

VORNADO REALTY TRUST

FORM 10-K405/A

(Amended Annual Report (Regulation S-K, item 405))

Filed 07/18/97 for the Period Ending 12/31/96

| | |
|-------------|---------------------------------------|
| Address | 888 SEVENTH AVE NEW YORK, NY 10019 |
| Telephone | 212-894-7000 |
| CIK | 0000899689 |
| Symbol | VNO |
| SIC Code | 6798 - Real Estate Investment Trusts |
| Industry | Real Estate Operations |
| Sector | Services |
| Fiscal Year | 12/31 |

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K/A

AMENDMENT NO. 1

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

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 1996

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-11954

VORNADO REALTY TRUST

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

22-1657560
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

PARK 80 WEST, PLAZA II, SADDLE BROOK, NEW
JERSEY
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

07663
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (201) 587-1000

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

| TITLE OF EACH CLASS ----- | NAME OF EACH EXCHANGE ON WHICH REGISTERED ----- |
|--|--|
| COMMON SHARES OF BENEFICIAL INTEREST, \$.04 PAR VALUE PER SHARE | NEW YORK STOCK EXCHANGE |

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

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

The aggregate market value of the voting shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust as reflected in the table in Item 12 of this Annual Report, at March 7, 1997 was \$1,085,100,000.

As of March 7, 1997, there were 26,547,680 shares of the registrant's shares of beneficial interest outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Proxy Statement for Annual Meeting of Shareholders to be held May

28, 1997.

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PART I

ITEM 1. BUSINESS

GENERAL

The Company is a fully-integrated real estate investment trust ("REIT") which owns, leases, develops, redevelops and manages retail and industrial properties primarily located in the Midatlantic and Northeast regions of the United States.

On December 2, 1996, Michael D. Fascitelli became the President of the Company and was elected to the Company's Board. Mr. Fascitelli was formerly the Partner at Goldman, Sachs & Co. in charge of its real estate practice. Mr. Fascitelli also has been elected a director of Alexander's, Inc.

To date, the Company's primary focus has been on shopping centers. The Operating Partnership may expand its focus by utilizing its senior management's skills and its access to capital to take advantage of strategic opportunities to acquire additional real estate assets or interests therein, mortgage loans secured by underlying real estate and companies that own real estate. Acquisitions may include assets or interests in the retail, office building, hotel and residential sectors.

On March 12, 1997, the Company entered into a definitive agreement (the "Agreement") to acquire interests in all or a portion of seven Manhattan office buildings and a management company held by the Mendik Company and certain of its affiliates. In conjunction with this transaction, the Company will convert to an Umbrella Partnership REIT (UPREIT). The estimated consideration for the transaction is approximately \$654,000,000, including \$269,000,000 in cash, \$168,000,000 in UPREIT limited partnership units and \$217,000,000 in indebtedness. The Agreement is subject to the consent of third parties and other customary conditions. It is currently expected that the proposed transaction would be consummated in the second quarter, but there can be no assurance that the proposed transaction will be completed.

The Company's shopping centers are generally located on major regional highways in mature densely populated areas. The Company believes its shopping centers attract consumers from a regional, rather than a neighborhood, marketplace because of their location on regional highways and the high percentage of square feet dedicated to large stores. As of December 31, 1996, the Company owned 57 shopping centers in seven states containing 10.0 million square feet, including 1.2 million square feet built by tenants on land leased from the Company. The Company's shopping centers accounted for 92% of the Company's rental revenue for the years ended December 31, 1996 and 1995. The occupancy rate of the Company's shopping center properties was 90% and 91% as of February 1, 1997 and 1996, respectively, and has been over 90% in each of the past five years.

Further, the Company owns eight warehouse/industrial properties in New Jersey containing 2.0 million square feet and two office buildings containing 250,000 square feet. In addition, the Company owns 29.3% of the common stock of Alexander's, Inc. ("Alexander's") which has nine properties in the New York City region. See "Relationship with Alexander's" for a discussion of Alexander's properties.

As of December 31, 1996, approximately 80% of the square footage of the Company's shopping centers was leased to large stores (over 20,000 square feet) and over 93% was leased to tenants whose businesses are national or regional in scope. The Company's large tenants include destination retailers such as discount department stores, supermarkets, home improvements stores, discount apparel stores, membership warehouse clubs and "category killers." Category killers are large stores which offer a complete selection of a category of items (e.g., toys, office supplies, etc.) at low prices, often in a warehouse format. The Company's large store tenants typically offer basic consumer necessities such as food, health and beauty aids, moderately priced clothing, building materials and home improvement supplies, and compete primarily on the basis of price. The Company believes that this tenant mix mitigates the effects on its properties of adverse changes in general

economic conditions. Substantially all of the Company's large store leases are long-term with fixed base rents and provide for step-ups in rent typically occurring every five years.

In addition, the Company's leases generally provide for additional rents based on a percentage of tenants' sales. Of the Company's \$87,424,000 of rental revenue in 1996, base rents accounted for approximately 99% and percentage rents accounted for approximately 1%. The Company's leases generally pass through to tenants the tenant's share of all common area charges (including roof and structure, unless it is the tenant's direct responsibility), real estate taxes and insurance costs and certain capital expenditures. As of December 31, 1996, the average annual base rent per square foot for the Company's shopping centers was \$9.09.

From 1992 through 1996, the Company's property rentals from shopping centers (including the effects of straight-lining of rents) were \$56,900,000, \$61,900,000, \$64,700,000, \$74,300,000 and \$80,000,000, respectively. Straight-lining of rents averages the rent increases provided for in leases such that property rentals for financial statement purposes is constant throughout the term of the lease. This convention applies to leases entered into after November 14, 1985.

As of December 31, 1996, no single shopping center property accounted for more than 6.2% of the Company's total leasable area for its shopping center properties or more than 5.8% of property rentals for its shopping center properties. Bradlees, Inc. ("Bradlees") accounted for 22%, 21% and 19% of total property rentals for the years ended December 31, 1996, 1995 and 1994, respectively. Home Depot represented 5.5% and Sam's Wholesale/Wal*Mart, Shop Rite, Pathmark, T.J. Maxx/Marshalls and Staples each accounted for approximately 3.0% of the total property rentals for the year ended December 31, 1996.

In June 1995, Bradlees filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The Company currently leases 17 locations to Bradlees. Of these locations, 14 are fully guaranteed by Stop & Shop Companies, Inc. ("Stop & Shop"), a wholly-owned subsidiary of Royal Ahold NV, a leading international food retailer, and one is guaranteed as to 70% of the rent. Several of the Company's other tenants, whose rents aggregated less than 3.0% of the Company's total property rentals for the year ended December 31, 1996, have also filed for protection under Chapter 11.

Vornado, Inc., the immediate predecessor to the Company, was merged with the Company on May 6, 1993 in connection with the Company's conversion to a REIT.

The Company administers all operating functions, including leasing, management, construction, finance, legal, accounting and data processing, from its executive offices (other than the leasing of the Company's three Texas properties, which is done by an employee locally).

The Company's principal executive offices are located at Park 80 West, Plaza II, Saddle Brook, New Jersey 07663; telephone (201) 587-1000.

RELATIONSHIP WITH ALEXANDER'S

In March 1995, the Company purchased all of the 1,353,468 shares of common stock of Alexander's then owned by Citibank, N.A. ("Citibank"), representing 27.1% of the outstanding shares of common stock of Alexander's, for \$40.50 per share in cash. As a result of the acquisition, the Company owns 29.3% of the common stock of Alexander's. (See "Interstate Properties" for a description of its ownership of the Company and Alexander's.) In addition, the Company lent Alexander's \$45,000,000.

