VORNADO REALTY TRUST
Form 10-K
February 27, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended: **December 31, 2006**

OR

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

For the transition period from **to**

Commission File Number: **1-11954**

VORNADO REALTY TRUST

(Exact name of Registrant as specified in its charter)

Maryland	**22-1657560**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
888 Seventh Avenue, New York, New York	**10019**
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Shares of beneficial interest, $.04 par value per share	New York Stock Exchange
Series A Convertible Preferred Shares of beneficial interest, no par value	New York Stock Exchange
Cumulative Redeemable Preferred Shares of beneficial interest, no par value:	
8.5% Series B	New York Stock Exchange
8.5% Series C	New York Stock Exchange
7.0% Series E	New York Stock Exchange
6.75% Series F	New York Stock Exchange
6.625% Series G	New York Stock Exchange
6.75% Series H	New York Stock Exchange
6.625% Series I	New York Stock Exchange

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

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

YES x NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

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

YES o NO x

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust, was $11,503,533,000 at June 30, 2006.

As of February 1, 2007, there were 151,601,052 of the registrant s common shares of beneficial interest outstanding.

Documents Incorporated by Reference

Part III: Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 17, 2007.

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(1) These items are omitted in whole or in part because the registrant will file a definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with the Securities and Exchange Commission not later than 120 days after December 31, 2006, portions of which are incorporated by reference herein. See Executive Officers of the Registrant on page 53 of this Annual Report on Form 10-K for information relating to executive officers.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as approximates, believes, expects, anticipates, estimates, intends, plans, would, may or other similar expressions in this Annual Report on Form 10- addition, references to our budgeted amounts are forward-looking statements. These forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1A. Risk Factors in this annual report on Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS
THE COMPANY

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 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.

OBJECTIVES AND STRATEGY

Our business objective is to maximize shareholder value. We intend to achieve this objective by continuing to pursue our investment philosophy and executing our operating strategies through:

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;
- Investing in properties in select markets, such as New York City and Washington, DC, where we believe there is a high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area;
- Investing in fully-integrated operating companies that have a significant real estate component;
- Developing and redeveloping our existing properties to increase returns and maximize value; and
- Providing specialty financing to real estate related companies.

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

2006/2007 ACQUISITIONS AND INVESTMENTS

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.

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 J.C. Penney 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 this 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.

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, which is 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 rental properties. These transactions are expected to close in the second half of 2007.

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.

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 plan to redevelop the property into a 250,000 square foot Class A office building at a cost of approximately $90,000,000.

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.

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.

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 in January 2006.

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 R Us to a third party.

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.

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 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%.

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.

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.

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. 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 described above, from January 1, 2006 through February 1, 2007, 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 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 sheet 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. 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.

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. 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.

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.

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 was 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 3.5% (8.8% at December 31, 2006).

DEVELOPMENT AND REDEVELOPMENT PROJECTS

We are currently engaged in various development/redevelopment projects for which we have budgeted approximately $1.0 billion. Of this amount, $101.0 million was expended prior to 2006, $190.4 million was expended in 2006 and $476.2 million is estimated to be expended in 2007. Below is a description of these projects.

($ in millions)	Our Share of			
			Costs Expended	
	Estimated Completion	Estimated Project	in Year Ended December 31,	Estimated Costs to
In Progress:	Date	Cost	2006	Complete
Washington, DC Office:				
Crystal City:				
(i)Renovation of buildings	2008	$ 73.0	$ 16.6	$ 21.3
(ii)Cost to retenant	2008	72.0	17.8	38.5
(iii)Redevelopment of Crystal Plaza Two office space to residential (subject to governmental approvals)	2009	96.0	6.1	86.5
1925 K Street office building - demolition of existing 149,000 square foot building and construction of 250,000 square foot office building	2009	90.0	1.3	88.7
2101 L Street office building complete rehabilitation of existing building including new curtain wall, mechanical systems and lobbies	2007	89.0	8.5	80.3
Retail:				
Bergen Town Center interior and exterior renovation of existing space, demolition of 300,000 square feet and construction of 640,000 square feet of retail space and a parking deck	2008	211.0	22.2	175.2
Green Acres Mall interior and exterior renovation, construction of a parking deck and an additional 100,000 square feet of free-standing retail space anchored by Best Buy, and site-work for BJ s Wholesale Club who has constructed its own store	2007	84.0	37.9	35.0
North Bergen, New Jersey Ground-up Development acquisition of land and construction of 90,000 square feet of retail space and site work for BJ s Wholesale Club and Wal-Mart who will construct their own stores	2009	71.0	28.6	42.4
San Jose, California Ground-up Development (45% interest) acquisition of land and construction of 350,000 square feet of retail space and site work for Home Depot and Target who will construct their own stores	2008	62.0	31.1	30.9
Strip shopping centers and malls redevelopment of 17 properties	2008	60.0	2.1	56.0
Beverly Connection (50% interest) interior and exterior renovations	2007	48.0	16.5	11.5
Other:				
40 East 66th Street conversion of 27 rental apartments into residential condominiums, subject to the approval and execution of a condominium offering plan	2008	45.0	1.7	43.3
		$ 1,001.0	$ 190.4	$ 709.6

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In addition to the projects above, on July 19, 2005 a joint venture, in which we have a 50% interest, entered into a Memorandum of Understanding and has been conditionally designated as the developer to convert a portion of the Farley Post Office in Manhattan which occupies the double super block between 31st and 33rd Streets from 8th to 9th Avenues into the new Moynihan Train Station. The plans for the Moynihan Station project involve 300,000 square feet for a new transportation facility to be financed with public funding, as well as 850,000 square feet of commercial space and up to 1 million square feet of air rights intended to be transferred to an adjacent site. We endeavor to expand this project to incorporate the adjacent super block (currently Penn Station, our 1.5 million square foot Two Penn Plaza and Madison Square Garden), adding 5.5 million square feet of multi-use development, which would require Madison Square Garden to relocate to the Farley Post Office building. This project is subject to governmental approvals.

We are evaluating other development opportunities, for which final plans and budgeted costs have yet to be determined, including: (i) plans to demolish the Hotel Pennsylvania and construct an office tower in excess of 2,000,000 square feet on the site (ii) redeveloping certain shopping malls, including the South Hills and Springfield Malls, (iii) redeveloping and expanding retail space and signage in the Penn Plaza area, (iv) redevelopment of the Filene s property (50% interest) located in the Downtown Crossing district of Boston to include over 1,200,000 square feet, consisting of office, retail and condominium apartments, (v) conversion of 220 Central Park South, a residential apartment building, to condominiums, (vi) construction of a 1,300,000 square foot mixed-use project (47.5% interest) containing retail and residential space in Boston s Waterfront District, (vii) construction of an office and retail building in excess of 600,000 square feet located at 125th Street and Park Avenue through a joint venture (40% interest) and (viii) development of condominiums and mixed-use, retail and residential projects in California, Boston and Florida.

There can be no assurance that any of the above projects will commence, or if commenced, be completed on schedule or within budget.

FINANCING ACTIVITIES

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 from this offering, after underwriter s discount, were approximately $248,000,000.

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. We may redeem the Series D-15 Units at a price of $25.00 per unit after May 2, 2011.

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. At December 31, 2006, this facility has a zero outstanding balance and $20,732,000 is reserved for outstanding letters of credit.

On July 28, 2006, we called for redemption of the Operating Partnership s 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 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.

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.

During the period from January 1, 2006 through February 1, 2007, we also completed approximately $4.6 billion of property level financings and repaid approximately $2.0 billion of existing debt with a portion of the proceeds.

The net proceeds we received from the above financing activities were primarily used to fund 2006 acquisitions and investments and for other general corporate purposes. 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.

SEASONALITY OF OUR BUSINESS

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 R Us is highly seasonal. Historically, Toys R Us fourth quarter net income, which we record 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 warehouse operations due to the holiday season s impact on the food industry.

TENANTS ACCOUNTING FOR OVER 10% OF REVENUES

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

CERTAIN ACTIVITIES

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

EMPLOYEES

As of December 31, 2006, we have approximately 3,477 employees, including majority owned subsidiaries, of which 287 are corporate staff. The New York Office Properties segment has 106 employees and 1,582 employees of Building Maintenance Services, a wholly-owned subsidiary. The Washington, DC Office Properties, Retail Properties and Merchandise Mart Properties segments have 215, 194 and 572 employees, respectively, and the Hotel Pennsylvania has 521 employees. The forgoing does not include employees of AmeriCold Realty Trust and Toys R Us, Inc., of which we own 47.6% and 32.9%, respectively.

SEGMENT DATA

We operate in the following business segments: New York Office Properties, Washington, DC Office Properties, Retail Properties, Merchandise Mart Properties, Temperature Controlled Logistics and Toys R Us. Financial information related to our business segments for the years 2006, 2005 and 2004 is set forth in Note 20 Segment Information to our consolidated financial statements in this annual report on Form 10-K.

The Merchandise Mart Properties segment has trade show operations in Canada. The Temperature Controlled Logistics segment manages one warehouse in Canada. The Toys R Us segment operates in 490 locations internationally. In addition, we have two partially owned nonconsolidated investments in real estate partnerships located in India, which are included in the Other segment.

PRINCIPAL EXECUTIVE OFFICES

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

MATERIALS AVAILABLE ON OUR WEBSITE

Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as well as Reports on Forms 3, 4 and 5 regarding officers, trustees or 10% beneficial owners of us, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934 are available free of charge through our website (www.vno.com) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. We have also made available on our website copies of our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website.

ITEM 1A. RISK FACTORS

Set forth below are material factors that may adversely affect our business and operations.

REAL ESTATE INVESTMENTS' VALUE AND INCOME FLUCTUATE DUE TO VARIOUS FACTORS.

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

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

- national, regional and local economic conditions;
- consequences of any armed conflict involving, or terrorist attack against, the United States;
- our ability to secure adequate insurance;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- competition from other available space;
- whether tenants and users such as customers and shoppers consider a property attractive;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- whether we are able to pass some or all of any increased operating costs through to tenants;
- how well we manage our properties;
- fluctuations in interest rates;
- changes in real estate taxes and other expenses;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- changes in taxation or zoning laws;
- government regulation;
- Vornado Realty Trust s failure to continue to qualify as a real estate investment trust;
- availability of financing on acceptable terms or at all;
- potential liability under environmental or other laws or regulations; and
- general competitive factors.

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

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

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

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

From time to time, some of our tenants have declared bankruptcy, and other tenants may declare bankruptcy or become insolvent in the future. If a major tenant declares bankruptcy or becomes insolvent, the rental property at which it leases space may have lower revenues and operational difficulties. In the case of our shopping centers, the bankruptcy or insolvency of a major tenant could cause us to have difficulty leasing the remainder of the affected property. Our leases generally do not contain restrictions designed to ensure the creditworthiness of our tenants. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of net income and funds available for the payment of our indebtedness or for distribution to our shareholders.

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

Although inflation has not materially impacted our operations in the recent past, increased inflation could have a pronounced negative impact on our mortgage and debt interest and general and administrative expenses, as theses costs could increase at a rate higher than our rents. Inflation could also have an adverse effect on consumer spending which could impact our tenants sales and, in turn, our overage rents, where applicable.

Real estate is a competitive business.

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

We may incur costs to comply with environmental laws.

Our operations and properties are subject to various federal, state and local laws and regulations concerning the protection of the environment, including air and water quality, hazardous or toxic substances and health and safety. Under some environmental laws, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property. The owner or operator may also be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by those parties because of the contamination. These laws often impose liability without regard to whether the owner or operator knew of the release of the substances or caused the release. The presence of contamination or the failure to remediate contamination may impair our ability to sell or lease real estate or to borrow using the real estate as collateral. Other laws and regulations govern indoor and outdoor air quality including those that can require the abatement or removal of asbestos-containing materials in the event of damage, demolition, renovation or remodeling and also govern emissions of and exposure to asbestos fibers in the air. The maintenance and removal of lead paint and certain electrical equipment containing polychlorinated biphenyls (PCBs) and underground storage tanks are also regulated by federal and state laws. We are also subject to risks associated with human exposure to chemical or biological contaminants such as molds, pollens, viruses and bacteria which, above certain levels, can be alleged to be connected to allergic or other health effects and symptoms in susceptible individuals. We could incur fines for environmental compliance and be held liable for the costs of remedial action with respect to the foregoing regulated substances or tanks or related claims arising out of environmental contamination or human exposure at or from our properties.

