/redevelopment	2,805		1,333	1,472		
Amortization of acquired below-market leases, net	(23,695)	(20,226) <sup>(1)</sup>	(532)	(3,684)	(72)	819
Operations:						
Hotel Pennsylvania	(32,248)					(32,248) <sup>(2)</sup>
Trade shows	(10,002)				(10,002) <sup>(3)</sup>	
Leasing activity (see page 68)	64,891	30,151	34,829	13,196	(10,431)	(2,854)
Increase (decrease) in property rentals	14,886	9,925	35,630	22,293	(15,075)	(37,887)
<b>Tenant expense reimbursements:</b>						
Acquisitions/development	(7)		(215)	1,182		(974)
Operations	4,003	753	3,208	5,876	(2,583)	(3,251)
Increase (decrease) in tenant expense reimbursements	3,996	753	2,993	7,058	(2,583)	(4,225)
<b>Fee and other income:</b>						
Lease cancellation fee income	(3,109)	(1,248)	(411)	(1,817)	228	139
Management and leasing fees	(1,941)	(2,200)	(757)	58	(261)	1,219
BMS cleaning fees	2,096	8,404				(6,308) <sup>(4)</sup>
Other	33,964	(1,519)	25,470 <sup>(5)</sup>	76	2,618	7,319 <sup>(6)</sup>
Increase (decrease) in fee and other income	31,010	3,437	24,302	(1,683)	2,585	2,369
Total increase (decrease) in revenues	\$ 49,892	\$ 14,115	\$ 62,925	\$ 27,668	\$ (15,073)	\$ (39,743)

(1) Primarily due to a lease modification that reduced the term of a portion of AXA Equitable Life Insurance Company's (AXA) space at 1290 Avenue of the Americas, which resulted in additional amortization of approximately \$12,000 in the prior year.

- (2) Primarily due to lower REVPAR.
  
- (3) Primarily due to lower exhibitor occupancy.
  
- (4) Results from the elimination of inter-company fees from operating segments upon consolidation. See note (3) on page 80.
  
- (5) In December 2009, our agreement to sell an 8.6 acre parcel of land in the Pentagon City area of Arlington, Virginia, was terminated by the buyer. Accordingly, we recognized \$27,089 of income, representing the buyer's forfeited non-refundable purchase deposit. In connection therewith, we wrote down the carrying amount of the land to its fair value and recognized a \$24,875 impairment loss which is included as a component of impairment and other losses on our consolidated statement of income.
  
- (6) Includes \$5,402 of income previously deferred resulting from the termination of a lease with a partially owned entity.

## Results of Operations - Year Ended December 31, 2009 Compared to December 31, 2008 continued

### Expenses

Our expenses, which consist of operating, depreciation and amortization, general and administrative expenses and costs of acquisitions and developments not consummated were \$1,946,799,000 for the year ended December 31, 2009, compared to \$1,881,735,000 in the prior year, an increase of \$65,064,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
Increase (decrease) due to:						
<b>Operating:</b>						
Acquisitions and other (including the transfer of an asset from other to the retail segment)	\$12,883	\$	\$	\$6,367	\$5,226	\$1,290
Development/redevelopment	4,433		2,114	2,319		
Hotel activity	(5,734 )					(5,734 )
Trade shows activity	(3,484 )				(3,484)	
Operations	10,242	13,358 <sup>(1)</sup>	6,523	(2,856 ) <sup>(2)</sup>	(4,328)	(2,455 ) <sup>(3)</sup>
Increase (decrease) in operating expenses	18,340	13,358	8,637	5,830	(2,586)	(6,899 )
<b>Depreciation and amortization:</b>						
Acquisitions/development	4,693		(2,374 )	9,306		(2,239 )
Operations (due to additions to buildings and improvements)	(2,010 )	(17,002) <sup>(4)</sup>	9,436	1,158	4,338	60
Increase (decrease) in depreciation and amortization	2,683	(17,002)	7,062	10,464	4,338	(2,179 )
<b>General and administrative:</b>						
Write-off of unamortized costs from the voluntary surrender of equity awards <b>(5)</b>	32,588	3,451	3,131	4,793	1,011	20,202
Mark-to-market of deferred compensation plan liability <b>(6)</b>	23,710					23,710
Operations	(18,633)	(848 )	(3,460 )	(4,222 )	1,322 <sup>(7)</sup>	(11,425) <sup>(8)</sup>
Increase (decrease) in general and administrative	37,665	2,603	(329 )	571	2,333	32,487
<b>Impairment and other losses</b>	6,376		24,875	23,054		(41,553)
Total increase (decrease) in expenses	\$65,064	\$(1,041 )	\$40,245	\$39,919	\$4,085	\$(18,144)

(1) Results from a \$7,025 increase in BMS operating expenses and a \$6,333 increase in property level operating expenses, primarily due to higher real estate taxes.

(2) Primarily due to a \$8,190 decrease in bad debt expense partially offset by an increase in real estate taxes which are reimbursed by tenants.

- (3) Results primarily from an increase in the elimination of inter-company fees of our operating segments upon consolidation.
- (4) Primarily due to a lease modification that reduced the term of a portion of AXA's space at 1290 Avenue of the Americas, which resulted in additional depreciation of approximately \$16,000 in the prior year.
- (5) On March 31, 2009, our nine most senior executives voluntarily surrendered their 2007 and 2008 stock option awards and their 2008 out-performance plan awards. Accordingly, we recognized \$32,588 of expense in the first quarter of 2009, representing the unamortized portion of these awards.
- (6) This increase in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of interest and other investment income on our consolidated statement of income.
- (7) Primarily due to 2009 pension plan termination costs of \$2,800.
- (8) Primarily due to lower payroll and stock-based compensation expense.



## Results of Operations - Year Ended December 31, 2009 Compared to December 31, 2008 continued

### Income Applicable to Alexander's

Our 32.4% share of Alexander's net income (comprised of our share of Alexander's net income, management, leasing and development fees) was \$53,529,000 for the year ended December 31, 2009, compared to \$36,671,000 for the prior year, an increase of \$16,858,000. The increase was primarily due to \$13,668,000 of income for our share of an income tax benefit and \$11,105,000 for our share of the reversal of a portion of previously recognized stock appreciation rights compensation expense in the current year, compared to \$6,583,000 for our share of such income in the prior year.

### Income (loss) Applicable to Toys

During the year ended December 31, 2009, we recognized \$92,300,000 of income from our investment in Toys, comprised of (i) \$71,601,000 for our 32.7% share of Toys' net income (\$58,416,000 before our share of Toys' income tax benefit), (ii) \$13,946,000 for our share of income from the reversal of previously recognized deferred financing cost amortization expense, which we initially recorded as a reduction of the basis of our investment in Toys, and (iii) \$6,753,000 of interest and other income.

During the year ended December 31, 2008, we recognized \$2,380,000 of income from our investment in Toys, comprised of (i) \$9,115,000 for our 32.7% share of Toys' net income (\$53,867,000 before our share of Toys' income tax expense) and (ii) \$8,165,000 of interest and other income, partially offset by (iii) \$14,900,000 for our share of a non-cash charge adjusting Toys purchase accounting basis income tax expense resulting from the audit of Toys fiscal 2006 and 2007 purchase accounting financial statements.

### Loss from Partially Owned Entities

Summarized below are the components of loss from partially owned entities for the years ended December 31, 2009 and 2008.

(Amounts in thousands)	For The Year Ended December 31,	
	2009	2008
Lexington <sup>(1)</sup>	\$ (25,665 )	\$ (105,630 )

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India Real Estate Ventures	4% to 36.5% share of equity in net losses	(1,636 )	(3,336 )
Other <sup>(2)</sup>		(46,138 ) <sup>(3)</sup>	(86,912 ) <sup>(4)</sup>
		\$ (73,439 )	\$ (195,878 )

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(1) 2009 includes \$19,121 for our share of impairment losses recorded by Lexington on its investment in Concord Debt Holdings LLC. 2008 includes \$107,882 of impairment losses on our investment in Lexington.

(2) Represents equity in net earnings of partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Dune Capital LP, Verde Realty Operating Partnership ( Verde ), 85<sup>th</sup> Avenue Associates and others.

(3) Includes \$17,820 of impairment losses, substantially all of which is applicable to our investment in Verde, and \$7,650 of expense for our share of a lease termination payment in our Downtown Crossing, Boston venture.

(4) Includes \$96,037 of non-cash charges for the write-off of our share of certain partially owned entities development costs, including \$37,000 for Downtown Crossing, Boston and \$23,000 for the arena move /Moynihan East portions of the Farley project.

## Results of Operations - Year Ended December 31, 2009 Compared to December 31, 2008 continued

### Interest and Other Investment (Loss) Income, net

Interest and other investment (loss) income, net was a loss of \$116,330,000 for the year ended December 31, 2009, compared to a loss of \$2,682,000 for the prior year, an increase in loss of \$113,648,000. This increase resulted primarily from:

(Amounts in thousands)

Mezzanine loans	\$190,738 loss accrual in 2009 compared to \$10,300 of income in 2008	\$ (201,038 )
Marketable equity securities	impairment losses of \$3,361 in 2009 compared to \$76,742 in 2008	73,381
Derivative positions in marketable equity securities in 2008		33,602
Lower average yield on investments (0.4% in 2009 compared to 2.3% in 2008)		(22,306 )
Increase in value of investments in the deferred compensation plan (offset by a corresponding increase in the liability for plan assets in general and administrative expenses)		23,710
Lower average mezzanine loan investments - \$345,000 in 2009 compared to \$481,000 in 2008		(12,540 )
Other, net		(8,457 )
		\$ (113,648 )

### Interest and Debt Expense

Interest and debt expense was \$634,283,000 for the year ended December 31, 2009, compared to \$635,724,000 in the prior year, a decrease of \$1,441,000. This decrease resulted primarily from savings of (i) \$17,561,000 from a decrease in outstanding debt of approximately \$1.5 billion, the full year effect of which is approximately \$100,000,000, (ii) \$27,830,000 from lower average interest rates on variable rate debt (1.61% in 2009 as compared to 3.88% in 2008), (iii) \$1,857,000 from other items, partially offset by (iv) a decrease in capitalized interest of \$45,807,000.

### Net (Loss) Gain on Early Extinguishment of Debt

Net loss on early extinguishment of debt was \$25,915,000 for the year ended December 31, 2009, resulting primarily from the acquisition and retirement of approximately \$1.9 billion of our convertible senior debentures and related write-off of the unamortized debt discount. Net gain on early extinguishment of debt was \$9,820,000 in the year ended December 31, 2008, resulting primarily from the acquisition and retirement of approximately \$81,540,000 of senior unsecured notes and \$27,500,000 of convertible senior debentures.

**Net Gain on Disposition of Wholly Owned and Partially Owned Assets other than Depreciable Real Estate**

Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate was \$5,641,000 in the year ended December 31, 2009, compared to \$7,757,000 in the prior year and was primarily comprised of net gains on sale of marketable securities and residential condominiums.

## Results of Operations - Year Ended December 31, 2009 Compared to December 31, 2008 continued

### Income Tax Expense

Income tax expense was \$20,737,000 for the year ended December 31, 2009 compared to an income tax benefit of \$204,537,000 in the prior year. The prior year income tax benefit was the result of a \$222,174,000 reversal of deferred taxes recorded in connection with our acquisition of H Street. We were required to record these deferred tax liabilities because H Street and its partially owned entities were operated as C Corporations at the time they were acquired. As of January 16, 2008, we had completed all of the actions necessary to enable these entities to elect REIT status effective for the tax year beginning on January 1, 2008 and reversed the deferred tax liabilities.

### Discontinued Operations

The combined results of discontinued operations for the years ended December 31, 2009 and 2008 include the operating results of 1999 K Street, which was sold on September 1, 2009; Americold, which was sold on March 31, 2008 and Tysons Dulles Plaza, which was sold on June 10, 2008.

(Amounts in thousands)	For the Year Ended December 31,	
	2009	2008
Total revenues	\$ 9,846	\$ 226,726
Total expenses	3,225	223,326
Net income	6,621	3,400
Net gain on sale of Americold		112,690
Net gain on sale of Tysons Dulles Plaza		56,831
Net gain on sale of 1999 K Street	41,211	
Net gains on sale of other real estate	4,073	692
Income from discontinued operations	\$ 51,905	\$ 173,613

### Net Income Attributable to Noncontrolling Interests, Including Unit Distributions

Net income attributable to noncontrolling interests for the years ended December 31, 2009 and 2008 is comprised of (i) allocations of income to redeemable noncontrolling interests of \$5,834,000 and \$33,327,000, respectively, (ii) net loss attributable to noncontrolling interests in consolidated subsidiaries of \$2,839,000 and \$3,263,000, respectively and (iii) preferred unit distributions of the Operating Partnership of \$19,286,000 and \$22,084,000, respectively. The decrease of \$27,493,000 in allocations of income to redeemable noncontrolling interests resulted primarily from lower net income subject to allocation to the unitholders. The decrease of \$2,798,000 in preferred unit distributions was

primarily due to a write-off of unit issuance costs in the prior year.

**Preferred Share Dividends**

Preferred share dividends were \$57,076,000 for the year ended December 31, 2009, compared to \$57,091,000 for the prior year.

## Results of Operations - Year Ended December 31, 2009 Compared to December 31, 2008 continued

### Same Store EBITDA

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses that are not considered property-level expenses, as well as other non-operating items. We present same store EBITDA on both a GAAP basis and a cash basis, which excludes income from the straight-lining of rents, amortization of below-market leases, net of above-market leases and other non-cash adjustments. We present these non-GAAP measures to (i) facilitate meaningful comparisons of the operational performance of our properties and segments, (ii) make decisions on whether to buy, sell or refinance properties, and (iii) compare the performance of our properties and segments to those of our peers. Same store EBITDA should not be considered as an alternative to net income or cash flow from operations and may not be comparable to similarly titled measures employed by other companies.

Below are the same store EBITDA results on a GAAP basis and cash basis for each of our segments for the year ended December 31, 2009, compared to the year ended December 31, 2008.

(Amounts in thousands)	New York Office	Washington, DC Office	Retail	Merchandise Mart
EBITDA for the year ended December 31, 2009	\$ 582,820	\$ 473,132	\$ 317,078	\$ 100,527
Add-back: non-property level overhead expenses included above (1)	22,820	26,219	30,433	31,587
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(2,278 )	(52,627 )	(1,263 )	(2,939 )
GAAP basis same store EBITDA for the year ended December 31, 2009	603,362	446,724	346,248	129,175
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(65,069 )	(25,931 )	(38,396 )	(4,340 )
Cash basis same store EBITDA for the year ended December 31, 2009	\$ 538,293	\$420,793	\$307,852	\$124,835
EBITDA for the year ended December 31, 2008	\$ 586,798	\$458,014	\$332,773	\$116,437
Add-back: non-property level overhead expenses included above	20,217	26,548	29,862	29,254
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(8,431 )	(65,846 )	(28,840 )	274
GAAP basis same store EBITDA for the year ended December 31, 2008	598,584	418,716	333,795	145,965

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Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(88,163 )	(20,354 )	(37,267 )	(9,408 )
Cash basis same store EBITDA for the year ended December 31, 2008	\$ 510,421	\$ 398,362	\$ 296,528	\$ 136,557
Increase (decrease) in GAAP basis same store EBITDA for the year ended December 31, 2009 over the year ended December 31, 2008	\$ 4,778	\$ 28,008	\$ 12,453	\$ (16,790 )
Increase (decrease) in Cash basis same store EBITDA for the year ended December 31, 2009 over the year ended December 31, 2008	\$ 27,872	\$ 22,431	\$ 11,324	\$ (11,722 )
% increase (decrease) in GAAP basis same store EBITDA	0.8%	6.7%	3.7%	(11.5% )
% increase (decrease) in Cash basis same store EBITDA	5.5%	5.6%	3.8%	(8.6% )

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(1) Includes the write-off of unamortized costs from the voluntary surrender of equity awards on March 31, 2009, of \$3,451, \$3,131, \$4,793 and \$1,011, respectively.



## Results of Operations - Year Ended December 31, 2008 Compared to December 31, 2007

### Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below-market leases, net of above-market leases, and fee income, were \$2,692,686,000 for the year ended December 31, 2008, compared to \$2,405,243,000 in the prior year, an increase of \$287,443,000. Below are the details of the increase by segment:

(Amounts in thousands)

Increase (decrease) due to:	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
<b>Property rentals:</b>						
Acquisitions:						
1290 Avenue of the Americas	\$ 46,780	\$ 46,780		\$	\$	\$
555 California Street	37,301					37,301
H Street (effect of consolidating from May 1, 2007, vs. equity method prior)	19,330		19,330			
Other	25,788		780	16,838	8,170	
Development/Redevelopment	(7,201 )		(1,839 )	(4,688 )		(674 )
Amortization of acquired below- market leases, net	12,884	12,494	(192 )	805	(32 )	(191 )
Leasing activity (see page 69)	91,033	48,476	28,125	16,102	549	(2,219 )
Hotel Pennsylvania	7,144					7,144
Trade shows	2,110				2,110	
Increase in property rentals	235,169	107,750	46,204	29,057	10,797	41,361
<b>Tenant expense reimbursements:</b>						
Acquisitions/development	12,630	6,041	2,575	2,165		1,849
Operations	22,281	3,807	13,827	5,576	(1,003 ) <sup>(2)</sup>	74
Increase (decrease) in tenant expense reimbursements	34,911	9,848	16,402	7,741	(1,003 )	1,923
<b>Fee and other income:</b>						
Lease cancellation fee income	1,181	(412 )	2,182	(542 )	(47 )	
Management and leasing fees	(2,316 )	1,483	(3,599 ) <sup>(3)</sup>	(97 )	342	(445 )
BMS Cleaning fees	10,178	12,996				(2,818 ) <sup>(4)</sup>
Other	8,320	(540 )	6,074	342	62	2,382
Increase (decrease) in fee and other income	17,363	13,527	4,657	(297 )	357	(881 )
Total increase in revenues	\$ 287,443	\$ 131,125	\$ 67,263	\$ 36,501	\$ 10,151	\$ 42,403

- (1) Net of a decrease in real estate tax reimbursements resulting from lower tax assessments and new tenant base years.
- (2) Primarily from lower real estate tax reimbursements resulting from a reassessment of 2006 real estate taxes in 2007.
- (3) Primarily from leasing fees recognized in the prior year in connection with the management of a development project.
- (4) Results from the elimination of inter-company fees from operating segments upon consolidation. See note 4 on page 86.