Alexander's has nine properties (where its department stores were formerly located) consisting of:

Operating properties:

- (i) the Rego Park I property located in Queens, New York;
- (ii) a 50% interest in the 427,000 square feet of mall stores at the Kings Plaza Shopping Center (the "Kings Plaza Mall") in Brooklyn, New York;
- (iii) the Fordham Road property located in the Bronx, New York;
- (iv) the Flushing property located in Flushing, New York; and

(v) the Third Avenue property in the Bronx, New York.

The occupancy rate of Alexander's operating properties was 95% and 69% as of December 31, 1996 and 1995, respectively.

Non-operating properties to be redeveloped:

(vi) the Lexington Avenue property which comprises the entire square block bounded by Lexington Avenue, East 59th Street, Third Avenue and East 58th Street in Manhattan, New York. This Property is owned by a limited partnership in which Alexander's is the general partner and owns approximately 92% of the limited partnership interests. Alexander's redevelopment plans include razing the existing building and developing a large, multi-use building, requiring capital expenditures in excess of \$300 million. No development decisions have been finalized;

(vii) the Paramus property which consists of 39.3 acres of land, including its former store building, located at the intersection of Routes 4 and 17 in Paramus, New Jersey. Approximately 9 acres located on the property's periphery are subject to condemnation by the State of New Jersey. Alexander's and the New Jersey Department of Transportation (the "DOT") are negotiating an agreement, pursuant to which the DOT will pay approximately \$14.7 million for the acreage subject to condemnation and grant Alexander's the right to develop up to 550,000 square feet on the remaining acreage. The agreement with the DOT is subject to negotiation of final documentation and to certain municipal approvals. Alexander's is considering razing the existing building and developing a two or three level shopping center on the site. The estimated total cost of such redevelopment is between \$60 million and \$70 million. No development decisions have been finalized;

(viii) the Kings Plaza Store, a 339,000 square foot anchor store, which is one of the two anchor stores at the Kings Plaza Mall Shopping Center. In January 1997, Sears leased 289,000 square feet at this location for use as a full-line department store expected to open in the last quarter of 1997, and

(ix) Rego Park II, comprising one and one-half blocks of vacant land adjacent to the Rego Park I location.

Vornado expects to provide a portion of the financing required for Alexander's redevelopment projects. None of the redevelopment plans for the non-operating properties above have been finalized. See Item 2. "Properties -- Alexander's".

In September 1995, Caldor, which leases the Fordham Road and Flushing properties from Alexander's, filed for protection under Chapter 11. Caldor accounted for approximately 36% and 56% of Alexander's consolidated revenues for the years ended December 31, 1996 and 1995, respectively. On February 11, 1997, Caldor announced that, subject to Bankruptcy Court approval, it expects to close its Fordham Road store in May 1997.

The Company manages, develops and leases the Alexander's properties under a management and development agreement (the "Management Agreement") and a leasing agreement (the "Leasing Agreement") pursuant to which the Company receives annual fees from Alexander's.

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

Interstate Properties

As of December 31, 1996, Interstate Properties owned 24.4% of the common shares of beneficial interest of the Company and 27.1% of Alexander's common stock. Interstate Properties is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are partners. Mr. Roth is the Chairman of the Board and Chief Executive Officer of the Company, the Managing General Partner of Interstate Properties, and the Chief Executive Officer and a director of Alexander's. Messrs. Mandelbaum and Wight are trustees of the Company and are also directors of Alexander's. Effective March 2, 1995, for a three-year period, the Company and Interstate Properties agreed not to own in excess of two-thirds of Alexander's

common stock or enter into certain other transactions with Alexander's, without the consent of the independent directors of Alexander's.

COMPETITION

The leasing of real estate is highly competitive. Demand for retail space has been impacted by the recent bankruptcy of a number of retail companies and a general trend toward consolidation in the retail industry which could adversely affect the ability of the Company to attract or retain tenants. The principal means of competition are price, location and the nature and condition of the facility to be leased. The Company directly competes with all lessors and developers of similar space in the areas in which its properties are located.

ENVIRONMENTAL REGULATIONS

See "Note 11 -- Contingencies" to the Consolidated Financial Statements at page 40.

EMPLOYEES

The Company employs 72 people.

SEGMENT DATA

The company operates in one business segment -- real estate. See "Note 9 -- Leases" to the Consolidated Financial Statements at page 39 for information on significant tenants. Vornado engages in no foreign operations.

ITEM 2.

PROPERTIES

The Company leases 27,000 square feet in Saddle Brook, New Jersey for use as it's executive offices

The following table sets forth certain information as of December 31, 1996 relating to the properties owned by the Company

The Principal Tenants as described below, which are primarily tenants which occupy 30,000 square feet or more, accounted for approximately 70% of total square footage.

| LOCATION | YEAR ORIGINALLY DEVELOPED OR ACQUIRED | LAND AREA (ACRES) | LEASABLE BUILDING SQUARE FOOTAGE | | NUMBER OF TENANTS 12/31/96 | AVERAGE ANNUALIZED BASE RENT PER SQ. FT. (1) |
|--------------------------|--|-------------------------|-------------------------------------|--|-------------------------------------|---|
| | | | OWNED/ LEASED BY COMPANY | OWNED BY TENANT ON LAND LEASED FROM COMPANY | | |
| SHOPPING CENTERS | | | | | | |
| NEW JERSEY | | | | | | |
| Atlantic City..... | 1965 | 17.7 | 135,774 | -- | -- | -- |
| Bordentown..... | 1958 | 31.2 | 178,678 | -- | 4 | \$ 6.54 |
| Bricktown..... | 1968 | 23.9 | 259,888 | 2,764 | 19 | 10.22 |
| Cherry Hill..... | 1964 | 37.6 | 231,142 | 63,511 | 13 | 8.38 |
| Delran..... | 1972 | 17.5 | 167,340 | 1,200 | 5 | 5.32 |
| Dover..... | 1964 | 19.6 | 172,673 | -- | 12 | 5.87 |
| East Brunswick..... | 1957 | 19.2 | 219,056 | 10,400 | 7 | 11.45 |
| East Hanover..... | 1962 | 24.6 | 271,066 | -- | 16 | 10.21 |
| Hackensack..... | 1963 | 21.3 | 207,548 | 59,249 | 19 | 14.75 |
| Jersey City..... | 1965 | 16.7 | 222,478 | 3,222 | 10 | 11.99 |
| Kearny..... | 1959 | 35.3 | 41,518 | 62,471 | 4 | 6.47 |
| Lawnside..... | 1969 | 16.4 | 145,282 | -- | 3 | 9.07 |
| Lodi..... | 1975 | 8.7 | 130,000 | -- | 1 | 8.50 |
| Manalapan..... | 1971 | 26.3 | 194,265 | 2,000 | 7 | 8.84 |
| Marlton..... | 1973 | 27.8 | 173,238 | 6,836 | 10 | 8.29 |
| Middletown..... | 1963 | 22.7 | 179,584 | 52,000 | 21 | 12.25 |
| Morris Plains..... | 1985 | 27.0 | 171,493 | 1,000 | 18 | 11.04 |
| North Bergen..... | 1959 | 4.6 | 6,515 | 55,597 | 3 | 25.78 |
| North Plainfield(4)..... | 1989 | 28.7 | 217,360 | -- | 16 | 8.71 |