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

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

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	
		Sub-Limits for
	All Risk (1)	**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. To the extent that we incur losses in excess of our insurance coverage, these losses would be borne by us and could be material.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), senior unsecured loans and our revolving credit agreement, 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 of 2005 is not extended past 2007, it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

Because we operate one hotel property, we face the risks associated with the hospitality industry.

We own the Hotel Pennsylvania in New York City. If the hotel does not generate sufficient receipts, our cash flow would be decreased, which could reduce the amount of cash available for distribution to our shareholders. The following factors, among others, are common to the hotel industry, and may reduce the revenues generated by our hotel property:

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

Because of the ownership structure of our hotel, we face potential adverse effects from changes to the applicable tax laws.

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

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

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

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

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OUR INVESTMENTS ARE CONCENTRATED IN THE NEW YORK AND WASHINGTON, DC METROPOLITAN AREAS. CIRCUMSTANCES AFFECTING THESE AREAS GENERALLY COULD ADVERSELY AFFECT OUR BUSINESS.

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

During 2006, approximately 67% of our EBITDA, excluding items that affect comparability, came from properties located in the New York City and Washington, DC metropolitan areas and in New Jersey. In addition, we may continue to concentrate a significant portion of our future acquisitions in these metropolitan areas or in other geographic real estate markets in the United States or abroad. Real estate markets are subject to economic downturns, as they have in the past, and we cannot predict how economic conditions will impact these markets in both the short and long term. Declines in the economy or a decline in the real estate markets in these areas could hurt our financial performance and the value of our properties. The factors affecting economic conditions in these regions include:

- space needs of the United States Government, including the effect of base closures and repositioning under the Defense Base Closure and Realignment Act of 1990, as amended;
- business layoffs or downsizing;
- industry slowdowns;
- relocations of businesses;
- changing demographics;
- increased telecommuting and use of alternative work places;
- financial performance and productivity of the publishing, advertising, financial, technology, retail, insurance and real estate industries;
- infrastructure quality; and
- any oversupply of, or reduced demand for, real estate.

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

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

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

WE MAY ACQUIRE OR SELL ADDITIONAL ASSETS OR ENTITIES OR DEVELOP ADDITIONAL PROPERTIES. OUR FAILURE OR INABILITY TO CONSUMMATE THESE TRANSACTIONS OR MANAGE THE RESULTS OF THESE TRANSACTIONS COULD ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL RESULTS.

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

We have experienced rapid growth in recent years, increasing our total assets from approximately $565 million at December 31, 1997 to approximately $18.0 billion at December 31, 2006. We may not be able to maintain a similar rate of growth in the future or manage our growth effectively. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to pay dividends to our shareholders.

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

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

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

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

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

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

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

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

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

Subject to limited exceptions, we are restricted from selling or otherwise transferring or disposing of certain properties located in the Crystal City area of Arlington, Virginia or an interest in our division that manages the majority of our office properties in the Washington, DC metropolitan area, which we refer to as the Washington, DC Office Division, for a period of 12 years with respect to certain properties located in the Crystal City area of Arlington, Virginia or six years with respect to an interest in the Washington, DC Office Division. These restrictions, which currently cover approximately 13.0 million square feet of space, could result in our inability to sell these properties or an interest in the Washington, DC Office Division at an opportune time and increase costs to us.

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

From time to time we make debt or equity investments in other companies that we may not control or over which we may not have sole control. These investments include but are not limited to: a 32.8% interest in Alexander s, Inc.; a 7.4% interest in The Lexington Master Limited Partnership; a 13.5% interest in GMH Communities L.P.; a 1.2% common equity interest in McDonalds Corporation; and equity and mezzanine investments in other real estate related companies. In addition, on July 21, 2005, a joint venture that we own equally with Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys R Us, Inc. Although these businesses generally have a significant real estate component, several operate in businesses that are different from our primary lines of business including, without limitation, operating or managing toy stores, department stores, fast food restaurants, and student and military housing facilities. Consequently, our investment in these businesses, among other risks, subjects us to the operating and financial risks of industries other than real estate and to the risk that we do not have sole control over the operations of these businesses. From time to time we may make additional investments in or acquire other entities that may subject us to additional similar risks. Our investments in entities over which we do not have sole control, including joint ventures, present additional risks such as our having differing objectives than our partners or the entities in which we invest, or our becoming involved in disputes, or competing with those persons. In addition, we rely on the internal controls and financial reporting controls of these entities and their failure to comply with applicable standards may adversely affect us.

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

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

We depend upon our anchor tenants to attract shoppers.

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

Our investment in Toys R Us, Inc. subjects us to risks different from our other lines of business and may result in increased seasonality and volatility in our reported earnings.

On July 21, 2005, a joint venture that we own equally with Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys R Us, Inc. (Toys). Because Toys is a retailer, its operations subject us to the risks of a retail company that are different than those presented by our other lines of business. The business of Toys is highly seasonal. Historically, Toys fourth quarter net income accounts for more than 80% of its fiscal year net income. In addition, our fiscal year ends on December 31 whereas, as is common for retailers, Toys fiscal year ends on the Saturday nearest to January 31. Therefore, we record our pro-rata share of Toys net earnings on a one quarter-lag basis. For example, our financial results for the year ended December 31, 2006 include Toys financial results for its first, second and third quarters ended October 28, 2006, as well as Toys fourth quarter results of 2005. Because of the seasonality of Toys, our reported net income will likely show increased volatility. We may also, in the future and from time to time, invest in other businesses that may report financial results that are more volatile than our historical financial results.

OUR ORGANIZATIONAL AND FINANCIAL STRUCTURE GIVES RISE TO OPERATIONAL AND FINANCIAL RISKS.

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

We depend primarily on external financing to fund the growth of our business. This is because one of the requirements of the Internal Revenue Code of 1986, as amended, for a REIT is that it distribute 90% of its net taxable income, excluding net capital gains, to its shareholders. There is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof. Our access to debt or equity financing depends on the willingness of third parties to lend or make equity investments and on conditions in the capital markets generally. We and other companies in the real estate industry have experienced limited availability of financing from time to time. Although we believe that we will be able to finance any investments we may wish to make in the foreseeable future, new financing may not be available on acceptable terms.

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

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

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

Furthermore, the holders of preferred units of the Operating Partnership are entitled to receive preferred distributions before payment of distributions to holders of common units of the Operating Partnership, including Vornado Realty Trust. Thus, Vornado Realty Trust s ability to pay dividends to holders of its shares and satisfy its debt obligations depends on the Operating Partnership s ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to Vornado Realty Trust. As of December 31, 2006, there were nine series of preferred units of the Operating Partnership not held by Vornado Realty Trust that have preference over Vornado Realty Trust common shares with a total liquidation value of $419,089,000.

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

We have indebtedness, and this indebtedness, and its cost, may increase.

As of December 31, 2006, we had approximately $9.6 billion in total debt outstanding. Our ratio of total debt to total enterprise value was approximately 35%. When we say enterprise value in the preceding sentence, we mean market equity value of Vornado Realty Trust s common and preferred shares plus total debt outstanding, including our pro rata share of the debt of partially owned entities. In the future, we may incur additional debt, and thus increase our ratio of total debt to total enterprise value, to finance acquisitions or property developments. If our level of indebtedness increases, there may be an increased risk of a credit rating downgrade or a default on our obligations that could adversely affect our financial condition and results of operations. In addition, in a rising interest rate environment, the cost of our existing variable rate debt and any new debt or other market rate security or instrument may increase.

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

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

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

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

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

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

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

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

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

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

VORNADO REALTY TRUST'S CHARTER DOCUMENTS AND APPLICABLE LAW MAY HINDER ANY ATTEMPT TO ACQUIRE US.

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

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

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

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

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

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

cause Vornado Realty Trust to issue additional authorized but unissued common shares or preferred shares;

classify or reclassify, in one or more series, any unissued preferred shares;

set the preferences, rights and other terms of any classified or reclassified shares that Vornado Realty Trust issues; and

increase, without shareholder approval, the number of shares of beneficial interest that Vornado Realty Trust may issue.

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

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

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

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

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

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

OUR OWNERSHIP STRUCTURE AND RELATED-PARTY TRANSACTIONS MAY GIVE RISE TO CONFLICTS OF INTEREST.

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

As of December 31, 2006, Interstate Properties, a New Jersey general partnership, and its partners owned approximately 8.5% of the common shares of Vornado Realty Trust and approximately 27.6% of the common stock of Alexander s, Inc. Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the three partners of Interstate Properties. Mr. Roth is the Chairman of the Board and Chief Executive Officer of Vornado Realty Trust, the managing general partner of Interstate Properties and the Chairman of the Board and Chief Executive Officer of Alexander s. Messrs. Wight and Mandelbaum are trustees of Vornado Realty Trust and also directors of Alexander s.

As of December 31, 2006, the Operating Partnership owned 32.8% of the outstanding common stock of Alexander s. Alexander s is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander s has seven properties, which are located in the New York City metropolitan area. Mr. Roth and Mr. Fascitelli, the President and a trustee of Vornado Realty Trust, are directors of Alexander s. Messrs. Mandelbaum, West and Wight are trustees of Vornado Realty Trust and are directors of Alexander s.

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

Vornado Realty Trust currently manages and leases the real estate assets of Interstate Properties under a management agreement for which it receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on 60 days notice at the end of the term. Vornado Realty Trust earned $798,000, $791,000, and $726,000 of management fees under the management agreement for the years ended December 31, 2006, 2005 and 2004. Because of the relationship among Vornado Realty Trust, Interstate Properties and Messrs. Roth, Mandelbaum and Wight, as described above, the terms of the management agreement and any future agreements between Vornado Realty Trust and Interstate Properties may not be comparable to those Vornado Realty Trust could have negotiated with an unaffiliated third party.

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

As of December 31, 2006, the Operating Partnership owned 32.8% of the outstanding common stock of Alexander s. Alexander s is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander s has seven properties. Interstate Properties, which is described above, and its partners owned an additional 27.6% of the outstanding common stock of Alexander s, as of December 31, 2006. Mr. Roth, Chairman of the Board and Chief Executive Officer of Vornado Realty Trust, is Chief Executive Officer, a director of Alexander s and managing general partner of Interstate, and Mr. Fascitelli, President and a trustee of Vornado Realty Trust, is President and a director of Alexander s. Messrs. Mandelbaum, West and Wight, trustees of us, are also directors of Alexander s and general partners of Interstate. Alexander s common stock is listed on the New York Stock Exchange under the symbol ALX.

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

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

THE NUMBER OF SHARES OF VORNADO REALTY TRUST AND THE MARKET FOR THOSE SHARES GIVE RISE TO VARIOUS RISKS.

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

As of December 31, 2006, we had authorized but unissued, 48,906,627 common shares of beneficial interest, $.04 par value, and 75,948,365 preferred shares of beneficial interest, no par value, of which 20,241,264 preferred shares have not been reserved and remain available for issuance as a newly-designated class of preferred. We may issue these authorized but unissued shares from time to time in public or private offerings or in connection with acquisitions.

In addition, as of December 31, 2006, 15,419,758 Vornado Realty Trust common shares were reserved for issuance upon redemption of Operating Partnership common units. Some of these shares may be sold in the public market after registration under the Securities Act under registration rights agreements between Vornado Realty Trust and some holders of common units of the Operating Partnership. These shares may also be sold in the public market under Rule 144 under the Securities Act or other available exemptions from registration. In addition, Vornado Realty Trust has reserved a number of common shares for issuance under its employee benefit plans, and these common shares will be available for sale from time to time. Vornado Realty Trust has awarded shares of restricted stock and granted options to purchase additional common shares to some of its executive officers and employees. Of the authorized but unissued common and preferred shares above, 42,744,218 common and 46,889,336 preferred shares, in the aggregate, were reserved for issuance of shares upon the redemption of Operating Partnership units, conversion of outstanding convertible securities, under benefit plans or for other activity not directly under our control.

We cannot predict the effect that future sales of Vornado Realty Trust common and preferred shares or Operating Partnership common and preferred units will have on the market prices of Vornado Realty Trust s outstanding shares.