## Results of Operations - Year Ended December 31, 2008 Compared to December 31, 2007 continued

### Expenses

Our expenses, which consist of operating, depreciation and amortization, general and administrative expenses and costs of acquisitions and developments not consummated were \$1,881,735,000 for the year ended December 31, 2008, compared to \$1,590,110,000 in the prior year, an increase of \$291,625,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

Increase (decrease) due to:	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
<b>Operating:</b>						
Acquisitions:						
1290 Avenue of the Americas	\$ 19,148	\$ 19,148	\$	\$	\$	\$
555 California Street	17,442					17,442
H Street (effect of consolidating from May 1, 2007, vs. equity method prior)	8,300		8,300			
Other	14,455		1,410	6,190	6,855	
Development/Redevelopment	607		(269 )	2,186		(1,310 )
Operations	59,584	24,507 <sup>(1)</sup>	27,384	20,424 <sup>(2)</sup>	2,744 <sup>(3)</sup>	(15,475) <sup>(4)</sup>
Hotel Pennsylvania	2,382					2,382
Trade shows activity	(2,960 )				(2,960 )	
Increase in operating expenses	118,958	43,655	36,825	28,800	6,639	3,039
<b>Depreciation and amortization:</b>						
Acquisitions/Development	46,998	23,618	7,384	4,248		11,748
Operations (due to additions to buildings and improvements)	49,598	17,039	12,753	9,819	4,728	5,259
Increase in depreciation and amortization	96,596	40,657	20,137	14,067	4,728	17,007
<b>General and administrative:</b>						
Acquisitions/Development and Other	7,366			1,948		5,418
Operations	(2,367 )	2,965	(1,064 )	438	1,086	(5,792 ) <sup>(5)</sup>
Increase (decrease) in general and administrative	4,999	2,965	(1,064 )	2,386	1,086	(374 )
<b>Impairment and other losses</b>	<b>71,072</b>			<b>595</b>		<b>70,477</b>
Total increase in expenses	\$ 291,625	\$ 87,277	\$ 55,898	\$ 45,848	\$ 12,453	\$ 90,149

- (1) Results from an \$11,715 increase in BMS operating expenses and a \$12,792 increase in property level operating expenses.
- (2) Includes \$6,990 of write-offs for receivables arising from the straight-lining of rents and \$2,492 of bad debt expense, all relating to tenants that filed for bankruptcy. Of these amounts, \$3,931 and \$1,203, respectively, relate to Circuit City.
- (3) Primarily due to higher bad debt expense, partially offset by lower real estate taxes.
- (4) Results primarily from an increase in the elimination of inter-company fees of our operating segments upon consolidation.
- (5) Primarily due to a \$15,344 reduction from the mark-to-market of investments in our deferred compensation plan (for which there is a corresponding reduction in interest and other investment (loss) income, net ), partially offset by a \$4,600 pension termination cost, higher compensation expense and professional fees.

## Results of Operations - Year Ended December 31, 2008 Compared to December 31, 2007 continued

### Income Applicable to Alexander s

Our 32.5% share of Alexander s net income (comprised of our share of Alexander s net income, management, leasing and development fees) was \$36,671,000 for the year ended December 31, 2008, compared to \$50,589,000 for the prior year, a decrease of \$13,918,000. The decrease was primarily due to \$6,583,000 of income for our share of the reversal of accrued stock appreciation rights compensation expense, compared to \$14,280,000 of income from such reversal in the prior year.

### Income (loss) Applicable to Toys

Our 32.7% share of Toys financial results (comprised of our share of Toys net income, interest income on loans receivable, and management fees) for the years ended December 31, 2008 and December 31, 2007 are for Toys fiscal periods from November 4, 2007 to November 1, 2008 and October 29, 2006 to November 3, 2007, respectively. For the year ended December 31, 2008, our income applicable to Toys was \$2,380,000, or \$62,032,000 before our share of Toys income tax expense, compared to a loss of \$14,337,000 or \$25,235,000 before our share of Toys income tax benefit in the prior year.

### (Loss) Income from Partially Owned Entities

Summarized below are the components of (loss) income from partially owned entities for the years ended December 31, 2008 and 2007.

(Amounts in thousands)	For The Year Ended December 31,	
	2008	2007
Lexington	\$ (105,630 ) <sup>(1)</sup>	\$ 2,211
India Real Estate Ventures 4% to 50% share of equity in net loss	(3,336 )	
GMH Communities L.P. 13.8% share of equity in net income (sold in June 2008)		6,463
H Street partially owned entities 50% share of equity in net income <sup>(2)</sup>		5,923
Other <sup>(3)</sup>	(86,912 ) <sup>(4)</sup>	17,294
	\$ (195,878 )	\$ 31,891

(1) Includes \$107,882 of non-cash impairment losses on our investment in Lexington.

(2) As of April 30, 2007, our H Street subsidiary acquired the remaining 50% interest in these entities and began to consolidate this investment into our consolidated financial statements and no longer account for it under the equity method.

(3) Includes equity in net earnings of partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Dune Capital LP, Verde, 85 10<sup>th</sup> Avenue Associates and others.

(4) Includes \$96,037 of non-cash charges for the write-off of our share of certain partially owned entities' development costs, including \$37,000 for Downtown Crossing, Boston and \$23,000 for the arena move /Moynihan East portions of the Farley project.

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## Results of Operations - Year Ended December 31, 2008 Compared to December 31, 2007 continued

### Interest and Other Investment (Loss) Income, net

Interest and other investment (loss) income, net (comprised of mark-to-market of derivative positions, interest income on mezzanine loans receivable, other interest and dividend income and impairment losses on marketable securities) was a loss of \$2,682,000 for the year ended December 31, 2008, compared to income of \$226,425,000 for the year ended December 31, 2007, a decrease of \$229,107,000. This decrease resulted primarily from:

(Amounts in thousands)

Derivative positions in marketable equity securities net loss of \$33,602 in 2008 compared to a net gain of \$113,547 in 2007	\$ (147,149 )
Marketable equity securities - impairment losses	(76,742 )
MPH mezzanine loan income of \$10,300 from the reversal of a portion of the 2007 loan loss accrual in 2008, compared to a \$57,000 loan loss accrual in 2007	67,300
Decrease in interest income as a result of lower average yields on investments (2.3% in 2008 compared to 5.0% in 2007)	(28,250 )
Decrease in interest income on mezzanine loans as a result of lower average investments (\$480,558 in 2008 compared to \$611,943 in 2007)	(20,522 )
Decrease in income on investments in our deferred compensation plan	(15,344 )
Other, net	(8,400 )
	\$ (229,107 )

### Interest and Debt Expense

Interest and debt expense was \$635,724,000 for the year ended December 31, 2008, compared to \$599,804,000 in the year ended December 31, 2007, an increase of \$35,920,000. This increase was primarily due to the full year effect of interest expense from properties acquired during 2007 and property level refinancings during 2008, partially offset by a decrease in weighted average interest rates on variable rate debt.

### Net Gain on Early Extinguishment of Debt

In the year ended December 31, 2008, we had a \$9,820,000 net gain from the early extinguishment of debt which resulted primarily from purchases of certain of our convertible senior debentures.

**Net Gain on Disposition of Wholly Owned and Partially Owned Assets other than Depreciable Real Estate**

Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate was \$7,757,000 in the year ended December 31, 2008, compared to \$39,493,000 in the year ended December 31, 2007. The year ended December 31, 2008 includes a \$3,691,000 net gain on sale of residential condominiums, a \$2,038,000 net gain on disposition of our 13.8% interest in GMH and \$2,028,000 for net gains on sale of marketable securities. The \$39,493,000 net gain in the year ended December 31, 2007 represents net gains on sale of marketable securities, including \$23,090,000 from the sale of McDonald's common shares.



## Results of Operations - Year Ended December 31, 2008 Compared to December 31, 2007 continued

### Income Tax Expense

In the year ended December 31, 2008, we had an income tax benefit of \$204,537,000, compared to an expense of \$9,179,000 in the prior year, a decrease of \$213,716,000. The decrease results primarily from a \$222,174,000 reversal of deferred taxes recorded in connection with the acquisition of H Street. We were required to record these deferred tax liabilities because H Street and its partially owned entities were operated as C Corporations at the time they were acquired. As of January 16, 2008, we had completed all of the actions necessary to enable these entities to elect REIT status effective for the tax year beginning on January 1, 2008. Consequently, in the first quarter of 2008, we reversed the deferred tax liabilities and recognized an income tax benefit of \$222,174,000 in our consolidated statement of income.

### Discontinued Operations

The combined results of discontinued operations for the years ended December 31, 2008 and 2007 include the operating results of 1999 K Street, which was sold on September 1, 2009; Americold, which was sold on March 31, 2008; Tysons Dulles Plaza, which was sold on June 10, 2008; 11 acres of land we acquired as part of our acquisition of H Street, which was sold in September 2007; Vineland, New Jersey, which was sold on July 16, 2007; Crystal Mall Two, which was sold on August 9, 2007; and Arlington Plaza, which was sold on October 17, 2007.

(Amounts in thousands)

	<b>For the Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Total revenues	\$ 226,726	\$ 870,857
Total expenses	223,326	868,216
Net income (loss)	3,400	2,641
Net gain on sale of Americold	112,690	
Net gain on sale of Tysons Dulles Plaza	56,831	
Net gain on sale of Arlington Plaza		33,890
Net gain on sale of Crystal Mall Two		19,893
Net gains on sale of other real estate	692	11,198
Income from discontinued operations	\$ 173,613	\$ 67,622

### Net Income Attributable to Noncontrolling Interests, Including Unit Distributions

Net income attributable to noncontrolling interests for the years ended December 31, 2008 and 2007 is comprised of (i) allocations of income to redeemable noncontrolling interests of \$33,327,000 and \$50,514,000, respectively, (ii) net loss attributable to noncontrolling interests in consolidated subsidiaries of \$3,263,000 and \$3,494,000, respectively and (iii) preferred unit distributions of the Operating Partnership of \$22,084,000 and \$19,274,000, respectively. The decrease of \$17,187,000 in allocations of income to redeemable noncontrolling interests resulted primarily from lower net income subject to allocation to the unitholders.

### **Preferred Share Dividends**

Preferred share dividends were \$57,091,000 for the year ended December 31, 2008, compared to \$57,177,000 for the prior year.

## Results of Operations - Year Ended December 31, 2008 Compared to December 31, 2007 continued

### Same Store EBITDA

Below are the same store EBITDA results on a GAAP basis and cash basis for each of our segments for the year ended December 31, 2008, compared to the year ended December 31, 2007.

(Amounts in thousands)	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>
EBITDA for the year ended December 31, 2008	\$ 586,798	\$ 458,014	\$ 332,773	\$ 116,437
Add-back: non-property level overhead expenses included above	20,217	26,548	29,862	29,254
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(50,070 )	(80,741 )	(52,154 )	(1,281 )
GAAP basis same store EBITDA for the year ended December 31, 2008	556,945	403,821	310,481	144,410
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(69,926 )	(15,607 )	(34,018 )	(8,819 )
Cash basis same store EBITDA for the year ended December 31, 2008	\$ 487,019	\$388,214	\$276,463	\$135,591
EBITDA for the year ended December 31, 2007	\$ 514,198	\$449,702	\$327,738	\$114,082
Add-back: non-property level overhead expenses included above	17,252	27,612	27,476	28,168
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(7,157 )	(90,780 )	(58,891 )	2,410
GAAP basis same store EBITDA for the year ended December 31, 2007	524,293	386,534	296,323	144,660
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(72,685 )	(25,782 )	(34,258 )	(6,152 )
Cash basis same store EBITDA for the year ended December 31, 2007	\$ 451,608	\$ 360,752	\$ 262,065	\$ 138,508
Increase (decrease) in GAAP basis same store EBITDA for the year ended December 31, 2008 over the year ended December 31, 2007	\$ 32,652	\$ 17,287	\$ 14,158	\$ (250 )
Increase (decrease) in Cash basis same store EBITDA for the year ended December 31, 2008 over the year ended December 31, 2007	\$ 35,411	\$ 27,462	\$ 14,398	\$ (2,917 )

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% increase (decrease) in GAAP basis same store EBITDA	6.2%	4.5%	4.8%	(0.2% )
% increase (decrease) in Cash basis same store EBITDA	7.8%	7.6%	5.5%	(2.1% )

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## Supplemental Information

### Net Income and EBITDA by Segment for the Three Months Ended December 31, 2009 and December 31, 2008

(Amounts in thousands)

#### For the Three Months Ended December 31, 2009

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other <sup>(2)</sup>
Property rentals	\$529,064	\$189,673	\$138,945	\$96,860	\$60,537	\$	\$43,049
Straight-line rents:							
Contractual rent increases	11,476	4,108	2,594	4,154	485		135
Amortization of free rent	11,177	6,173	2,428	2,251	90		235
Amortization of acquired below- market leases, net	16,211	9,611	774	4,719	18		1,089
Total rentals	567,928	209,565	144,741	107,984	61,130		44,508
Tenant expense reimbursements	91,048	32,932	16,505	35,841	2,492		3,278
Fee and other income:							
Tenant cleaning fees	15,140	21,320					(6,180 )
Management and leasing fees	3,201	848	2,247	483	63		(440 )
Lease termination fees	1,169	316	308	364	181		
Other	40,517	4,257	32,701	381	3,353		(175 )
Total revenues	719,003	269,238	196,502	145,053	67,219		40,991
Operating expenses	273,224	111,818	59,361	51,087	35,251		15,707
Depreciation and amortization	140,658	44,039	39,221	26,329	15,371		15,698
General and administrative	51,307	4,232	5,671	5,487	6,495		29,422
Impairment and other losses	87,823		24,875	23,649			39,299
Total expenses	553,012	160,089	129,128	106,552	57,117		100,126
Operating income (loss)	165,991	109,149	67,374	38,501	10,102		(59,135 )
Income applicable to Alexander s	7,485	193		193			7,099
Loss applicable to Toys	(26,597 )					(26,597)	
(Loss) income from partially owned entities	(24,315 )	1,139	(654 )	1,371	(35 )		(26,136 )
Interest and other investment income, net	(52,722 )	164	216	22	13		(53,137 )
Interest and debt expense	(159,255)	(33,529 )	(34,972 )	(22,975 )	(13,071)		(54,708 )
Net loss on early extinguishment of debt	(52,911 )						(52,911 )
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	1,209						1,209
(Loss) income before income taxes	(141,115)	77,116	31,964	17,112	(2,991 )	(26,597)	(237,719)
Income tax expense	(4,964 )	(487 )	(345 )	(3 )	(385 )		(3,744 )
(Loss) income from continuing operations	(146,079)	76,629	31,619	17,109	(3,376 )	(26,597)	(241,463)
Income from discontinued operations	2,629			2,629			
Net (loss) income	(143,450)	76,629	31,619	19,738	(3,376 )	(26,597)	(241,463)
Net loss (income) attributable to noncontrolling interests, including unit distributions	6,527	(2,660 )		285			8,902
Net (loss) income attributable to Vornado	(136,923)	73,969	31,619	20,023	(3,376 )	(26,597)	(232,561)
Interest and debt expense <sup>(1)</sup>	214,411	31,910	35,792	24,494	13,299	37,493	71,423

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Depreciation and amortization <sup>(1)</sup>	189,261	42,686	42,484	27,179	15,499	30,859	30,554
Income tax (benefit) expense <sup>(1)</sup>	(13,611 )	487	348	3	388	(20,520)	5,683
EBITDA <sup>(1)</sup>	\$253,138	\$149,052	\$110,243	\$71,699	\$25,810	\$21,235	\$(124,901)

EBITDA above includes certain items that affect comparability, which are described in the Overview.

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See notes on page 93.

**Supplemental Information continued****Net Income and EBITDA by Segment for the Three Months Ended December 31, 2009 and December 31, 2008 continued**

(Amounts in thousands)

**For the Three Months Ended December 31, 2008**

	<b>Total</b>	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>	<b>Toys</b>	<b>Other <sup>(2)</sup></b>
Property rentals	\$519,223	\$183,191	\$131,510	\$88,557	\$65,794	\$	\$50,171
Straight-line rents:							
Contractual rent increases	12,383	7,163	(97 )	3,703	1,423		191
Amortization of free rent	15,441	6,637	5,019	3,837	41		(93 )
Amortization of acquired below- market leases, net	22,521	14,807	1,118	6,749	77		(230 )
Total rentals	569,568	211,798	137,550	102,846	67,335		50,039
Tenant expense reimbursements	88,340	32,558	16,840	30,152	3,852		4,938
Fee and other income:							
Tenant cleaning fees	14,985	18,418					(3,433 )
Management and leasing fees	3,071	1,376	1,957	699	43		(1,004 )
Lease termination fees	4,165	1,038	1,598	1,254	275		
Other	15,024	3,823	7,558	587	1,310		1,746
Total revenues	695,153	269,011	165,503	135,538	72,815		52,286
Operating expenses	276,054	105,167	58,920	56,595	35,224		20,148
Depreciation and amortization	139,013	47,376	32,356	28,606	13,509		17,166
General and administrative	44,859	5,311	7,724	6,758	7,333		17,733
Impairment and other losses	73,438			595			72,843
Total expenses	533,364	157,854	99,000	92,554	56,066		127,890
Operating income (loss)	161,789	111,157	66,503	42,984	16,749		(75,604 )
Income applicable to Alexander s	20,267	195		121			19,951
Loss applicable to Toys	(39,130 )					(39,130)	
(Loss) income from partially owned entities	(166,711)	1,476	1,625	(168 )	128		(169,772)
Interest and other investment (loss) income, net	(50,217 )	323	379	72	135		(51,126 )
Interest and debt expense	(160,862)	(35,114 )	(32,423 )	(22,806 )	(12,958)		(57,561 )
Net gain on early extinguishment of debt	9,820						9,820
Net loss on disposition of wholly owned and partially owned assets other than depreciable real estate	(789 )						(789 )
(Loss) income before income taxes	(225,833)	78,037	36,084	20,203	4,054	(39,130)	(325,081)
Income tax (expense) benefit	(2,633 )		57	(75 )	(1 )		(2,614 )
(Loss) income from continuing operations	(228,466)	78,037	36,141	20,128	4,053	(39,130)	(327,695)
Income from discontinued operations	799		35	764			
Net (loss) income	(227,667)	78,037	36,176	20,892	4,053	(39,130)	(327,695)
Net loss (income) attributable to noncontrolling interests, including unit distributions	14,987	(1,396 )		53	(125 )		16,455
Net (loss) income attributable to Vornado	(212,680)	76,641	36,176	20,945	3,928	(39,130)	(311,240)

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Interest and debt expense <sup>(1)</sup>	200,573	33,596	33,352	26,108	13,249	38,842	55,426
Depreciation and amortization <sup>(1)</sup>	179,274	44,961	33,655	30,782	13,646	33,343	22,887
Income tax (benefit) expense <sup>(1)</sup>	(20,571 )		(54 )	75	55	(23,126)	2,479
EBITDA <sup>(1)</sup>	\$146,596	\$155,198	\$103,129	\$77,910	\$30,878	\$9,929	\$(230,448)

EBITDA above includes certain items that affect comparability, which are described in the Overview.