| LOCATION | PERCENT LEASED | PRINCIPAL TENANTS | LEASE |
|---------------------|-------------------|--------------------|-------------------------------------|
| | | | EXPIRATION/ OPTION EXPIRATION |
| SHOPPING CENTERS | | | |
| NEW JERSEY | | | |
| Atlantic City..... | -- | -- | |
| Bordentown..... | 100% | Bradlees(2)(3) | 2001/2021 |
| | | Shop-Rite | 2011/2016 |
| Bricktown..... | 99% | Caldor | 2008/2028 |
| | | Shop-Rite | 2002/2017 |
| Cherry Hill..... | 94% | Bradlees(2)(3) | 2006/2026 |
| | | Drug Emporium | 2002 |
| | | Shop & Bag | 2007/2017 |
| | | Toys "R" Us | 2012/2042 |
| Delran..... | 95% | Sam's Wholesale | 2011/2021 |
| Dover..... | 97% | Ames | 2017/2037 |
| | | Shop-Rite | 2012/2022 |
| East Brunswick..... | 100% | Bradlees(3) | 2003/2023 |
| | | Shoppers World | 2007/2012 |
| | | T.J. Maxx | 1999 |
| East Hanover..... | 97% | Home Depot | 2009/2019 |
| | | Marshalls | 2004/2009 |
| | | Pathmark | 2001/2024 |
| | | Todays Man | 2009/2014 |
| Hackensack..... | 96% | Bradlees(3) | 2012/2017 |
| | | Pathmark | 2014/2024 |
| | | Rickel Home Center | 2003/2013 |
| Jersey City..... | 92% | Bradlees(3) | 2002/2022 |
| | | Shop-Rite | 2008/2028 |
| Kearny..... | 89% | Pathmark | 2013/2033 |
| | | Rickel Home Center | 2008 |
| Lawnside..... | 100% | Home Deposit | 2012/2027 |
| | | Drug Emporium | 2007 |
| Lodi..... | 100% | National Wholesale | |
| | | Liquidators | 2013/2023 |
| Manalapan..... | 100% | Bradlees(3) | 2002/2022 |
| | | Grand Union | 2012/2022 |
| Marlton..... | 100% | Kohl's(2)(3) | 2011/2031 |
| | | Shop-Rite | 1999/2009 |
| Middletown..... | 96% | Bradlees(3) | 2002/2022 |
| | | Grand Union | 2009/2029 |
| Morris Plains..... | 97% | Caldor | 2002/2023 |
| | | Shop-Rite | 2002 |
| North Bergen..... | 100% | A&P | 2012/2032 |

North Plainfield(4).....

96%

KMart
Pathmark

2006/2016
2001/2011

| LOCATION | YEAR ORIGINALLY DEVELOPED OR ACQUIRED | LAND AREA (ACRES) | LEASABLE BUILDING SQUARE FOOTAGE | | NUMBER OF TENANTS 12/31/96 | AVERAGE ANNUALIZED BASE RENT PER SQ. FT.(1) |
|--|--|-------------------------|-------------------------------------|--|-------------------------------------|--|
| | | | OWNED/ LEASED BY COMPANY | OWNED BY TENANT ON LAND LEASED FROM COMPANY | | |
| Tolowa..... | 1957 | 40.5 | 201,471 | 93,613 | 8 | 15.96 |
| Turnersville..... | 1974 | 23.3 | 89,453 | 6,513 | 3 | 5.98 |
| Union..... | 1962 | 24.1 | 257,045 | -- | 12 | 17.48 |
| Vineland..... | 1966 | 28.0 | 143,257 | -- | 4 | 6.95 |
| Watchung..... | 1959 | 53.8 | 49,979 | 115,660 | 6 | 17.80 |
| Woodbridge..... | 1959 | 19.7 | 232,755 | 3,614 | 10 | 13.00 |
| NEW YORK | | | | | | |
| 14th Street and Union Square, Manhattan..... | 1993 | 0.8 | 231,770 | -- | 1 | 9.92 |
| Albany (Menands)..... | 1965 | 18.6 | 140,529 | -- | 2 | 6.35 |
| Buffalo (Amherst)(4)..... | 1968 | 22.7 | 184,832 | 111,717 | 10 | 6.71 |
| Coram(4)..... | 1976 | 2.4 | 103,000 | -- | 1 | 2.22 |
| Freeport..... | 1981 | 12.5 | 166,587 | -- | 3 | 11.50 |
| New Hyde Park(4)..... | 1976 | 12.5 | 101,454 | -- | 1 | 13.55 |
| North Syracuse(4)..... | 1976 | 29.4 | 98,434 | -- | 1 | 2.74 |
| Rochester (Henrietta)(4)..... | 1971 | 15.0 | 147,812 | -- | 1 | 5.86 |
| Rochester..... | 1966 | 18.4 | 176,261 | -- | 1 | 6.05 |
| PENNSYLVANIA | | | | | | |
| Allentown..... | 1957 | 86.8 | 262,607 | 356,938 | 19 | 9.63 |

| LOCATION | PERCENT LEASED | PRINCIPAL TENANTS | LEASE EXPIRATION/ OPTION |
|--|-------------------|---|---|
| | | | EXPIRATION |
| Tolowa..... | 97% | Bradlees(3) Home Depot Marshall's | 2013/2028 2015/2025 2007/2012 |
| Turnersville..... | 100% | Bradlees(2)(3) | 2011/2031 |
| Union..... | 100% | Bradlees(3) Toys "R" Us Cost Cutter Drug | 2002/2022 2015 2000 |
| Vineland..... | 51% | Rickel Home Center | 2005/2010 |
| Watchung..... | 96% | BJ Wholesale | 2024 |
| Woodbridge..... | 96% | Bradlees(3) Foodtown Syms | 2002/2022 2007/2014 2000 |
| NEW YORK | | | |
| 14th Street and Union Square, Manhattan..... | 100% | Bradlees | 2019/2029 |
| Albany (Menands)..... | 100% | Fleet Bank Albany Public Mkts.(5) | 2004/2014 2000 |
| Buffalo (Amherst)(4)..... | 96% | Circuit City Media Play MJ Design Toys "R" Us TJ Maxx | 2017 2002/2017 2006/2017 2013 1999 |
| Coram(4)..... | 100% | May Department Stores(5) | 2011 |
| Freeport..... | 100% | Home Depot Cablevision | 2011/2021 2004 |
| New Hyde Park(4)..... | 100% | Bradlees(6) | 2019/2029 |
| North Syracuse(4)..... | 100% | Reisman Properties | 2014 |
| Rochester (Henrietta)(4)..... | 47% | Hechinger(5) | 2005/2025 |
| Rochester..... | 41% | Hechinger(5) | 2005/2025 |
| PENNSYLVANIA | | | |
| Allentown..... | 98% | Hechinger Shop-Rite Burlington Coat Factory Wal-Mart Sam's Wholesale TJ Maxx | 2011/2031 2011/2021 2017 2024/2094 2024/2094 1998/2008 |