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Changes in market conditions could hurt the market price of Vornado Realty Trust s shares.

The value of our common and preferred shares depends on various market conditions, which may change from time to time. Among the market conditions that may affect the value of our common and preferred shares are the following:

- the extent of institutional investor interest in us;
- the reputation of REITs generally and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities;
- our financial condition and performance; and
- general financial market conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

We own Office, Retail and Merchandise Mart properties and Temperature Controlled Logistics refrigerated warehouses. We also have investments in Toys R Us, Alexander s, The Lexington Master Limited Partnership (formerly The Newkirk Master Limited Partnership), GMH Communities L.P., Hotel Pennsylvania and industrial buildings. Below are the details of our properties by operating segment.

OFFICE SEGMENTS

As of December 31, 2006, we own all or a portion of 116 properties containing approximately 31.7 million square feet. Of these properties, 25 containing 13.7 million square feet are located in the New York City metropolitan area (primarily Manhattan) (the New York Office Properties) and 91 containing 18.0 million square feet are located in the Washington, DC and Northern Virginia area (the Washington, DC Office Properties).

New York Office Properties:

New York Office Properties contain 13.7 million square feet, including 12.7 million square feet of office space, 785,000 square feet of retail space and 183,000 square feet of showroom space. In addition, the New York Office Properties contain six garages totaling 368,000 square feet (1,739 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section.

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

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot (excluding retail space)
2006	13,692,000	97.5%	$ 46.33
2005	12,972,000	96.0%	43.67
2004	12,989,000	95.5%	42.22
2003	12,829,000	95.1%	40.68
2002	13,546,000	95.7%	37.62

2006 New York Office Properties rental revenue by tenants industry:

Industry	Percentage
Retail	14%
Publishing	8%
Government	8%
Finance	7%
Legal	7%
Banking	6%
Technology	5%
Pharmaceuticals	5%
Real Estate	4%
Service Contractors	4%
Communications	4%
Not-for-Profit	3%
Insurance	3%

Engineering	3%
Advertising	2%
Health Services	1%
Other	16%
	100%

New York Office Properties lease terms generally range from five to seven years for smaller tenant spaces to as long as 15 years for major tenants, and may include extension options at market rates. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenant s share of increases in real estate taxes and operating expenses over a base year. Electricity is provided to tenants on a sub-metered basis or included in rent based on surveys and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant s initial construction costs of its premises.

Tenants accounting for 2% or more of 2006 New York Office Properties total revenues:

Tenant	Square Feet Leased	2006 Revenues	Percentage of New York City Office Revenues	Percentage of Total Company Revenues
The McGraw-Hill Companies, Inc.	536,000	$ 22,859,000	3.3%	0.8%
VNU Inc.	515,000	20,695,000	3.0%	0.8%
Sterling Winthrop, Inc.	429,000	19,398,000	2.8%	0.7%
Federated Department Stores	467,000	18,192,000	2.7%	0.7%
New York Stock Exchange, Inc.	348,000	15,822,000	2.3%	0.6%
Cablevision/Madison Square Garden L.P./				
Rainbow Media Holdings, Inc.	310,000	15,416,000	2.3%	0.6%
U.S. Government	639,000	14,906,000	2.2%	0.5%

2006 New York Office Leasing Activity:

Location	Square Feet	Average Initial Rent Per Square Foot[1]
1740 Broadway	360,000	$ 58.08
Two Penn Plaza	320,000	43.82
One Penn Plaza	294,000	47.60
Eleven Penn Plaza	253,000	46.00
888 Seventh Avenue	133,000	78.39
866 U.N. Plaza	65,000	48.52
150 East 58th Street	59,000	51.11
595 Madison	45,000	59.57
90 Park Avenue	45,000	52.22
909 Third Avenue	44,000	50.84
330 Madison Avenue (25% interest)	31,000	57.11
40 Fulton Street	28,000	27.48
640 Fifth Avenue	20,000	57.50
57th Street (50% interest)	16,000	49.73
20 Broad Street	10,000	29.27
Total	1,723,000	51.76
Vornado s Ownership Interest	1,693,000	51.69

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

In addition to the office space noted above, in 2006 we leased 37,000 square feet of retail space contained in the above office buildings at a weighted average initial rent of $113.31 per square foot.

Lease expirations as of December 31, 2006 assuming none of the tenants exercise renewal options:

Office Space:					
				Annual Escalated Rent of Expiring Leases	
Year	**Number of Expiring Leases**	**Square Feet of Expiring Leases**	**Percentage of New York Office Square Feet**	**Total**	**Per Square Foot**
Month to month	66	106,000	0.9%	$3,899,000	$ 36.78
2007	93	364,000	3.0%	15,507,000	42.60
2008	79	1,053,000	(1) 8.7%	48,953,000	46.49
2009	132	914,000	7.5%	42,880,000	46.91
2010	92	1,191,000	9.8%	54,067,000	45.40
2011	67	863,000	7.1%	44,802,000	51.91
2012	48	1,009,000	8.3%	40,610,000	40.25
2013	22	556,000	4.6%	22,122,000	39.79
2014	42	374,000	3.1%	17,517,000	46.84
2015	47	2,148,000	17.7%	104,456,000	48.63
2016	21	772,000	6.4%	35,041,000	45.39

(1) Excludes 492,000 square feet at 909 Third Avenue leased to the U.S. Post Office through 2038 (including six five-year renewal options) for which the annual escalated rent is $10.82 per square foot.

Retail Space (contained in office buildings):					
				Annual Escalated Rent of Expiring Leases	
Year	**Number of Expiring Leases**	**Square Feet of Expiring Leases**	**Percentage of New York Office Square Feet**	**Total**	**Per Square Foot**
Month to month	6	24,000	3.1%	$975,000	$ 40.63
2007	3	14,000	1.8%	502,000	35.86
2008	10	33,000	4.2%	2,626,000	79.58
2009	4	18,000	2.3%	3,058,000	169.89
2010	6	9,000	1.2%	1,022,000	113.56
2011	4	19,000	2.5%	935,000	49.21
2012	6	49,000	6.4%	2,380,000	48.57
2013	10	40,000	5.1%	4,365,000	109.13
2014	10	75,000	9.7%	13,417,000	178.89
2015	9	31,000	4.0%	6,271,000	202.29
2016	4	319,000	41.1%	15,678,000	49.15

New York Office Properties owned by us as of December 31, 2006:

Location	**Approximate Leasable Building Square Feet**	**Percent Leased**	**Encumbrances (in thousands)**
NEW YORK (Manhattan)			
One Penn Plaza			
(ground leased through 2098)	2,402,000	99.0%	$
Two Penn Plaza	1,561,000	98.8%	296,428
909 Third Avenue			
(ground leased through 2063)	1,313,000	100.0%	220,314
Eleven Penn Plaza	1,047,000	95.1%	213,651
770 Broadway	1,045,000	99.8%	353,000
90 Park Avenue	893,000	99.8%	
888 Seventh Avenue			
(ground leased through 2067)	841,000	97.1%	318,554
330 Madison Avenue (25% interest)	789,000	96.8%	60,000
330 West 34th Street			
(ground leased through 2148)	637,000	94.7%	
1740 Broadway	593,000	99.4%	
350 Park Avenue	538,000	100.0%	430,000
150 East 58th Street (1)	527,000	92.9%	
20 Broad Street			
(ground leased through 2081)	468,000	86.0%	
866 United Nations Plaza	348,000	93.4%	45,467
640 Fifth Avenue	316,000	97.3%	
595 Madison Avenue (Fuller Building)	311,000	97.5%	
40 Fulton Street	242,000	98.9%	
57th Street (50% interest)	174,000	97.8%	29,000
825 Seventh Avenue (50% interest)	165,000	100.0%	22,159
689 Fifth Avenue	87,000	96.1%	
40-42 Thompson Street	28,000	100.0%	
NEW JERSEY			
Paramus	128,000	86.5%	
Total Office Buildings	14,453,000	97.5%	$ 1,988,573
Vornado s Ownership Interest	13,692,000	97.5%	$ 1,917,994

(1) Less than 10% of this property is ground leased.

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Washington, DC Office Properties:

As of December 31, 2006, we own 91 properties aggregating 18.0 million square feet in the Washington, DC and Northern Virginia area consisting of 70 office buildings, 2 residential properties and a hotel property, and a 50% interest in 18 buildings through our acquisition of H Street Building Corporation. As of December 31, 2006, 3 buildings are out of service for redevelopment. We manage an additional 4.7 million square feet of office and other commercial properties. In addition, the Washington, DC Office Properties portfolio includes 22 garages totaling approximately 7.9 million square feet (27,000 spaces) which are managed by or leased to third parties. The garage space is excluded from the statistics provided in this section.

As of December 31, 2006, 27 percent of the space in the Washington, DC Office Properties portfolio is leased to various agencies of the U.S. government.

Occupancy and average annual escalated rent per square foot:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2006	18,015,000	92.2%	$ 31.90
2005	17,727,000	91.2%	31.49
2004	14,216,000	91.5%	30.06
2003	13,963,000	93.9%	29.64
2002	13,395,000	93.6%	29.38

2006 rental revenue by tenants industry:

Industry	Percentage
U.S. Government	36%
Governmental Contractors	26%
Legal Services	8%
Communication	4%
Membership Organizations	3%
Manufacturing	3%
Real Estate	2%
Computer and Data Processing	2%
Health Services	2%
Business Services	1%
Television Services	1%
Education	1%
Other	11%
	100%

Washington, DC Office Properties leases are typically for four to seven year terms, and may provide for extension options at either pre-negotiated or market rates. Most leases provide for annual rental escalations throughout the lease term, plus recovery of increases in real estate taxes and certain property operating expenses over a base year. Annual rental escalations are typically based upon either fixed percentage increases or the consumer price index. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant s initial construction costs of its premises.

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

Tenant	Square Feet Leased	2006 Revenues	Percentage of Washington, DC Office Revenues	Percentage of Total Company Revenues
U.S. Government (127 separate leases)	4,697,000	$134,306,000	25%	5.0%
Howrey Simon Arnold & White	317,000	18,854,000	4%	0.7%
Science Applications International Corp	440,000	12,005,000	2%	0.4%
TKC Communications	309,000	11,677,000	2%	0.4%

2006 Washington, DC Leasing Activity:

Location	Square Feet	Average Initial Rent Per Square Foot[1]
Crystal City:		
Crystal Park	497,000	$ 34.45
Crystal Square	367,000	33.29
Crystal Gateway	172,000	34.42
Crystal Plaza	151,000	31.39
Total Crystal City	1,187,000	33.70
Skylines	370,000	28.14
Commerce Executive	130,000	24.23
Tysons Dulles	81,000	29.00
Rosslyn Plaza (46% Interest)	66,000	25.11
Reston Executive	64,000	28.46
Courthouse Plaza	54,000	32.72
Bowen Building	40,000	47.50
1140 Connecticut Avenue	32,000	35.64
1101 17th Street	29,000	36.28
1750 Pennsylvania	26,000	34.59
Democracy Plaza	25,000	32.65
1730 M Street	23,000	35.46
1150 17th Street	10,000	35.57
1726 M Street	9,000	36.57
Arlington Plaza	8,000	32.14
Warner Building	2,000	23.24
Other partially owned properties	8,000	33.00
	2,164,000	31.90

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

Lease expirations as of December 31, 2006 assuming none of the tenants exercise renewal options:

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Washington, DC Office Square Feet	Annual Escalated Rent of Expiring Leases Total	Per Square Foot
Month to month	86	541,000	3.6%	$ 15,307,000	$ 28.30
2007	274	1,519,000	10.2%	48,811,000	32.13
2008	211	1,493,000	10.0%	46,727,000	31.30
2009	194	1,669,000	11.2%	51,199,000	30.68
2010	159	1,490,000	10.0%	47,100,000	31.62
2011	138	1,994,000	13.4%	63,225,000	31.70
2012	55	1,049,000	7.0%	34,035,000	32.45
2013	36	515,000	3.5%	19,115,000	37.15
2014	29	680,000	4.6%	18,767,000	27.60
2015	32	968,000	6.5%	27,309,000	28.20
2016	20	689,000	4.6%	22,438,000	32.57

Space previously occupied by the U.S. Patent and Trademark 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.