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See notes on the following page.



**Supplemental Information continued****Net Income and EBITDA by Segment for the Three Months Ended December 31, 2009 and December 31, 2008 continued****Notes to preceding tabular information:**

(1) Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income to EBITDA include our share of these items from partially owned entities.

(2) Other EBITDA is comprised of:

(Amounts in thousands)	For the Three Months Ended December 31,	
	2009	2008
Alexander s	\$ 16,474	\$ 27,503
Lexington	15,774	5,879
555 California Street	12,872	12,762
Hotel Pennsylvania	7,285	12,497
Industrial warehouses	835	1,239
Other investments	5,077	110
	58,317	59,990
Investment income and other (1)	12,461	18,654
Corporate general and administrative expenses (1)	(23,190 )	(26,761)
Net loss attributable to noncontrolling interests, including unit distributions	8,902	16,455
Net loss on early extinguishment of debt	(52,911 )	
Non-cash assets write-downs:		
Mezzanine loans receivable	(68,000 )	
Investment in Lexington		(100,707)
Marketable equity securities	(3,361 )	(55,471)
Real estate primarily development projects:		
Wholly owned entities	(39,299 )	(72,843)
Partially owned entities	(17,820 )	(61,837)
Derivative positions in marketable equity securities		(7,928)
	\$ (124,901 )	\$ (230,448)

(1) The amounts in these captions (for this table only) exclude the mark-to-market of our deferred compensation plan assets and offsetting liability.



**Supplemental Information continued**

Below are the same store EBITDA results on a GAAP and cash basis for each of our segments for the three months ended December 31, 2009 compared to the three months ended December 31, 2008.

(Amounts in thousands)	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>
EBITDA for the three months ended December 31, 2009	\$ 149,052	\$ 110,243	\$ 71,699	\$ 25,810
Add-back: non-property level overhead expenses included above	4,232	5,671	5,487	6,495
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(298 )	(2,904 )	11,057	886
GAAP basis same store EBITDA for the three months ended December 31, 2009	152,986	113,010	88,243	33,191
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(16,414 )	(5,294 )	(6,348 )	(2,433 )
Cash basis same store EBITDA for the three months ended December 31, 2009	\$ 136,572	\$107,716	\$81,895	\$30,758
EBITDA for the three months ended December 31, 2008	\$ 155,198	\$103,129	\$77,910	\$30,878
Add-back: non-property level overhead expenses included above	5,311	7,724	7,356	7,333
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(4,353 )	(2,442 )	(579 )	(671 )
GAAP basis same store EBITDA for the three months ended December 31, 2008	156,156	108,411	84,687	37,540
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(25,014 )	(5,549 )	(10,014 )	(1,541 )
Cash basis same store EBITDA for the three months ended December 31, 2008	\$ 131,142	\$ 102,862	\$ 74,673	\$ 35,999
Increase (decrease) in GAAP basis same store EBITDA for the three months ended December 31, 2009 over the three months ended December 31, 2008	\$ (3,170 )	\$ 4,599	\$ 3,556	\$ (4,349 )
Increase (decrease) in Cash basis same store EBITDA for the three months ended December 31, 2009 over the three months ended December 31, 2008	\$ 5,430	\$ 4,854	\$ 7,222	\$ (5,241 )
% increase (decrease) in GAAP basis same store EBITDA	(2.0% )	4.2%	4.2%	(11.6% )

% increase (decrease) in Cash basis same store EBITDA	4.1%	4.7%	9.7%	(14.6% )
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**Supplemental Information continued**

Our revenues and expenses are subject to seasonality during the year which impacts quarterly net earnings, cash flows and funds from operations, and therefore comparisons of the current quarter to the previous quarter. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income, which we recorded on a one-quarter lag basis in our first quarter, accounts for more than 80% of its fiscal year net income. The Office and Merchandise Mart segments have historically experienced higher utility costs in the first and third quarters of the year. The Merchandise Mart segment also has experienced higher earnings in the second and fourth quarters of the year due to major trade shows occurring in those quarters. The Retail segment revenue in the fourth quarter is typically higher due to the recognition of percentage rental income.

Below are the same store EBITDA results on a GAAP and cash basis for each of our segments for the three months ended December 31, 2009 compared to the three months ended September 30, 2009.

(Amounts in thousands)	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>
EBITDA for the three months ended December 31, 2009	\$ 149,052	\$ 110,243	\$ 71,699	\$ 25,810
Add-back: non-property level overhead expenses included above	4,232	5,671	5,487	6,495
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(75 )	(2,904 )	10,979	140
GAAP basis same store EBITDA for the three months ended December 31, 2009	153,209	113,010	88,165	32,445
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(16,637 )	(5,294 )	(5,828 )	(2,433 )
Cash basis same store EBITDA for the three months ended December 31, 2009	\$ 136,572	\$107,716	\$82,337	\$30,012
EBITDA for the nine months ended September 30, 2009 <sup>(1)</sup>	\$ 146,875	\$149,242	\$82,844	\$26,311
Add-back: non-property level overhead expenses included above	4,895	6,079	6,802	7,198
Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses	(1,708 )	(42,323 )	(5,207 )	(3,529 )
GAAP basis same store EBITDA for the three months ended September 30, 2009	150,062	112,998	84,439	29,980
Less: Adjustments for straight-line rents, amortization of below-market leases, net and other non-cash adjustments	(16,714 )	(6,860 )	(7,893 )	(184 )
Cash basis same store EBITDA for the three months ended September 30, 2009	\$ 133,348	\$ 106,138	\$ 76,546	\$ 29,796
	3,147	\$ 12	\$ 3,726	\$ 2,465

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Increase in GAAP basis same store EBITDA for the three months ended December 31, 2009 over the three months ended September 30, 2009	\$			
Increase in Cash basis same store EBITDA for the three months ended December 31, 2009 over the three months ended September 30, 2009	\$ 3,224	\$ 1,578	\$ 5,791	\$ 216
% increase in GAAP basis same store EBITDA	2.1%	0.0%	4.4%	8.2%
% increase in Cash basis same store EBITDA	2.4%	1.5%	7.6%	0.7%

(1) Below is a reconciliation of our net income (loss) to EBITDA for the three months ended September 30, 2009.

(Amounts in thousands)	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>
Net income (loss) attributable to Vornado for the three months ended September 30, 2009	\$ 73,244	\$ 79,099	\$ 33,798	\$ (1,623 )
Interest and debt expense	31,945	32,980	23,978	13,315
Depreciation and amortization	41,101	37,116	25,029	13,772
Income tax expense	585	47	39	847
EBITDA for the three months ended September 30, 2009	\$ 146,875	\$ 149,242	\$ 82,844	\$ 26,311

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## Related Party Transactions

### *Transactions with Affiliates and Officers and Trustees*

#### *Alexander s*

We own 32.4% of Alexander s. Steven Roth, the Chairman of our Board, and Michael D. Fascitelli, our President and Chief Executive Officer, are officers and directors of Alexander s. We provide various services to Alexander s in accordance with management, development and leasing agreements. These agreements are described in Note 3 - Investments in Partially Owned Entities to our consolidated financial statements in this Annual Report on Form 10-K.

On March 2, 2009, Mr. Roth and Mr. Fascitelli each exercised 150,000 stock appreciation rights ( SARs ) which were scheduled to expire on March 4, 2009 and each received gross proceeds of \$11,419,000.

On September 9, 2008, Alexander s Board of Directors declared a special dividend of \$7.00 per share, payable on October 30, 2008, to shareholders of record on October 14, 2008. The dividend was attributable to the liquidation of the wholly owned 731 Lexington Avenue taxable REIT subsidiary into Alexander s. Accordingly, on October 30, we received \$11,578,000, which was accounted for as a reduction of our investment in Alexander s.

On September 15, 2008 and October 14, 2008, Mr. Roth exercised an aggregate of 200,000 SARs which were scheduled to expire on March 4, 2009 and received gross proceeds of \$62,809,000.

#### *Interstate Properties ( Interstate )*

Interstate is a general partnership in which Mr. Roth is the managing general partner. David Mandelbaum and Russell B. Wight, Jr., Trustees of Vornado and Directors of Alexander s, are Interstate s two other partners. As of December 31, 2009, Interstate and its partners beneficially owned approximately 7.3% of the common shares of beneficial interest of Vornado and 27.2% of Alexander s common stock.

We manage and lease the real estate assets of Interstate pursuant to a management agreement for which we receive an annual fee equal to 4% of annual base rent and percentage rent. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on sixty days notice at the end of the term.

We believe, based upon comparable fees charged by other real estate companies, that the management agreement terms are fair to us. We earned \$782,000, \$803,000 and \$800,000 of management fees under the agreement for the years ended December 31, 2009, 2008 and 2007, respectively.



## Liquidity and Capital Resources

We anticipate that cash flow from continuing operations over the next twelve months will be adequate to fund our business operations, cash distributions to unitholders of the Operating Partnership, cash dividends to shareholders, debt amortization and recurring capital expenditures. Capital requirements for significant acquisitions and development expenditures may require funding from borrowings and/or equity offerings.

We may from time to time purchase or retire outstanding debt or equity securities. Such purchases, if any, will depend on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

We may determine to raise capital for future real estate acquisitions through an institutional investment fund. We would serve as the general partner of the fund and would also expect to be a limited partner of the fund and have the potential to earn certain incentives based on the fund's performance. The fund may serve as our exclusive investment vehicle for a limited period of time for all investments that fit within the fund's investment parameters. If we determine to raise capital through a fund, the partnership interests offered would not be registered under the Securities Act of 1933 and could not be offered or sold in the United States absent registration under that act or an applicable exemption from those registration requirements.

### *Acquisitions and Investments*

We did not make any significant investments in real estate during 2009.

### *Financings*

In April 2009, we sold 17,250,000 common shares, including underwriters' over-allotment, in an underwritten public offering pursuant to an effective registration statement at an initial public offering price of \$43.00 per share. We received net proceeds of \$710,226,000, after underwriters' discount and offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 17,250,000 Class A units of the Operating Partnership.

On September 30, 2009, we completed a public offering of \$460,000,000 principal amount of 7.875% callable senior unsecured 30-year notes (NYSE: VNOD) due October 1, 2039. The notes were sold to the public at par and may be redeemed at our option, in whole or in part, beginning in October 2014 at a price equal to the principal amount plus accrued and unpaid interest. We received net proceeds of approximately \$446,000,000 from the offering which were used to repay debt and for general corporate purposes.

During 2009, we purchased \$1,912,724,000 (aggregate face amount) of our convertible senior debentures and \$352,740,000 (aggregate face amount) of our senior unsecured notes for \$1,877,510,000 and \$343,694,000 in cash, respectively. This debt was acquired through tender offers and in the open market and has been retired. We also repaid \$650,285,000 of existing property level debt and completed \$277,000,000 of property level financings. In connection with the above, we recognized an aggregate net loss of \$25,915,000 from the early extinguishment of debt on our consolidated statement of income

We continue to evaluate plans to renovate and reposition the Springfield mall; given current economic conditions, that may require us to renegotiate the terms of the existing debt and, accordingly, we have requested that the debt be placed with the special servicer.

#### *Dispositions*

On September 1, 2009, we sold 1999 K Street, a newly developed 250,000 square foot office building in Washington's Central Business District, for \$207,800,000 in cash, which resulted in a net gain of \$41,211,000, which is included as a component of income from discontinued operations on our consolidated statement of income.

During 2009, we sold 15 retail properties in separate transactions for an aggregate of \$55,000,000 in cash, which resulted in net gains aggregating \$4,073,000, which is included as a component of income from discontinued operations on our consolidated statement of income.

## Liquidity and Capital Resources continued

### *Mezzanine Loans*

On June 1, 2009, we were repaid the entire \$41,758,000 balance of the Charles Square Hotel loan including accrued interest. This loan was scheduled to mature in September 2009.

On January 28, 2010, we were repaid the entire \$99,314,000 balance of the Equinox loan including accrued interest. This loan, which we acquired in 2006 for \$57,500,000, was scheduled to mature in February 2013.

### *Certain Future Cash Requirements*

#### *Development and Redevelopment Expenditures*

We are currently engaged in various development/redevelopment projects for which we have budgeted approximately \$200,000,000. Of this amount, \$78,118,000 was expended prior to 2009 and \$50,513,000 was expended during 2009. Substantially all of the estimated costs to complete our development projects aggregating approximately \$71,000,000 are anticipated to be expended during 2010, of which approximately \$18,000,000 is expected to be funded by existing construction loans.

#### *Other Capital Expenditures*

The following table summarizes other anticipated 2010 capital expenditures.

(Amounts in millions except square foot data)	<b>Total</b>	<b>New York Office</b>	<b>Washington, DC Office</b>	<b>Retail</b>	<b>Merchandise Mart</b>	<b>Other (1)</b>
Expenditures to maintain assets	\$ 72.0	\$ 25.0	\$ 23.0	\$ 5.0	\$7.0	\$ 12.0
Tenant improvements	105.0	42.0	29.0	14.0	18.0	2.0
Leasing commissions	33.0	13.0	7.0	8.0	4.0	1.0
Total Tenant Improvements and Leasing Commissions	138.0	55.0	36.0	22.0	22.0	3.0
<i>Per square foot</i>		\$ 45.00	\$ 22.50	\$ 18.00	\$22.00	(2)\$ 70.00

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<i>Per square foot per annum</i>		\$ 5.50	\$ 3.00	\$ 2.50	\$3.50	(2)\$ 8.00
Total Capital Expenditures and Leasing Commissions	\$ 210.0	\$ 80.0	\$ 59.0	\$ 27.0	\$29.0	\$ 15.0
<i>Square feet budgeted to be leased (in thousands)</i>		950	1,700	1,200	1,000	
<i>Weighted average lease term</i>		8.0	7.0	7.5	6.5	

(1) Primarily 555 California Street, Hotel Pennsylvania and Warehouses.

(2) Tenant improvements and leasing commissions per square foot budgeted for 2010 leasing activity are \$70.50 (\$4.50 per annum) and \$13.50 (\$2.50 per annum) for Merchandise Mart office and showroom space, respectively.

The table above excludes anticipated capital expenditures of non-consolidated entities, including Alexander's, Toys and Lexington, as these entities fund their capital expenditures without additional equity contributions from us.

*Dividends*

On January 13, 2010, we declared a regular quarterly dividend of \$0.65 per common share, payable all in cash on February 22, 2010. This dividend policy, if continued for all of 2010, would require approximately \$507,000,000 of cash in the aggregate for common share dividends. In addition, we expect to pay cash dividends on outstanding preferred shares during 2010 aggregating approximately \$57,000,000.

## Liquidity and Capital Resources continued

### Financing Activities and Contractual Obligations

We believe that we have complied with the financial covenants required by our revolving credit facilities and our senior unsecured notes and that as of December 31, 2009 we have the ability to incur a substantial amount of additional indebtedness. We have an effective shelf registration for the offering of our equity securities and debt securities that is not limited in amount due to our status as a well-known seasoned issuer.

Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provides for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

Below is a schedule of our contractual obligations and commitments at December 31, 2009.

(Amounts in thousands)

Contractual Cash Obligations (principal and interest <sup>(1)</sup> ):	<b>Total</b>	<b>Less than 1 Year</b>	<b>1</b>	<b>3 Years</b>	<b>3</b>	<b>5 Years</b>	<b>Thereafter</b>
Mortgages and Notes Payable	\$ 10,443,320	\$ 873,329	\$	3,186,529	\$	2,269,631	\$ 4,113,831
Senior Unsecured Notes due 2039 (PINES)	1,537,694	36,225		108,675		108,675	1,284,119
Operating leases	1,172,119	27,113		54,048		54,492	1,036,466
Revolving Credit Facilities	866,536	6,733		859,803			
Exchangeable Senior Debentures due 2025	544,381	19,374		525,007			
Convertible Senior Debentures due 2026	467,020	15,852		451,168			
Senior Unsecured Notes due 2010	154,794	154,794					
Senior Unsecured Notes due 2011	124,781	6,574		118,207			
Purchase obligations, primarily construction commitments	98,021	98,021					
Convertible Senior Debentures due 2027	23,921	641		23,280			
Capital lease obligations	20,960	707		1,413		1,413	17,427
<b>Total Contractual Cash Obligations</b>	<b>\$ 15,453,547</b>	<b>\$ 1,239,363</b>	<b>\$</b>	<b>5,328,130</b>	<b>\$</b>	<b>2,434,211</b>	<b>\$ 6,451,843</b>
<b>Commitments:</b>	<b>\$ 90,406</b>	<b>\$ 90,406</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Capital commitments to partially  
owned entities

Standby letters of credit	37,333	32,852	4,481		
Other guarantees	146		146		
Total Commitments	\$ 127,885	\$ 123,258	\$ 4,627	\$	\$

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(1) Interest on variable rate debt is computed using rates in effect at December 31, 2009.

## **Liquidity and Capital Resources    continued**

### ***Financing Activities and Contractual Obligations    continued***

#### *Insurance*

We maintain general liability insurance with limits of \$300,000,000 per occurrence and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, including coverage for terrorist acts, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of \$150,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, and a \$150,000,000 annual aggregate.

Penn Plaza Insurance Company, LLC ( PPIC ), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of our earthquake insurance coverage and as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological ( NBCR ) acts, as defined by TRIPRA. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. Our coverage for NBCR losses is up to \$2 billion per occurrence, for which PPIC is responsible for a deductible of \$3,200,000 and 15% of the balance of a covered loss and the Federal government is responsible for the remaining 85% of a covered loss. We are ultimately responsible for any loss borne by PPIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years.

