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

Overview

We own and operate office, retail and showroom properties with large concentrations of office and retail properties in the New York City metropolitan area and in the Washington, DC and Northern Virginia area. In addition, we have a 47.6% interest in AmeriCold Realty Trust ("AmeriCold"), which owns and operates 91 cold storage warehouses nationwide and a 32.9% interest in Toys "R" Us, Inc. ("Toys") which has a significant real estate component, as well as other real estate and related investments.

Our business objective is to maximize shareholder value. We measure our success in meeting this objective by the total return to our shareholders. Below is a table comparing our performance to the Morgan Stanley REIT Index ("RMS") for the following periods ending December 31, 2006:

Total Return[1]	Vornado	RMS
One-year	50.1%	35.9%
Three-years	149.1%	100.4%
Five-years	270.0%	184.0%
Ten-years	656.3%	282.2%

(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-stored locations such as the New York City metropolitan area;
- Investing in fully-integrated operating companies that have a significant real estate component;
- Developing and redeveloping our existing properties to increase returns and maximize value; and
- Providing specialty financing to real estate related companies.

We compete with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location and quality and breadth 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 regulations, legislation and population trends. Economic growth has been fostered, in part, by low interest rates, Federal tax cuts, and increases in government spending. To the extent economic growth stalls, we may experience lower occupancy rates which may lead to lower initial rental rates, higher leasing costs and a corresponding decrease in net income, funds from operations and cash flow. Alternatively, if economic growth is sustained, we may experience higher occupancy rates leading to higher initial rents and higher interest rates causing an increase in our weighted average cost of capital and a corresponding effect on net income, funds from operations and cash flow. Our net income and funds from operations will also be affected by the seasonality of the Toys' business and competition from discount and mass merchandisers.

Year Ended December 31, 2006 Financial Results Summary

Net income applicable to common shares for the year ended December 31, 2006 was $502,629,000, or $3.35 per diluted share, versus $493,103,000, or $3.50 per diluted share, for the year ended December 31, 2005. Net income for the year ended December 31, 2006 includes a net loss of $47,520,000 on our investment in Toys "R" Us and $46,935,000 of net gains on sale of real estate. Net income for the year ended December 31, 2005 includes a $40,496,000 net loss from our investment in Toys for the period from July 21, 2005 (the date of the Toys acquisition) to October 29, 2005 and $34,532,000 of net gains on sales of real estate. Net income for the years ended December 31, 2006 and 2005 also include certain other items that affect comparability which are listed in the table on page 61. The aggregate of these items, net gains on sale of real estate and our share of Toys' net earnings, net of minority interest, increased net income applicable to common shares for the years ended December 31, 2006 and 2005 by $122,998,000 and $91,844,000, or $0.79 and $0.63 per diluted share, respectively.

Funds from operations applicable to common shares plus assumed conversions ("FFO") for the year ended December 31, 2006 was $858,693,000, or $5.51 per diluted share, compared to $757,219,000, or $5.21 per diluted share, for the prior year. FFO for the year ended December 31, 2006 includes our $10,289,000 share of Toys' negative FFO for the period from October 30, 2005 to October 28, 2006. FFO for the year ended December 31, 2005 includes our $32,918,000 share of Toys' negative FFO for the period from July 21, 2005 (the date of the Toys acquisition) to October 29, 2005. FFO for the year ended December 31, 2006 and 2005 also include certain other items that affect comparability which are listed in the table on page 61. The aggregate of these items and our share of Toys' FFO, net of minority interest, increased FFO for the years ended December 31, 2006 and 2005 by $115,326,000, and $67,768,000, or $0.74 and $0.46 per diluted share, respectively.

Net income per diluted share and FFO per diluted share for the year ended December 31, 2006 were negatively impacted by an increase in weighted average common shares outstanding over the prior year of 9,399,000 and 10,592,000, respectively.

During the year ended December 31, 2006, we did not recognize income on certain assets with an aggregate carrying amount of approximately $700,000,000, because they were out of service for redevelopment. Assets under development include all or portions of the Bergen Mall, 2101 L Street, Crystal Mall Two, Crystal Plaza Two, 220 Central Park South, 40 East 66th Street, and investments in joint ventures including our Beverly Connection and Wasserman ventures.

The percentage increase (decrease) in the same-store EBITDA of our operating segments for the year ended December 31, 2006 over the previous year ended December 31, 2005 is summarized below.

	Office				
Year Ended:	New York	Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics
December 31, 2006 vs. December 31, 2005	6.1%	4.3%	6.8%	1.9%	(0.2%)

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.

Quarter Ended December 31, 2006 Financial Results Summary

Net income applicable to common shares for the quarter ended December 31, 2006 was $105,427,000, or $0.69 per diluted share, versus $105,750,000, or $0.71 per diluted share, for the quarter ended December 31, 2005. Net income for the quarters ended December 31, 2006 and 2005 include certain other items that affect comparability which are listed in the table on the following page. The aggregate of these items, net of minority interest, increased net income applicable to common shares for the quarters ended December 31, 2006 and 2005 by $51,115,000 and $33,662,000, or $0.32 and $0.22 per diluted share, respectively.

FFO for the quarter ended December 31, 2006 was $211,812,000, or $1.34 per diluted share, compared to $194,101,000, or $1.26 per diluted share, for the prior year's quarter. FFO for the quarters ended December 31, 2006 and 2005 include certain other items that affect comparability which are listed in the table on the following page. The aggregate of these items, net of minority interest, increased FFO for the quarters ended December 31, 2006 and 2005 by $49,014,000 and $33,662,000, or $0.31 and $0.22 per diluted share, respectively.

Net income per diluted share and FFO per diluted share for the quarter ended December 31, 2006 were negatively impacted by an increase in weighted average common shares outstanding over the prior year's quarter of 4,106,000 and 4,134,000, respectively.

The percentage increase (decrease) in the same-store Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") of our operating segments for the quarter ended December 31, 2006 over the quarter ended December 31, 2005 and the trailing quarter ended September 30, 2006 are summarized below.

	Office				
Three Months Ended:	New York	Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics
December 31, 2006 vs. December 31, 2005	7.0%	5.6%	8.1%	1.1%	(1.9%)
December 31, 2006 vs. September 30, 2006	5.5%	3.3%	3.5%	7.3%	11.1%

	For the Year Ended December 31,		For the Three Months Ended December 31,	
(AMOUNTS IN THOUSANDS)	**2006**	2005	**2006**	2005
Items that affect comparability (income)/expense:				
Derivatives:				
McDonalds common shares	$(138,815)	$ (17,254)	$(78,234)	$ (7,395)
Sears Holdings common shares	(18,611)	(41,482)	—	23,744
GMH warrants	16,370	(14,080)	—	(6,267)
Other	(12,153)	—	(9,386)	—
Alexander's:				
Stock appreciation rights	49,043	9,104	30,687	(6,324)
Net gain on sale of 731 Lexington Avenue condominiums	(4,580)	(30,895)	—	(2,761)
Newkirk:				
Net gain recognized upon Lexington merger	(10,362)	—	(10,794)	—
Net gain on disposition of T-2 assets	—	(16,053)	—	(16,053)
Net losses on early extinguishment of debt and related write-off of deferred financing costs	—	9,455	—	1,463
Expense from payment of promoted obligation to partner	—	8,470	—	8,470
Impairment losses	—	6,602	—	—
Other:				
Net gain on sale of Sears Canada common shares (2006) and income from Sears Canada special dividend (2005)	(55,438)	(22,885)	—	(22,885)
Prepayment penalties and write-off of unamortized financing costs upon refinancing	21,994	—	8,513	—
H Street litigation costs	9,592	2,134	2,998	2,134
Senior unsecured notes consent solicitation advisory fees	1,415	—	—	—
Write-off of perpetual preferred share and unit issuance costs upon their redemption	1,125	22,869	—	750
Net gain on disposition of preferred investment in 3700 Las Vegas Boulevard	—	(12,110)	—	(12,110)
Net gain on disposition of Prime Group common shares	—	(9,017)	—	—
Other, net	2,586	(3,642)	2,000	—
	(137,834)	(108,784)	(54,216)	(37,234)
Minority limited partners' share of above adjustments	13,204	11,612	5,202	3,572
Total items that affect comparability	$(124,630)	$ (97,172)	$(49,014)	$(33,662)

2006/2007 Acquisitions and Investments

New York Office:

350 PARK AVENUE, NEW YORK CITY

On December 14, 2006, we acquired 350 Park Avenue for approximately $542,000,000 in cash. The building occupies the entire westerly block front on Park Avenue between 51st and 52nd Streets and contains 538,000 square feet. At closing, we completed a $430,000,000 five-year, interest-only financing secured by the property, which bears interest at 5.48%. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

100 WEST 33RD STREET, NEW YORK CITY (THE "MANHATTAN MALL")

On January 11, 2007, we acquired the Manhattan Mall for approximately $689,000,000 in cash. This mixed-use property is located on the entire Sixth Avenue block-front between 32nd and 33rd Streets in Manhattan and contains approximately 1,000,000 square feet, including 812,000 square feet of office space and 164,000 square feet of retail space. Included as part of the transaction are 250,000 square feet of additional air rights. The property is adjacent to our 1,400,000 square foot Hotel Pennsylvania. At closing, we completed a $232,000,000 financing secured by the property, which bears interest at LIBOR plus 0.55% and matures in two years with three one-year extension options. The operations of the office component of the property will be included in the New York Office segment and the operations of the retail component will be included in the Retail segment. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Washington, DC Office:

BNA COMPLEX, WASHINGTON, DC

On February 17, 2006, we entered into an agreement to sell our 277,000 square foot Crystal Mall Two office building, located in Crystal City, Virginia, to The Bureau of National Affairs, Inc. ("BNA") for use as its corporate headquarters, subject to the build-out of tenant improvements to agreed-upon specifications. Simultaneously, we agreed to acquire a three building complex from BNA containing approximately 300,000 square feet, located in Washington D.C.'s West End between Georgetown and the Central Business District. We will receive sales proceeds of approximately $100,000,000 for Crystal Mall Two and recognize a net gain on sale of approximately $23,000,000. We will pay BNA $111,000,000 in cash for the three building complex. One of the buildings, containing 130,000 square feet, will remain an office building, while the other two buildings will be redeveloped into residential condominiums or apartment rentals. These transactions are expected to close in the second half of 2007.

1925 K STREET, WASHINGTON, DC

On April 13, 2006, we acquired the 92.65% interest that we did not already own of 1925 K Street for $52,800,000, consisting of $34,600,000 in cash and $18,200,000 of existing mortgage debt. This property is located in the Central Business District of Washington, DC and contains 150,000 square feet of office space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition. We plan to redevelop the property into a 250,000 square foot Class A office building at a cost of approximately $90,000,000.

Retail:

SAN FRANCISCO BAY AREA PROPERTIES

On January 10, 2006, we acquired four properties for approximately $72,000,000 in cash. These properties are located in the San Francisco Bay area and contain a total of 189,000 square feet of retail and office space. We consolidate the accounts of these properties into our consolidated financial statements from the date of acquisition.

SPRINGFIELD MALL, VIRGINIA

On January 31, 2006, we acquired an option to purchase the Springfield Mall for $35,600,000, of which we paid $14,000,000 in cash upon closing and $10,000,000 in installments during 2006. The remainder of $11,600,000 will be paid in installments over the next three years. The mall, located on 79 acres at the intersection of Interstate 95 and Franconia Road in Springfield, Virginia, contains 1.4 million square feet and is anchored by Macy's, and JCPenny and Target who own their stores aggregating 389,000 square feet. We intend to redevelop, reposition and re-tenant the mall and have committed to spend $25,000,000 in capital expenditures over a six-year period from the closing of the option agreement. The option becomes exercisable upon the passing of one of the existing principals of the selling entity and may be deferred at our election through November 2012. Upon exercise of the option, we will pay $80,000,000 to acquire the mall, subject to the existing mortgage of $180,000,000, which will be amortized to $149,000,000 at maturity in 2013. Upon closing of the option on January 31, 2006, we acquired effective control of the mall, including management of the mall and right to the mall's net cash flow. Accordingly, we consolidate the accounts of the mall into our consolidated financial statements pursuant to the provisions of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* ("FIN 46R"). We have a 2.5% minority partner in this transaction.

SAN JOSE, CALIFORNIA GROUND-UP DEVELOPMENT

On March 29, 2006, a joint venture, in which we have a 45% equity interest and are a co-managing partner, acquired 55 acres of land in San Jose, California for approximately $59,600,000. The purchase price was funded with $20,643,000 of cash contributed by the partners, of which our share was $9,289,000, and $38,957,000 drawn on a $117,000,000 acquisition/construction loan. The remainder of the loan will be used to fund the development of 325,000 square feet of retail space and site work for Home Depot and Target who will construct their own stores. Upon completion of the development we have an option to acquire our partner's 55% equity interest at a 7% unlevered yield.

1540 BROADWAY, NEW YORK CITY

On July 11, 2006, we acquired the retail, signage and parking components of 1540 Broadway for approximately $260,000,000 in cash. This property is located in Times Square between 45th and 46th Street and contains 154,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

TOYS "R" US STORES

On September 14, 2006, we entered into an agreement to purchase up to 44 previously closed Toys "R" Us stores for up to $190,000,000. On October 16, 2006, we completed the first phase of the agreement by acquiring 37 stores for $171,000,000 in cash. These properties, of which 18 are owned in fee, 8 are ground leased and 11 are space leased, aggregate 1.5 million square feet and are primarily located in seven east coast states, Texas and California. Of these properties, 25 are leased or subleased to other retailers and 12 are currently vacant. All of these stores were part of the store closing program announced by Toys in January 2006. We consolidate the accounts of these properties into our consolidated financial statements from the date of acquisition. Our $9,377,000 share of Toys' net gain on this transaction was recorded as an adjustment to the basis of our investment in Toys and was not recorded as income.

We expect to purchase six of the remaining stores by the end of the second quarter of 2007, subject to landlords' consent, where applicable, and customary closing conditions. The seventh store we had agreed to purchase was sold by Toys to a third party.

BRUCKNER PLAZA, BRONX, NEW YORK

On January 11, 2007, we acquired Bruckner Plaza, a 386,000 square foot shopping center, and an adjacent parcel which is ground leased to a third party containing 114,000 square feet, for approximately $165,000,000 in cash. The property is located on Bruckner Boulevard in the Bronx, New York. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Temperature Controlled Logistics:

REFRIGERATED WAREHOUSES

On August 31, 2006, AmeriCold Realty Trust ("AmeriCold") entered into a definitive agreement to acquire from ConAgra Foods, Inc. ("ConAgra Foods") four refrigerated warehouse facilities and the lease on a fifth facility, with an option to purchase. These five warehouses contain a total of 1.7 million square feet and 48.9 million cubic feet. The aggregate purchase price is approximately $190,000,000, consisting of $152,000,000 in cash to ConAgra Foods and $38,000,000 representing the recording of a capital lease obligation for the fifth facility. During the fourth quarter of 2006, AmeriCold completed the acquisition of two of these facilities and assumed the leasehold on the fifth facility and the related capital lease obligation. In January 2007, AmeriCold completed the acquisition of the third facility. The acquisition of the fourth facility is expected to be completed during the first half of 2007. We consolidate these properties into our consolidated financial statements from the date of acquisition.

Other:

INDIA REAL ESTATE INVESTMENTS

On December 12, 2006, we contributed $71,500,000 in cash for a 50% interest in a joint venture that owns 263 acres of land in a special economic zone in the national capital region of India. The venture plans to develop residential, office and retail buildings on the site in three phases over the next nine years. In 2005, we contributed $16,700,000 in cash for a 25% interest in a joint venture formed for the purpose of investing in, and developing, other real estate properties in India. These investments are accounted for under the equity method.

FILENE'S BOSTON, MASSACHUSETTS

On January 26, 2007, a joint venture in which we have a 50% interest, acquired the Filene's property located in the Downtown Crossing district of Boston, Massachusetts for approximately $100,000,000 in cash, of which our share was $50,000,000. This investment is accounted for under the equity method. The venture plans to redevelop the property to include over 1,200,000 square feet, consisting of office, retail, condominium apartments and a hotel. The project is subject to governmental approvals.

OTHER

In addition to the acquisitions and investments described above, during 2006 we completed $337,280,000 of other real estate acquisitions and investments in 18 separate transactions, comprised of $322,780,000 in cash and $14,500,000 of existing mortgage debt.

INVESTMENT IN MCDONALD'S CORPORATION ("MCDONALDS") (NYSE: MCD)

We own 858,000 common shares of McDonalds as of December 31, 2006 which we acquired in July 2005 for $25,346,000, an average price of $29.54 per share. These shares are recorded as marketable equity securities on our consolidated balance sheet and are classified as "available for sale." Appreciation or depreciation in the fair market value of these shares is recorded as an increase or decrease in "accumulated other comprehensive income" in the shareholders' equity section of our consolidated balance sheets and not recognized in income. At December 31, 2006, based on McDonalds' closing stock price of $44.33 per share, $12,688,000 of appreciation in the value of these shares is included in "accumulated other comprehensive income" on our consolidated balance sheet.

During the second half of 2005, we acquired an economic interest in an additional 14,565,500 McDonalds common shares through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on McDonalds' common shares. These call and put options had an initial weighted-average strike price of $32.66 per share, or an aggregate of $475,692,000, expire on various dates between July 30, 2007 and September 10, 2007 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points (up to 95 basis points under certain circumstances) and is credited for the dividends received on the shares. The options provide us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate purchase price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income.

In the three months ended March 31, 2006, we sold 2,119,500 of the option shares in the derivative position at a weighted average sales price of $35.49. In the three months ended June 30, 2006, we acquired an additional 1,250,000 option shares at a weighted average purchase price of $33.08. As of December 31, 2006, there are 13,696,000 option shares in the derivative position with an adjusted weighted average strike price of $32.70 per share or an aggregate of $447,822,000. For the year ended December 31, 2006, we recognized a net gain of $138,815,000, representing the mark-to-market of the shares in the derivative to $44.33 per share, net of the expense resulting from the LIBOR charges.

Our aggregate net gain from inception of this investment in 2005 through December 31, 2006 is $168,557,000.

2006 Dispositions

INVESTMENT IN SEARS, ROEBUCK AND CO. ("SEARS")

In August and September 2004, we acquired an economic interest in 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options had an initial weighted-average strike price of $39.82 per share, or an aggregate of $315,250,000. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points and is credited for the dividends received on the shares. The options provide us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income.

On March 30, 2005, as a result of the merger between Sears and Kmart and pursuant to the terms of the contract, our derivative position representing 7,916,900 Sears common shares became a derivative position representing 2,491,819 common shares of Sears Holdings, Inc. ("Sears Holdings") (NYSE: SHLD) valued at $323,936,000 based on the then closing share price of $130.00 and $146,663,000 of cash. As a result, we recognized a net gain of $58,443,000 based on the fair value of the derivative position on March 30, 2005. In 2005, we sold 402,660 of the option shares at a weighted average sales price of $124.44 per share. In the first quarter of 2006, we settled the entire derivative position by selling the remaining 2,089,159 option shares at a weighted average sales price of $125.43 which resulted in a net gain of $18,611,000, comprised of $20,673,000 from the remaining option shares sold, partially offset by $2,062,000 of expense resulting from the increase in strike price for the LIBOR charge.

Our aggregate net gain realized from inception of this investment in 2004 through settlement was $142,877,000.

INVESTMENT IN SEARS CANADA, INC. ("SEARS CANADA")

On April 3, 2006, we tendered the 7,500,000 Sears Canada shares we owned to Sears Holdings at the increased tender price of Cdn. $18.00 per share (the equivalent at that time of US $15.68 per share), which resulted in a net gain of $55,438,000 representing the difference between the tender price, and our carrying amount of $8.29 per share. The net gain is reflected as a component of "net gain on disposition of wholly-owned and partially owned assets other than depreciable real estate" on our consolidated statement of income. Together with income recognized in the fourth quarter of 2005 that resulted from a Sears Canada special dividend, the aggregate net gain from inception in 2005 on our $143,737,000 investment was $78,323,000. If at any time on or before December 31, 2008 Sears Canada or any of its affiliates pays more than Cdn. $18.00 per share to acquire Sears Canada common shares from third parties, we will be entitled to receive the difference as additional consideration for the shares we sold.

424 SIXTH AVENUE

On March 13, 2006, we sold 424 Sixth Avenue, a 10,000 square foot retail property located in New York City, for $22,000,000, which resulted in a net gain of $9,218,000.

33 NORTH DEARBORN STREET

On March 14, 2006, we sold 33 North Dearborn Street, a 336,000 square foot office building located in Chicago, Illinois, for $46,000,000, which resulted in a net gain of $4,835,000. All of the proceeds from the sale have been reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031 of the Internal Revenue Code ("Section 1031").

1919 SOUTH EADS STREET

On June 22, 2006, we sold 1919 South Eads Street, a 96,000 square foot office building located in Arlington, Virginia, for $38,400,000, which resulted in a net gain of $17,609,000. All of the proceeds from the sale have been reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031.

2006 Mezzanine Loan Activity

EQUINOX LOAN

On February 10, 2006, we acquired a 50% interest in a $115,000,000 note issued by Related Equinox Holdings II, LLC (the "Note"), for $57,500,000 in cash. The Note is secured by a pledge of the stock of Related Equinox Holdings II. Related Equinox Holdings II owns Equinox Holdings Inc., which in turn owns all of the assets and obligations, including the fitness clubs, operated under the Equinox brand. The Note is junior to a $50,000,000 (undrawn) revolving loan and $280,000,000 of senior unsecured obligations. The Note is senior to $125,000,000 of cash equity contributed by third parties for their acquisition of the Equinox fitness club business. The Note matures on February 15, 2013 and bears interest at 14% through February 15, 2011, increasing by 3% per annum through maturity. The Note is prepayable at any time after February 15, 2009.

MERVYN'S LOANS

On April 12, 2006, we acquired a 23.6% interest in two mezzanine loans totaling $138,136,000, for $32,560,000 in cash. The loans mature in January 2008 with two one-year extension options and bear interest at LIBOR plus 3.84% (9.16% at December 31, 2006).

LNR LOANS

In 2005, we made a $135,000,000 loan to Riley HoldCo Corp., consisting of a $60,000,000 mezzanine loan and a $75,000,000 fixed rate unsecured loan. We received principal payments on the mezzanine loan of $5,557,000 and $13,901,000, on February 6, 2006 and June 2, 2006, respectively. On July 12, 2006, the remaining $40,542,000 balance of the mezzanine loan was repaid with a pre-payment premium of $972,000, which was recognized as "interest and other investment income" in the year ended December 31, 2006.

THARALDSON LODGING COMPANIES LOAN

On June 16, 2006, we acquired an 81.5% interest in a $95,968,000 mezzanine loan to Tharaldson Lodging Companies for $78,166,000 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 $671,778,000 of debt and is senior to approximately

$192,000,000 of other debt and equity. The loan matures in April 2008, with three one-year extensions, provides for a 0.75% placement fee and bears interest at LIBOR plus 4.3% (9.6% at December 31, 2006).

DRAKE HOTEL LOAN

On June 19, 2006, we acquired a 49% interest in a $37,789,000 mezzanine loan for $18,517,000 in cash. The loan matures in April 2007, with a six month extension option and bears interest at LIBOR plus 10% (15.3% at December 31, 2006).

280 PARK AVENUE LOAN

On June 30, 2006, we made a $73,750,000 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 $260,000,000 of equity and interest reserves.

SHEFFIELD LOAN

On July 7, 2006, we were repaid the $108,000,000 outstanding balance of the Sheffield mezzanine loan, together with accrued interest of $1,165,000 and a prepayment premium of $2,288,000, which we recognized as "interest and other investment income" in the year ended December 31, 2006.

FORTRESS LOAN

On August 2, 2006, we purchased bonds for $99,500,000 in cash, representing a 7% interest in two margin loans aggregating $1.430 billion. The loans were made to two separate funds managed by Fortress Investment Group LLC and are secured by $4.4 billion (as of December 31, 2006) of publicly traded equity securities. The loans mature in June 2007 with an automatic extension to December 2007 and bear interest at LIBOR plus 3.50% (8.8% at December 31, 2006).

2006 Financings

On February 9, 2006, we completed a $353,000,000 refinancing of 770 Broadway. This interest-only loan bears interest at 5.65% and matures in March 2016. The net proceeds of $173,000,000, after repaying the existing floating rate loan and closing costs, were used for general corporate purposes.

On February 16, 2006, we completed a public offering of $250,000,000 aggregate principal amount of 5.6% senior unsecured notes due February 15, 2011. Interest on the notes is payable semi-annually on February 15 and August 15, commencing August 16, 2006. The notes were priced at 99.906% of their face amount to yield 5.622%. The net proceeds of approximately $248,000,000 were used for general corporate purposes.

On May 2, 2006, we sold 1,400,000 6.875% Series D-15 Cumulative Redeemable Preferred Units of the Operating Partnership at a price of $25.00 per unit. On August 17, 2006 we sold an additional 400,000 Series D-15 Units at a price of $25.00 per unit, for a combined total of 1,800,000 Series D-15 units and net proceeds of $43,875,000. The net proceeds received were used for general corporate purposes. We may redeem the Series D-15 Units at a price of $25.00 per unit after May 2, 2011.

On May 5, 2006, we repaid the existing debt on the Warner Building and completed an interest-only refinancing of $292,700,000. The loan bears interest at 6.26% and matures in May 2016. We realized net proceeds of $133,000,000, after repaying the existing loan, closing costs and a prepayment penalty of $9,818,000. As part of the purchase price accounting for the December 27, 2005 acquisition of the Warner Building, we accrued a liability for the unfavorable terms of the debt assumed in the acquisition. Accordingly, the prepayment penalty did not result in an expense on our consolidated statement of income.

On May 23, 2006, we completed a $115,000,000 refinancing of the Bowen Building. This interest-only loan bears interest at 6.14% and matures in June 2016. The net proceeds of $51,600,000, after repaying the existing floating rate loan and closing costs, were used for general corporate purposes.

On June 9, 2006, we completed a $120,000,000 refinancing of the Montehiedra Town Center. This interest-only loan bears interest at 6.04% and matures in June 2016. The net proceeds of $59,000,000, after defeasing the existing loan and closing costs, were used for general corporate purposes. As a result of the defeasance of the existing loan, we incurred a net loss on the early extinguishment of debt of approximately $2,498,000, which is included in "interest and debt expense" in the year ended December 31, 2006.

On June 28, 2006, we entered into a $1.0 billion unsecured revolving credit facility which replaced our previous $600,000,000 unsecured revolving credit facility that was due to mature in July 2006. The new facility has a four-year term, with a one-year extension option and bears interest at LIBOR plus 0.55% (5.87% as of December 31, 2006). The new facility contains financial covenants similar to the prior facility. As of December 31, 2006, we had a zero outstanding balance on this facility.

On June 9, 2006, AmeriCold completed a $400,000,000, one-year, interest-only financing, collateralized by 21 of its owned and six of its leased temperature-controlled warehouses. On September 8, 2006, an amendment was executed increasing the amount of the loan to $430,000,000. Of this loan, $243,000,000 was drawn on June 9, 2006 to repay the existing mortgage on the same facilities and the remaining $187,000,000 was drawn on September 27, 2006. The initial interest rate on the loan was LIBOR plus 0.60% and increased to LIBOR plus 1.25% when the remaining balance was drawn, subject to a 6.50% LIBOR cap. On December 12, 2006, AmeriCold completed a 5.45% fixed-rate, interest-only financing in an aggregate principal amount of $1.05 billion which matures in approximately equal tranches in seven, nine and ten years. The proceeds were used to repay $449,000,000 of fixed-rate mortgages with a rate of 6.89% and the $430,000,000 financing described above. The mortgages that were repaid were collateralized by 84 temperature-controlled warehouses which were released upon repayment. The new loan is collateralized by 50 of these warehouses. AmeriCold received net proceeds of $191,000,000, including the release of escrow reserves and after defeasance and closing costs. Vornado, Crescent and Yucaipa received distributions of $88,023,000, $58,682,000 and $38,295,000, respectively, from a portion of the net proceeds. Included in "interest and debt expense" for the year ended December 31, 2006 are $14,496,000 of defeasance costs and a $7,431,000 write-off of debt issuance costs associated with the old loans, of which our share, after minority interest, is $10,433,000.

On July 28, 2006, we called for redemption of the 8.25% Series D-9 Cumulative Redeemable Preferred Units. The Preferred Units were redeemed on September 21, 2006 at a redemption price equal to $25.00 per unit or an aggregate of $45,000,000 plus accrued distributions. In conjunction with the redemption, we expensed $1,125,000 of issuance costs in 2006.

On August 1, 2006, we repaid the $31,980,000 balance of the One and Two Skyline Place mortgages. On January 26, 2007, we completed a $678,000,000 financing of our Skyline Complex in Fairfax, Virginia, consisting of eight office buildings containing 2,560,000 square feet. This loan bears interest-only at 5.74% and matures in February 2017. We retained net proceeds of approximately $515,000,000 after repaying existing loans and closing costs, including $6,000,000 of defeasance costs, which will be recognized as "interest and debt expense" in the first quarter of 2007.

On August 11, 2006, we completed $195,000,000 of a $220,000,000 refinancing of the High Point Complex. The remaining $25,000,000 was completed on October 4, 2006. The loan bears interest at 6.34% and matures in August 2016. We received net proceeds of approximately $108,500,000 after defeasing the existing loans and closing costs, which were used for general corporate purposes. As a result of the defeasance of the existing loans, we incurred an $8,548,000 net loss on the early extinguishment of debt, which is included in "interest and debt expense" in the year ended December 31, 2006.

On November 7, 2006, we completed a $130,000,000 refinancing of our 220 Central Park South property. The loan has two tranches: the first tranche of $95,000,000 bears interest at LIBOR (capped at 5.50%) plus 2.35% (7.70% as of December 31, 2006) and the second tranche can be drawn up to $35,000,000 and bears interest at LIBOR (capped at 5.50%) plus 2.45% (7.80% as of December 31, 2006). As of December 31, 2006, approximately $27,990,000 has been drawn on the second tranche.

On November 20, 2006, we sold $1 billion aggregate principal amount of 3.625% convertible senior debentures due 2026, pursuant to an effective registration statement. The aggregate net proceeds from this offering, after underwriters' discounts and expenses, were approximately $980,000,000. The debentures are convertible, under certain circumstances, for common shares of Vornado Realty Trust at an initial conversion rate of 6.5168 common shares per $1,000 of principal amount of debentures. The initial conversion price of $153.45 represents a premium of 30% over the November 14, 2006 closing price of $118.04 for our common shares. The debentures are redeemable at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures in 2011, 2016 and 2021 and in the event of a change in control. The net proceeds of the offering were contributed to the Operating Partnership in the form of an inter-company loan and the Operating Partnership guaranteed the payment of the debentures. The Operating Partnership used the net proceeds primarily for acquisitions and investments and for general corporate purposes.

On November 22, 2006, the Merchandise Mart Division completed a $550,000,000 interest-only, secured financing, which bears interest at a rate of 5.57% and matures in December 2016. The net proceeds of approximately $548,000,000 were used for general corporate purposes.

On December 11, 2006, we sold 8,100,000 common shares in an underwritten public offering pursuant to an effective registration statement at a price of $124.05 per share. We received net proceeds of approximately $1,004,500,000, after offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 8,100,000 Class A units of the Operating Partnership.

2006 Other Developments

GMH COMMUNITIES L.P.

On July 20, 2004, we committed to make up to a $159,000,000 convertible preferred investment in GMH Communities L.P. ("GMH"), a partnership focused on the student and military housing sectors. Distributions accrued on the full committed balance of the investment, whether or not drawn, from July 20, 2004, at a rate of 16.27%. In connection with this commitment, we received a placement fee of $3,200,000. We also purchased for $1,000,000 warrants to acquire GMH common equity. The warrants entitled us to acquire (i) 6,666,667 limited partnership units in GMH at an exercise price of $7.50 per unit and (ii) 5,496,724 limited partnership units at an exercise price of $9.10 per unit, through May 2, 2006 and are adjusted for dividends declared by GMH Communities Trust (NYSE: GCT) ("GCT"). We funded a total of $113,777,000 of the commitment as of November 3, 2004.

On November 3, 2004, GCT closed its initial public offering ("IPO") at a price of $12.00 per share. GCT is a real estate investment trust that conducts its business through GMH, of which it is the sole general partner. In connection with the IPO, (i) the $113,777,000 we previously funded under the $159,000,000 commitment was repaid, together with accrued distributions of $13,381,000, (ii) we contributed our 90% interest in Campus Club Gainesville, which we acquired in 2000, in exchange for an additional 671,190 GMH limited partnership units and (iii) we exercised our first tranche of warrants to acquire 6,666,667 limited partnership units at a price of $7.50 per unit, or an aggregate of $50,000,000, which resulted in a gain of $29,500,000.

On May 2, 2006, the date our remaining GMH warrants were to expire, we received 1,817,247 GCT common shares through an automatic cashless exercise. The amount of the shares received was equal to the excess of GCT's average closing share price for the trailing 20-day period ending on May 1, 2006 and the $8.22 exercise price, divided by GCT's average closing share price for the trailing 20-day period ending on May 1, 2006, then multiplied by 6,085,180 warrants. For the year ended December 31, 2006, we recognized a net loss of $16,370,000, the difference between the value of the GCT common shares received on May 2, 2006 and GCT's closing share price of $15.51 on December 31, 2005. From inception of our investment in the warrants, including the first tranche of warrants exercised on November 3, 2004, the aggregate net gain recognized was $51,399,000.

The warrants were accounted for as derivative instruments that did not qualify for hedge accounting treatment. Accordingly, the gains or losses resulting from the mark-to-market of the warrants at the end of each reporting period were recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income. In the years ended December 31, 2005 and 2004, we recognized income of $14,079,000 and $24,190,000, respectively, from the mark-to-market of these warrants which were valued using a trinomial option pricing model based on GCT's closing stock price on the NYSE of $15.51 and $14.10 per share on December 31, 2005 and 2004, respectively.

As of December 31, 2006, we own 7,337,857 GMH limited partnership units (which are exchangeable on a one-for-one basis into common shares of GCT) and 2,517,247 common shares of GCT (1,817,247 shares were received upon exercise of our warrants discussed below), or 13.5% of the limited partnership interest of GMH.

We account for our investment in GMH on the equity method and record our pro rata share of GMH's net income or loss on a one-quarter lag basis as we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that GCT files its financial statements. On July 31, 2006 GCT filed its annual report on Form 10-K for the year ended December 31, 2005, which restated the quarterly financial results of each of the first three quarters of 2005. Accordingly, we recognized a net loss of $1,013,000 during the year ended December 31, 2006 for our share of GMH's results of operations from October 1, 2005 through September 30, 2006. Of this amount, $94,000 represents our share of GMH's 2005 fourth quarter net loss, net of adjustments to restate its first three quarters of 2005.

H STREET BUILDING CORPORATION ("H STREET").

On July 20, 2005, we acquired H Street for approximately $246,600,000, consisting of $194,500,000 in cash and $52,100,000 for our pro rata share of existing mortgage debt. H Street owns, directly or indirectly through stock ownership in corporations, a 50% interest in real estate assets located in Pentagon City, Virginia, including 34 acres of land leased to various residential and retail operators, a 1,670 unit apartment complex, 10 acres of land and two office buildings located in Washington, DC containing 577,000 square feet. We consolidate the accounts of H Street into our consolidated financial statements from the date of acquisition.

On July 22, 2005, two corporations owned 50% by H Street filed a complaint against the Company, H Street and three parties affiliated with the sellers of H Street in the Superior Court of the District of Columbia alleging that we encouraged H Street and the affiliated parties to breach their fiduciary duties to these corporations and interfered with prospective business and contractual relationships. The complaint seeks an unspecified amount of damages and a rescission of our acquisition of H Street. On September 12, 2005, we filed a complaint against each of those corporations and their acting directors seeking a restoration of H Street's full shareholder rights and damages. In addition, on July 29, 2005, a tenant under ground leases for which one of these 50%-owned corporations is landlord brought a separate suit in the Superior Court of the District of Columbia, alleging, among other things, that the acquisition of H Street violated a provision giving them a right of first offer and seeks rescission of our acquisition, the right to acquire H Street for the price paid by us and/or damages. On July 14, 2006, we filed a counterclaim against the tenant asserting that the tenant and the other owner of the 50%-owned ground landlord deliberately excluded H Street from negotiating and executing a purported amendment to the agreement to lease when H Street's consent and execution was required and, consequently, that the amended agreement and the related ground leases are invalid, the tenant is in default under the ground leases and the ground leases are void and without any effect. These legal actions are currently in the discovery stage. We believe that the actions filed against us are without merit and that we will ultimately be successful in defending against them.

Prior to June 30, 2006, the two 50% owned entities that are contesting our acquisition of H Street impeded access to their financial information and accordingly, we were unable to record our pro rata share of their earnings. During the second half of 2006, based on the financial information they provided to us, we recognized equity in net income of $11,074,000 from these entities, of which $3,890,000 represented our 50% share of their earnings for the period from July 20, 2005 (date of acquisition) to December 31, 2005.

THE LEXINGTON MASTER LIMITED PARTNERSHIP, FORMERLY THE NEWKIRK MASTER LIMITED PARTNERSHIP

We own approximately 8,149,592 limited partnership units (representing a 7.4% ownership interest) of Lexington Master Limited Partnership ("Lexington MLP") as a result of the acquisition of Newkirk Realty Trust ("Newkirk") by Lexington Corporate Properties Trust ("Lexington") discussed below.

On December 31, 2006, Newkirk (NYSE: NKT) was acquired in a merger by Lexington (NYSE: LXP), a real estate investment trust. We owned 10,186,991 limited partnership units (representing a 15.8% ownership interest) of Newkirk MLP, which was also acquired by Lexington as a subsidiary, and was renamed Lexington MLP. The units in Newkirk MLP were converted on a 0.80 for 1 basis into limited partnership units of Lexington MLP, which are exchangeable on a one-for-one basis into common shares of Lexington. We account for our investment in Lexington MLP on the equity method.

The assets of Newkirk MLP consisted of 18.4 million square feet of real estate across 32 states. After completion of the merger, Lexington's total portfolio is comprised of approximately 365 properties containing an aggregate of 58.6 million square feet, located in 44 states and The Netherlands.

In addition, effective as of the effective time of the merger, Newkirk terminated its advisory agreement with NKT Advisors, in which we had a 20.0% interest, for an aggregate payment of $12,500,000, of which our share was $2,300,000.

On December 31, 2006, we recognized a net gain of $10,362,000, as a result of the above transactions.

UNSECURED NOTES CONSENT SOLICITATION

On May 9, 2006, we executed supplemental indentures with respect to our senior unsecured notes due 2007, 2009 and 2010 (collectively, the "Notes"), pursuant to our consent solicitation statement dated April 18, 2006, as amended. Holders of approximately 96.7% of the aggregate principal amount of the Notes consented to the solicitation. The supplemental indentures contain modifications of certain covenants and related defined terms governing the terms of the Notes to make them consistent with corresponding provisions of the covenants and defined terms included in the senior unsecured notes due 2011 issued on February 16, 2006. The supplemental indentures also include a new covenant that provides for an increase in the interest rate of the Notes upon certain decreases in the ratings assigned by rating agencies to the Notes. In connection with the consent solicitation, we paid an aggregate fee of $2,241,000 to the consenting note holders, which will be amortized into expense over the remaining term of the Notes. In addition, we incurred advisory and professional fees aggregating $1,415,000, which were expensed in the second quarter of 2006.

LEASING ACTIVITY

The following table summarizes, by business segment, the leasing statistics which we view as key performance indicators.