Washington, DC Office Properties owned by us as of December 31, 2006:

Location/Complex	Number of Buildings	Approximate Leasable Building Square Feet	Percent Leased	Encumbrances (in thousands)
Crystal City:				
Crystal Park	5	2,236,000	68.7%	$ 201,013
Crystal Gateway	5	1,486,000	95.2%	191,909
Crystal Square	4	1,443,000	98.5%	185,239
Crystal Plaza (including Crystal Plaza Two, containing 181,000 square feet, is under development)	7	1,259,000	88.0%	
Crystal Mall (including Crystal Mall Two, containing 236,000 square feet, is under development)	4	1,137,000	98.9%	42,676
Crystal City Hotel	1	266,000	100.0%	
Crystal Drive Retail	1	57,000	88.4%	
Total Crystal City	27	7,884,000	87.4%	620,837
Skyline	7	2,100,000	98.0%	93,803
Courthouse Plaza (ground leased through 2062)	2	624,000	97.5%	74,413
Warner Building	1	603,000	93.1%	292,700
Reston Executive	3	490,000	94.4%	93,000
Tysons Dulles	3	479,000	95.6%	
One Skyline Tower	1	473,000	100.0%	61,555
Commerce Executive	3	389,000	99.8%	50,522
2101 L Street (under development)	1	350,000		
1750 Pennsylvania Avenue	1	256,000	99.4%	47,803
Bowen Building	1	232,000	99.7%	115,022
1150 17th Street	1	230,000	96.5%	30,846
Democracy Plaza I (ground leased through 2084)	1	211,000	96.9%	
1101 17th Street	1	210,000	97.1%	25,545
1730 M Street (ground leased through 2061)	1	195,000	94.8%	15,948
Arlington Plaza	1	188,000	11.4%	19,162
1140 Connecticut Avenue	1	184,000	99.3%	18,893
1925 K Street, NW	1	149,000	100.0%	19,422
1726 M Street	1	86,000	99.8%	
South Capitol	3	56,000	100.0%	
Partially owned:				
H Street equity interests (3.75% to 50% interests):				
Owned by H Street	13	1,224,000	96.7%	62,167
Owned by tenant on land leased from H Street	5	814,000	100.0%	
Total	18	2,038,000	98.0%	62,167
Rosslyn Plaza (46% interest)	6	434,000	96.2%	26,918
Fairfax Square (20% interest)	3	105,000	96.7%	13,036
Kaempfer equity interests (2.5% to 5.0%)	3	49,000	97.4%	6,241
Total Washington, DC	91	18,015,000	92.2%	$ 1,687,833

RETAIL PROPERTIES SEGMENT

As of December 31, 2006, we own 158 retail properties, of which 131 are strip shopping centers located primarily in the Northeast and Mid-Atlantic, and in California; 8 are regional malls located in New York, New Jersey, Virginia and San Juan, Puerto Rico; and 19 are retail properties located in New York City. Our strip shopping centers and malls are generally located on major regional highways in mature, densely populated areas. We believe these properties attract consumers from a regional, rather than a neighborhood market place because of their location on regional highways.

Strip Shopping Centers:

Our strip shopping centers contain an aggregate of 13.0 million square feet and are substantially (over 80%) leased to large stores (over 20,000 square feet). Tenants include destination retailers such as discount department stores, supermarkets, home improvement stores, discount apparel stores and membership warehouse clubs. Tenants typically offer basic consumer necessities such as food, health and beauty aids, moderately priced clothing, building materials and home improvement supplies, and compete primarily on the basis of price and location.

Regional Malls:

The Green Acres Mall in Long Island, New York contains 1.8 million square feet, and is anchored by Sears, J.C. Penney, Macy s and Macy s Furniture Gallery, Wal-Mart and a BJ s Wholesale Club. We are renovating the interior and exterior of the mall and constructing 100,000 square feet of free-standing retail space and parking decks. The expansion and renovation are expected to be completed during 2007.

The Monmouth Mall in Eatontown, New Jersey, owned 50% by us, contains 1.4 million square feet and is anchored by Macy s, Lord & Taylor, J.C. Penney and Boscovs, three of which own their stores aggregating 719,000 square feet. The joint venture plans to construct 80,000 square feet of free-standing retail space in the mall complex, subject to governmental approvals. The expansion is expected to be completed during 2008.

The Springfield Mall in Springfield, Virginia contains 1.4 million square feet and is anchored by Macy s, and J.C. Penney and Target who own their stores aggregating 390,000 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 through January 31, 2012.

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

The Bergen Town Center in Paramus, New Jersey, as currently exists, contains 900,000 square feet. We plan to demolish approximately 300,000 square feet and construct approximately 500,000 square feet of retail space, which will bring the total square footage of the mall to approximately 1,100,000, subject to government approvals. As of December 31, 2006, we have taken 510,000 square feet out of service for redevelopment. We have leased 416,000 square feet to Century 21, Whole Foods and Target (ground leased). The expansion and renovations, as planned, are expected to be completed during 2008.

The South Hills Mall in Poughkeepsie, New York contains 668,000 square feet and is anchored by Kmart and Burlington Coat Factory. We plan to redevelop the property as a strip shopping center, subject to governmental approvals.

The Montehiedra Mall in San Juan, Puerto Rico contains 563,000 square feet and is anchored by Home Depot, Kmart, and Marshalls.

The Las Catalinas Mall in San Juan, Puerto Rico, contains 496,000 square feet and is anchored by Kmart and Sears, which owns its 140,000 square foot store.

Occupancy and average annual base rent per square foot:

At December 31, 2006, the aggregate occupancy rate for the 19,264,000 square feet of Retail Properties was 92.7%.

Strip Centers:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Base Rent Per Square Foot
2006	12,933,000	92.9%	$ 13.48
2005	10,750,000	95.5%	12.07
2004	9,931,000	94.5%	12.00
2003	8,798,000	92.3%	11.91
2002	9,295,000	85.7%	11.11

Regional Malls:

			Average Annual Base Rent Per Square Foot	
As of December 31,	Rentable Square Feet	Occupancy Rate	Mall Tenants	Total
2006	5,640,000	93.4%	$ 32.64	$ 18.12
2005	4,817,000	96.2%	31.83	18.24
2004	3,766,000	93.1%	33.05	17.32
2003	3,766,000	94.1%	31.08	16.41
2002	2,875,000	95.4%	27.79	17.15

Manhattan Retail:

Manhattan retail is comprised of 19 properties containing 691,000 square feet, which were 83.6% occupied at December 31, 2006.

2006 rental revenue by type of retailer:

Industry	Percentage
Department Stores	17%
Supermarkets	11%
Family Apparel	11%
Women s Apparel	7%
Home Improvement	6%
Restaurants	6%
Home Entertainment and Electronics	6%
	5%

Banking and Other	
Business Services	
Home Furnishings	3%
Personal services	3%
Sporting Goods	2%
Other	23%
	100%

Shopping center lease terms range from five years or less in some instances for smaller tenant spaces to as long as 25 years for major tenants. Leases generally provide for additional rents based on a percentage of tenants sales and pass through to tenants the tenants share of all common area charges (including roof and structure in strip shopping centers, unless it is the tenant s direct responsibility), real estate taxes and insurance costs and certain capital expenditures. Percentage rent accounted for less than 1% of total shopping center revenues in 2006. None of the tenants in the Retail segment accounted for more than 10% of our 2006 total revenues.

Tenants accounting for 2% or more of 2006 Retail Properties total revenues:

Tenant	Square Feet Leased	2006 Revenues	Percentage of Retail Revenues	Percentage of Total Company Revenues
Wal-Mart/Sam s Wholesale	1,599,000	$ 14,887,000	3.7%	0.5%
The Home Depot, Inc	758,000	12,793,000	3.2%	0.5%
Stop & Shop Companies, Inc. (Stop & Shop)	320,000	9,948,000	2.5%	0.4%
Hennes & Mauritz	83,000	9,583,000	2.4%	0.4%
Federated Department Stores	1,031,000	9,430,000	2.4%	0.3%
The TJX Companies, Inc.	455,000	7,824,000	2.0%	0.3%

Lease expirations as of December 31, 2006 assuming none of the tenants exercise renewal options:

Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Retail Square Feet	Annual Escalated Rent of Expiring Leases Total	Per Square Foot
Month to month	153	283,000	2.8%	$ 5,502,000	$ 19.48
2007	187	702,000	6.9%	15,636,000	22.26
2008	181	1,389,000	13.7%	23,790,000	17.13
2009	152	939,000	9.3%	18,186,000	19.36
2010	112	881,000	8.7%	17,135,000	19.44
2011	134	1,309,000	12.9%	22,684,000	17.34
2012	70	748,000	7.4%	11,864,000	15.86
2013	96	1,094,000	10.8%	19,009,000	17.37
2014	80	1,038,000	10.3%	18,760,000	18.08
2015	93	765,000	7.6%	16,108,000	21.07
2016	86	973,000	9.6%	17,467,000	17.95

2006 Retail Properties Leasing Activity:

Location	Square Feet	Average Initial Rent Per Square Foot (1)
North Bergen, NJ	264,000	$ 15.61
Garfield, NJ	135,000	7.41
Bricktown, NJ	105,000	13.22
Springfield Mall, Springfield VA	62,000	20.72
Totowa, NJ	45,000	16.24
Green Acres Mall, Valley Stream, NY	45,000	36.02
York, PA	38,000	7.70
Monmouth Mall, Eatontown, NJ (50%)	37,000	34.22
Montehiedra Mall, Puerto Rico	34,000	49.10
Towson, MD	34,000	19.51
North Plainfield, NJ	32,000	19.82
Allentown, PA	31,000	18.25
Marlton, NJ	30,000	25.51
Gun Hill Road, Bronx, NY	30,000	26.00
Hackensack, NJ	26,000	22.40
Eatontown, NJ	23,000	26.58
Broomall, PA	20,000	18.29
Queens, NY	20,000	28.06
Staten Island, NY	19,000	22.72
South Hills Mall, Poughkeepsie, NY	15,000	10.38
Bergen Town Center, Paramus, NJ	14,000	23.00
Springfield, MA	13,000	13.36
Las Catalinas Mall, Puerto Rico	12,000	60.57
Bensalem, PA	11,000	18.18
Bethlehem, PA	10,000	15.38
Woodbridge, NJ	10,000	32.36
Middletown, NJ	8,000	23.98
Broadway Mall, Hicksville, NY	7,000	45.35
25 West 14th Street, New York, NY	7,000	91.89
Rockaway, NJ	6,000	25.69
Cherry Hill, NJ	5,000	19.00
Morris Plains, NJ	5,000	28.67
East Hanover, NJ	4,000	25.78
Inwood, NY	4,000	25.00
Lawnside, NJ	3,000	16.81
Glen Burnie, MD	3,000	9.55
Delran, NJ	3,000	17.07
Jersey City, NJ	3,000	38.00
Watchung, NJ	3,000	15.00
40 East 66th Street, New York, NY	3,000	696.32
828-850 Madison Avenue, New York, NY	2,000	715.83
East Hanover II, NJ	2,000	28.00
Amherst, NY	1,000	21.25
	1,184,000	22.79

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

Retail Properties owned by us as of December 31, 2006:

	Approximate Leasable Building Square Footage				
Location	**Total Property**	**Owned by Company**	**Owned by Tenant on Land Leased from Company**	**Percent Leased**	**Encumbrances (in thousands)**
REGIONAL MALLS:					
Green Acres Mall, Valley Stream, NY					
(10% ground and building leased through 2039)					
(excludes 212,000 square feet in development)	1,620,000	1,497,000	123,000	92.6%	$ 140,391
Bergen Town Center, Paramus, NJ					
(excludes 857,000 square feet in development)	386,000	386,000		100.0%	
Springfield Mall, Springfield, VA (97.5% ownership)	1,403,000 (1)	1,013,000		83.2%	193,501
Broadway Mall, Hicksville, NY	1,140,000 (1)	764,000	235,000	95.6%	99,154
Monmouth Mall, Eatontown, NJ (50% ownership)					
(excludes 50,000 square feet in development)	1,422,000 (1)	703,000		94.0%	165,000
South Hills Mall, Poughkeepsie, NY					
(excludes 291,000 square feet in development)	377,000	377,000		100.0%	
Montehiedra, Puerto Rico	563,000	563,000		99.5%	120,000
Las Catalinas, Puerto Rico	496,000 (1)	356,000		95.4%	63,402
Total Regional Malls	7,407,000	5,659,000	358,000	93.6%	$ 781,448
Vornado s ownership interest	5,640,000	5,282,000	358,000	93.4%	$ 694,110
STRIP SHOPPING CENTERS:					
NEW JERSEY					
North Bergen Ground-up Development (Tonnelle Avenue)					
(excludes 410,000 square feet in development)					$
East Hanover I and II	353,000	347,000	6,000	100.0%	25,978 (2)
Totowa	317,000	178,000	139,000	100.0%	28,113 (2)
Union	279,000	120,000	159,000	98.4%	31,928 (2)
Bricktown	276,000	273,000	3,000	100.0%	15,518 (2)
Hackensack	273,000	207,000	66,000	97.0%	23,805 (2)
Cherry Hill	264,000	58,000	206,000	99.2%	14,272 (2)
Jersey City	236,000	66,000	170,000	100.0%	18,224 (2)
Middletown	232,000	180,000	52,000	98.9%	15,655 (2)
East Brunswick I	231,000	221,000	10,000	100.0%	21,668 (2)
Woodbridge	227,000	87,000	140,000	100.0%	21,044 (2)
North Plainfield (ground leased through 2060)	219,000	219,000		89.5%	10,359 (2)
Manalapan	198,000	196,000	2,000	100.0%	11,927 (2)
East Brunswick II	196,000	33,000	163,000	100.0%	7,926
Marlton	181,000	174,000	7,000	100.0%	11,597 (2)
Bordentown	179,000	179,000		100.0%	7,679 (2)
Morris Plains	178,000	177,000	1,000	97.9%	11,460 (2)
Delran	171,000	168,000	3,000	95.5%	6,117 (2)
Lodi (Route 17 North)	171,000	171,000		100.0%	8,937 (2)
Dover	167,000	167,000		97.5%	6,994 (2)
Watchung	166,000	50,000	116,000	85.8%	12,882 (2)
Lawnside	145,000	142,000	3,000	100.0%	10,084 (2)
Kearny	104,000	32,000	72,000	100.0%	3,558 (2)
Turnersville	96,000	89,000	7,000	100.0%	3,889 (2)
Lodi (Washington Street)	85,000	85,000		100.0%	11,522
North Bergen	63,000	7,000	56,000	100.0%	3,773 (2)
Eatontown	30,000	30,000		100.0%	
Montclair	18,000	18,000		100.0%	1,831 (2)
Total New Jersey	5,055,000	3,674,000	1,381,000		346,740
PENNSYLVANIA					
Allentown	627,000	270,000	357,000	100.0%	22,123 (2)

Philadelphia (excludes 80,000 square feet in development)	350,000	350,000		96.6%	8,522	(2)
Lancaster	228,000	58,000	170,000	100.0%		

	Approximate Leasable Building Square Footage					
Location	Total Property	Owned by Company	Owned by Tenant on Land Leased from Company	Percent Leased	Encumbrances (in thousands)	
Bensalem	184,000	176,000	8,000	100.0%	6,113	(2)
Broomall	169,000	147,000	22,000	100.0%	9,303	(2)
Bethlehem	167,000	164,000	3,000	99.0%	3,869	(2)
Upper Moreland	122,000	122,000		100.0%	6,614	(2)
York	110,000	110,000		100.0%	3,912	(2)
Levittown	105,000	105,000		100.0%	3,126	(2)
Glenolden	102,000	10,000	92,000	100.0%	6,978	(2)
Wilkes-Barre (ground and building leased through 2040)	81,000	81,000		50.1%		
Wyomissing (ground and building leased through 2065)	79,000	79,000		85.2%		
Total Pennsylvania	2,324,000	1,672,000	652,000		70,560	
NEW YORK						
Buffalo (Amherst) (ground leased through 2017)	297,000	185,000	112,000	63.9%	6,669	(2)
Rochester	205,000		205,000	100.0%		
Freeport (437 East Sunrise Highway)	167,000	167,000		100.0%	14,087	(2)
Staten Island	165,000	165,000		95.6%	19,232	
Rochester (Henrietta) (ground leased through 2056)	158,000	158,000		67.1%		
Albany (Menands)	140,000	140,000		74.0%	5,918	(2)
New Hyde Park (ground and building leased through 2029)	101,000	101,000		100.0%	7,110	(2)
Inwood	100,000	100,000		94.1%		
North Syracuse (ground and building leased through 2014)	98,000		98,000	100.0%		
Bronx (excludes 56,000 square feet in development)	11,000	11,000		100.0%		
Queens	58,000	58,000		98.7%		
Total New York	1,500,000	1,085,000	415,000		53,016	
MARYLAND						
Baltimore (Towson)	152,000	152,000		71.1%	10,841	(2)
Annapolis (ground and building leased through 2042)	128,000	128,000		100.0%		
Glen Burnie	121,000	65,000	56,000	100.0%	5,579	(2)
Rockville	94,000	94,000		100.0%	14,883	
Total Maryland	495,000	439,000	56,000		31,303	
MASSACHUSETTS						
Chicopee	156,000		156,000	100.0%		
Springfield	146,000	29,000	117,000	100.0%	2,974	(2)
Milford (ground and building leased through 2019)	83,000	83,000		100.0%		
Total Massachusetts	385,000	112,000	273,000		2,974	
CALIFORNIA						
San Jose (45% ownership) (excludes 646,000 square feet in development)					50,659	
Beverly Connection, Los Angeles (50% ownership) (excludes 47,000 square feet in development)	191,000	191,000		100.0%	170,000	
San Francisco (275 Sacramento Street)	76,000	76,000		100.0%		
San Francisco (340 Pine Street) (95% ownership)	54,000	54,000		69.9%		
San Francisco (3700 Geary Boulevard)	30,000	30,000		100.0%		
Walnut Creek	29,000	29,000		100.0%		
Total California	380,000	380,000			220,659	
CONNECTICUT						
Newington	188,000	43,000	145,000	100.0%	6,231	(2)
Waterbury	148,000	143,000	5,000	100.0%	5,874	(2)
Total Connecticut	336,000	186,000	150,000		12,105	
VIRGINIA						
Norfolk (ground and building leased through 2069)	114,000	114,000		100.0%		
MICHIGAN						
Roseville	104,000	104,000		100.0%		

	Approximate Leasable Building Square Footage				
Location	Total Property	Owned by Company	Owned by Tenant on Land Leased from Company	Percent Leased	Encumbrances (in thousands)
WASHINGTON, DC					
3040 M Street	42,000	42,000		100.0%	
NEW HAMPSHIRE					
Salem (ground leased through 2102)	37,000		37,000	100.0%	
CALIFORNIA SUPERMARKETS:					
Colton	73,000	73,000		100.0%	
Riverside	42,000	42,000		100.0%	
San Bernardino	40,000	40,000		100.0%	
Riverside	39,000	39,000		100.0%	
Mojave (ground leased through 2079)	34,000	34,000		100.0%	
Corona (ground leased through 2079)	33,000	33,000		100.0%	
Yucaipa	31,000	31,000		100.0%	
Barstow	30,000	30,000		100.0%	
Moreno Valley	30,000	30,000		100.0%	
San Bernardino	30,000	30,000		100.0%	
Beaumont	29,000	29,000		100.0%	
Calimesa	29,000	29,000		100.0%	
Desert Hot Springs	29,000	29,000		100.0%	
Rialto	29,000	29,000		100.0%	
Anaheim	26,000	26,000		100.0%	
Colton	26,000	26,000		100.0%	
Fontana	26,000	26,000		100.0%	
Garden Grove	26,000	26,000		100.0%	
Orange	26,000	26,000		100.0%	
Santa Ana	26,000	26,000		100.0%	
Westminster	26,000	26,000		100.0%	
Ontario	24,000	24,000		100.0%	
Rancho Cucamonga	24,000	24,000		100.0%	
Costa Mesa	18,000	18,000		100.0%	
Costa Mesa	17,000	17,000		100.0%	
Total California Supermarkets	763,000	763,000			
PROPERTIES ACQUIRED FROM TOYS R US					
Wheaton, MD (ground leased through 2060)	66,000	66,000		100.0%	
San Francisco, CA (2675 Geary Street) (ground and building leased through 2043)	55,000	55,000		100.0%	
Coral Springs, FL	53,000	53,000		100.0%	
Battle Creek, MI	47,000	47,000			
Bourbonnais, IL	47,000	47,000		100.0%	
Commack, NY (ground and building leased through 2021)	47,000	47,000		59.0%	
Lansing, IL	47,000	47,000			
Springdale, OH (ground and building leased through 2046)	47,000	47,000			
Arlington Heights, IL (ground and building leased through 2043)	46,000	46,000		100.0%	
Dewitt, NY (ground leased through 2041)	46,000	46,000		100.0%	
Littleton, CO	46,000	46,000		100.0%	
Redding CA	46,000	46,000		49.7%	
Abilene, TX	45,000	45,000			
Antioch, TN	45,000	45,000		100.0%	
Charleston, SC (ground leased through 2063)	45,000	45,000		100.0%	
Dorchester, MA	45,000	45,000		100.0%	
Federal Way, WA	45,000	45,000			
Signal Hill, CA	45,000	45,000		100.0%	
Tampa, FL	45,000	45,000			
Vallejo, CA (ground leased through 2043)	45,000	45,000		100.0%	
San Antonio, TX (ground and building leased through 2041)	43,000	43,000		100.0%	

Fond Du Lac, WI (ground leased through 2073)	42,000	42,000	56.9%

		Approximate Leasable Building Square Footage			
			Owned by Tenant on		
	Total	Owned by	Land Leased	Percent	Encumbrances
Location	**Property**	**Company**	**from Company**	**Leased**	**(in thousands)**
Chicago, IL (ground and building leased through 2051)	41,000	41,000		100.0%	
Springfield, PA (ground and building leased through 2025)	41,000	41,000		100.0%	
Tyson s Corner, VA (ground and building leased through 2035)	38,000	38,000		100.0%	
Freeport, NY (240 West Sunrise Highway) (ground and building leased through 2040)	37,000	37,000			
Owensboro, KY (ground and building leased through 2046)	32,000	32,000		100.0%	
Dubuque, IA (ground leased through 2043)	31,000	31,000		100.0%	
Grand Junction, CO	31,000	31,000		100.0%	
Holland, MI	31,000	31,000			
Merced, CA	31,000	31,000		86.5%	
Midland, MI (ground leased through 2043)	31,000	31,000		74.2%	
Texarkana, TX (ground leased through 2043)	31,000	31,000			
Victoria, TX	31,000	31,000			
Vero Beach, FL	30,000	30,000		100.0%	
San Angelo, TX	23,000	23,000			
Total Properties Acquired From Toys R Us	1,497,000	1,497,000			
Total Strip Centers	13,032,000	10,068,000	2,964,000	92.9%	$ 737,357
Vornado s ownership interest	12,933,000	9,969,000	2,964,000	92.9%	$ 624,495
NEW YORK CITY RETAIL:					
4 Union Square South	198,000	198,000		100.0%	$
1540 Broadway	154,000	154,000		58.8%	
478-486 Broadway (50% ownership)	85,000	85,000		68.9%	20,000
25 West 14th Street	62,000	62,000		100.0%	
435 Seventh Avenue	43,000	43,000		100.0%	
692 Broadway	36,000	36,000			
1135 Third Avenue	25,000	25,000		100.0%	
715 Lexington Avenue (ground leased thru 2041)	23,000	23,000		100.0%	
7 West 34th Street	22,000	22,000		100.0%	
828-850 Madison Avenue	18,000	18,000		100.0%	80,000
484 Eighth Avenue	14,000	14,000		100.0%	
211-217 Columbus Avenue	11,000	11,000		100.0%	
40 East 66th Street	10,000	10,000		100.0%	
387 West Broadway	9,000	9,000		100.0%	
677-679 Madison Avenue	8,000	8,000		100.0%	
968 Third Avenue (50% ownership)	6,000	6,000		100.0%	
122-124 Spring Street	5,000	5,000		100.0%	
386 West Broadway	4,000	4,000		100.0%	4,813
825 Seventh Avenue	4,000	4,000		100.0%	
Total New York City (Manhattan) Retail	737,000	737,000		82.8%	$ 104,813
Vornado s ownership interest	691,000	691,000		83.6%	$ 94,813
Total Retail Properties	**21,176,000**	**16,464,000**	**3,322,000**	**92.8%**	**$ 1,623,618**

Vornado s Ownership Interest	**19,264,000**	**15,942,000**	**3,322,000**	**92.7%**	**$ 1,413,418**
ASSETS HELD FOR SALE:					
Vineland, New Jersey	**143,000**	**143,000**			

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(1) Includes square footage of anchors who own their own land and building.
(2) These encumbrances are cross-collateralized under a blanket mortgage in the amount of $463,135,000 as of December 31, 2006.