Our debt instruments, consisting of mortgage loans secured by our properties which are non-recourse to us, senior unsecured notes, exchangeable senior debentures, convertible senior debentures and revolving credit agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

#### *Other Commitments and Contingencies*

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of December 31, 2009, the aggregate dollar amount of these guarantees and master leases is approximately \$135,000,000.

At December 31, 2009, \$37,232,000 of letters of credit were outstanding under our \$0.965 billion revolving credit facility. Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

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

We are committed to fund additional capital to certain of our partially owned entities aggregating approximately \$90,406,000. Of this amount, \$71,788,000 is committed to the India Property Fund and is pledged as collateral to its lender.



## Liquidity and Capital Resources continued

### *Litigation*

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters, including the matters referred to below, are not expected to have a material adverse effect on our financial position, results of operations or cash flows.

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey ( USDC-NJ ) claiming that we had no right to reallocate and therefore continue to collect the \$5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty, because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the \$5,000,000 of additional rent was previously allocated. Stop & Shop asserted that a prior order of the Bankruptcy Court for the Southern District of New York dated February 6, 2001, as modified on appeal to the District Court for the Southern District of New York on February 13, 2001, froze our right to reallocate which effectively terminated our right to collect the additional rent from Stop & Shop. On March 3, 2003, after we moved to dismiss for lack of jurisdiction, Stop & Shop voluntarily withdrew its complaint. On March 26, 2003, Stop & Shop filed a new complaint in New York State Supreme Court, asserting substantially the same claims as in its USDC-NJ complaint. We removed the action to the United States District Court for the Southern District of New York. In January 2005 that court remanded the action to the New York State Supreme Court. On February 14, 2005, we served an answer in which we asserted a counterclaim seeking a judgment for all the unpaid additional rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the additional rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. On May 17, 2005, we filed a motion for summary judgment. On July 15, 2005, Stop & Shop opposed our motion and filed a cross-motion for summary judgment. On December 13, 2005, the Court issued its decision denying the motions for summary judgment. Both parties appealed the Court's decision and on December 14, 2006, the Appellate Court division issued a decision affirming the Court's decision. On January 16, 2007, we filed a motion for the reconsideration of one aspect of the Appellate Court's decision which was denied on March 13, 2007. Discovery is now complete. On October 19, 2009, Stop & Shop filed a motion for leave to amend its pleadings to assert new claims for relief, including a claim for damages in an unspecified amount, and an additional affirmative defense. The motion was argued and submitted for decision on December 18, 2009. The course of future proceedings will depend upon the outcome of Stop & Shop's motion, but we anticipate that a trial date will be set for some time in 2010. We intend to vigorously pursue our claims against Stop & Shop. In our opinion, after consultation with legal counsel, the outcome of such matters will not have a material effect on our financial condition, results of operations or cash flows.

On May 24, 2007, we acquired a 70% controlling interest in 1290 Avenue of the Americas and the 555 California Street complex. Our 70% interest was acquired through the purchase of all of the shares of a group of foreign companies that own, through U.S. entities, the 1% sole general partnership interest and a 69% limited partnership interest in the partnerships that own the two properties. The remaining 30% limited partnership interest is owned by Donald J. Trump. In August 2005, Mr. Trump brought a lawsuit in the New York State Supreme Court against, among others, the general partners of the partnerships referred to above relating to a dispute over the sale of properties located on the former Penn Central rail yards between West 59th and 72nd Streets in Manhattan which were formerly owned by the partnerships. In decisions issued in 2006, 2007 and 2009, the New York State Supreme Court dismissed all of Mr. Trump's claims, and those decisions were affirmed by the Appellate Division. Mr. Trump cannot further appeal those decisions.

In July 2005, we acquired H Street Building Corporation ( H Street ) which has a subsidiary that owns, among other things, a 50% tenancy in common interest in land located in Arlington County, Virginia, known as "Pentagon Row," leased to two tenants. In April 2007, H Street acquired the remaining 50% interest in that fee. In April 2007, we received letters from those tenants, Street Retail, Inc. and Post Apartment Homes, L.P., claiming they had a right of first offer triggered by each of those transactions. On September 25, 2008, both tenants filed suit against us and the former owners. The claim alleges the right to purchase the fee interest, damages in excess of \$75,000,000 and punitive damages. We believe this claim is without merit and regardless of merit, in our opinion, after consultation with legal counsel, this claim will not have a material effect on our financial condition, results of operations or cash flows.

## Liquidity and Capital Resources continued

### *Cash Flow for the Year Ended December 31, 2009*

Property rental income is our primary source of cash flow and is dependent upon the occupancy and rental rates of our properties. Other sources of liquidity to fund cash requirements include proceeds from debt financings, including mortgage loans, senior unsecured borrowings, and our revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales. Our cash requirements include property operating expenses, capital improvements, tenant improvements, leasing commissions, distributions to common and preferred shareholders, as well as acquisition and development costs. Our cash and cash equivalents were \$535,479,000 at December 31, 2009, a \$991,374,000 decrease over the balance at December 31, 2008. This decrease was the result of the acquisition of our convertible senior debentures and senior unsecured notes during 2009, partially offset by cash flows from operating activities as discussed below.

Our consolidated outstanding debt was \$10,939,615,000 at December 31, 2009, a \$1,498,308,000 decrease over the balance at December 31, 2008. This decrease resulted primarily from the acquisition of our convertible senior debentures and senior unsecured notes during 2009. As of December 31, 2009 and December 31, 2008, \$852,218,000 and \$358,468,000, respectively, was outstanding under our revolving credit facilities. During 2010 and 2011, \$538,458,000 and \$2,448,053,000 of our outstanding debt matures, respectively. We may refinance such debt or choose to repay all or a portion, using existing cash balances or our revolving credit facilities.

Our share of debt of unconsolidated subsidiaries was \$3,149,640,000 at December 31, 2009, a \$46,945,000 decrease from the balance at December 31, 2008.

Cash flows provided by operating activities of \$633,579,000 was comprised of (i) net income of \$128,450,000, (ii) \$620,523,000 of non-cash adjustments, including depreciation and amortization expense, non-cash impairment losses, the effect of straight-lining of rental income, equity in net income of partially owned entities and (iii) distributions of income from partially owned entities of \$30,473,000, partially offset by (iv) the net change in operating assets and liabilities of \$145,867,000.

Net cash used in investing activities of \$242,201,000 was comprised of (i) development and redevelopment expenditures of \$465,205,000, (ii) additions to real estate of \$216,669,000, (iii) purchases of marketable equity securities of \$90,089,000, (iv) purchases of short-term investments of \$55,000,000, (v) investments in partially owned entities of \$38,266,000, partially offset by, (vi) proceeds from the sale of real estate (primarily 1999 K Street) of \$367,698,000, (vii) proceeds from restricted cash of \$111,788,000, (viii) proceeds from the sale of marketable securities of \$64,355,000, (ix) proceeds received from repayments on mezzanine loans receivable of \$47,397,000, (x) proceeds from maturing short-term investments of \$15,000,000 and (xi) distributions of capital from partially owned entities of \$16,790,000.

Net cash used in financing activities of \$1,382,752,000 was primarily comprised of (i) acquisition and retirement of convertible senior debentures and senior unsecured notes of \$2,221,204,000, (ii) repayment of borrowings of \$2,075,236,000, (iii) dividends paid on common shares of \$262,397,000, (iv) dividends paid on preferred shares of \$57,078,000, (v) distributions to noncontrolling interests of \$42,449,000, (vi) repurchase of shares related to stock compensation arrangements and related tax withholdings of \$32,203,000, (vii) redemption of redeemable noncontrolling interests of \$24,330,000, (viii) debt issuance and other costs of \$30,186,000, partially offset by, (ix) proceeds from borrowings of \$2,648,175,000 and (xi) proceeds from issuance of common shares of \$710,226,000.

### ***Capital Expenditures***

Our capital expenditures consist of expenditures to maintain assets, tenant improvements and leasing commissions. Recurring capital improvements include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property. Our development and redevelopment expenditures include all hard and soft costs associated with the development or redevelopment of a property, including tenant improvements, leasing commissions and capitalized interest and operating costs until the property is substantially complete and ready for its intended use.

## Liquidity and Capital Resources continued

### Cash Flow for the Year Ended December 31, 2009 continued

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the year ended December 31, 2009.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
<b>Capital Expenditures</b> (accrual basis):						
Expenditures to maintain assets	\$ 41,858	\$ 15,559	\$ 17,185	\$ 3,406	\$ 5,708	\$
Tenant improvements	76,514	44,808	18,348	4,190	9,168	
Leasing commissions	28,913	15,432	10,040	1,710	1,731	
Non-recurring capital expenditures	35,917	20,741		53		15,123
Total capital expenditures and leasing commissions (accrual basis)	183,202	96,540	45,573	\$ 9,359	\$ 16,607	\$ 15,123
Adjustments to reconcile to cash basis:						
Expenditures in the current year applicable to prior periods	138,590	67,903	60,208	4,293	5,224	962
Expenditures to be made in future periods for the current period	(75,397 )	(40,516 )	(21,627 )	(5,244 )	(5,900 )	(2,110 )
Total capital expenditures and leasing commissions (cash basis)	\$ 246,395	\$ 123,927	\$ 84,154	\$ 8,408	\$ 15,931	\$ 13,975
<i>Tenant improvements and leasing commissions:</i>						
<i>Per square foot per annum</i>	\$ 2.65	\$ 5.45	\$ 2.10	\$ 0.82	\$ 1.64	\$
<i>Percentage of initial rent</i>	7.1%	10.5%	5.2%	3.5%	5.7%	

**Development and  
Redevelopment  
Expenditures:**

West End 25	\$ 64,865	\$	\$ 64,865	\$	\$	\$
Bergen Town Center	57,843			57,843		
Wasserman Venture	49,586					49,586
220 20 <sup>th</sup> Street	39,256		39,256			
1999 K Street (sold in September 2009)	31,874		31,874			
North Bergen, New Jersey	25,764			25,764		
Manhattan Mall	21,459			21,459		
Poughkeepsie, New York	20,280			20,280		
Garfield, New Jersey	16,577			16,577		
1540 Broadway	15,544			15,544		
2101 L Street	12,923		12,923			
Beverly Connection	12,854			12,854		
40 East 66 <sup>th</sup> Street	10,520					10,520
One Penn Plaza	9,839	9,839				
Other	76,021	11,790	22,849	28,438	6,409	6,535
	\$ 465,205	\$ 21,629	\$ 171,767	\$ 198,759	\$ 6,409	\$ 66,641

## Liquidity and Capital Resources continued

### *Cash Flow for the Year Ended December 31, 2008*

Cash and cash equivalents were \$1,526,853,000 at December 31, 2008, a \$372,258,000 increase over the balance at December 31, 2007. This increase resulted from \$817,812,000 of net cash provided by operating activities and \$7,677,000 of net cash provided by financing activities, partially offset by \$453,231,000 of net cash used in investing activities.

Our consolidated outstanding debt was \$12,437,923,000 at December 31, 2008, a \$718,946,000 increase over the balance at December 31, 2007. This increase resulted primarily from debt associated with property refinancings. As of December 31, 2008 and December 31, 2007, \$358,468,000 and \$405,656,000, respectively, was outstanding under our revolving credit facilities.

Our share of debt of unconsolidated subsidiaries was \$3,196,585,000 at December 31, 2008, a \$93,288,000 decrease from the balance at December 31, 2007.

Cash flows provided by operating activities of \$817,812,000 was comprised of (i) net income of \$411,445,000, (ii) \$401,571,000 of non-cash adjustments, including depreciation and amortization expense, non-cash impairment losses, the effect of straight-lining of rental income, equity in net income of partially owned entities, and (iii) distributions of income from partially owned entities of \$44,690,000, partially offset by (iv) the net change in operating assets and liabilities of \$39,894,000.

Net cash used in investing activities of \$453,231,000 was primarily comprised of (i) development and redevelopment expenditures of \$598,688,000, (ii) additions to real estate of \$207,885,000, (iii) investments in partially owned entities of \$156,227,000, (iv) purchases of marketable equity securities of \$164,886,000, partially offset by, (v) proceeds from the sale of real estate (primarily Americold and Tysons Dulles Plaza) of \$390,468,000, (vi) distributions of capital from partially owned entities of \$218,367,000, (vii) proceeds received from repayments on mezzanine loans receivable of \$52,470,000 and (viii) proceeds from the sale of marketable securities of \$51,185,000.

Net cash provided by financing activities of \$7,677,000 was primarily comprised of (i) proceeds from borrowings of \$1,721,974,000 and (ii) proceeds received from exercises of employee stock options of \$29,377,000, partially offset by, (iii) repayments of borrowings of \$993,665,000, (iv) dividends paid on common shares of \$561,981,000, (v) distributions to noncontrolling interests of \$85,419,000 and (vi) dividends paid on preferred shares of \$57,112,000.





**Liquidity and Capital Resources continued****Cash Flow for the Year Ended December 31, 2008 continued**

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the year ended December 31, 2008.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
<b>Capital Expenditures</b> (accrual basis):						
Expenditures to maintain assets	\$ 50,137	\$23,380	\$ 10,341	\$ 4,024	\$ 10,730	\$ 1,662
Tenant improvements	57,573	23,433	17,223	7,881	9,036	
Leasing commissions	29,642	16,037	6,385	3,145	4,075	
Non-recurring capital expenditures	70,860	28,773	20,888	4,109	11,146	5,944
Total capital expenditures and leasing commissions (accrual basis)	208,212	91,623	54,837	19,159	34,987	7,606
Adjustments to reconcile to cash basis:						
Expenditures in the current year applicable to prior periods	114,778	57,001	15,539	9,590	28,576	4,072
Expenditures to be made in future periods for the current period	(78,614 )	(33,571 )	(22,076 )	(15,135 )	(7,729 )	(103 )
Total capital expenditures and leasing commissions (cash basis)	\$ 244,376	\$ 115,053	\$ 48,300	\$ 13,614	\$ 55,834	\$ 11,575

*Tenant improvements and  
leasing commissions:*

<i>Per square foot per annum</i>	\$ 3.03	\$5.35	\$ 2.16	\$ 2.03	\$ 2.63	\$
<i>Percentage of initial rent</i>	7.0%	7.5%	5.6%	5.3%	9.4%	

**Development and  
Redevelopment  
Expenditures:**

Bergen Town Center	\$ 126,673	\$	\$	\$ 126,673	\$	\$
Wasserman Venture	61,867					61,867

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Manhattan Mall	51,474			51,474		
1999 K Street (sold in 2009)	45,742		45,742			
40 East 66 <sup>th</sup> Street	41,827					41,827
220 20 <sup>th</sup> Street	36,014		36,014			
220 Central Park South	30,533					30,533
West End 25	24,002		24,002			
478-486 Broadway	17,182			17,182		
Hotel Pennsylvania	15,591					15,591
2101 L Street	14,992		14,992			
Springfield Mall	12,948			12,948		
Garfield, New Jersey	12,775			12,775		
North Bergen, New Jersey	10,749			10,749		
Poughkeepsie, New York	10,404			10,404		
Green Acres Mall	3,914			3,914		
Other	82,001	25,959	27,106	20,226	8,710	
	\$ 598,688	\$25,959	\$ 147,856	\$ 266,345	\$ 8,710	\$ 149,818

## Liquidity and Capital Resources continued

### *Cash Flow for the Year Ended December 31, 2007*

Cash and cash equivalents were \$1,154,595,000 at December 31, 2007, a \$1,078,722,000 decrease from the balance at December 31, 2006. This decrease resulted from \$3,067,704,000 of net cash used in investing activities, primarily for real estate acquisitions, partially offset by \$1,291,657,000 of net cash provided by financing activities and \$697,325,000 of net cash provided by operating activities.

Our consolidated outstanding debt was \$11,718,977,000 at December 31, 2007, a \$3,316,022,000 increase over the balance at December 31, 2006. This increase resulted primarily from debt associated with asset acquisitions, property financings and refinancings and from the issuance of \$1.0 billion of senior unsecured convertible debentures during 2007. As of December 31, 2007 and 2006, \$405,656,000 and \$0, respectively, was outstanding under our revolving credit facilities.

Our share of debt of unconsolidated subsidiaries was \$3,289,873,000 at December 31, 2007, a \$33,134,000 decrease from the balance at December 31, 2006.

Cash flows provided by operating activities of \$697,325,000 was comprised of (i) net income of \$607,833,000, (ii) adjustments for non-cash items of \$211,074,000, and (iii) distributions of income from partially owned entities of \$24,044,000, partially offset by, (iv) a net change in operating assets and liabilities of \$145,626,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of \$545,885,000, (ii) a non-cash mezzanine loan loss accrual of \$57,000,000, (iii) net loss on early extinguishment of debt and write-off of unamortized financing costs of \$7,670,000, partially offset by (iv) net gains on derivatives of \$113,503,000 (primarily McDonald's), (v) equity in net income of partially owned entities, including Alexander's and Toys, of \$69,656,000, (vi) the effect of straight-lining of rental income of \$77,699,000, (vii) net gains on sale of real estate of \$64,981,000, (viii) net gains on dispositions of wholly-owned and partially owned assets other than real estate of \$39,493,000 and (ix) amortization of below market leases, net of above market leases of \$83,250,000.

Net cash used in investing activities of \$3,067,704,000 was primarily comprised of (i) acquisitions of real estate and other of \$2,849,709,000, (ii) development and redevelopment expenditures of \$358,748,000, (iii) investments in partially owned entities of \$271,423,000, (iv) investments in mezzanine loans receivable of \$217,081,000, (v) purchases of marketable securities of \$152,683,000, (vi) capital expenditures of \$166,319,000, partially offset by, (vii) proceeds from settlement of derivative positions of \$260,764,000, (viii) repayments received on mezzanine loans receivable of \$241,289,000, (ix) proceeds from the sale of real estate of \$297,234,000, (x) proceeds from the sale of marketable securities of \$112,779,000 and (xi) distributions of capital from partially owned entities of \$22,541,000.

Net cash provided by financing activities of \$1,291,657,000 was primarily comprised of (i) proceeds from borrowings of \$2,954,497,000, partially offset by, (ii) repayments of borrowings of \$868,055,000, (iii) dividends paid on common shares of \$524,719,000, (iv) purchases of marketable securities in connection with the legal defeasance or mortgage notes payable of \$109,092,000, (v) distributions to noncontrolling interests of \$81,065,000 and (vi) dividends paid on preferred shares of \$57,236,000.