	Office			Merchandise Mart		Temperature
(SQUARE FEET AND CUBIC FEET IN THOUSANDS)	New York	Washington, DC	Retail	Office	Showroom	Controlled Logistics
As of December 31, 2006:						
Square feet/cubic feet	13,692	18,015	19,264	2,714	6,370	18,941/497,800
Number of properties	25	91	158	9	9	91
Occupancy rate	97.5%	92.2%	92.7%[2]	97.4%	93.6%	77.4%
Leasing Activity:						
Year ended December 31, 2006:						
Square feet	1,693	2,164	1,184	178	1,107	
Initial rent[1]	$51.69	$31.90	$22.79	$24.24	$24.61	
Weighted average lease terms (years)	9.5	6.5	11.9	8.1	5.2	
Rent per square foot on relet space:						
Square feet	1,378	1,438	449	178	1,107	
Initial Rent[1]	$53.08	$31.45	$25.93	$24.24	$24.61	
Prior escalated rent	$43.71	$30.71	$20.86	$25.54	$24.56	
Percentage increase (decrease):						
Cash basis	21.4%	2.4%	24.3%	(5.1%)	0.2%	
Straight-line basis	30.0%	4.8%	33.3%	1.9%	10.0%	
Rent per square foot on space previously vacant:						
Square feet	315	726	735	—	—	
Initial rent[1]	$45.61	$32.79	$20.86	$ —	$ —	
Tenant improvements and leasing commissions:						
Per square foot	$39.08	$16.54	$ 7.64	$35.57	$ 6.80	
Per square foot per annum	$ 4.10	$ 2.54	$ 0.64	$ 4.39	$ 1.31	
Quarter ended December 31, 2006:						
Square feet	244	411	92	72	182	
Initial rent[1]	$59.13	$33.29	$26.59	$30.91	$23.31	
Weighted average lease terms (years)	8.9	5.7	7.3	6.9	4.5	
Rent per square foot on relet space:						
Square feet	214	292	56	72	182	
Initial Rent[1]	$60.35	$32.65	$27.90	$30.91	$23.31	
Prior escalated rent	$46.35	$31.53	$23.58	$31.52	$23.62	
Percentage increase (decrease):						
Cash basis	30.2%	3.6%	18.3%	(1.9%)	(1.3%)	
Straight-line basis	42.6%	9.1%	28.8%	(1.8%)	5.8%	
Rent per square foot on space previously vacant:						
Square feet	30	119	36	—	—	
Initial rent[1]	$50.43	$34.86	$24.52	$ —	$ —	
Tenant improvements and leasing commissions:						
Per square foot	$40.71	$20.43	$ 3.46	$33.38	$ 5.94	
Per square foot per annum	$ 4.57	$ 3.58	$ 0.47	$ 4.84	$ 1.32	

In addition to the above, the New York City Office division leased the following retail space during the year ended December 31, 2006:

Square feet/ cubic feet	37
Initial rent	$113.31
Percentage increase over prior escalated rent for relet space	152%

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

(2) Excluding the 37 stores acquired from Toys "R" Us on October 16, 2006, the Retail occupancy rate would be 94.9% as of December 31, 2006.

	Office			Merchandise Mart		Temperature
(SQUARE FEET AND CUBIC FEET IN THOUSANDS)	New York	Washington, DC	Retail	Office	Showroom	Controlled Logistics
As of December 31, 2005:						
Square feet/cubic feet	12,972	17,727	16,169	3,100	6,290	17,311/437,200
Number of properties	20	91	111	10	10	85
Occupancy rate	96.0%	91.2%	95.6%	97.0%	94.7%	81.7%
Leasing Activity:						
Year ended December 31, 2005:						
Square feet	1,270	2,659	864	273	1,150	—
Initial rent[1]	$45.75	$30.18	$16.30	$24.17	$27.58	—
Weighted average lease terms (years)	7.9	5.6	9.2	8.1	5.4	—
Rent per square foot on relet space:						
Square feet	947	1,639	463	199	1,150	—
Initial Rent[1]	$44.26	$30.07	$19.42	$24.78	$27.58	—
Prior escalated rent	$42.42	$30.53	$16.86	$29.28	$26.72	—
Percentage increase (decrease):						
Cash basis	4.3%	(1.5%)	15.2%	(15.4%)	3.2%	—
Straight-line basis	8.2%	4.1%	20.0%	(0.8%)	13.1%	—
Rent per square foot on space previously vacant:						
Square feet	323	1,020	401	74	—	—
Initial rent[1]	$50.12	$30.34	$12.69	$22.53	$ —	—
Tenant improvements and leasing commissions:						
Per square foot	$30.98	$ 9.17	$ 8.04	$50.41	$ 8.30	—
Per square foot per annum	$ 4.01	$ 1.64	$ 0.88	$ 6.19	$ 1.53	—

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

SPACE PREVIOUSLY OCCUPIED BY THE U.S. PATENT AND TRADE OFFICE ("PTO")

During 2004 and 2005, the PTO vacated 1,939,000 square feet of space at our Crystal City properties. Of this space, Crystal Plaza Two, Three and Four, aggregating 712,000 square feet was taken out of service for redevelopment. During 2006, the redevelopment of Crystal Plaza Three and Four, aggregating 531,000 square feet, was substantially completed, placed into service and re-leased. As of December 31, 2006, we have re-leased a total of 1,247,000 square feet of the former PTO space and 181,000 square feet, representing Crystal Plaza Two, remains out of service for conversion to a 19-story residential tower.

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, 2006 and 2005, the carrying amounts of real estate, net of accumulated depreciation, were $11.6 billion and $9.7 billion, respectively. Maintenance and repairs are charged to operations 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 customer relationships) and acquired liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141: Business Combinations and SFAS No. 142: Goodwill and Other Intangible Assets, 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 the historical operating results, known trends, and market/economic conditions. Our properties, including any related intangible assets, are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If we incorrectly estimate the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different. The impact of our estimates in connection with acquisitions and future impairment analysis could be material to our consolidated financial statements.

IDENTIFIED INTANGIBLE ASSETS

Upon an acquisition of a business, we record intangible assets acquired at their estimated fair value separate and apart from goodwill. We amortize identified intangible assets that are determined to have finite lives which are based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. Intangible assets 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 the related real estate when appropriate, is not recoverable and the carrying amount exceeds the estimated fair value.

As of December 31, 2006 and 2005, the carrying amounts of identified intangible assets were $304,252,000 and $192,375,000, respectively. Such amounts are included in "other assets" on our consolidated balance sheets. In addition, we had $307,809,000 and $150,892,000 of identified intangible liabilities as of December 31, 2006 and 2005, which are included in "deferred credit" on our consolidated balance sheets. If these assets are deemed to be impaired, or the estimated useful lives of finite-life intangibles assets or liabilities change, the impact to our consolidated financial statements could be material.

NOTES AND MORTGAGE LOANS RECEIVABLE

We record mortgages and notes receivable at the stated principal amount net of any discount or premium. As of December 31, 2006 and 2005, the carrying amounts of Notes and Mortgage Loans Receivable were $561,164,000 and $363,565,000, 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, 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 recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. The impact of our estimates in connection with the collectibility of both interest and principal of our loans could be material to our consolidated financial statements.

PARTIALLY OWNED ENTITIES

As of December 31, 2006 and 2005, the carrying amounts of investments and advances to partially owned entities, including Alexander's and Toys "R" Us, were $1.45 billion and $1.37 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 will absorb the majority of the entity's expected losses, if they occur, or receive the 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, periodically, 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.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

We periodically evaluate the collectibility of amounts due from tenants and maintain an allowance for doubtful accounts ($17,727,000 and $16,907,000 as of December 31, 2006 and 2005) 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 ($2,334,000 and $6,051,000 as of December 31, 2006 and 2005). 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.

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 the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with Staff Accounting Bulletin No. 104: Revenue Recognition, which states that this income is to be 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.
- Temperature Controlled Logistics revenue — income arising from our investment in AmeriCold. Storage and handling revenue are recognized as services are provided. Transportation fees are recognized upon delivery to customers.
- 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 our 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 and substantial adverse tax consequences may result.

Recently Issued Accounting Literature

On December 16, 2004, the FASB issued Statement No. 123(R), *Share-Based Payment* ("SFAS No. 123R"). SFAS No. 123R replaces SFAS No. 123 and requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and measured based on the fair value of the equity or liability instruments issued. We adopted SFAS No. 123R on the modified prospective method on January 1, 2006. This adoption did not have a material effect on our consolidated financial statements.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and SFAS No. 3* ("SFAS No. 154"). SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods' financial statements of the change in accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that a change in depreciation or amortization for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted SFAS No. 154 on January 1, 2006. This adoption had no effect on our consolidated financial statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments—An Amendment of SFAS No. 133 and No. 140* ("SFAS No. 155"). The purpose of SFAS No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year beginning after September 15, 2006. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets, an Amendment of SFAS No. 140* ("SFAS No. 156"). SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that servicing assets and liabilities be initially recorded at fair value and subsequently adjusted to the fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 establishes new evaluation and measurement processes for all income tax positions taken. FIN 48 also requires expanded disclosures of income tax matters. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. We believe that the adoption of this standard on January 1, 2008 will not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS No. 87, 88, 106 and 132R* ("SFAS No. 158"). SFAS No. 158 requires an employer to (i) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The adoption of the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of December 31, 2006 did not have a material effect on our consolidated financial statements. The requirement to measure plan assets and benefit obligations to determine the funded status as of the end of the fiscal year and to recognize changes in the funded status in the year in which the changes occur is effective for fiscal years ending after December 15, 2008. The adoption of the measurement date provisions of this standard is not expected to have a material effect on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), which becomes effective for the first fiscal period ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The adoption of SAB 108 on December 31, 2006 did not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will early adopt SFAS No. 159 or if we will choose to measure any eligible financial assets and liabilities at fair value.

Net income and EBITDA by Segment for the years ended December 31, 2006, 2005 and 2004.

EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." Management considers EBITDA a supplemental measure for making decisions and assessing the un-levered performance of its 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, management utilizes this measure to make investment decisions as well as to compare the performance of its assets to that of its peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

For the Year Ended December 31, 2006

(AMOUNTS IN THOUSANDS)	Total	Office New York[2]	Office Washington, DC	Retail[2]	Merchandise Mart[2]	Temperature Controlled Logistics[3]	Toys	Other[4]
Property rentals	$1,481,419	$487,421	$405,611	$264,727	$236,945	$ —	$ —	$ 86,715
Straight-line rents:								
Contractual rent increases	31,552	4,431	13,341	7,908	6,038	—	—	(166)
Amortization of free rent	31,103	7,245	16,181	5,080	2,597	—	—	—
Amortization of acquired below-market leases, net	23,814	976	4,502	15,513	43	—	—	2,780
Total rentals	1,567,888	500,073	439,635	293,228	245,623	—	—	89,329
Temperature Controlled Logistics	779,110	—	—	—	—	779,110	—	—
Tenant expense reimbursements	261,471	102,488	34,002	101,737	19,125	—	—	4,119
Fee and other income:								
Tenant cleaning fees	33,779	42,317	—	—	—	—	—	(8,538)
Management and leasing fees	10,256	1,111	7,643	1,463	39	—	—	—
Lease termination fees	29,362	25,188	2,798	371	1,005	—	—	—
Other	30,229	12,307	10,167	1,588	6,082	—	—	85
Total revenues	2,712,095	683,484	494,245	398,387	271,874	779,110	—	84,995
Operating expenses	1,366,430	301,583	154,890	130,520	109,020	620,833	—	49,584
Depreciation and amortization	397,403	98,474	109,544	50,806	44,492	73,025	—	21,062
General and administrative	221,356	16,942	34,876	21,683	26,074	40,885	—	80,896
Total expenses	1,985,189	416,999	299,310	203,009	179,586	734,743	—	151,542
Operating income (loss)	726,906	266,485	194,935	195,378	92,288	44,367	—	(66,547)
(Loss) income applicable to Alexander's	(14,530)	772	—	716	—	—	—	(16,018)
Loss applicable to Toys "R" Us	(47,520)	—	—	—	—	—	(47,520)	—
Income from partially owned entities	61,777	3,844	13,302	5,950	1,076	1,422	—	36,183
Interest and other investment income	262,188	913	1,794	812	275	6,785	—	251,609
Interest and debt expense	(477,775)	(84,134)	(99,286)	(79,202)	(28,672)	(81,890)	—	(104,591)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	76,073	—	—	—	—	—	—	76,073
Minority interest of partially owned entities	20,173	—	—	84	5	18,810	—	1,274
Income (loss) from continuing operations	607,292	187,880	110,745	123,738	64,972	(10,506)	(47,520)	177,983
Income from discontinued operations, net	33,408	—	16,401	9,206	5,682	2,107	—	12
Income (loss) before allocation to minority limited partners	640,700	187,880	127,146	132,944	70,654	(8,399)	(47,520)	177,995
Minority limited partners' interest in the Operating Partnership	(58,712)	—	—	—	—	—	—	(58,712)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	—	—	—	—	—	—	(21,848)
Net income (loss)	560,140	187,880	127,146	132,944	70,654	(8,399)	(47,520)	97,435
Interest and debt expense[1]	692,496	86,861	107,477	89,748	29,551	38,963	196,259	143,637
Depreciation and amortization[1]	542,515	101,976	123,314	56,168	45,077	34,854	137,176	43,950
Income tax (benefit) expense[1]	(11,848)	—	8,842	—	(441)	873	(22,628)	1,506
EBITDA	$1,783,303	$376,717	$366,779	$278,860	$144,841	$ 66,291	$263,287	$ 286,528
Percentage of EBITDA by segment	100.0%	21.1%	20.6%	15.6%	8.1%	3.7%	14.8%	16.1%

EBITDA above includes certain items that affect comparability, including (i) $153,209 of income from derivative instruments, (ii) $76,082 of net gains on sale of marketable securities, (iii) $46,935 of net gains on sale of real estate and (iv) $47,404 of expense, primarily from our share of Alexander's stock appreciation rights compensation expense. Excluding these items, the percentages of EBITDA by segment are 23.9% for New York Office, 22.7% for Washington, DC Office, 17.1% for Retail, 8.8% for Merchandise Mart, 4.1% for Temperature Controlled Logistics, 16.6% for Toys and 6.8% for Other.

See notes on page 81.

For the Year Ended December 31, 2005

(AMOUNTS IN THOUSANDS)	Total	Office New York[2]	Office Washington, DC	Retail[2]	Merchandise Mart[2]	Temperature Controlled Logistics[3]	Toys	Other[4]
Property rentals	$1,322,099	$460,062	$375,132	$199,519	$215,283	$ —	$ —	$ 72,103
Straight-line rents:								
Contractual rent increases	22,805	6,163	7,162	5,981	3,439	—	—	60
Amortization of free rent	27,136	11,280	5,306	4,030	6,520	—	—	—
Amortization of acquired below-market leases, net	13,973	—	7,564	5,596	—	—	—	813
Total rentals	1,386,013	477,505	395,164	215,126	225,242	—	—	72,976
Temperature Controlled Logistics	846,881	—	—	—	—	846,881	—	—
Tenant expense reimbursements	207,168	97,987	17,895	73,284	15,268	—	—	2,734
Fee and other income:								
Tenant cleaning fees	30,350	30,350	—	—	—	—	—	—
Management and leasing fees	15,433	893	13,539	941	60	—	—	—
Lease termination fees	30,117	10,392	354	2,399	16,972	—	—	—
Other	18,740	8,729	4,961	271	4,778	—	—	1
Total revenues	2,534,702	625,856	431,913	292,021	262,320	846,881	—	75,711
Operating expenses	1,298,948	278,234	125,032	88,690	95,931	662,703	—	48,358
Depreciation and amortization	332,175	87,118	83,553	32,965	39,456	73,776	—	15,307
General and administrative	182,809	14,315	25,715	15,800	24,636	40,925	—	61,418
Total expenses	1,813,932	379,667	234,300	137,455	160,023	777,404	—	125,083
Operating income (loss)	720,770	246,189	197,613	154,566	102,297	69,477	—	(49,372)
Income applicable to Alexander's	59,022	694	—	695	—	—	—	57,633
Loss applicable to Toys "R" Us	(40,496)	—	—	—	—	—	(40,496)	—
Income from partially owned entities	36,165	2,563	1,076	9,094	588	1,248	—	21,596
Interest and other investment income	167,220	713	1,106	583	187	2,273	—	162,358
Interest and debt expense	(339,952)	(58,829)	(81,664)	(60,018)	(10,769)	(56,272)	—	(72,400)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	39,042	606	84	896	—	—	—	37,456
Minority interest of partially owned entities	(3,808)	—	—	—	120	(4,221)	—	293
Income (loss) from continuing operations	637,963	191,936	118,215	105,816	92,423	12,505	(40,496)	157,564
Income from discontinued operations, net	35,515	—	74	656	2,182	—	—	32,603
Income (loss) before allocation to minority limited partners	673,478	191,936	118,289	106,472	94,605	12,505	(40,496)	190,167
Minority limited partners' interest in the Operating Partnership	(66,755)	—	—	—	—	—	—	(66,755)
Perpetual preferred unit distributions of the Operating Partnership	(67,119)	—	—	—	—	—	—	(67,119)
Net income (loss)	539,604	191,936	118,289	106,472	94,605	12,505	(40,496)	56,293
Interest and debt expense[1]	415,826	60,821	84,913	68,274	11,592	26,775	46,789	116,662
Depreciation and amortization[1]	367,260	88,844	86,376	37,954	41,757	35,211	33,939	43,179
Income tax (benefit) expense[1]	(21,062)	—	1,199	—	1,138	1,275	(25,372)	698
EBITDA	$1,301,628	$341,601	$290,777	$212,700	$149,092	$ 75,766	$ 14,860	$ 216,832
Percentage of EBITDA by segment	100%	26.2%	22.4%	16.3%	11.5%	5.8%	1.1%	16.7%

Included in EBITDA are net gains on sale of real estate of $31,614, income from the mark-to-market and conversion of derivative instruments of $72,816 and certain other gains and losses that affect comparability. Excluding these items, the percentages of EBITDA by segment are 29.7% for New York Office, 25.3% for Washington, DC Office, 18.1% for Retail, 12.7% for Merchandise Mart, 6.6% for Temperature Controlled Logistics, 1.3% for Toys and 6.3% for Other.

See notes on page 81.

For the Year Ended December 31, 2004

		Office					
(AMOUNTS IN THOUSANDS)	Total	New York[2]	Washington, DC	Retail[2]	Merchandise Mart[2]	Temperature Controlled Logistics[3]	Other[4]
Property rentals	$1,262,448	$435,835	$389,692	$163,176	$210,934	$ —	$ 62,811
Straight-line rents:							
Contractual rent increases	35,063	15,258	11,421	5,007	3,212	—	165
Amortization of free rent	26,059	9,665	(168)	11,290	5,278	—	(6)
Amortization of acquired below-market leases, net	14,985	—	10,112	4,873	—	—	—
Total rentals	1,338,555	460,758	411,057	184,346	219,424	—	62,970
Temperature Controlled Logistics	87,428	—	—	—	—	87,428	—
Tenant expense reimbursements	189,237	88,408	16,022	64,363	17,159	—	3,285
Fee and other income:							
Tenant cleaning fees	31,293	31,293	—	—	—	—	—
Management and leasing fees	16,754	1,039	14,462	1,084	155	—	14
Lease termination fees	16,989	10,110	2,586	709	3,584	—	—
Other	19,438	10,392	2,998	908	5,076	—	64
Total revenues	1,699,694	602,000	447,125	251,410	245,398	87,428	66,333
Operating expenses	676,025	264,714	125,616	78,017	94,499	67,989	45,190
Depreciation and amortization	241,766	81,994	77,346	26,622	34,623	7,968	13,213
General and administrative	145,040	13,602	24,746	13,145	22,449	4,264	66,834
Cost of acquisitions not consummated	1,475	—	—	—	—	—	1,475
Total expenses	1,064,306	360,310	227,708	117,784	151,571	80,221	126,712
Operating income (loss)	635,388	241,690	219,417	133,626	93,827	7,207	(60,379)
Income applicable to Alexander's	8,580	433	—	668	—	—	7,479
Income (loss) from partially owned entities	43,381	2,502	226	(1,678)	545	5,641	36,145
Interest and other investment income	203,998	569	428	397	105	220	202,279
Interest and debt expense	(242,142)	(38,335)	(90,568)	(58,625)	(11,255)	(6,379)	(36,980)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	19,775	—	369	—	—	—	19,406
Minority interest of partially owned entities	(109)	—	—	—	—	(158)	49
Income from continuing operations	668,871	206,859	129,872	74,388	83,222	6,531	167,999
Income from discontinued operations, net	81,245	—	1,175	10,999	2,112	—	66,959
Income before allocation to minority limited partners	750,116	206,859	131,047	85,387	85,334	6,531	234,958
Minority limited partners' interest in the Operating Partnership	(88,091)	—	—	—	—	—	(88,091)
Perpetual preferred unit distributions of the Operating Partnership	(69,108)	—	—	—	—	—	(69,108)
Net income	592,917	206,859	131,047	85,387	85,334	6,531	77,759
Interest and debt expense[1]	313,289	40,338	93,264	61,820	12,166	30,337	75,364
Depreciation and amortization[1]	296,980	83,492	79,483	30,619	36,578	34,567	32,241
Income tax expense[1]	1,664	—	406	—	852	79	327
EBITDA	$1,204,850	$330,689	$304,200	$177,826	$134,930	$71,514	$185,691
Percentage of EBITDA by segment	100%	27.4%	25.3%	14.8%	11.2%	5.9%	15.4%

Included in EBITDA are (i) net gains on sale of real estate of $75,755, of which and $9,850 and $65,905 are in the Retail and Other segments, respectively, and (ii) net gains from the mark-to-market and conversion of derivative instruments of $135,372 and certain other gains and losses that affect comparability which are in the Other segment. Excluding these items, the percentages of EBITDA by segment are 33.5% for New York Office, 30.6% for Washington, DC Office, 17.3% for Retail, 13.3% for Merchandise Mart, 7.2% for Temperature Controlled Logistics and (1.9%) for Other.

See notes on the following page.

Notes to the preceding tabular information:

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

(2) At December 31, 2004, 7 West 34th Street, a 440,000 square foot New York office building, was 100% occupied by four tenants, of which Health Insurance Plan of New York ("HIP") and Fairchild Publications occupied 255,000 and 146,000 square feet, respectively. Effective January 4, 2005, we entered into a lease termination agreement with HIP under which HIP made an initial payment of $13,362 and is anticipated to make annual payments ranging from $1,000 to $2,000 over the remaining six years of the HIP lease contingent upon the level of operating expenses of the building in each year. In connection with the termination of the HIP lease, we expensed the $2,462 balance of the HIP receivable arising from the straight-lining of rent. In the first quarter of 2005, we began redevelopment of a portion of this property into a permanent showroom building for the giftware industry. As of January 1, 2005, we transferred the operations and financial results related to the office component of this asset from the New York Office division to the Merchandise Mart division for both the current and prior periods presented. The operations and financial results related to the retail component of this asset were transferred to the Retail division for both current and prior periods presented.

(3) Operating results for the years ended December 31, 2006, 2005 and 2004 reflect the consolidation of our investment in AmeriCold beginning on November 18, 2004. Previously, this investment was accounted for on the equity method.

(4) Other EBITDA is comprised of:

For the Year Ended December 31,

(Amounts in thousands)	*2006*	*2005*	*2004*
Alexander's	$ 14,130	$ 84,874	$ 25,909
Newkirk Master Limited Partnership	51,737	55,126	70,517
Hotel Pennsylvania	27,495	22,522	15,643
GMH Communities L.P. in 2006 and 2005 and Student Housing in 2004	10,737	7,955	1,440
Industrial warehouses	5,582	5,666	5,309
Other investments	13,253	5,319	—
	122,934	181,462	118,818
Minority limited partners' interest in the Operating Partnership	(58,712)	(66,755)	(88,091)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	(67,119)	(69,108)
Corporate general and administrative expenses	(76,071)	(57,221)	(62,854)
Investment income and other	320,225	194,851	221,021
Net gains on sale of 400 North LaSalle (2005) and Palisades (2004)	—	31,614	65,905
	$286,528	$216,832	$185,691

Results Of Operations—Years Ended December 31, 2006 and December 31, 2005

Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, Temperature Controlled Logistics revenues, hotel revenues, trade shows revenues, amortization of acquired below market leases net of above market leases pursuant to SFAS No. 141 and 142, and fee income, were $2,712,095,000 for the year ended December 31, 2006, compared to $2,534,702,000 in the prior year, an increase of $177,393,000. Below are the details of the increase (decrease) by segment:

(AMOUNTS IN THOUSANDS)	Total	Office: New York	Office: Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Property rentals:							
Increase (decrease) due to:							
Acquisitions:							
Warner Building	$ 22,219	$ —	$22,219	$ —	$ —	$ —	$ —
Springfield Mall	16,296	—	—	16,296	—	—	—
Broadway Mall	15,539	—	—	15,539	—	—	—
Boston Design Center	10,411	—	—	—	10,411	—	—
Bowen Building	3,575	—	3,575	—	—	—	—
San Francisco properties	5,607	—	—	5,607	—	—	—
40 East 66th Street	3,901	—	—	2,242	—	—	1,659
Former Toys "R" Us stores	3,402	—	—	3,402	—	—	—
1540 Broadway	3,007	526	—	2,481	—	—	—
Other	29,083	3,488	5,309	10,811	4,182[1]	—	5,293
Development/Redevelopment:							
Crystal Plaza 3 and 4—placed into service	8,353	—	8,353	—	—	—	—
2101 L Street—taken out of service	(5,717)	—	(5,717)	—	—	—	—
Bergen Town Ctr—partially taken out of service	(577)	—	—	(577)	—	—	—
Amortization of acquired below market leases, net	9,841	976	(3,062)	9,917	43	—	1,967
Operations:							
Hotel Pennsylvania	8,037	—	—	—	—	—	8,037[2]
Trade shows	1,406	—	—	—	1,406	—	—
Leasing activity (see page 72)	47,492	17,578	13,794	12,384	4,339	—	(603)
Total increase in property rentals	181,875	22,568	44,471	78,102	20,381	—	16,353
Temperature Controlled Logistics:							
Decrease due to operations	(67,771)	—	—	—	—	(67,771)[3]	—
Tenant expense reimbursements:							
Increase due to:							
Acquisitions/Development	38,260	298	13,052	21,635	3,275	—	—
Operations	16,043	4,203	3,055	6,818	582	—	1,385
Total increase in tenant expense reimbursements	54,303	4,501	16,107	28,453	3,857	—	1,385
Fee and other income:							
Increase (decrease) in:							
Lease cancellation fee income	(755)	14,796[4]	2,444	(2,028)	(15,967)[5]	—	—
Management and leasing fees	(5,177)	218	(5,896)[6]	522	(21)	—	—
BMS Cleaning fees	3,429	11,967[7]	—	—	—	—	(8,538)[7]
Other	11,489	3,578	5,206	1,317	1,304	—	84
Total increase (decrease) in fee and other income	8,986	30,559	1,754	(189)	(14,684)	—	(8,454)
Total increase (decrease) in revenues	$177,393	$57,628	$62,332	$106,366	$ 9,554	$(67,771)	$ 9,284

See notes on following page.

Notes to preceding tabular information:

(1) From our acquisition of trade show operations in Canada in November 2006.

(2) Average occupancy and revenue per available room ("REVPAR") were 82.1% and $109.53 for the year ended December 31, 2006, as compared to 83.7% and $96.85 in the prior year.

(3) Primarily from $76,300 of transportation management services revenue in the prior year from a government agency for transportation services in the aftermath of hurricane Katrina, partially offset by a $10,300 increase in other transportation revenue. See page 84 note (4) for a discussion of AmeriCold's gross margin.

(4) Primarily from the acceleration of lease termination fees from MONY Life Insurance Company upon the termination of their 289,000 square foot lease at 1740 Broadway.

(5) Primarily from lease termination income of $13,362 received from HIP at 7 West 34th Street in January 2005.

(6) Reflects an increase in rentals and a reduction in leasing and management fees as a result of acquiring the Warner and Bowen buildings, which were previously partially owned and presented as managed for third parties.

(7) Includes cleaning fees charged by BMS, a wholly-owned subsidiary of the New York Office division, to certain wholly-owned properties included in the Washington, DC Office, Retail and Merchandise Mart divisions. The elimination of these inter-company fees is shown in the Other segment.

Expenses

Our expenses, which consist of operating, depreciation and amortization and general and administrative expenses, were $1,985,189,000 for the year ended December 31, 2006, compared to $1,813,932,000 in the prior year, an increase of $171,257,000. Below are the details of the increase (decrease) by segment:

		Office				Temperature	
(AMOUNTS IN THOUSANDS)	Total	New York	Washington, DC	Retail	Merchandise Mart	Controlled Logistics	Other
Operating:							
Increase (decrease) due to:							
Acquisitions:							
Broadway Mall	$ 13,841	$ —	$ —	$13,841	$ —	$ —	$ —
Warner Building	11,931	—	11,931	—	—	—	—
Springfield Mall	9,401	—	—	9,401	—	—	—
Bowen Building	2,245	—	2,245	—	—	—	—
Boston Design Center	6,366	—	—	—	6,366	—	—
Former Toys "R" Us stores	3,234	—	—	3,234	—	—	—
1540 Broadway	1,498	96	—	1,402	—	—	—
San Francisco properties	1,773	—	—	1,773	—	—	—
Other	17,511	1,523	3,141	5,204	2,077[1]	—	5,566
Development/Redevelopment:							
Crystal Plaza 3 and 4—placed into service	3,596	—	3,596	—	—	—	—
2101 L Street—taken out of service	(2,003)	—	(2,003)	—	—	—	—
Bergen Town Ctr—partially taken out of service	62	—	—	62	—	—	—
Hotel activity	3,057	—	—	—	—	—	3,057
Trade shows activity	4,724	—	—	—	4,724[2]	—	—
Operations	(9,754)	21,730	10,948	6,913	(78)[3]	(41,870)[4]	(7,397)
Total increase (decrease) in operating expenses	67,482	23,349	29,858	41,830	13,089	(41,870)	1,226
Depreciation and amortization:							
Increase (decrease) due to:							
Acquisitions/Development	36,653	844	18,001	15,167	2,641	—	—
Operations (due to additions to buildings and improvements)	28,575	10,512	7,990	2,674	2,395	(751)	5,755
Total increase (decrease) in depreciation and amortization	65,228	11,356	25,991	17,841	5,036	(751)	5,755
General and administrative:							
Increase (decrease) due to:							
Acquisitions/Development	10,788	—	6,763	4,032	(7)	—	—
Operations	27,759	2,627	2,398	1,851	1,445	(40)	19,478[5]
Total increase (decrease) in general and administrative	38,547	2,627	9,161	5,883	1,438	(40)	19,478
Total increase (decrease) in expenses	$171,257	$37,332	$65,010	$65,554	$19,563	$(42,661)	$26,459

(1) From our acquisition of trade show operations in Canada in November 2006.

(2) Primarily from higher marketing expenses for trade shows held in 2006.

(3) Primarily from a reversal of $3,040 in allowance for doubtful accounts for receivables arising from the straight-lining of rents due to a change in estimate during the second quarter of 2006.

(4) Primarily from $60,300 of transportation management services operating expenses in 2005 related to the services provided to a government agency in the aftermath of hurricane Katrina, partially offset by a $16,000 increase in warehouse operating expenses, primarily due to an increase in utility rates. AmeriCold's gross margin from owned warehouses was $150,000, or 31.2% for 2006, compared to $159,900, or 33.7% for 2005. The decrease in gross margin from owned warehouses was primarily due to higher facility costs as noted above. Gross margin from transportation management services, managed warehouses and other non-warehouse activities was $8,400, or 2.8% for 2006, compared to $24,300, or 6.5% for 2005, a $15,900 decrease. This decrease was primarily due to higher transportation revenues last year as noted above.

(5) The increase in corporate general and administrative expense results primarily from (i) $7,405 of amortization of stock-based compensation, including the 2006 Out-Performance Plan, stock option awards and restricted stock awards, (ii) $5,800 for our share of medicare taxes resulting from stock option exercises and the termination of a rabbi trust, (iii) an increase of $2,267 in professional fees, (iv) $2,299 from write-offs of acquisitions not consummated and (v) an increase of $1,218 in deferred compensation expense due to an increase in the value of the deferred compensation plan, which is offset by an equal amount of investment income.

(Loss) Income Applicable to Alexander's

Loss applicable to Alexander's (loan interest income, management, leasing, development and commitment fees, and equity in income) was $14,530,000 for the year ended December 31, 2006, compared to income of $59,022,000 for the prior year, a decrease of $73,552,000. The decrease is primarily due to (i) a reduction in Alexander's net gain on sale of 731 Lexington Avenue condominiums, of which our share is $26,315,000, as all of the condominium units have been sold and closed, (ii) an increase in Alexander's stock appreciation rights compensation ("SAR") expense, of which our share is $39,939,000, (iii) a $5,517,000 reduction in development and guarantee fees, primarily because 731 Lexington Avenue project was completed in 2005 and (iv) $6,122,000 of interest income in the prior year on loans to Alexander's that were repaid to us in July 2005, partially offset by (v) an increase in Alexander's operating income, of which our share is $3,452,000.

Loss Applicable to Toys

In the first quarter of 2006, Toys closed 87 Toys "R" Us stores in the United States as a result of its store-closing program. Toys incurred restructuring and other charges aggregating approximately $127,000,000 before tax, which includes $44,000,000 for the cost of liquidating the inventory. Of this amount, $94,000,000 was recognized in Toys' fourth quarter ending January 28, 2006 and $33,000,000 was recorded in Toys' first quarter ending April 29, 2006. Our 32.9% share of the $127,000,000 charge is $42,000,000, of which $27,300,000 had no income statement effect as a result of purchase price accounting and the remaining portion relating to the cost of liquidating inventory of approximately $9,100,000 after-tax, was recognized as an expense as part of our equity in Toys' net income in the first quarter of 2006.

We recorded a net loss of $47,520,000 from our investment in Toys for the year ended December 31, 2006, as compared to a net loss of $40,496,000 in the prior year. The net loss in the current year consisted of (i) our $56,219,000 share of Toys' net loss for the period from October 30, 2005 to October 28, 2006, which excludes our $9,377,000 share of the net gain recognized by Toys on the sale of 37 Toys "R" Us stores to us on October 16, 2006, which was recorded as an adjustment to the basis of our investment, partially offset by (ii) $5,731,000 of interest income from our share of Toys' senior unsecured bridge loan and (iii) $2,968,000 of management fees. The net loss in the prior year consisted of (i) our $46,789,000 share of Toys' net loss for the period ended July 21, 2005 (date of our acquisition) to October 29, 2005, partially offset by (ii) $5,043,000 of interest from our share of Toys' senior unsecured bridge loan and (iii) $1,250,000 of management fees.

The unaudited information set forth below presents our pro forma condensed consolidated statement of income for the year ended December 31, 2005 (including Toys' results for the twelve months ended October 29, 2005) as if the above transaction occurred on February 1, 2004. The unaudited pro forma information below is not necessarily indicative of what our actual results would have been had the Toys transaction been consummated on February 1, 2004, nor does it represent the results of operations for any future periods. In our opinion, all adjustments necessary to reflect this transaction have been made.

Condensed Consolidated Statements of Income

For the Year Ended December 31,

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Actual **2006**	Pro Forma 2005
Revenues	$2,712,095	$2,534,702
Income before allocation to minority limited partners	$ 640,700	$ 656,924
Minority limited partners' interest in the Operating Partnership	(58,712)	(64,686)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	(67,119)
Net income	560,140	525,119
Preferred share dividends	(57,511)	(46,501)
Net income applicable to common shares	$ 502,629	$ 478,618
Net income per common share—basic	$ 3.54	$ 3.58
Net income per common share—diluted	$ 3.35	$ 3.40

Income from Partially Owned Entities

Summarized below are the components of income from partially owned entities for the years ended December 31, 2006 and 2005.

For The Year Ended December 31, (AMOUNTS IN THOUSANDS)	**2006**	2005
Equity in Net Income (Loss):		
Newkirk MLP:		
15.8% share of equity in net income	$34,459[1]	$10,196[1]
Interest and other income	—	9,154[2]
	34,459	19,350
H Street:		
50% share of equity in income	11,074[3]	—
Beverly Connection:		
50% share of equity in net loss	(8,567)	(4,790)
Interest and fee income	10,837	8,303
	2,270	3,513
GMH Communities L.P:		
13.5% in 2006 and 12.08% in 2005 share of equity in net (loss) income	(1,013)[4]	1,528
Other[5]	14,987	11,774[6]
	$61,777	$36,165

(1) 2006 includes (i) a $10,362 net gain recognized as a result of the acquisition of Newkirk by Lexington and (ii) $10,842 for our share of net gains on sale of real estate. 2005 includes (i) $9,445 for our share of losses on the early extinguishment of debt and write-off of related deferred financing costs, (ii) $6,602 for our share of impairment losses, partially offset by (iii) $4,236 for our share of net gains on sale of real estate. Excluding the above items, our share of Newkirk MLP's net income was $8,750 lower than the prior year, primarily as a result of asset sales.

(2) 2005 includes $16,053 for our share of net gains on disposition of T-2 assets, partially offset by $8,470 for our share of expense from payment of promoted obligations to partner.

(3) We account for H Street partially owned entities on the equity method on a one-quarter lag basis. Prior to the quarter ended June 30, 2006, two 50% owned entities that are contesting our acquisition of H Street impeded access to their financial information and accordingly, we were unable to record our pro rata share of their earnings. During the year ended December 31, 2006, based on the financial information provided to us, we recognized equity in net income of $11,074 from these entities, of which $3,890 represents our 50% share of their earnings for the period from July 20, 2005 (date of acquisition) to December 31, 2005.

(4) We account for our investment in GMH on the equity method and record our pro rata share of GMH's net income or loss on a one-quarter lag basis as we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that GCT files its financial statements. On July 31, 2006, GCT filed its annual report on Form 10-K for the year ended December 31, 2005, which restated the quarterly financial results of each of the first three quarters of 2005. Accordingly, we recognized a net loss of $1,013 the year ended December 31, 2006 for our share of GMH's earnings from October 1, 2005 through September 30, 2006. Of this amount, $94 represents our share of GMH's 2005 fourth quarter net loss, net of adjustments to restate its first three quarters of 2005.

(5) Includes our equity in net earnings of partially owned entities including, partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Dune Capital LP, Verde Group LLC, and others.

(6) Includes $2,173 for a prepayment penalty from the Monmouth Mall venture in August 2005 upon the repayment of our initial preferred equity investment.

Interest and Other Investment Income

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $262,188,000 for the year ended December 31, 2006, compared to $167,220,000 in the year ended December 31, 2005, an increase of $94,968,000. This increase resulted from the following:

(AMOUNTS IN THOUSANDS)	
Increase (decrease) due to:	
McDonalds derivative position—net gain of $138,815 this year compared to $17,254 in the prior year	$121,561
GMH warrants derivative position—net loss of $16,370 this year compared to a net gain of $14,080 in the prior year	(30,450)
Sears Holding derivative position and common shares—net gain of $18,611 this year compared to $41,482 in the prior year (investment sold in the first quarter of 2006)	(22,871)
Sears Canada—income in 2005 as a result of special dividend	(22,885)
Mezzanine loans—income of $56,496 this year compared to $39,548 in the prior year primarily as a result of new loans in 2006 aggregating $360,000, partially offset by the repayment of an aggregate of $168,000 during 2006	16,948
Other derivatives—net gain of $12,153 this year	12,153
Other, net—primarily due to interest earned on higher average cash balances	20,512
	$ 94,968

Interest and Debt Expense

Interest and debt expense was $477,775,000 for the year ended December 31, 2006, compared to $339,952,000 in the year ended December 31, 2005, an increase of $137,823,000. This increase was primarily due to (i) $69,200,000 from a $3.2 billion increase in outstanding debt due to property acquisitions and refinancings, (ii) $13,000,000 from a 117 basis point increase in the weighted average interest rate on variable rate of debt, (iii) $12,300,000 from the February 16, 2006 issuance of $250,000,000 unsecured notes due 2011, (iv) $33,400,000 for loan defeasance costs and the write-off of unamortized debt issuance costs, partially offset by (v) $10,614,000 of an increase in the amount of capitalized interest relating to a larger amount of assets under development this year.

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 of $76,073,000 for the year ended December 31, 2006 consists primarily of net gains on sale of marketable equity securities. Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate of $39,042,000 for the year ended December 31, 2005 is comprised of (i) $25,346,000 of net gains on sales of marketable equity securities, of which $9,017,000 relates to the disposition of the Prime Group common shares, (ii) $12,110,000 for the net gain on disposition of the Company's senior preferred equity investment in 3700 Las Vegas Boulevard and (iii) $1,586,000 relates to net gains on sale of land parcels.

Minority Interest of Partially Owned Entities

Minority interest of partially owned entities represents the minority partners' pro rata share of the net income or loss of consolidated partially owned entities, including AmeriCold, 220 Central Park South, Wasserman and the Springfield Mall. Minority interest of partially owned entities was income of $20,173,000 for the year ended December 31, 2006, compared to expense of $3,808,000 in the prior year, a change of $23,981,000. This change relates primarily to AmeriCold, which had a net loss for the year ended December 31, 2006, as compared to net income for the year ended December 31, 2005.

Discontinued Operations

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2006 and 2005 include the operating results of Vineland, New Jersey; 33 North Dearborn Street in Chicago, Illinois, which was sold on March 14, 2006; 424 Sixth Avenue in New York City, which was sold on March 13, 2006 and 1919 South Eads Street in Arlington, Virginia, which was sold on June 22, 2006.

