

VORNADO REALTY TRUST  
Form 10-Q  
July 31, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

|  |                                    |                      |  |
|--|------------------------------------|----------------------|--|
|  | For the quarterly period<br>ended: | <b>June 30, 2017</b> |  |
|--|------------------------------------|----------------------|--|

**Or**

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

**For the transition period from:**

**to**

**Commission File Number: 001-11954 (Vornado Realty Trust)**  
**Commission File Number: 001-34482 (Vornado Realty L.P.)**

|  |                             |  |
|--|-----------------------------|--|
|  | <b>Vornado Realty Trust</b> |  |
|  | <b>Vornado Realty L.P.</b>  |  |

(Exact name of registrants as specified in its charter)

|                             |   |  |
|-----------------------------|---|--|
| <b>Vornado Realty Trust</b> | <b>Maryland</b><br>(State or other jurisdiction of incorporation or organization) | <b>22-1657560</b><br>(I.R.S. Employer Identification Number) |
| <b>Vornado Realty L.P.</b>  | <b>Delaware</b><br>(State or other jurisdiction of incorporation or organization) | <b>13-3925979</b><br>(I.R.S. Employer Identification Number) |

**888 Seventh Avenue, New York, New York, 10019**

(Address of principal executive offices) (Zip Code)

**(212) 894-7000**

(Registrants' telephone number, including area code)

**N/A**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Vornado Realty Trust: Yes No Vornado Realty L.P.: Yes No

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

Vornado Realty Trust:

Large Accelerated Filer

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

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

Vornado Realty L.P.:

Large Accelerated Filer

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

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Vornado Realty Trust: Yes No Vornado Realty L.P.: Yes No

As of June 30, 2017, 189,465,023 of Vornado Realty Trust’s common shares of beneficial interest are outstanding.

## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2017 of Vornado Realty Trust and Vornado Realty L.P. Unless stated otherwise or the context otherwise requires, references to “Vornado” refer to Vornado Realty Trust, a Maryland real estate investment trust (“REIT”), and references to the “Operating Partnership” refer to Vornado Realty L.P., a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively Vornado, the Operating Partnership and those subsidiaries consolidated by Vornado.

The Operating Partnership is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. Vornado is the sole general partner and also a 93.6% limited partner of the Operating Partnership. As the sole general partner of the Operating Partnership, Vornado has exclusive control of the Operating Partnership’s day-to-day management.

Under the limited partnership agreement of the Operating Partnership, unitholders may present their Class A units for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time). Class A units may be tendered for redemption to the Operating Partnership for cash; Vornado, at its option, may assume that obligation and pay the holder either cash or Vornado common shares on a one-for-one basis. Because the number of Vornado common shares outstanding at all times equals the number of Class A units owned by Vornado, the redemption value of each Class A unit is equivalent to the market value of one Vornado common share, and the quarterly distribution to a Class A unitholder is equal to the quarterly dividend paid to a Vornado common shareholder. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. Vornado generally expects that it will elect to issue its common shares in connection with each such presentation for redemption rather than having the Operating Partnership pay cash. With each such exchange or redemption, Vornado’s percentage ownership in the Operating Partnership will increase. In addition, whenever Vornado issues common shares other than to acquire Class A units of the Operating Partnership, Vornado must contribute any net proceeds it receives to the Operating Partnership and the Operating Partnership must issue to Vornado an equivalent number of Class A units of the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes that combining the quarterly reports on Form 10-Q of Vornado and the Operating Partnership into this single report provides the following benefits:

- enhances investors’ understanding of Vornado and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation because a substantial portion of the disclosure applies to both Vornado and the Operating Partnership; and
- creates time and cost efficiencies in the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between Vornado and the Operating Partnership in the context of how Vornado and the Operating Partnership operate as a consolidated company. The financial results of the Operating Partnership are consolidated into the financial statements of Vornado. Vornado does not have any significant assets, liabilities or operations, other than its investment in the Operating Partnership. The Operating Partnership, not Vornado, generally executes all significant business relationships other than transactions involving the securities of Vornado. The Operating Partnership holds substantially all of the assets of Vornado. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by Vornado, which are contributed to the capital of the Operating Partnership in exchange for units of limited partnership in the Operating Partnership, as applicable, the Operating Partnership generates all remaining capital required by the Company's business. These sources may include working capital, net cash provided by operating activities, borrowings under the revolving credit facility, the issuance of secured and unsecured debt and equity securities, and proceeds received from the disposition of certain properties.