## Liquidity and Capital Resources continued

### Cash Flow for the Year Ended December 31, 2007 continued

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the year ended December 31, 2007.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
<b>Capital Expenditures</b> (accrual basis):						
Expenditures to maintain assets	\$ 46,549	\$ 15,162	\$ 15,725	\$ 2,626	\$ 10,625	\$ 2,411
Tenant improvements	100,939	43,677	20,890	3,176	33,196	
Leasing commissions	43,163	28,626	7,591	2,773	4,173	
Non-recurring capital expenditures	10,974		6,717	1,280		2,977
Total capital expenditures and leasing commissions (accrual basis)	201,625	87,465	50,923	9,855	47,994	5,388
Adjustments to reconcile to cash basis:						
Expenditures in the current year applicable to prior periods	76,117	17,416	40,019	8,263	8,982	1,437
Expenditures to be made in future periods for the current period	(88,496 )	(46,845 )	(13,763 )	(5,542 )	(21,203 )	(1,143 )
Total capital expenditures and leasing commissions (cash basis)	\$ 189,246	\$ 58,036	\$ 77,179	\$ 12,576	\$ 35,773	\$ 5,682
<i>Tenant improvements and leasing commissions:</i>						
<i>Per square foot per annum \$</i>	<i>2.91</i>	<i>\$ 5.17</i>	<i>\$ 1.72</i>	<i>\$ 1.11</i>	<i>\$ 3.15</i>	<i>\$</i>
<i>Percentage of initial rent</i>	<i>6.7%</i>	<i>7.0</i>	<i>% 4.4</i>	<i>% 2.8</i>	<i>% 11.8</i>	<i>%</i>

### Development and Redevelopment Expenditures:

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Bergen Town Center	\$ 52,664	\$	\$	\$ 52,664	\$	\$
2101 L Street	46,664		46,664			
Wasserman Venture	43,260					43,260
Green Acres Mall	32,594			32,594		
Crystal Mall Two	29,552		29,552			
North Bergen, New Jersey	19,925			19,925		
40 East 66 <sup>th</sup> Street	13,544					13,544
1999 K Street (sold in 2009)	11,245		11,245			
Springfield Mall	6,055			6,055		
Other	103,245	11,728	30,515	27,124	693	33,185
	\$ 358,748	\$ 11,728	\$ 117,976	\$ 138,362	\$ 693	\$ 89,989

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## Funds From Operations ( FFO )

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ( NAREIT ). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets and GAAP extraordinary items, and to include depreciation and amortization expense from real estate assets and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flows as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 15 *Income per Share*, in the notes to our consolidated financial statements on page 153 of this Annual Report on Form 10-K.

FFO attributable to common shareholders plus assumed conversions was \$583,596,000, or \$3.36 per diluted share for the year ended December 31, 2009, compared to \$813,064,000 or \$4.97 per diluted share for the year ended December 31, 2008. FFO attributable to common shareholders plus assumed conversions was \$20,000 or \$0.00 per diluted share for the three months ended December 31, 2009 compared to negative FFO of \$88,154,000, or \$0.57 per diluted share for the three months ended December 31, 2008. Details of certain items that affect comparability are discussed in the financial results summary of our Overview.

(Amounts in thousands except per share amounts)	<b>For The Year Ended December 31,</b>		<b>For The Three Months Ended December 31,</b>	
<b>Reconciliation of our net income (loss) to FFO (Negative FFO):</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income (loss) attributable to Vornado	\$ 106,169	\$ 359,297	\$ (136,923 )	\$ (212,680 )
Depreciation and amortization of real property	508,572	509,367	133,023	129,305
Net gains on sale of real estate	(45,282 )	(57,523 )	(2,629 )	
Proportionate share of adjustments to equity in net income of Toys to arrive at FFO:				
Depreciation and amortization of real property	65,358	66,435	15,527	15,533
Net gains on sale of real estate	(164 )	(719 )		(555 )
Income tax effect of above adjustments	(22,819 )	(23,223 )	(5,435 )	(5,242 )
Proportionate share of adjustments to equity in net income of partially owned entities, excluding Toys, to arrive at FFO:				
Depreciation and amortization of real property	75,200	49,513	22,692	13,735
Net gains on sale of real estate	(1,188 )	(8,759 )	(3 )	(528 )
Noncontrolling interests share of above adjustments	(45,344 )	(49,683 )	(11,963 )	(13,451 )

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FFO (Negative FFO)	640,502	844,705	14,289	(73,883 )
Preferred share dividends	(57,076 )	(57,091 )	(14,269 )	(14,271 )
FFO (Negative FFO) attributable to common shareholders	583,426	787,614	20	(88,154 )
Interest on 3.875% exchangeable senior debentures		25,261		
Convertible preferred dividends	170	189		
FFO (Negative FFO) attributable to common shareholders plus assumed conversions	\$ 583,596	\$ 813,064	\$ 20	\$ (88,154 )
<b>Reconciliation of Weighted Average Shares:</b>				
Weighted average common shares outstanding	171,595	153,900	179,832	154,590
Effect of dilutive securities:				
Employee stock options and restricted share awards	1,908	4,219	2,627	
3.875% exchangeable senior debentures		5,559		
Convertible preferred shares	75	81		
Denominator for FFO (Negative FFO) per diluted share	173,578	163,759	182,459	154,590
FFO (Negative FFO) attributable to common shareholders plus assumed conversions per diluted share	\$ 3.36	\$ 4.97	\$ 0.00	\$ (0.57 )



## ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to fluctuations in market interest rates. Market interest rates are highly sensitive to many factors that are beyond our control. Our exposure to a change in interest rates on our consolidated and non-consolidated debt (all of which arises out of non-trading activity) is as follows:

	2009		Effect of 1% Change In Base Rates	2008	
	December 31, Balance	Weighted Average Interest Rate		December 31, Balance	Weighted Average Interest Rate
Consolidated debt:					
Variable rate	\$2,657,972	1.67%	\$26,579	\$2,002,381	2.71%
Fixed rate	8,281,643	5.89%		10,435,542	5.76%
	\$10,939,615	4.86%	26,579	\$12,437,923	5.27%
Pro-rata share of debt of non-consolidated entities (non-recourse):					
Variable rate excluding Toys	\$331,980	2.87%	3,319	\$282,752	3.63%
Variable rate Toys	852,040	3.45%	8,520	819,512	3.68%
Fixed rate (including \$1,077,919 and \$1,175,310 of Toys debt in 2009 and 2008)	1,965,620	7.16%		2,094,321	6.51%
	\$3,149,640	5.70%	11,839	\$3,196,585	5.53%
Redeemable noncontrolling interest share of above			(3,112)		
Total change in annual net income			\$35,306		
Per share-diluted			\$0.20		

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of December 31, 2009, variable rate debt with an aggregate principal amount of \$507,750,000 and a weighted average interest rate of 2.49% was subject to LIBOR caps. These caps are based on a notional amount of \$507,750,000 and cap LIBOR at a weighted average rate of 5.39%.

As of December 31, 2009, we have investments in mezzanine loans with an aggregate carrying amount of \$203,286,000 that are based on variable interest rates which partially mitigate our exposure to a change in interest rates on our variable rate debt.

***Fair Value of Our Debt***

The estimated fair value of our debt at December 31, 2009 was less than its aggregate carrying amount by approximately \$501,467,000 based on current market prices and discounted cash flows at the current interest rates at which we believe similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have audited the accompanying consolidated balance sheets of Vornado Realty Trust (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Vornado Realty Trust at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2009, the Company changed its method of accounting for debt with conversion options and noncontrolling interests in consolidated subsidiaries and retrospectively adjusted all periods presented in the consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2010 expressed an unqualified opinion on the Company's

internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

February 23, 2010

# VORNADO REALTY TRUST

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Real estate, at cost:		
Land	\$ 4,606,065	\$ 4,598,111
Buildings and improvements	12,902,086	12,136,272
Development costs and construction in progress	313,310	966,676
Leasehold improvements and equipment	128,056	118,620
Total	17,949,517	17,819,679
Less accumulated depreciation and amortization	(2,494,441 )	(2,167,403 )
Real estate, net	15,455,076	15,652,276
Cash and cash equivalents	535,479	1,526,853
Short-term investments	40,000	
Restricted cash	293,950	375,888
Marketable securities	380,652	334,322
Accounts receivable, net of allowance for doubtful accounts of \$46,708 and \$32,834	157,325	201,566
Investments in partially owned entities, including Alexander's of \$193,174 and \$137,305	799,832	790,154
Investment in Toys 'R Us	409,453	293,096
Mezzanine loans receivable, net of allowance of \$190,738 and \$46,700	203,286	472,539
Receivable arising from the straight-lining of rents, net of allowance of \$4,680 and \$5,773	681,526	592,432
Deferred leasing and financing costs, net of accumulated amortization of \$183,224 and \$168,714	311,825	304,125
Assets related to discontinued operations		172,818
Due from officers	13,150	13,185
Other assets	903,918	688,794
	<b>\$ 20,185,472</b>	<b>\$ 21,418,048</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>		
Notes and mortgages payable	\$ 8,445,766	\$ 8,761,640
Convertible senior debentures	445,458	2,221,743
Senior unsecured notes	711,716	617,816
Exchangeable senior debentures	484,457	478,256
Revolving credit facility debt	852,218	358,468
Accounts payable and accrued expenses	475,242	515,607
Deferred credit	682,384	764,774
Deferred compensation plan	80,443	69,945
Deferred tax liabilities	17,842	19,895
Liabilities related to discontinued operations		73,747
Other liabilities	88,912	143,527
Total liabilities	12,284,438	14,025,418
Commitments and contingencies		
Redeemable noncontrolling interests:		

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Class A units 13,892,313 and 14,627,005 units outstanding	971,628	882,740
Series D cumulative redeemable preferred units 11,200,000 units outstanding	280,000	280,000
Series B convertible preferred units 444,559 units outstanding in 2008		15,238
Total redeemable noncontrolling interests	1,251,628	1,177,978
Vornado shareholders equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 33,952,324 and 33,954,124 shares	823,686	823,807
Common shares of beneficial interest: \$.04 par value per share; authorized, 250,000,000 shares; issued and outstanding 181,214,161 and 155,285,903 shares	7,218	6,195
Additional capital	6,961,007	6,025,976
Earnings less than distributions	(1,577,591)	(1,047,340)
Accumulated other comprehensive income (loss)	28,449	(6,899)
Total Vornado shareholders equity	6,242,769	5,801,739
Noncontrolling interests in consolidated subsidiaries	406,637	412,913
Total equity	6,649,406	6,214,652
	\$ 20,185,472	\$ 21,418,048

See notes to consolidated financial statements.

**VORNADO REALTY TRUST****CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in thousands, except per share amounts)	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES:</b>			
Property rentals	\$ 2,222,285	\$ 2,207,399	\$ 1,972,230
Tenant expense reimbursements	361,982	357,986	323,075
Fee and other income	158,311	127,301	109,938
Total revenues	2,742,578	2,692,686	2,405,243
<b>EXPENSES:</b>			
Operating	1,087,785	1,069,445	950,487
Depreciation and amortization	539,503	536,820	440,224
General and administrative	231,688	194,023	189,024
Impairment and other losses	87,823	81,447	10,375
Total expenses	1,946,799	1,881,735	1,590,110
Operating income	795,779	810,951	815,133
Income applicable to Alexander's	53,529	36,671	50,589
Income (loss) applicable to Toys 'R Us	92,300	2,380	(14,337 )
(Loss) income from partially owned entities	(73,439 )	(195,878 )	31,891
Interest and other investment (loss) income, net	(116,330 )	(2,682 )	226,425
Interest and debt expense (including amortization of deferred financing costs of \$17,691, \$17,507, and \$15,182)	(634,283 )	(635,724 )	(599,804 )
Net (loss) gain on early extinguishment of debt	(25,915 )	9,820	
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	5,641	7,757	39,493
Income before income taxes	97,282	33,295	549,390
Income tax (expense) benefit	(20,737 )	204,537	(9,179 )
Income from continuing operations	76,545	237,832	540,211
Income from discontinued operations	51,905	173,613	67,622
Net income	128,450	411,445	607,833
Net income attributable to noncontrolling interests, including unit distributions	(22,281 )	(52,148 )	(66,294 )
Net income attributable to Vornado	106,169	359,297	541,539
Preferred share dividends	(57,076 )	(57,091 )	(57,177 )
<b>NET INCOME attributable to common shareholders</b>	<b>\$ 49,093</b>	<b>\$ 302,206</b>	<b>\$ 484,362</b>
<b>INCOME PER COMMON SHARE BASIC:</b>			
Income from continuing operations, net	\$ 0.00	\$ 0.94	\$ 2.78
Income from discontinued operations, net	0.28	1.02	0.40
Net income per common share	\$ 0.28	\$ 1.96	\$ 3.18
Weighted average shares	171,595	153,900	151,949
<b>INCOME PER COMMON SHARE DILUTED:</b>			



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Income from continuing operations, net	\$ 0.00	\$ 0.91	\$ 2.66
Income from discontinued operations, net	0.28	1.00	0.39
Net income per common share	\$ 0.28	\$ 1.91	\$ 3.05
Weighted average shares	173,503	158,119	158,558

See notes to consolidated financial statements.

# VORNADO REALTY TRUST

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Preferred Shares	Common Shares	Additional Capital	Earnings Less Than Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
(Amounts in thousands)							
<b>Balance, December 31, 2006</b>	\$ 828,660	\$ 6,083	\$ 4,776,515	\$ (716,716 )	\$ 92,963	\$ 19,091	\$ 5,006,596
Net Income				541,539		(3,494 )	538,045
Dividends paid on common shares				(524,719 )			(524,719)
Dividends paid on preferred shares				(57,177 )			(57,177 )
Conversion of Series A preferred shares to common shares	(3,565 )	4	3,561				
Deferred compensation shares and options		(17 )	(36,422 )				(36,439 )
Common shares issued:							
Under employees share option plan		30	34,617				34,647
Upon redemption of Class A Operating Partnership units, at redemption value		39	116,046				116,085
In connection with dividend reinvestment plan		1	2,030				2,031
Change in unrealized net gain or loss on securities available-for-sale					(38,842 )		(38,842)
Sale of securities available-for-sale					(36,563 )		(36,563)
					895		895

Change in pension plans							
Adjustments to redeemable Class A Operating Partnership units			464,114				464,114
Equity component of \$1.4 billion convertible senior debentures			130,714				130,714
Acquisition of noncontrolling interests						398,386	398,386
Other		(63 )	(104 )	11,319		2,315	13,467
<b>Balance, December 31, 2007</b>	\$ 825,095	\$ 6,140	\$ 5,491,112	\$ (757,177 )	\$ 29,772	\$ 416,298	\$ 6,011,240

See notes to consolidated financial statements.

# VORNADO REALTY TRUST

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

	Preferred Shares	Common Shares	Additional Capital	Earnings Less Than Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
(Amounts in thousands)							
<b>Balance,</b>							
<b>December 31, 2007</b>	\$ 825,095	\$ 6,140	\$ 5,491,112	\$ (757,177 )	\$ 29,772	\$ 416,298	\$ 6,011,240
Net Income				359,297		3,263	362,560
Dividends paid on common shares				(561,981 )			(561,981)
Dividends paid on preferred shares				(57,091 )			(57,091 )
Conversion of Series A preferred shares to common shares	(1,312 )	2	1,310				
Deferred compensation shares and options		1	11,410				11,411
Common shares issued:							
Under employees share option plan		7	26,897	(30,345 )			(3,441)
Upon redemption of Class A Operating Partnership units, at redemption value		40	82,290				82,330
In connection with dividend reinvestment plan		1	2,373				2,374
Change in unrealized net gain or loss on securities available-for-sale					(20,150 )		(20,150)
Sale of securities available-for-sale					6,128		6,128
					3,251		3,251

Change in pension plans								
Adjustments to redeemable Class A Operating Partnership units			400,647					400,647
Conversion of Series F-1 preferred units		4	9,996					10,000
Other	24		(59)	(43)	(25,900)	(6,648)		(32,626)
<b>Balance,</b>								
<b>December 31, 2008</b>	\$ 823,807	\$ 6,195	\$ 6,025,976	\$ (1,047,340)	\$ (6,899)	\$ 412,913	\$ 6,214,652	

See notes to consolidated financial statements.

# VORNADO REALTY TRUST

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

	Preferred Shares	Common Shares	Additional Capital	Earnings Less Than Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
(Amounts in thousands)							
<b>Balance, December 31, 2008</b>	\$ 823,807	\$ 6,195	\$ 6,025,976	\$ (1,047,340)	\$ (6,899 )	\$ 412,913	\$ 6,214,652
Net Income				106,169		(2,839 )	103,330
Dividends paid on common shares		258	285,338	(547,993 )			(262,397)
Dividends paid on preferred shares				(57,076 )			(57,076 )
Proceeds from the issuance of common shares		690	709,536				710,226
Conversion of Series A preferred shares to common shares	(89 )		89				
Deferred compensation shares and options		1	13,091				13,092
Common shares issued:							
Under employees share option plan		4	1,713	(31,355 )			(29,638)
Upon redemption of Class A Operating Partnership units, at redemption value		70	90,885				90,955
Change in unrealized net gain or loss on securities available-for-sale					6,147 7,715		6,147 7,715

Sale of securities available-for-sale Our share of partially owned entities								
OCI adjustments				22,052				22,052
Adjustments to redeemable Class A Operating Partnership units			(167,049 )					(167,049)
Voluntary surrender of equity awards on March 31, 2009			32,588					32,588
Allocation of cash paid to the equity component upon repurchase of convertible senior debentures			(30,159 )					(30,159)
Other	(32 )		(1,001 )	4	(566 )	(3,437 )		(5,032)
<b>Balance, December 31, 2009</b>	\$ 823,686	\$ 7,218	\$ 6,961,007	\$ (1,577,591)	\$ 28,449	\$ 406,637	\$ 6,649,406	

See notes to consolidated financial statements.