| LOCATION | YEAR ORIGINALLY DEVELOPED OR ACQUIRED | LAND AREA (ACRES) | LEASABLE BUILDING SQUARE FOOTAGE | | NUMBER OF TENANTS 12/31/96 | AVERAGE ANNUALIZED BASE RENT PER SQ. FT. (1) |
|--|--|-------------------------|-------------------------------------|--|-------------------------------------|---|
| | | | OWNED/ LEASED BY COMPANY | OWNED BY TENANT ON LAND LEASED FROM COMPANY | | |
| Bensalem..... | 1972 | 23.2 | 208,174 | 6,714 | 13 | 7.49 |
| Bethlehem..... | 1966 | 23.0 | 157,212 | 2,654 | 12 | 4.76 |
| Broomall..... | 1966 | 21.0 | 145,776 | 22,355 | 5 | 8.31 |
| Glenolden..... | 1975 | 10.0 | 101,235 | -- | 3 | 14.75 |
| Lancaster..... | 1966 | 28.0 | 179,982 | -- | 7 | 4.28 |
| Levittown..... | 1964 | 12.8 | 104,448 | -- | 1 | 5.98 |
| 10th and Market Streets, Philadelphia..... | 1994 | 1.8 | 271,300 | -- | 2 | 7.94 |
| Upper Moreland..... | 1974 | 18.6 | 122,432 | -- | 1 | 7.50 |
| York..... | 1970 | 12.0 | 113,294 | -- | 3 | 4.64 |
| MARYLAND | | | | | | |
| Baltimore (Belair Rd)..... | 1962 | 16.0 | 205,723 | -- | 3 | 4.83 |
| Baltimore (Towson)..... | 1968 | 14.6 | 146,393 | 6,800 | 7 | 9.62 |
| Baltimore (Dundalk)..... | 1966 | 16.1 | 183,361 | -- | 17 | 6.48 |
| Glen Burnie..... | 1958 | 21.2 | 117,369 | 3,100 | 4 | 5.90 |
| Hagerstown..... | 1966 | 13.9 | 133,343 | 14,965 | 6 | 3.01 |
| CONNECTICUT | | | | | | |
| Newington..... | 1965 | 19.2 | 134,229 | 45,000 | 4 | 6.24 |
| Waterbury..... | 1969 | 19.2 | 139,717 | 2,645 | 10 | 7.64 |
| MASSACHUSETTS | | | | | | |
| Chicopee..... | 1969 | 15.4 | 112,062 | 2,851 | 3 | 4.85 |
| Milford(4)..... | 1976 | 14.7 | 83,000 | -- | 1 | 5.26 |
| Springfield..... | 1966 | 17.4 | 8,016 | 117,044 | 2 | 11.25 |

| LOCATION | PERCENT LEASED | PRINCIPAL TENANTS | LEASE EXPIRATION/ OPTION EXPIRATION |
|--|-------------------|---------------------------------------|--|
| | | | |
| Bensalem..... | 89% | (2)(3) Shop-Rite | 2011/2031 2011/2031 |
| Bethlehem..... | 78% | Pathmark Super Petz | 2000/2023 2005/2015 |
| Broomall..... | 100% | Bradlees(2)(3) | 2006/2026 |
| Glenolden..... | 100% | Bradlees(2)(3) | 2012/2022 |
| Lancaster..... | 50% | Weis Markets | 1998/2018 |
| Levittown..... | 100% | (2)(3) | 2006/2026 |
| 10th and Market Streets, Philadelphia..... | 62% | Kimco Realty Corporation | 2010/2035 |
| Upper Moreland..... | 100% | Sam's Wholesale(2) | 2010/2015 |
| York..... | 100% | Builders Square | 2009/2018 |
| MARYLAND | | | |
| Baltimore (Belair Rd)..... | 100% | Bib B Food Warehouse Y? Innovatyve | 1999/2004 2002/2007 |
| Baltimore (Towson)..... | 100% | Staples Cost Saver Supermarket | 2004 2000/2020 |
| Baltimore (Dundalk)..... | 97% | Drug Emporium A&P | 1999/2004 1997/2007 |
| Glen Burnie..... | 78% | Ollie's Manor Shops | 1998/2008 1998 |
| Hagerstown..... | 100% | Pathmark Stores, Inc(5) Big Lots | 2005 2002/2012 |
| CONNECTICUT | | | |
| Newington..... | 100% | Pharmhouse Weis Markets | 2008/2012 1999/2009 |
| MASSACHUSETTS | | | |
| Newington..... | 100% | (3) The Wiz | 2002/2022 2007/2027 |
| Waterbury..... | 100% | Toys "R" Us Shaws Supermarkets | 2010 2003/2018 |
| Chicopee..... | 93% | Bradlees(3) | 2002/2022 |
| Milford(4)..... | 100% | Bradlees(3) | 2004/2009 |
| Springfield..... | 100% | Wal-Mart | 2018/2092 |

| LOCATION | YEAR ORIGINALLY DEVELOPED OR ACQUIRED | LAND AREA (ACRES) | LEASABLE BUILDING SQUARE FOOTAGE | | NUMBER OF TENANTS 12/31/96 | AVERAGE ANNUALIZED BASE RENT PER SQ. FT. (1) |
|----------------------------------|--|-------------------------|-------------------------------------|--|-------------------------------------|---|
| | | | OWNED/ LEASED BY COMPANY | OWNED BY TENANT ON LAND LEASED FROM COMPANY | | |
| TEXAS | | | | | | |
| Lewisville..... | 1990 | 13.3 | 34,893 | 1,204 | 14 | 13.60 |
| Mesquite..... | 1990 | 5.5 | 71,246 | -- | 14 | 13.90 |
| Dallas..... | 1990 | 9.9 | 99,733 | -- | 8 | 9.25 |
| Total Shopping Centers..... | | 1,182.1 | 8,785,082 | 1,233,637 | 411 | 9.09 |
| WAREHOUSE/INDUSTRIAL | | | | | | |
| E. Brunswick..... | 1972 | 16.1 | 325,800 | -- | 2 | 2.17 |
| E. Hanover..... | 1963-1967 | 45.5 | 941,429 | -- | 12 | 3.64 |
| Edison..... | 1982 | 18.7 | 272,071 | -- | 1 | 2.75 |
| Garfield..... | 1959 | 31.6 | 486,620 | -- | 3 | 3.46 |
| Total Warehouse' Industrial..... | | 111.9 | 2,025,920 | -- | 18 | 3.19 |
| OTHER PROPERTIES | | | | | | |
| Paramus (4)..... | 1987 | 3.4 | 118,225 | -- | 25 | 17.29 |
| Montclair..... | 1972 | 1.6 | 16,928 | -- | 1 | 17.00 |
| Rahway (4)..... | 1972 | -- | 32,000 | -- | 1 | 4.88 |
| Manhattan, NY(8)..... | 1966 | 0.5 | 149,000 | -- | 1 | 7.65 |
| Total Other Properties..... | | 5.5 | 316,153 | -- | 28 | 10.61 |
| Grand Total..... | | 1,299.5 | 11,127,155 | 1,233,637 | 457 | \$ 8.13 |

| LOCATION | PERCENT LEASED | PRINCIPAL TENANTS | LEASE EXPIRATION/ OPTION EXPIRATION |
|----------------------------------|-------------------|--|--|
| TEXAS | | | |
| Lewisville..... | 88% | Albertson's(7) | 2055 |
| Mesquite..... | 95% | | |
| Dallas..... | 80% | Albertson's(7) | 2055 |
| Total Shopping Centers..... | 90% | | |
| WAREHOUSE/INDUSTRIAL | | | |
| E. Brunswick..... | 97% | Popsicle Playwear IFB Apparel | 2000/2005 2001/2006 |
| E. Hanover..... | 94% | Various Tenants | |
| Edison..... | 100% | White Cons. Ind. | 1998/2001 |
| Garfield..... | 38% | Popular Services of Various Tenants | 2007 |
| Total Warehouse' Industrial..... | 81% | | |
| OTHER PROPERTIES | | | |
| Paramus (4)..... | 65% | | |
| Montclair..... | 100% | | |
| Rahway (4)..... | 100% | | |
| Manhattan, NY(8)..... | 100% | American Broadcasting Companies | 1999 |
| Total Other Properties..... | 87% | | |
| Grand Total..... | 89% | | |

(1) Average annualized base rent per square foot does not include ground leases (which leases are included in percent leased) or rent for leases which had not commenced as of December 31, 1996.

(2) Montgomery Ward & Co., Inc. (a previous lessor) remains liable on such lease including the rent it was obligated to pay -- approximately 70%.

(3) These leases are either fully guaranteed by Stop & Shop, a wholly-owned subsidiary of Royal Ahold NV, or in the case of Totowa, guaranteed as to 70% of rent .

(4) Ground and/or building leasehold interest.