December 31, (AMOUNTS IN THOUSANDS)	2006	2005
Total revenues	$ 2,464	$15,374
Total expenses	2,825	11,473
Net (loss) income	(361)	3,901
Net gains on sale of real estate	33,769	31,614
Income from discontinued operations	$33,408	$35,515

On March 13, 2006, we sold 424 Sixth Avenue, a 10,000 square foot retail property located in New York City, for $22,000,000, which resulted in a net gain of $9,218,000.

On March 14, 2006, we sold 33 North Dearborn Street, a 336,000 square foot office building located in Chicago, Illinois, for $46,000,000, which resulted in a net gain of $4,835,000.

On June 22, 2006, we sold 1919 South Eads Street, a 96,000 square foot office building located in Arlington, Virginia for $38,400,000, which resulted in a net gain of $17,609,000.

On April 21, 2005, we, through our 85% joint venture, sold 400 North LaSalle, a 452-unit high-rise residential tower in Chicago, Illinois, for $126,000,000, which resulted in a net gain on sale after closing costs of $31,614,000.

Perpetual Preferred Unit Distributions of the Operating Partnership

Perpetual preferred unit distributions of the Operating Partnership were $21,848,000 for the year ended December 31, 2006, compared to $67,119,000 for the prior year, a decrease of $45,271,000. This decrease resulted primarily from the redemption of an aggregate of $742,000,000 8.25% Series D preferred units (Series D-3 through D-9) during 2005 and 2006, partially offset by the issuance of $100,000,000 6.75% D-14 units in September 2005 and the issuance of the $45,000,000 6.875% D-15 units in May and August 2006. See preferred share dividends discussion below for details of aggregate amounts outstanding.

Minority Limited Partners' Interest in the Operating Partnership

Minority limited partners' interest in the Operating Partnership was $58,712,000 for the year ended December 31, 2006 compared to $66,755,000 for the prior year, a decrease of $8,043,000. This decrease results primarily from a lower minority limited partnership ownership interest due to the conversion of Class A operating partnership units into our common shares during 2006 and 2005.

Preferred Share Dividends

Preferred share dividends were $57,511,000 for the year ended December 31, 2006, compared to $46,501,000 for the prior year, an increase of $11,010,000. This increase resulted primarily from dividends paid on the 6.75% Series H and 6.625% Series I Cumulative Redeemable Preferred Shares which were issued in June 2005 and August 2005, respectively, partially offset by a $3,852,000 write-off of issuance costs in the first quarter of 2005 related to the redemption of the Series C preferred shares.

We have an aggregate of $1.2 billion perpetual preferred shares and Operating Partnership units outstanding with a weighted average rate of 6.6% as of December 31, 2006, as compared to an aggregate of $1.2 billion with a weighted average rate of 6.6% as of December 31, 2005, and $1.5 billion with a weighted average rate of 7.5% as of December 31, 2004.

EBITDA

Below are the details of the changes by segment in EBITDA.

		Office						
(AMOUNTS IN THOUSANDS)	Total	New York	Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other
Year ended December 31, 2005	$1,301,628	$341,601	$290,777	$212,700	$149,092	$75,766	$ 14,860	$216,832
2006 Operations:								
Same store operations(1)		21,260	12,844	13,863	2,841	(148)		
Acquisitions, dispositions and non-same store income and expenses		13,856	63,158	52,297	(7,092)	(9,327)		
Year ended December 31, 2006	$1,783,303	$376,717	$366,779	$278,860	$144,841	$66,291	$263,287	$286,528
% increase (decrease) in same store operations		6.1%	4.3%	6.8%	1.9%	(0.2%)		

(1) Represents the increase (decrease) in property-level operations which were owned for the same period in each year and excludes the effect of property acquisitions, dispositions and other non-operating items that affect comparability, including divisional general and administrative expenses. Beginning on January 1, 2006, we have revised our definition of same store operations to exclude divisional general and administrative expenses. We utilize this measure to make decisions on whether to buy or sell properties as well as to compare the performance of our properties to that of our peers. Same store operations may not be comparable to similarly titled measures employed by other companies.

Results of Operations—Years Ended December 31, 2005 and December 31, 2004

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 pursuant to SFAS No. 141 and 142, and fee income, were $2,534,702,000 for the year ended December 31, 2005, compared to $1,699,694,000 in the prior year, an increase of $835,008,000. Below are the details of the increase (decrease) by segment:

(AMOUNTS IN THOUSANDS)	Total	Office		Retail	Merchandise Mart	Temperature Controlled Logistics	Other
		New York	Washington, DC				
Property rentals:							
Increase (decrease) due to:							
Acquisitions:							
Bowen Building	$ 4,985	$ —	$ 4,985	$ —	$ —	$ —	$ —
Westbury Retail Condominium	4,181	—	—	4,181	—	—	—
So. California Supermarkets	3,044	—	—	3,044	—	—	—
40 East 66th Street	2,481	—	—	1,246	—	—	1,235
Crystal City Marriott	2,386	—	2,386	—	—	—	—
Burnside Plaza Shopping Center	1,819	—	—	1,819	—	—	—
Rockville Town Center	1,811	—	—	1,811	—	—	—
386 and 387 W. Broadway	1,623	—	—	1,623	—	—	—
Lodi Shopping Center	1,603	—	—	1,603	—	—	—
220 Central Park South	1,248	—	—	—	—	—	1,248
H Street	1,180	—	1,180	—	—	—	—
South Hills Mall	1,146	—	—	1,146	—	—	—
Starwood Ceruzzi Venture—effect of consolidating from August 8, 2005 vs. equity method prior	919	—	—	919	—	—	—
Other	4,632	426	492	3,555	159	—	—
Development/Redevelopment:							
Crystal Plaza 2, 3 and 4—taken out of service	(10,415)	—	(10,415)	—	—	—	—
4 Union Square South—placed into service	4,042	—	—	4,042	—	—	—
7 West 34th Street—conversion from office space to showroom space	(2,234)	—	—	—	(2,234)	—	—
715 Lexington Avenue—placed into service	1,484	—	—	1,484	—	—	—
Bergen Town Ctr—partially taken out of service	(1,300)	—	—	(1,300)	—	—	—
East Brunswick—placed into service	820	—	—	820	—	—	—
Crystal Drive Retail—placed into service	814	—	814	—	—	—	—
Amortization of acquired below market leases, net	(1,152)	—	(2,688)	723	—	—	813
Hotel activity	11,309	—	—	—	—	—	11,309[1]
Trade shows activity	3,204	—	—	—	3,204[2]	—	—
Leasing activity (see page 73)	7,828	16,321	(12,647)[3]	4,064	4,689	—	(4,599)[4]
Total increase (decrease) in property rentals	47,458	16,747	(15,893)	30,780	5,818	—	10,006
Tenant expense reimbursements:							
Increase (decrease) due to:							
Acquisitions/Development	1,755	24	1,565	2,332	(2,166)	—	—
Operations	16,176	9,555	308	6,589	275	—	(551)
Total increase (decrease) in tenant expense reimbursements	17,931	9,579	1,873	8,921	(1,891)	—	(551)

See notes on following page.

(AMOUNTS IN THOUSANDS)	Total	Office		Retail	Merchandise Mart	Temperature Controlled Logistics	Other
		New York	Washington, DC				
Temperature Controlled Logistics (effect of consolidating from November 18, 2004 vs. equity method prior)	$759,453	$ —	$ —	$ —	$ —	$759,453	$ —
Fee and other income:							
Increase (decrease) in:							
Lease cancellation fee income	13,128	282	(2,232)	1,690	13,388[5]	—	—
Management and leasing fees	(1,321)	(145)	(922)	(143)	(95)	—	(16)
BMS Cleaning fees	(943)	(943)	—	—	—	—	—
Other	(698)	(1,664)	1,962	(637)	(298)	—	(61)
Total increase (decrease) in fee and other income	10,166	(2,470)	(1,192)	910	12,995	—	(77)
Total increase (decrease) in revenues	$835,008	$23,856	$(15,212)	$40,611	$16,922	$759,453	$9,378

Notes to preceding tabular information:

(1) Average occupancy and revenue per available room ("REVPAR") were 83.7% and $96.85 for the year ended December 31, 2005, as compared to 78.9% and $77.56 in the prior year.

(2) Primarily from an increase in booth sales at several of the trade shows held in 2005.

(3) Primarily from the PTO leases expiring at our Crystal City properties. See Overview—Leasing Activity for details.

(4) Primarily from the contribution, in November 2004, of the Company's 90% interest in Student Housing (Campus Club Gainsville LLC) in exchange for limited partnership units in GMH Communities L.P. The investment in Student Housing was consolidated into the accounts of the Company whereas the investment in GMH Communities L.P. is accounted for on the equity method.

(5) Primarily from lease termination income of $13,362 received from HIP at 7 West 34th Street in January 2005.

Expenses

Our expenses were $1,813,932,000 for the year ended December 31, 2005, compared to $1,064,306,000 in the prior year, an increase of $749,626,000.

Below are the details of the increase (decrease) by segment:

(AMOUNTS IN THOUSANDS)	Total	Office New York	Office Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Operating:							
Increase (decrease) due to:							
AmeriCold—effect of consolidating from November 18, 2004 vs. equity method prior	$594,714	—	—	$ —	$ —	$594,714	$ —
Acquisitions:							
Bowen Building	1,769	—	1,769	—	—	—	—
Starwood Ceruzzi Venture—effect of consolidating from August 8, 2005 vs. equity method prior	1,314	—	—	1,314	—	—	—
40 East 66th Street	1,229	—	—	376	—	—	853
220 Central Park South	1,152	—	—	—	—	—	1,152
South Hills Mall	979	—	—	979	—	—	—
Burnside Plaza Shopping Center	931	—	—	931	—	—	—
Westbury Retail Condominium	928	—	—	928	—	—	—
H Street	717	—	717	—	—	—	—
Rockville Town Center	518	—	—	518	—	—	—
Lodi Shopping Center	469	—	—	469	—	—	—
Other	1,745	99	299	1,283	64	—	—
Development/Redevelopment:							
Bergen Town Ctr—partially taken out of service	(2,785)	—	—	(2,785)	—	—	—
Crystal Plaza 2, 3 and 4—taken out of service	(2,536)	—	(2,536)	—	—	—	—
7 West 34th Street—conversion from office space to showroom space	1,898	—	—	—	1,898	—	—
4 Union Square South—placed into service	1,344	—	—	1,344	—	—	—
715 Lexington Avenue—placed into service	609	—	—	609	—	—	—
Crystal Drive Retail—placed into service	559	—	559	—	—	—	—
East Brunswick—placed into service	(189)	—	—	(189)	—	—	—
Hotel activity	3,843	—	—	—	—	—	3,843
Trade shows activity	1,254	—	—	—	1,254(1)	—	—
Operations	12,461	13,421(2)	(1,392)	4,896	(1,784)(3)	—	(2,680)
Total increase (decrease) in operating expenses	622,923	13,520	(584)	10,673	1,432	594,714	3,168
Depreciation and amortization:							
Increase (decrease) due to:							
AmeriCold—effect of consolidating from November 18, 2004 vs. equity method prior	65,808	—	—	—	—	65,808	—
Acquisitions/Development	9,626	127	1,730	6,620	1,149	—	—
Operations (due to additions to buildings and improvements)	14,975	4,997	4,477	(277)	3,684	—	2,094
Total increase in depreciation and amortization	90,409	5,124	6,207	6,343	4,833	65,808	2,094
General and administrative:							
Increase (decrease) due to:							
AmeriCold—effect of consolidating from November 18, 2004 vs. equity method prior	36,661	—	—	—	—	36,661	—
Acquisitions	3,240	4	2,613	400	223	—	—
Operations	(2,132)	709	(1,644)	2,255(4)	1,964(5)	—	(5,416)(6)
Total increase (decrease) in general and administrative	37,769	713	969	2,655	2,187	36,661	(5,416)
Costs of acquisition not consummated	(1,475)	—	—	—	—	—	(1,475)(7)
Total increase (decrease) in expenses	$749,626	$19,357	$ 6,592	$19,671	$ 8,452	$697,183	$(1,629)

See notes on following page.

Notes to preceding tabular information:

(1) Primarily from an increase in trade show marketing expenses.

(2) From increases in operating expenses, including $7,588 in real estate taxes and $10,155 in utility costs, net of a $5,376 reduction in bad debt expense and other expenses.

(3) Primarily due to a $3,000 reduction in bad debt expense, partially offset by an increase in utilities expense of $904.

(4) Primarily from the increase in payroll and benefits resulting from the growth in this segment.

(5) Primarily from (i) a $547 increase in payroll and benefits, (ii) a $401 write-off of pre-acquisition costs, (iii) $354 for costs incurred in connection with a tenant escalation dispute settled in our favor and (iv) a $286 increase in income tax expense.

(6) The decrease in general and administrative expenses results from:

Bonuses to four executive vice presidents in connection with the successful leasing, development and financing of Alexander's in 2004	*$(6,500)*
Cost of Vornado Operating Company litigation in 2004	*(4,643)*
Increase in payroll and fringes in 2005	*3,244*
Charitable contributions in 2005	*1,119*
Other, net	*1,364*
	$(5,416)

(7) Costs expensed in 2004 as a result of an acquisition not consummated.

Income Applicable to Alexander's

Income applicable to Alexander's (loan interest income, management, leasing, development and commitment fees, and equity in income) was $59,022,000 for the year ended December 31, 2005, compared to $8,580,000 for the prior year, an increase of $50,442,000. The increase is primarily due to (i) $30,895,000 for our share of Alexander's after-tax net gain on sale of condominiums in 2005, (ii) a decrease in Alexander's stock appreciation rights compensation ("SAR") expense, of which our share is $16,236,000, (iii) income from Alexander's 731 Lexington Avenue property which was placed into service subsequent to the third quarter of 2004, (iv) an increase of $2,465,000 in development and guarantee fees, (v) an increase of $1,399,000 in management and leasing fees, partially offset by, (vi) a decrease of $2,520,000 in interest income on our loans to Alexander's which were repaid in July 2005 and (vii) $1,274,000 for our share of a gain on sale of land parcel in 2004.

Loss Applicable to Toys "R" Us

The business of Toys is highly seasonal. Historically, Toys fourth quarter net income accounts for more than 80% of its fiscal year net income. Because Toys' fiscal year ends on the Saturday nearest January 31, we record our 32.9% share of Toys net income or loss on a one-quarter lag basis. Accordingly, we recorded our share of Toys' fourth quarter net income in our first quarter of 2006. Equity in net loss from Toys for the period from July 21, 2005 (date of acquisition) through December 31, 2005 was $40,496,000 which consisted of (i) our $1,977,000 share of Toys net loss in Toys' second quarter ended July 30, 2005 for the period from July 21, 2005 (date of acquisition) through July 30, 2005, (ii) our $44,812,000 share of Toys net loss in Toys' third quarter ended October 29, 2005, partially offset by, (iii) $5,043,000 of interest income on our senior unsecured bridge loan and (iv) $1,250,000 of management fees.

The unaudited pro forma information set forth below presents our condensed consolidated statements of income for the years ended December 31, 2005 and 2004 (including Toys' results for the twelve months ended October 29, 2005 and October 30, 2004, respectively) as if the above transactions had occurred on November 1, 2003. The unaudited pro forma information below is not necessarily indicative of what our actual results would have been had the Toys transactions been consummated on November 1, 2003, nor does it represent the results of operations for any future periods. In our opinion, all adjustments necessary to reflect these transactions have been made.

Pro Forma Condensed Consolidated Statements of Income

For the Year Ended December 31,

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Pro Forma 2005	Pro Forma 2004
Revenues	$2,534,702	$1,699,694
Income before allocation to minority limited partners	$ 656,924	$ 717,891
Minority limited partners' interest in the Operating Partnership	(64,686)	(84,063)
Perpetual preferred unit distributions of the Operating Partnership	(67,119)	(69,108)
Net income	525,119	564,720
Preferred share dividends	(46,501)	(21,920)
Net income applicable to common shares	$ 478,618	$ 542,800
Net income per common share—basic	$ 3.58	$ 4.33
Net income per common share—diluted	$ 3.40	$ 4.08

Income from Partially Owned Entities

Summarized below are the components of income from partially owned entities for the years ended December 31, 2005 and 2004.

For The Years Ended December 31,

(AMOUNTS IN THOUSANDS)	2005	2004
Equity in Net Income (Loss):		
Newkirk MLP:		
15.8% in 2005 and 22.4% in 2004 share of equity in net income	$10,196[2]	$24,041[3]
Interest and other income	9,154	11,396
	19,350	35,437
Beverly Connection (acquired in March 2005):		
50% share of equity in net loss	(4,790)	—
Interest and fee income	8,303	—
	3,513	—
GMH Communities L.P.:		
11.3% share of equity in net income	1,528	—
Other[1]	11,774[4]	7,944[5]
	$36,165	$43,381

(1) Includes our equity in net earnings of partially owned entities including, partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Dune Capital L.P., Verde Group LLC, and others.

(2) 2005 includes (i) $16,053 for our share of net gains on disposition of T-2 assets, (ii) $9,445 for our share of losses on the early extinguishment of debt and write-off of related deferred financing costs, (iii) $6,602 for our share of impairment losses, (iv) $8,470 for our share of expense from the payment of promoted obligations to partner, partially offset by (v) $4,236 for our share of net gains on sale of real estate.

(3) 2004 includes (i) $7,494 for our share of net gain on sale of Newkirk MLP option units, (ii) $2,705 for our share of net gains on sale of real estate, partially offset by (iii) $2,901 for our share of impairment losses. In addition, we have excluded our $7,119 share of the gain recognized by Newkirk MLP on the sale of its Stater Brothers real estate portfolio to us on July 29, 2004, which was reflected as an adjustment to the basis of our investment in Newkirk MLP.

(4) Includes $2,173 for a prepayment penalty from the Monmouth Mall venture in August 2005 upon the repayment of our initial preferred equity investment and $1,351 of income recognized from our $50,000 investment in Dune Capital L.P. made in 2005.

(5) Includes our $3,833 share of Starwood Ceruzzi's impairment loss.

Interest and Other Investment Income

Interest and other investment income (interest income on mortgage loans receivable, other interest income and dividend income) was $167,220,000 for the year ended December 31, 2005, compared to $203,998,000 in the year ended December 31, 2004, a decrease of $36,778,000. This decrease resulted from the following:

(AMOUNTS IN THOUSANDS)	
Increase (decrease) due to:	
Income of $81,730 from the mark-to-market of Sears derivative position in 2004, partially offset by income of $14,968 in 2005 from the net gain on conversion of Sears derivative position to Sears Holdings derivative position on March 30, 2005 and mark-to-market adjustments through 2005	$(66,762)
Net gain on exercise of GMH warrants in 2004	(29,452)
Net gain on conversion of Sears common shares to Sears Holdings common shares and sale in 2005	26,514
Income recognized as a result of Sears Canada special dividend in 2005	22,885
Income from the mark-to-market of McDonalds derivative position in 2005	17,254
Interest on $159,000 commitment to GMH in 2004, which was satisfied in November 2004	(16,581)
Income of $24,190 from the mark-to-market of GMH warrants in 2004, partially offset by income of $14,080 from the mark-to-market of the warrants in through 2005	(10,110)
Other, net—primarily due to higher yields on higher average amounts invested	19,474
	$(36,778)

Interest and Debt Expense

Interest and debt expense was $339,952,000 for the year ended December 31, 2005, compared to $242,142,000 in the year ended December 31, 2004, an increase of $97,810,000. This increase is primarily due to (i) $49,893,000 resulting from the consolidation of our investment in AmeriCold from November 18, 2004 versus accounting for the investment on the equity method previously, (ii) $26,199,000 from a 2.27% increase in the weighted average interest rate on variable rate debt, (iii) $15,335,000 of interest expense on the $500,000,000 exchangeable senior debentures issued in March 2005 and (iv) $6,881,000 of additional interest expense on the $250,000,000 senior unsecured notes due 2009, which were issued in August 2004.

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 of $39,042,000 for the year ended December 31, 2005 is comprised of (i) $25,346,000 of net gains on sales of marketable equity securities, of which $9,017,000 relates to the disposition of Prime Group common shares, (ii) $12,110,000 for the net gain on disposition of our senior preferred equity investment in 3700 Las Vegas Boulevard and (iii) $1,586,000 relates to net gains on sale of land parcels. Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate of $19,775,000 for the year ended December 31, 2004 primarily represents an $18,789,000 net gain on sale of a portion of our investment in AmeriCold to Yucaipa in November 2004.

Minority Interest of Partially Owned Entities

Minority interest expense of partially owned entities was $3,808,000 for the year ended December 31, 2005, compared to $109,000 in the prior year, an increase of $3,699,000. This increase resulted primarily from the consolidation of our investment in AmeriCold beginning on November 18, 2004 versus accounting for the investment on the equity method in the prior year.

Discontinued Operations

Assets related to discontinued operations consist primarily of real estate, net of accumulated depreciation. The following table sets forth the balances of the assets related to discontinued operations as of December 31, 2005 and 2004.

December 31, (AMOUNTS IN THOUSANDS)	2005	2004
400 North LaSalle	$ —	$ 82,624
Vineland	908	908
424 Sixth Avenue	11,870	11,949
33 North Dearborn Street	43,148	40,742
1919 South Eads Street	20,435	21,392
	$76,361	$157,615

The following table sets forth the balances of the liabilities related to discontinued operations (primarily mortgage notes payable) as of December 31, 2005 and 2004.

December 31, (AMOUNTS IN THOUSANDS)	2005	2004
400 North LaSalle	$ —	$ 5,187
33 North Dearborn Street	1,050	—
1919 South Eads Street	11,781	12,059
	$12,831	$17,246

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2005 and 2004 are as follows:

December 31, (AMOUNTS IN THOUSANDS)	2005	2004
Total revenues	$15,374	$27,364
Total expenses	11,473	21,874
Net income	3,901	5,490
Net gains on sale of real estate	31,614	75,755
Income from discontinued operations	$35,515	$81,245

On April 21, 2005, we, through our 85% joint venture, sold 400 North LaSalle, a 452-unit high-rise residential tower in Chicago, Illinois, for $126,000,000, which resulted in a net gain on sale after closing costs of $31,614,000. All of the proceeds from the sale were reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031 of the Internal Revenue Code.

In anticipation of selling the Palisades Residential Complex, on February 27, 2004, we acquired the remaining 25% interest in the Palisades venture that we did not previously own for approximately $17,000,000 in cash. On June 29, 2004, we sold the Palisades for $222,500,000, which resulted in a net gain on sale after closing costs of $65,905,000.

On August 12, 2004, we sold our Dundalk, Maryland shopping center for $12,900,000, which resulted in a net gain on sale after closing costs of $9,850,000.

Perpetual Preferred Unit Distributions of the Operating Partnership

Perpetual preferred unit distributions of the Operating Partnership were $67,119,000 for the year ended December 31, 2005, compared to $69,108,000 for the prior year, a decrease of $1,989,000. This decrease resulted primarily from the redemption of (i) $80,000,000 of the 8.25% Series D-3 preferred units in January 2005, (ii) $245,000,000 of the remaining 8.25% Series D-3 and D-4 preferred units in July 2005, (iii) $342,000,000 of the 8.25% Series D-5 and D-7 preferred units in September 2005 and (iv) $30,000,000 of the 8.25% Series D-6 and D-8 preferred units in December 2005, partially offset by, (v) a $19,017,000 write-off of the issuance costs of the preferred units redeemed in 2005, and (vi) distributions to holders of the 7.20% Series D-11 and 6.55% Series D-12 units issued in May and December 2004.

Minority Limited Partners' Interest in the Operating Partnership

Minority limited partners' interest in the Operating Partnership was $66,755,000 for the year ended December 31, 2005 compared to $88,091,000 for the prior year, a decrease of $21,336,000. This decrease results primarily from a lower minority limited partnership ownership interest due to the conversion of Class A Operating Partnership units into Vornado common shares during 2004 and 2005, and lower net income subject to allocation to the minority limited partners.

EBITDA

Below are the details of the changes by segment in EBITDA.

		Office						
(AMOUNTS IN THOUSANDS)	Total	New York	Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other
Year ended December 31, 2004	$1,204,850	$330,689	$304,200	$177,826	$134,930	$71,514	$ —	$185,691
2005 Operations:								
Same store operations(1)		13,811	(13,521)	4,977	5,788	—	—	
Acquisitions, dispositions and non-same store income and expenses		(2,899)	98	29,897	8,374	4,252	14,860(4)	
Year ended December 31, 2005	$1,301,628	$341,601	$290,777	$212,700	$149,092	$75,766	$14,860	$216,832
% increase (decrease) in same store operations		4.3%	(4.7%)	3.2%	4.7%(2)	N/A(3)		

(1) Represents operations which were owned for the same period in each year and excludes non-recurring income and expenses which are included in "acquisitions, dispositions and non-same store income and expenses" above.

(2) EBITDA and the same store percentage increase reflect the commencement of the WPP Group leases (228 square feet) in the third quarter of 2004 and the Chicago Sun Times lease (127 square feet) in the second quarter of 2004. The same store percentage increase in EBITDA exclusive of these leases was 0.9%.

(3) Not comparable because prior to November 4, 2004, (the date the operations of AmeriCold Logistics were combined with AmeriCold Realty Trust), we reflected our equity in the rent AmeriCold received from AmeriCold Logistics. Subsequent thereto, we consolidate the operations of the combined company.

(4) The business of Toys is highly seasonal. Historically, Toys fourth quarter net income accounts for more than 80% of its fiscal year net income. Because Toys' fiscal year ends on the Saturday nearest January 31, we record our 32.9% share of Toys net income or loss on a one-quarter lag basis. Accordingly, we recorded our share of Toys fourth quarter net income in our first quarter of 2006. Toys EBITDA above includes (i) our share of Toys' EBITDA for the period from July 21, 2005 (date of acquisition) through October 29, 2005, (ii) $5,043 of interest income on our senior unsecured bridge loan and (iii) $1,250 of management fees.

Supplemental Information

Three Months Ended December 31, 2006 and December 31, 2005

Below is a summary of Net Income and EBITDA by segment for the three months ended December 31, 2006 and 2005.

For the Three Months Ended December 31, 2006

(AMOUNTS IN THOUSANDS)	Total	Office New York	Office Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other[2]
Property rentals	$ 391,512	$124,861	$102,255	$ 74,096	$65,021	$ —	$ —	$ 25,279
Straight-line rents:								
Contractual rent increases	7,018	996	3,138	1,424	1,459	—	—	1
Amortization of free rent	7,949	2,449	3,558	864	1,078	—	—	—
Amortization of acquired below-market leases, net	8,256	932	1,298	5,515	16	—	—	495
Total rentals	414,735	129,238	110,249	81,899	67,574	—	—	25,775
Temperature Controlled Logistics	205,933	—	—	—	—	205,933	—	—
Tenant expense reimbursements	70,225	24,944	10,801	28,606	3,880	—	—	1,994
Fee and other income:								
Tenant cleaning fees	9,308	11,428	—	—	—	—	—	(2,120)
Management and leasing fees	2,423	293	1,956	279	(105)	—	—	—
Lease termination fees	11,451	11,277	188	—	(14)	—	—	—
Other	9,177	3,762	3,581	298	1,454	—	—	82
Total revenues	723,252	180,942	126,775	111,082	72,789	205,933	—	25,731
Operating expenses	366,922	75,140	41,224	38,013	30,322	168,328	—	13,895
Depreciation and amortization	105,925	29,597	27,202	13,657	11,611	19,384	—	4,474
General and administrative	70,611	4,542	9,333	6,403	6,065	12,752	—	31,516
Total expenses	543,458	109,279	77,759	58,073	47,998	200,464	—	49,885
Operating income (loss)	179,794	71,663	49,016	53,009	24,791	5,469	—	(24,154)
(Loss) income applicable to Alexander's	(22,099)	186	—	181	—	—	—	(22,466)
Loss applicable to Toys "R" Us	(51,697)	—	—	—	—	—	(51,697)	—
Income from partially owned entities	18,081	992	2,727	1,915	91	373	—	11,983
Interest and other investment income	124,994	435	719	165	66	3,996	—	119,613
Interest and debt expense	(137,312)	(22,183)	(23,681)	(17,728)	(8,648)	(35,132)	—	(29,940)
Net gain on disposition of wholly-owned and partially owned assets other than depreciable real estate	10,546	—	—	—	—	—	—	10,546
Minority interest of partially owned entities	14,795	—	—	18	1	14,395	—	381
Income (loss) from continuing operations	137,102	51,093	28,781	37,560	16,301	(10,899)	(51,697)	65,963
(Loss) income from discontinued operations, net	(97)	—	(7)	(41)	(62)	—	—	13
Income (loss) before allocation to minority limited partners	137,005	51,093	28,774	37,519	16,239	(10,899)	(51,697)	65,976
Minority limited partners' interest in the Operating Partnership	(12,411)	—	—	—	—	—	—	(12,411)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	—	—	—	—	—	—	(4,818)
Net income (loss)	119,776	51,093	28,774	37,519	16,239	(10,899)	(51,697)	48,747
Interest and debt expense[1]	181,393	22,861	25,304	20,038	8,865	16,716	47,462	40,147
Depreciation and amortization[1]	142,501	30,583	30,694	14,465	11,769	9,253	35,539	10,198
Income tax (benefit) expense[1]	(8,561)	—	1,902	—	(775)	278	(10,316)	350
EBITDA	$ 435,109	$104,537	$ 86,674	$ 72,022	$36,098	$ 15,348	$ 20,988	$ 99,442

See notes on page 100.

For the Three Months Ended December 31, 2005

(AMOUNTS IN THOUSANDS)	Total	Office New York	Office Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other[2]
Property rentals	$344,223	$118,423	$ 94,782	$52,542	$56,376	$ —	$ —	$22,100
Straight-line rents:								
Contractual rent increases	8,927	1,478	3,161	1,609	2,672	—	—	7
Amortization of free rent	5,904	1,850	2,489	2,185	(620)	—	—	—
Amortization of acquired below-market leases, net	4,828	—	2,190	1,911	—	—	—	727
Total rentals	363,882	121,751	102,622	58,247	58,428	—	—	22,834
Temperature Controlled Logistics	253,987	—	—	—	—	253,987	—	—
Tenant expense reimbursements	54,057	25,546	5,596	18,534	3,693	—	—	688
Fee and other income:								
Tenant cleaning fees	7,130	7,130	—	—	—	—	—	—
Management and leasing fees	4,820	225	4,359	224	12	—	—	—
Lease termination fees	5,385	3,693	111	—	1,581	—	—	—
Other	5,253	3,291	746	67	1,149	—	—	—
Total revenues	694,514	161,636	113,434	77,072	64,863	253,987	—	23,522
Operating expenses	368,703	69,285	34,373	24,265	26,080	201,319	—	13,381
Depreciation and amortization	89,624	22,791	22,609	9,158	11,770	18,125	—	5,171
General and administrative	48,303	3,823	8,022	4,623	6,290	9,867	—	15,678
Total expenses	506,630	95,899	65,004	38,046	44,140	229,311	—	34,230
Operating income (loss)	187,884	65,737	48,430	39,026	20,723	24,676	—	(10,708)
Income applicable to Alexander's	16,907	315	—	173	—	—	—	16,419
Loss applicable to Toys "R" Us	(39,966)	—	—	—	—	—	(39,966)	—
Income from partially owned entities	15,643	440	436	2,144	112	571	—	11,940
Interest and other investment income	31,762	275	449	174	46	981	—	29,837
Interest and debt expense	(90,821)	(15,900)	(20,909)	(15,370)	(2,718)	(14,511)	—	(21,413)
Net gain on disposition of wholly-owned and partially owned assets other than depreciable real estate	22,106	—	84	—	—	—	—	22,022
Minority interest of partially owned entities	(4,770)	—	—	—	14	(5,007)	—	223
Income (loss) from continuing operations	138,745	50,867	28,490	26,147	18,177	6,710	(39,966)	48,320
(Loss) income from discontinued operations, net	(330)	—	(714)	164	220	—	—	—
Income (loss) before allocation to minority limited partners	138,415	50,867	27,776	26,311	18,397	6,710	(39,966)	48,320
Minority limited partners' interest in the Operating Partnership	(12,243)	—	—	—	—	—	—	(12,243)
Perpetual preferred unit distributions of the Operating Partnership	(6,211)	—	—	—	—	—	—	(6,211)
Net income (loss)	119,961	50,867	27,776	26,311	18,397	6,710	(39,966)	29,866
Interest and debt expense[1]	140,505	16,399	21,920	17,797	2,868	6,905	42,176	32,440
Depreciation and amortization[1]	124,053	23,202	23,440	11,286	12,499	8,652	30,644	14,330
Income tax (benefit) expense[1]	(24,031)	—	253	—	81	(191)	(24,383)	209
EBITDA	$360,488	$ 90,468	$ 73,389	$55,394	$33,845	$ 22,076	$ 8,471	$76,845

See notes on following page.

Notes to preceding tabular information:

(1) Interest and debt expense, depreciation and amortization and income tax (benefit) expense included in the reconciliation of net income to EBITDA reflects amounts which are netted in income from partially owned entities.

(2) Other EBITDA is comprised of:

For the Three Months Ended December 31,

(Amounts in thousands)	2006	2005
Alexander's	$ (15,108)	$ 23,909
Newkirk MLP	16,933	18,743
Hotel Pennsylvania	10,488	8,372
GMH Communities L.P.	2,310	2,626
Industrial warehouses	1,415	1,629
Other investments	2,828	4,621
	18,866	59,900
Minority limited partners' interest in the Operating Partnership	(12,411)	(12,243)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	(6,211)
Corporate general and administrative expense[1]	(30,275)	(14,604)
Investment income and other	128,080	50,003
	$ 99,442	$ 76,845

(1) The increase in corporate general and administrative expense results primarily from (i) $5,800 for our share of medicare taxes resulting from stock option exercises and the termination of a rabbi trust, (ii) $4,921 of amortization of stock-based compensation, including the 2006 Out-Performance Plan, stock option awards and restricted stock awards, (iii) $1,906 of an increase in professional fees and (iv) $523 of an increase in deferred compensation expense due to an increase in the value of the deferred compensation plan, which is offset by an equal amount of investment income.

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2006 compared to the three months ended December 31, 2005.

(AMOUNTS IN THOUSANDS)	Total	Office: New York	Office: Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other
For the three months ended December 31, 2005	$360,488	$ 90,468	$73,389	$55,394	$33,845	$22,076	$ 8,471	$76,845
2006 Operations:								
Same store operations[1]		6,390	4,247	4,454	390	(411)		
Acquisitions, dispositions and non-same store income and expenses		7,679	9,038	12,174	1,863	(6,317)		
For the three months ended December 31, 2006	$435,109	$104,537	$86,674	$72,022	$36,098	$15,348	$20,988	$99,442
% increase (decrease) in same store operations		7.0%	5.6%	8.1%	1.1%	(1.9%)		

(1) Represents operations which were owned for the same period in each year and excludes non-recurring income and expenses which are included in "acquisitions, dispositions and non same store income and expenses" above.

Our revenues and expenses are subject to seasonality during the year which impacts quarter-by-quarter net earnings, cash flows and funds from operations. 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 Toys' fiscal year net income. The Office and Merchandise Mart segments have historically experienced higher utility costs in the third quarter 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. The Temperature Controlled Logistics segment has experienced higher earnings in the fourth quarter due to higher activity and occupancy in its warehouse operations due to the holiday season's impact on the food industry.

Below are the details of the changes by segment in EBITDA for the three months ended December 31, 2006 compared to the three months ended September 30, 2006:

(AMOUNTS IN THOUSANDS)	Total	Office: New York	Office: Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other
For the three months ended September 30, 2006	$437,670	$ 92,483	$89,957	$67,985	$31,481	$16,011	$32,844	$106,909
2006 Operations:								
Same store operations[1]		5,120	2,772	2,412	2,722	2,195		
Acquisitions, dispositions and non-same store income and expenses		6,934	(6,055)	1,625	1,895	(2,858)		
For the three months ended December 31, 2006	$435,109	$104,537	$86,674	$72,022	$36,098	$15,348	$20,988	$ 99,442
% increase (decrease) in same store operations		5.5%	3.3%	3.5%	7.3%	11.1%		

(1) Represents the increase (decrease) in property-level operations which were owned for the same period in each year and excludes the effect of property acquisitions, dispositions and other non-operating items that affect comparability, including divisional general and administrative expenses. Beginning on January 1, 2006, we have revised our definition of same store operations to exclude divisional general and administrative expenses. We utilize this measure to make decisions on whether to buy or sell properties as well as to compare the performance of our properties to that of our peers. Same store operations may not be comparable to similarly titled measures employed by other companies.

Below is a reconciliation of net income and EBITDA for the three months ended September 30, 2006.

(AMOUNTS IN THOUSANDS)	Total	Office: New York	Office: Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Toys	Other
Net income (loss) for the three months ended September 30, 2006	$127,983	$46,738	$27,861	$32,594	$ 7,264	$ 323	$(40,699)	$ 53,902
Interest and debt expense	168,864	21,566	27,774	20,254	13,175	6,682	43,348	36,065
Depreciation and amortization	141,206	24,179	31,235	15,137	10,827	8,900	34,951	15,977
Income tax (benefit) expense	(383)	—	3,087	—	215	106	(4,756)	965
EBITDA for the three months ended September 30, 2006	$437,670	$92,483	$89,957	$67,985	$31,481	$16,011	$32,844	$106,909

Related Party Transactions

Loans and Compensation Agreements

On November 30, 2006, Michael Fascitelli, our President, repaid to the Company his $8,600,000 outstanding loan which was scheduled to mature in December 2006. The loan was made to him in 1996 pursuant to his employment agreement.

On December 31, 2006, 1,546,106 shares held in a rabbi trust, established for deferred compensation purposes as part of Mr. Fascitelli's 1996 and 2001 employment agreements, were distributed to Mr. Fascitelli, net of 739,130 shares which were used to satisfy the resulting tax withholding obligation. The shares we received for the tax liability were retired upon receipt.

On December 22, 2005, Steven Roth, our Chief Executive Officer, repaid to the Company his $13,122,500 outstanding loan which was scheduled to mature in January 2006. Pursuant to a credit agreement dated November 1999, Mr. Roth may draw up to $15,000,000 of loans from the Company on a revolving basis. Each loan bears interest, payable quarterly, at the applicable Federal rate on the date the loan is made and matures on the sixth anniversary of such loan. Loans are collateralized by assets with a value of not less than two times the amount outstanding. On December 23, 2005, Mr. Roth borrowed $13,122,500 under this facility, which bears interest at 4.45% per annum and matures on December 23, 2011.

On February 22, 2005, we entered into a new employment agreement with Sandeep Mathrani, Executive Vice President—Retail Division. Pursuant to the agreement, the Compensation Committee granted Mr. Mathrani (i) 16,836 restricted shares of our stock, (ii) stock options to acquire 300,000 of our common shares at an exercise price of $71.275 per share and (iii) the right to receive 200,000 stock options over the next two years at the then prevailing market price. In addition, Mr. Mathrani repaid the $500,000 loan we provided him under his prior employment agreement.

On March 11, 2004, we loaned $2,000,000 to Melvyn Blum, an executive officer, pursuant to the revolving credit facility contained in his January 2000 employment agreement. Melvyn Blum resigned effective July 15, 2005. In accordance with the terms of his employment agreement, his $2,000,000 outstanding loan was repaid in August 2005.

Pursuant to our annual compensation review in February 2002 with Joseph Macnow, our Chief Financial Officer, the Compensation Committee approved a $2,000,000 loan to Mr. Macnow, which bears interest at the applicable federal rate of 4.65% per annum and matures in June 2007. The loan was funded on July 23, 2002 and is collateralized by assets with a value of not less than two times the loan amount.

Transactions with Affiliates and Officers and Trustees

ALEXANDER'S

We own 32.8% of Alexander's. Steven Roth, our Chairman of the Board and Chief Executive Officer, and Michael D. Fascitelli, our President, 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 6—Investments in Partially Owned Entities to our consolidated financial statements in this annual report on Form 10-K.

On December 29, 2005, Michael Fascitelli, our President and President of Alexander's, exercised 350,000 of his Alexander's stock appreciation rights ("SARs") which were scheduled to expire in December 2006 and received $173.82 for each SAR exercised, representing the difference between Alexander's stock price of $247.70 (the average of the high and low market price) on the date of exercise and the exercise price of $73.88. This exercise was consistent with Alexander's tax planning.