To help investors better understand the key differences between Vornado and the Operating Partnership, certain information for Vornado and the Operating Partnership in this report has been separated, as set forth below:

- Item 1. Financial Statements (unaudited), which includes the following specific disclosures for Vornado Realty Trust and Vornado Realty L.P.:
  - Note 10. Redeemable Noncontrolling Interests/Redeemable Partnership Units
  - Note 18. Income Per Share/Income Per Class A Unit
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Vornado and the Operating Partnership in order to establish that the requisite certifications have been made and that Vornado and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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

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

| (Amounts in thousands, except unit, share, and per share amounts)                             | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|---|----------------------|--------------------------|
| <b>ASSETS</b>   |                      |                          |
| Real estate, at cost:   |                      |                          |
| Land  | \$ 4,048,971         | \$ 4,065,142             |
| Buildings and improvements  | 12,750,314           | 12,727,980               |
| Development costs and construction in progress  | 1,676,353            | 1,430,276                |
| Leasehold improvements and equipment  | 119,852              | 116,560                  |
| Total   | 18,595,490           | 18,339,958               |
| Less accumulated depreciation and amortization  | (3,682,903)          | (3,513,574)              |
| Real estate, net  | 14,912,587           | 14,826,384               |
| Cash and cash equivalents   | 1,471,303            | 1,501,027                |
| Restricted cash   | 86,386               | 98,295                   |
| Marketable securities   | 187,489              | 203,704                  |
| Tenant and other receivables, net of allowance for doubtful accounts of \$11,513 and \$10,920 | 83,768               | 94,467                   |
| Investments in partially owned entities   | 1,354,089            | 1,428,019                |
| Real estate fund investments  | 455,692              | 462,132                  |
| Receivable arising from the straight-lining of rents, net of allowance of \$1,656 and \$2,227 | 1,062,456            | 1,032,736                |
| Deferred leasing costs, net of accumulated amortization of \$242,373 and \$228,862            | 449,714              | 454,345                  |
| Identified intangible assets, net of accumulated amortization of \$211,285 and \$207,330      | 176,506              | 192,731                  |
| Assets related to discontinued operations   | 4,378                | 5,570                    |
| Other assets  | 644,922              | 515,437                  |
|   | <b>\$ 20,889,290</b> | <b>\$ 20,814,847</b>     |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>                            |                      |                          |
| Mortgages payable, net  | \$ 9,502,694         | \$ 9,278,263             |
| Senior unsecured notes, net   | 846,286              | 845,577                  |
| Unsecured term loan, net  | 372,975              | 372,215                  |
| Unsecured revolving credit facilities   | 115,630              | 115,630                  |
| Accounts payable and accrued expenses   | 427,401              | 458,694                  |
| Deferred revenue  | 264,035              | 287,846                  |
| Deferred compensation plan  | 104,566              | 121,374                  |
| Liabilities related to discontinued operations  | 2,406                | 2,870                    |
| Other liabilities   | 431,983              | 435,436                  |
| Total liabilities   | 12,067,976           | 11,917,905               |

