

VORNADO REALTY TRUST
Form 10-Q
October 31, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

	For the quarterly period ended:	September 30, 2016	
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Or

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

For the transition period from:

to

Commission File Number:

001-11954

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

(Address of principal executive offices)

10019

(Zip Code)

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 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

As of September 30, 2016, 188,994,234 of the registrant's common shares of beneficial interest are outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

**VORNADO REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

(Amounts in thousands, except unit, share, and per share amounts)	September 30, 2016	December 31, 2015
ASSETS		
Real estate, at cost:		
Land	\$ 4,129,497	\$ 4,164,799
Buildings and improvements	12,654,086	12,582,671
Development costs and construction in progress	1,369,953	1,226,637
Leasehold improvements and equipment	114,026	116,030
Total	18,267,562	18,090,137
Less accumulated depreciation and amortization	(3,430,832)	(3,418,267)
Real estate, net	14,836,730	14,671,870
Cash and cash equivalents	1,352,697	1,835,707
Restricted cash	111,941	107,799
Marketable securities	198,165	150,997
Tenant and other receivables, net of allowance for doubtful accounts of \$11,171 and \$11,908	94,057	98,062
Investments in partially owned entities	1,497,925	1,550,422
Real estate fund investments	519,386	574,761
Receivable arising from the straight-lining of rents, net of allowance of \$2,414 and \$2,751	1,027,319	931,245
Deferred leasing costs, net of accumulated amortization of \$234,330 and \$218,239	462,179	480,421
Identified intangible assets, net of accumulated amortization of \$201,164 and \$187,360	201,450	227,901
Assets related to discontinued operations	5,546	37,020
Other assets	551,974	477,088
	\$ 20,859,369	\$ 21,143,293
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable, net	\$ 9,867,550	\$ 9,513,713
Senior unsecured notes, net	845,223	844,159
Unsecured revolving credit facilities	115,630	550,000
Unsecured term loan, net	371,835	183,138
Accounts payable and accrued expenses	461,234	443,955
Deferred revenue	301,017	346,119
Deferred compensation plan	118,359	117,475
Liabilities related to discontinued operations	3,284	12,470
Other liabilities	457,928	426,965

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Total liabilities	12,542,060	12,437,994
Commitments and contingencies	-	-
Redeemable noncontrolling interests:		
Class A units - 12,280,354 and 12,242,820 units outstanding	1,242,895	1,223,793
Series D cumulative redeemable preferred units - 177,101 units outstanding	5,428	5,428
Total redeemable noncontrolling interests	1,248,323	1,229,221
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 42,826,629 and 52,676,629 shares	1,038,111	1,276,954
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,994,234 and 188,576,853 shares	7,537	7,521
Additional capital	7,139,220	7,132,979
Earnings less than distributions	(1,951,411)	(1,766,780)
Accumulated other comprehensive income	82,374	46,921
Total Vornado shareholders' equity	6,315,831	6,697,595
Noncontrolling interests in consolidated subsidiaries	753,155	778,483
Total equity	7,068,986	7,476,078
	\$ 20,859,369	\$ 21,143,293

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
REVENUES:				
Property rentals	\$ 523,998	\$ 526,337	\$ 1,570,668	\$ 1,541,454
Tenant expense reimbursements	71,425	67,098	191,841	196,234
Fee and other income	37,774	34,161	105,433	112,998
Total revenues	633,197	627,596	1,867,942	1,850,686
EXPENSES:				
Operating	260,826	256,561	762,313	753,744
Depreciation and amortization	138,968	141,920	423,238	402,999
General and administrative	40,442	36,157	134,710	133,838
Impairment loss and acquisition and transaction related costs	3,808	1,518	171,994	7,560
Total expenses	444,044	436,156	1,492,255	1,298,141
Operating income	189,153	191,440	375,687	552,545
Income (loss) from partially owned entities	4,127	(325)	529	(8,709)
Income from real estate fund investments	1,077	1,665	28,750	52,122
Interest and other investment income, net	6,508	3,160	20,262	19,618
Interest and debt expense	(98,365)	(95,344)	(304,430)	(279,110)
Net gain on disposition of wholly owned and partially owned assets	-	103,037	160,225	104,897
Income before income taxes	102,500	203,633	281,023	441,363
Income tax (expense) benefit	(4,865)	(2,856)	(9,805)	84,245
Income from continuing operations	97,635	200,777	271,218	525,608
Income from discontinued operations	2,969	34,463	6,160	50,278
Net income	100,604	235,240	277,378	575,886
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(3,658)	(3,302)	(26,361)	(38,370)
Operating Partnership	(4,366)	(12,704)	(11,410)	(28,189)
Net income attributable to Vornado	92,580	219,234	239,607	509,327
Preferred share dividends	(19,047)	(20,364)	(59,774)	(60,213)
Preferred share issuance costs (Series J redemption)	(7,408)	-	(7,408)	-
NET INCOME attributable to common shareholders	\$ 66,125	\$ 198,870	\$ 172,425	\$ 449,114
 INCOME PER COMMON SHARE - BASIC:				
Income from continuing operations, net	\$ 0.34	\$ 0.88	\$ 0.88	\$ 2.13