On January 10, 2006, the Omnibus Stock Plan Committee of the Board of Directors of Alexander's granted Mr. Fascitelli a SAR covering 350,000 shares of Alexander's common stock. The exercise price of the SAR is $243.83 per share of common stock, which was the average of the high and low trading price of Alexander's common stock on date of grant. The SAR became exercisable on July 10, 2006, provided Mr. Fascitelli is employed with Alexander's on such date, and will expire on March 14, 2007. Mr. Fascitelli's early exercise and Alexander's related tax consequences were factors in Alexander's decision to make the new grant to him.

INTERSTATE PROPERTIES ("INTERSTATE")

Interstate is a general partnership in which Steven Roth, our Chairman of the Board and Chief Executive Officer, 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, 2006, Interstate and its partners beneficially owned approximately 8.5% of the common shares of beneficial interest of Vornado and 27.6% 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 $798,000, $791,000 and $726,000 of management fees under the agreement for the years ended December 31, 2006, 2005 and 2004.

VORNADO OPERATING COMPANY ("VORNADO OPERATING")

In October 1998, Vornado Operating was spun off from Vornado in order to own assets that we could not own and conduct activities that we could not conduct as a REIT. Vornado Operating's primary asset was its 60% investment in AmeriCold Logistics, which leased 88 refrigerated warehouses from AmeriCold, owned 60% by us. On November 4, 2004, AmeriCold purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. As part of this transaction, Vornado Operating repaid the $21,989,000 balance of its loan to us as well as $4,771,000 of unpaid interest. Because we fully reserved for the interest income on this loan beginning in January 2002, we recognized $4,771,000 of income upon collection in 2004.

In November 2004, a class action shareholder derivative lawsuit was brought in the Delaware Court of Chancery against Vornado Operating, its directors and Vornado. The lawsuit sought to enjoin the dissolution of Vornado Operating, rescind the previously completed sale of AmeriCold Logistics (owned 60% by Vornado Operating) to AmeriCold (owned 60% by us) and damages. In addition, the plaintiffs claimed that the Vornado Operating directors breached their fiduciary duties. On November 24, 2004, a stipulation of settlement was entered into under which we agreed to settle the lawsuit with a payment of approximately $4,500,000 or about $1 per Vornado Operating share or partnership unit before litigation expenses. We accrued the proposed settlement payment and related legal costs as part of "general and administrative expense" in 2004. On March 22, 2005, the Court approved the settlement.

OTHER

On December 20, 2005, we acquired a 46% partnership interest in, and became co-general partner of, partnerships that own a complex in Rosslyn, Virginia, containing four office buildings with an aggregate of 714,000 square feet and two apartment buildings containing 195 rental units. The consideration for the acquisition consisted of 734,486 newly issued Operating Partnership units (valued at $61,814,000 at acquisition) and $27,300,000 for our pro-rata share of existing debt. Of the partnership interest acquired, 19% was from Robert H. Smith and Robert P. Kogod, trustees of Vornado, and their family members, representing all of their interest in the partnership.

On April 13, 2006, we acquired the 92.65% interest that we did not already own of 1925 K Street, a 150,000 square foot office building located in the Central Business District of Washington, DC. The purchase price for the 92.65% interest was $52,800,000, consisting of $34,600,000 in cash and $18,200,000 of existing mortgage debt. Mitchell N. Schear, President of our Washington, DC Office division, received $3,675,000 for his share of the proceeds as a partner of the selling entity.

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, distributions to unitholders of the Operating Partnership, 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.

Acquisitions and Investments

We completed approximately $1.8 billion of real estate acquisitions and investments in 2006 and $2.4 billion in 2005. In addition, we made $356,000,000 of mezzanine loans during 2006 and $308,534,000 in 2005. These acquisitions and investments were consummated through our subsidiaries. The related assets, liabilities and results of operations are included in our consolidated financial statements from their respective dates of acquisition. The pro forma effect of the individual acquisitions and in the aggregate were not material to our historical consolidated financial statements.

See "2006 Acquisitions" in the Overview of Management's Discussion and Analysis of Financial Condition and Results of Operations for the details of our 2006 acquisitions and investments. Details of our 2005 acquisitions and investments are summarized below.

Washington, DC Office:

BOWEN BUILDING, WASHINGTON, DC

On June 13, 2005, we acquired the 90% that we did not already own of the Bowen Building for $119,000,000, consisting of $63,000,000 in cash and $56,000,000 of existing mortgage debt. This class A office building is located at 875 15th Street N.W. in the Central Business District of Washington, DC and contains 231,000 square feet of office space. We consolidate the accounts of the Bowen Building into our consolidated financial statements from the date of this acquisition.

H STREET BUILDING CORPORATION ("H STREET")

On July 20, 2005, we acquired H Street for approximately $246,600,000, consisting of $194,500,000 in cash and $52,100,000 for our pro rata share of existing mortgage debt. H Street owns, directly or indirectly through stock ownership in corporations, a 50% interest in real estate assets located in Pentagon City, Virginia, including 34 acres of land leased to various residential and retail operators, a 1,670 unit apartment complex, 10 acres of land and two office buildings located in Washington, DC containing 577,000 square feet. We consolidate the accounts of H Street into our consolidated financial statements from the date of acquisition.

ROSSLYN PLAZA, ROSSLYN, VIRGINIA

On December 20, 2005, we acquired a 46% partnership interest in, and became co-general partner of, partnerships that own a complex in Rosslyn, Virginia, containing four office buildings with an aggregate of 714,000 square feet and two apartment buildings containing 195 rental units. The consideration for the acquisition consisted of 734,486 newly issued Operating Partnership units (valued at $61,814,000 at acquisition) and $27,300,000 for our pro-rata share of existing debt. Of the partnership interest acquired, 19% was from Robert H. Smith and Robert P. Kogod, trustees of Vornado, and their family members, representing all of their interest in the partnership. We account for our investment in Rosslyn Plaza under the equity method of accounting.

WARNER BUILDING, WASHINGTON, DC

On December 27, 2005, we acquired the 95% interest that we did not already own in the Warner Building for $319,000,000, consisting of $170,000,000 in cash and $149,000,000 of existing mortgage and other debt. This Class A property is located at 1299 Pennsylvania Avenue three blocks from the White House and contains 560,000 square feet of office space. We consolidate the accounts of the Warner Building into our consolidated financial statements from the date of acquisition.

Retail:

BEVERLY CONNECTION

On March 5, 2005, we acquired a 50% interest in a venture that owns Beverly Connection, a two-level urban shopping center, containing 322,000 square feet, located in Los Angeles, California for $10,700,000 in cash. We also provided the venture with a $59,500,000 first mortgage loan which bore interest at 10% through its scheduled maturity in February 2006 and $35,000,000 of preferred equity yielding 13.5% for up to a three-year term, which is subordinate to $37,200,000 of other preferred equity and debt. On February 11, 2006, $35,000,000 of our loan to the venture was converted to additional preferred equity on the same terms as our existing preferred equity and the maturity date of the loan was extended. On June 30, 2006, the venture completed a $100,000,000 refinancing and repaid to us the remaining $24,500,000 balance of the loan. The venture's new loan bears interest at LIBOR (capped at 5.5%) plus 2.20% (7.5% as of December 31, 2006) and matures in July 2008 with 3 one-year extension options. The venture is redeveloping the existing retail and plans, subject to governmental approvals, to develop residential condominiums and assisted living facilities. This investment is accounted for under the equity method.

WESTBURY RETAIL CONDOMINIUM, NEW YORK CITY

On May 20, 2005, we acquired the retail condominium of the former Westbury Hotel in Manhattan for $113,000,000 in cash. Simultaneously with the closing, we completed an $80,000,000 mortgage financing secured by the property, which bears interest at 5.292% and matures in 2018. The property contains approximately 17,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

40 EAST 66TH STREET, NEW YORK CITY

On July 25, 2005, we acquired 40 East 66th Street for $158,000,000 in cash. The property is located at Madison Avenue and East 66th Street in Manhattan and contains 37 rental apartments with an aggregate of 85,000 square feet, and 10,000 square feet of retail space. We consolidate the accounts of East 66th Street into our consolidated financial statements from the date of acquisition. The rental apartment operations are included in the Other segment and the retail operations are included in the Retail segment.

BROADWAY MALL, NEW YORK

On December 27, 2005, we acquired the Broadway Mall for $152,500,000, consisting of $57,600,000 in cash and a $94,900,000 existing mortgage. The mall is located on Route 106 in Hicksville, Long Island, New York, contains 1.2 million square feet, of which we own 1.0 million square feet, and is anchored by Macy's, Ikea, Multiplex Cinemas and Target. We consolidate the accounts of the Broadway Mall into our consolidated financial statements from the date of acquisition.

Merchandise Mart:

BOSTON DESIGN CENTER, BOSTON, MASSACHUSETTS

On December 28, 2005, we acquired the Boston Design Center for $96,000,000, consisting of $24,000,000 in cash and $72,000,000 of existing mortgage debt. This property is located in South Boston, Massachusetts and contains 552,500 square feet. We consolidate the accounts of the Boston Design Center into our consolidated financial statements from the date of acquisition.

Toys "R" Us ("Toys"):

On July 21, 2005, a joint venture owned equally by us, Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys for $26.75 per share in cash or approximately $6.6 billion. In connection therewith, we invested $428,000,000 of the $1.3 billion of equity in the venture, consisting of $407,000,000 in cash and $21,000,000 in Toys common stock held by us. This investment is accounted for under the equity method of accounting. See footnote 6—Investments in Partially Owned Entities for further details.

Other:

220 CENTRAL PARK SOUTH, NEW YORK CITY

On August 26, 2005, a joint venture in which we have a 90% interest, acquired 220 Central Park South for $136,550,000. We and our partner invested cash of $43,400,000 and $4,800,000, respectively, in the venture to acquire the property. The venture obtained a $95,000,000 mortgage loan which bore interest at LIBOR plus 3.50%. On November 7, 2006, we completed a $130,000,000 refinancing of our 220 Central Park South property. The loan has two tranches, the first tranche of $95,000,000 bears interest at LIBOR (capped at 5.50%) plus 2.35% (7.67% as of December 31, 2006) and the second tranche can be drawn up to $35,000,000 and bears interest at LIBOR (capped at 5.50%) plus 2.45% (7.77% as of December 31, 2006). As of December 31, 2006 approximately $27,990,000 has been drawn on the second tranche. The property contains 122 rental apartments with an aggregate of 133,000 square feet and 5,700 square feet of commercial space. We consolidate the accounts of the venture into our consolidated financial statements from the date of acquisition.

In addition to the acquisitions and investments described above, we made $285,600,000 of other acquisitions and investments during 2005 in 14 separate transactions, comprised of $269,500,000 in cash and $16,100,000 of existing mortgage debt.

Certain Future Cash Requirements

For 2007 we have budgeted approximately $173,700,000 for capital expenditures excluding acquisitions as follows:

(AMOUNTS IN MILLIONS EXCEPT SQUARE FOOT DATA)	Total	Office New York	Office Washington, DC	Retail	Merchandise Mart	Other[1]
Expenditures to maintain assets	$ 66.7	$ 15.0	$ 19.0	$ 2.0	$ 11.5	$19.2
Tenant improvements	84.5	10.4	47.5	3.3	23.3	—
Leasing commissions	22.5	5.2	10.9	2.6	3.8	—
Total Tenant Improvements and Leasing Commissions	107.0	15.6	58.4	5.9	27.1	—
Per square foot		$33.00	$23.00	$12.00	$19.00[2]	$ —
Per square foot per annum		$ 3.50	$ 3.50	$ 1.50	$ 3.00[2]	$ —
Total Capital Expenditures and Leasing Commissions	$173.7	$ 30.6	$ 77.4	$ 7.9	$ 38.6	$19.2
Square feet budgeted to be leased (in thousands)		472	2,525	492	1,415	
Weighted average lease term		9.5	6.2	8.7	6.1	

(1) AmeriCold, Hotel Pennsylvania, and Warehouses.

(2) Tenant improvements and leasing commissions per square foot budgeted for 2007 leasing activity are $54.35 ($5.44 per annum) and $8.90 ($1.78 per annum) for Merchandise Mart office and showroom space, respectively.

In addition to the capital expenditures reflected above, we are currently engaged in certain development and redevelopment projects for which we have budgeted approximately $1.0 billion, of which $476,200,000 is estimated to be expended in 2007.

The table above excludes the anticipated 2007 capital expenditures of Alexander's, Toys "R" Us or any other partially owned entity that we do not consolidate, as these entities are expected to fund their own cash requirements without additional equity contributions from us.

Financing Activities and Contractual Obligations

See "2006 Financings" in the Overview of Management's Discussion and Analysis of Financial Condition and Results of Operations for the details of our 2006 financing activities. Details of our 2005 financing activities are summarized below.

On January 19, 2005, we redeemed all of our 8.5% Series C Cumulative Redeemable Preferred Shares at their stated liquidation preference of $25.00 per share or $115,000,000. In addition, we redeemed a portion of the Series D-3 Perpetual Preferred Units of the Operating Partnership at their stated liquidation preference of $25.00 per unit or $80,000,000. The redemption amounts exceeded the carrying amounts by $6,052,000, representing the original issuance costs. Upon redemption, we wrote off these issuance costs as a reduction to earnings in 2005.

On March 29, 2005, we completed a public offering of $500,000,000 principal amount of 3.875% exchangeable senior debentures due 2025 pursuant to an effective registration statement. The notes were sold at 98.0% of their principal amount. The net proceeds from this offering, after the underwriters' discount, were approximately $490,000,000. The debentures are exchangeable, under certain circumstances, for our common shares at an initial exchange rate of 10.9589 (current exchange rate of 11.1184, as adjusted for excess dividends paid in 2005 and 2006) common shares per $1,000 of principal amount of debentures. The initial exchange price of $91.25 represented a premium of 30% to the closing price for Vornado common shares on March 22, 2005 of $70.25. We may elect to settle any exchange right in cash. The debentures permit us to increase our common dividend 5% per annum, cumulatively, without an increase to the exchange rate. The debentures are redeemable at our option beginning in 2012 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures in 2012, 2015 and 2020 and in the event of a change in control.

On June 17, 2005, we completed a public offering of $112,500,000 6.75% Series H Cumulative Redeemable Preferred Shares, at a price of $25.00 per share, pursuant to an effective registration statement. We may redeem the Series H Preferred Shares at their stated liquidation preference of $25.00 per share after June 17, 2010. We used the net proceeds of the offering of $108,956,000, together with existing cash balances, to redeem the remaining $120,000,000 8.25% Series D-3 Perpetual Preferred Units and the $125,000,000 8.25% Series D-4 Perpetual Preferred Units on July 14, 2005 at their stated liquidation preference of $25.00 per unit. In conjunction with the redemptions, we wrote off approximately $6,400,000 of issuance costs as a reduction to earnings in 2005.

On August 10, 2005, we sold 9,000,000 common shares in an underwritten public offering pursuant to an effective registration statement at a price of $86.75 per share. We received net proceeds of $779,806,000, after offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 9,000,000 Class A units of the Operating Partnership.

On August 23, 2005, we completed a public offering of $175,000,000 6.625% Series I Cumulative Redeemable Preferred Shares at a price of $25.00 per share, pursuant to an effective registration statement. We may redeem the Series I preferred shares at their stated liquidation preference of $25.00 per share after August 31, 2010. In addition, on August 31, 2005, the underwriters exercised their option and purchased $10,000,000 Series I preferred shares to cover over-allotments. On September 12, 2005, we sold an additional $85,000,000 Series I preferred shares at a price of $25.00 per share, in a public offering pursuant to an effective registration statement. Combined with the earlier sales, we sold a total of 10,800,000 Series I preferred shares for net proceeds of $262,898,000. The net proceeds were used primarily to redeem outstanding perpetual preferred units.

On September 12, 2005, we sold $100,000,000 of 6.75% Series D-14 Cumulative Redeemable Preferred Units of the Operating Partnership to an institutional investor in a private placement. The perpetual preferred units may be called without penalty at our option commencing in September 2010. The proceeds were used primarily to redeem outstanding perpetual preferred units.

On September 19, 2005, we redeemed all of the Operating Partnership's 8.25% Series D-5 and D-7 Cumulative Redeemable Preferred Units at their stated liquidation preference of $25.00 per unit for an aggregate of $342,000,000. In conjunction with the redemptions, we wrote off $9,642,000 of issuance costs as a reduction to earnings in 2005.

On December 30, 2005, we redeemed the 8.25% Series D-6 and D-8 Cumulative Redeemable Preferred Units of the Operating Partnership at their stated liquidation preference of $25.00 per unit for an aggregate of $30,000,000. In conjunction with these redemptions, we wrote off $750,000 of issuance costs as a reduction to earnings in 2005.

In addition to the financing activities above, we completed $716,600,000 of property level financings during 2005.

The net proceeds we received from the above financings were primarily used to fund 2005 acquisitions and investments and for general corporate purposes, unless otherwise noted.

We believe that we have complied with the financial covenants required by our revolving credit facility and our senior unsecured notes, and that as of December 31, 2006 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."

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

Below is a schedule of our contractual obligations and commitments at December 31, 2006.

(AMOUNTS IN THOUSANDS)	Total	Less than 1 Year	1–3 Years	3–5 Years	Thereafter
Contractual Cash Obligations (principal and interest):					
Mortgages and Notes Payable	$ 9,440,882	$ 740,232	$1,741,747	$1,717,961	$5,240,942
Senior Unsecured Notes due 2007	515,325	515,325	—	—	—
Senior Unsecured Notes due 2009	278,125	11,250	266,875	—	—
Senior Unsecured Notes due 2010	238,000	9,500	19,000	209,500	—
Senior Unsecured Notes due 2011	313,000	14,000	28,000	271,000	—
Exchangeable Senior Debentures due 2025	856,833	19,375	38,750	38,750	759,958
Convertible Senior Debentures due 2026	1,729,531	40,781	72,500	72,500	1,543,750
Operating leases	198,261	20,836	39,777	29,121	108,527
Purchase obligations, primarily construction commitments	133,130	122,730	10,400	—	—
Capital lease obligations	116,386	11,902	21,570	18,084	64,830
Total Contractual Cash Obligations	$13,819,473	$1,505,931	$2,238,619	$2,356,916	$7,718,007
Commitments:					
Capital commitments to partially owned entities	$ 73,560	$ 48,560	$ 25,000	$ —	$ —
Standby letters of credit	39,143	39,143	—	—	—
Mezzanine loan commitments	29,547	29,547	—	—	—
Other Guarantees	—	—	—	—	—
Total Commitments	$ 142,250	$ 117,250	$ 25,000	$ —	$ —

Revolving Credit Facilities

On June 28, 2006, we entered into a $1.0 billion unsecured revolving credit facility which replaced our previous $600,000,000 unsecured revolving credit facility which was due to mature in July 2006. The new facility has a four-year term, with a one-year extension option and bears interest at LIBOR plus 0.55% (5.87% as of December 31, 2006). The new facility contains financial covenants similar to the prior facility but have been modified to more accurately reflect the current market conditions in the real estate industry. As of December 31, 2006, we had a zero outstanding balance on this facility.

At December 31, 2006, our $1 billion revolving credit facility had a zero outstanding balance and $20,732,000 was reserved for outstanding letters of credit. This facility contains financial covenants, which require us to maintain minimum interest coverage and maximum debt to market capitalization, and provides for higher interest rates in the event of a decline in our ratings below Baa3/BBB. At December 31, 2006, AmeriCold's $30,000,000 revolving credit facility had a zero outstanding balance and $17,000,000 was reserved for outstanding letters of credit. This facility requires AmeriCold to maintain, on a trailing four-quarter basis, a minimum of $30,000,000 of free cash flow, as defined. Both of these facilities 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.

The Yucaipa Companies ("Yucaipa") Earn-out

Pursuant to the November 18, 2004 sale by Vornado and Crescent Real Estate Equities Company ("CEI"), of 20.7% of AmeriCold to Yucaipa for $145,000,000, Yucaipa is entitled to receive up to 20% of the increase in the value of AmeriCold, realized through the sale of a portion of our and CEI's interest in AmeriCold subject to limitations, provided that AmeriCold's Threshold EBITDA, as defined, exceeds $133,500,000 for the year ending December 31, 2007.

Other Commitments and Contingencies

We carry commercial liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) "acts of terrorism" as defined in the Terrorism Risk Insurance Extension Act of 2005 which expires in 2007 and (v) rental loss insurance) with respect to our assets. Below is a summary of the current all risk property insurance and terrorism risk insurance in effect through September 2007 for each of the following business segments:

	Coverage Per Occurrence	
	All Risk[1]	Sub-Limits for Acts of Terrorism
New York Office	$ 1.4 billion	$750 million
Washington, DC Office	$ 1.4 billion	$750 million
Retail	$500 million	$500 million
Merchandise Mart	$ 1.4 billion	$750 million
Temperature Controlled Logistics	$225 million	$225 million

(1) Limited as to terrorism insurance by the sub-limit shown in the adjacent column.

In addition to the coverage above, we carry lesser amounts of coverage for terrorist acts not covered by the Terrorism Risk Insurance Extension Act of 2005.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), our 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 under 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, or if the Terrorism Risk Insurance Extension Act of 2005 is not extended past 2007, it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

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.

From time to time, we have disposed of substantial amounts of real estate to third parties for which, as to certain properties, we remain contingently liable for rent payments or mortgage indebtedness that we cannot quantify.

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey claiming we had no right to reallocate and therefore continue to collect $5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty. 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. 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 reconsideration of one aspect of the Appellate Court's decision which has been submitted to the Appellate Court for consideration. We intend to pursue our claims against Stop & Shop vigorously. There are various other legal actions against us in the ordinary course of business. 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.

We are committed to fund additional capital aggregating $73,560,000, related to our acquisitions and investments in partially owned entities. Of this amount, $25,000,000 relates to capital expenditures to be funded over the next six years at the Springfield Mall, in which we have a 97.5% interest.

On November 10, 2005, we committed to fund up to $30,530,000 of the junior portion of a $173,000,000 construction loan to an entity developing a mix-use building complex in Boston, Massachusetts, at the north end of the Boston Harbor. We will earn current-pay interest at 30-day LIBOR plus 11%. The loan will mature in November 2008, with a one-year extension option. As of December 31, 2006, we have funded $2,288,000 of this commitment.

We enter into agreements for the purchase and resale of U.S. government obligations for periods of up to one week. The obligations purchased under these agreements are held in safekeeping in our name by various money center banks. We have the right to demand additional collateral or return of these invested funds at any time the collateral value is less than 102% of the invested funds plus any accrued earnings thereon. We had $219,990,000 and $177,650,000 of cash invested in these agreements at December 31, 2006 and 2005, respectively.

Cash Flows for the Year Ended December 31, 2006

Our cash and cash equivalents was $2,233,317,000 at December 31, 2006, a $1,938,813,000 increase over the balance at December 31, 2005. This increase resulted from $824,668,000 of net cash provided by operating activities, $3,030,655,000 of net cash provided by financing activities, partially offset by $1,916,510,000 of net cash used in investing activities. Property rental income represents our primary source of net cash provided by operating activities. Our property rental income is primarily dependent upon the occupancy and rental rates of our properties. Other sources of liquidity to fund our cash requirements include proceeds from debt financings, including mortgage loans and corporate level unsecured borrowings; our $1 billion revolving credit facility; 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 unitholders of the Operating Partnership and distributions to common and preferred shareholders, as well as acquisition and development costs.

Our consolidated outstanding debt was $9,554,798,000 at December 31, 2006, a $3,311,672,000 increase over the balance at December 31, 2005. 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 2006. As of December 31, 2006 and 2005, our revolving credit facility had a zero outstanding balance. During 2007 and 2008, $778,482,000 and $358,403,000 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 facility.

Our share of debt of unconsolidated subsidiaries was $3,323,007,000 at December 31, 2006, a $311,355,000 increase over the balance at December 31, 2005. This increase resulted primarily from our $89,630,000 share of an increase in Toys “R” Us outstanding debt and from debt associated with asset acquisitions and refinancings.

Cash flows provided by operating activities of $824,668,000 was primarily comprised of (i) net income of $560,140,000, (ii) adjustments for non-cash items of $159,858,000, (iii) distributions of income from partially owned entities of $35,911,000 and (iv) a net change in operating assets and liabilities of $68,759,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $413,162,000, (ii) minority limited partners' interest in the Operating Partnership of $58,712,000, (iii) perpetual preferred unit distributions of the Operating Partnership of $21,848,000, which includes the write-off of perpetual preferred unit issuance costs upon their redemption of $1,125,000, (iv) net loss on early extinguishment of debt and write-off of unamortized financing costs of $33,488,000, partially offset by (v) net gains on mark-to-market of derivatives of $153,208,000 (Sears, McDonald's and GMH warrants), (vi) equity in net income of partially owned entities, including Alexander's and Toys, of $273,000, (vii) the effect of straight-lining of rental income of $62,655,000, (viii) net gains on sale of real estate of $33,769,000, (ix) net gains on dispositions of wholly-owned and partially owned assets other than real estate of $76,073,000 and (x) amortization of below market leases, net of above market leases of $23,814,000.

Net cash used in investing activities of $1,916,510,000 was primarily comprised of (i) acquisitions of real estate and other of $1,399,326,000, (ii) investments in partially owned entities of $233,651,000, (iii) investment in notes and mortgages receivable of $363,374,000, (iv) purchases of marketable securities of $153,914,000, (v) development and redevelopment expenditures of $233,492,000 (see details on the following page), (vi) capital expenditures of $198,215,000, (vii) deposits in connection with real estate acquisitions and pre-acquisition costs aggregating $82,753,000, partially offset by (viii) repayments received on notes receivable of $172,445,000, (ix) distributions of capital from partially owned entities of $114,041,000, (x) proceeds from the sale of marketable securities of $173,027,000, (xi) proceeds from the sale of real estate of $110,388,000 and (xii) proceeds from settlement of derivative positions of $135,028,000.

Net cash provided by financing activities of $3,030,655,000 was primarily comprised of (i) proceeds from borrowings of $5,151,952,000, (ii) proceeds from the issuance of common shares of $1,004,394,000, (iii) proceeds from the issuance of preferred shares and units of $43,819,000, (iv) proceeds from the exercise of employee share options of $77,873,000, partially offset by, (v) repayments of borrowings of $1,544,076,000, (vi) purchases of marketable securities in connection with the legal defeasance or mortgage notes payable of $636,293,000, (vii) dividends paid on common shares of $537,298,000, (viii) repurchase of shares related to stock compensation arrangements and associated employee tax withholdings of $201,866,000, (ix) distributions to minority partners of $188,052,000, (x) dividends paid on preferred shares of $57,606,000, (xi) redemption of perpetual preferred shares and units of $45,000,000 and (xii) debt issuance costs of $37,192,000.

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, 2006.

		Office				Temperature	
(AMOUNTS IN THOUSANDS)	Total	New York	Washington, DC	Retail	Merchandise Mart	Controlled Logistics	Other
Capital Expenditures (Accrual basis):							
Expenditures to maintain the assets:							
Recurring	$ 59,188	$ 12,446	$ 16,355	$ 1,269	$ 10,174	$15,032	$ 3,912
Non-recurring	2,708	—	2,259	449	—	—	—
	61,896	12,446	18,614	1,718	10,174	15,032	3,912
Tenant improvements:							
Recurring	88,064	44,251	27,961	3,219	12,633	—	—
Non-recurring	1,824	—	89	1,735	—	—	—
Total	89,888	44,251	28,050	4,954	12,633	—	—
Leasing Commissions:							
Recurring	32,181	22,178	6,744	2,024	1,235	—	—
Non-recurring	290	—	32	258	—	—	—
	32,471	22,178	6,776	2,282	1,235	—	—
Tenant improvements and leasing commissions:							
Per square foot	$ 19.74	$ 39.08	$ 16.54	$ 7.64	$ 10.79	$ —	$ —
Per square foot per annum	$ 2.44	$ 4.10	$ 2.54	$ 0.64	$ 1.74	$ —	$ —
Total Capital Expenditures and Leasing Commissions (accrual basis)	$184,255	$ 78,875	$ 53,440	$ 8,954	$ 24,042	$15,032	$ 3,912
Adjustments to reconcile accrual basis to cash basis:							
Expenditures in the current year applicable to prior periods	51,830	22,377	20,949	3,638	4,866	—	—
Expenditures to be made in future periods for the current period	(55,964)	(33,195)	(17,480)	(4,916)	(373)	—	—
Total Capital Expenditures and Leasing Commissions (Cash basis)	$180,121	$ 68,057	$ 56,909	$ 7,676	$ 28,535	$15,032	$ 3,912
Development and Redevelopment Expenditures(1):							
Green Acres Mall	$ 37,927	$ —	$ —	$ 37,927	$ —	$ —	$ —
Wasserman venture	32,572	—	—	—	—	—	32,572
North Bergen, New Jersey (Ground-up development)	28,564	—	—	28,564	—	—	—
Crystal Park (PTO)	27,294	—	27,294	—	—	—	—
Bergen Town Center	22,179	—	—	22,179	—	—	—
Crystal Plazas (PTO)	12,229	—	12,229	—	—	—	—
220 Central Park South	12,055	—	—	—	—	—	12,055
1740 Broadway	9,921	9,921	—	—	—	—	—
7 W. 34th Street	9,436	—	—	—	9,436	—	—
2101 L Street	10,447	—	10,447	—	—	—	—
Crystal Mall Two	6,497	—	6,497	—	—	—	—
640 Fifth Avenue	1,937	1,937	—	—	—	—	—
Other	22,434	1,330	4,217	12,126	—	—	4,761
	$233,492	$ 13,188	$ 60,684	$100,796	$ 9,436	$ —	$49,388

(1) Excludes development expenditures of partially owned non-consolidated investments.

Capital expenditures in the table above are categorized as follows:

Recurring—capital improvements expended to maintain a property's competitive position within the market and tenant improvements and leasing commissions for costs to re-lease expiring leases or renew or extend existing leases.

Non-recurring—capital improvements completed in the year of acquisition and the following two years which were planned at the time of acquisition and tenant improvements and leasing commissions for space which was vacant at the time of acquisition of a property.

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.

Cash Flows for the Year Ended December 31, 2005

Our cash and cash equivalents was $294,504,000 at December 31, 2005, a $304,778,000 decrease from the balance at December 31, 2004 of $599,282,000. This decrease resulted from $1,751,284,000 of net cash used in investing activities, partially offset by, $762,678,000 of net cash provided by operating activities and $683,828,000 of net cash provided by financing activities. Our investing activities consisted primarily of real estate asset acquisitions, investments in partially owned entities, loans made to real estate related entities and marketable securities purchases, including the McDonald's derivative during 2005. Property rental income represents our primary source of net cash provided by operating activities. Our property rental income is primarily dependent upon the occupancy and rental rates of our properties. Other sources of liquidity to fund our cash requirements include proceeds from debt financings, including mortgage loans and corporate level unsecured borrowings; our revolving credit facility; 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 unitholders of the Operating Partnership and distributions to common and preferred shareholders, as well as acquisition and development costs.

Our consolidated outstanding debt was $6,243,126,000 at December 31, 2005, a $1,303,803,000 increase over the balance at December 31, 2004 of $4,939,323,000. This increase resulted primarily from debt associated with asset acquisitions and property refinancings during 2005. As of December 31, 2005 and 2004, our revolving credit facility had a zero outstanding balance. Our share of debt of unconsolidated subsidiaries was $3,002,346,000 at December 31, 2005, a $2,332,404,000 increase over the balance at December 31, 2004 of $669,942,000. This increase resulted primarily from our $2,181,291,000 share of Toys "R" Us outstanding debt as a result of our 32.9% acquisition in July 2005 and from debt associated with other asset acquisitions and refinancings.

Cash flows provided by operating activities of $762,678,000 was primarily comprised of (i) net income of $539,604,000, (ii) adjustments for non-cash items of $221,296,000, (iii) distributions of income from partially owned entities of $40,152,000, partially offset by (iv) a net change in operating assets and liabilities of $38,374,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $346,775,000, (ii) minority limited partners' interest in the Operating Partnership of $66,755,000, (iii) perpetual preferred unit distributions of the Operating Partnership of $48,102,000, which includes the write-off of perpetual preferred unit issuance costs upon their redemption of $19,017,000, partially offset by (iv) net gains on mark-to-market of derivatives of $73,953,000 (Sears, McDonald's and GMH warrants), (v) equity in net income of partially owned entities, including Alexander's and Toys, of $54,691,000, (vi) the effect of straight-lining of rental income of $50,064,000 (vii) net gains on sale of real estate of $31,614,000, (viii) net gains on dispositions of wholly-owned and partially owned assets other than real estate of $39,042,000, and (ix) amortization of below market leases, net of above market leases of $13,797,000.

Net cash used in investing activities of $1,751,284,000 was primarily comprised of (i) investments in partially owned entities of $971,358,000, (ii) acquisitions of real estate and other of $889,369,000, (iii) investment in notes and mortgages receivable of $307,050,000, (iv) purchases of marketable securities, including McDonalds derivative position, of $242,617,000, (v) development and redevelopment expenditures of $176,486,000 (see details below), (vi) capital expenditures of $68,443,000, partially offset by, (vii) repayments received on notes receivable of $383,050,000, (viii) distributions of capital from partially owned entities of $260,764,000, including a $124,000,000 repayment of our loan to Alexander's and a $73,184,000 repayment of a bridge loan to Toys "R" Us, (ix) proceeds from the sale of marketable securities of $115,974,000, and (x) proceeds from the sale of real estate of $126,584,000.

Net cash provided by financing activities of $683,828,000 was primarily comprised of (i) proceeds from borrowings of $1,310,630,000, (ii) proceeds from the issuance of common shares of $780,750,000, (iii) proceeds from the issuance of preferred shares and units of $470,934,000, (iv) proceeds from the exercise of employee share options of $52,760,000, partially offset by, (v) redemption of perpetual preferred shares and units of $812,000,000, (vi) dividends paid on common shares of $524,163,000, (vii) distributions to minority partners of $146,139,000, (viii) repayments of borrowings of $398,957,000 and (ix) dividends paid on preferred shares of $34,553,000.

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, 2005.

(AMOUNTS IN THOUSANDS)	Total	Office: New York	Office: Washington, DC	Retail	Merchandise Mart	Temperature Controlled Logistics	Other
Capital Expenditures (Accrual basis):							
Expenditures to maintain the assets:							
Recurring	$ 53,613	$ 13,090	$ 13,688	$ 500	$ 10,961	$ 14,953	$ 421
Non-recurring	—	—	—	—	—	—	—
	53,613	13,090	13,688	500	10,961	14,953	421
Tenant improvements:							
Recurring	70,194	32,843	17,129	6,735	13,487	—	—
Non-recurring	1,938	—	1,938	—	—	—	—
Total	72,132	32,843	19,067	6,735	13,487	—	—
Leasing Commissions:							
Recurring	17,259	7,611	5,014	902	3,732	—	—
Non-recurring	294	—	294	—	—	—	—
	17,553	7,611	5,308	902	3,732	—	—
Tenant improvements and leasing commissions:							
Per square foot		$ 30.98	$ 9.17	$ 8.04	$ 16.38	$ —	$ —
Per square foot per annum		$ 4.01	$ 1.64	$ 0.88	$ 2.42	$ —	$ —
Total Capital Expenditures and Leasing Commissions (accrual basis)	143,298	53,544	38,063	8,137	28,180	14,953	421
Adjustments to reconcile accrual basis to cash basis:							
Expenditures in the current year applicable to prior periods	63,258	23,725	19,394	2,094	18,045	—	—
Expenditures to be made in future periods for the current period	(36,106)	(22,389)	(8,221)	(4,815)	(681)	—	—
Total Capital Expenditures and Leasing Commissions (Cash basis)	$170,450	$ 54,880	$ 49,236	$ 5,416	$ 45,544	$ 14,953	$ 421
Development and Redevelopment: Expenditures:							
Crystal Plazas (PTO)	$ 48,748	$ —	$ 48,748	$ —	$ —	$ —	$ —
7 W. 34th Street	19,529	—	—	—	19,529	—	—
Bergen Town Center	11,727	—	—	11,727	—	—	—
640 Fifth Avenue	9,244	9,244	—	—	—	—	—
Green Acres Mall	8,735	—	—	8,735	—	—	—
715 Lexington Avenue	8,180	—	—	8,180	—	—	—
Farley Post Office	7,176	7,176	—	—	—	—	—
Other	63,147	2,768	2,711	26,026	11,841	—	19,801
	$176,486	$ 19,188	$ 51,459	$ 54,668	$ 31,370	$ —	$ 19,801

Cash Flows for the Year Ended December 31, 2004

Cash and cash equivalents were $599,282,000 at December 31, 2004, as compared to $320,542,000 at December 31, 2003, an increase of $278,740,000.

Cash flows provided by operating activities of $681,433,000 was primarily comprised of (i) net income of $592,917,000, (ii) adjustments for non-cash items of $53,699,000, (iii) distributions of income from partially owned entities of $16,740,000, and (iv) a net change in operating assets and liabilities of $18,077,000. The adjustments for non-cash items were primarily comprised of (i) depreciation and amortization of $253,822,000, (ii) minority limited partners' interest in the Operating Partnership of $88,091,000, (iii) perpetual preferred unit distributions of the Operating Partnership of $68,408,000, partially offset by (iv) net gains on mark-to-market of derivatives of $135,372,000 (Sears option shares and GMH warrants), (v) net gains on sale of real estate of $75,755,000, (vi) net gains on dispositions of wholly-owned and partially owned assets other than real estate of $19,775,000, (vii) the effect of straight-lining of rental income of $61,473,000, (viii) equity in net income of partially owned entities and income applicable to Alexander's of $51,961,000, and (ix) amortization of below market leases, net of $14,570,000.

Net cash used in investing activities of $367,469,000 was primarily comprised of (i) capital expenditures of $117,942,000, (ii) development and redevelopment expenditures of $139,669,000, (iii) investment in notes and mortgages receivable of $330,101,000, (iv) investments in partially owned entities of $158,467,000, (v) acquisitions of real estate and other of $286,310,000, (vi) purchases of marketable securities of $59,714,000 partially offset by, (vii) proceeds from the sale of real estate of $233,005,000 (viii) distributions of capital from partially owned entities of $287,005,000, (ix) repayments on notes receivable of $174,276,000, (x) cash received upon consolidation of AmeriCold of $21,694,000 and (xi) cash restricted primarily for mortgage escrows of $8,754,000.

Net cash used in financing activities of $35,224,000 was primarily comprised of (i) dividends paid on common shares of $379,480,000, (ii) dividends paid on preferred shares of $21,920,000, (iii) distributions to minority partners of $131,142,000, (iv) repayments of borrowings of $702,823,000, (v) redemption of perpetual preferred shares and units of $112,467,000, partially offset by, proceeds from (vi) borrowings of $745,255,000, (vii) proceeds from the issuance of preferred shares and units of $510,439,000 and (viii) the exercise of employee share options of $61,935,000.

Below are the details of 2004 capital expenditures, leasing commissions and development and redevelopment expenditures.

(AMOUNTS IN THOUSANDS)	Total	Office New York	Office Washington, DC	Retail	Merchandise Mart	Other
Capital Expenditures (Accrual basis):						
Expenditures to maintain the assets:						
Recurring	$ 50,963	$ 11,673	$ 16,272	$ 2,344	$ 18,881	$1,793
Non-recurring	—	—	—	—	—	—
	50,963	11,673	16,272	2,344	18,881	1,793
Tenant improvements:						
Recurring	101,026	41,007	22,112	3,346	34,561	—
Non-recurring	7,548	—	7,548	—	—	—
Total	108,574	41,007	29,660	3,346	34,561	—
Leasing Commissions:						
Recurring	33,118	18,013	6,157	671	8,277	—
Non-recurring	1,706	—	1,706	—	—	—
	34,824	18,013	7,863	671	8,277	—
Total Capital Expenditures and Leasing Commissions (accrual basis)	194,361	70,693	53,795	6,361	61,719	1,793
Adjustments to reconcile accrual basis to cash basis:						
Expenditures in the current year applicable to prior periods	61,137	29,660	26,463	1,518	3,496	—
Expenditures to be made in future periods for the current period	(68,648)	(27,562)	(22,186)	(2,172)	(16,728)	—
Total Capital Expenditures and Leasing Commissions (Cash basis)	$186,850	$ 72,791	$ 58,072	$ 5,707	$ 48,487	$1,793
Development and Redevelopment:						
Expenditures:						
Crystal Plazas (PTO)	$ 10,993	$ —	$ 10,993	$ —	$ —	$ —
640 Fifth Avenue	15,067	15,067	—	—	—	—
4 Union Square South	28,536	—	—	28,536	—	—
Crystal Drive Retail	25,465	—	25,465	—	—	—
Other	59,608	4,027	220	33,851	21,262	248
	$139,669	$ 19,094	$ 36,678	$62,387	$ 21,262	$ 248

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 net income or loss determined in accordance with Generally Accepted Accounting Principles ("GAAP"), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus specified non-cash items, such as real estate asset depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO and FFO per diluted share are used by management, investors and industry analysts as supplemental measures of operating performance of equity REITs. FFO and FFO per diluted share should be evaluated along with GAAP net income and income per diluted share (the most directly comparable GAAP measures), as well as cash flow from operating activities, investing activities and financing activities, in evaluating the operating performance of equity REITs. Management believes that FFO and FFO per diluted share are helpful to investors as supplemental performance measures because these measures exclude the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs which implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, these non-GAAP measures can facilitate comparisons of operating performance between periods and among other equity REITs. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs as disclosed in Our Statements of Cash Flows. FFO should not be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flows as a measure of liquidity. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 17—Income per Share, in our notes to consolidated financial statements on page 174 of this annual report on Form 10-K.