# VORNADO REALTY TRUST

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 128,450	\$ 411,445	\$ 607,833
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including amortization of debt issuance costs	559,053	577,338	545,885
Mezzanine loan loss accrual (reversal)	190,738	(10,300 )	57,000
Straight lining of rental income	(98,355 )	(91,060 )	(77,699 )
Impairment and other losses	87,823	81,447	10,375
Equity in income of partially owned entities, including Alexander's and Toys	(90,210 )	(47,460 )	(69,656 )
Amortization of below-market leases, net	(72,481 )	(96,176 )	(83,250 )
Net gains on sale of real estate	(45,284 )	(57,523 )	(64,981 )
Distributions of income from partially owned entities	30,473	44,690	24,044
Loss (gain) on early extinguishment of debt and write-off of unamortized financing costs	25,915	(9,820 )	7,670
Impairment losses partially owned entities	17,820	203,919	
Net gain on dispositions of wholly owned and partially owned assets other than depreciable real estate	(5,641 )	(7,757 )	(39,493 )
Impairment loss marketable equity securities	3,361	76,352	
Reversal of H Street deferred tax liability		(222,174 )	
Net gain on sale of Americold Realty Trust		(112,690 )	
Net loss (gain) from derivative positions		33,740	(113,503 )
Other non-cash adjustments, including stock-based compensation	47,784	83,735	38,726
Changes in operating assets and liabilities:			
Accounts receivable, net	15,383	(1,646 )	(25,877 )
Prepaid assets	(90,519 )	(12,449 )	2,380
Accounts payable and accrued expenses	(3,606 )	(5,207 )	(89,961 )
Other assets	(61,878 )	(27,382 )	(54,858 )
Other liabilities	(5,247 )	6,790	22,690
Net cash provided by operating activities	633,579	817,812	697,325
<b>Cash Flows from Investing Activities:</b>			
Development costs and construction in progress	(465,205 )	(598,688 )	(358,748 )
Proceeds from sales of real estate	367,698	390,468	297,234
Additions to real estate	(216,669 )	(207,885 )	(166,319 )
Purchases of marketable securities	(90,089 )	(164,886 )	(152,683 )
Cash restricted, including mortgage escrows	111,788	12,004	11,652
Proceeds from sales of, and return of investment in, marketable securities	64,355	51,185	112,779



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Purchases of short-term investments	(55,000 )		
Proceeds received from repayment of mezzanine loans receivable	47,397	52,470	241,289
Investments in partially owned entities	(38,266 )	(156,227 )	(271,423 )
Distributions of capital from partially owned entities	16,790	218,367	22,541
Proceeds from maturing short-term investments	15,000		
Acquisitions of real estate and other		(42,642 )	(2,849,709 )
Investments in mezzanine loans receivable		(7,397 )	(217,081 )
Proceeds received on settlement of derivatives			260,764
Repayment of officers' loans			2,000
Net cash used in investing activities	(242,201 )	(453,231 )	(3,067,704 )
See notes to consolidated financial statements.			

# VORNADO REALTY TRUST

## CONSOLIDATED STATEMENTS OF CASH FLOWS- CONTINUED

(Amounts in thousands)	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from borrowings	2,648,175	1,721,974	2,954,497
Acquisition and retirement of convertible senior debentures and senior unsecured notes	(2,221,204)		
Repayments of borrowings	(2,075,236)	(993,665 )	(868,055 )
Proceeds from issuance of common shares	710,226		
Dividends paid on common shares	(262,397 )	(561,981)	(524,719)
Dividends paid on preferred shares	(57,076 )	(57,112)	(57,236)
Distributions to noncontrolling interests	(42,451 )	(85,419)	(81,065)
Repurchase of shares related to stock compensation arrangements and related tax withholdings	(32,203 )	(31,198)	(43,396)
Redemption of redeemable noncontrolling interests	(24,330 )		
Debt issuance and other costs	(30,186 )	(14,299)	(14,360)
Contributions from noncontrolling interests	2,180		
Proceeds received from exercise of employee share options	1,750	29,377	35,083
Purchase of marketable securities in connection with the legal defeasance of mortgage notes payable			(109,092)
Net cash (used in) provided by financing activities	(1,382,752)	7,677	1,291,657
Net (decrease) increase in cash and cash equivalents	(991,374 )	372,258	(1,078,722)
Cash and cash equivalents at beginning of year	1,526,853	1,154,595	2,233,317
Cash and cash equivalents at end of year	\$ 535,479	\$ 1,526,853	\$ 1,154,595

### Supplemental Disclosure of Cash Flow Information:

Cash payments for interest (including capitalized interest of \$17,256, \$63,063, and \$53,648)	\$ 648,829	\$ 658,376	\$ 653,811
Cash payments for income taxes	\$ 21,775	\$ 22,005	\$ 36,489

### Non Cash Transactions:

Adjustments to reflect redeemable Class A operating partnership units at redemption value	\$ (167,049 )	\$ 400,647	\$ 464,114
Dividends paid in common shares	285,596		
Conversion of redeemable Class A operating partnership units to common shares, at redemption value	90,955	82,330	116,085
Unit distributions paid in redeemable Class A Operating Partnership units	23,876		
Unrealized gain (loss) on securities available for sale	6,147	(20,150 )	(38,842 )
Financing assumed in acquisitions			1,405,654
			109,092

Marketable securities transferred in connection with the legal defeasance of mortgage notes payable		
Mortgage notes payable legally defeased		104,571
Operating Partnership units issued in connection with acquisitions		62,059
Increase in assets and liabilities resulting from the consolidation of investments previously accounted for on the equity method (Beverly Connection in November 2008 and H Street in April 2007) :		
Real estate, net	197,600	342,764
Restricted cash	2,287	369
Other assets	3,393	11,648
Notes and mortgages payable	100,000	55,272
Accounts payable and accrued expenses	2,069	3,101
Deferred credit		2,407
Deferred tax liabilities		112,797
Other liabilities		71

See notes to consolidated financial statements.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Business

Vornado Realty Trust ( Vornado ) is a fully integrated real estate investment trust ( REIT ) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership ). Vornado is the sole general partner of, and owned approximately 92.5% of the common limited partnership interest in, the Operating Partnership at December 31, 2009. All references to we, us, our, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On May 14, 2009, our Board of Trustees executed its long-planned management succession strategy and elected Michael D. Fascitelli, as our Chief Executive Officer, succeeding Steven Roth, who continues to serve as Chairman of the Board.

As of December 31, 2009, we own directly or indirectly:

#### **Office Properties:**

- (i) all or portions of 28 properties aggregating 16.2 million square feet in the New York City metropolitan area (primarily Manhattan);
- (ii) all or portions of 84 properties aggregating 18.6 million square feet in the Washington, DC / Northern Virginia areas;
- (iii) a 70% controlling interest in 555 California Street, a three-building complex aggregating 1.8 million square feet in San Francisco's financial district;

#### **Retail Properties:**

- (iv) 162 properties aggregating 22.6 million square feet, including 3.9 million square feet owned by tenants on land leased from us, primarily in Manhattan, the northeast states, California and Puerto Rico;

**Merchandise Mart Properties:**

(v) 8 properties aggregating 8.9 million square feet of showroom and office space, including the 3.5 million square foot Merchandise Mart in Chicago;

**Toys R Us, Inc. ( Toys ):**

(vi) a 32.7% interest in Toys which owns and/or operates 1,567 stores worldwide, including 851 stores in the United States and 716 stores internationally;

**Other Real Estate Investments:**

(vii) 32.4% of the common stock of Alexander's, Inc. (NYSE: ALX), which has seven properties in the greater New York metropolitan area;

(viii) the Hotel Pennsylvania in New York City;

(ix) mezzanine loans on real estate; and

(x) other real estate and investments, including marketable securities.

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# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies

#### *Basis of Presentation*

The accompanying consolidated financial statements include the accounts of Vornado Realty Trust and its majority-owned subsidiary, Vornado Realty L.P. All significant inter-company amounts have been eliminated. We account for unconsolidated partially owned entities on the equity method of accounting. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. Certain prior year balances have been reclassified in order to conform to current year presentation.

On July 1, 2009, the Financial Accounting Standards Board ( FASB ) established the Accounting Standards Codification ( ASC ) as the primary source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Although the establishment of the ASC did not change current GAAP, it did change the way we refer to GAAP throughout this document to reflect the updated referencing convention.

#### *Impact of Retrospective Application of New Accounting Pronouncements*

During 2009, we paid quarterly dividends to our common shareholders in a combination of cash and stock and retrospectively adjusted weighted average common shares outstanding in the computations of income per share to include the additional common shares resulting from these dividends in the earliest periods presented in each of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009 and our Current Report on Form 8-K, issued on October 13, 2009, in which we elected to recast our consolidated financial statements in our Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2008. On December 2, 2009, the FASB ratified the consensus reached in EITF 09-E, *Accounting for Distribution to Shareholders with Components of Stock and Cash* ( EITF 09-E ) as codified through Accounting Standards Update ( ASU ) 2010-1 to ASC 505, *Equity*. EITF 09-E requires an entity to include the additional common shares resulting from the stock portion of these distributions prospectively in the periods following their issuance in all computations of income per share rather than retrospectively as we had previously done. As a result, we have adjusted our computations of income per share presented herein to exclude the additional shares resulting from these dividends in periods prior to their issuance. Below is a reconciliation of previously reported income per share to the amounts presented herein.

	<b>For the Year Ended December 31, 2008</b>		
	<b>As Reported</b>	<b>EITF 09-E</b>	<b>As Adjusted</b>
Income per common share basic:			
Income from continuing operations	\$ 0.92	\$ 0.02	\$ 0.94
Net income	1.89	0.07	1.96
Income per common share diluted:			
Income from continuing operations	0.90	0.01	0.91
Net income	1.84	0.07	1.91
	<b>For the Year Ended December 31, 2007</b>		
	<b>As Reported</b>	<b>EITF 09-E</b>	<b>As Adjusted</b>
Income per common share basic:			
Income from continuing operations	\$ 2.70	\$ 0.08	\$ 2.78
Net income	3.07	0.11	3.18
Income per common share diluted:			
Income from continuing operations	2.59	0.07	2.66
Net income	2.95	0.10	3.05

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies - continued

On January 1, 2009, we adopted the provisions of ASC 470-20, *Debt with Conversion and Other Options*, which was required to be applied retrospectively. The adoption affected the accounting for our convertible and exchangeable senior debentures by requiring the initial proceeds from their sale to be allocated between a debt component and an equity component in a manner that results in interest expense on the debt component at our nonconvertible debt borrowing rate on the date of issue. The initial debt components of our \$1.4 billion Convertible Senior Debentures, \$1 billion Convertible Senior Debentures and \$500 million Exchangeable Senior Debentures were \$1,241,286,000, \$926,361,000 and \$457,699,000, respectively, based on the fair value of similar nonconvertible instruments issued at that time. The aggregate initial debt discount of \$216,655,000 after original issuance costs allocated to the equity component was recorded in additional capital in our consolidated statement of changes in equity. The discount is amortized using the effective interest method over the period the debt is expected to remain outstanding (i.e., the earliest date the holders may require us to repurchase the debentures), which resulted in \$39,546,000 and \$30,418,000 of additional interest expense in the years ended December 31, 2008 and 2007, respectively.

In December 2007, the FASB issued an update to ASC 810, *Consolidation*, which requires a noncontrolling interest in a subsidiary to be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest to be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. The amended guidance became effective on January 1, 2009 and resulted in (i) the reclassification of minority interests in consolidated subsidiaries to noncontrolling interests in consolidated subsidiaries, a component of permanent equity on our consolidated balance sheets, (ii) the reclassification of minority interest expense to net income attributable to noncontrolling interests, on our consolidated statements of income, and (iii) additional disclosures, including a consolidated statement of changes in equity in quarterly reporting periods.

In December 2007, the FASB issued an update to ASC 805, *Business Combinations*, which applies to all transactions and other events in which one entity obtains control over one or more other businesses. It also broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and acquisition related costs will generally be expensed rather than included as part of the basis of the acquisition. The amended guidance also expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. The amended guidance became effective for all transactions entered into on or after January 1, 2009. The adoption of this guidance on January 1, 2009 did not have any effect on our consolidated financial statements because there have been no acquisitions during 2009.

In March 2008, the FASB issued an update to ASC 815, *Derivatives and Hedging*, which requires enhanced disclosures related to derivative instruments and hedging activities, including disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and the impact of



derivative instruments and related hedged items on an entity's financial position, financial performance and cash flows. It also provided a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock. The amended guidance became effective on January 1, 2009. The adoption of this guidance on January 1, 2009 did not have a material effect on our consolidated financial statements.

In June 2008, the FASB issued an update to ASC 260, *Earnings Per Share*, which requires companies to treat unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as participating securities and include such securities in the computation of earnings per share pursuant to the two-class method as described in ASC 260. The amended guidance became effective on January 1, 2009 and required all prior period earnings per share data presented, to be adjusted retroactively. The adoption of this guidance on January 1, 2009 did not have a material effect on our computation of income per share.

In April 2009, the FASB issued an amendment to the guidance for other than temporary impairments ( OTTI ) of investments in debt securities, which changes the presentation of OTTI in financial statements. Under this guidance, if an OTTI debt security is intended to be sold or required to be sold prior to the recovery of its carrying amount, the full amount of the impairment loss is charged to earnings. Otherwise, losses on debt securities must be separated into two categories, the portion which is considered credit loss, which is charged to earnings, and the portion due to other factors, which is charged to other comprehensive income (loss), a component of balance sheet equity. When an unrealized loss on a fixed maturity security is not considered OTTI, the unrealized loss continues to be charged to other comprehensive income (loss) and not to earnings. The adoption of this guidance on April 1, 2009 did not have any effect on our consolidated financial statements.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies - continued

In June 2009, the FASB issued an update to ASC 810, *Consolidation*, which modifies the existing quantitative guidance used in determining the primary beneficiary of a variable interest entity ( VIE ) by requiring entities to qualitatively assess whether an enterprise is a primary beneficiary, based on whether the entity has (i) power over the significant activities of the VIE, and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The adoption of this guidance on January 1, 2010 did not have a material effect on our consolidated financial statements.

#### *Significant Accounting Policies*

**Real Estate:** Real estate is carried at cost, net of accumulated depreciation and amortization. Betterments, major renewals and certain costs directly related to the improvement and leasing of real estate are capitalized. Maintenance and repairs are expensed as incurred. For redevelopment of existing operating properties, the net book value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when complete. If the cost of the redeveloped property, including the undepreciated net book value of the property carried forward, exceeds the estimated fair value of redeveloped property, the excess is charged to expense. Depreciation is provided on a straight-line basis over estimated useful lives which range from 7 to 40 years. Tenant allowances are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets. Additions to real estate include interest expense capitalized during construction of \$17,256,000 and \$63,063,000, for the years ended December 31, 2009 and 2008, respectively.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles such as acquired above and below-market leases and acquired in-place leases and tenant relationships) and acquired liabilities and we allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions.

Our properties, including any related intangible assets, are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. An

impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses. The table below summarizes non-cash impairment and other losses recognized in the years ended December 31, 2009, 2008 and 2007.

(Amounts in thousands)	For the Year Ended December 31,		
	2009	2008	2007
Undeveloped land	\$ 38,347	\$ 12,500	\$
Real estate development related	28,820	40,668	
Condominium units held for sale (see page 125)	13,667	23,625	
Other real estate assets	6,989	1,645	
Cost of real estate acquisitions not consummated		3,009	10,375
	\$ 87,823	\$ 81,447	\$ 10,375

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies continued

**Identified Intangibles:** We record acquired intangible assets (including acquired above-market leases, tenant relationships and acquired in-place leases) and acquired intangible liabilities (including below market leases) at their estimated fair value separate and apart from goodwill. We amortize identified intangibles that have finite lives over the period they are expected to contribute directly or indirectly to the future cash flows of the property or business acquired. Intangible assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset, including related real estate, if appropriate, is not recoverable and its carrying amount exceeds its estimated fair value. As of December 31, 2009 and 2008, the carrying amounts of identified intangible assets, a component of other assets on our consolidated balance sheets, were \$442,510,000 and \$522,719,000, respectively. In addition, the carrying amounts of identified intangible liabilities, a component of deferred credit on our consolidated balance sheets, were \$633,492,000 and \$719,822,000, respectively.

**Partially Owned Entities:** In determining whether we have a controlling interest in a partially owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity in which we have power over significant activities of the entity and the obligation to absorb a majority of the entity's expected losses, if they occur, or receive a majority of the expected residual returns, if they occur, or both. We have concluded that we do not control a partially owned entity if the entity is not considered a variable interest entity and the approval of all of the partners/members is contractually required with respect to major decisions, such as operating and capital budgets, the sale, exchange or other disposition of real property, the hiring of a chief executive officer, the commencement, compromise or settlement of any lawsuit, legal proceeding or arbitration or the placement of new or additional financing secured by assets of the venture. This is the case with respect to our 50% interests in Monmouth Mall, MartParc Wells, MartParc Orleans, 968 Third Avenue, West 57<sup>th</sup> Street properties and 825 Seventh Avenue. We account for investments on the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions made during the year. Investments that do not qualify for consolidation or equity method accounting are accounted for on the cost method.

Our investments in partially owned entities are reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of our investments may not be recoverable. The ultimate realization of our investments in partially owned entities is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment loss if we determine that a decline in the value of an investment is other-than-temporary. The table below summarizes non-cash impairment losses recognized on investments in partially owned entities in the years ended December 31, 2009, 2008 and 2007.

(Amounts in thousands)	For the Year Ended December 31,		
	2009	2008	2007
Investment in Lexington Realty Trust	\$	\$ 107,882	\$
Other	17,820	96,037	
	\$ 17,820	\$ 203,919	\$

**Mezzanine Loans Receivable:** We invest in mezzanine loans to entities which have significant real estate assets. These investments, which are subordinate to the mortgage loans secured by the real property, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. We record these investments at the stated principal amount net of any unamortized discount or premium. We accrete or amortize any discounts or premiums over the life of the related loan receivable utilizing the effective interest method, or straight-line method if the result is not materially different.

We evaluate the collectibility of both interest and principal of each of our loans each quarter, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. Interest on impaired loans is recognized when received in cash. In the years ended December 31, 2009 and 2007, we recorded loss accruals aggregating \$190,738,000 and \$57,000,000, respectively. In 2008, upon sale of a sub-participation in a loan, we reversed \$10,300,000 of the \$57,000,000 loss accrual recognized in 2007. Loss accruals are based on our continuing review of these loans and while management believes it uses the best information available to establish these allowances, future adjustments may become necessary if there are changes in economic conditions or specific circumstances.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies continued

**Cash and Cash Equivalents:** Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. The majority of our cash and cash equivalents are held at major commercial banks which may at times exceed the Federal Deposit Insurance Corporation limit. To date, we have not experienced any losses on our invested cash.