(5) The tenant has ceased operations at these locations but continues to pay rent.

(6) Bradlees received Bankruptcy Court approval in January 1997 to close this store.

(7) Square footage excludes Albertson's which owns its land and building.

(8) The Company owns a 50% interest in this property.

ITEM 2.

ALEXANDER'S PROPERTIES

The following table shows the location, approximate size and leasing status as of December 31, 1996 of each of Alexander's properties.

| LOCATION | OWNERSHIP | APPROXIMATE LAND SQUARE FOOTAGE ("SF") OR ACREAGE | APPROXIMATE BUILDING SQUARE FOOTAGE/ NUMBER OF FLOORS | AVERAGE ANNUALIZED BASE RENT PER SQ. FOOT(1) | PERCENT LEASED | TENANTS | LEASE EXPIRATION/ OPTION EXPIRATION |
|--|--------------|---|---|---|-------------------|--|--|
| OPERATING PROPERTIES | | | | | | | |
| NEW YORK: | | | | | | | |
| Rego Park -- Queens... | Owned | 4.8 acres | 351,000/3(2) | \$ 27.79 | 96% | Bed Bath & Beyond Circuit City Marshalls Sears | (3) (3) 2008/2021 2021 |
| Kings Plaza Shopping Center & Marina (Kings Plaza Mall) Brooklyn..... | 50% Owned | 24.3 acres | 427,000/2(2)(4) | 31.19 | 84% | 120 Tenants | Various |
| Fordham Road -- Bronx... | Owned | 92,211 SF | 303,000/5 | 11.54 | 100% | Caldor(5) | 2013/2028 |
| Flushing -- Queens... | Leased | 44,975 SF | 177,000/4(2) | 16.35 | 100% | Caldor | 2027 |
| Third Avenue -- Bronx... | Owned | 60,451 SF | 173,000/4 1,431,000 | 4.33 | 100% | An affiliate of Conway | 2023 |
| REDEVELOPMENT PROPERTIES | | | | | | | |
| Lexington Avenue -- Manhattan... | 92% Owned | 84,420 SF | 591,000/6(6) | | | | |
| Kings Plaza Store -- Brooklyn... | Owned | Included in Shopping Center above | 339,000/4 | | | Sears | (3) |
| Rego Park II -- Queens... | Owned | 6.6 acres | -- | | | | |
| NEW JERSEY: | | | | | | | |
| Paramus, New Jersey..... | Owned | 39.3 acres(7) | 340,000/3(6) | | | | |

(1) Average annualized base rent per square foot does not include rent for leases which had not commenced as of December 31, 1996.

(2) Excludes parking garages operated for the benefit of Alexander's.

(3) The Circuit City and Bed Bath & Beyond leases are expected to commence in the first half of 1997. The Sears lease is expected to commence in the last quarter of 1997.

(4) Excludes approximately 150,000 square feet of enclosed, common area space.

(5) On February 11, 1997, Caldor announced that, subject to Bankruptcy Court approval, it expects to close this store in May 1997.

(6) Alexander's is evaluating redevelopment plans for these sites which may involve razing the existing buildings.

(7) Approximately 9 acres are subject to condemnation.

INSURANCE

The Company carries comprehensive liability, fire, flood, extended coverage and rental loss insurance with respect to its properties with policy specifications and insured limits customarily carried for similar properties. Management of the Company believes that the Company's insurance coverage conforms to industry norms.

INDEBTEDNESS

The Company has historically maintained a relatively low level of debt to market capitalization. At December 31, 1996, the ratio of debt to

market capitalization was 17% based on debt of \$232,287,000 and market equity of \$1,394,000,000. In the future, in connection with its strategy for growth, this percentage may increase. This policy may be reviewed and modified from time to

time by the Company without the vote of shareholders.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

| | YEAR ENDED DECEMBER 31, | | | | |
|---|-------------------------|------------------|------------------|------------------|-----------------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) | | | | | |
| OPERATING DATA | | | | | |
| Revenues: | | | | | |
| Property rentals..... | \$ 87,424 | \$ 80,429 | \$ 70,755 | \$ 67,213 | \$ 63,186 |
| Expense reimbursements..... | 26,644 | 24,091 | 21,784 | 19,839 | 17,898 |
| Other income..... | 2,819 | 4,198 | 1,459 | 1,738 | 913 |
| Total Revenues..... | 116,887 | 108,718 | 93,998 | 88,790 | 81,997 |
| Expenses: | | | | | |
| Operating..... | 36,412 | 32,282 | 30,223 | 27,994 | 27,587 |
| Depreciation and amortization..... | 11,589 | 10,790 | 9,963 | 9,392 | 9,309 |
| General and administrative..... | 5,167 | 6,687 | 6,495 | 5,890 | 4,612 |
| Amortization of officer's deferred compensation expense..... | 2,083 | -- | -- | -- | -- |
| Costs incurred in connection with the merger Vornado, Inc. into Vornado Realty Trust..... | -- | -- | -- | 856 | -- |
| Cost incurred upon exercise of a stock option by an officer and subsequent repurchase of a portion of the shares..... | -- | -- | -- | -- | 15,650 |
| Total Expenses..... | 55,251 | 49,759 | 46,681 | 44,132 | 57,158 |
| Operating income..... | 61,636 | 58,959 | 47,317 | 44,658 | 24,839 |
| Income (loss) applicable to Alexander's: | | | | | |
| Equity in income (loss)..... | 1,679 | (1,972) | -- | -- | -- |
| Depreciation..... | (571) | (417) | -- | -- | -- |
| Interest income on loan..... | 6,848 | 6,343 | -- | -- | -- |
| Income from investment in and advances to Vornado Management Corp..... | 1,855 | 788 | -- | -- | -- |
| Interest income on mortgage note receivable..... | 2,579 | -- | -- | -- | -- |
| Interest and dividend income..... | 3,151 | 5,439 | 7,489 | 11,620 | 8,555 |
| Interest and debt expense..... | (16,726) | (16,426) | (14,209) | (31,155) | (33,910) |
| Net gain on marketable securities..... | 913 | 294 | 643 | 263 | 2,779 |
| Income from continuing operations before income taxes..... | 61,364 | 53,008 | 41,240 | 25,386 | 2,263 |
| Provision (benefit) for income taxes..... | -- | -- | -- | (6,369) | 1,080 |
| Income from continuing operations..... | \$ 61,364 | \$ 53,008 | \$ 41,240 | \$ 31,755 | \$ 1,183 |
| Weighted average number of shares outstanding..... | | | | | |
| | 24,603,442 | 23,579,669 | 21,853,720 | 19,790,448 | 16,559,330 |
| Income per share from continuing operations..... | \$ 2.49 | \$ 2.25 | \$ 1.89 | \$ 1.60 | \$.07 |
| Cash dividends declared..... | 2.44 | 2.24 | 2.00 | 1.50* | 1.15 |

* Does not include special dividend of \$3.36 per share of accumulated earnings and profits paid in June 1993.