FFO applicable to common shares plus assumed conversions was $858,693,000, or $5.51 per diluted share for the year ended December 31, 2006, compared to $757,219,000, or $5.21 per diluted share for the year ended December 31, 2005. FFO applicable to common shares plus assumed conversions was $211,812,000 or $1.34 per diluted share for the three months ended December 31, 2006, compared to $194,101,000, or $1.26 per diluted share for the three months ended December 31, 2005.

(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Three Months Ended December 31, 2006	For the Three Months Ended December 31, 2005
Reconciliation of Net Income to FFO:				
Net income	$560,140	$539,604	$119,776	$119,961
Depreciation and amortization of real property	337,730	276,921	90,896	76,463
Net gains on sale of real estate	(33,769)	(31,614)	—	—
Proportionate share of adjustments to equity in net income of partially owned entities to arrive at FFO:				
Depreciation and amortization of real property	105,629	42,052	30,083	20,474
Net (gains) losses on sale of real estate	(13,166)	(2,918)	(2,324)	476
Income tax effect of Toys adjustments included above	(21,038)	(4,613)	(5,007)	(4,284)
Minority limited partners' share of above adjustments	(39,809)	(31,990)	(11,960)	(9,663)
FFO	895,717	787,442	221,464	203,427
Preferred dividends	(57,511)	(46,501)	(14,349)	(14,211)
FFO applicable to common shares	838,206	740,941	207,115	189,216
Interest on 3.875% exchangeable senior debentures	19,856	15,335	4,575	4,663
Series A convertible preferred dividends	631	943	122	222
FFO applicable to common shares plus assumed conversions	$858,693	$757,219	$211,812	$194,101
Reconciliation of Weighted Average Shares:				
Weighted average common shares outstanding	142,145	133,768	144,319	140,695
Effect of dilutive securities:				
Employee stock options and restricted share awards	7,829	6,842	7,809	7,158
3.875% exchangeable senior debentures	5,559	4,198	5,559	5,531
Series A convertible preferred shares	269	402	210	379
Denominator for diluted FFO per share	155,802	145,210	157,897	153,763
Diluted FFO per share	$ 5.51	$ 5.21	$ 1.34	$ 1.26

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:

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2006 December 31, Balance	2006 Weighted Average Interest Rate	2006 Effect of 1% Change In Base Rates	2005 December 31, Balance	2005 Weighted Average Interest Rate
Consolidated debt:					
Variable rate[1]	$ 728,363	6.48%	$ 7,281	$1,150,333	5.98%
Fixed rate	8,826,435	5.56%	—	5,104,550	6.06%
	$9,554,798	5.63%	7,281	$6,254,883	6.04%
Pro-rata share of debt of non-consolidated entities (non-recourse):					
Variable rate—excluding Toys	$ 162,254	7.31%	1,623	$ 199,273	5.64%
Variable rate—Toys	1,213,479	7.03%	13,134	1,623,447	7.02%
Fixed rate (including $1,057,422, and $557,844 of Toys debt in 2006 and 2005)	1,947,274	6.95%	—	1,179,626	7.23%
	$3,323,007	7.00%	14,757	$3,002,346	7.01%
Minority limited partners' share of above			(2,226)		
Total change in annual net income			$19,812		
Per share—diluted			$ 0.13		

(1) Includes $498,562 for our senior unsecured notes due 2007, as we entered into an interest rate swap that effectively converted the interest rate from a fixed rate of 5.625% to a floating rate of LIBOR plus 0.7725%, based upon the trailing three month LIBOR rate (6.13% if set on December 31, 2006). In accordance with SFAS No. 133, as amended, we are required to record the fair value of this derivative instrument at each reporting period. At December 31, 2006, the fair value adjustment was a reduction of ($1,111), and is included in the balance of the senior unsecured notes above.

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, 2006, we have a cap of 5.50% on the LIBOR component of outstanding variable rate debt with a notional amount of $130,000,000. We also have a reverse swap agreement as described in footnote (1) to the table above.

As of December 31, 2006, we have notes and mortgage loans receivable aggregating $270,000,000, which are based on variable rates and partially mitigate our exposure to a change in interest rates.

Fair Value of Our Debt

The carrying amount of our debt exceeds its aggregate fair value, based on discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt, by approximately $90,356,000 at December 31, 2006.

Derivative Instruments

We have, and may in the future enter into, derivative positions that do not qualify for hedge accounting treatment, including an economic interest in McDonalds common shares. In addition, during the year ended December 31, 2006, we settled our derivative position in the common shares of Sears Holdings and exercised our warrants to purchase common shares of GMH Communities Trust. Because these derivatives do not qualify for hedge accounting treatment, the gains or losses resulting from their mark-to-market at the end of each reporting period are recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income. In addition, we are, and may in the future be, subject to additional expense based on the notional amount of the derivative positions and a specified spread over LIBOR. Because the market value of these instruments can vary significantly between periods, we may experience significant fluctuations in the amount of our investment income or expense. During 2006, 2005 and 2004 we recognized net gains aggregating approximately $153,209,000, $46,302,000 and $135,372,000, respectively, from these positions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules included as part of this Annual Report on Form 10-K 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, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, 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 27, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
February 27, 2007

CONSOLIDATED BALANCE SHEETS

December 31,

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	**2006**	2005
ASSETS		
Real estate, at cost:		
Land	$ 2,795,970	$ 2,337,878
Buildings and improvements	9,967,415	8,467,973
Development costs and construction in progress	417,671	235,347
Leasehold improvements and equipment	372,432	326,614
Total	13,553,488	11,367,812
Less accumulated depreciation and amortization	(1,968,678)	(1,663,777)
Real estate, net	11,584,810	9,704,035
Cash and cash equivalents	2,233,317	294,504
Escrow deposits and restricted cash	140,351	192,619
Marketable securities	316,727	276,146
Investments and advances to partially owned entities, including Alexander's of $82,114 and $105,241	1,135,669	944,023
Investment in Toys "R" Us, including a $76,816 participation in a senior unsecured bank loan bridge facility at December 31, 2005	317,145	425,830
Due from officers	15,197	23,790
Accounts receivable, net of allowance for doubtful accounts of $17,727 and $16,907	230,908	238,351
Notes and mortgage loans receivable	561,164	363,565
Receivable arising from the straight-lining of rents, net of allowance of $2,334 and $6,051	441,982	375,547
Other assets	976,103	722,392
Assets related to discontinued operations	908	76,361
	$17,954,281	$13,637,163
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and mortgages payable	$ 6,886,884	$ 4,794,411
Senior unsecured notes	1,196,600	948,889
Convertible senior debentures	980,083	—
Exchangeable senior debentures	491,231	490,750
AmeriCold Realty Trust revolving credit facility	—	9,076
Accounts payable and accrued expenses	531,977	476,523
Deferred credit	342,733	184,206
Other liabilities	184,844	148,506
Officers compensation payable	60,955	52,020
Liabilities related to discontinued operations	—	12,831
Total liabilities	10,675,307	7,117,212
Minority interest, including unitholders in the Operating Partnership	1,128,204	1,256,441
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 34,051,635 and 34,169,572 shares	828,660	834,527
Common shares of beneficial interest: $.04 par value per share; authorized, 200,000,000 shares; issued and outstanding 151,093,373 and 141,153,430 shares	6,083	5,675
Additional capital	5,287,923	4,233,047
Earnings (less than) in excess of distributions	(69,188)	103,061
Accumulated other comprehensive income	92,963	83,406
Deferred compensation shares earned but not yet delivered	4,329	69,547
Common shares issued to officer's trust	—	(65,753)
Total shareholders' equity	6,150,770	5,263,510
	$17,954,281	$13,637,163

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31,

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**2006**	2005	2004
Revenues:			
Property rentals	$1,567,888	$1,386,013	$1,338,555
Temperature Controlled Logistics	779,110	846,881	87,428
Tenant expense reimbursements	261,471	207,168	189,237
Fee and other income	103,626	94,640	84,474
Total revenues	2,712,095	2,534,702	1,699,694
Expenses:			
Operating	1,366,430	1,298,948	676,025
Depreciation and amortization	397,403	332,175	241,766
General and administrative	221,356	182,809	145,040
Costs of acquisitions and development not consummated	—	—	1,475
Total expenses	1,985,189	1,813,932	1,064,306
Operating income	726,906	720,770	635,388
(Loss) income applicable to Alexander's	(14,530)	59,022	8,580
Loss applicable to Toys "R" Us	(47,520)	(40,496)	—
Income from partially owned entities	61,777	36,165	43,381
Interest and other investment income	262,188	167,220	203,998
Interest and debt expense (including amortization of deferred financing costs of $15,250, $11,814 and $7,072)	(477,775)	(339,952)	(242,142)
Net gain on disposition of wholly-owned and partially owned assets other than depreciable real estate	76,073	39,042	19,775
Minority interest of partially owned entities	20,173	(3,808)	(109)
Income from continuing operations	607,292	637,963	668,871
Income from discontinued operations, net of minority interest	33,408	35,515	81,245
Income before allocation to minority limited partners	640,700	673,478	750,116
Minority limited partners' interest in the Operating Partnership	(58,712)	(66,755)	(88,091)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	(67,119)	(69,108)
Net income	560,140	539,604	592,917
Preferred share dividends	(57,511)	(46,501)	(21,920)
NET INCOME applicable to common shares	$ 502,629	$ 493,103	$ 570,997
INCOME PER COMMON SHARE—BASIC:			
Income from continuing operations	$ 3.30	$ 3.42	$ 3.91
Income from discontinued operations	.24	.27	.65
Net income per common share	$ 3.54	$ 3.69	$ 4.56
INCOME PER COMMON SHARE—DILUTED:			
Income from continuing operations	$ 3.13	$ 3.25	$ 3.74
Income from discontinued operations	.22	.25	.61
Net income per common share	$ 3.35	$ 3.50	$ 4.35

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Preferred Shares	Common Shares	Additional Capital	Earnings in Excess of (less than) Distributions	Accumulated Other Comprehensive Income (Loss)	Other	Shareholders' Equity	Comprehensive Income (Loss)
Balance January 1, 2004	$250,992	$4,739	$2,875,784	$ (57,618)	$ 3,524	$152	$3,077,573	
Net Income	—	—	—	592,917	—	—	592,917	$592,917
Dividends paid on common shares ($3.05 per share, including $.16 special cash dividend)	—	—	—	(379,480)	—	—	(379,480)	—
Dividends paid on Preferred Shares:								
Series A Preferred Shares ($3.25 per share)	—	—	—	(1,066)	—	—	(1,066)	—
Series B Preferred Shares ($2.125 per share)	—	—	—	(1,525)	—	—	(1,525)	—
Series C Preferred Shares ($2.125 per share)	—	—	—	(9,775)	—	—	(9,775)	—
Series D-10 Preferred Shares ($1.75 per share)	—	—	—	(2,800)	—	—	(2,800)	—
Series E Preferred Shares ($1.75 per share)	—	—	—	(1,925)	—	—	(1,925)	—
Series F Preferred Shares ($1.6875 per share)	—	—	—	(1,266)	—	—	(1,266)	—
Series G Preferred Shares ($1.65625 per share)	—	—	—	(368)	—	—	(368)	—
Redemption of Class A partnership units for common shares	—	294	308,038	—	—	—	308,332	—
Redemption of Series B Preferred Shares	(81,805)	—	—	(3,195)	—	—	(85,000)	—
Proceeds from issuance of Series E, F and G Preferred Shares	410,272	—	—	—	—	—	410,272	—
Conversion of Series A Preferred shares to common shares	(2,005)	2	2,003	—	—	—	—	—
Deferred compensation shares	—	24	4,606	—	—	—	4,630	—
Common shares issued under employees' share option plan	—	67	55,042	—	—	—	55,109	—
Common shares issued in connection with dividend reinvestment plan	—	2	2,109	—	—	—	2,111	—
Change in unrealized net gain on securities available for sale	—	—	—	—	45,003	—	45,003	45,003
Shelf registration costs reclassified to other assets	—	—	626	—	—	—	626	—
Other—primarily changes in deferred compensation plan	—	—	—	—	(745)	118	(627)	(745)
Balance, December 31, 2004	$ 577,454	$5,128	$3,248,208	$ 133,899	$47,782	$270	$4,012,741	$637,175

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY *(continued)*

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Preferred Shares	Common Shares	Additional Capital	Earnings in Excess of (less than) Distributions	Accumulated Other Comprehensive Income (Loss)	Other	Shareholders' Equity	Comprehensive Income (Loss)
Balance, December 31, 2004	$ 577,454	$5,128	$3,248,208	$ 133,899	$47,782	$ 270	$4,012,741	
Net Income	—	—	—	539,604	—	—	539,604	$539,604
Dividends paid on common shares ($3.90 per share, including $.82 in special cash dividends)	—	—	—	(523,941)	—	—	(523,941)	—
Dividends paid on Preferred Shares:								
Series A Preferred Shares ($3.25 per share)	—	—	—	(930)	—	—	(930)	—
Series C Preferred Shares ($2.125 per share)	—	—	—	(489)	—	—	(489)	—
Series D-10 Preferred Shares ($1.75 per share)	—	—	—	(2,800)	—	—	(2,800)	—
Series E Preferred Shares ($1.75 per share)	—	—	—	(5,250)	—	—	(5,250)	—
Series F Preferred Shares ($1.6875 per share)	—	—	—	(10,097)	—	—	(10,097)	—
Series G Preferred Shares ($1.65625 per share)	—	—	—	(13,213)	—	—	(13,213)	—
Series H Preferred Shares ($1.6875 per share)	—	—	—	(4,092)	—	—	(4,092)	—
Series I Preferred Shares ($1.65625 per share)	—	—	—	(5,778)	—	—	(5,778)	—
Redemption of Series C Preferred Shares	(111,148)	—	—	(3,852)	—	—	(115,000)	—
Proceeds from the issuance of common shares	—	360	780,390	—	—	—	780,750	—
Proceeds from issuance of Series H and I Preferred Shares	370,960	—	—	—	—	—	370,960	—
Conversion of Series A Preferred shares to common shares	(2,552)	3	2,549	—	—	—	—	—
Deferred compensation shares and options	—	7	5,723	—	—	—	5,730	—
Common shares issued under employees' share option plan	—	42	45,404	—	—	—	45,446	—
Redemption of Class A partnership units for common shares	—	133	149,008	—	—	—	149,141	—
Common shares issued in connection with dividend reinvestment plan	—	2	2,710	—	—	—	2,712	—
Change in unrealized net gain on securities available for sale	—	—	—	—	36,654	—	36,654	36,654
Common share offering costs	—	—	(945)	—	—	—	(945)	—
Change in deferred compensation plan	—	—	—	—	2,172	—	2,172	2,172
Change in pension plans	—	—	—	—	(2,697)	—	(2,697)	(2,697)
Other	(187)	—	—	—	(505)	3,524	2,832	(505)
Balance, December 31, 2005	$834,527	$5,675	$4,233,047	$ 103,061	$83,406	$3,794	$5,263,510	$575,228

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY *(continued)*

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Preferred Shares	Common Shares	Additional Capital	Earnings in Excess of (less than) Distributions	Accumulated Other Comprehensive Income (Loss)	Other	Shareholders' Equity	Comprehensive Income (Loss)
Balance, December 31, 2005	$834,527	$5,675	$4,233,047	$ 103,061	$ 83,406	$3,794	$5,263,510	
Net Income	—	—	—	560,140	—	—	560,140	$560,140
Dividends paid on common shares ($3.79 per share, including $.54 in special cash dividends)	—	—	—	(537,298)	—	—	(537,298)	—
Dividends paid on Preferred Shares:								
Series A Preferred Shares ($3.25 per share)	—	—	—	(604)	—	—	(604)	—
Series D-10 Preferred Shares ($1.75 per share)	—	—	—	(2,800)	—	—	(2,800)	—
Series E Preferred Shares ($1.75 per share)	—	—	—	(5,250)	—	—	(5,250)	—
Series F Preferred Shares ($1.6875 per share)	—	—	—	(10,125)	—	—	(10,125)	—
Series G Preferred Shares ($1.65625 per share)	—	—	—	(13,250)	—	—	(13,250)	—
Series H Preferred Shares ($1.6875 per share)	—	—	—	(7,594)	—	—	(7,594)	—
Series I Preferred Shares ($1.65625 per share)	—	—	—	(17,888)	—	—	(17,888)	—
Proceeds from the issuance of common shares	—	324	1,004,481	—	—	—	1,004,805	—
Conversion of Series A Preferred shares to common shares	(5,897)	7	5,890	—	—	—	—	—
Deferred compensation shares and options	—	(57)	(59,209)	(137,580)	—	—	(196,846)	—
Common shares issued under employees' share option plan	—	110	75,555	—	—	—	75,665	—
Redemption of Class A partnership units for common shares	—	23	26,363	—	—	—	26,386	—
Common shares issued in connection with dividend reinvestment plan	—	1	2,207	—	—	—	2,208	—
Change in unrealized net gain on securities available for sale	—	—	—	—	70,416	—	70,416	70,416
Sale of securities available for sale	—	—	—	—	(69,863)	—	(69,863)	—
Common share offering costs	—	—	(411)	—	—	—	(411)	
Change in deferred compensation plan	—	—	—	—	7,332	—	7,332	7,332
Change in pension plans	—	—	—	—	2,269	—	2,269	2,269
Other	30	—	—	—	(597)	535	(32)	(597)
Balance, December 31, 2006	$828,660	$6,083	$5,287,923	$ (69,188)	$ 92,963	$4,329	$6,150,770	$639,560

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

(AMOUNTS IN THOUSANDS)	**2006**	2005	2004
Cash Flows from Operating Activities:			
Net income	$ 560,140	$ 539,604	$592,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of debt issuance costs)	413,162	346,775	253,822
Net gains from derivative positions, including (Sears Holdings, McDonalds and GMH)	(153,208)	(73,953)	(135,372)
Net gains on dispositions of wholly owned and partially owned assets other than depreciable real estate	(76,073)	(39,042)	(19,775)
Straight-lining of rental income	(62,655)	(50,064)	(61,473)
Minority limited partners' interest in the Operating Partnership	58,700	66,755	88,091
Distributions of income from partially owned entities	35,911	40,152	16,740
Net gains on sale of real estate	(33,769)	(31,614)	(75,755)
Loss on early extinguishment of debt and write-off of unamortized financing costs	33,488	—	—
Amortization of below market leases, net	(23,814)	(13,797)	(14,570)
Perpetual preferred unit distributions of the Operating Partnership	21,848	48,102	68,408
Minority interest of partially owned entities	(20,173)	3,808	109
Write-off of issuance costs of preferred units redeemed	1,125	19,017	700
Other non-cash adjustments	954	—	—
Equity in income of partially owned entities, including Alexander's and Toys	273	(54,691)	(51,961)
Costs of acquisitions and development not consummated	—	—	1,475
Changes in operating assets and liabilities:			
Accounts receivable, net	24,373	(45,023)	(5,954)
Accounts payable and accrued expenses	60,348	54,808	87,346
Other assets	(62,224)	(44,934)	(77,974)
Other liabilities	46,262	(3,225)	14,659
Net cash provided by operating activities	824,668	762,678	681,433
Cash Flows from Investing Activities:			
Acquisitions of real estate and other	(1,399,326)	(889,369)	(286,310)
Investments in notes and mortgage loans receivable	(363,374)	(307,050)	(330,101)
Investments in partially owned entities	(233,651)	(971,358)	(158,467)
Development costs and construction in progress	(233,492)	(176,486)	(139,669)
Additions to real estate	(198,215)	(68,443)	(117,942)
Proceeds from sales of, and return of investment in, marketable securities	173,027	115,974	—
Proceeds received from repayment of notes and mortgage loans receivable	172,445	383,050	174,276
Purchases of marketable securities	(153,914)	(242,617)	(59,714)
Proceeds received on settlement of derivatives (primarily Sears Holdings)	135,028	—	—
Distributions of capital from partially owned entities	114,041	136,764	287,005
Proceeds from sales of real estate	110,388	126,584	233,005
Deposits in connection with real estate acquisitions, including pre-acquisition costs	(82,753)	(18,991)	—
Cash restricted, including mortgage escrows	52,268	36,658	8,754
Acquisition of trade shows	(17,582)	—	—
Repayment of officers' loans	8,600	—	—
Proceeds from Alexander's loan repayment	—	124,000	—
Cash recorded upon consolidation of AmeriCold Realty Trust	—	—	21,694
Net cash used in investing activities	(1,916,510)	(1,751,284)	(367,469)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

Year Ended December 31, (AMOUNTS IN THOUSANDS)	**2006**	2005	2004
Cash Flows from Financing Activities:			
Proceeds from borrowings	$ 5,151,952	$1,310,630	$ 745,255
Repayments of borrowings	(1,544,076)	(398,957)	(702,823)
Proceeds from issuance of common shares	1,004,394	780,750	—
Purchase of marketable securities in connection with the legal defeasance of mortgage notes payable	(636,293)	—	—
Dividends paid on common shares	(537,298)	(524,163)	(379,480)
Repurchase of shares related to stock compensation arrangements and associated employee tax withholdings	(201,866)	—	—
Distributions to minority limited partners	(188,052)	(146,139)	(131,142)
Proceeds received from exercise of employee share options	77,873	52,760	61,935
Dividends paid on preferred shares	(57,606)	(34,553)	(21,920)
Redemption of perpetual preferred shares and units	(45,000)	(812,000)	(112,467)
Proceeds from issuance of preferred shares and units	43,819	470,934	510,439
Debt issuance costs	(37,192)	(15,434)	(5,021)
Net cash provided by (used in) financing activities	3,030,655	683,828	(35,224)
Net increase (decrease) in cash and cash equivalents	1,938,813	(304,778)	278,740
Cash and cash equivalents at beginning of year	294,504	599,282	320,542
Cash and cash equivalents at end of year	$ 2,233,317	$ 294,504	$ 599,282
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest (including capitalized interest of $26,195, $15,582, and $8,718)	$ 454,391	$ 349,331	$ 253,791
Non-Cash Transactions:			
Financing assumed in acquisitions	$ 303,703	$ 402,865	$ 34,100
Marketable securities transferred in connection with the legal defeasance of mortgage notes payable	(636,293)	—	—
Mortgage notes payable legally defeased	612,270	—	—
Conversion of Class A operating partnership units to common shares	26,386	149,141	308,332
Unrealized gain on securities available for sale	—	85,444	45,003
Class A units issued in connection with acquisitions	—	62,418	—
Increases in assets and liabilities on November 18, 2004 resulting from the consolidation of our investment in AmeriCold Realty Trust:			
Real estate, net	—	—	1,177,160
Accounts receivable, net	—	—	74,657
Other assets	—	—	68,735
Notes and mortgages payable	—	—	733,740
Accounts payable and accrued expenses	—	—	100,554
Other liabilities	—	—	47,362
Minority interest	—	—	284,764

See notes to consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Vornado Realty Trust is a fully-integrated real estate investment trust (“REIT”) and conducts its business through Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). All references to “we,” “us,” “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership. Vornado is the sole general partner of, and owned approximately 89.9% of the common limited partnership interest in, the Operating Partnership at December 31, 2006.

At December 31, 2006, we own directly or indirectly:

Office Properties:

(i) all or portions of 116 office properties aggregating approximately 31.7 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington, DC and Northern Virginia area;

Retail Properties:

(ii) 158 retail properties in 21 states, Washington, DC and Puerto Rico aggregating approximately 19.3 million square feet, including 3.3 million square feet owned by tenants on land leased from us;

Merchandise Mart Properties:

(iii) 9 properties in five states and Washington, DC aggregating approximately 9.2 million square feet of showroom and office space, including the 3.4 million square foot Merchandise Mart in Chicago;

Temperature Controlled Logistics:

(iv) a 47.6% interest in AmeriCold Realty Trust which owns and operates 91 cold storage warehouses nationwide;

Toys “R” Us, Inc.:

(v) a 32.9% interest in Toys “R” Us, Inc. which owns and/or operates 1,325 stores worldwide, including 587 toy stores and 248 Babies “R” Us stores in the United States and 490 toy stores internationally;

Other Real Estate Investments:

(vi) 32.8% of the common stock of Alexander’s, Inc. (NYSE: ALX) which has seven properties in the greater New York metropolitan area;

(vii) the Hotel Pennsylvania in New York City consisting of a hotel portion containing 1.0 million square feet with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space;

(viii) mezzanine loans to real estate related companies; and

(ix) interests in other real estate, including interests in other public companies that own and manage office, industrial and retail properties net leased to major corporations and student and military housing properties throughout the United States; 7 dry warehouse/industrial properties in New Jersey containing approximately 1.5 million square feet; and other investments and marketable securities.

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. See below for further details of our accounting policies regarding partially owned entities.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States which requires 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.

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 acquisition, improvement and leasing of real estate are capitalized. Maintenance and repairs are charged to operations 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 the assets' 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 $26,195,000 and $15,582,000, for the years ended December 31, 2006 and 2005, respectively.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141: *Business Combinations* and SFAS No. 142: *Goodwill and Other Intangible Assets*, 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 the historical operating results, known trends, and market/economic conditions that may affect the property. Our properties, including any related intangible assets, are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable.

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 will absorb the majority of the entity's expected losses, if they occur, or receive the majority of the expected residual returns, if they occur, or both. We have concluded that we do not control a partially owned entity, despite an ownership interest of 50% or greater, 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, H Street's non-consolidated subsidiaries, Beverly Connection, 478-86 Broadway, 968 Third Avenue, West 57th 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. 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, periodically, 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.

IDENTIFIED INTANGIBLE ASSETS AND GOODWILL: Upon an acquisition of a business we record intangible assets acquired at their estimated fair value separate and apart from goodwill. We amortize identified intangible assets that are determined to have finite lives which are based on the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the business acquired. Intangible assets 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 is not recoverable and its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss for an asset group is allocated to the long-lived assets of the group on a pro-rata basis using the relative carrying amounts of those assets, unless the fair value of specific components of the reporting group are determinable without undue cost and effort.

As of December 31, 2006 and 2005, the carrying amounts of our identified intangible assets are $304,252,000 and $192,375,000 and the carrying amounts of goodwill are $7,280,000 and $11,122,000, respectively. Such amounts are included in "other assets" on our consolidated balance sheets. In addition, we have $307,809,000 and $150,892,000 of identified intangible liabilities as of December 31, 2006 and 2005, which are included in "deferred credit" on our consolidated balance sheets.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents consist of highly liquid investments purchased with original maturities of three months or less. Cash and cash equivalents do not include cash escrowed under loan agreements and cash restricted in connection with an officer's deferred compensation payable. Cash and cash equivalents include repurchase agreements collateralized by U.S. government obligations totaling $219,990,000 and $177,650,000 as of December 31, 2006 and 2005, respectively. 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 of $100,000. We have not experienced any losses to date on our invested cash.

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.

MARKETABLE SECURITIES: We classify debt and equity securities which we intend to hold for an indefinite period of time as securities available-for-sale; equity securities we intend to buy and sell on a short term basis as trading securities; and mandatory redeemable preferred stock investments as securities held to maturity. Unrealized gains and losses on trading securities are included in earnings. Unrealized gains and losses on securities available-for-sale are included as a component of shareholders' equity and other comprehensive income. Realized gains or losses on the sale of securities are recorded based on specific identification.

At December 31, 2006 and 2005, marketable securities had an aggregate cost of $229,600,000 and $189,490,000 and an aggregate fair value of $316,727,000 and $276,146,000, of which $221,716,000 and $272,949,000 represent securities available for sale; and $95,011,000 and $3,197,000 represent securities held to maturity. Unrealized gains and losses were $87,258,000 and $131,000 at December 31, 2006, and $87,702,000 and $1,046,000 at December 31, 2005, respectively.

NOTES AND MORTGAGE LOANS RECEIVABLE: We record notes and mortgage loans receivable at the stated principal amount less any 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, 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 recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. As of December 31, 2006 and 2005, none of our notes and mortgage loans receivable are impaired.

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS: We have estimated the fair value of all financial instruments reflected in the accompanying consolidated balance sheets at amounts which are based upon an interpretation of available market information and valuation methodologies (including discounted cash flow analyses with regard to fixed rate debt). The carrying amount of our consolidated debt exceeded its fair value by approximately $90,356,000 at December 31, 2006, and was less than its fair value by approximately $50,058,000 at December 31, 2005. Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition of our financial instruments.

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 the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with Staff Accounting Bulletin No. 104: Revenue Recognition, which states that this income is to be 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.
- Temperature Controlled Logistics revenue—income arising from our investment in AmeriCold. Storage and handling revenue are recognized as services are provided. Transportation fees are recognized upon delivery to customers.
- 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.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: SFAS No. 133: *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, 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 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 our shareholders 100% of our taxable income and therefore, no provision for Federal income taxes is required. Dividend distributions for the year ended December 31, 2006 were characterized for Federal income tax purposes as 29% ordinary income, 14.8% long-term capital gain income and 56.2% return of capital. Dividend distributions for the year ended December 31, 2005 were characterized for Federal income tax purposes as 93.6% ordinary income and 6.4% long-term capital gain income. Dividend distributions for the year ended December 31, 2004 were characterized for Federal income tax purposes as 94.8% ordinary income and 5.2% long-term capital gain income.

We have elected to treat certain of our 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. Other than the taxable REIT subsidiaries of AmeriCold, our taxable REIT subsidiaries had a combined current income tax liability of approximately $3,000,000 and $4,844,000 for the years ended December 31, 2006 and 2005, respectively, and have immaterial differences between the financial reporting and tax basis of assets and liabilities.

AmeriCold's taxable REIT subsidiaries are accounted for using the asset and liability method, under which deferred income taxes are recognized for (i) temporary differences between the financial reporting and tax bases of assets and liabilities and (ii) operating loss and tax credit carry-forwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred income tax assets are recognized only to the extent that it is more likely than not they will be realized based on consideration of available evidence, including tax planning strategies. As of December 31, 2006 and 2005, AmeriCold has recorded deferred income tax assets of $14,274,000 and $11,769,000, respectively, and deferred income tax liabilities of $7,603,000 and $8,236,000, respectively. The net amount of the deferred income tax assets and liabilities are included in "Other Assets" on our consolidated balance sheets.

The following table reconciles net income to estimated taxable income for the years ended December 31, 2006, 2005 and 2004.

(AMOUNTS IN THOUSANDS)	**2006**	2005	2004
Net income applicable to common shares	$ 502,629	$493,103	$ 570,997
Book to tax differences (unaudited):			
Depreciation and amortization	118,364	93,301	85,153
Derivatives	(25,726)	(31,144)	(126,724)
Straight-line rent adjustments	(56,690)	(44,787)	(53,553)
Earnings of partially owned entities	72,534	31,591	47,998
Net gains on sale of real estate	(22,699)	(28,282)	(54,143)
Net gain on sale of a portion of investment in AmeriCold to Yucaipa	—	—	(26,459)
Stock options expense	(220,043)	(35,088)	(20,845)
Compensation deduction for units held in Rabbi Trust	(171,356)	—	—
Amortization of acquired below market leases, net of above market leases	(21,547)	(12,343)	(12,692)
Sears Canada dividend	(72,706)	75,201	—
Other	499	28,612	4,191
Estimated taxable income	$ 103,259	$570,164	$ 413,923

The net basis of our assets and liabilities for tax reporting purposes is approximately $3,898,470,000 lower than the amount reported in our consolidated financial statements.

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, warrants and convertible or redeemable securities.

STOCK-BASED COMPENSATION: Our stock based compensation consists of awards to certain of our employees and officers and consist of stock options, restricted common shares, restricted Operating Partnership units and out-performance plan awards. The terms of each of these awards are described in Note 11—Stock-Based Compensation. We account for all stock-based compensation in accordance with SFAS No. 123: *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148: *Accounting for Stock-Based Compensation—Transition and Disclosure* and as revised by SFAS No. 123R: *Share-Based Payment* ("SFAS No. 123R"). We adopted SFAS No. 123R using the modified prospective application, on January 1, 2006.

Stock option awards

For stock option awards granted in 2003 and thereafter, we utilize a binomial valuation model and appropriate market assumptions to determine the value on the date of grant. Compensation expense for stock option awards is recognized on a straight-line basis over the vesting period, which is generally five years.

In 2002 and prior years, we accounted for stock option awards using the intrinsic value method. Under the intrinsic value method compensation cost was measured as the excess, if any, of the quoted market price of our stock at the date of grant over the exercise price of the option granted. Because our policy is to grant options with an exercise price equal to the average of the high and low market price of our stock on the New York Stock Exchange ("NYSE") on the grant date, no compensation cost was recognized for stock options granted prior to 2003. See Note 11. Stock-Based Compensation, for pro forma net income and pro forma net income per share for the years ended December 31, 2006, 2005 and 2004, assuming compensation cost for grants prior to 2003 was recognized as compensation expense based on the fair value at the grant dates.

Restricted stock and Operating Partnership awards

Restricted stock awards are valued using the average of the high and low market price of our stock on the NYSE on the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period, which is generally three to five years. Dividends paid on unvested shares are charged to retained earnings. Dividends on shares that are canceled or terminated prior to vesting are charged to compensation expense in the period they are cancelled or terminated.

Restricted Operating Partnership unit awards are also valued using the average of the high and low market price of our stock on the NYSE on the date of grant, adjusted to include an estimated forfeiture factor which is based on our past history. Compensation expense is recognized over the five year vesting period using a graded vesting attribution model as these awards are subject to the satisfaction of a performance condition. Dividends paid on unvested units are charged to minority interest expense on our consolidated statements of operations. Dividends on units that are canceled or terminated prior to the satisfaction of the performance condition and vesting are charged to compensation expense in the period they are cancelled or terminated.

Out-performance plan awards

Out-performance plan awards are valued using a risk-free valuation model and appropriate market assumptions as of the date of grant, adjusted to include an estimated forfeiture factor which is based on our past history. Compensation expense is recognized over five years using a graded vesting attribution model as these awards are subject to the satisfaction of certain market and performance conditions, in addition to vesting.

Recently Issued Accounting Literature

On December 16, 2004, the FASB issued Statement No. 123(R), *Share-Based Payment* ("SFAS No. 123R"). SFAS No. 123R replaces SFAS No. 123 and requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and measured based on the fair value of the equity or liability instruments issued. We adopted SFAS No. 123R on the modified prospective method on January 1, 2006. This adoption did not have a material effect on our consolidated financial statements.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and SFAS No. 3* ("SFAS No. 154"). SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods' financial statements of the change in accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that a change in depreciation or amortization for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted SFAS No. 154 on January 1, 2006. This adoption had no effect on our consolidated financial statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments—An Amendment of SFAS No. 133 and No. 140* ("SFAS No. 155"). The purpose of SFAS No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year beginning after September 15, 2006. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets, an Amendment of SFAS No. 140* ("SFAS No. 156"). SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that servicing assets and liabilities be initially recorded at fair value and subsequently adjusted to the fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 establishes new evaluation and measurement processes for all income tax positions taken. FIN 48 also requires expanded disclosures of income tax matters. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. We believe that the adoption of this standard on January 1, 2008 will not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS No. 87, 88, 106 and 132R* ("SFAS No. 158"). SFAS No. 158 requires an employer to (i) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit post-retirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The adoption of the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of December 31, 2006 did not have a material effect on our consolidated financial statements. The requirement to measure plan assets and benefit obligations to determine the funded status as of the end of the fiscal year and to recognize changes in the funded status in the year in which the changes occur is effective for fiscal years ending after December 15, 2008. The adoption of the measurement date provisions of this standard is not expected to have a material effect on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), which becomes effective for the first fiscal period ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The adoption of SAB 108 on December 31, 2006 did not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will early adopt SFAS No. 159 or if we will choose to measure any eligible financial assets and liabilities at fair value.

3. Acquisitions and Dispositions

Acquisitions:

We completed approximately $1,820,980,000 of real estate acquisitions and investments in 2006 and $2,379,750,000 in 2005. In addition, we made $356,000,000 of mezzanine loans during 2006 and $308,534,000 in 2005 (see Note 7. Notes and Mortgage Loans Receivable). These acquisitions were consummated through our subsidiaries. The related assets, liabilities and results of operations are included in our consolidated financial statements from their respective dates of acquisition. The pro forma effect of the individual acquisitions and in the aggregate were not material to our historical consolidated financial statements.

Acquisitions of individual properties are recorded as acquisitions of real estate assets. Acquisitions of businesses are accounted for under the purchase method of accounting. The purchase price for property acquisitions and businesses acquired is allocated to acquired assets and assumed liabilities using their relative fair values as of the acquisition date based on valuations and other pertinent market information. Initial valuations are subject to change until such information is finalized no later than 12 months from the consummation of an acquisition.

New York Office:

350 PARK AVENUE, NEW YORK CITY

On December 14, 2006, we acquired 350 Park Avenue for $542,000,000 in cash. The building occupies the entire westerly block front on Park Avenue between 51st and 52nd Streets and contains 538,000 square feet of office space. At closing, we completed a $430,000,000, five-year, interest-only financing secured by the property, which bears interest at 5.48%. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

100 WEST 33RD STREET, NEW YORK CITY (THE "MANHATTAN MALL")

On January 11, 2007, we acquired the Manhattan Mall for approximately $689,000,000 in cash. This mixed-use property is located on the entire Sixth Avenue block-front between 32nd and 33rd Streets in Manhattan and contains approximately 1,000,000 square feet, including 812,000 square feet of office space and 164,000 square feet of retail space. Included as part of the transaction are 250,000 square feet of additional air rights. The property is adjacent to our 1,400,000 square foot Hotel Pennsylvania. At closing, we completed a $232,000,000 financing secured by the property, which bears interest at LIBOR plus 0.55% and matures in two years with three one-year extension options. The operations of the office component of the property will be included in the New York Office segment and the operations of the retail component will be included in the Retail segment. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Washington, DC Office:

BOWEN BUILDING, WASHINGTON, DC

On June 13, 2005, we acquired the 90% that we did not already own of the Bowen Building for $119,000,000, consisting of $63,000,000 in cash and $56,000,000 of existing mortgage debt. This class A office building is located at 875 15th Street N.W. in the Central Business District of Washington, DC and contains 231,000 square feet of office space. We consolidate the accounts of this property into our consolidated financial statements from the date of this acquisition.

ROSSLYN PLAZA, ROSSLYN, VIRGINIA

On December 20, 2005, we acquired a 46% partnership interest in, and became co-general partner of, partnerships that own a complex in Rosslyn, Virginia, containing four office buildings with an aggregate of 714,000 square feet and two apartment buildings containing 195 rental units. The consideration for the acquisition consisted of 734,486 newly issued Operating

Partnership units (valued at $61,814,000 at acquisition) and $27,300,000 for our pro-rata share of existing debt. Of the partnership interest acquired, 19% was from Robert H. Smith and Robert P. Kogod, trustees of Vornado, and their family members, representing all of their interest in the partnership. This investment is accounted for under the equity method.

WARNER BUILDING, WASHINGTON, DC

On December 27, 2005, we acquired the 95% interest that we did not already own in the Warner Building for $319,000,000, consisting of $170,000,000 in cash and $149,000,000 of existing mortgage and other debt. This Class A property is located at 1299 Pennsylvania Avenue three blocks from the White House and contains 560,000 square feet of office space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

BNA COMPLEX, WASHINGTON, DC

On February 17, 2006, we entered into an agreement to sell our 277,000 square foot Crystal Mall Two office building located in Crystal City, Virginia, to The Bureau of National Affairs, Inc. ("BNA"), for use as its corporate headquarters, subject to the build-out of tenant improvements to agreed-upon specifications. Simultaneously, we agreed to acquire a three building complex from BNA containing approximately 300,000 square feet, located in Washington, DC's West End between Georgetown and the Central Business District. We will receive sales proceeds of approximately $100,000,000 for Crystal Mall Two and recognize a net gain on sale of approximately $23,000,000. We will pay BNA $111,000,000 in cash for the three building complex. One of the buildings, containing 130,000 square feet, will remain an office building, while the other two buildings will be redeveloped into residential condominiums or apartment rentals. These transactions are expected to close in the second half of 2007.