MERCHANDISE MART PROPERTIES SEGMENT

As of December 31, 2006, we own a portfolio of 9 Merchandise Mart properties containing an aggregate of 9.2 million square feet. The Merchandise Mart properties also contain eight parking garages totaling 1.2 million square feet (3,800 spaces). The garage space is excluded from the statistics provided in this section.

Square feet by location and use as of December 31, 2006.

(Amounts in thousands)			Showroom			
	Total	Office	Total	Permanent	Temporary Trade Show	Retail
Chicago, Illinois						
Merchandise Mart	3,449	1,041	2,345	1,959	386	63
350 West Mart Center	1,208	1,083	125	125		
Other	19					19
Total Chicago, Illinois	4,676	2,124	2,470	2,084	386	82
HighPoint, North Carolina						
Market Square Complex	1,750	12	1,723	1,180	543	15
National Furniture Mart	259		259	259		
Total HighPoint, North Carolina	2,009	12	1,982	1,439	543	15
Washington, DC						
Washington Design Center	391	70	321	321		
Washington Office Center	398	365				33
Total Washington, DC	789	435	321	321		33
Los Angeles, California						
L.A. Mart	780		780	726	54	
Boston, Massachusetts						
Boston Design Center	554	143	405	405		6
New York, New York						
7 West 34th Street	412		412	412		
Total Merchandise Mart Properties	9,220	2,714	6,370	5,387	983	136
Occupancy rate	94.8%	97.4%	93.6%			95.4%

Office Space

Occupancy and average annual escalated rent per square foot:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2006	2,714,000(1)	97.4%	$ 25.64

2005	3,100,000	97.0%	26.42
2004	3,261,000	96.5%	27.59
2003	3,249,000	93.6%	27.73
2002	3,262,000	92.8%	26.32

(1) In March 2006, we sold 33 North Dearborn Street, a 336,000 square foot office building located in Chicago, Illinois.

Merchandise Mart Properties 2006 office rental revenues by tenants industry:

Industry	Percentage
Government	24%
Service	23%
Banking	15%
Telecommunications	13%
Education	7%
Publications	5%
Pharmaceutical	5%
Insurance	4%
Other	4%
	100%

Office lease terms generally range from three to seven years for smaller tenants to as long as 15 years for large tenants. Leases typically provide for step-ups in rent periodically over the term of the lease and pass through to tenants the tenants share of increases in real estate taxes and operating expenses for a building over a base year. Electricity is provided to tenants on a sub-metered basis or included in rent and adjusted for subsequent utility rate increases. Leases also typically provide for tenant improvement allowances for all or a portion of the tenant s initial construction of its premises.

Office tenants accounting for 2% or more of Merchandise Mart Properties 2006 total revenues:

Tenant	Square Feet Leased	2006 Revenues	Percentage of Segment Revenues	Percentage of Total Company Revenues
U.S. Government	359,000	$ 12,685,000	4.7%	0.5%
SBC Ameritech	234,000	7,244,000	2.7%	0.3%
WPP Group	260,000	6,345,000	2.3%	0.2%

2006 leasing activity Merchandise Mart Properties office space:

	Square Feet	Average Initial Rent Per Square Foot (1)
Boston Design Center	62,000	$ 20.35
350 West Mart Center	44,000	18.23
Merchandise Mart	29,000	23.04
Washington Office Center	22,000	40.25
Washington Design Center	15,000	38.46
Other	6,000	17.75
Total	178,000	24.24

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

Lease expirations for Merchandise Mart Properties office space as of December 31, 2006 assuming none of the tenants exercise renewal options:

				Annual Escalated Rent of Expiring Leases	
Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Merchandise Mart Office Square Feet	Total	Per Square Foot
Month to month	10	14,000	0.5%	$ 149,000	$ 10.91
2007	10	250,000	9.5%	6,312,000	25.20
2008	13	209,000	7.9%	6,168,000	29.58
2009	6	216,000	8.2%	7,123,000	32.92
2010	11	386,000	14.6%	13,031,000	33.78
2011	11	218,000	8.2%	7,310,000	33.56
2012	9	101,000	3.8%	2,719,000	27.02
2013	7	54,000	2.0%	1,761,000	32.88
2014	10	170,000	6.4%	6,566,000	38.54
2015	6	128,000	4.8%	2,761,000	21.53
2016	5	117,000	4.4%	2,729,000	23.30

Showroom Space

The showrooms provide manufacturers and wholesalers with permanent and temporary space in which to display products for buyers, specifiers and end users. The showrooms are also used for hosting trade shows for the contract furniture, casual furniture, gift, carpet, crafts, apparel and design industries. Merchandise Mart Properties own and operate five of the leading furniture and gift trade shows, including the contract furniture industry s largest trade show, NeoCon, which attracts over 50,000 attendees each June and is hosted at the Merchandise Mart building in Chicago. The Market Square Complex co-hosts the home furniture industry s semi-annual (April and October) market weeks which occupy over 12 million square feet in the High Point, North Carolina region.

Occupancy and average escalated rent per square foot:

As of December 31,	Rentable Square Feet	Occupancy Rate	Average Annual Escalated Rent Per Square Foot
2006	6,370,000	93.6%	$ 25.17
2005	6,290,000	94.7%	24.04
2004	5,589,000	97.6%	23.08
2003	5,640,000	95.1%	22.35
2002	5,528,000	95.2%	21.46

2006 showroom revenues by tenants industry:

Industry	Percentage
Residential Design	25%
Gift	23%
Residential Furnishing	21%
Contract Furnishing	17%
Apparel	5%
Casual Furniture	5%
Building Products	4%
	100%

2006 Leasing Activity Merchandise Mart Properties showroom space:

	Square Feet	Average Initial Rent Per Square Foot (1)
Market Square Complex	452,000	$ 16.94
Merchandise Mart	272,000	33.68
L.A. Mart	162,000	19.30
7 West 34th Street	99,000	37.23
350 West Mart Center	43,000	26.14
Washington Design Center	42,000	33.36
Boston Design Center	37,000	29.31
Total	1,107,000	24.61

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

Lease expirations for the Merchandise Mart Properties showroom space as of December 31, 2006 assuming none of the tenants exercise renewal options:

				Annual Escalated Rent of Expiring Leases	
Year	Number of Expiring Leases	Square Feet of Expiring Leases	Percentage of Merchandise Mart Showroom Square Feet	Total	Per Square Foot
Month to month	5	2,000		$ 38,000	$ 16.11
2007	204	657,000	11.0%	16,432,000	25.01
2008	225	634,000	10.6%	17,314,000	27.30
2009	289	810,000	13.6%	20,955,000	25.87
2010	163	777,000	13.0%	21,362,000	27.51
2011	112	676,000	11.3%	16,267,000	24.05
2012	32	191,000	3.2%	5,063,000	26.56
2013	59	341,000	5.7%	10,356,000	30.34
2014	29	214,000	3.6%	5,309,000	24.79
2015	47	245,000	4.1%	8,132,000	33.23
2016	32	181,000	3.0%	5,330,000	29.46

Retail Space

The Merchandise Mart Properties portfolio also contains approximately 136,000 square feet of retail space which was 95.4% occupied at December 31, 2006.

Merchandise Mart Properties owned by us as of December 31, 2006:

Location	Approximate Leasable Building Square Feet	Percent Leased	Encumbrances (in thousands)
ILLINOIS			
Merchandise Mart, Chicago	3,449,000	95.4%	$ 550,000
350 West Mart Center, Chicago	1,208,000	96.6%	
Other (50% interest)	19,000	93.4%	12,007
Total Illinois	4,676,000	95.7%	562,007
HIGH POINT, NORTH CAROLINA			
Market Square Complex	1,750,000	98.6%	194,090
National Furniture Mart	259,000	97.2%	25,910
Total High Point, North Carolina	2,009,000	98.4%	220,000
WASHINGTON, DC			
Washington Office Center	398,000	97.6%	
Washington Design Center	391,000	95.2%	46,328
Total Washington, DC	789,000	96.4%	46,328
CALIFORNIA			
L.A. Mart	780,000	94.6%	
MASSACHUSETTS			
Boston Design Center (ground leased through 2060)	554,000	94.7%	72,000

NEW YORK			
7 West 34th Street	412,000	64.1%	
Total Merchandise Mart Properties	9,220,000	94.8%	$ 900,335

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TEMPERATURE CONTROLLED LOGISTICS SEGMENT

As of December 31, 2006, we own a 47.6% interest in AmeriCold Realty Trust (AmeriCold). AmeriCold, headquartered in Atlanta, Georgia, provides the food industry with refrigerated warehousing and transportation management services. Refrigerated warehouses are comprised of production, distribution and public facilities. In addition, AmeriCold manages facilities owned by its customers for which it earns fixed and incentive fees. Production facilities typically serve one or a small number of customers, generally food processors that are located nearby. Customers store large quantities of processed or partially processed products in these facilities until they are shipped to the next stage of production or distribution. Distribution facilities primarily warehouse a wide variety of customers finished products until future shipment to end-users. Each distribution facility generally services the surrounding regional market. Public facilities generally serve the needs of local and regional customers under short-term agreements. Food manufacturers and processors use these facilities to store capacity overflow from their production facilities or warehouses. AmeriCold s transportation management services include freight routing, dispatching, freight rate negotiation, backhaul coordination, freight bill auditing, network flow management, order consolidation and distribution channel assessment. AmeriCold s temperature controlled logistics expertise and access to both frozen food warehouses and distribution channels enable its customers to respond quickly and efficiently to time-sensitive orders from distributors and retailers.

AmeriCold s customers consist primarily of national, regional and local frozen food manufacturers, distributors, retailers and food service organizations, such as H.J. Heinz, Con-Agra Foods, Altria Group (Kraft Foods), Schwan Corporation, Tyson Foods, General Mills and Sara Lee. Other than H.J. Heinz, which accounted for 17.9% of this segment s total revenue, no other customer accounted for more than 10% of this segment s total revenue.

AmeriCold has $1.1 billion of outstanding debt at December 31, 2006, which we consolidate into our accounts. Our pro rata share of AmeriCold s debt is $502,308,000, none of which is recourse to us.