| | YEAR ENDED DECEMBER 31, | | | | |
|---|--|-------------|------------|------------|-----------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| | (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) | | | | |
| BALANCE SHEET DATA | | | | | |
| As at: | | | | | |
| Total assets..... | \$565,204 | \$ 491,496 | \$393,538 | \$385,830 | \$420,616 |
| Real estate, at cost..... | 397,298 | 382,476 | 365,832 | 340,415 | 314,651 |
| Accumulated depreciation..... | 151,049 | 139,495 | 128,705 | 118,742 | 111,142 |
| Debt..... | 232,387 | 233,353 | 234,160 | 235,037 | 341,701 |
| Shareholders' equity (deficit)..... | 276,257 | 194,274 | 116,688 | 115,737 | (3,242) |
| OTHER DATA | | | | | |
| Funds from operations(1): | | | | | |
| Income from continuing operations before | | | | | |
| income taxes..... | \$ 61,364 | \$ 53,008 | \$ 41,240 | \$ 25,386 | \$ 2,263 |
| Depreciation and amortization of real | | | | | |
| property..... | 10,583 | 10,019 | 9,192 | 8,842 | 8,778 |
| Straight-lining of rental income..... | (2,676) | (2,569) | (2,181) | (2,200) | (2,200) |
| Leasing fees received in excess of income | | | | | |
| recognized..... | 1,805 | 1,052 | -- | -- | -- |
| Losses/(gains) on sale of securities | | | | | |
| available for sale..... | -- | 360 | (51) | (263) | (846) |
| Proportionate share of adjustments to | | | | | |
| Alexander's income (loss) to arrive at | | | | | |
| Alexander's funds from operations..... | (1,760) | 539 | -- | -- | -- |
| Costs incurred in connection with the | | | | | |
| merger/upon exercise of a stock | | | | | |
| option..... | -- | -- | -- | 856 | 15,650 |
| Funds from operations..... | \$ 69,316 | \$ 62,409 | \$ 48,200 | \$ 32,621 | \$ 23,645 |
| Cash flow provided by (used in): | | | | | |
| Operating activities..... | \$ 70,703 | \$ 62,882 | \$ 46,948 | \$ 27,725 | \$ 17,607 |
| Investing activities..... | \$ 14,912 | \$(103,891) | \$(15,434) | \$ 1,350 | \$ 14,800 |
| Financing activities..... | \$(15,046) | \$ 36,577 | \$(32,074) | \$(56,433) | \$ 4,384 |

(1) Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified to adjust for the effect of straight-lining of property rentals for rent escalations and leasing fee income. Funds from operations is a supplemental measure adopted primarily by the real estate industry to provide a comparable measure of operating performance in the industry; however, funds from operations may not be comparable to similarly titled measures reported by other companies.

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

RESULTS OF OPERATIONS

Years Ended December 31, 1996 and December 31, 1995

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income, were \$116,887,000 in 1996, compared to \$108,718,000 in 1995, an increase of \$8,169,000 or 7.5%.

Property rentals from shopping centers were \$80,001,000 in 1996, compared to \$74,255,000 in 1995, an increase of \$5,746,000 or 7.7%. Of this increase, (i) \$3,800,000 resulted from rental step-ups in existing tenant leases which are not subject to the straight-line method of revenue recognition and (ii) \$2,000,000 resulted from expansions and an acquisition. Property rentals received from new tenants were approximately the same as property rentals lost from vacating tenants. Percentage rent included in property rentals was \$936,000 in 1996, compared to \$959,000 in 1995.

Property rentals from the remainder of the portfolio were \$7,423,000 in 1996, compared to \$6,174,000 in 1995, an increase of \$1,249,000 or 20.2%. Of this increase, \$650,000 resulted from the purchase of an office building in June 1996.

Tenant expense reimbursements, which consist of the tenant's pro-rata share of common area maintenance expenses (such as snow removal costs, landscaping and parking lot repairs), real estate taxes and insurance, were \$26,644,000 in 1996, compared to \$24,091,000 in 1995, an increase of \$2,553,000. This increase reflects a corresponding increase in operating expenses passed through to tenants.

Other income was \$2,819,000 in 1996, compared to \$4,198,000 in 1995, a decrease of \$1,379,000. This decrease resulted primarily from (i) including management and development fee income from Alexander's in "Income from investment in and advances to Vornado Management Corp." ("VMC") rather than in "Other income" for a full year in 1996, compared to six months in 1995 and (ii) the recognition of leasing fee income in the first quarter of 1995 from Alexander's of \$915,000 applicable to 1993 and 1994 (no leasing fee income was recognized prior to 1995 because required conditions had not been met), partially offset by (iii) the increase in management, development and leasing fees from Interstate Properties.

Operating expenses were \$36,412,000 in 1996, compared to \$32,282,000 in 1995, an increase of \$4,130,000. Of this increase, (i) \$3,100,000 were passed through to tenants and consisted of higher snow removal costs of \$1,500,000, increased real estate taxes of \$1,000,000 and other common area maintenance expense increases of \$600,000 and (ii) \$500,000 resulted from increases in rent expense and other property expenses. In addition, in 1995 operating expenses were partially offset by real estate tax refunds and other miscellaneous income of approximately \$500,000.

Depreciation and amortization expense increased by \$799,000 in 1996, compared to 1995, as a result of expansions and an acquisition.

General and administrative expenses were \$5,167,000 in 1996, compared to \$6,687,000 in 1995, a decrease of \$1,520,000. This decrease resulted primarily from a reduction in corporate office expenses caused by the third quarter 1995 assignment of the Company's Management and Development Agreement with Alexander's to VMC.

In December 1996, the Company recognized an expense of \$2,083,000, representing one month's amortization of the \$25,000,000 deferred payment due to the Company's President. The balance of the deferred payment will be amortized in 1997.

Income applicable to Alexander's (loan interest income, equity in income (loss) and depreciation) was \$7,956,000 for the year ended December 31, 1996, compared to \$3,954,000 in the prior year, an increase of \$4,002,000. This increase resulted from (i) lower operating losses at Alexander's caused by the commencement of rent at the Rego Park I property in March 1996, (ii) the recognition of \$2,053,000 of non-recurring income as a result of the reversal of a liability which is no longer required and (iii) interest income on the loan to Alexander's for a full year in 1996, compared to a ten month period in 1995. The Company believes that its

share of Alexander's losses (which are non-cash), combined with its fee income and interest income, will not have a negative effect on its results of operations, liquidity and financial condition.

In July 1995, the Company assigned its Management Agreement with Alexander's to VMC. In exchange, the Company received 100% of the non-voting preferred stock of VMC which entitles it to 95% of the economic benefits of VMC through distributions. In addition, the Company lent \$5,000,000 to VMC for working capital purposes under a three-year term loan bearing interest at the prime rate plus 2%. VMC is responsible for its pro-rata share of compensation and fringe benefits of employees and 30% of other expenses which are common to both Vornado and VMC. Income from investment in and advances to VMC was \$1,855,000 for the year ended December 31, 1996, compared to \$788,000 for the period from July 6th to December 31, in 1995. Income from investment in and advances to VMC for the year ended December 31, 1996 reflects additional fee income earned by VMC in the first quarter of 1996 relating to the substantial completion of the redevelopment of Alexander's Rego Park I property.

Investment income (interest income on mortgage note receivable, interest and dividend income and net gains/(losses) on marketable securities) was \$6,643,000 for 1996, compared to \$5,733,000 in 1995, an increase of \$910,000 or 15.9%. This increase resulted from higher net gains on marketable securities and the yield earned on the mortgage note receivable exceeding the yield earned on the investment of such funds in 1995.

The Company operates in a manner intended to enable it 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 95% 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. The Company has distributed to its shareholders an amount greater than its taxable income. Therefore, no provision for Federal income taxes is required.

RESULTS OF OPERATIONS

Years Ended December 31, 1995 and December 31, 1994

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were \$108,718,000 in 1995, compared to \$93,998,000 in 1994, an increase of \$14,720,000 or 15.7%.

Property rentals from shopping centers were \$74,255,000 in 1995, compared to \$64,665,000 in 1994, an increase of \$9,590,000 or 14.8%. Of this increase,

(i) \$6,067,000 resulted from expansions of shopping centers and acquisitions of retail properties, (ii) \$2,823,000 resulted from rental step-ups in existing tenant leases which are not subject to the straight-line method of revenue recognition and (iii) \$628,000 resulted from property rentals received from new tenants exceeding property rentals lost from vacating tenants. Percentage rent included in property rentals was \$959,000 in 1995, compared to \$887,000 in 1994.