1925 K STREET, WASHINGTON, DC

On April 13, 2006, we acquired the 92.65% interest that we did not already own of 1925 K Street for $52,800,000, consisting of $34,600,000 in cash and $18,200,000 of existing mortgage debt. This property is located in the Central Business District of Washington, DC and contains 150,000 square feet of office space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition. We plan to redevelop this property into a 250,000 square foot Class A office building at a cost of approximately $90,000,000. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition. Mitchell N. Schear, President of our Washington, DC Office division, received $3,675,000 for his share of the proceeds as a partner of the selling entity.

H STREET BUILDING CORPORATION ("H STREET")

On July 20, 2005, we acquired H Street for approximately $246,600,000, consisting of $194,500,000 in cash and $52,100,000 for our pro rata share of existing mortgage debt. H Street owns, directly or indirectly through stock ownership in corporations, a 50% interest in real estate assets located in Pentagon City, Virginia, including 34 acres of land leased to various residential and retail operators, a 1,670 unit apartment complex, 10 acres of land and two office buildings located in Washington, DC containing 577,000 square feet. We consolidate the accounts of H Street into our consolidated financial statements from the date of acquisition.

On July 22, 2005, two corporations owned 50% by H Street filed a complaint against the Company, H Street and three parties affiliated with the sellers of H Street in the Superior Court of the District of Columbia alleging that we encouraged H Street and the affiliated parties to breach their fiduciary duties to these corporations and interfered with prospective business and contractual relationships. The complaint seeks an unspecified amount of damages and a rescission of our acquisition of H Street. On September 12, 2005, we filed a complaint against each of those corporations and their acting directors seeking a restoration of H Street's full shareholder rights and damages. In addition, on July 29, 2005, a tenant under ground leases for which one of these 50%-owned corporations is landlord brought a separate suit in the Superior Court of the District of Columbia, alleging, among other things, that the acquisition of H Street violated a provision giving them a right of first offer and seeks rescission of our acquisition, the right to acquire H Street for the price paid by us and/or damages. On July 14, 2006, we filed a counterclaim against the tenant asserting that the tenant and the other owner of the 50%-owned ground landlord deliberately excluded H Street from negotiating and executing a purported amendment to the agreement to lease when H Street's consent and execution was required and, consequently, that the amended agreement and the related ground leases are invalid, the tenant is in default under the ground leases and the ground leases are void and without any effect. As of February 1, 2007, discovery is substantially complete and we are awaiting a trial date. We believe that the actions filed against us are without merit and that we will ultimately be successful in defending against them.

Prior to June 30, 2006, the two 50% owned entities that are contesting our acquisition of H Street impeded access to their financial information and accordingly, we were unable to record our pro rata share of their earnings. During the second half of 2006, based on the financial information they provided to us, we recognized equity in net income of $11,074,000 from these entities, of which $3,890,000 represented our 50% share of their earnings for the period from July 20, 2005 (date of acquisition) to December 31, 2005.

Retail:

BEVERLY CONNECTION, LOS ANGELES, CALIFORNIA

On March 5, 2005, we acquired a 50% interest in a venture that owns Beverly Connection, a two-level urban shopping center, containing 322,000 square feet, located in Los Angeles, California for $10,700,000 in cash. We also provided the venture with a $59,500,000 first mortgage loan which bore interest at 10% through its scheduled maturity in February 2006 and $35,000,000 of preferred equity yielding 13.5% for up to a three-year term, which is subordinate to $37,200,000 of other preferred equity and debt. On February 11, 2006, $35,000,000 of our loan to the venture was converted to additional preferred equity on the same terms as our existing preferred equity and the maturity date of the loan was extended. On June 30, 2006, the venture completed a $100,000,000 refinancing and repaid to us the remaining $24,500,000 balance of the loan. The venture's new loan bears interest at LIBOR (capped at 5.5%) plus 2.20% (7.5% as of December 31, 2006) and matures in July 2008 with 3 one-year extension options. The venture is redeveloping the existing retail and plans, subject to governmental approvals, to develop residential condominiums and assisted living facilities. This investment is accounted for under the equity method.

WESTBURY RETAIL CONDOMINIUM, NEW YORK CITY

On May 20, 2005, we acquired the retail condominium of the former Westbury Hotel in Manhattan for $113,000,000 in cash. Simultaneously with the closing, we completed an $80,000,000 mortgage financing secured by the property, which bears interest at 5.292% and matures in 2018. The property contains approximately 17,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

40 EAST 66TH STREET, NEW YORK CITY

On July 25, 2005, we acquired 40 East 66th Street for $158,000,000 in cash. The property is located at Madison Avenue and East 66th Street in Manhattan and contains 37 rental apartments with an aggregate of 85,000 square feet, and 10,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition. The rental apartment operations are included in the Other segment and the retail operations are included in the Retail segment.

BROADWAY MALL, NEW YORK

On December 27, 2005, we acquired the Broadway Mall for $152,500,000, consisting of $57,600,000 in cash and a $94,900,000 existing mortgage. The mall is located on Route 106 in Hicksville, Long Island, New York, contains 1.2 million square feet, of which we own 1.0 million square feet, and is anchored by Macy's, Ikea, Multiplex Cinemas and Target. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

SAN FRANCISCO BAY AREA PROPERTIES

On January 10, 2006, we acquired four properties for approximately $72,000,000 in cash. The properties are located in the San Francisco Bay area and contain a total of 189,000 square feet of retail and office space. We consolidate the accounts of these properties into our consolidated financial statements from the date of acquisition.

SPRINGFIELD MALL, VIRGINIA

On January 31, 2006, we acquired an option to purchase the Springfield Mall for $35,600,000, of which we paid $14,000,000 in cash upon the closing and $10,000,000 in installments during 2006. The remainder of $11,600,000 will be paid in installments over the next three years. The mall, located on 79 acres at the intersection of Interstate 95 and Franconia Road in Springfield, Virginia, contains 1.4 million square feet and is anchored by Macy's, and JCPenney and Target who own their stores aggregating 389,000 square feet. We intend to redevelop, reposition and re-tenant the mall and have committed to spend $25,000,000 in capital expenditures over a six-year period from the closing of the option agreement. The option becomes exercisable upon the passing of one of the existing principals of the selling entity and may be deferred at our election through November 2012. Upon exercise of the option, we will pay $80,000,000 to acquire the mall, subject to the existing mortgage of $180,000,000, which will be amortized to $149,000,000 at maturity in 2013. Upon closing of the option on January 31, 2006, we acquired effective control of the mall, including management of the mall and right to the mall's net cash flow. Accordingly, we consolidate the accounts of the mall into our consolidated financial statements pursuant to the provisions of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* ("FIN 46R"). We have a 2.5% minority partner in this transaction.

SAN JOSE, CALIFORNIA GROUND-UP DEVELOPMENT

On March 29, 2006, a joint venture, in which we have a 45% equity interest and are a co-managing partner, acquired 55 acres of land in San Jose, California for approximately $59,600,000. The purchase price was funded with $20,643,000 of cash contributed by the partners, of which our share was $9,289,000, and $38,957,000 drawn on a $117,000,000 acquisition/construction loan. The remainder of the loan will be used to fund the development of 325,000 square feet of retail space and site work for Home Depot and Target who will construct their own stores. Upon completion of the development we have an option to acquire our partner's 55% equity interest at a 7% unlevered yield.

1540 BROADWAY, NEW YORK CITY

On July 11, 2006, we acquired the retail, signage and parking components of 1540 Broadway for approximately $260,000,000 in cash. This property is located in Times Square between 45th and 46th Street and contains 154,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

TOYS "R" US STORES

On September 14, 2006, we entered into an agreement to purchase up to 44 previously closed Toys "R" Us stores for up to $190,000,000. On October 16, 2006, we completed the first phase of the agreement by acquiring 37 stores for $171,000,000 in cash. These properties, of which 18 are owned in fee, 8 are ground leased and 11 are space leased, aggregate 1.5 million square feet and are primarily located in seven east coast states, Texas and California. Of these properties, 25 are leased or subleased to other retailers and 12 are currently vacant. All of these stores were part of the store closing program announced by Toys "R" Us ("Toys") in January 2006. We consolidate the accounts of these properties into our consolidated financial statements from the date of acquisition. Our $9,377,000 share of Toys' net gain on this transaction was recorded as an adjustment to the basis of our investment in Toys and was not recorded as income.

We expect to purchase six of the remaining stores by the end of the second quarter of 2007, subject to landlords' consent, where applicable, and customary closing conditions. The seventh store we had agreed to purchase was sold by Toys to a third party.

BRUCKNER PLAZA, BRONX, NEW YORK

On January 11, 2007, we acquired the Bruckner Plaza shopping center and an adjacent parcel containing 114,000 square feet which is ground leased to a third party for approximately $165,000,000 in cash. The property is located on Bruckner Boulevard in the Bronx, New York and contains 386,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Merchandise Mart:

BOSTON DESIGN CENTER, BOSTON, MASSACHUSETTS

On December 28, 2005, we acquired the Boston Design Center for $96,000,000, consisting of $24,000,000 in cash and $72,000,000 of existing mortgage debt. This property is located in South Boston, Massachusetts and contains 552,500 square feet. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Temperature Controlled Logistics:

REFRIGERATED WAREHOUSES

On August 31, 2006, AmeriCold Realty Trust ("AmeriCold") entered into a definitive agreement to acquire from ConAgra Foods, Inc. ("ConAgra Foods") four refrigerated warehouse facilities and the lease on a fifth facility, with an option to purchase. These five warehouses contain a total of 1.7 million square feet and 48.9 million cubic feet. The aggregate purchase price is approximately $190,000,000, consisting of $152,000,000 in cash to ConAgra Foods and $38,000,000 representing the recording of a capital lease obligation for the fifth facility. During the fourth quarter of 2006, AmeriCold completed the acquisition of two of these facilities and assumed the leasehold on the fifth facility and the related capital lease obligation. In January 2007, AmeriCold completed the acquisition of the third facility. The acquisition of the fourth facility is expected to be completed during the first half of 2007. We consolidate these properties into our consolidated financial statements from the date of acquisition.

Toys "R" Us ("Toys"):

On July 21, 2005, a joint venture owned equally by us, Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys for $26.75 per share in cash or approximately $6.6 billion. In connection therewith, we invested $428,000,000 of the $1.3 billion of equity in the venture, consisting of $407,000,000 in cash and $21,000,000 in Toys common shares held by us. This investment is accounted for under the equity method. See footnote 6—Investments in Partially Owned Entities for further details.

Other:

220 CENTRAL PARK SOUTH, NEW YORK CITY

On August 26, 2005, a joint venture in which we have a 90% interest, acquired 220 Central Park South for $136,550,000. We and our partner invested cash of $43,400,000 and $4,800,000, respectively, in the venture to acquire the property. The venture obtained a $95,000,000 mortgage loan which bore interest at LIBOR plus 3.50%. On November 7, 2006, we completed a $130,000,000 refinancing of our 220 Central Park South property. The loan has two tranches, the first tranche of $95,000,000 bears interest at LIBOR (capped at 5.50%) plus 2.35% (7.67% as of December 31, 2006) and the second tranche can be drawn up to $35,000,000 and bears interest at LIBOR (capped at 5.50%) plus 2.45% (7.77% as of December 31, 2006). As of December 31, 2006 approximately $27,990,000 has been drawn on the second tranche. The property contains 122 rental apartments with an aggregate of 133,000 square feet and 5,700 square feet of commercial space. We consolidate the accounts of the venture into our consolidated financial statements from the date of acquisition.

INDIA REAL ESTATE INVESTMENTS

On December 12, 2006, we contributed $71,500,000 in cash for a 50% interest in a joint venture that owns 263 acres of land in a special economic zone in the national capital region of India. The venture plans to develop residential, office and retail buildings on the site in three phases over the next nine years. In 2005, we contributed $16,700,000 in cash for a 25% interest in a joint venture formed for the purpose of investing in, and developing, other real estate properties in India. These investments are accounted for under the equity method.

FILENE'S, BOSTON, MASSACHUSETTS

On January 26, 2007, a joint venture in which we have a 50% interest, acquired the Filene's property located in the Downtown Crossing district of Boston, Massachusetts for approximately $100,000,000 in cash, of which our share was $50,000,000. This investment is accounted for under the equity method. The venture plans to redevelop the property to include over 1,200,000 square feet, consisting of office, retail, condominium apartments and a hotel. The project is subject to governmental approvals.

OTHER

In addition to the acquisitions and investments described above, we made $727,480,000 of other acquisitions and investments during 2006 and 2005 in 33 separate transactions, comprised of $602,980,000 in cash and $124,500,000 of existing mortgage debt.

Dispositions:

On June 29, 2004, we sold our Palisades Residential Complex for $222,500,000, which resulted in a net gain on sale of $65,905,000. Substantially all of the proceeds from the sale were reinvested in tax-free "like kind" exchange investments in accordance with Section 1031 of the Internal Revenue Code ("Section 1031"). On February 27, 2004, we acquired the remaining 25% interest in the Palisades venture that we did not previously own for approximately $17,000,000 in cash.

On August 12, 2004, we sold our Dundalk, Maryland shopping center for $12,900,000, which resulted in a net gain on sale of $9,850,000. Substantially all of the proceeds from the sale have been reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031.

On April 21, 2005, we, through our 85% owned joint venture, sold 400 North LaSalle, a 452-unit high-rise residential tower in Chicago, Illinois, for $126,000,000, which resulted in a net gain on sale of $31,614,000. All of the proceeds from the sale have been reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031.

On March 13, 2006, we sold 424 Sixth Avenue, a 10,000 square foot retail property located in New York City, for $22,000,000, which resulted in a net gain of $9,218,000.

On March 14, 2006, we sold 33 North Dearborn Street, a 336,000 square foot office building located in Chicago, Illinois, for $46,000,000, which resulted in a net gain of $4,835,000. All of the proceeds from the sale have been reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031.

On June 22, 2006, we sold 1919 South Eads Street, a 96,000 square foot office building located in Arlington, Virginia, for $38,400,000, which resulted in a net gain of $17,609,000. All of the proceeds from the sale have been reinvested in tax-free "like-kind" exchange investments in accordance with Section 1031.

Net gains on disposition of wholly-owned and partially owned assets other than depreciable real estate:

For the Years Ended December 31,

(AMOUNTS IN THOUSANDS)	**2006**	2005	2004
Wholly owned:			
Net gain (loss) on sales of marketable securities, including Prime Group in 2005	$76,073	$25,346	$ (159)
Net gain on disposition of senior preferred investment in 3700 Las Vegas Boulevard	—	12,110	—
Net gain on sales of land parcels, condominiums and other	—	1,586	776
Partially owned:			
Net gain on sale of a portion of investment in AmeriCold to Yucaipa	—	—	18,789
Other	—	—	369
	$76,073	$39,042	$19,775

On December 30, 2005, we sold our $3,050,000 senior preferred equity in 3700 Associates LLC, which owns 3700 Las Vegas Boulevard, a development land parcel, and recognized a net gain of $12,110,000. In addition, the purchaser repaid our $5,000,000 senior mezzanine loan to the venture.

On July 1, 2005, a third party acquired all of Prime Group Realty Trust's (NYSE: PGE) outstanding common shares and limited partnership units for $7.25 per share or unit. In connection therewith, we recognized a gain of $9,017,000, representing the difference between the purchase price and the carrying amount of the 3,972,447 common shares we owned.

4. Discontinued Operations

During the first quarter of 2006, we classified our 33 North Dearborn Street and 424 Sixth Avenue properties as discontinued operations and in the second quarter of 2006 we classified our 1919 South Eads property as discontinued operations in accordance with the provisions of SFAS No. 144 and reported revenues and expenses related to the properties as discontinued operations and the related assets and liabilities as assets and liabilities related to discontinued operations for all periods presented in the accompanying consolidated financial statements. Because of the requirement to build-out Crystal Mall Two to agreed upon specifications, we have not classified the building as discontinued operations in accordance with the provisions of SFAS No. 144.

Assets related to discontinued operations consist primarily of real estate, net of accumulated depreciation. The following table sets forth the balances of the assets related to discontinued operations as of December 31, 2006 and 2005:

December 31,

(AMOUNTS IN THOUSANDS)	**2006**	2005
Vineland	$908	$ 908
424 Sixth Avenue	—	11,870
33 North Dearborn Street	—	43,148
1919 South Eads Street	—	20,435
	$908	$76,361

The following table sets forth the balances of the liabilities related to discontinued operations (primarily mortgage notes payable) as of December 31, 2006 and 2005.

December 31, (AMOUNTS IN THOUSANDS)	2006	2005
33 North Dearborn Street	$—	$ 1,050
1919 South Eads Street	—	11,781
	$—	$12,831

The combined results of operations of the assets related to discontinued operations for the years ended December 31, 2006, 2005 and 2004 are as follows:

December 31, (AMOUNTS IN THOUSANDS)	2006	2005	2004
Total revenues	$ 2,464	$15,374	$27,364
Total expenses	2,825	11,473	21,874
Net (loss) income	(361)	3,901	5,490
Net gains on sale of real estate	33,769	31,614	75,755
Income from discontinued operations, net of minority interest	$33,408	$35,515	$81,245

See Note 3—Acquisition and Dispositions for details of net gains on sale of real estate related to discontinued operations in the years ended December 31, 2006, 2005 and 2004.

5. Derivative Instruments and Related Marketable Securities

Investment in McDonald's Corporation ("McDonalds") (NYSE: MCD)

We own 858,000 common shares of McDonalds as of December 31, 2006 which we acquired in July 2005 for $25,346,000, an average price of $29.54 per share. These shares are recorded as marketable equity securities on our consolidated balance sheets and are classified as "available for sale." Appreciation or depreciation in the fair market value of these shares is recorded as an increase or decrease in "accumulated other comprehensive income" in the shareholders' equity section of our consolidated balance sheets and not recognized in income. At December 31, 2006, based on McDonalds' closing stock price of $44.33 per share, $12,688,000 of appreciation in the value of these shares is included in "accumulated other comprehensive income" on our consolidated balance sheets.

During the second half of 2005, we acquired an economic interest in an additional 14,565,500 McDonalds common shares through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on McDonalds' common shares. These call and put options had an initial weighted-average strike price of $32.66 per share, or an aggregate of $475,692,000, expire on various dates between July 30, 2007 and September 10, 2007 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points (up to 95 basis points under certain circumstances) and is credited for the dividends received on the shares. The options provide us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate purchase price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income.

In the three months ended March 31, 2006, we sold 2,119,500 of the option shares in the derivative position at a weighted average sales price of $35.49. In the three months ended June 30, 2006, we acquired an additional 1,250,000 option shares at a weighted average purchase price of $33.08. As of December 31, 2006, there are 13,696,000 option shares in the derivative position with an adjusted weighted average strike price of $32.70 per share or an aggregate of $447,822,000. For the year ended December 31, 2006, we recognized a net gain of $138,815,000, representing the mark-to-market of the shares in the derivative to $44.33 per share, net of the expense resulting from the LIBOR charges.

Our aggregate net gain from inception of this investment in 2005 through December 31, 2006 is $168,557,000.

Investment in Sears, Roebuck and Co. ("Sears")

In August and September 2004, we acquired an economic interest in 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options had an initial weighted-average strike price of $39.82 per share, or an aggregate of $315,250,000. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points and is credited for the dividends received on the shares. The options provide us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income.

On March 30, 2005, as a result of the merger between Sears and Kmart and pursuant to the terms of the contract, our derivative position representing 7,916,900 Sears common shares became a derivative position representing 2,491,819 common shares of Sears Holdings, Inc. ("Sears Holdings") (NYSE: SHLD) valued at $323,936,000 based on the then closing share price of $130.00 and $146,663,000 of cash. As a result, we recognized a net gain of $58,443,000 based on the fair value of the derivative position on March 30, 2005. In 2005 we sold 402,660 of the option shares at a weighted average sales price of $124.44 per share. In the first quarter of 2006, we settled the entire derivative position by selling the remaining 2,089,159 option shares at a weighted average sales price of $125.43 which resulted in a net gain of $18,611,000, comprised of $20,673,000 from the remaining option shares sold, partially offset by $2,062,000 of expense resulting from the increase in strike price for the LIBOR charge.

Our aggregate net gain realized from inception of this investment in 2004 through settlement was $142,877,000.

Investment in Sears Canada, Inc. ("Sears Canada")

On April 3, 2006, we tendered the 7,500,000 Sears Canada shares we owned to Sears Holdings at the increased tender price of Cdn. $18.00 per share (the equivalent at that time of US $15.68 per share), which resulted in a net gain of $55,438,000 representing the difference between the tender price, and our carrying amount of $8.29 per share. The net gain is reflected as a component of "net gain on disposition of wholly-owned and partially owned assets other than depreciable real estate" on our consolidated statement of income. Together with income recognized in the fourth quarter of 2005 that resulted from a Sears Canada special dividend, the aggregate net gain from inception in 2005 on our $143,737,000 investment was $78,323,000. If at any time on or before December 31, 2008 Sears Canada or any of its affiliates pays more than Cdn. $18.00 per share to acquire Sears Canada common shares from third parties, we will be entitled to receive the difference as additional consideration for the shares we sold.

GMH Communities L.P. Stock Purchase Warrants

In July 2004, we made an investment in GMH Communities L.P. ("GMH") which is described in detail in Note 6—Investments in Partially Owned Entities. As part of our investment, we purchased for $1,000,000, warrants to acquire GMH common equity. The warrants entitled us to acquire (i) 6,666,667 limited partnership units in GMH at an exercise price of $7.50 per unit and (ii) 5,496,724 limited partnership units at an exercise price of $9.10 per unit, through May 2, 2006 and are adjusted for dividends declared by GMH Communities Trust (NYSE: GCT) ("GCT"). The warrants were accounted for as derivative instruments that did not qualify for hedge accounting treatment. Accordingly, the gains or losses resulting from the mark-to-market of the warrants at the end of each reporting period were recognized as an increase or decrease in "interest and other investment income" on our consolidated statements of income.

On November 3, 2004, we exercised our first tranche of warrants to acquire 6,666,667 limited partnership units at a price of $7.50 per unit, or an aggregate of $50,000,000. On May 2, 2006, the date our remaining GMH warrants were to expire, we received 1,817,247 GCT common shares through an automatic cashless exercise. The amount of the shares received was equal to the excess of GCT's average closing share price for the trailing 20-day period ending on May 1, 2006 and the $8.22 exercise price, divided by GCT's average closing share price for the trailing 20-day period ending on May 1, 2006, then multiplied by 6,085,180 warrants.

For the year ended December 31, 2006, we recognized a net loss of $16,370,000, the difference between the value of the GCT common shares received on May 2, 2006 and GCT's closing share price of $15.51 on December 31, 2005. For the years ended December 31, 2005, we recognized income of $14,079,000 from the mark-to-market of these warrants which were valued using a trinomial option pricing model based on GCT's closing stock price on the NYSE of $15.51 and $14.10 per share on December 31, 2005 and 2004, respectively. For the year ended December 31, 2004, we recognized income aggregating $53,690,000, of which $29,500,000 represented a net gain on conversion of the first tranche of warrants on November 3, 2004, and $24,190,000 represented income from the mark-to-market of the remaining warrants based on GCT's closing stock price on the NYSE of $14.10 per share on December 31, 2004. From inception of our investment in the warrants, including the first tranche of warrants exercised on November 3, 2004, we recognized an aggregate net gain of $51,399,000.

6. Investments and Advances to Partially Owned Entities

Our investments and advances to partially owned entities as of December 31, 2006 and 2005 and income recognized from such investments for the years ended December 31, 2006, 2005 and 2004 are as follows:

Balance Sheet Data:

(AMOUNTS IN THOUSANDS)	Percentage Ownership as of December 31, 2006	As of December 31, 2006	2005
Investments:			
Toys "R" Us (see page 150)	32.9%	$ 317,145	$425,830
H Street non-consolidated subsidiaries (see page 138)	50%	$ 207,353	$196,563
The Lexington Master Limited Partnership ("Lexington MLP"), formerly The Newkirk Master Limited Partnership and affiliates ("Newkirk MLP") (see page 153)	7.4%	184,961	172,488
Partially owned office buildings(1)	(1)	150,954	100,105
GMH Communities L.P. (see page 152)	13.5%	103,302	90,103
Alexander's (see page 151)	32.8%	82,113	105,241
Beverly Connection (see page 139)	50%	82,101	103,251
India real estate ventures (see page 142)	25%–50%	93,716	16,332
Other		231,169	159,940
		$1,135,669	$944,023

(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 57th Street properties (50%).

6. Investments in Partially Owned Entities *(continued)*

Below is a summary of the debt of partially owned entities as of December 31, 2006 and 2005, none of which is recourse to us.

100% of Partially Owned Entities Debt

December 31,

(AMOUNTS IN THOUSANDS)	2006	2005
Toys (32.9% interest):		
$1.3 billion senior credit facility, due 2008, LIBOR plus 3.00% (8.35% at December 31, 2006)	$1,300,000	$ —
$2.0 billion credit facility, due 2010, LIBOR plus 1.00%-3.75% (weighted average rate of 6.97% at December 31, 2006)	836,000	1,160,000
$804 million secured term loan facility, due 2012, LIBOR plus 4.25% (9.57% at December 31, 2006)	800,000	—
Mortgage loan, due 2007, LIBOR plus 1.30% (6.65% at December 31, 2006)	800,000	800,000
Senior U.K. real estate facility, due 2013, 4.56% plus 0.28% to 1.50% (5.02% at December 31, 2006)	676,000	—
7.625% bonds, due 2011 (Face value—$500,000)	477,000	475,000
7.875% senior notes, due 2013 (Face value—$400,000)	369,000	366,000
7.375% senior notes, due 2018 (Face value—$400,000)	328,000	324,000
Toys "R" Us—Japan short-term borrowings, 2006, tiered rates (weighted average rate of 0.72% at December 31, 2006)	285,000	—
8.750% debentures, due 2021 (Face value—$200,000)	193,000	193,000
Multi-currency revolving credit facility, due 2010, LIBOR plus 1.50%-2.00% (weighted average rate of 6.35% at December 31, 2006)	190,000	—
Spanish real estate facility, due 2013, 1.50% plus EURIBOR (4.51% at December 31, 2006)	171,000	—
Toys "R" Us—Japan bank loans, due 2010-2014, 1.20%-2.80%	156,000	—
Junior U.K. real estate facility, due 2013, LIBOR plus 2.25% (6.81% at December 31, 2006)	118,000	—
French real estate facility, due 2013, 1.50% plus EURIBOR (4.51% at December 31, 2006)	83,000	—
Note at an effective cost of 2.23% due in semi-annual installments through 2008	50,000	82,000
$200 million asset sale facility, due 2008, LIBOR plus 3.00%—4.00% (8.85% at December 31, 2006)	44,000	—
$1.9 billion bridge loan, due 2012, LIBOR plus 5.25%	—	1,900,000
$1.0 billion senior facility, LIBOR plus 1.50%	—	1,035,000
6.875% bonds, due 2006 (Face value—$250,000)	—	253,000
Other	39,000	32,000
	6,915,000	6,620,000
Alexander's (32.8% interest):		
731 Lexington Avenue mortgage note payable collateralized by the office space, due in February 2014, with interest at 5.33% (prepayable without penalty)	393,233	400,000
731 Lexington Avenue mortgage note payable, collateralized by the retail space, due in July 2015, with interest at 4.93% (prepayable without penalty)	320,000	320,000
Kings Plaza Regional Shopping Center mortgage note payable, due in June 2011, with interest at 7.46% (prepayable with yield maintenance)	207,130	210,539
Rego Park mortgage note payable, due in June 2009, with interest at 7.25% (prepayable without penalty after March 2009)	80,135	80,926
Paramus mortgage note payable, due in October 2011, with interest at 5.92% (prepayable without penalty)	68,000	68,000
	1,068,498	1,079,465
Lexington MLP (formerly Newkirk MLP) (7.4% interest in 2006 and 15.8% interest in 2005):		
Portion of first mortgages collateralized by the partnership's real estate, due from 2006 to 2024, with a weighted average interest rate of 6.32% at December 31, 2006 (various prepayment terms)	2,101,104	742,879
GMH Communities L.P. (13.5% interest in 2006 and 11.3% interest in 2005):		
Mortgage notes payable, collateralized by 59 properties, due from 2007 to 2024, with a weighted average interest rate of 5.17% (various prepayment terms)	957,788	688,412
H Street non-consolidated entities (50% interest):		
Mortgage notes payable, collateralized by 6 properties, due from 2006 to 2029 with a weighted average interest rate of 6.93% at December 31, 2006	351,584	—

100% of Partially Owned Entities Debt *(continued)*

December 31,

(AMOUNTS IN THOUSANDS)	2006	2005
Partially owned office buildings:		
Kaempfer Properties (2.5% to 5.0% interests in two partnerships) mortgage notes payable, collateralized by the partnerships' real estate, due from 2011 to 2031, with a weighted average interest rate of 6.63% at December 31, 2006 (various prepayment terms)	$ 145,640	$ 166,460
Fairfax Square (20% interest) mortgage note payable, due in August 2009, with interest at 7.50%	65,178	66,235
330 Madison Avenue (25% interest) mortgage note payable, due in April 2008, with interest at 6.52% (prepayable with yield maintenance)	60,000	60,000
825 Seventh Avenue (50% interest) mortgage note payable, due in October 2014, with interest at 8.07% (prepayable with yield maintenance)	22,159	22,484
Rosslyn Plaza (46% interest) mortgage note payable, due in November 2007, with interest at 7.28% (prepayable without penalty)	57,396	58,120
West 57th Street (50% interest) mortgage note payable, due in October 2009, with interest at 4.94% (prepayable without penalty after July 2009)	29,000	—
Verde Realty Master Limited Partnership (6.39% interest) mortgage notes payable, collateralized by the partnerships' real estate, due from 2006 to 2025, with a weighted average interest rate of 5.75% at December 31, 2006 (various prepayment terms)	311,133	176,345
Monmouth Mall (50% interest) mortgage note payable, due in September 2015, with interest at 5.44% (prepayable with yield maintenance)	165,000	165,000
Green Courte Real Estate Partners, LLC (8.3% interest) mortgage notes payable, collateralized by the partnerships' real estate, due from 2006 to 2015, with a weighted average interest rate of 5.71% at December 31, 2006 (various prepayment terms)	201,556	159,573
San Jose, California Ground-up Development (45% interest) construction loan, due in March 2009, with a one-year extension option and interest at 7.13% (LIBOR plus 1.75%)	50,659	—
Beverly Connection (50% interest) mortgage and mezzanine loans payable, due in February 2008 and July 2008, with a weighted average interest rate of 10.02%, $70,000 of which is due to Vornado (prepayable with yield maintenance)	170,000	69,003
TCG Urban Infrastructure Holdings (25% interest) mortgage notes payable, collateralized by the entity's real estate, due from 2008 to 2013, with a weighted average interest rate of 9.17% at December 31, 2006 (various prepayment terms)	45,601	40,239
478-486 Broadway (50% interest) mortgage note payable, due October 2007, with interest at 8.53% (LIBOR plus 3.15%) (prepayable with yield maintenance)	20,000	20,000
Wells/Kinzie Garage (50% interest) mortgage note payable, due in June 2009, with interest at 7.03%	14,756	15,067
Orleans Hubbard Garage (50% interest) mortgage note payable, due in April 2009, with interest at 7.03%	9,257	9,455
Other	23,656	24,426

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was $3,323,007 and $3,002,346 as of December 31, 2006 and 2005, respectively.

Income Statement Data:

For the Years Ended December 31,

(AMOUNTS IN THOUSANDS)	2006	2005	2004
Toys:			
32.9% share of equity in net loss(1)	$(56,218)	$(46,789)	$ —
Interest and other income	8,698	6,293	—
	$(47,520)	$(40,496)	$ —
Alexander's:			
32.8% share of:			
Equity in net income before net gain on sale of condominiums and stock appreciation rights compensation expense	$ 19,120	$ 15,668	$ 13,701
Net gain on sale of condominiums	4,580	30,895	—
Stock appreciation rights compensation expense	(49,043)	(9,104)	(25,340)
Equity in net (loss) income	(25,343)	37,459	(11,639)
Interest income	—	6,122	8,642
Development and guarantee fees	725	6,242	3,777
Management and leasing fee income	10,088	9,199	7,800
	$(14,530)	$ 59,022	$8,580
Newkirk MLP:			
15.8% share of equity in net income(2)	$ 34,459	$ 10,196	$ 24,041
Interest and other income(3)	—	9,154	11,396
	34,459	19,350	35,437
H Street non-consolidated entities:			
50% share of equity in net income(4)	11,074	—	—
Beverly Connection:			
50% share of equity in net loss	(8,567)	(4,790)	—
Interest and other income	10,837	8,303	—
	2,270	3,513	—
GMH Communities L.P.:			
13.5% share of equity in net (loss) income	(1,013)	1,528	—
Other	14,987	11,774(5)	7,944(6)
	$ 61,777	$ 36,165	$ 43,381

(1) The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. Because Toys' fiscal year ends on the Saturday nearest January 31, we record our 32.9% share of Toys' net income or loss on a one-quarter lag basis.

(2) The year ended December 31, 2006 includes (i) a $10,362 net gain recognized as a result of the acquisition of Newkirk by Lexington and (ii) $10,842 for our share of Newkirk MLP's net gains on sale of real estate. The year ended December 31, 2005 includes (i) $9,455 for our share of losses on the early extinguishment of debt and write-off of related deferred financing costs, (ii) $6,602 for our share of impairment losses, partially offset by (iii) $4,236 for our share of net gains on sale of real estate.

(3) The year ended December 31, 2005 includes $16,053 for our share of net gains on disposition of T-2 assets and $8,470 for our share of expense from payment of Newkirk MLP's promoted obligation to its partner.

(4) We account for our investment in H Street partially owned entities on the equity method on a one-quarter lag basis. Prior to June 30, 2006, two 50% owned entities that are contesting our acquisition of H Street impeded access to their financial information and accordingly, we were unable to record our pro rata share of their earnings. During the year ended December 31, 2006, based on the financial information provided to us, we recognized equity in net income of $11,074 from these entities, of which $3,890 represents our 50% share of their earnings for the period from July 20, 2005 (date of acquisition) to December 31, 2005.

(5) On August 11, 2005, in connection with the repayment of our preferred equity investment, the Monmouth Mall joint venture paid us a prepayment penalty of $4,346, of which $2,173 was recognized as income from partially owned entities in the year ended December 31, 2005.

(6) Includes $5,641 for our 60% share of AmeriCold's equity in net income and management fees through November 17, 2004. We began to consolidate our investment in AmeriCold on November 18, 2004, and no longer account for it on the equity method.

Toys "R" Us

On July 21, 2005, a joint venture owned equally by us, Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys for $26.75 per share in cash or approximately $6.6 billion. In connection therewith, we invested $428,000,000 of the $1.3 billion of equity in the venture, consisting of $407,000,000 in cash and $21,000,000 in Toys common shares held by us. This investment is accounted for under the equity method of accounting.

In the first quarter of 2006, Toys closed 87 Toys "R" Us stores in the United States as a result of its store-closing program. Toys incurred restructuring and other charges aggregating approximately $127,000,000 before tax, which includes $44,000,000 for the cost of liquidating the inventory. Of this amount, $94,000,000 was recognized in Toys' fourth quarter ending January 28, 2006 and $33,000,000 was recorded in Toys' first quarter ending April 29, 2006. Our 32.9% share of the $127,000,000 charge is $42,000,000, of which $27,300,000 had no income statement effect as a result of purchase price accounting and the remaining portion relating to the cost of liquidating inventory of approximately $9,100,000 after-tax, was recognized as an expense as part of our equity in Toys' net income in the first quarter of 2006.

On July 19, 2006, Toys completed a financing, consisting of an $804,000,000, six-year term loan bearing interest at LIBOR plus 4.25% (9.57% at December 31, 2006) and a $200,000,000, two-year term loan bearing interest at an initial rate of LIBOR plus 3.00% (8.85% at December 31, 2006) for the first three months (increasing to 3.50% for the next three months and then to 4.00% for the remainder of the term). The proceeds from these loans were used to repay Toys' $973,000,000 bridge loan, including the $76,816,000 balance due to us.

The unaudited information set forth below presents our pro forma condensed consolidated statement of income for the year ended December 31, 2005 and 2004 (including Toys' results for the year ended October 29, 2005 and October 30, 2004) as if the above transaction occurred on November 1, 2003. The unaudited pro forma information below is not necessarily indicative of what our actual results would have been had the Toys transaction been consummated on November 1, 2003, nor does it represent the results of operations for any future periods. In our opinion, all adjustments necessary to reflect this transaction have been made.

Condensed Consolidated Statements of Income

For the Year Ended December 31,

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Actual 2006**	Pro Forma 2005	Pro Forma 2004
Revenues	$2,712,095	$2,534,702	$1,699,694
Income before allocation to minority limited partners	$ 640,700	$ 656,924	$ 717,891
Minority limited partners' interest in the Operating Partnership	(58,712)	(64,686)	(84,063)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	(67,119)	(69,108)
Net income	560,140	525,119	564,720
Preferred share dividends	(57,511)	(46,501)	(21,920)
Net income applicable to common shares	$ 502,629	$ 478,618	$ 542,800
Net income per common share—basic	$ 3.54	$ 3.58	$ 4.33
Net income per common share—diluted	$ 3.35	$ 3.40	$ 4.08

Toys "R" Us Summarized Financial Information

(IN THOUSANDS)	As of October 28, 2006	As of January 28, 2006
Balance Sheet:		
Total Assets	$12,985,000	$11,655,000
Total Liabilities	$12,010,000	$10,347,000
Total Equity	$ 975,000	$ 1,308,000
	For the Twelve Months Ended October 28, 2006	For the Period from July 21, 2005 through January 28, 2006
Income Statement:		
Total Revenues	$12,205,000	$ 7,281,000
Net (Loss) Income	$ (143,000)	$ 8,000

Alexander's

We own 32.8% of the outstanding common shares of Alexander's at December 31, 2006 and 2005. 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.

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) $220,000, 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 minimum guaranteed payments of $750,000 per annum. During the years ended December 31, 2006, 2005 and 2004, we recognized $725,000, $6,242,000 and $3,777,000 in 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. We are also entitled to a commission upon the sale of any of Alexander's assets, of 3% of gross proceeds, as defined. In the event third party real estate brokers are used, our sales commission increases by 1% and we are responsible for the fees to the third parties. Such amounts are payable to us annually in an amount not to exceed $2,500,000 with interest at 9% per annum on the unpaid balance.

Effective January 1, 2007, we modified our leasing agreement with Alexander's. Pursuant to the modification, (i) the existing 3% commission on asset sales was adjusted so that for asset sales greater than $50,000,000, the fee is 1% of gross proceeds, as defined, (ii) in the event third party real estate brokers are used in connection with asset sales, our fee no longer increases by 1% and we continue to be responsible for the fees to the third parties, and (iii) the annual amount payable to us for fees under this agreement was increased to $4,000,000 and the interest rate on the unpaid balance was adjusted to one-year LIBOR plus 100 bps per annum (6.34% at January 1, 2007).

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, 2006, 2005 and 2004, we recognized $2,828,000, $4,047,000 and $1,817,000 of income under these agreements, respectively.

LOAN TO ALEXANDER'S

On July 6, 2005, Alexander's completed a $320,000,000 mortgage financing on the retail space at our 731 Lexington Avenue property. The loan bears interest-only at a fixed rate of 4.93% and matures in July 2015. Of the net proceeds of approximately $312,000,000, $90,000,000 was used to pay off the 731 Lexington Avenue construction loan and $124,000,000 was used to repay our loan to Alexander's.

AFTER-TAX NET GAIN ON SALE OF 731 LEXINGTON AVENUE CONDOMINIUMS

The residential space at Alexander's 731 Lexington Avenue property is comprised of 105 condominium units. At December 31, 2006, all of the condominium units have been sold and closed. During the year ended December 31, 2006, we recognized income of $4,580,000 for our share of Alexander's after-tax net gain on sale of condominiums. During the year ended December 31, 2005, we recognized income of $30,895,000, comprised of (i) our $20,111,000 share of Alexander's after-tax net gain, using the percentage method and (ii) $10,784,000 of income we had previously deferred.

GMH Communities L.P.