Temperature Controlled Logistics Properties as of December 31, 2006:

Location	Cubic Feet (in millions)	Square Feet (in thousands)
ALABAMA		
Montgomery	2.5	142.0
Albertville	5.2	133.0
Gadsden (1)	4.0	119.0
Birmingham	2.0	85.6
	13.7	479.6
ARIZONA		
Phoenix	2.9	111.5
ARKANSAS		
Russellville	9.5	279.4
Springdale	6.6	194.1
West Memphis	5.3	166.4
Russellville	5.6	164.7
Texarkana	4.7	137.3
Fort Smith	1.4	78.2
	33.1	1,020.1
CALIFORNIA		
Ontario (1)	8.1	279.6
Watsonville (1)	5.4	186.0
Victorville (1)	5.8	152.5
Turlock	3.0	138.9
Turlock	2.5	108.4
Fullerton (1)	2.8	107.7
Ontario	1.9	55.9
	29.5	1,029.0
COLORADO		

Location	Cubic Feet (in millions)	Square Feet (in thousands)
ILLINOIS		
Rochelle	10.1	254.8
East Dubuque	5.6	215.4
Rochelle	6.0	179.7
	21.7	649.9
INDIANA		
Indianapolis	9.1	311.7
IOWA		
Bettendorf	8.8	336.0
Fort Dodge	3.7	155.8
	12.5	491.8
KANSAS		
Wichita	2.8	126.3
Garden City	2.2	84.6
	5.0	210.9
KENTUCKY		
Sebree	2.7	79.4
MAINE		
Portland	1.8	151.6
MASSACHUSETTS		
Boston	3.1	218.0
Gloucester	2.4	126.4
Gloucester	1.9	95.5
Gloucester	2.8	95.2

Denver	2.8	116.3	10.2	535.1

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Location	Cubic Feet (in millions)	Square Feet (in thousands)
FLORIDA		
Tampa	2.9	106.0
Bartow	1.4	56.8
Tampa (1)	1.0	38.5
Plant City	0.8	30.8
Tampa	0.4	22.2
	6.5	254.3
GEORGIA		
Atlanta	11.1	476.7
Atlanta	11.4	334.7
Atlanta (1)	12.3	330.6
Thomasville	6.9	202.9
Atlanta	6.9	201.6
Montezuma	4.2	175.8
Atlanta	2.9	157.1
Atlanta	5.0	125.7
Augusta	1.1	48.3
	61.8	2,053.4
IDAHO		
Burley	10.7	407.2
Nampa	8.0	364.0
	18.7	771.2
OHIO		
Massillon (1)	3.4	187.3
Massillon	5.5	163.2
	8.9	350.5
OKLAHOMA		
Oklahoma City	1.4	74.1
OREGON		
Salem	12.5	498.4
Hermiston	4.0	283.2
Woodburn	6.3	277.4
Ontario	8.1	238.2
Milwaukee	4.7	196.6
	35.6	1,493.8
PENNSYLVANIA		
Fogelsville	21.6	683.9
York (1)	11.6	285.1
Leesport	5.8	168.9
	39.0	1,137.9
SOUTH CAROLINA		
Columbia	1.6	83.7
SOUTH DAKOTA		
Sioux Falls	2.9	111.5
TENNESSEE		
Memphis	5.6	246.2
Murfreesboro	4.5	106.4
Memphis	0.5	36.8
	10.6	389.4

Location	Cubic Feet (in millions)	Square Feet (in thousands)
MINNESOTA		
Park Rapids (50% interest)	3.0	86.8
MISSOURI		
Carthage	42.0	2,564.7
Marshall	4.8	160.8
	46.8	2,725.5
MISSISSIPPI		
West Point	4.7	180.8
NEBRASKA		
Grand Island	2.2	105.0
Fremont	2.2	84.6
	4.4	189.6
NEW YORK		
Syracuse	11.8	447.2
NORTH CAROLINA		
Charlotte	4.1	164.8
Charlotte (1)	5.1	161.6
Tarboro	4.9	147.4
Charlotte	1.0	58.9
	15.1	532.7
TEXAS		
Fort Worth	9.9	253.5
Amarillo	3.2	123.1
Fort Worth	3.4	102.0
	16.5	478.6
UTAH		
Clearfield	8.6	358.4
VIRGINIA		
Strasburg	6.8	200.0
Norfolk	1.9	83.0
	8.7	283.0
WASHINGTON		
Moses Lake	7.3	302.4
Connell	5.7	235.2
Pasco	6.7	209.0
Burlington	4.7	194.0
Walla Walla	3.1	140.0
Wallula	1.2	40.0
	28.7	1,120.6
WISCONSIN		
Plover	9.5	358.5
Tomah	4.6	161.0
Babcock	3.4	111.1
	17.5	630.6
Total Temperature Controlled Logistics Properties	**497.8**	**18,940.5**

(1) Leasehold interest.

TOYS R US, INC. (TOYS) SEGMENT

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. Toys is a worldwide specialty retailer of toys and baby products with a significant real estate component. In the first quarter of 2006, Toys closed 87 toy stores in the United States, of which twelve stores were converted into Babies R Us stores, five leased properties expired and one has been sold. On September 14, 2006, we entered into an agreement to purchase 44 of the closed toy stores. On October 16, 2006, we completed the first phase of this agreement by acquiring 37 of the 44 stores. We expect to purchase six of the remaining stores by the end of the second quarter of 2007. The seventh store we agreed to purchase was sold by Toys to a third party.

The following table sets forth the current number of Toys stores, after giving effect to the store closings announced in January 2006:

	Total	Owned	Building Owned on Leased Ground	Leased
Toys Domestic	587	273	139	175
Toys International	490	80	25	385
Babies R Us	248	36	91	121
Subtotal	1,325	389	255	681
Franchised stores	190			
Total	1,515			
2006 Store closing program	87	40	15	32
Stores sold or under contract with Vornado, of which 27 have been re-leased to third parties	(43)	(20)	(8)	(15)
Stores sold to third parties and leases terminated	(17)	(9)	(1)	(7)
Stores converted to Babies R Us	(12)	(5)	(3)	(4)
Remaining stores to be leased or sold	15	6	3	6

Toys has approximately $6.9 billion of outstanding debt at December 31, 2006, of which our 32.9% share is approximately $2.3 billion, none of which is recourse to us.

OTHER INVESTMENTS

Alexander s Inc. (Alexander s)

As of December 31, 2006, we own 32.8% of Alexander s outstanding common shares.

Properties owned by Alexander s as of December 31, 2006.

Location	Land Area in Square Feet or Acreage	Building Area		Percent Leased	Significant Tenants	Encumbrances (in thousands)
Operating Properties						
New York:						
731 Lexington Avenue Manhattan: Office and Retail	84,420 SF	1,059,000	(1)	100%	Bloomberg, Citibank, The Home Depot, The Container Store, Hennes & Mauritz	$ 713,232
Kings Plaza Regional Shopping Center--Brooklyn	24.3 acres	759,000	(2)(3)	97%	Sears	207,131
Rego Park I Queens	4.8 acres	351,000	(3)	100%	Sears, Circuit City, Bed, Bath & Beyond Marshalls	80,135
Flushing--Queens [4]	44,975 SF	177,000	(3)	0%		
New Jersey:						
Paramus--New Jersey	30.3 acres			100%	IKEA	68,000
		2,346,000				$ 1,068,498
Property Under Development:						
Rego Park II Queens	6.6 acres				Century 21, The Home Depot Kohl s	
Property to be Developed:						
Rego Park III Queens	3.4 acres					

(1) Excludes 248,000 square feet of residential space consisting of 105 condominium units, which were sold.

(2) Excludes 339,000 square foot Macy s store, owned and operated by Federated Department Stores, Inc.
(3) Excludes parking garages.
(4) Leased by Alexander s through January2037.

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OTHER INVESTMENTS - continued

Lexington 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.

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.

Lexington MLP has approximately $2.1 billion of debt outstanding as of December 31, 2006, of which our pro rata share is $155,482,000, none of which is recourse to us.

Hotel Pennsylvania

The Hotel Pennsylvania is located in New York City on Seventh Avenue opposite Madison Square Garden and consists of a hotel portion containing 1,000,000 square feet of hotel space with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space. We are also evaluating plans to demolish the Hotel Pennsylvania and construct an office tower in excess of 2,000,000 square feet on the site.

	Year Ended December 31,				
Rental information:	**2006**	**2005**	**2004**	**2003**	**2002**
Hotel:					
Average occupancy rate	82.1 %	83.7 %	78.9 %	63.7 %	64.7 %
Average daily rate	$ 133.33	$ 115.74	$ 97.36	$ 89.12	$ 89.44
Revenue per available room	$ 109.53	$ 96.85	$ 77.56	$ 58.00	$ 58.00
Commercial:					
Office space:					
Average occupancy rate	41.2 %	38.7 %	39.7 %	39.7 %	47.8 %
Annual rent per square feet	$ 16.42	$ 10.70	$ 10.04	$ 9.92	$ 13.36
Retail space:					

Average occupancy rate	79.9 %	79.8 %	90.7 %	89.8 %	92.6 %
Annual rent per square feet	$ 27.54	$ 26.02	$ 29.67	$ 28.11	$ 28.06

OTHER INVESTMENTS - continued

GMH Communities L.P.

As of December 31, 2006, we own 7,337,857 GMH Communities L.P. (GMH) limited partnership units, which are exchangeable on a one-for-one basis into common shares of GMH Communities Trust (NYSE: GCT) (GCT), and 2,517,247 GCT common shares. Our aggregate ownership interest in GMH is 13.5% at December 31, 2006.

GMH is a partnership through which GCT, a real estate investment trust, conducts its operations which are focused on the student and military housing segments. As of December 31, 2006, GMH owns 66 student housing properties aggregating 15.0 million square feet and manages an additional 18 properties that serve colleges and universities throughout the United States. In addition, GMH manages 9 military housing projects in the U.S. under long-term agreements with the U.S. Government.

GMH has $957,788,000 of debt outstanding at December 31, 2006, of which our pro-rata share is $129,302,000, none of which is recourse to us.

Industrial Properties

Our dry warehouse/industrial properties consist of seven buildings in New Jersey containing approximately 1.5 million square feet. The properties are encumbered by two cross-collateralized mortgage loans aggregating $47,179,000 as of December 31, 2006. Average lease terms range from three to five years. The following table sets forth the occupancy rate and average annual rent per square foot at the end of each of the past five years.

As of December 31,	Occupancy Rate	Average Annual Rent Per Square Foot
2006	96.9%	$ 4.17
2005	100.0%	4.19
2004	88.0%	3.96
2003	88.0%	3.86
2002	100.0%	3.89

220 Central Park South, New York City

We own a 90% interest in 220 Central Park South. The property contains 122 rental apartments with an aggregate of 133,000 square feet and 5,700 square feet of commercial space. On November 7, 2006, we completed a $130,000,000 refinancing of the 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.

40 East 66th Street, New York City

40 East 66th Street, located at Madison Avenue and East 66th Street, contains 37 rental apartments with an aggregate of 85,000 square feet, and 10,000 square feet of retail space. The rental apartment operations are included in our Other segment and the retail operations are included in the

Retail segment.

ITEM 3. LEGAL PROCEEDINGS

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

Stop & Shop

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey (USDC-NJ) claiming that we had no right to reallocate and therefore continue to collect the $5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty, because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the $5,000,000 of additional rent was previously allocated. Stop & Shop asserted that a prior order of the Bankruptcy Court for the Southern District of New York dated February 6, 2001, as modified on appeal to the District Court for the Southern District of New York on February 13, 2001, froze our right to re-allocate which effectively terminated our right to collect the additional rent from Stop & Shop. On March 3, 2003, after we moved to dismiss for lack of jurisdiction, Stop & Shop voluntarily withdrew its complaint. On March 26, 2003, Stop & Shop filed a new complaint in New York Supreme Court, asserting substantially the same claims as in its USDC-NJ complaint. We removed the action to the United States District Court for the Southern District of New York. In January 2005 that court remanded the action to the New York Supreme Court. On February 14, 2005, we served an answer in which we asserted a counterclaim seeking a judgment for all the unpaid additional rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the additional rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. On May 17, 2005, we filed a motion for summary judgment. On July 15, 2005, Stop & Shop opposed our motion and filed a cross-motion for summary judgment. On December 13, 2005, the Court issued its decision denying the motions for summary judgment. Both parties appealed the Court s decision. 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.