Property rentals from the remainder of the portfolio were \$6,174,000 in 1995, compared to \$6,090,000 in 1994, an increase of \$84,000 or 1.4%.

Tenant expense reimbursements were \$24,091,000 in 1995, compared to \$21,784,000 in 1994, an increase of \$2,307,000. This increase reflects a corresponding increase in operating expenses passed through to tenants.

Other income was \$4,198,000 in 1995, compared to \$1,459,000 in 1994, an increase of \$2,739,000. This increase resulted primarily from the fee income recognized in connection with the Management Agreement and Leasing Agreement with Alexander's including \$915,000 applicable to 1993 and 1994 recognized in the first quarter of 1995 (no leasing fee income was recognized prior to 1995 because required conditions had not been met). In addition to the Management Agreement fee income included in other income in 1995, \$2,250,000 of such fees was earned in 1995 by VMC and is included in the caption "Income from investment in and advances to Vornado Management Corp." in the Consolidated Statements of Income.

Operating expenses were \$32,282,000 in 1995, compared to \$30,223,000 in 1994, an increase of \$2,059,000. Of this increase (i) \$1,484,000 resulted from real estate taxes from expansions and acquisitions,

which were passed through to tenants, and (ii) \$258,000 resulted from bad debt expenses primarily due to tenant bankruptcies.

Depreciation and amortization expense increased by \$827,000 in 1995, compared to 1994, primarily as a result of property expansions.

General and administrative expenses were \$6,687,000 in 1995, compared to \$6,495,000 in 1994, an increase of \$192,000. This increase is the net of increases from (i) payroll expenses of \$1,017,000, (due to additions to staff and bonuses), and (ii) professional fees and other corporate office expenses of \$305,000, offset by (iii) the reduction in expense of \$1,130,000 resulting from the assignment of the Company's Management Agreement with Alexander's to VMC in the third quarter of 1995.

For the period from March 2, 1995 through December 31, 1995, Vornado's equity in Alexander's losses amounted to \$1,972,000. In addition, during the same period the Company recognized interest income on its loan to Alexander's of \$6,343,000 and fee income from its Management Agreement and Leasing Agreement with Alexander's of \$2,973,000 (excluding \$2,250,000 earned by VMC).

Income from investment in and advances to VMC consists of dividend income of \$565,000 and interest income of \$223,000.

Investment income was \$5,733,000 for 1995, compared to \$8,132,000 in 1994, a decrease of \$2,399,000 or 29.5%. This decrease was caused by (i) lower interest income resulting from the use of cash for the Alexander's investment and (ii) net gains on marketable securities being \$349,000 less than in the prior year.

Interest and debt expense was \$16,426,000 in 1995, compared to \$14,209,000 in 1994, an increase of \$2,217,000 or 15.6%. Of this increase, \$1,046,000 resulted from borrowings under the revolving credit facility to temporarily fund the investment in Alexander's and \$1,134,000 resulted from a decrease in interest capitalized during construction.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows for the Years Ended December 31, 1996, 1995 and 1994

Year Ended December 31, 1996

Cash flows provided by operating activities of \$70,703,000 was comprised of (i) net income of \$61,364,000 and (ii) adjustments for non-cash items of \$9,972,000, less (iii) the net change in operating assets and liabilities of \$633,000. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$12,586,000 and amortization of deferred officers compensation expense of \$2,083,000, partially offset by the effect of straight-lining of rental income of \$2,676,000 and equity in income from Alexander's of \$1,108,000. The net change in "Leasing fees receivable" and "Deferred leasing fee income" included in item (iii) above reflects a decrease of \$1,717,000 resulting from the rejection of a lease by an Alexander's tenant in March 1996 and an increase of \$1,738,000 resulting from the releasing of a portion of this space. "Leasing fees receivable" of \$2,500,000 were collected during this period.

Net cash provided by investing activities of \$14,912,000 was comprised of (i) proceeds from sale or maturity of securities available for sale of \$46,734,000, partially offset by (ii) the Company's investment in a mortgage note receivable of \$17,000,000 and (iii) capital expenditures of \$14,822,000 (including \$8,923,000 for the purchase of an office building).

Net cash used in financing activities of \$15,046,000 was primarily comprised of (i) dividends paid of \$59,558,000, (ii) the net repayment of borrowings on U.S. Treasury obligations of \$34,239,000, (iii) the net repayment on mortgages of \$966,000, partially offset by (iv) net proceeds from the issuance of common shares of \$73,060,000 and (v) the proceeds from the exercise of stock options of \$6,657,000.

Year Ended December 31, 1995

Cash flows provided by operating activities of \$62,882,000 was comprised of: (i) net income of \$53,008,000 and (ii) adjustments for non-cash items of \$11,305,000 less (iii) the net change in operating

assets and liabilities of \$1,431,000. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$11,779,000, plus equity in loss of Alexander's of \$2,389,000, partially offset by the effect of straight-lining of rental income of \$2,569,000. Further, during this period in connection with the Alexander's transaction, "Leasing fees and other receivables" increased by \$7,656,000 and "Deferred leasing fee income" correspondingly increased by \$8,888,000. These amounts have been included in "Changes in assets and liabilities: other" in the Consolidated Statements of Cash Flows and are part of the net change in operating assets and liabilities shown in item (iii) above.

Net cash used in investing activities of \$103,891,000 was comprised of (i) the Company's investment in and advances to Alexander's of \$100,482,000, (ii) capital expenditures of \$16,644,000, (iii) a loan to VMC of \$5,074,000 and (iv) purchases of securities available for sale of \$4,027,000, partially offset by (v) the net proceeds from the sale of securities available for sale of \$22,336,000.

Net cash provided by financing activities of \$36,577,000 was primarily comprised of (i) net proceeds from issuance of common shares of \$79,831,000, and (ii) net borrowings on U.S. Treasury obligations of \$9,600,000, partially offset by (iii) dividends paid of \$52,875,000.

Year Ended December 31, 1994

Cash flows provided by operating activities of \$46,948,000 was comprised of: (i) net income of \$41,240,000, and (ii) adjustments for non-cash items of \$8,015,000, less (iii) the net change in operating assets and liabilities of \$2,307,000. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$10,839,000, partially offset by the effect of straight-lining of rental income of \$2,181,000.

Net cash used in investing activities of \$15,434,000 was comprised of capital expenditures of \$25,417,000, partially offset by proceeds from the sale of securities available for sale of \$9,983,000.

Net cash used in financing activities of \$32,074,000 was primarily comprised of dividends paid of \$43,236,000, partially offset by borrowings on U.S. Treasury obligations of \$11,428,000.