On July 20, 2004, we committed to make up to a $159,000,000 convertible preferred investment in GMH Communities L.P. ("GMH"), a partnership focused on the student and military housing sectors. Distributions accrued on the full committed balance of the investment, whether or not drawn, from July 20, 2004, at a rate of 16.27%. In connection with this commitment, we received a placement fee of $3,200,000. We also purchased for $1,000,000 warrants to acquire GMH common equity. The warrants entitled us to acquire (i) 6,666,667 limited partnership units in GMH at an exercise price of $7.50 per unit and (ii) 5,496,724 limited partnership units at an exercise price of $9.10 per unit, through May 2, 2006 and are adjusted for dividends declared by GMH Communities Trust (NYSE: GCT) ("GCT"). We funded a total of $113,777,000 of the commitment as of November 3, 2004.

On November 3, 2004, GCT closed its initial public offering ("IPO") at a price of $12.00 per share. GCT is a real estate investment trust that conducts its business through GMH, of which it is the sole general partner. In connection with the IPO, (i) the $113,777,000 we previously funded under the $159,000,000 commitment was repaid, together with accrued distributions of $13,381,000, (ii) we contributed our 90% interest in Campus Club Gainesville, which we acquired in 2000, in exchange for an additional 671,190 GMH limited partnership units and (iii) we exercised our first tranche of warrants to acquire 6,666,667 limited partnership units at a price of $7.50 per unit, or an aggregate of $50,000,000, which resulted in a gain of $29,500,000.

On May 2, 2006, the date our remaining GMH warrants were to expire, we received 1,817,247 GCT common shares through an automatic cashless exercise. The amount of the shares received was equal to the excess of GCT's average closing share price for the trailing 20-day period ending on May 1, 2006 and the $8.22 exercise price, divided by GCT's average closing share price for the trailing 20-day period ending on May 1, 2006, then multiplied by 6,085,180 warrants. For the year ended December 31, 2006, we recognized a net loss of $16,370,000, the difference between the value of the GCT common shares received on May 2, 2006 and GCT's closing share price of $15.51 on December 31, 2005. From inception of our investment in the warrants, including the first tranche of warrants exercised on November 3, 2004, the aggregate net gain recognized was $51,399,000.

As of December 31, 2006, we own 7,337,857 GMH limited partnership units, which are exchangeable on a one-for-one basis into common shares of GCT, and 2,517,247 common shares of GCT (1,817,247 shares were received upon exercise of our warrants discussed below), or 13.5% of the limited partnership interest of GMH.

We account for our investment in GMH on the equity method and record our pro rata share of GMH's net income or loss on a one-quarter lag basis as we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that GCT files its financial statements. On July 31, 2006 GCT filed its annual report on Form 10-K for the year ended December 31, 2005, which restated the quarterly financial results of each of the first three quarters of 2005. Accordingly, we recognized a net loss of $1,013,000 during the year ended December 31, 2006 for our share of GMH's results of operations from October 1, 2005 through September 30, 2006. Of this amount, $94,000 represents our share of GMH's 2005 fourth quarter net loss, net of adjustments to restate its first three quarters of 2005.

The Lexington Master Limited Partnership, formerly The Newkirk Master Limited Partnership

We own approximately 8,149,592 limited partnership units (representing a 7.4% ownership interest) of Lexington Master Limited Partnership ("Lexington MLP") as a result of the acquisition of Newkirk Realty Trust ("Newkirk") by Lexington Corporate Properties Trust ("Lexington") discussed below.

On December 31, 2006, Newkirk (NYSE: NKT) was acquired in a merger by Lexington (NYSE: LXP), a real estate investment trust. We owned 10,186,991 limited partnership units (representing a 15.8% ownership interest) of Newkirk MLP, which was also acquired by Lexington as a subsidiary, and was renamed Lexington MLP. The units in Newkirk MLP were converted on a 0.80 for 1 basis into limited partnership units of Lexington MLP, which are exchangeable on a one-for-one basis into common shares of Lexington. We account for our investment in Lexington MLP on the equity method.

The assets of Newkirk MLP consisted of 18.4 million square feet of real estate across 32 states. After completion of the merger, Lexington's total portfolio is comprised of an ownership interest in a portfolio of approximately 365 real properties, almost all of which are net leased to single tenants, are located in 44 states and The Netherlands and contain an aggregate of approximately 58.6 million square feet.

In addition, effective as of the effective time of the merger, Newkirk terminated its advisory agreement with NKT Advisors, in which we had a 20.0% interest, for an aggregate payment of $12,500,000, of which our share was $2,300,000.

On December 31, 2006, we recognized a net gain of $10,362,000, as a result of the above transactions.

7. Notes and Mortgage Loans Receivable

On January 7, 2005, all of the outstanding General Motors Building loans made by us aggregating $275,000,000 were repaid. In connection therewith, we received a $4,500,000 prepayment premium and $1,996,000 of accrued interest and fees through January 14, 2005, which was recognized as "interest and other investment income" for the year ended December 31, 2005.

In 2005, we made a $135,000,000 loan to Riley HoldCo Corp., consisting of a $60,000,000 mezzanine loan and a $75,000,000 fixed rate unsecured loan. We received principal payments on the mezzanine loan of $5,557,000 and $13,901,000, on February 6, 2006 and June 2, 2006, respectively. On July 12, 2006, the remaining $40,542,000 balance of the mezzanine loan was repaid with a pre-payment premium of $972,000, which was recognized as "interest and other investment income" for the year ended December 31, 2006.

On April 7, 2005, we made a $108,000,000 mezzanine loan secured by The Sheffield, a 684,500 square foot mixed-use residential property in Manhattan, containing 845 apartments, 109,000 square feet of office space and 6,900 square feet of retail space. The loan was subordinate to $378,500,000 of other debt, scheduled to mature in April 2007 with a one-year extension, provided for a 1% placement fee, and bore interest at LIBOR plus 7.75%. On July 7, 2006, we were repaid the $108,000,000 outstanding balance of the loan, together with accrued interest of $1,165,000 and a prepayment premium of $2,288,000, which we recognized as "interest and other investment income" in the year ended December 31, 2006.

On December 7, 2005, we made a $42,000,000 mezzanine loan secured by The Manhattan House, a 780,000 square foot mixed-use residential property in Manhattan containing 583 apartments, 45,000 square feet of retail space and an underground parking garage. The loan is subordinate to $630,000,000 of other debt, matures in November 2007 with two one-year extensions, and bears interest at LIBOR plus 6.25% (11.57% at December 31, 2006).

On February 10, 2006, we acquired a 50% interest in a $115,000,000 note issued by Related Equinox Holdings II, LLC (the "Note"), for $57,500,000 in cash. The Note is secured by a pledge of the stock of Related Equinox Holdings II. Related Equinox Holdings II owns Equinox Holdings Inc., which in turn owns all of the assets and obligations, including the fitness clubs, operated under the Equinox brand. The Note is junior to a $50,000,000 (undrawn) revolving loan and $280,000,000 of senior unsecured obligations. The Note is senior to $125,000,000 of cash equity contributed by third parties for their acquisition of the Equinox fitness club business. The Note matures on February 15, 2013 and bears interest at 14% through February 15, 2011, increasing by 3% per annum through maturity. The Note is prepayable at any time after February 15, 2009.

On April 12, 2006, we acquired a 23.6% interest in two mezzanine loans totaling $138,136,000, for $32,560,000 in cash. The loans mature in January 2008 with two one-year extension options and bear interest at LIBOR plus 3.84% (9.16% at December 31, 2006).

On June 16, 2006, we acquired an 81.5% interest in a $95,968,000 mezzanine loan to Tharaldson Lodging Companies for $78,166,000 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 $671,778,000 of debt and is senior to approximately $192,000,000 of other debt and equity. The loan matures in April 2008, with three one-year extensions, provides for a 0.75% placement fee and bears interest at LIBOR plus 4.30% (9.6% at December 31, 2006).

On June 19, 2006, we acquired a 49% interest in a $37,789,000 mezzanine loan for $18,517,000 in cash. The loan matures in April 2007, with a six month extension option and bears interest at LIBOR plus 10% (15.3% at December 31, 2006).

On June 30, 2006, we made a $73,750,000 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 $260,000,000 of equity and interest reserves.

On August 2, 2006, we purchased bonds for $99,500,000 in cash, representing a 7% interest in two margin loans aggregating $1.430 billion. The loans were made to two separate funds managed by Fortress Investment Group LLC and are secured by $4.4 billion (as of December 31, 2006) of publicly traded equity securities. The loans mature in June 2007 with an automatic extension to December 2007 and bear interest at LIBOR plus 3.50% (8.8% at December 31, 2006).

8. Identified Intangible Assets and Goodwill

The following summarizes our identified intangible assets, intangible liabilities (deferred credit) and goodwill as of December 31, 2006 and December 31, 2005.

December 31, (AMOUNTS IN THOUSANDS)	**2006**	2005
Identified intangible assets (included in other assets):		
Gross amount	$395,109	$266,268
Accumulated amortization	(90,857)	(73,893)
Net	$304,252	$192,375
Goodwill (included in other assets):		
Gross amount	$ 7,280	$ 11,122
Identified intangible liabilities (included in deferred credit):		
Gross amount	$370,638	$217,640
Accumulated amortization	(62,829)	(66,748)
Net	$307,809	$150,892

Amortization of acquired below market leases net of acquired above market leases resulted in an increase to rental income of $23,814,000 for the year ended December 31, 2006, and $13,973,000 for the year ended December 31, 2005. The 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)	
2007	$31,594
2008	28,782
2009	24,555
2010	19,754
2011	19,760

The estimated annual amortization of identified intangible assets (a component of depreciation and amortization expense) including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years is as follows:

(AMOUNTS IN THOUSANDS)	
2007	$24,275
2008	22,352
2009	21,808
2010	19,613
2011	18,808

We are a tenant under ground leases for certain properties acquired during 2006. Amortization of these acquired below market leases resulted in an increase to rent expense of $320,000 for the year ended December 31, 2006. The estimated annual amortization of these below market leases for each of the five succeeding years is as follows:

(AMOUNTS IN THOUSANDS)	
2007	$1,535
2008	1,535
2009	1,535
2010	1,535
2011	1,535

9. Debt

The following is a summary of our debt:

(AMOUNTS IN THOUSANDS)	Maturity	Interest Rate as of December 31, 2006	Balance as of December 31, 2006	Balance as of December 31, 2005
Notes and Mortgages Payable:				
Fixed Interest:				
Office:				
NYC Office:				
350 Park Avenue	01/12	5.48%	$ 430,000	$ —
770 Broadway[1]	03/16	5.65%	353,000	—
888 Seventh Avenue[2]	01/16	5.71%	318,554	318,554
Two Penn Plaza	02/11	4.97%	296,428	300,000
909 Third Avenue[3]	04/15	5.64%	220,314	223,193
Eleven Penn Plaza	12/14	5.20%	213,651	216,795
866 UN Plaza	05/07	8.39%	45,467	46,854
Washington DC Office:				
Warner Building[4]	05/16	6.26%	292,700	137,236
Crystal Gateway 1-4 Crystal Square 5	07/12–01/19	6.75%–7.09%	207,389	210,849
Crystal Park 1-5[5]	08/07–08/13	6.66%–7.08%	201,012	249,212
Crystal Square 2, 3 and 4	10/10–11/14	6.82%–7.08%	136,317	138,990
Bowen Building[6]	06/16	6.14%	115,022	—
Skyline Place[7]	08/06–12/09	6.60%–6.87%	93,803	128,732
Reston Executive I, II and III[8]	01/13	5.57%	93,000	93,000
1101 17th, 1140 Connecticut, 1730 M and 1150 17th	08/10	6.74%	91,232	92,862
Courthouse Plaza 1 and 2	01/08	7.05%	74,413	75,970
One Skyline Tower[7]	06/08	7.12%	61,555	62,724
Crystal Gateway N. and Arlington Plaza	11/07	6.77%	52,605	57,078
1750 Pennsylvania Avenue	06/12	7.26%	47,803	48,358
Crystal Malls 1-4	12/11	6.91%	42,675	49,214
Retail:				
Cross collateralized mortgages payable on 42 shopping centers	03/10	7.93%	463,135	469,842
Springfield Mall (including present value of purchase option of $68,890)	04/13	5.45%	262,391	—
Green Acres Mall	02/08	6.75%	140,391	143,250
Montehiedra Town Center[9]	06/16	6.04%	120,000	57,095
Broadway Mall	06/13	6.42%	99,154	94,783
Westbury Retail Condominium	06/18	5.29%	80,000	80,000
Las Catalinas Mall	11/13	6.97%	63,403	64,589
Forest Plaza	05/09	4.00%	19,232	20,094
Rockville Town Center	12/10	5.52%	14,883	15,207
Lodi Shopping Center	06/14	5.12%	11,522	11,890
386 West Broadway	05/13	5.09%	4,813	4,951
Merchandise Mart:				
Merchandise Mart[10]	12/16	5.57%	550,000	—
High Point Complex[11]	08/16	6.34%	220,000	104,639
Boston Design Center	09/15	5.02%	72,000	72,000
Washington Design Center	11/11	6.95%	46,328	46,932
Temperature Controlled Logistics:				
Cross collateralized mortgages payable on 50 properties[12]	12/13–12/16	5.46%	1,055,712	469,903
Other:				
Industrial Warehouses	10/11	6.95%	47,179	47,803
Total Fixed Interest Notes and Mortgages Payable		6.04%	6,657,083	4,152,599

See notes on page 158.

(AMOUNTS IN THOUSANDS)	Maturity	Spread over LIBOR	Interest Rate as of December 31, 2006	Balance as of December 31, 2006	Balance as of December 31, 2005
Notes and Mortgages Payable:					
Variable Interest:					
Office:					
NYC Office:					
770 Broadway[1]	N/A	N/A	N/A	$ —	$ 170,000
Washington, DC Office:					
Commerce Executive III, IV and V[13]	07/07	L+70	6.05%	50,523	51,123
1925 K Street	04/07	L+145	6.80%	19,422	—
Bowen Building[6]	N/A	N/A	N/A	—	62,099
Warner Building[4]	N/A	N/A	N/A	—	12,717
Temperature Controlled Logistics:					
Cross collateralized mortgages payable on 27 properties[12]	N/A	N/A	N/A	—	245,208
Other:					
220 Central Park South[14]	11/10	L+235–L+245	7.72%	122,990	90,732
Other	03/07–10/09	Various	7.56%	36,866	9,933
Total Variable Interest Notes and Mortgages Payable			7.25%	229,801	641,812
Total Notes and Mortgages Payable			6.08%	$6,886,884	$4,794,411
Senior Unsecured Notes:					
Senior unsecured notes due 2007 at fair value (accreted carrying amounts of $499,673 and $499,786)[15]	06/07	L+77	6.13%	$ 498,562	$ 499,445
Senior unsecured notes due 2009	08/09		4.50%	248,984	249,628
Senior unsecured notes due 2010	12/10		4.75%	199,246	199,816
Senior unsecured notes due 2011[16]	02/11		5.60%	249,808	—
Total senior unsecured notes			5.45%	$1,196,600	$ 948,889
Exchangeable senior debentures due 2025[17]	04/25		3.88%	$ 491,231	$ 490,750
Convertible senior debentures due 2026[18]	11/26		3.63%	$ 980,083	$ —
$1 billion unsecured revolving credit facility ($20,732 reserved for outstanding letters of credit)[19]	06/10	L+55		$ —	$ —
AmeriCold $30 million secured revolving credit facility ($17,000 reserved for outstanding letters of credit)[20]	10/08	L+175		$ —	$ 9,076
Mortgage Notes Payable related to discontinued operations:					
1919 South Eads				$ —	$ 11,757

See notes on following pages.

Notes to preceding tabular information ($ in thousands):

(1) On February 9, 2006, we completed a $353,000 refinancing of our 770 Broadway property. This interest-only loan bears interest at 5.65% and matures in March 2016. We retained net proceeds of $173,000 after repaying the existing floating rate loan and closing costs.

(2) On December 12, 2005, we completed a $318,554 refinancing of 888 7th Avenue. This interest-only loan bears interest at a fixed rate of 5.71% and matures in January 2016. We retained net proceeds of approximately $204,448 after repaying the existing loan on the property and closing costs.

(3) On March 31, 2005, we completed a $225,000 refinancing of 909 Third Avenue. The loan bears interest at a fixed rate of 5.64% and matures in April 2015. We retained net proceeds of approximately $100,000 after repaying the existing floating rate loan on the property and closing costs.

(4) On May 5, 2006, we repaid the existing debt on the Warner Building and completed an interest-only refinancing of $292,700. The loan bears interest at 6.26% and matures in May 2016. We retained net proceeds of $133,000 after repaying the existing loan, closing costs and a prepayment penalty of $9,818. As part of the purchase price accounting for the December 27, 2005 acquisition of the Warner Building, we accrued a liability for the unfavorable terms of the debt assumed in the acquisition. Accordingly, the prepayment penalty did not result in an expense on our consolidated statement of income.

(5) On April 3, 2006, we repaid the $43,496 balance of the Crystal Park 5 mortgage.

(6) On May 23, 2006, we completed a $115,000 refinancing of the Bowen Building. This interest-only loan bears interest at 6.14% and matures in June 2016. We retained net proceeds of $51,600 after repaying the existing floating rate loan and closing costs.

(7) On August 1, 2006, we repaid the $31,980 balance of the One and Two Skyline Place mortgages. On January 26, 2007, we completed a $678,000 financing of our Skyline Complex in Fairfax, Virginia, consisting of eight office buildings containing 2,560,000 square feet. This loan bears interest-only at 5.74% and matures in February 2017. We retained net proceeds of approximately $515,000 after repaying existing loans and closing costs, including $6,000 of defeasance costs, which will be recognized as "interest and debt expense" in the first quarter of 2007.

(8) On December 21, 2005, we completed a $93,000 refinancing of Reston Executive I, II, III. This interest-only loan bears interest at a fixed rate of 5.57% and matures in January 2013. We retained the net proceeds of approximately $22,050 after repaying the existing loan and closing costs.

(9) On June 9, 2006, we completed a $120,000 refinancing of the Montehiedra Town Center. This interest-only loan bears interest at 6.04% and matures in June 2016. We retained net proceeds of $59,000 after defeasing the existing loan and closing costs. As a result of the defeasance of the existing loan, we incurred a net loss on the early extinguishment of debt of approximately $2,498, which is included in "interest and debt expense" in the year ended December 31, 2006.

(10) On November 22, 2006, we completed a $550,000 interest only secured financing of the Merchandise Mart, which bears interest at a rate of 5.57% and matures in December 2016. We retained net proceeds of approximately $548,000.

(11) On August 11, 2006, we completed $195,000 of a $220,000 refinancing of the High Point Complex. The remaining $25,000 was completed on October 4, 2006. The loan bears interest at 6.34% and matures in August 2016. We retained net proceeds of approximately $108,500 after defeasing the existing loans, and closing costs. As a result of the defeasance of the existing loans, we incurred an $8,548 net loss on the early extinguishment of debt, which is included in "interest and debt expense" in the year ended December 31, 2006.

(12) On June 9, 2006, AmeriCold completed a $400,000 one-year, interest-only financing, collateralized by 21 of its owned and six of its leased temperature-controlled warehouses. On September 8, 2006, an amendment was executed increasing the amount of the loan to $430,000. Of this loan, $243,000 was drawn on June 9, 2006 to repay the existing mortgage on the same facilities and the remaining $187,000 was drawn on September 27, 2006. The initial interest rate on the loan was LIBOR plus 0.60% and increased to LIBOR plus 1.25% when the remaining balance was drawn, subject to a 6.50% LIBOR cap. On December 12, 2006, AmeriCold completed a 5.45% fixed-rate, interest-only financing in an aggregate principal amount of $1.05 billion which matures in approximately equal tranches in seven, nine and ten years. The proceeds were used to repay $449,000 of fixed-rate mortgages with a rate of 6.89% and the $430,000 financing described above. The mortgages that were repaid were collateralized by 84 temperature-controlled warehouses which were released upon repayment. The new loan is collateralized by 50 of these warehouses. AmeriCold received net proceeds of $191,000, including the release of escrow reserves and after defeasance and closing costs. Vornado, Crescent and Yucaipa received distributions of $88,023, $58,682 and $38,295, respectively, from a portion of the net proceeds. Included in "interest and debt expense" for the year ended December 31, 2006 are $14,496 of defeasance costs and a $7,431 write-off of debt issuance costs associated with the old loans, of which our share, after minority interest is $10,433.

(13) On July 29, 2006, we exercised the second of three one-year extension options of our Commerce Executive III, IV, and V mortgage loan.

(14) On November 7, 2006, we completed a $130,000 refinancing of our 220 Central Park South property. The loan has two tranches, the first tranche of $95,000 bears interest at LIBOR (capped at 5.50%) plus 2.35% (7.70% as of December 31, 2006) and the second tranche can be drawn up to $35,000 and bears interest at LIBOR (capped at 5.50%) plus 2.45% (7.80% as of December 31, 2006). As of December 31, 2006 approximately $27,990 has been drawn on the second tranche.

(15) On June 27, 2002, we entered into interest rate swaps that effectively converted the interest rate on the $500,000 senior unsecured notes due 2007 from a fixed rate of 5.625% to a floating rate of LIBOR plus .7725%, based upon the trailing 3 month LIBOR rate (6.13% if set on December 30, 2006). The swaps were designated and effective as fair value hedges with a fair value of ($1,111) and ($341) at December 31, 2006 and 2005, respectively, and included in "Other Liabilities" on our consolidated balance sheets. Accounting for these swaps requires us to recognize the changes in the fair value of the debt during each period. At December 31, 2006 and 2005, the fair value adjustment to the principal amount of the debt was ($1,111) and ($341), based on the fair value of the swap assets, and is included in the balance of the "Senior Unsecured Notes." Because the hedging relationship qualifies for the "short-cut" method, no hedge ineffectiveness on these fair value hedges was recognized in 2006 and 2005.

Notes continue on following page.

(16) On February 16, 2006, we completed a public offering of $250,000 aggregate principal amount of 5.6% senior unsecured notes due February 15, 2011. Interest on the notes is payable semi-annually on February 15 and August 15, commencing August 16, 2006. The notes were priced at 99.906% of their face amount to yield 5.622%.

(17) On March 29, 2005, we completed a public offering of $500,000 principal amount of 3.875% exchangeable senior debentures due 2025 pursuant to an effective registration statement. The notes were sold at 98.0% of their principal amount. The net proceeds from this offering, after the underwriters' discount, were approximately $490,000. The debentures are exchangeable, under certain circumstances, for our common shares at an initial exchange rate of 10.9589 (current exchange rate of 11.1184, as adjusted for excess dividends paid in 2005 and 2006) common shares per $1 of principal amount of debentures. The initial exchange price of $91.25 represented a premium of 30% to the closing price for our common shares on March 22, 2005 of $70.25. We may elect to settle any exchange right in cash. The debentures permit us to increase its common dividend 5% per annum, cumulatively, without an increase to the exchange rate. The debentures are redeemable at our option beginning in 2012 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require the issuer to repurchase their debentures in 2012, 2015 and 2020 and in the event of a change in control.

(18) On November 20, 2006, we sold $1,000,000 aggregate principal amount of 3.625% convertible senior debentures due 2026, pursuant to an effective registration statement. The aggregate net proceeds from this offering, after underwriters' discounts and expenses, were approximately $980,000. The debentures are convertible, under certain circumstances, for common shares of Vornado Realty Trust at an initial conversion rate of 6.5168 common shares per $1 of principal amount of debentures. The initial conversion price of $153.45 represents a premium of 30% over the November 14, 2006 closing price of $118.04 for our common shares. The debentures are redeemable at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures in 2011, 2016, and 2021 and in the event of a change in control. The net proceeds of the offering were contributed to the Operating Partnership in the form of an inter-company loan and the Operating Partnership guaranteed the payment of the debentures. The Operating Partnership used the net proceeds primarily for acquisitions and investments and for general corporate purposes.

(19) On June 28, 2006, we entered into a $1,000,000 unsecured revolving credit facility, which replaced our previous $600,000 unsecured revolving credit facility that was due to mature in July 2006. The new facility has a four-year term, with a one-year extension option and bears interest at LIBOR plus 0.55% (5.87% as of December 31, 2006). The new facility contains financial covenants similar to the prior facility.

(20) On October 13, 2005, AmeriCold completed a $30,000 revolving credit facility which bears interest at Prime plus 1.75%, an unused facility fee of 0.25% and matures in October 2008, with a one-year extension. Amounts drawn under the facility are collateralized by AmeriCold's transportation and managed contracts receivables and unencumbered property, plant and equipment. The facility has a sub-limit for letters of credit of $20,000, which have a fee of 1.5%.

Our revolving credit facility and senior unsecured notes contain financial covenants which require us to maintain minimum interest coverage and maximum debt to market capitalization. We believe that we have complied with all of our financial covenants as of December 31, 2006.

On May 9, 2006, we executed supplemental indentures with respect to our senior unsecured notes due 2007, 2009 and 2010 (collectively, the "Notes"), pursuant to our consent solicitation statement dated April 18, 2006, as amended. Holders of approximately 96.7% of the aggregate principal amount of the Notes consented to the solicitation. The supplemental indentures contain modifications of certain covenants and related defined terms governing the terms of the Notes to make them consistent with corresponding provisions of the covenants and defined terms included in the senior unsecured notes due 2011 issued on February 16, 2006. The supplemental indentures also include a new covenant that provides for an increase in the interest rate of the Notes upon certain decreases in the ratings assigned by rating agencies to the Notes. In connection with the consent solicitation we paid an aggregate fee of $2,241,000 to the consenting note holders, which will be amortized into expense over the remaining term of the Notes. In addition, we incurred advisory and professional fees aggregating $1,415,000, which were expensed in the second quarter of 2006.

The net carrying amount of properties collateralizing the notes and mortgages payable amounted to $7.270 billion at December 31, 2006. As at December 31, 2006, the principal repayments required for the next five years and thereafter are as follows:

Year Ending December 31,

(AMOUNTS IN THOUSANDS)	Amount
2007	$ 778,482
2008	358,403
2009	357,600
2010	1,059,154
2011	682,418
Thereafter	6,318,741

10. Shareholders' Equity

Common Shares

On August 10, 2005, we sold 9,000,000 common shares in an underwritten public offering pursuant to an effective registration statement at a price of $86.75 per share. We received net proceeds of $779,806,000, after offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 9,000,000 Class A units of the Operating Partnership.

On December 11, 2006, we sold 8,100,000 common shares in an underwritten public offering pursuant to an effective registration statement at a price of $124.05 per share. We received net proceeds of approximately $1,004,500,000, after offering expenses and contributed the net proceeds to the Operating Partnership in exchange for 8,100,000 Class A units of the Operating Partnership.

Preferred Shares

The following table sets forth the details of our preferred shares of beneficial interest as of December 31, 2006 and 2005.

December 31, (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	**2006**	2005
6.5% Series A: liquidation preference $50.00 per share; authorized 5,750,000 shares; issued and outstanding 151,635 and 269,572 shares	$ 7,615	$ 13,482
7.0% Series D-10: liquidation preference $25.00 per share; authorized 4,800,000 shares; issued and outstanding 1,600,000 shares	39,982	39,982
7.0% Series E: liquidation preference $25.00 per share; authorized 3,540,000 shares; issued and outstanding 3,000,000 shares	72,248	72,248
6.75% Series F: liquidation preference $25.00 per share; authorized 6,000,000 shares; issued and outstanding 6,000,000 shares	144,720	144,720
6.625% Series G: liquidation preference $25.00 per share; authorized 9,200,000 shares; issued and outstanding 8,000,000 shares	193,135	193,135
6.75% Series H: liquidation preference $25.00 per share; authorized 4,600,000 shares; issued and outstanding 4,500,000 shares	108,559	108,559
6.625% Series I: liquidation preference $25.00 per share; authorized 12,050,000 shares; issued and outstanding 10,800,000 shares	262,401	262,401
	$828,660	$834,527

Series A Convertible Preferred Shares of Beneficial Interest

Holders of Series A Preferred Shares of beneficial interest are entitled to receive dividends in an amount equivalent to $3.25 per annum per share. These dividends are cumulative and payable quarterly in arrears. The Series A Preferred Shares are convertible at any time at the option of their respective holders at a conversion rate of 1.38504 common shares per Series A Preferred Share, subject to adjustment in certain circumstances. In addition, upon the satisfaction of certain conditions we, at our option, may redeem the $3.25 Series A Preferred Shares at a current conversion rate of 1.38504 common shares per Series A Preferred Share, subject to adjustment in certain circumstances. At no time will the Series A Preferred Shares be redeemable for cash.

Series C Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series C Preferred Shares of beneficial interest were entitled to receive dividends at an annual rate of 8.5% of the liquidation preference of $25.00 per share, or $2.125 per Series C Preferred Share per annum. On January 19, 2005, we redeemed all of the outstanding 8.5% Series C Cumulative Redeemable Preferred Shares at the redemption price of $25.00 per share, aggregating $115,000,000 plus accrued distributions. The redemption amount exceeded the carrying amount by $3,852,000, representing original issuance costs. These costs were recorded as a reduction to earnings in arriving at net income applicable to common shares in accordance with the July 2003 clarification of Emerging Issues Task Force Topic D-42.

Series D-10 Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series D-10 Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 7.0% of the liquidation preference of $25.00 per share, or $1.75 per Series D-10 Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series D-10 Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company. On or after November 17, 2008 (or sooner under limited circumstances), we, at our option, may redeem Series D-10 Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series D-10 Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series E Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series E Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 7.0% of the liquidation preference of $25.00 per share, or $1.75 per Series E Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series E Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company. On or after August 20, 2009 (or sooner under limited circumstances), we, at our option, may redeem Series E Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series E Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series F Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series F Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.75% of the liquidation preference of $25.00 per share, or $1.6875 per Series F Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series F Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company. On or after November 17, 2009 (or sooner under limited circumstances), we, at our option, may redeem Series F Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series F Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series G Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series G Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.625% of the liquidation preference of $25.00 per share, or $1.656 per Series G Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series G Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company. On or after December 22, 2009 (or sooner under limited circumstances), we, at our option, may redeem Series G Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series G Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series H Cumulative Redeemable Preferred Shares of Beneficial Interest

On June 17, 2005, we sold $112,500,000 Series H Cumulative Redeemable Preferred Shares in a public offering, pursuant to an effective registration statement, for net proceeds of $108,559,000. Holders of the Series H Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.75% of the liquidation preference of $25.00 per share or $1.6875 per Series H Preferred Share per annum. The dividends are cumulative and payable quarterly in arrears. The Series H Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company. On or after June 17, 2010 (or sooner under limited circumstances), we, at our option, may redeem Series H Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series H Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series I Cumulative Redeemable Preferred Shares of Beneficial Interest

On August 23, 2005, we sold $175,000,000 Series I Cumulative Redeemable Preferred Shares in a public offering pursuant to an effective registration statement. In addition, on August 31, 2005, the underwriters exercised their option and purchased $10,000,000 Series I Preferred Shares to cover over-allotments. On September 12, 2005, we sold an additional $85,000,000 Series I Preferred Shares in a public offering, pursuant to an effective registration statement. Combined with the earlier sales, we sold a total of 10,800,000 Series I preferred shares for net proceeds of $262,401,000. Holders of the Series I Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.625% of the liquidation preference of $25.00 per share or $1.656 per Series I Preferred Share per annum. The dividends are cumulative and payable quarterly in arrears. The Series I Preferred Shares are not convertible into or exchangeable for any other property or any other securities of the Company. On or after August 31, 2010 (or sooner under limited circumstances), we, at our option, may redeem Series I Preferred Shares at a redemption price of $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series I Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income amounted to $92,963,000 and $83,406,000 as of December 31, 2006 and 2005, respectively, substantially all of which relates to income from the mark-to-market of marketable equity securities classified as available-for-sale.

11. Stock-based Compensation

Our Share Option Plan (the "Plan") provides for grants of incentive and non-qualified stock options, restricted stock, stock appreciation rights and performance shares to certain of our employees and officers. We have 6,674,818 shares available for future grant under the Plan at December 31, 2006.

On March 17, 2006, our Board of Trustees (the "Board") approved an amendment to our Plan to permit the Compensation Committee of the Board (the "Compensation Committee") to grant awards in the form of limited partnership units ("OP Units") of the Operating Partnership. OP Units can be granted either as free-standing awards or in tandem with other awards under the Plan. OP Units may be converted into the Operating Partnership's Class A common units and, consequently, become convertible by the holder on a one-for-one basis for our common shares or the cash value of such shares at our election.

We account for stock-based compensation in accordance with SFAS No. 123: *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148: *Accounting for Stock-Based Compensation—Transition and Disclosure* and as revised by SFAS No. 123R: *Share-Based Payment* ("SFAS No. 123R"). We adopted SFAS No. 123R, using the modified prospective application, on January 1, 2006. Stock based compensation expense for the year ended December 31, 2006 consists of stock option awards, restricted common share and Operating Partnership unit awards and out-performance plan awards. Stock-based compensation expense for the years ended December 31, 2005 and 2004 consist of stock option awards and restricted common share awards.

Out-Performance Plan

On March 17, 2006, the Board approved the terms of the Vornado Realty Trust 2006 Out-Performance Plan (the "Out-Performance Plan"), a long-term incentive compensation program. The purpose of the Out-Performance Plan is to further align the interests of our shareholders and management by encouraging our senior officers and employees to create shareholder value in a "pay-for-performance" structure.

Under the Out-Performance Plan, award recipients share in a performance pool if our total return to shareholders over the three-year period from March 15, 2006 through March 14, 2009 exceeds a cumulative 30%, including both share appreciation and dividends paid, from a price per share of $89.17 (the average closing price per common share for the 30 trading days prior to March 15, 2006). The size of the pool will be 10% of the out-performance return amount in excess of the 30% benchmark, subject to a maximum dilution cap equal to $100,000,000. A portion of the performance pool can be earned during the first and second years, up to a cumulative maximum of $20,000,000 and $40,000,000, respectively, based on a minimum total return to shareholders benchmark of 10% and 20%, respectively. In the event the potential performance pool reaches the $20,000,000 dilution cap before March 14, 2007, the $40,000,000 dilution cap before March 14, 2008, or the $100,000,000 dilution cap before March 14, 2009, and remains at the applicable level or higher for 30 consecutive days, the applicable performance period will end early and the applicable pool will be established on the last day of such 30-day period. Each award will be designated as a specified percentage of the potential performance pool. Awards will be made in the form of a new class of Operating Partnership units ("OPP Units") that, subject to performance, time vesting and other conditions, are convertible by the holder into an equivalent number of the Operating Partnership's Class A units, which are redeemable by the holder for common shares of the Company on a one-for-one basis or the cash value of such shares, at our election. The OPP Units are issued prior to the determination of the performance pool and are subject to forfeiture to the extent that less than the total award is earned. All awards earned vest 33.3% on each of March 15, 2009, 2010 and 2011 based on continued employment. The 2006 Outperformance Plan provides that if a performance pool is established, each award recipient will be entitled to an amount equal to the distributions that would have been paid on the earned OPP Units since the beginning of the performance period, payable in the form of additional OPP Units. OPP Units, both vested and unvested, which award recipients have earned based on the establishment of a performance pool, whether at the end of year one, two or three, will be entitled to receive distributions in an amount per unit equal to the distributions payable on a Class A unit.

On April 25, 2006, our Compensation Committee approved Out-Performance Plan awards to a total of 54 employees and officers of the Company, which aggregated 91% of the total Out-Performance Plan. The fair value of the awards on the date of grant, as adjusted for estimated forfeitures, was approximately $46,141,000 and will be amortized into expense over the five-year period beginning on the date of grant using a graded vesting attribution model. For the year ended December 31, 2006, we recognized $8,293,000 of compensation expense for these awards. The remaining unrecognized compensation expense related to these awards will be recognized over a weighted-average period of 3.2 years. On August 25, 2006, the first $20,000,000 maximum dilution cap was established. On November 2, 2006, the second $20,000,000 maximum dilution cap was established and on January 12, 2007, the remaining $60,000,000 maximum dilution cap was established, culminating the earnings under the terms of the Out-Performance Plan as described above.

Stock Options

Stock options are granted at an exercise price equal to 100% of the average of the high and low market price of our stock on the NYSE on the date of grant, generally vest pro-rata over three to five years and expire 10 years from the date of grant.

For stock option awards granted prior to 2003, we used the intrinsic value method of accounting. Under this method, we did not recognize compensation expense as the option exercise price was equivalent to the market price of our common shares on the date of each grant. Because stock option awards granted prior to 2003 vested over a three-year term, the resulting compensation cost based on the fair value of the awards on the date of grant, on a pro forma basis, would have been expensed during 2003, 2004 and 2005. Accordingly, our net income applicable to common shares would remain the same on a pro forma basis for the year ended December 31, 2006, and would have been reduced by $337,000 for the year ended December 31, 2005, or $0.01 per basic income per share and no change in diluted income per share. Our net income applicable to common shares on a pro forma basis for the year ended December 31, 2004 would have been reduced by $3,952,000, or $0.03 per basic and diluted income per share.

On January 1, 2003, we adopted SFAS No. 123: *Accounting for Stock-Based Compensation*, as amended, on a prospective basis covering all grants subsequent to 2002. Under SFAS No. 123, we recognized compensation expense for the fair value of options granted on a straight-line basis over the vesting period. For the years ended December 31, 2006, 2005, and 2004, we recognized $1,705,000, $1,042,000 and $102,900 of compensation expense related to the options granted during 2006, 2005 and 2004.

Below is a summary of our stock option activity under the Plan for the year ended December 31, 2006.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	12,690,498	$37.21		
Granted	479,300	94.94		
Exercised	(2,758,196)	27.56		
Cancelled	(9,808)	78.70		
Outstanding at December 31, 2006	10,401,794	$42.39	3.6	$823,060,000
Options vested and expected to vest at December 31, 2006	10,395,090	$42.36	3.6	$822,712,000
Options exercisable at December 31, 2006	9,162,704	37.25	3.0	$772,077,000

The fair value of each option grant is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions for grants in the years ended December 31, 2006 and 2005. There were no stock option grants during 2004.

December 31,	**2006**	2005	2004
Expected volatility	17%	17%	N/A
Expected life	5 years	5 years	N/A
Risk-free interest rate	4.4%	3.5%	N/A
Expected dividend yield	5.0%	6.0%	N/A

The weighted average grant date fair value of options granted during the years ended December 31, 2006 and 2005 was $10.23 and $5.40, respectively. Cash received from option exercises for the years ended December 31, 2006, 2005 and 2004 was $75,665,000, $45,447,000 and $55,097,000, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $244,694,000, $41,309,000 and $24,271,000, respectively.

Restricted Common Shares

Restricted share awards are granted at the average of the high and low market price of our stock on the NYSE on the date of grant and generally vest over five years. We recognized $3,820,000, $3,559,000 and $4,200,000 of compensation expense in 2006, 2005 and 2004, respectively, for the portion of these awards that vested during each year. As of December 31, 2006, there was $10,710,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. This cost is expected to be recognized over a weighted-average period of 2.7 years. Dividends paid on unvested shares are charged directly to retained earnings and amounted to $841,900, $1,038,000 and $938,700 for the years ended December 31, 2006, 2005 and 2004, respectively. The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was $6,170,000, $4,623,000 and $2,850,000, respectively.

Below is a summary of restricted share activity under the Plan for the year ended December 31, 2006.

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2006	259,913	$52.27
Granted	23,854	88.78
Vested	(69,655)	47.73
Forfeited	(2,507)	59.88
Non-vested at December 31, 2006	211,605	57.79

Restricted Operating Partnership Units

On April 25, 2006, the Compensation Committee granted a total of 49,851 restricted OP Units to certain of our officers. These awards are granted at the average of the high and low market price of our stock on the NYSE on the date of grant, vest ratably over five years and are subject to a taxable book-up event, as defined. The fair value of these awards on the date of grant, as adjusted for estimated forfeitures, was approximately $3,480,000 and is amortized into expense over the five-year vesting period using a graded vesting attribution model. For the year ended December 31, 2006, we recognized $1,053,000 of compensation expense for these awards. The total remaining unrecognized compensation cost related to nonvested OP units granted under the Plan will be recognized over a weighted-average period of 2.3 years. Dividends paid on unvested OP Units are charged to minority interest expense on our consolidated statement of income and amounted to $147,000 in 2006.

12. Retirement Plans

We have two defined benefit pension plans, a Vornado Realty Trust Retirement Plan (“Vornado Plan”) and a Merchandise Mart Properties Pension Plan (“Mart Plan”). In addition, AmeriCold, which we consolidate into our consolidated financial statements beginning in November 2004, has two defined benefit pension plans (the “AmeriCold Plans” and together with the Vornado Plan and the Mart Plan “the Plans”). The benefits under the Vornado Plan and the Mart Plan were frozen in December 1997 and June 1999, respectively. In April 2005, AmeriCold amended its AmeriCold Retirement Income Plan to freeze benefits for non-union participants. Benefits under the Plans are or were primarily based on years of service and compensation during employment or on years of credited service and established monthly benefits. Funding policy for the Plans is based on contributions at the minimum amounts required by law. The financial results of the Plans are consolidated in the information provided below.