**Short-term Investments:** Short-term investments consist of certificates of deposit placed through an account registry service ( CDARS ) with original maturities of 91 to 180 days. These investments are FDIC insured and classified as available-for-sale.

**Restricted Cash:** Restricted cash consists of security deposits, cash restricted in connection with our deferred compensation plan and cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements.

**Allowance for Doubtful Accounts:** We periodically evaluate the collectibility of amounts due from tenants and maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for receivables arising from the straight-lining of rents. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. As of December 31, 2009 and 2008, we had \$46,708,000 and \$32,834,000, respectively, in allowances for doubtful accounts. In addition, as of December 31, 2009 and 2008, we had \$4,680,000 and \$5,773,000, respectively, in allowances for receivables arising from the straight-lining of rents.

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

**Revenue Recognition:** We have the following revenue sources and revenue recognition policies:

- **Base Rent** income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances in which we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease.
- **Percentage Rent** income arising from retail tenant leases that is contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized only after the contingency has been removed (i.e., sales thresholds have been achieved).
- **Hotel Revenue** income arising from the operation of the Hotel Pennsylvania which consists of rooms revenue, food and beverage revenue, and banquet revenue. Income is recognized when rooms are occupied. Food and beverage and banquet revenue is recognized when the services have been rendered.
- **Trade Shows Revenue** income arising from the operation of trade shows, including rentals of booths. This revenue is recognized when the trade shows have occurred.
- **Expense Reimbursements** revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.
- **Management, Leasing and Other Fees** income arising from contractual agreements with third parties or with partially owned entities. This revenue is recognized as the related services are performed under the respective agreements.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies continued

**Condominium Units Held For Sale:** Condominium units held for sale are carried at the lower of cost or expected net sales proceeds. As of December 31, 2009, condominiums held for sale, which are included in other assets on our consolidated balance sheet, aggregate \$187,050,000 and consist of substantially completed units at our 40 East 66<sup>th</sup> Street property in Manhattan, The Bryant in Boston and Granite Park in Pasadena. Revenue from individual condominium unit sales are recognized upon closing of the sale (the completed contract method), as all conditions for full profit recognition have been met at that time. We use the relative sales value method to allocate costs. Net gains on sales of condominiums units are included in net gains on disposition of wholly owned and partially owned assets other than depreciable real estate on our consolidated statements of income. During 2009 and 2008, we recognized non-cash impairment losses related to certain of these condominiums aggregating \$13,667,000 and \$23,625,000, respectively, based on our assessments of the expected net sales proceeds associated with these condominium projects. These losses are included in impairment and other losses on our consolidated statements of income.

**Derivative Instruments and Hedging Activities:** ASC 815, *Derivatives and Hedging*, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As of December 31, 2009 and 2008, our derivative instruments consisted of interest rate caps which did not have a material affect on our consolidated financial statements. As required by ASC 815, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss) (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

**Income Per Share:** Basic income per share is computed based on weighted average shares outstanding. Diluted income per share considers the effect of all potentially dilutive share equivalents, including outstanding employee stock options, restricted shares and convertible or redeemable securities.



**Stock-Based Compensation:** Stock-based compensation consists of awards to certain employees and officers and consists of stock options, restricted stock, restricted Operating Partnership units and out-performance plan awards. We account for all stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*.

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# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Basis of Presentation and Significant Accounting Policies continued

**Income Taxes:** We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. We distribute to shareholders 100% of taxable income and therefore, no provision for Federal income taxes is required. Dividend distributions for the year ended December 31, 2009, were characterized, for Federal income tax purposes, as 63.9% ordinary income, 0.9% long-term capital gain and 35.2% return of capital. Dividend distributions for the year ended December 31, 2008 were characterized, for Federal income tax purposes, as 70.8% ordinary income and 29.2% return of capital. Dividend distributions for the year ended December 31, 2007 were characterized, for Federal income tax purposes, as 61.6% ordinary income and 38.4% long-term capital gain.

We have elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries pursuant to an amendment to the Internal Revenue Code that became effective January 1, 2001. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to Federal and State income tax at regular corporate tax rates. Our taxable REIT subsidiaries had a combined current income tax liability of approximately \$21,481,000 and \$20,837,000 for the years ended December 31, 2009 and 2008, respectively, and have immaterial differences between the financial reporting and tax basis of assets and liabilities.

In connection with purchase accounting for H Street, in July 2005 and April 2007 we recorded an aggregate of \$222,174,000 of deferred tax liabilities representing the differences between the tax basis and the book basis of the acquired assets and liabilities multiplied by the effective tax rate. We were required to record these deferred tax liabilities because H Street and its partially owned entities were operated as C Corporations at the time they were acquired. As of January 16, 2008, we had completed all of the actions necessary to enable these entities to elect REIT status effective for the tax year beginning on January 1, 2008. Consequently, in the first quarter of 2008, we reversed the deferred tax liabilities and recognized an income tax benefit of \$222,174,000 in our consolidated statement of income.

The following table reconciles net income attributable to common shareholders to estimated taxable income for the years ended December 31, 2009, 2008 and 2007.

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(Amounts in thousands)	2009	2008	2007
Net income attributable to common shareholders	\$ 49,093	\$ 302,206	\$ 484,362
Book to tax differences (unaudited):			
Depreciation and amortization	247,023	233,426	145,131
Mezzanine loans receivable	171,380	(51,893 )	51,682
Straight-line rent adjustments	(83,959 )	(82,901 )	(70,450 )
Earnings of partially owned entities	(82,382 )	(50,855 )	12,093
Stock options	(32,643 )	(71,995 )	(88,752 )
Sale of real estate	3,923	3,687	(57,386 )
Reversal of deferred tax liability		(202,267 )	
Derivatives		43,218	131,711
Other, net	81,936	171,763	13,256
Estimated taxable income	\$ 354,371	\$ 294,389	\$ 621,647

The net basis of our assets and liabilities for tax reporting purposes is approximately \$3.1 billion lower than the amount reported in our consolidated financial statements.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities

#### Toys

As of December 31, 2009, we own 32.7% of Toys. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. We account for our investment in Toys under the equity method and because Toys' fiscal year ends on the Saturday nearest January 31, we record our 32.7% share of Toys' net income or loss on a one-quarter lag basis. As of December 31, 2009, the carrying amount of our investment in Toys does not differ materially from our share of the equity in net assets of Toys on a purchase accounting basis.

During 2009, we recognized \$13,946,000 for our share of income from the reversal of previously recognized deferred financing cost amortization expense, which we initially recorded as a reduction of the basis of our investment in Toys. During 2008, in connection with an audit of Toys' purchase accounting basis financial statements for its fiscal years 2006 and 2007, it was determined that the purchase accounting basis income tax expense was understated. Accordingly, we recognized \$14,900,000 of income tax expense for our share of this non-cash charge. This non-cash charge had no effect on cash actually paid for income taxes or Toys' previously issued Recap basis consolidated financial statements.

Below is a summary of Toys' latest available financial information presented on a purchase accounting basis:

(Amounts in thousands)

Balance Sheet:	As of October 31, 2009		As of November 1, 2008	
Assets	\$	12,589,000	\$	12,410,000
Liabilities		11,198,000		11,393,000
Noncontrolling interests		112,000		88,000
Toys R Us, Inc. equity		1,279,000		929,000

  

Income Statement:	For the Twelve Months Ended		
	October 31, 2009	November 1, 2008	November 3, 2007
Total revenue	\$ 13,172,000	\$ 14,090,000	\$ 13,646,000

Net income (loss) attributable to Toys	216,000	(13,000 )	(65,000 )
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## **Alexander s, Inc. (NYSE: ALX) ( Alexander s )**

At December 31, 2009 and 2008, we owned 32.4% and 32.5%, respectively, of the outstanding common shares of Alexander s. We manage, lease and develop Alexander s properties pursuant to the agreements described below which expire in March of each year and are automatically renewable. At December 31, 2009 the market value ( fair value pursuant to ASC 820) of our investment in Alexander s, based on Alexander s December 31, 2009 closing share price of \$304.42, was \$503,531,000, or \$310,357,000 in excess of the carrying amount on our consolidated balance sheet.

As of December 31, 2009, the carrying amount of our investment in Alexander s excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander s by approximately \$61,261,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander s common stock acquired over the book value of Alexander s net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander s assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander s net income or loss. The basis difference related to the land will be recognized upon disposition of our investment.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities - continued

#### *Management and Development Agreements*

We receive an annual fee for managing Alexander's and all of its properties equal to the sum of (i) \$3,000,000, (ii) 3% of the gross income from the Kings Plaza Regional Shopping Center, (iii) \$0.50 per square foot of the tenant-occupied office and retail space at 731 Lexington Avenue and (iv) \$241,000, escalating at 3% per annum, for managing the common area of 731 Lexington Avenue.

In addition, we are entitled to a development fee of 6% of development costs, as defined, with a minimum guaranteed payment of \$750,000 per annum. During the years ended December 31, 2009, 2008 and 2007, we recognized \$2,710,000, \$4,101,000 and \$4,482,000, respectively, of development fee income.

#### *Leasing Agreements*

We provide Alexander's with leasing services for a fee of 3% of rent for the first ten years of a lease term, 2% of rent for the eleventh through twentieth year of a lease term and 1% of rent for the twenty-first through thirtieth year of a lease term, subject to the payment of rents by Alexander's tenants. In the event third-party real estate brokers are used, our fee increases by 1% and we are responsible for the fees to the third-parties. We are also entitled to a commission upon the sale of any of Alexander's assets equal to 3% of gross proceeds, as defined, for asset sales less than \$50,000,000, or 1% of gross proceeds, as defined, for asset sales of \$50,000,000 or more. The total of these amounts is payable to us in annual installments in an amount not to exceed \$4,000,000 with interest on the unpaid balance at one-year LIBOR plus 1.0% (3.02% at December 31, 2009).

#### *Other Agreements*

Building Maintenance Services ( BMS ), our wholly-owned subsidiary, supervises the cleaning, engineering and security services at Alexander's 731 Lexington Avenue and Kings Plaza properties for an annual fee of the costs for such services plus 6%. During the years ended December 31, 2009, 2008 and 2007, we recognized \$2,083,000, \$2,083,000 and \$3,016,000 of income, respectively, under these agreements.

Below is a summary of Alexander's latest available financial information:

(Amounts in thousands)

Balance Sheet:	<b>As of December 31, 2009</b>		<b>As of December 31, 2008</b>	
Assets	\$	1,704,000	\$	1,604,000
Liabilities		1,389,000		1,423,000
Noncontrolling interests		2,000		2,000
Equity		313,000		179,000
Income Statement:	<b>For the Year Ended</b>			
	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
			<b>December 31, 2007</b>	
Total revenue	\$	224,000	\$	211,000
Net income attributable to Alexander's		133,000		76,000
				114,000

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# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities - continued

#### Lexington Realty Trust ( Lexington ) (NYSE: LXP)

Prior to October 28, 2008, we owned 8,149,592 limited partnership units of Lexington Master Limited Partnership which were exchangeable on a one-for-one basis into Lexington common shares, or a 7.7% limited partnership interest. On October 28, 2008, we acquired 8,000,000 Lexington common shares for \$5.60 per share, or \$44,800,000. The purchase price consisted of \$22,400,000 in cash and a \$22,400,000 margin loan recourse only to the 8,000,000 shares acquired. In addition, we exchanged our existing limited partnership units in Lexington MLP for 8,149,592 Lexington common shares. As of December 31, 2009, we own 18,468,969 Lexington common shares, or approximately 15.2% of Lexington's common equity. We account for our investment in Lexington on the equity method because we believe we have the ability to exercise significant influence over Lexington's operating and financial policies, based on, among other factors, our representation on Lexington's Board of Trustees and the level of our ownership in Lexington compared to that of other shareholders. We record our pro rata share of Lexington's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its financial statements.

Based on Lexington's December 31, 2009 closing share price of \$6.08, the market value (fair value pursuant to ASC 820) of our investment in Lexington was \$112,291,000, or \$57,185,000 in excess of the carrying amount on our consolidated balance sheet. During 2009, we recognized \$19,121,000 for our share of impairment losses recorded by Lexington related to its investment in Concord Debt Holdings LLC. During 2008, we concluded that our investment in Lexington was other-than-temporarily impaired and recognized an aggregate non-cash impairment loss of \$107,882,000. Our conclusion was based on the deterioration in the capital and financial markets and our inability to forecast a recovery in the near-term. These losses are included as a component of (loss) income from partially owned entities, on our consolidated statements of income.

As of December 31, 2009, the carrying amount of our investment in Lexington was less than our share of the equity in the net assets of Lexington by approximately \$87,579,000. This basis difference resulted primarily from the aggregate of \$107,882,000 of non-cash impairment losses recognized during 2008. The remainder of the basis difference related to purchase accounting for our acquisition of an additional 8,000,000 common shares of Lexington in October 2008, of which the majority relates to our estimate of the fair values of Lexington's real estate (land and buildings) as compared to their carrying amounts in Lexington's consolidated financial statements. We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Lexington's net income or loss. The basis difference attributable to the land will be recognized upon disposition of our investment.

Below is a summary of Lexington's latest available financial information:



(Amounts in thousands)

	<b>As of</b> <b>September 30, 2009</b>	<b>As of</b> <b>September 30, 2008</b>
Balance Sheet:		
Assets	\$ 3,702,000	\$ 4,294,000
Liabilities	2,344,000	2,745,000
Noncontrolling interests	94,000	625,000
Shareholders equity	1,264,000	924,000

	<b>For the Twelve Months Ended</b>		
	<b>September 30, 2009</b>	<b>September 30, 2008</b>	<b>September 30, 2007</b>
Income Statement:			
Total revenue	\$ 399,000	\$ 447,000	\$ 387,000
Net (loss) income attributable to Lexington	(177,000)	49,000	62,000

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# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities - continued

#### GMH

In June 2008, pursuant to the sale of GMH's military housing division and the merger of its student housing division with American Campus Communities, Inc. (ACC) (NYSE: ACC), we received an aggregate of \$105,180,000, consisting of \$82,142,000 in cash and 753,126 shares of ACC common stock valued at \$23,038,000 based on ACC's then closing share price of \$30.59, in exchange for our entire interest in GMH. We subsequently sold all of the ACC common shares. The above transactions resulted in a net gain of \$2,038,000 which is included as a component of net gains on disposition of wholly owned and partially owned assets other than depreciable real estate in our consolidated statement of income.

#### Real Estate Joint Ventures Development Costs

During 2008, we recognized non-cash losses aggregating \$96,037,000, for the write-off of our share of certain partially owned entities' development costs, as these projects were either deferred or abandoned. These losses include \$37,000,000 for our share of costs in connection with the redevelopment of the Downtown Crossing property in Boston and \$23,000,000 for our share of costs in connection with the abandonment of the arena move /Moynihan East portions of the Farley project. These losses are included as a component of (loss) income from partially owned entities, on our consolidated statement of income.

#### *Condensed Combined Financial Information of Partially Owned Entities*

The following is a summary of combined financial information for all of our partially owned entities, including Toys, Alexander's and Lexington, as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007.

(Amounts in thousands)

	<b>December 31,</b>		
<b>Balance Sheet:</b>	<b>2009</b>		<b>2008</b>
Assets	\$ 23,188,000		\$ 23,694,000
Liabilities	18,164,000		18,787,000
Noncontrolling interests	227,000		739,000
Equity	4,797,000		4,168,000

**For the Years Ended December 31,**

<b>Income Statement:</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total revenue	\$ 14,337,000	\$ 15,313,000	\$ 14,821,000
Net loss	(51,000)	(54,000 )	(144,000 )

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# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities continued

Investments in partially owned entities as of December 31, 2009 and 2008 and income recognized from these investments for the years ended December 31, 2009, 2008 and 2007 are as follows:

Investments: (Amounts in thousands)	Percentage Ownership as of December 31, 2009	As of December 31,	
		2009	2008
Toys (see page 127)	32.7%	\$ 409,453	\$ 293,096
Alexander s (see page 127)	32.4%	\$ 193,174	\$ 137,305
Partially owned office buildings (1)	(1)	158,444	157,468
India real estate ventures	4%-36.5%	93,322	88,858
Lexington (see page 129)	15.2%	55,106	80,748
Other equity method investments (2)	(2)	299,786	325,775
		\$ 799,832	\$ 790,154

#### Our Share of Net Income (Loss):

(Amounts in thousands)

#### For the Years Ended December 31,

2009                      2008                      2007

#### Toys:

32.7% share of:

Equity in net income (loss) before income taxes	\$ 58,416	(3)	\$ 53,867	\$ (31,855 )
Income tax benefit (expense)	13,185		(44,752 )	10,898
Equity in net income (loss)	71,601		9,115	(20,957 )
Non-cash purchase price accounting adjustments	13,946		(14,900 )	
Interest and other income	6,753		8,165	6,620
	\$ 92,300		\$ 2,380	\$ (14,337 )

#### Alexander s:

32.4% share in 2009, 32.5% in 2008 and 32.8% in 2007 of:

Equity in net income before reversal of stock appreciation rights compensation expense	\$ 31,659	(4)	\$ 17,484	\$ 23,044
Reversal of stock appreciation rights compensation expense	11,105		6,583	14,280
Equity in net income	42,764		24,067	37,324
Management and leasing fees	8,055		8,503	8,783
Development fees	2,710		4,101	4,482
	\$ 53,529		\$ 36,671	\$ 50,589

#### Lexington (see page 129)

India Real Estate Ventures - 4% - 36.5% share

of equity in net losses

	\$ (25,665 )	(5)	\$ (105,630 )	(6)	\$ 2,211
	(1,636 )		(3,336 )		

<b>GMH</b> (see page 130)					6,463
<b>Other</b>	(46,138	) <sup>(7)</sup>	(86,912	) <sup>(8)</sup>	23,217
	\$ (73,439	)	\$ (195,878	)	\$ 31,891

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(1) Includes interests in 330 Madison Avenue (25%), 825 Seventh Avenue (50%), Fairfax Square (20%), Kaempfer equity interests in three office buildings (2.5% to 5.0%), Rosslyn Plaza (46%) and West 57<sup>th</sup> Street properties (50%).