H Street Building Corporation (H Street)

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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2006.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Principal Occupation, Position and Office (Current and during past five years with Vornado unless otherwise stated)
Steven Roth	65	Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee of the Board; the Managing General Partner of Interstate Properties, an owner of shopping centers and an investor in securities and partnerships; Chief Executive Officer of Alexander s, Inc. since March 1995, a Director since 1989, and Chairman since May 2004.
Michael D. Fascitelli	50	President and a Trustee since December 1996; President of Alexander s Inc. since August 2000 and Director since December 1996; Partner at Goldman, Sachs & Co. in charge of its real estate practice from December 1992 to December 1996; and Vice President at Goldman, Sachs & Co., prior to December 1992.
Michelle Felman	44	Executive Vice President Acquisitions since September 2000; Independent Consultant to Vornado from October 1997 to September 2000; Managing Director Global Acquisitions and Business Development of GE Capital from 1991 to July 1997.
David R. Greenbaum	55	President of the New York City Office Division since April 1997 (date of our acquisition); President of Mendik Realty (the predecessor to the New York Office division) from 1990 until April 1997.
Christopher Kennedy	43	President of the Merchandise Mart Division since September 2000; Executive Vice President of the Merchandise Mart Division from April 1998 to September 2000; Executive Vice President of Merchandise Mart Properties, Inc. from 1994 to April 1998.
Joseph Macnow	61	Executive Vice President Finance and Administration since January 1998 and Chief Financial Officer since March 2001; Vice President and Chief Financial Officer of the Company from 1985 to January 1998; Executive Vice President and Chief Financial Officer of Alexander s, Inc. since August 1995.
Sandeep Mathrani	44	Executive Vice President Retail Real Estate since March 2002; Executive Vice President, Forest City Ratner from 1994 to February 2002.
Mitchell N. Schear	48	President of Charles E. Smith Commercial Realty (our Washington, DC Office division) since April 2003; President of the Kaempfer Company from 1998 to April 2003 (date acquired by us).
Wendy Silverstein	46	Executive Vice President Capital Markets since April 1998; Senior Credit Officer of Citicorp Real Estate and Citibank, N.A. from 1986 to 1998.
Robert H. Smith	78	

Chairman of Charles E. Smith Commercial Realty (our Washington, DC Office division) since January 2002 (date acquired by us); Co Chief Executive Officer and Co Chairman of the Board of Charles E. Smith Commercial Realty L.P. (the predecessor to Charles E. Smith Commercial Realty) prior to January 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY. RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Quarterly closing price ranges of the common shares and dividends paid per share for the years ended December 31, 2006 and 2005 were as follows:

Quarter	Year Ended December 31, 2006 High	Low	Dividends		Year Ended December 31, 2005 High	Low	Dividends	
1st	$ 98.46	$ 85.62	$ 0.80		$ 76.00	$ 68.70	$ 0.81	(2)
2nd	97.87	88.84	0.80		81.25	69.43	0.76	
3rd	110.83	98.35	0.80		88.64	81.48	0.76	
4th	129.49	108.91	1.39	(1)	87.75	78.17	1.57	(3)

(1) Comprised of a regular quarterly dividend of $.85 per share and a special capital gain dividend of $.54 per share.
(2) Comprised of a regular quarterly dividend of $.76 per share and a special capital gain dividend of $.05 per share.
(3) Comprised of a regular quarterly dividend of $.80 per share and a special capital gain dividend of $.77 per share.

On February 1, 2007, there were 1,405 holders of record of our common shares.

Recent Sales of Unregistered Securities

During 2006, we issued 127,583 common shares upon the redemption of Class A units of the Operating Partnership held by persons who received units in private placements in earlier periods in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) of that Act.

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

Recent Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2006, other than an aggregate of $201,885,000 for common shares redeemed under our Omnibus Share Plans to satisfy withholding tax liabilities resulting from employee and officer stock-based compensation arrangements.

Performance Graph

The following graph is a comparison of the five-year cumulative return of our common shares, the Standard & Poor s 500 Index (the S&P 500 Index) and the National Association of Real Estate Investment Trusts (NAREIT) All Equity Index (excluding health care real estate investment trusts), a peer group index. The graph assumes that $100 was invested on December 31, 2001 in our common shares, the S&P 500 Index and the NAREIT All Equity Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below.

	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Vornado Realty Trust	100	96	152	222	253	381
S&P 500 Index	100	80	119	141	147	174
The NAREIT All Equity Index	100	104	142	187	210	284

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31, 2006	2005	2004	2003	2002
(in thousands, except share and per share amounts)					
Operating Data:					
Revenues:					
Property rentals	$1,567,888	$1,386,013	$1,338,555	$1,251,145	$1,201,321
Temperature Controlled Logistics	779,110	846,881	87,428		
Tenant expense reimbursements	261,471	207,168	189,237	176,822	153,005
Fee and other income	103,626	94,640	84,474	62,789	27,711
Total Revenues	2,712,095	2,534,702	1,699,694	1,490,756	1,382,037
Expenses:					
Operating	1,366,430	1,298,948	676,025	577,204	513,787
Depreciation and amortization	397,403	332,175	241,766	212,575	197,043
General and administrative	221,356	182,809	145,040	121,758	99,896
Amortization of officer s deferred compensation expense					27,500
Costs of acquisitions and development not consummated			1,475		6,874
Total Expenses	1,985,189	1,813,932	1,064,306	911,537	845,100
Operating Income	726,906	720,770	635,388	579,219	536,937
(Loss) income applicable to Alexander s	(14,530)	59,022	8,580	15,574	29,653
Loss applicable to Toys R Us	(47,520)	(40,496)			
Income from partially owned entities	61,777	36,165	43,381	67,901	44,458
Interest and other investment income	262,188	167,220	203,998	25,399	31,675
Interest and debt expense	(477,775)	(339,952)	(242,142)	(228,858)	(232,446)
Net gain (loss) on disposition of wholly-owned and partially owned assets other than depreciable real estate	76,073	39,042	19,775	2,343	(17,471)
Minority interest of partially owned entities	20,173	(3,808)	(109)	(1,089)	(3,534)
Income from continuing operations	607,292	637,963	668,871	460,489	389,272
Income from discontinued operations	33,408	35,515	81,245	178,062	11,159
Cumulative effect of change in accounting principle					(30,129)
Income before allocation to minority limited partners	640,700	673,478	750,116	638,551	370,302
Minority limited partners interest in the Operating Partnership	(58,712)	(66,755)	(88,091)	(105,132)	(64,899)
Perpetual preferred unit distributions of the Operating Partnership	(21,848)	(67,119)	(69,108)	(72,716)	(72,500)
Net income	560,140	539,604	592,917	460,703	232,903
Preferred share dividends	(57,511)	(46,501)	(21,920)	(20,815)	(23,167)
Net income applicable to common shares	$502,629	$493,103	$570,997	$439,888	$209,736
Income from continuing operations - basic	$3.30	$3.42	$3.91	$2.33	$2.15
Income from continuing operations - diluted	$3.13	$3.25	$3.74	$2.27	$2.08
Income per share--basic	$3.54	$3.69	$4.56	$3.92	$1.98
Income per share--diluted	$3.35	$3.50	$4.35	$3.80	$1.91
Cash dividends declared for common shares	$3.79	$3.90	$3.05	$2.91	$2.66
Balance Sheet Data:					
Total assets	$17,954,281	$13,637,163	$11,580,517	$9,518,928	$9,018,179
Real estate, at cost	13,553,488	11,367,812	9,678,876	7,590,877	7,180,939
Accumulated depreciation	1,968,678	1,663,777	1,401,032	864,744	699,784
Debt	9,554,798	6,243,126	4,939,323	4,041,485	4,056,300
Shareholders equity	6,150,770	5,263,510	4,012,741	3,077,573	2,627,356

(Amounts in thousands)	Year Ended December 31, 2006	2005	2004	2003	2002
Other Data:					
Funds From Operations (FFO) (1):					
Net income	$560,140	$539,604	$592,917	$460,703	$232,903
Depreciation and amortization of real property	337,730	276,921	228,298	208,624	195,808
Net gains on sale of real estate	(33,769)	(31,614)	(75,755)	(161,789)	
Cumulative effect of change in accounting principle					30,129
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	49,440	54,762	51,881
Net gains on sale of real estate	(13,166)	(2,918)	(3,048)	(6,733)	(3,431)
Income tax effect of Toys R Us adjustments included above	(21,038)	(4,613)			
Minority limited partner s share of above adjustments	(39,809)	(31,990)	(27,991)	(20,080)	(50,498)
FFO	895,717	787,442	763,861	535,487	456,792
Preferred dividends	(57,511)	(46,501)	(21,920)	(20,815)	(23,167)
FFO applicable to common shares	838,206	740,941	741,941	514,672	433,625
Interest on exchangeable senior debentures	19,856	15,335			
Series A convertible preferred dividends	631	943	1,068	3,570	6,150
Series B-1 and B-2 convertible preferred unit distributions			4,710		
Series E-1 convertible preferred unit distributions			1,581		
Series F-1 convertible preferred unit distributions			743		
FFO applicable to common shares plus assumed conversions (1)	$858,693	$757,219	$750,043	$518,242	$439,775

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(1) FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). NAREIT defines FFO as 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 is used by management, investors and industry analysts as a supplemental measure of operating performance of equity REITs. FFO should be evaluated along with GAAP net income (the most directly comparable GAAP measure), 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 is helpful to investors as a supplemental performance measure because this measure excludes 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, this non-GAAP measure 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.

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.

Overview - continued

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 62. 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 62. 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.

Year Ended:	**Office** **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.

Overview - continued

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.

Three Months Ended:	**Office** **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%

Overview - continued

(Amounts in thousands)	For the Year Ended December 31, 2006	2005	For the Three Months Ended December 31, 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)

Overview - continued

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.

Overview continued

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 J.C. Penney 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.

Overview continued

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.

Overview continued

Investment in McDonalds 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.

Overview continued

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.

Overview continued

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).

Overview continued

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.

Overview continued

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.

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Overview continued

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.

Overview continued

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.

Overview continued

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.

Overview continued

Leasing Activity

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

(Square feet and cubic feet in thousands)	**Office**			**Merchandise Mart**		**Temperature Controlled Logistics**
As of December 31, 2006:	**New York**	**Washington, DC**	**Retail**	**Office**	**Showroom**	
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.

Overview continued

(Square feet and cubic feet in thousands)	Office			Merchandise Mart		Temperature Controlled Logistics
As of December 31, 2005:	**New York**	**Washington, DC**	**Retail**	**Office**	**Showroom**	
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.

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Recently Issued Accounting Literature - continued

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.

(Amounts in thousands)	For the Year Ended December 31, 2006							
		Office				Temperature		
	Total	New York [2]	Washington, DC	Retail[2]	Merchandise Mart[2]	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% of 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 84.

(Amounts in thousands)	For the Year Ended December 31, 2005							
		Office				Temperature		
		New	Washington,		Merchandise	Controlled		
	Total	**York**[2]	**DC**	**Retail**[2]	**Mart**[2]	**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.

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See Notes on page 84.

(Amounts in thousands)	For the Year Ended December 31, 2004	Office					
	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:

(Amounts in thousands)	**For the Year Ended December 31,**		
	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)		Office				Temperature	
		New	Washington,		Merchandise	Controlled	
Property rentals:	**Total**	**York**	**DC**	**Retail**	**Mart**	**Logistics**	**Other**
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 74)	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 88 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:

(Amounts in thousands) **Operating:**	**Total**	**Office New York**	**Washington DC**	**Retail**	**Merchandise Mart**	**Temperature Controlled Logistics**	**Other**
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

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(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 (in thousands, except per share amounts)	**For the Year Ended December 31, 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.

Equity in Net Income (Loss): (Amounts in thousands)	**For The Year Ended December 31, 2006**	**2005**
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.

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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.

(Amounts in thousands)	December 31, 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.

(Amounts in thousands)	Total	Office New York	Office 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%)		

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(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)		**Office**				**Temperature**	
		New	**Washington,**		**Merchandise**	**Controlled**	
Property rentals:	**Total**	**York**	**DC**	**Retail**	**Mart**	**Logistics**	**Other**
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 75)	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)
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

See notes on following page.

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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) **Operating:**	**Total**	**Office New York**	**Washington DC**	**Retail**	**Merchandise Mart**	**Temperature Controlled Logistics**	**Other**
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 (in thousands, except per share amounts)	**For the Year Ended December 31,**	
	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

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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.

Equity in Net Income (Loss): (Amounts in thousands)	For The Years Ended December 31, 2005		2004	
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.

(Amounts in thousands)	December 31,	
	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.

(Amounts in thousands)	December 31,	
	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:

(Amounts in thousands)	December 31,	
	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.

(Amounts in thousands)	Total	Office New York	Office 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.

(Amounts in thousands)	For the Three Months Ended December 31, 2006							
	Total	Office New York	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 104.

(Amounts in thousands)	For the Three Months Ended December 31, 2005							
		Office				Temperature		
		New	Washington,		Merchandise	Controlled		
	Total	York	DC	Retail	Mart	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:

(Amounts in thousands)	For the Three Months Ended December 31, 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

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(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.

		Office				Temperature		
(Amounts in thousands)	Total	New York	Washington, DC	Retail	Merchandise Mart	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%)		

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(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

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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.

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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:

		Office				
(Amounts in millions except square foot data)	**Total**	**New York**	**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						