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|   |               |               |
|---|---------------|---------------|
| Commitments and contingencies   |               |               |
| Redeemable noncontrolling interests:  |               |               |
| Class A units - 12,477,710 and 12,197,162 units outstanding   | 1,171,656     | 1,273,018     |
| Series D cumulative redeemable preferred units - 177,101 units outstanding  | 5,428         | 5,428         |
| Total redeemable noncontrolling interests   | 1,177,084     | 1,278,446     |
| Vornado shareholders' equity:   |               |               |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 42,823,428 and 42,824,829 shares   | 1,038,011     | 1,038,055     |
| Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 189,465,023 and 189,100,876 shares | 7,556         | 7,542         |
| Additional capital  | 7,279,834     | 7,153,332     |
| Earnings less than distributions  | (1,524,806)   | (1,419,382)   |
| Accumulated other comprehensive income  | 115,839       | 118,972       |
| Total Vornado shareholders' equity  | 6,916,434     | 6,898,519     |
| Noncontrolling interests in consolidated subsidiaries   | 727,796       | 719,977       |
| Total equity  | 7,644,230     | 7,618,496     |
|   | \$ 20,889,290 | \$ 20,814,847 |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(Amounts in thousands, except per share amounts)

|   | For the Three Months Ended<br>June 30, |                   | For the Six Months Ended<br>June 30, |                   |
|---|--|-------------------|--------------------------------------|-------------------|
|   | 2017                                   | 2016              | 2017                                 | 2016              |
| <b>REVENUES:</b>  |  |                   |                                      |                   |
| Property rentals  | \$ 529,294                             | \$ 527,178        | \$ 1,043,112                         | \$ 1,046,670      |
| Tenant expense reimbursements                                       | 60,687                                 | 60,841            | 128,357                              | 120,416           |
| Fee and other income  | 36,058                                 | 33,689            | 75,418                               | 67,659            |
| Total revenues  | 626,039                                | 621,708           | 1,246,887                            | 1,234,745         |
| <b>EXPENSES:</b>  |  |                   |                                      |                   |
| Operating   | 256,687                                | 245,138           | 517,594                              | 501,487           |
| Depreciation and amortization                                       | 137,015                                | 141,313           | 275,826                              | 284,270           |
| General and administrative  | 42,470                                 | 45,564            | 99,128                               | 94,268            |
| Acquisition and transaction related costs                           | 6,471                                  | 2,879             | 14,476                               | 7,486             |
| Skyline properties impairment loss                                  | -                                      | -                 | -                                    | 160,700           |
| Total expenses  | 442,643                                | 434,894           | 907,024                              | 1,048,211         |
| Operating income  | 183,396                                | 186,814           | 339,863                              | 186,534           |
| Income (loss) from partially owned entities                         | 46,276                                 | 642               | 47,721                               | (3,598)           |
| Income from real estate fund investments                            | 4,391                                  | 16,389            | 4,659                                | 27,673            |
| Interest and other investment income, net                           | 9,307                                  | 10,236            | 18,535                               | 13,754            |
| Interest and debt expense   | (96,797)                               | (105,576)         | (191,082)                            | (206,065)         |
| Net gains on disposition of wholly owned and partially owned assets | -                                      | 159,511           | 501                                  | 160,225           |
| Income before income taxes  | 146,573                                | 268,016           | 220,197                              | 178,523           |
| Income tax benefit (expense)  | 248                                    | (2,109)           | (1,957)                              | (4,940)           |
| Income from continuing operations                                   | 146,821                                | 265,907           | 218,240                              | 173,583           |
| Income from discontinued operations                                 | 663                                    | 2,475             | 3,091                                | 3,191             |
| Net income  | 147,484                                | 268,382           | 221,331                              | 176,774           |
| Less net income attributable to noncontrolling interests in:        |  |                   |                                      |                   |
| Consolidated subsidiaries   | (7,677)                                | (13,025)          | (14,414)                             | (22,703)          |
| Operating Partnership   | (7,706)                                | (14,531)          | (10,935)                             | (7,044)           |
| Net income attributable to Vornado                                  | 132,101                                | 240,826           | 195,982                              | 147,027           |
| Preferred share dividends   | (16,129)                               | (20,363)          | (32,258)                             | (40,727)          |
| <b>NET INCOME attributable to common shareholders</b>               | <b>\$ 115,972</b>                      | <b>\$ 220,463</b> | <b>\$ 163,724</b>                    | <b>\$ 106,300</b> |