We use a December 31 measurement date for the Plans.

Obligations and Funded Status

The following table sets forth the Plans’ funded status and amounts recognized in our balance sheets:

Pension Benefits

Year Ended December 31, (AMOUNTS IN THOUSANDS)	**2006**	2005	2004
Change in benefit obligation:			
Benefit obligation at beginning of year	$86,205	$ 82,323	$ 20,244
Consolidation of AmeriCold plans	—	—	62,234
Service cost	487	1,665	314
Interest cost	4,922	4,875	1,708
Plan amendments[(1)]	—	—	(1,193)
Actuarial loss	1,973	6,121	1,242
Benefits paid	(3,697)	(8,684)	(2,226)
Settlements	(4,367)	(95)	—
Benefit obligation at end of year	85,523	86,205	82,323
Change in plan assets:			
Fair value of plan assets at beginning of year	73,931	67,514	18,527
Consolidation of AmeriCold plans	—	—	48,014
Employer contribution	6,697	9,010	1,787
Benefit payments	(3,698)	(8,592)	(2,225)
Settlements	(4,366)	—	—
Actual return on assets	10,258	5,999	1,411
Fair value of plan assets at end of year	82,822	73,931	67,514
Funded status at end of year	$ (2,701)	$(12,274)	$(14,809)
Amounts recorded in the consolidated balance sheet:			
Other assets (prepaid benefit cost)	$ 1,409		
Other liabilities (accrued benefit cost)	(4,110)		
	$ (2,701)		

(1) Reflects an amendment to freeze benefits for non-union participants of AmeriCold Retirement Income Plan effective April 2005.

Pension Benefits

Year Ended December 31, (AMOUNTS IN THOUSANDS)	2006	2005	2004
Amounts recognized in accumulated other comprehensive income consist of:			
Net loss	$ 4,472		
Prior service cost	—		
	$ 4,472		
Information for our plans with an accumulated benefit obligation in excess of plans assets:			
Projected benefit obligation	$73,206	$73,871	$70,943
Accumulated benefit obligation	72,793	73,550	70,040
Fair value of plan assets	70,362	61,362	55,562
Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income:			
Service cost	$ 487	$ 1,665	$ 314
Interest cost	4,922	4,875	1,708
Expected return on plan assets	(5,901)	(5,356)	(1,515)
Amortization of prior service cost	—	—	11
Amortization of net loss	501	(206)	402
Recognized settlement (gain) loss	(24)	253	—
Net periodic benefit cost	$ (15)	$ 1,231	$ 920
Other changes in Plan Assets and Benefit obligations recognized in Other Comprehensive Income:			
Net gain	$ (2,498)		
Amortization of net loss	(219)		
Recognized settlement loss	24		
Adoption of SFAS 158	321		
Amortization of prior cost	—		
Total recognized in other comprehensive income	$ (2,372)		
Total recognized in net periodic benefit cost and other comprehensive income	$ (2,387)		

The estimated net loss of the Plans that will be amortized into net periodic benefit cost during 2007 is $271,000.

Year Ended December 31,	2006	2005	2004
Assumptions:			
Weighted-average assumptions used to determine benefit obligations:			
Discount rate	5.80%–6.00%	5.75%–6.00%	5.75%–6.50%
Rate of compensation increase in AmeriCold Plan	3.50%	3.50%	3.50%
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	5.75%–6.00%	5.75%–6.00%	5.75%–6.50%
Expected long-term return on plan assets	5.00%–8.50%	5.00%–8.50%	5.00%–8.50%
Rate of compensation increase in AmeriCold Plan	3.50%	3.50%	3.50%

We periodically review our assumptions for the rate of return on each Plan's assets. The assumptions are based primarily on the long-term historical performance of the assets of the Plans, future expectations for returns for each asset class as well as target asset allocation of Plan assets. Differences in the rates of return in the short term are recognized as gains or losses in the periods that they occur.

Plan Assets

We have consistently applied what we believe to be a conservative investment strategy for the Plans, investing in United States government obligations, cash and cash equivalents, fixed income funds, other diversified equities and mutual funds. Below are the weighted-average asset allocations by asset category:

Year Ended December 31,	2006	2005	2004
Vornado Plan:			
US Government obligations	98%	96%	97%
Money Market Funds	2%	4%	3%
Total	100%	100%	100%
Merchandise Mart Plan:			
Mutual funds	47%	49%	50%
Insurance Company Annuities	53%	51%	50%
Total	100%	100%	100%
AmeriCold Plan:			
Domestic equities	41%	31%	
International equities	31%	24%	
Fixed income securities	23%	15%	
Real estate	5%	12%	
Hedge funds	—	18%	
Total	100%	100%	

Cash Flows

We expect to contribute $3,854,000 to the Plans in 2007.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2007	$ 6,758
2008	5,091
2009	6,408
2010	5,490
2011	5,339
2012–2016	29,655

13. Leases

As Lessor:

We lease space to tenants under operating leases. Most of the leases provide for the payment of fixed base rentals payable monthly in advance. Shopping center leases provide for the pass-through to tenants of real estate taxes, insurance and maintenance. Office building leases generally require the tenants to reimburse us for operating costs and real estate taxes above their base year costs. Shopping center leases also provide for the payment by the lessee of additional rent based on a percentage of the tenants' sales. As of December 31, 2006, future base rental revenue under non-cancelable operating leases, excluding rents for leases with an original term of less than one year and rents resulting from the exercise of renewal options, is as follows:

Year Ending December 31:

(AMOUNTS IN THOUSANDS)	
2007	$1,325,668
2008	1,262,338
2009	1,165,519
2010	1,045,124
2011	909,272
Thereafter	4,862,022

These amounts do not include rentals based on tenants' sales. These percentage rents approximated $7,593,000, $6,571,000, and $5,563,000, for the years ended December 31, 2006, 2005, and 2004, respectively.

None of our tenants represented more than 10% of total revenues for the year ended December 31, 2006.

Former Bradlees Locations

Pursuant to the Master Agreement and Guaranty, dated May 1, 1992, we are due $5,000,000 per annum of additional rent from Stop & Shop which was allocated to certain of Bradlees former locations. On December 31, 2002, prior to the expiration of the leases to which the additional rent was allocated, we reallocated this rent to other former Bradlees leases also guaranteed by Stop & Shop. Stop & Shop is contesting our right to reallocate and claims that we are no longer entitled to the additional rent. At December 31, 2006, we are due an aggregate of $19,374,000. We believe the additional rent provision of the guaranty expires at the earliest in 2012 and are vigorously contesting Stop & Shop's position.

As Lessee:

We are a tenant under operating leases for certain properties. These leases have terms that expire during the next thirty years. Future minimum lease payments under operating leases at December 31, 2006, are as follows:

Year Ending December 31:

(AMOUNTS IN THOUSANDS)	
2007	$ 34,004
2008	33,084
2009	33,156
2010	29,664
2011	26,151
Thereafter	985,338

Rent expense was $28,469,000, $22,146,000, and $21,334,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

We are also a lessee under capital leases for equipment and real estate (primarily AmeriCold). Lease terms generally range from 5–20 years with renewal or purchase options. Capitalized leases are recorded at the present value of future minimum lease payments or the fair market value of the property. Capitalized leases are depreciated on a straight-line basis over the estimated life of the asset or life of the related lease, whichever is shorter. Amortization expense on capital leases is included in "depreciation and amortization" on our consolidated statements of income. As of December 31, 2006, future minimum lease payments under capital leases are as follows:

Year Ending December 31:

(AMOUNTS IN THOUSANDS)	
2007	$ 11,950
2008	11,231
2009	10,339
2010	9,350
2011	8,735
Thereafter	64,829
Total minimum obligations	116,434
Interest portion	(44,973)
Present value of net minimum payments	$ 71,461

At December 31, 2006 and 2005, $71,461,000 and $48,329,000 representing the present value of net minimum payments are included in "Other Liabilities" on our consolidated balance sheets. At December 31, 2006 and 2005, property leased under capital leases had a total cost of $86,677,000 and $66,483,000 and related accumulated depreciation of $18,672,000 and $17,066,000, respectively.

14. Commitments and Contingencies

At December 31, 2006, our $1 billion revolving credit facility, which expires in June 2010, had a zero outstanding balance and $20,732,000 was reserved for outstanding letters of credit. This facility contains financial covenants, which require us to maintain minimum interest coverage and maximum debt to market capitalization, and provides for higher interest rates in the event of a decline in our ratings below Baa3/BBB. At December 31, 2006, AmeriCold's $30,000,000 revolving credit facility had a zero outstanding balance and $17,000,000 was reserved for outstanding letters of credit. This facility requires AmeriCold to maintain, on a trailing four-quarter basis, a minimum of $30,000,000 of free cash flow, as defined. Both of these facilities 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.

We carry commercial liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) "acts of terrorism" as defined in the Terrorism Risk Insurance Extension Act of 2005 which expires in 2007 and (v) rental loss insurance) with respect to its assets. Below is a summary of the current all risk property insurance and terrorism risk insurance in effect through September 2007 for each of the following business segments:

	Coverage Per Occurrence	
	All Risk[1]	Sub-Limits for Acts of Terrorism
New York Office	$ 1.4 billion	$750 million
Washington, DC Office	$ 1.4 billion	$750 million
Retail	$500 million	$500 million
Merchandise Mart	$ 1.4 billion	$750 million
Temperature Controlled Logistics	$225 million	$225 million

(1) Limited as to terrorism insurance by the sub-limit shown in the adjacent column.

In addition to the coverage above, we carry lesser amounts of coverage for terrorist acts not covered by the Terrorism Risk Insurance Extension Act of 2005.

Our debt instruments, consisting of mortgage loans secured by its properties (which are generally non-recourse to us), its senior unsecured notes, exchangeable senior debentures, convertible debentures and revolving credit agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage under 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, or if the Terrorism Risk Insurance Extension Act of 2005 is not extended past 2007, it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

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.

From time to time, we have disposed of substantial amounts of real estate to third parties for which, as to certain properties, we remain contingently liable for rent payments or mortgage indebtedness that we cannot quantify.

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey claiming we had no right to reallocate and therefore continue to collect $5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty. 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. 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 reconsideration of one aspect of the Appellate Court's decision which has been submitted to the Appellate Court for consideration. We intend to pursue our claims against Stop & Shop vigorously.

On July 22, 2005, two corporations owned 50% by H Street filed a complaint against the Company, H Street and three parties affiliated with the sellers of H Street in the Superior Court of the District of Columbia alleging that we encouraged H Street and the affiliated parties to breach their fiduciary duties to these corporations and interfered with prospective business and contractual relationships. The complaint seeks an unspecified amount of damages and a rescission of our acquisition of H Street. On September 12, 2005, we filed a complaint against each of those corporations and their acting directors seeking a restoration of H Street's full shareholder rights and damages. In addition, on July 29, 2005, a tenant under ground leases for which one of these 50%-owned corporations is landlord brought a separate suit in the Superior Court of the District of Columbia, alleging, among other things, that the acquisition of H Street violated a provision giving them a right of first offer and seeks rescission of our acquisition, the right to acquire H Street for the price paid by us and/or damages. On July 14, 2006, we filed a counterclaim against the tenant asserting that the tenant and the other owner of the 50%-owned ground landlord deliberately excluded H Street from negotiating and executing a purported amendment to the agreement to lease when H Street's consent and execution was required and, consequently, that the amended agreement and the related ground leases are invalid, the tenant is in default under the ground leases and the ground leases are void and without any effect. As of February 1, 2007, discovery is substantially complete and we are awaiting a trial date. We believe that the actions filed against us are without merit and that we will ultimately be successful in defending against them.

There are various other legal actions against us in the ordinary course of business. 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.

We entered into agreements for the purchase and resale of U.S. government obligations for periods of up to one week. The obligations purchased under these agreements are held in safekeeping in our name by various money center banks. We have the right to demand additional collateral or return of these invested funds at any time the collateral value is less than 102% of the invested funds plus any accrued earnings thereon. We had $219,990,000 and $177,650,000 of cash invested in these agreements at December 31, 2006 and 2005.

We are committed to fund additional capital aggregating $73,560,000, related to our acquisitions and investments in partially owned entities. Of this amount, $25,000,000 relates to capital expenditures to be funded over the next six years at the Springfield Mall, in which we have a 97.5% interest.

In addition to the above, on November 10, 2005, we committed to fund the junior portion of up to $30,530,000 of a $173,000,000 construction loan to an entity developing a mix-use building complex in Boston, Massachusetts, at the north end of the Boston Harbor. We will earn current-pay interest at 30-day LIBOR plus 11%. The loan will mature in November 2008, with a one-year extension option. As of December 31, 2006, we have funded $2,288,000 of this commitment.

Pursuant to the November 18, 2004 sale by Vornado and Crescent Real Estate Equities Company ("CEI"), of 20.7% of AmeriCold Realty Trust to Yucaipa for $145,000,000, Yucaipa is entitled to receive up to 20% of the increase in the value of AmeriCold, realized through the sale of a portion of our and CEI's interest in AmeriCold subject to limitations, provided that AmeriCold's Threshold EBITDA, as defined, exceeds $133,500,000 for the year ending December 31, 2007.

15. Related Party Transactions

Loan and Compensation Agreements

On November 30, 2006, Michael Fascitelli, our President, repaid to the Company his $8,600,000 outstanding loan which was scheduled to mature in December 2006. The loan was made to him in 1996 pursuant to his employment agreement.

On December 31, 2006, 1,546,106 shares held in a rabbi trust, established for deferred compensation purposes as part of Mr. Fascitelli's 1996 and 2001 employment agreements, were distributed to Mr. Fascitelli, net of 739,130 shares which were used to satisfy the resulting tax withholding obligation. The shares we received for the tax liability were retired upon receipt.

On December 22, 2005, Steven Roth, our Chief Executive Officer, repaid to the Company his $13,122,500 outstanding loan which was scheduled to mature in January 2006. Pursuant to a credit agreement dated November 1999, Mr. Roth may draw up to $15,000,000 of loans from the Company on a revolving basis. Each loan bears interest, payable quarterly, at the applicable Federal rate on the date the loan is made and matures on the sixth anniversary of such loan. Loans are collateralized by assets with a value of not less than two times the amount outstanding. On December 23, 2005, Mr. Roth borrowed $13,122,500 under this facility, which bears interest at 4.45% per annum and matures on December 23, 2011.

On February 22, 2005, we entered into a new employment agreement with Sandeep Mathrani, Executive Vice President—Retail Division. Pursuant to the agreement, the Compensation Committee granted Mr. Mathrani (i) 16,836 restricted shares of our stock, (ii) stock options to acquire 300,000 of our common shares at an exercise price of $71.275 per share and (iii) the right to receive 200,000 stock options over the next two years at the then prevailing market price. In addition, Mr. Mathrani repaid the $500,000 loan we provided him under his prior employment agreement.

On March 11, 2004, we loaned $2,000,000 to Melvyn Blum, an executive officer, pursuant to the revolving credit facility contained in his January 2000 employment agreement. Melvyn Blum resigned effective July 15, 2005. In accordance with the terms of his employment agreement, his $2,000,000 outstanding loan as of June 30, 2005 was repaid on August 14, 2005.

Pursuant to our annual compensation review in February 2002 with Joseph Macnow, our Chief Financial Officer, the Compensation Committee approved a $2,000,000 loan to Mr. Macnow, which bears interest at the applicable federal rate of 4.65% per annum and matures in June 2007. The loan was funded on July 23, 2002 and is collateralized by assets with a value of not less than two times the loan amount.

Transactions with Affiliates and Officers and Trustees of the Company

ALEXANDER'S

We own 33% of Alexander's. Steven Roth, our Chairman of the Board and Chief Executive Officer, and Michael D. Fascitelli, our President, 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 6—Investments in Partially Owned Entities.

On December 29, 2005, Michael Fascitelli, our President and President of Alexander's, exercised 350,000 of his Alexander's stock appreciation rights ("SARs") which were scheduled to expire in December 2006 and received $173.82 for each SAR exercised, representing the difference between Alexander's stock price of $247.70 (the average of the high and low market price) on the date of exercise and the exercise price of $73.88. This exercise was consistent with Alexander's tax planning.

On January 10, 2006, the Omnibus Stock Plan Committee of the Board of Directors of Alexander's granted Mr. Fascitelli a SAR covering 350,000 shares of Alexander's common stock. The exercise price of the SAR is $243.83 per share of common stock, which was the average of the high and low trading price of Alexander's common stock on date of grant. The SAR became exercisable on July 10, 2006, provided Mr. Fascitelli is employed with Alexander's on such date, and will expire on March 14, 2007. Mr. Fascitelli's early exercise and Alexander's related tax consequences were factors in Alexander's decision to make the new grant to him.

INTERSTATE PROPERTIES ("INTERSTATE")

Interstate is a general partnership in which Steven Roth, our Chairman of the Board and Chief Executive Officer, 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, 2006, Interstate and its partners beneficially owned approximately 8.5% of the common shares of beneficial interest of Vornado and 27.6% 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 $798,000, $791,000 and $726,000 of management fees under the agreement for the years ended December 31, 2006, 2005 and 2004.

VORNADO OPERATING COMPANY ("VORNADO OPERATING")

In October 1998, Vornado Operating was spun off from Vornado in order to own assets that we could not own and conduct activities that we could not conduct as a REIT. Vornado Operating's primary asset was its 60% investment in AmeriCold Logistics, which leased 88 refrigerated warehouses from AmeriCold, owned 60% by us. On November 4, 2004, AmeriCold purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. As part of this transaction, Vornado Operating repaid the $21,989,000 balance of its loan to us as well as $4,771,000 of unpaid interest. Because we fully reserved for the interest income on this loan beginning in January 2002, we recognized $4,771,000 of income upon collection in the fourth quarter 2004.

In November 2004, a class action shareholder derivative lawsuit was brought in the Delaware Court of Chancery against Vornado Operating, its directors and Vornado. The lawsuit sought to enjoin the dissolution of Vornado Operating, rescind the previously completed sale of AmeriCold Logistics (owned 60% by Vornado Operating) to AmeriCold (owned 60% by us) and damages. In addition, the plaintiffs claimed that the Vornado Operating directors breached their fiduciary duties. On November 24, 2004, a stipulation of settlement was entered into under which we agreed to settle the lawsuit with a payment of approximately $4,500,000 or about $1 per Vornado Operating share or partnership unit before litigation expenses. We accrued the proposed settlement payment and related legal costs as part of "general and administrative expense" in the fourth quarter of 2004. On March 22, 2005, the Court approved the settlement.

Other

On December 20, 2005, we acquired a 46% partnership interest in, and became co-general partner of, partnerships that own a complex in Rosslyn, Virginia, containing four office buildings with an aggregate of 714,000 square feet and two apartment buildings containing 195 rental units. The consideration for the acquisition consisted of 734,486 newly issued Operating Partnership units (valued at $61,814,000 at acquisition) and $27,300,000 for our pro-rata share of existing debt. Of the partnership interest acquired, 19% was from Robert H. Smith and Robert P. Kogod, trustees of Vornado, and their family members, representing all of their interest in the partnership.

On April 13, 2006, we acquired the 92.65% interest that we did not already own of 1925 K Street, a 150,000 square foot office building located in the Central Business District of Washington, DC. The purchase price for the 92.65% interest was $52,800,000, consisting of $34,600,000 in cash and $18,200,000 of existing mortgage debt. Mitchell N. Schear, President of our Washington, DC Office division, received $3,675,000 for his share of the proceeds as a partner of the selling entity.

16. Minority Interest

Minority interest represents limited partners', other than Vornado, interest in the Operating Partnership and is comprised of:

Units Series	Outstanding Units at December 31, 2006	Outstanding Units at December 31, 2005	Per Unit Liquidation Preference	Preferred or Annual Distribution Rate	Conversion Rate Into Class A Units
Common:					
Class A[1]	15,419,758	15,333,673	N/A	$ 3.40	N/A
Convertible Preferred:					
B-1 Convertible Preferred[2]	139,798	563,263	$50.00	$ 2.50	[2]
B-2 Convertible Preferred[2]	304,761	304,761	$50.00	$ 4.00	[2]
9.00% F-1 Preferred[3]	400,000	400,000	$25.00	$ 2.25	[3]
Perpetual Preferred:[4]					
8.25% D-9 Cumulative Redeemable[5]	—	1,800,000	$25.00	$ 2.0625	N/A
7.00% D-10 Cumulative Redeemable	3,200,000	3,200,000	$25.00	$ 1.75	N/A
7.20% D-11 Cumulative Redeemable	1,400,000	1,400,000	$25.00	$ 1.80	N/A
6.55% D-12 Cumulative Redeemable	800,000	800,000	$25.00	$ 1.637	N/A
3.00% D-13 Cumulative Redeemable[6]	1,867,311	1,867,311	$25.00	$ 0.75	[6]
6.75% D-14 Cumulative Redeemable	4,000,000	4,000,000	$25.00	$ 1.6815	N/A
6.875% D-15 Cumulative Redeemable[7]	1,800,000	—	$25.00	$1.71875	N/A

(1) The Class A units are redeemable at the option of the holder for Vornado common shares on a one-for-one basis, or at our option for cash. Class A unitholders receive distributions equal to the dividends paid to Vornado common shareholders.

(2) Effective on October 2, 2006, all of the then outstanding Series B-1 and Series B-2 preferred units were exchanged for 653,574 Class A units, 304,761 new Class B-2 units and 139,798 new Class B-1 units. The new Class B-1 and B-2 units are convertible into Class A units at a rate of 218 Class A units for each pairing of 100 Class B-1 units and 218 Class B-2 units. Class B-1 unitholders are entitled to receive, in liquidation, an amount equal to the positive difference, if any, between the amount paid in liquidation for a Class A unit and the amount paid in respect of a Class B-2 unit multiplied by 2.18. Class B-2 unitholders are entitled to receive in liquidation the lesser of $50 per unit or the amount paid in respect of a Class A unit on liquidation divided by 2.18. Class B-1 unitholders receive distributions only if, and to the extent that, we pay quarterly dividends on the Class A units in excess of $0.85 per unit. Class B-2 unitholders are expected to receive quarterly distributions of $0.39 per unit.

(3) The holders of the Series F-1 preferred units have the right to require us to redeem the units for cash equal to the liquidation preference or, at our option, by issuing a variable number of Vornado common shares with a value equal to the liquidation amount. In accordance with SFAS No. 150, the liquidation amount of the F-1 preferred units are classified as a liability, and the related distributions as interest expense, because of the possible settlement of this obligation by issuing a variable number of our common shares.

(4) Convertible at the option of the holder for an equivalent amount of Vornado preferred shares and redeemable at our option after the 5th anniversary of the date of issuance (ranging from November 2008 to December 2011).

(5) On September 21, 2006, we redeemed the 8.25% Series D-9 Cumulative Redeemable Preferred Units at a redemption price of $25.00 per unit, or an aggregate of $45,000,000 plus accrued distributions. In connection with the redemption, we expensed $1,125,000 of issuance costs in 2006.

(6) The Series D-13 units may be called without penalty at the option of the Company commencing in December 2011 or redeemed at the option of the holder commencing in December 2006 for cash equal to the liquidation preference of $25.00 per unit, or at the Company's option, by issuing a variable number of Vornado's common shares. In accordance with SFAS No. 150, the liquidation amount of the D-13 units are classified as a liability, and related distributions as interest expense, because of the possible settlement of this obligation by issuing a variable number of the Company's common shares.

(7) On May 2, 2006, we sold 1,400,000 perpetual 6.875% Series D-15 Cumulative Redeemable Preferred Units, at a price of $25.00 per unit. On August 17, 2006 we sold an additional 400,000 Series D-15 Units at a price of $25.00 per unit, for a combined total of 1,800,000 Series D-15 units and net proceeds of $43,875,000. We may redeem the Series D-15 Units at a price of $25.00 per unit after May 2, 2011.

17. Income Per Share

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share—which utilizes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted income per common share—which includes the weighted average common shares and dilutive share equivalents. Potentially dilutive share equivalents include our Series A convertible preferred shares, employee stock options and restricted share awards, exchangeable and convertible senior debentures, as well as Operating Partnership convertible preferred units.

Year Ended December 31, (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**2006**	2005	2004
Numerator:			
Income from continuing operations, net of minority interest	$526,732	$504,089	$511,672
Income from discontinued operations, net of minority interest	33,408	35,515	81,245
Net income	560,140	539,604	592,917
Preferred share dividends	(57,511)	(46,501)	(21,920)
Numerator for basic income per share—net income applicable to common shares	502,629	493,103	570,997
Impact of assumed conversions:			
Series A convertible preferred share dividends	631	943	1,068
Series B-1 and B-2 convertible preferred unit distributions	485	—	4,710
Series E-1 convertible preferred unit distributions	—	—	1,581
Series F-1 convertible preferred unit distributions	—	—	743
Numerator for diluted income per share— net income applicable to common shares	$503,745	$494,046	$579,099
Denominator:			
Denominator for basic income per share—weighted average shares	142,145	133,768	125,241
Effect of dilutive securities(1):			
Employee stock options and restricted share awards	7,829	6,842	5,515
Series A convertible preferred shares	269	402	457
Series B-1 and B-2 convertible preferred units	168	—	1,102
Series E-1 convertible preferred units	—	—	637
Series F-1 convertible preferred units	—	—	183
Denominator for diluted income per share— adjusted weighted average shares and assumed conversions	150,411	141,012	133,135
INCOME PER COMMON SHARE—BASIC:			
Income from continuing operations	$ 3.30	$ 3.42	$ 3.91
Income from discontinued operations	.24	.27	.65
Net income per common share	$ 3.54	$ 3.69	$ 4.56
INCOME PER COMMON SHARE—DILUTED:			
Income from continuing operations	$ 3.13	$ 3.25	$ 3.74
Income from discontinued operations	.22	.25	.61
Net income per common share	$ 3.35	$ 3.50	$ 4.35

(1) The effect of dilutive securities in the years ended December 31, 2006 and 2005 excludes an aggregate of 6,737,169 and 5,735,213 weighted average common share equivalents, respectively, as their effect was anti-dilutive. The year ended December 31, 2004 includes all outstanding potentially dilutive share equivalents in that period.

18. Summary of Quarterly Results (Unaudited)

The following summary represents the results of operations for each quarter in 2006, 2005 and 2004:

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AMOUNTS)	Revenue	Net Income Applicable to Common Shares(1)	Income Per Common Share(2) Basic	Diluted
2006				
December 31	$723,252	$105,427	$0.73	$0.69
September 30	678,474	113,632	0.80	0.76
June 30	663,032	148,765	1.05	0.99
March 31	647,337	134,805	0.96	0.91
2005				
December 31	$694,514	$105,750	$ .75	$ .71
September 30	653,464	27,223	.20	.19
June 30	591,475	172,697	1.33	1.25
March 31	595,249	187,433	1.46	1.39
2004				
December 31	$502,696	$233,603	$1.84	$1.73
September 30	412,048	104,501	0.83	0.79
June 30	395,684	158,436	1.26	1.21
March 31	389,266	74,457	0.61	0.59

(1) Fluctuations among quarters result primarily from the mark-to-market of derivative instruments (Sears and McDonalds option shares, and GMH warrants), net gains on sale of real estate and from seasonality of operations.

(2) The total for the year may differ from the sum of the quarters as a result of weighting.

19. Costs of Acquisitions and Development Not Consummated

In the third quarter of 2004, we expensed $1,475,000 of costs associated with the Mervyn's Department Stores acquisition not consummated.

20. Segment Information

We have the following business segments: New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties, Temperature Controlled Logistics Properties and Toys "R" Us ("Toys"). EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." Management considers EBITDA a supplemental measure for making decisions and assessing the un-levered performance of its 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, management utilizes this measure to make investment decisions as well as to compare the performance of its assets to that of its peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

For the Year Ended December 31, 2006

(AMOUNTS IN THOUSANDS)	Total	Office New York[2]	Office Washington, DC	Retail[2]	Merchandise Mart[2]	Temperature Controlled Logistics[3]	Toys	Other[4]
Property rentals	$1,481,419	$487,421	$405,611	$264,727	$236,945	$ —	$ —	$ 86,715
Straight-line rents:								
Contractual rent increases	31,552	4,431	13,341	7,908	6,038	—	—	(166)
Amortization of free rent	31,103	7,245	16,181	5,080	2,597	—	—	—
Amortization of acquired below-market leases, net	23,814	976	4,502	15,513	43	—	—	2,780
Total rentals	1,567,888	500,073	439,635	293,228	245,623	—	—	89,329
Temperature Controlled Logistics	779,110	—	—	—	—	779,110	—	—
Tenant expense reimbursements	261,471	102,488	34,002	101,737	19,125	—	—	4,119
Fee and other income:								
Tenant cleaning fees	33,779	42,317	—	—	—	—	—	(8,538)
Management and leasing fees	10,256	1,111	7,643	1,463	39	—	—	—
Lease termination fees	29,362	25,188	2,798	371	1,005	—	—	—
Other	30,229	12,307	10,167	1,588	6,082	—	—	85
Total revenues	2,712,095	683,484	494,245	398,387	271,874	779,110	—	84,995
Operating expenses	1,366,430	301,583	154,890	130,520	109,020	620,833	—	49,584
Depreciation and amortization	397,403	98,474	109,544	50,806	44,492	73,025	—	21,062
General and administrative	221,356	16,942	34,876	21,683	26,074	40,885	—	80,896
Total expenses	1,985,189	416,999	299,310	203,009	179,586	734,743	—	151,542
Operating income (loss)	726,906	266,485	194,935	195,378	92,288	44,367	—	(66,547)
(Loss) income applicable to Alexander's	(14,530)	772	—	716	—	—	—	(16,018)
Loss applicable to Toys "R" Us	(47,520)	—	—	—	—	—	(47,520)	—
Income from partially owned entities	61,777	3,844	13,302	5,950	1,076	1,422	—	36,183
Interest and other investment income	262,188	913	1,794	812	275	6,785	—	251,609
Interest and debt expense	(477,775)	(84,134)	(99,286)	(79,202)	(28,672)	(81,890)	—	(104,591)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	76,073	—	—	—	—	—	—	76,073
Minority interest of partially owned entities	20,173	—	—	84	5	18,810	—	1,274
Income (loss) from continuing operations	607,292	187,880	110,745	123,738	64,972	(10,506)	(47,520)	177,983
Income from discontinued operations, net	33,408	—	16,401	9,206	5,682	2,107	—	12
Income (loss) before allocation to minority limited partners	640,700	187,880	127,146	132,944	70,654	(8,399)	(47,520)	177,995
Minority limited partners' interest in the Operating Partnership	(58,712)	—	—	—	—	—	—	(58,712)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	—	—	—	—	—	—	(21,848)
Net income (loss)	560,140	187,880	127,146	132,944	70,654	(8,399)	(47,520)	97,435
Interest and debt expense[1]	692,496	86,861	107,477	89,748	29,551	38,963	196,259	143,637
Depreciation and amortization[1]	542,515	101,976	123,314	56,168	45,077	34,854	137,176	43,950
Income tax (benefit) expense[1]	(11,848)	—	8,842	—	(441)	873	(22,628)	1,506
EBITDA	$1,783,303	$376,717	$366,779	$278,860	$144,841	$ 66,291	$263,287	$ 286,528
Percentage of EBITDA by segment	100.0%	21.1%	20.6%	15.6%	8.1%	3.7%	14.8%	16.1%

See notes on page 179.

For the Year Ended December 31, 2005

(AMOUNTS IN THOUSANDS)	Total	Office New York[2]	Office Washington, DC	Retail[2]	Merchandise Mart[2]	Temperature Controlled Logistics[3]	Toys	Other[4]
Property rentals	$1,322,099	$460,062	$375,132	$199,519	$215,283	$ —	$ —	$ 72,103
Straight-line rents:								
Contractual rent increases	22,805	6,163	7,162	5,981	3,439	—	—	60
Amortization of free rent	27,136	11,280	5,306	4,030	6,520	—	—	—
Amortization of acquired below-market leases, net	13,973	—	7,564	5,596	—	—	—	813
Total rentals	1,386,013	477,505	395,164	215,126	225,242	—	—	72,976
Temperature Controlled Logistics	846,881	—	—	—	—	846,881	—	—
Tenant expense reimbursements	207,168	97,987	17,895	73,284	15,268	—	—	2,734
Fee and other income:								
Tenant cleaning fees	30,350	30,350	—	—	—	—	—	—
Management and leasing fees	15,433	893	13,539	941	60	—	—	—
Lease termination fees	30,117	10,392	354	2,399	16,972	—	—	—
Other	18,740	8,729	4,961	271	4,778	—	—	1
Total revenues	2,534,702	625,856	431,913	292,021	262,320	846,881	—	75,711
Operating expenses	1,298,948	278,234	125,032	88,690	95,931	662,703	—	48,358
Depreciation and amortization	332,175	87,118	83,553	32,965	39,456	73,776	—	15,307
General and administrative	182,809	14,315	25,715	15,800	24,636	40,925	—	61,418
Total expenses	1,813,932	379,667	234,300	137,455	160,023	777,404	—	125,083
Operating income (loss)	720,770	246,189	197,613	154,566	102,297	69,477	—	(49,372)
Income applicable to Alexander's	59,022	694	—	695	—	—	—	57,633
Loss applicable to Toys "R" Us	(40,496)	—	—	—	—	—	(40,496)	—
Income from partially owned entities	36,165	2,563	1,076	9,094	588	1,248	—	21,596
Interest and other investment income	167,220	713	1,106	583	187	2,273	—	162,358
Interest and debt expense	(339,952)	(58,829)	(81,664)	(60,018)	(10,769)	(56,272)	—	(72,400)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	39,042	606	84	896	—	—	—	37,456
Minority interest of partially owned entities	(3,808)	—	—	—	120	(4,221)	—	293
Income (loss) from continuing operations	637,963	191,936	118,215	105,816	92,423	12,505	(40,496)	157,564
Income from discontinued operations, net	35,515	—	74	656	2,182	—	—	32,603
Income (loss) before allocation to minority limited partners	673,478	191,936	118,289	106,472	94,605	12,505	(40,496)	190,167
Minority limited partners' interest in the Operating Partnership	(66,755)	—	—	—	—	—	—	(66,755)
Perpetual preferred unit distributions of the Operating Partnership	(67,119)	—	—	—	—	—	—	(67,119)
Net income (loss)	539,604	191,936	118,289	106,472	94,605	12,505	(40,496)	56,293
Interest and debt expense[1]	415,826	60,821	84,913	68,274	11,592	26,775	46,789	116,662
Depreciation and amortization[1]	367,260	88,844	86,376	37,954	41,757	35,211	33,939	43,179
Income tax (benefit) expense[1]	(21,062)	—	1,199	—	1,138	1,275	(25,372)	698
EBITDA	$1,301,628	$341,601	$290,777	$212,700	$149,092	$ 75,766	$ 14,860	$ 216,832
Percentage of EBITDA by segment	100%	26.2%	22.4%	16.3%	11.5%	5.8%	1.1%	16.7%

See notes on page 179.

For the Year Ended December 31, 2004

(AMOUNTS IN THOUSANDS)	Total	Office: New York[2]	Office: Washington, DC	Retail[2]	Merchandise Mart[2]	Temperature Controlled Logistics[3]	Other[4]
Property rentals	$1,262,448	$435,835	$389,692	$163,176	$210,934	$ —	$ 62,811
Straight-line rents:							
Contractual rent increases	35,063	15,258	11,421	5,007	3,212	—	165
Amortization of free rent	26,059	9,665	(168)	11,290	5,278	—	(6)
Amortization of acquired below-market leases, net	14,985	—	10,112	4,873	—	—	—
Total rentals	1,338,555	460,758	411,057	184,346	219,424	—	62,970
Temperature Controlled Logistics	87,428	—	—	—	—	87,428	—
Tenant expense reimbursements	189,237	88,408	16,022	64,363	17,159	—	3,285
Fee and other income:							
Tenant cleaning fees	31,293	31,293	—	—	—	—	—
Management and leasing fees	16,754	1,039	14,462	1,084	155	—	14
Lease termination fees	16,989	10,110	2,586	709	3,584	—	—
Other	19,438	10,392	2,998	908	5,076	—	64
Total revenues	1,699,694	602,000	447,125	251,410	245,398	87,428	66,333
Operating expenses	676,025	264,714	125,616	78,017	94,499	67,989	45,190
Depreciation and amortization	241,766	81,994	77,346	26,622	34,623	7,968	13,213
General and administrative	145,040	13,602	24,746	13,145	22,449	4,264	66,834
Cost of acquisitions not consummated	1,475	—	—	—	—	—	1,475
Total expenses	1,064,306	360,310	227,708	117,784	151,571	80,221	126,712
Operating income (loss)	635,388	241,690	219,417	133,626	93,827	7,207	(60,379)
Income applicable to Alexander's	8,580	433	—	668	—	—	7,479
Income (loss) from partially owned entities	43,381	2,502	226	(1,678)	545	5,641	36,145
Interest and other investment income	203,998	569	428	397	105	220	202,279
Interest and debt expense	(242,142)	(38,335)	(90,568)	(58,625)	(11,255)	(6,379)	(36,980)
Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate	19,775	—	369	—	—	—	19,406
Minority interest of partially owned entities	(109)	—	—	—	—	(158)	49
Income from continuing operations	668,871	206,859	129,872	74,388	83,222	6,531	167,999
Income from discontinued operations, net	81,245	—	1,175	10,999	2,112	—	66,959
Income before allocation to minority limited partners	750,116	206,859	131,047	85,387	85,334	6,531	234,958
Minority limited partners' interest in the Operating Partnership	(88,091)	—	—	—	—	—	(88,091)
Perpetual preferred unit distributions of the Operating Partnership	(69,108)	—	—	—	—	—	(69,108)
Net income	592,917	206,859	131,047	85,387	85,334	6,531	77,759
Interest and debt expense[1]	313,289	40,338	93,264	61,820	12,166	30,337	75,364
Depreciation and amortization[1]	296,980	83,492	79,483	30,619	36,578	34,567	32,241
Income tax expense[1]	1,664	—	406	—	852	79	327
EBITDA	$1,204,850	$330,689	$304,200	$177,826	$134,930	$71,514	$185,691
Percentage of EBITDA by segment	100%	27.4%	25.3%	14.8%	11.2%	5.9%	15.4%

See notes on following page.

Notes to preceding tabular information:

(1) Interest and debt expense and depreciation and amortization included in the reconciliation of net income to EBITDA includes our share of the interest and debt expense and depreciation and amortization of its partially owned entities.

(2) At December 31, 2004, 7 West 34th Street, a 440,000 square foot New York office building, was 100% occupied by four tenants, of which Health Insurance Plan of New York ("HIP") and Fairchild Publications occupied 255,000 and 146,000 square feet, respectively. Effective January 4, 2005, we entered into a lease termination agreement with HIP under which HIP made an initial payment of $13,362 and is anticipated to make annual payments ranging from $1,000 to $2,000 over the remaining six years of the HIP lease contingent upon the level of operating expenses of the building in each year. In connection with the termination of the HIP lease, we expensed the $2,462 balance of the HIP receivable arising from the straight-lining of rent. In the first quarter of 2005, we began redevelopment of a portion of this property into a permanent showroom building for the giftware industry. As of January 1, 2005, we transferred the operations and financial results related to the office component of this asset from the New York Office division to the Merchandise Mart division for both the current and prior periods presented. The operations and financial results related to the retail component of this asset were transferred to the Retail division for both current and prior periods presented.

(3) Operating results for the year ended December 31, 2004 reflect the consolidation of our investment in AmeriCold beginning on November 18, 2004. Previously, this investment was accounted for on the equity method.

(4) Other EBITDA is comprised of:

For the Year Ended December 31,

(Amounts in thousands)	2006	2005	2004
Alexander's	$ 14,130	$ 84,874	$ 25,909
Newkirk Master Limited Partnership	51,737	55,126	70,517
Hotel Pennsylvania	27,495	22,522	15,643
GMH Communities L.P.	10,737	7,955	1,440
Industrial warehouses	5,582	5,666	5,309
Other investments	13,253	5,319	—
	122,934	181,462	118,818
Minority limited partners' interest in the Operating Partnership	(58,712)	(66,755)	(88,091)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	(67,119)	(69,108)
Corporate general and administrative expenses	(76,071)	(57,221)	(62,854)
Investment income and other	320,225	194,851	221,021
Net gains on sale of 400 North LaSalle (2005) and Palisades (2004)	—	31,614	65,905
	$286,528	$216,832	$185,691