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Income from discontinued operations, net	0.01	0.17	0.03	0.25
Net income per common share	\$ 0.35	\$ 1.05	\$ 0.91	\$ 2.38
Weighted average shares outstanding	188,901	188,504	188,778	188,291

INCOME PER COMMON SHARE - DILUTED:

Income from continuing operations, net	\$ 0.33	\$ 0.88	\$ 0.88	\$ 2.12
Income from discontinued operations, net	0.02	0.17	0.03	0.25
Net income per common share	\$ 0.35	\$ 1.05	\$ 0.91	\$ 2.37
Weighted average shares outstanding	190,048	189,581	190,086	189,789

DIVIDENDS PER COMMON SHARE

	\$ 0.63	\$ 0.63	\$ 1.89	\$ 1.89
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See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$ 100,604	\$ 235,240	\$ 277,378	\$ 575,886
Other comprehensive income (loss):				
Increase (reduction) in unrealized net gain on				
available-for-sale securities	3,685	(7,064)	42,798	(53,396)
Pro rata share of other comprehensive loss of				
nonconsolidated subsidiaries	(915)	(114)	(1,537)	(1,148)
Increase (reduction) in value of interest rate swaps and other	7,689	(289)	(3,482)	1,788
Comprehensive income	111,063	227,773	315,157	523,130
Less comprehensive income attributable to noncontrolling interests	(8,665)	(15,559)	(40,097)	(63,477)
Comprehensive income attributable to Vornado	\$ 102,398	\$ 212,214	\$ 275,060	\$ 459,653

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

(Amounts in thousands)

	Preferred Shares		Common Shares		Additional	Earnings	Other	Non-Controlling	Total
	Shares	Amount	Shares	Amount	Capital	Less Than	Comprehensive	Interests	Equity
						Distributions	Income	in	
								Consolidated	
Balance, December 31, 2015	52,677	\$1,276,954	188,577	\$7,521	\$7,132,979	\$(1,766,780)	\$ 46,921	\$ 778,483	\$7,476,078
Net income attributable to Vornado	-	-	-	-	-	239,607	-	-	239,607
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	26,361	26,361
Dividends on common shares	-	-	-	-	-	(356,863)	-	-	(356,863)
Dividends on preferred shares	-	-	-	-	-	(59,774)	-	-	(59,774)
Redemption of Series J preferred shares	(9,850)	(238,842)	-	-	-	(7,408)	-	-	(246,250)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	293	12	28,114	-	-	-	28,126
Under employees' share option plan	-	-	106	4	5,936	-	-	-	5,940
Under dividend reinvestment	-	-	12	-	1,080	-	-	-	1,080

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plan									
Contributions:									
Other	-	-	-	-	-	-	-	19,699	19,699
Distributions:									
Real estate									
fund									
investments	-	-	-	-	-	-	-	(59,843)	(59,843)
Other	-	-	-	-	-	-	-	(11,631)	(11,631)
Deferred									
compensation									
shares									
and options	-	-	7	1	1,370	(186)	-	-	1,185
Increase in									
unrealized net									
gain on									
available-for-sale									
securities	-	-	-	-	-	-	42,798	-	42,798
Pro rata share									
of other									
comprehensive									
loss of									
nonconsolidated									
subsidiaries	-	-	-	-	-	-	(1,537)	-	(1,537)
Reduction in									
value of									
interest									
rate swaps	-	-	-	-	-	-	(3,482)	-	(3,482)
Adjustments									
to carry									
redeemable									
Class A units									
at									
redemption									
value	-	-	-	-	(30,260)	-	-	-	(30,260)
Redeemable									
noncontrolling									
interests'									
share of									
above									
adjustments	-	-	-	-	-	-	(2,326)	-	(2,326)
Other	-	(1)	(1)	(1)	1	(7)	-	86	78
Balance,									
September									
30, 2016	42,827	\$1,038,111	188,994	\$7,537	\$7,139,220	\$(1,951,411)	\$ 82,374	\$ 753,155	\$7,068,986

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED
(UNAUDITED)

(Amounts in thousands)