**INCOME PER COMMON SHARE - BASIC:**

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.61 | \$ 1.16 | \$ 0.84 | \$ 0.54 |
| Income from discontinued operations, net | -       | 0.01    | 0.02    | 0.02    |
| Net income per common share              | \$ 0.61 | \$ 1.17 | \$ 0.86 | \$ 0.56 |
| Weighted average shares outstanding      | 189,395 | 188,772 | 189,304 | 188,715 |

**INCOME PER COMMON SHARE - DILUTED:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.61 | \$ 1.15 | \$ 0.84 | \$ 0.54 |
| Income from discontinued operations, net | -       | 0.01    | 0.02    | 0.02    |
| Net income per common share              | \$ 0.61 | \$ 1.16 | \$ 0.86 | \$ 0.56 |
| Weighted average shares outstanding      | 190,444 | 189,885 | 190,674 | 190,000 |

**DIVIDENDS PER COMMON SHARE**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
|  | \$ 0.71 | \$ 0.63 | \$ 1.42 | \$ 1.26 |
|--|---------|---------|---------|---------|

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY TRUST

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(UNAUDITED)

| (Amounts in thousands)   | <b>For the Three Months Ended</b> |             | <b>For the Six Months Ended</b> |             |
|--|-----------------------------------|-------------|---------------------------------|-------------|
|  | <b>June 30,</b>                   |             | <b>June 30,</b>                 |             |
|  | <b>2017</b>                       | <b>2016</b> | <b>2017</b>                     | <b>2016</b> |
| Net income   | \$ 147,484                        | \$ 268,382  | \$ 221,331                      | \$ 176,774  |
| Other comprehensive (loss) income:                                 |                                   |             |                                 |             |
| (Reduction) increase in unrealized net gain on                     |                                   |             |                                 |             |
| available-for-sale securities                                      | (1,206)                           | 28,019      | (16,215)                        | 39,113      |
| Pro rata share of amounts reclassified from accumulated            |                                   |             |                                 |             |
| other comprehensive income of a                                    |                                   |             |                                 |             |
| nonconsolidated subsidiary   | -                                 | -           | 9,268                           | -           |
| Pro rata share of other comprehensive loss of                      |                                   |             |                                 |             |
| nonconsolidated subsidiaries                                       | (980)                             | (628)       | (1,031)                         | (622)       |
| (Reduction) increase in value of interest rate swaps and other     | (1,204)                           | (6,976)     | 4,638                           | (11,171)    |
| Comprehensive income   | 144,094                           | 288,797     | 217,991                         | 204,094     |
| Less comprehensive income attributable to noncontrolling interests | (15,173)                          | (28,814)    | (25,142)                        | (31,432)    |
| Comprehensive income attributable to Vornado Realty Trust          | \$ 128,921                        | \$ 259,983  | \$ 192,849                      | \$ 172,662  |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(UNAUDITED)(Amounts in  
thousands)

|   | Preferred Shares |             | Common Shares |         | Additional  | Earnings      | Other         | Non-<br>controlling<br>Interests | Consolidated Total |             |
|---|------------------|-------------|---------------|---------|-------------|---------------|---------------|----------------------------------|--------------------|-------------|
|   | Shares           | Amount      | Shares        | Amount  | Capital     | Less Than     | Comprehensive | in                               | Equity             | Equity      |
|   |                  |             |               |         |             | Distributions | Income        | Subsidiaries                     |                    |             |
| <b>Balance,<br/>December 31,<br/>2016</b>   | 42,825           | \$1,038,055 | 189,101       | \$7,542 | \$7,153,332 | \$(1,419,382) | \$ 118,972    | \$719,977                        |                    | \$7,618,496 |
| Net income<br>attributable to<br>Vornado  | -                | -           | -             | -       | -           | 195,982       | -             | -                                | -                  | 195,982     |
| Net income<br>attributable to<br>noncontrolling<br>interests in<br>consolidated<br>subsidiaries | -                | -           | -             | -       | -           | -             | -             | 14,414                           | -                  | 14,414      |
| Dividends on<br>common<br>shares  | -                | -           | -             | -       | -           | (268,817)     | -             | -                                | -                  | (268,817)   |
| Dividends on<br>preferred<br>shares   | -                | -           | -             | -       | -           | (32,258)      | -             | -                                | -                  | (32,258)    |
| Common<br>shares issued:  |                  |             |               |         |             |               |               |                                  |                    |             |
| Upon<br>redemption<br>of Class A<br>units, at<br>redemption<br>value                            | -                | -           | 249           | 10      | 25,552      | -             | -             | -                                | -                  | 25,562      |
| Under<br>employees'<br>share<br>option plan   | -                | -           | 103           | 4       | 8,842       | -             | -             | -                                | -                  | 8,846       |
| Under<br>dividend<br>reinvestment<br>plan   | -                | -           | 8             | -       | 780         | -             | -             | -                                | -                  | 780         |
| Contributions   | -                | -           | -             | -       | -           | -             | -             | 991                              | -                  | 991         |
| Distributions:  |                  |             |               |         |             |               |               |                                  |                    |             |
| Real estate<br>fund   | -                | -           | -             | -       | -           | -             | -             | (6,200)                          | -                  | (6,200)     |