Funds from Operations for the Years Ended December 31, 1996 and 1995

Management considers funds from operations an appropriate supplemental measure of the Company's operating performance. Funds from operations were \$69,316,000 in 1996, compared to \$62,409,000 in 1995, an increase of \$6,907,000 or 11.1%. The following table reconciles funds from operations and net income:

| | YEAR ENDED DECEMBER 31, | |
|---|-------------------------|--------------|
| | 1996 | 1995 |
| Net income..... | \$61,364,000 | \$53,008,000 |
| Depreciation and amortization of real property..... | 10,583,000 | 10,019,000 |
| Straight-lining of property rentals..... | (2,676,000) | (2,569,000) |
| Leasing fees received in excess of income recognized..... | 1,805,000 | 1,052,000 |
| Loss on sale of securities available for sale..... | -- | 360,000 |
| Proportionate share of adjustments to Alexander's income (loss) to arrive at Alexander's funds from operations..... | (1,760,000) | 539,000 |
| Funds from operations..... | \$69,316,000 | \$62,409,000 |
| | ===== | ===== |

Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified to adjust for the effect of straight-lining of property rentals for rent

escalations and leasing fee income. Funds from operations is a supplemental measure adopted primarily by the real estate industry to provide a comparable measure of operating performance in the industry; however, funds from operations may not be comparable to similarly titled measures reported by other companies. Below are the cash flows provided by (used in) operating, investing and financing activities:

| | YEAR ENDED DECEMBER 31, | |
|---------------------------|-------------------------|------------------|
| | 1996 | 1995 |
| Operating activities..... | \$ 70,703,000 | \$ 62,882,000 |
| Investing activities..... | \$ 14,912,000 | \$ (103,891,000) |
| Financing activities..... | \$ (15,046,000) | \$ 36,577,000 |

Bradlees accounted for 22% of property rentals for the year ended December 31, 1996. In June 1995, Bradlees filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The Company currently leases 17 locations to Bradlees. Of these locations, 14 are fully guaranteed by Stop & Shop Companies, Inc. ("Stop & Shop"), a wholly-owned subsidiary of Royal Ahold NV, a leading international food retailer, and one is guaranteed as to 70% of the rent. During 1996, Bradlees rejected three leases and assigned one lease to Kohl's Department Stores, Inc. These four leases are fully guaranteed by Stop & Shop. In January 1997, Bradlees received Bankruptcy Court approval to close one of the two stores whose leases are not guaranteed by Stop & Shop. Montgomery Ward & Co., Inc. remains liable with respect to the rent it was obligated to pay as a previous lessor on eight of the leases guaranteed by Stop & Shop -- approximately 70% of current rent.

In January 1996, the Company provided \$17 million of debtor-in-possession financing to Rickel which is operating under Chapter 11 of the Bankruptcy Code. The loan is secured by 27 of Rickel's leasehold properties and has a remaining term through January 1998, plus a one year extension, but is due not later than the date on which Rickel's plan of reorganization is confirmed. The loan bears interest at 13% per annum and at a fixed rate of LIBOR plus 7.50% for the extension period. In addition, the Company receives a loan origination fee of 2% for each year the loan is outstanding.

In June 1996, the Company entered into a joint venture (50% interest) to purchase the 149,000 square foot office portion of a multi-use building in midtown Manhattan, New York City. The space is 100% leased to a single tenant whose lease expires in 1999. The Company advanced the \$8,923,000 purchase price and is entitled to an annual preferred return on its funds invested and the return of its funds invested prior to the other joint venture partner receiving any distributions. Vornado's consolidated financial statements include the accounts of the joint venture since Vornado currently exercises control over its operating and financial affairs.

Alexander's has disclosed in its annual report on Form 10-K for the year ended December 31, 1996, that its current operating properties (five of its nine properties) do not generate sufficient cash flow to pay all of its expenses, and that its four non-operating properties (Lexington Avenue, Paramus, the Kings Plaza Store and Rego Park II) are in various stages of redevelopment. As rents commence from a portion of the redevelopment properties, Alexander's expects that cash flow will become positive.

Alexander's estimates that the fair market values of its assets are substantially in excess of their historical cost and that there is additional borrowing capacity. Alexander's continues to evaluate its needs for capital, which may be raised through (a) property specific or corporate borrowing, (b) the sale of securities and (c) asset sales. Further, Alexander's may receive proceeds from condemnation proceedings of a portion of its Paramus property. Although there can be no assurance, Alexander's believes that these cash sources will be adequate to fund cash requirements until its operations generate adequate cash flow. Although Vornado may provide a portion of the financing required for Alexander's redevelopment projects, no specific financing requirements have been determined or committed. None of the redevelopment plans for the non-operating properties have been finalized.

At December 31, 1996, the Company had no borrowings outstanding under its unsecured revolving credit facility which provides for borrowings of up to \$75,000,000. Average borrowings were \$8,740,000 during 1996 and \$12,500,000 during 1995. Borrowings bear annual interest, at the Company's election, at LIBOR plus 1.35% or the higher of the federal funds rate plus .50% or the prime rate.

On December 2, 1996, Michael D. Fascitelli became the President of the Company and was elected to the Company's Board. Mr. Fascitelli signed a five year employment contract under which, in addition to his annual salary, he received a deferred payment consisting of \$5,000,000 in cash and a \$20,000,000 convertible obligation payable at the Company's option in 459,770 of its Common Shares or the cash equivalent of their appreciated value. Accordingly, cash of \$5,000,000 and 459,770 Common Shares are being held in an irrevocable trust. The deferred payment obligation to Mr. Fascitelli vests as of December 2, 1997. Further, Mr. Fascitelli was granted options for 1,750,000 Common Shares of the Company.

On December 23, 1996, the Company completed the sale of 1,500,000 common shares in a public offering, which net of expenses generated approximately \$73,100,000. \$10,000,000 of the proceeds was used to repay debt under the Company's revolving credit facility. The remaining proceeds will be used for general corporate purposes.

The Company anticipates that cash from continuing operations will be adequate to fund business operations and the payment of dividends on an ongoing basis for more than the next twelve months; however, capital outlays for significant acquisitions may require funding from borrowings or equity offerings.

ECONOMIC CONDITIONS

At December 31, 1996, approximately 80% of the square footage of the Company's shopping centers was leased to large stores (over 20,000 square feet). The Company's large store tenants typically offer basic consumer necessities such as food, health and beauty aids, moderately priced clothing, building materials and home improvement supplies, and compete primarily on the basis of price. The Company believes that this tenant mix mitigates the effects on its properties of adverse changes in general economic conditions as indicated by occupancy rates at its shopping centers of over 90% in the past five years and the growth of its revenues. However, demand for retail space continues to be impacted by the bankruptcy of a number of retail companies and a general trend toward consolidation in the retail industry which could adversely affect the ability of the Company to attract or retain tenants.

Substantially all of the Company's leases contain step-ups in rent. Such rental increases are not designed to, and in many instances do not, approximate the cost of inflation, but do have the effect of mitigating the adverse impact of inflation. In addition, substantially all of the Company's leases contain provisions that require the tenant to reimburse the Company for the tenant's share of common area charges (including roof and structure, unless it is the tenant's direct responsibility) and real estate taxes thus passing through to the tenants the effects of inflation on such expenses.

Inflation did not have a material effect on the Company's results for the periods presented.

SIGNATURES

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

VORNADO REALTY TRUST

By: /s/ JOSEPH MACNOW

Joseph Macnow, Vice President,

Chief Financial Officer

Date: July 18, 1997

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

| | SIGNATURE | TITLE | DATE |
|-----|---|---|---------------|
| By: | /s/ STEVEN ROTH ----- (Steven Roth) | Chairman of the Board of Trustees (Principal Executive Officer) | July 18, 1997 |
| By: | /s/ MICHAEL D. FASCITELLI ----- (Michael D. Fascitelli) | President and Trustee | July 18, 1997 |
| By: | /s/ JOSEPH MACNOW ----- (Joseph Macnow) | Vice President -- Chief Financial Officer and Controller (Principal Financial and Accounting Officer) | July 18, 1997 |
| By: | /s/ DAVID MANDELBAUM ----- (David Mandelbaum) | Trustee | July 18, 1997 |
| By: | /s/ STANLEY SIMON ----- (Stanley Simon) | Trustee | July 18, 1997 |
| By: | /s/ RONALD G. TARGAN ----- (Ronald G. Targan) | Trustee | July 18, 1997 |
| By: | /s/ RUSSELL B. WIGHT, JR. ----- (Russell B. Wight, Jr.) | Trustee | July 18, 1997 |
| By: | /s/ RICHARD R. WEST ----- (Richard R. West) | Trustee | July 18, 1997 |