	Preferred Shares		Common Shares		Additional	Earnings	Other	Non- Accumulated controlling Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Less Than Distributions	Comprehensive Income	Subsidiaries	Equity
Balance, December 31, 2014	52,679	\$1,277,026	187,887	\$7,493	\$6,873,025	\$(1,505,385)	\$ 93,267	\$ 743,956	\$7,489,382
Net income attributable to Vornado	-	-	-	-	-	509,327	-	-	509,327
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	38,370	38,370
Distribution of Urban Edge Properties	-	-	-	-	-	(464,262)	-	(341)	(464,603)
Dividends on common shares	-	-	-	-	-	(355,945)	-	-	(355,945)
Dividends on preferred shares	-	-	-	-	-	(60,213)	-	-	(60,213)
Common shares issued: Upon redemption of Class A units, at redemption value	-	-	437	17	46,676	-	-	-	46,693
Under employees' share option plan	-	-	198	8	14,197	(2,579)	-	-	11,626
Under dividend reinvestment plan	-	-	11	-	1,068	-	-	-	1,068

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Contributions:									
Real estate fund investments	-	-	-	-	-	-	-	51,725	51,725
Distributions:									
Real estate fund investments	-	-	-	-	-	-	-	(70,875)	(70,875)
Other	-	-	-	-	-	-	-	(397)	(397)
Conversion of Series A preferred shares to common shares	(1)	(41)	2	-	41	-	-	-	-
Deferred compensation shares and options	-	-	6	1	2,046	(359)	-	-	1,688
Reduction in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	(53,396)	-	(53,396)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(1,148)	-	(1,148)
Increase in value of interest rate swap	-	-	-	-	-	-	1,783	-	1,783
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	295,713	-	-	-	295,713
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	3,082	-	3,082
Other	-	-	-	-	-	700	5	(84)	621
Balance, September	52,678	\$1,276,985	188,541	\$7,519	\$7,232,766	\$(1,878,716)	\$ 43,593	\$ 762,354	\$7,444,501

30, 2015

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Amounts in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 277,378	\$ 575,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	446,040	420,494
Real estate impairment losses	161,165	256
Net gain on disposition of wholly owned and partially owned assets	(160,225)	(104,897)
Straight-lining of rental income	(118,798)	(108,529)
Return of capital from real estate fund investments	71,888	91,036
Distributions of income from partially owned entities	58,692	51,650
Amortization of below-market leases, net	(41,676)	(45,918)
Other non-cash adjustments	33,971	35,190
Net realized and unrealized gains on real estate fund investments	(16,513)	(38,781)
Net gains on sale of real estate and other	(5,074)	(65,396)
Equity in net (income) loss of partially owned entities	(529)	7,961
Reversal of allowance for deferred tax assets	-	(90,030)
Changes in operating assets and liabilities:		
Real estate fund investments	-	(95,010)
Tenant and other receivables, net	(578)	1,892
Prepaid assets	(71,068)	(77,899)
Other assets	(50,938)	(92,413)
Accounts payable and accrued expenses	6,530	(5,799)
Other liabilities	(16,018)	(16,168)
Net cash provided by operating activities	574,247	443,525
Cash Flows from Investing Activities:		
Development costs and construction in progress	(426,641)	(339,586)
Additions to real estate	(261,971)	(207,845)
Proceeds from sales of real estate and related investments	138,034	375,850
Investments in partially owned entities	(112,797)	(144,890)
Distributions of capital from partially owned entities	100,997	31,822
Acquisitions of real estate and other	(46,801)	(388,565)
Net deconsolidation of 7 West 34th Street	(42,000)	-
Restricted cash	(24,796)	201,895
Investments in loans receivable and other	(11,700)	(25,845)
Purchases of marketable securities	(4,379)	-
Proceeds from sales and repayments of mortgage and mezzanine loans receivable and other	33	16,781

Net cash used in investing activities	(692,021)	(480,383)
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See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(UNAUDITED)

(Amounts in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Cash Flows from Financing Activities:		
Proceeds from borrowings	\$ 2,000,604	\$ 2,876,460
Repayments of borrowings	(1,591,554)	(2,539,677)
Dividends paid on common shares	(356,863)	(355,945)
Redemption of preferred shares	(246,250)	-
Distributions to noncontrolling interests	(95,055)	(93,738)
Dividends paid on preferred shares	(64,006)	(60,213)
Debt issuance and other costs	(30,846)	(37,467)
Contributions from noncontrolling interests	11,900	51,725
Proceeds received from exercise of employee share options	7,020	15,273
Repurchase of shares related to stock compensation agreements and related tax withholdings and other	(186)	(4,900)
Cash included in the spin-off of Urban Edge Properties	-	(225,000)
Net cash used in financing activities	(365,236)	(373,482)
Net decrease in cash and cash equivalents	(483,010)	(410,340)
Cash and cash equivalents at beginning of period	1,835,707	1,198,477
Cash and cash equivalents at end of period	\$ 1,352,697	\$ 788,137
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of \$21,297 and \$40,924	\$ 275,979	