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|  |        |             |         |         |             |               |            |           |             |
|--|--------|-------------|---------|---------|-------------|---------------|------------|-----------|-------------|
| investments  |        |             |         |         |             |               |            |           |             |
| Other  | -      | -           | -       | -       | -           | -             | -          | (1,339)   | (1,339)     |
| Conversion of Series A preferred shares to common shares                       | (2)    | (44)        | 2       | -       | 44          | -             | -          | -         | -           |
| Deferred compensation shares and options                                       | -      | -           | 2       | -       | 1,076       | (285)         | -          | -         | 791         |
| Reduction in unrealized net gain on available-for-sale securities              | -      | -           | -       | -       | -           | -             | (16,215)   | -         | (16,215)    |
| Pro rata share of amounts reclassified related to a nonconsolidated subsidiary | -      | -           | -       | -       | -           | -             | 9,268      | -         | 9,268       |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries     | -      | -           | -       | -       | -           | -             | (1,031)    | -         | (1,031)     |
| Increase in value of interest rate swaps                                       | -      | -           | -       | -       | -           | -             | 4,636      | -         | 4,636       |
| Adjustments to carry redeemable Class A units at redemption value              | -      | -           | -       | -       | 90,208      | -             | -          | -         | 90,208      |
| Redeemable noncontrolling interests' share of above adjustments                | -      | -           | -       | -       | -           | -             | 207        | -         | 207         |
| Other  | -      | -           | -       | -       | -           | (46)          | 2          | (47)      | (91)        |
| <b>Balance, June 30, 2017</b>  | 42,823 | \$1,038,011 | 189,465 | \$7,556 | \$7,279,834 | \$(1,524,806) | \$ 115,839 | \$727,796 | \$7,644,230 |

See notes to consolidated financial statements (unaudited).



## VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED  
(UNAUDITED)

(Amounts in thousands)

|  | Preferred Shares | Preferred Shares Amount | Common Shares | Common Shares Amount | Additional Capital | Earnings Less Than Comprehensive Distributions | Other Comprehensive Income | Non-Accumulated Controlling Interests in Consolidated Subsidiaries | Total Equity |
|--|------------------|-------------------------|---------------|----------------------|--------------------|--|----------------------------|--|--------------|
| <b>Balance, December 31, 2015</b>  | 52,677           | \$1,276,954             | 188,577       | \$7,521              | \$7,132,979        | \$(1,766,780)                                  | \$ 46,921                  | \$ 778,483   | \$7,476,078  |
| Net income attributable to Vornado   | -                | -                       | -             | -                    | -                  | 147,027  | -                          | -  | 147,027      |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | -                | -                       | -             | -                    | -                  | -  | -                          | 22,703   | 22,703       |
| Dividends on common shares   | -                | -                       | -             | -                    | -                  | (237,832)                                      | -                          | -  | (237,832)    |
| Dividends on preferred shares  | -                | -                       | -             | -                    | -                  | (40,727)                                       | -                          | -  | (40,727)     |
| Common shares issued:  |                  |                         |               |                      |                    |  |                            |  |              |
| Upon redemption of Class A units, at redemption value                            | -                | -                       | 195           | 8                    | 18,200             | -  | -                          | -  | 18,208       |
| Under employees' share option plan   | -                | -                       | 38            | 1                    | 3,092              | -  | -                          | -  | 3,093        |
| Under dividend reinvestment plan   | -                | -                       | 8             | -                    | 717                | -  | -                          | -  | 717          |
| Contributions  | -                | -                       | -             | -                    | -                  | -  | -                          | 19,674   | 19,674       |
| Distributions:   |                  |                         |               |                      |                    |  |                            |  |              |
| Real estate fund   | -                | -                       | -             | -                    | -                  | -  | -                          | (56,533)   | (56,533)     |