(2) Includes interests in Monmouth Mall, Verde Realty Operating Partnership ( Verde ) 85<sup>th</sup> Avenue Associates and redevelopment ventures including Harlem Park and Farley.

(3) Includes \$10,200 for our share of income from a litigation settlement.

(4) Includes \$13,668 for our share of an income tax benefit.

(5) 2009 includes \$19,121 for our share of impairment losses recorded by Lexington on its investment in Concord Debt Holdings LLC.

(6) 2008 includes \$107,882 of impairment losses on our investment in Lexington.

(7) Includes \$17,820 of impairment losses, substantially all of which is on our investment in Verde, and \$7,650 of expense for our share of the Downtown Crossing, Boston lease termination payment.

(8) Includes \$96,037 of non-cash charges for the write-off of our share of certain partially owned entities development costs, including \$37,000 for Downtown Crossing, Boston and \$23,000 for the arena move /Moynihan East portions of the Farley project.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities - continued

Below is a summary of the debt of partially owned entities as of December 31, 2009 and 2008, none of which is recourse to us.

	<b>100% of</b>	
	<b>Partially Owned</b>	
	<b>Entities Debt at</b>	
	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2009</b>	<b>2008</b>
(Amounts in thousands)		
Toys (32.7% interest) (as of October 31, 2009 and November 1, 2008, respectively):		
10.75% senior unsecured notes, due 2017 (Face value \$950,000) <sup>(1)</sup>	\$925,931	\$
\$1.3 billion senior credit facility <sup>(1)</sup>		1,300,000
\$2.0 billion credit facility, due 2012, LIBOR plus 1.00% 4.25% <sup>(2)</sup>	418,777	367,000
Mortgage loan, due 2010, LIBOR plus 1.30% (1.55% at December 31, 2009) <sup>(3)</sup>	800,000	800,000
\$804 million secured term loan facility, due 2012, LIBOR plus 4.25% (4.48% at December 31, 2009)	797,911	797,000
Senior U.K. real estate facility, due 2013, with interest at 5.02%	578,982	568,000
7.625% bonds, due 2011 (Face value \$500,000)	490,613	486,000
7.875% senior notes, due 2013 (Face value \$400,000)	381,293	377,000
7.375% senior notes, due 2018 (Face value \$400,000)	338,989	335,000
4.51% Spanish real estate facility, due 2013	191,436	167,000
\$181 million unsecured term loan facility, due 2013, LIBOR plus 5.00% (5.23% at December 31, 2009)	180,456	180,000
Japan bank loans, due 2011 2014, 1.20% 2.85%	172,902	158,000
Japan borrowings, due 2010 2011 (weighted average rate of 0.92% at December 31, 2009)	168,720	289,000
European and Australian asset-based revolving credit facility, due 2012, LIBOR/EURIBOR plus 4.00% (4.52% at December 31, 2009)	102,760	
6.84% Junior U.K. real estate facility, due 2013	101,861	101,000
4.51% French real estate facility, due 2013	92,353	81,000
8.750% debentures, due 2021 (Face value \$22,000)	21,022	21,000
Other	136,206	73,000
	5,900,212	6,100,000
Alexander s (32.4% interest):		
731 Lexington Avenue mortgage note payable collateralized by the office space, due in February 2014, with interest at 5.33% (prepayable without penalty after December 2013)	362,989	373,637
731 Lexington Avenue mortgage note payable, collateralized by the retail space, due in July 2015, with interest at 4.93% (prepayable without penalty after December 2013)	320,000	320,000
Rego Park construction loan payable, due in December 2010, LIBOR plus 1.20% (1.48% at December 31, 2009)	266,411	181,695
	183,319	199,537

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Kings Plaza Regional Shopping Center mortgage note payable, due in June 2011, with interest at 7.46% (prepayable without penalty after December 2010)		
Rego Park mortgage note payable, due in March 2012 (prepayable without penalty) <sup>(4)</sup>	78,246	78,386
Paramus mortgage note payable, due in October 2011, with interest at 5.92% (prepayable without penalty)	68,000	68,000
	1,278,965	1,221,255
Lexington (15.2% interest) (as of September 30, 2009 and September 30, 2008, respectively)		
Mortgage loans collateralized by the trust's real estate, due from 2010 to 2037, with a weighted average interest rate of 5.63% at September 30, 2009 (various prepayment terms)	2,132,253	2,486,370

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(1) On July 9, 2009, Toys issued \$950 million aggregate principal amount of 10.75% Senior Unsecured Notes due 2017. The proceeds from the issuance, along with existing cash, were used to repay the outstanding balance under its \$1.3 billion senior credit facility, which was subsequently terminated.

(2) On June 24, 2009, Toys extended this credit facility, which was to expire in July 2010, to May 2012. The borrowing capacity under the amended facility will remain at \$2.0 billion through the original maturity date in July 2010 and will continue at \$1.5 billion thereafter. The interest rate is LIBOR plus 3.20%, which may vary based on availability, through July 2010 and LIBOR plus 4.00%, subject to usage, thereafter.

(3) This debt was refinanced with the proceeds of a \$725 million 8.50% senior secured note offering due 2017.

(4) On March 10, 2009, the \$78,246 outstanding balance of the Rego Park I mortgage loan, which was scheduled to mature in June 2009, was repaid and simultaneously refinanced in the same amount. The new loan bears interest at 75 basis points, is secured by the property and is 100% cash collateralized. The proceeds of the new loan were placed in a non-interest bearing restricted mortgage escrow account.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Investments in Partially Owned Entities continued

(Amounts in thousands)	<b>100% of Partially Owned Entities Debt at December 31, 2009</b>	<b>December 31, 2008</b>
Partially owned office buildings:		
Kaempfer Properties (2.5% and 5.0% interests in two partnerships) mortgage notes payable, collateralized by the partnerships real estate, due 2011, with a weighted average interest rate of 5.83% at December 31, 2009 (various prepayment terms)	\$ 141,547	\$ 143,000
100 Van Ness, San Francisco office complex (9% interest) up to \$132 million construction loan payable, due in July 2013, LIBOR plus 2.75% (2.98% at December 31, 2009) with an interest rate floor of 6.50% and interest rate cap of 7.00%	85,249	85,249
330 Madison Avenue (25% interest) \$150,000 mortgage note payable, due in June 2015, LIBOR plus 1.50% (1.78% at December 31, 2009)	150,000	70,000
Fairfax Square (20% interest) mortgage note payable, due in December 2014, with interest at 7.00% (prepayable without penalty after July 2014)	72,500	62,815
Rosslyn Plaza (46% interest) mortgage note payable, due in December 2011, LIBOR plus 1.0% (1.24% at December 31, 2009)	56,680	56,680
West 57 <sup>th</sup> Street (50% interest) mortgage note payable with interest at 4.94% <sup>(1)</sup>	29,000	29,000
825 Seventh Avenue (50% interest) mortgage note payable, due in October 2014, with interest at 8.07% (prepayable without penalty after April 2014)	20,773	21,426
India Real Estate Ventures:		
TCG Urban Infrastructure Holdings (25% interest) mortgage notes payable, collateralized by the entity's real estate, due from 2010 to 2022, with a weighted average interest rate of 13.52% at December 31, 2009 (various prepayment terms)	178,553	148,792
India Property Fund L.P. (36.5% interest) \$120 million secured revolving credit facility, due in March 2010, LIBOR plus 5.00% (5.23% at December 31, 2009)	77,000	90,500
Waterfront Associates, LLC (2.5% interest) construction and land loan up to \$250 million payable, due in September 2011 with a six month extension option, LIBOR plus 2.00% - 3.50% (2.48% at December 31, 2009)	183,742	57,600
Verde Realty Operating Partnership (8.5% interest) mortgage notes payable, collateralized by the partnerships real estate, due from 2010 to 2025, with a weighted average interest rate of 5.89% at December 31, 2009 (various prepayment terms)	607,089	559,840
Green Courte Real Estate Partners, LLC (8.3% interest) (as of September 30, 2009 and September 30, 2008, respectively) mortgage notes payable, collateralized by the partnerships real estate, due from 2009 to 2017, with a weighted average interest rate of 5.24% at December 31, 2009 (various prepayment terms)	304,481	307,098
Monmouth Mall (50% interest) mortgage note payable, due in September 2015, with interest at 5.44% (prepayable without penalty after July 2015)	165,000	165,000
	132,570	132,128



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San Jose, California Ground-up Development (45% interest) construction loan, due in March 2010, \$100 million fixed at 3.30%, balance at LIBOR plus 2.54% (2.79% at December 31, 2009)		
Wells/Kinzie Garage (50% interest) mortgage note payable, due in December 2013, with interest at 6.87%	14,657	14,800
Orleans Hubbard Garage (50% interest) mortgage note payable, due in December 2013, with interest at 6.87%	10,101	10,200
Other	425,717	468,559

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(1) On February 19, 2010, this loan was refinanced in the amount of \$23,200 for a three-year term with interest fixed at 4.94%.

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was \$3,149,640,000 and \$3,196,585,000 as of December 31, 2009 and 2008, respectively.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Marketable Securities

We classify equity securities that we intend to buy and sell on a short-term basis as trading securities; debt securities and mandatorily redeemable preferred stock investments that we have the intent and ability to hold to maturity as held-to-maturity securities; and debt and equity securities we intend to hold for an indefinite period of time as available-for-sale securities. Trading securities are presented at fair value at the end of each reporting period, with any unrealized gains or losses included in earnings; held-to-maturity securities are presented at amortized cost at the end of each reporting period and unrealized gains and losses are not recognized; and available-for-sale marketable equity securities are presented at fair value at the end of each reporting period, with any unrealized gains or losses included as a separate component of equity (i.e., as an element of other comprehensive income). Realized gains and losses on debt and equity securities are recognized in earnings upon the sale of the securities and are recorded based on the weighted average cost of such securities.

We evaluate our portfolio of marketable securities for impairment each reporting period. For each of the securities in our portfolio with unrealized losses, we review the underlying cause of the decline in value and the estimated recovery period, as well as the severity and duration of the decline. In our evaluation, we consider our ability and intent to hold these investments for a reasonable period of time sufficient for us to recover our cost basis. We also evaluate the near-term prospects for each of these investments in relation to the severity and duration of the decline.

During 2009 and 2008, we concluded that certain of our investments in marketable securities were other-than-temporarily impaired and recognized an aggregate of \$3,361,000 and \$76,352,000, respectively, of non-cash impairment losses. These charges are included as a component of interest and other investment (loss) income, net on our consolidated statements of income. Our conclusions were based on the severity and duration of the decline in the market value of these securities and our inability to forecast a recovery in the near term. No impairment losses were recognized in the year ended December 31, 2007.

The carrying amount of marketable securities on consolidated balance sheets and their corresponding fair values at December 31, 2009 and 2008 are as follows:

(Amounts in thousands)	As of December 31, 2009		As of December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable equity securities	\$ 79,925	\$ 79,925	\$ 118,438	\$ 118,438
Debt securities held-to-maturity	300,727	319,393	215,884	164,728

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\$ 380,652                      \$ 399,318                      \$ 334,322                      \$ 283,166

At December 31, 2009, aggregate unrealized gains and losses were \$13,026,000 and \$1,223,000, respectively. At December 31, 2008, aggregate unrealized gains and losses were \$164,000 and \$2,225,000, respectively.

During the years ended December 31, 2009, 2008 and 2007, we sold certain of our investments in marketable securities for an aggregate of \$64,355,000, \$51,185,000, and \$112,779,000 in cash, respectively. In connection therewith, we recognized \$3,834,000, \$2,028,000 and \$39,493,000, respectively, of net gains from the sale of such securities, which are included as a component of net gain on disposition of wholly owned and partially owned assets other than depreciable real estate on our consolidated statements of income.

# VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. Mezzanine Loans Receivable

The following is a summary of our investments in mezzanine loans as of December 31, 2009 and 2008.

(Amounts in thousands)		Interest Rate as of December 31, 2009	Carrying Amount as of December 31, 2009	December 31, 2008
<b>Mezzanine Loans Receivable:</b>	<b>Maturity</b>			
Equinox (1)	02/13	14.00%	\$ 97,968	\$ 85,796
Tharaldson Lodging Companies (2)	04/10	4.47%	74,701	76,341
Riley HoldCo Corp. (3)	02/15	10.00%	74,437	74,381
280 Park Avenue (4)	06/16	10.25%	73,750	73,750
Charles Square Hotel, Cambridge (5)	(5)	(5)		41,796
Other, net	7/13-8/15	5.86%-8.40%	73,168	167,175
			394,024	519,239
Valuation allowance (6)			(190,738 )	(46,700 )
			\$ 203,286	\$ 472,539

(1) On January 28, 2010, Equinox pre-paid the entire balance of this loan plus accrued interest. We received \$99,314, including accrued interest, for our 50% interest in the loan which we acquired in 2006 for \$57,500.

(2) On June 16, 2006, we acquired an 81.5% interest in a \$95,968 mezzanine loan to Tharaldson Lodging Companies for \$78,166 in cash. The loan is secured by a 107 hotel property portfolio with brands including Fairfield Inn, Residence Inn, Comfort Inn and Courtyard by Marriott. The loan is subordinate to \$671,778 of debt and is senior to approximately \$192,000 of other debt and equity. The loan provides for a 0.75% placement fee and bears interest at LIBOR plus 4.25% (4.47% at December 31, 2009). The borrower has a one-year extension option.

(3) In 2005, we made a \$135,000 loan to Riley HoldCo Corp., consisting of a \$60,000 mezzanine loan and a \$75,000 fixed rate unsecured loan. During 2006, we were repaid the \$60,000 balance of the mezzanine loan.

(4) On June 30, 2006, we made a \$73,750 mezzanine loan secured by the equity interests in 280 Park Avenue, a 1.2 million square foot office building, located between 48th and 49th Streets in Manhattan. The loan bears interest at

10.25% and matures in June 2016. The loan is subordinate to \$1.036 billion of other debt and is senior to approximately \$260,000 of equity and interest reserves.

(5) On June 1, 2009, this loan, which was scheduled to mature in September 2009, was repaid.

(6) Represents loan loss accruals on certain mezzanine loans based on our estimate of the net realizable value of each loan. Our estimates are based on the present value of expected cash flows, discounted at each loan's effective interest rate, or if a loan is collateralized, based on the fair value of the underlying collateral, adjusted for estimated costs to sell. The excess of the carrying amount over the net realizable value of a loan is recognized as a reduction of interest and other investment (loss) income, net in our consolidated statement of income.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Identified Intangible Assets**

The following summarizes our identified intangible assets (primarily acquired above-market leases) and intangible liabilities (primarily acquired below-market leases) as of December 31, 2009 and December 31, 2008.

(Amounts in thousands)	<b>Balance as of December 31, 2009</b>	<b>December 31, 2008</b>
<b>Identified intangible assets (included in other assets):</b>		
Gross amount	\$ 755,467	\$ 780,476
Accumulated amortization	(312,957 )	(257,757 )
Net	\$ 442,510	\$ 522,719
<b>Identified intangible liabilities (included in deferred credit):</b>		
Gross amount	\$ 942,968	\$ 998,179
Accumulated amortization	(309,476 )	(278,357 )
Net	\$ 633,492	\$ 719,822

Amortization of acquired below-market leases, net of acquired above-market leases resulted in an increase to rental income of \$72,481,000, \$96,176,000 and \$83,274,000 for the years ended December 31, 2009, 2008 and 2007, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases for each of the five succeeding years is as follows:

(Amounts in thousands)	
2010	\$ 62,740
2011	58,697
2012	54,404
2013	46,471
2014	40,512

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$64,529,000, \$86,388,000 and \$45,654,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The estimated annual amortization of all other identified intangible assets, including acquired in-place leases, customer

relationships and third party contracts for each of the five succeeding years is as follows:

(Amounts in thousands)

2010	\$	54,069
2011		51,775
2012		46,446
2013		38,957
2014		20,149

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases resulted in an increase to rent expense of \$1,831,000, \$2,654,000 and \$1,565,000 for the years ended December 31, 2009, 2008 and 2007, respectively. Estimated annual amortization of these below market leases for each of the five succeeding years is as follows:

(Amounts in thousands)

2010	\$	2,157
2011		2,157
2012		2,157
2013		2,157
2014		2,157

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7. Debt

The following is a summary of our debt:

(Amounts in thousands)		Balance at		
Notes and mortgages payable:	Maturity	Interest Rate	December 31,	December 31,
Fixed rate:	(1)	at	2009	2008
		December 31,		
		2009	2009	2008
New York Office:				
1290 Avenue of the Americas	01/13	5.97%	\$ 434,643	\$ 444,667
350 Park Avenue	01/12	5.48%	430,000	430,000
770 Broadway	03/16	5.65%	353,000	353,000
888 Seventh Avenue	01/16	5.71%	318,554	318,554
Two Penn Plaza	02/11	4.97%	282,492	287,386
909 Third Avenue	04/15	5.64%	210,660	214,074
Eleven Penn Plaza	12/11	5.20%	203,198	206,877
Washington, DC Office:				
Skyline Place	02/17	5.74%	678,000	678,000
Warner Building	05/16	6.26%	292,700	292,700
River House Apartments	04/15	5.43%	195,546	195,546
1215 Clark Street, 200 12 <sup>th</sup> Street and 251 18 <sup>th</sup> Street	01/25	7.09%	113,267	115,440
Bowen Building	06/16	6.14%	115,022	115,022
Reston Executive I, II and III	01/13	5.57%	93,000	93,000
1101 17 <sup>th</sup> , 1140 Connecticut, 1730 M and 1150 17 <sup>th</sup> Street	08/10	6.74%	85,910	87,721
1550 and 1750 Crystal Drive	11/14	7.08%	81,822	83,912
Universal Buildings (2)	04/14	6.33%	106,630	59,728
1235 Clark Street	07/12	6.75%	53,252	54,128
2231 Crystal Drive	08/13	7.08%	48,533	50,394
1750 Pennsylvania Avenue	06/12	7.26%	45,877	46,570
241 18 <sup>th</sup> Street	10/10	6.82%	45,609	46,532
2011 Crystal Drive (3)	08/17	7.30%	82,178	38,338
1225 Clark Street	08/13	7.08%	28,925	30,145
1800, 1851 and 1901 South Bell Street	12/11			