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|                      |        |             |         |         |             |               |           |            |             |
|----------------------|--------|-------------|---------|---------|-------------|---------------|-----------|------------|-------------|
| investments          |        |             |         |         |             |               |           |            |             |
| Other                | -      | -           | -       | -       | -           | -             | -         | (10,970)   | (10,970)    |
| Deferred             |        |             |         |         |             |               |           |            |             |
| compensation         |        |             |         |         |             |               |           |            |             |
| shares               |        |             |         |         |             |               |           |            |             |
| and options          | -      | -           | 7       | 1       | 953         | (186)         | -         | -          | 768         |
| Increase in          |        |             |         |         |             |               |           |            |             |
| unrealized net       |        |             |         |         |             |               |           |            |             |
| gain                 |        |             |         |         |             |               |           |            |             |
| on                   |        |             |         |         |             |               |           |            |             |
| available-for-sale   |        |             |         |         |             |               |           |            |             |
| securities           | -      | -           | -       | -       | -           | -             | 39,113    | -          | 39,113      |
| Pro rata share       |        |             |         |         |             |               |           |            |             |
| of other             |        |             |         |         |             |               |           |            |             |
| comprehensive        |        |             |         |         |             |               |           |            |             |
| loss of              |        |             |         |         |             |               |           |            |             |
| nonconsolidated      |        |             |         |         |             |               |           |            |             |
| subsidiaries         | -      | -           | -       | -       | -           | -             | (622)     | -          | (622)       |
| Reduction in         |        |             |         |         |             |               |           |            |             |
| value of             |        |             |         |         |             |               |           |            |             |
| interest             |        |             |         |         |             |               |           |            |             |
| rate swaps           | -      | -           | -       | -       | -           | -             | (11,170)  | -          | (11,170)    |
| Adjustments          |        |             |         |         |             |               |           |            |             |
| to carry             |        |             |         |         |             |               |           |            |             |
| redeemable           |        |             |         |         |             |               |           |            |             |
| Class A units        |        |             |         |         |             |               |           |            |             |
| at                   |        |             |         |         |             |               |           |            |             |
| redemption           |        |             |         |         |             |               |           |            |             |
| value                | -      | -           | -       | -       | (20,369)    | -             | -         | -          | (20,369)    |
| Redeemable           |        |             |         |         |             |               |           |            |             |
| noncontrolling       |        |             |         |         |             |               |           |            |             |
| interests'           |        |             |         |         |             |               |           |            |             |
| share of             |        |             |         |         |             |               |           |            |             |
| above                |        |             |         |         |             |               |           |            |             |
| adjustments          | -      | -           | -       | -       | -           | -             | (1,685)   | -          | (1,685)     |
| Other                | -      | -           | 1       | -       | (1)         | (7)           | (1)       | 111        | 102         |
| <b>Balance, June</b> |        |             |         |         |             |               |           |            |             |
| <b>30, 2016</b>      | 52,677 | \$1,276,954 | 188,826 | \$7,531 | \$7,135,571 | \$(1,898,505) | \$ 72,556 | \$ 753,468 | \$7,347,575 |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

(Amounts in thousands)

|  | <b>For the Six Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                              | <b>2016</b> |
| <b>Cash Flows from Operating Activities:</b>                                       |  |             |
| Net income   | \$ 221,331                               | \$ 176,774  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |             |
| Depreciation and amortization (including amortization of deferred financing costs) | 289,898                                  | 299,541     |
| Equity in net (income) loss of partially owned entities                            | (47,721)                                 | 3,598       |
| Distributions of income from partially owned entities                              | 44,778                                   | 42,012      |
| Other non-cash adjustments   | 30,070                                   | 23,049      |
| Straight-lining of rents   | (28,581)                                 | (83,883)    |
| Amortization of below-market leases, net   | (24,391)                                 | (29,811)    |
| Net realized and unrealized loss (gain) on real estate fund investments            | 6,201                                    | (21,277)    |
| Net gains on sale of real estate and other   | (2,267)                                  | (2,210)     |
| Net gains on disposition of wholly owned and partially owned assets                | (501)                                    | (160,225)   |
| Skyline properties impairment loss   | -  | 160,700     |
| Return of capital from real estate fund investments                                | -  | 71,888      |
| Changes in operating assets and liabilities:                                       |  |             |
| Tenant and other receivables, net  | 8,446                                    | 2,358       |
| Prepaid assets   | (148,446)                                | (131,927)   |
| Other assets   | (8,402)                                  | (29,303)    |
| Accounts payable and accrued expenses  | (1,324)                                  | 6,634       |
| Other liabilities  | (22,874)                                 | (9,113)     |
| Net cash provided by operating activities  | 316,217                                  | 318,805     |
| <b>Cash Flows from Investing Activities:</b>                                       |  |             |
| Development costs and construction in progress                                     | (191,073)                                | (277,214)   |
| Additions to real estate   | (139,611)                                | (170,265)   |
| Distributions of capital from partially owned entities                             | 113,507                                  | 92,465      |
| Investments in partially owned entities  | (27,720)                                 | (90,659)    |
| Acquisitions of real estate and other  | (11,841)                                 | (91,100)    |
| Proceeds from sales of real estate and related investments                         | 5,180                                    | 159,888     |
| Proceeds from repayments of mortgage loans receivable                              | 29                                       | 22          |
| Net deconsolidation of 7 West 34th Street  | -  | (48,000)    |
| Investments in loans receivable and other  | -  | (11,700)    |
| Purchases of marketable securities   | -  | (4,379)     |
| Net cash used in investing activities  | (251,529)                                | (440,942)   |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY TRUST

**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
(UNAUDITED)

(Amounts in thousands)

|   | <b>For the Six Months Ended June 30,</b> |              |
|---|--|--------------|
|   | <b>2017</b>                              | <b>2016</b>  |
| <b>Cash Flows from Financing Activities:</b>  |  |              |
| Dividends paid on common shares   | \$ (268,817)                             | \$ (237,832) |
| Proceeds from borrowings  | 226,929                                  | 1,325,246    |
| Dividends paid on preferred shares  | (32,258)                                 | (40,727)     |
| Distributions to noncontrolling interests   | (25,617)                                 | (83,266)     |
| Repayments of borrowings  | (13,971)                                 | (1,032,115)  |
| Proceeds received from exercise of employee share options   | 9,626                                    | 3,810        |
| Debt issuance and other costs   | (2,919)                                  | (29,478)     |
| Contributions from noncontrolling interests   | 991                                      | 11,874       |
| Repurchase of shares related to stock compensation agreements and related tax withholdings and other                    | (285)                                    | (186)        |
| Net cash used in financing activities   | (106,321)                                | (82,674)     |
| Net decrease in cash and cash equivalents and restricted cash   | (41,633)                                 | (204,811)    |
| Cash and cash equivalents and restricted cash at beginning of period  | 1,599,322                                | 1,943,506    |
| Cash and cash equivalents and restricted cash at end of period  | \$ 1,557,689                             | \$ 1,738,695 |
| <b>Reconciliation of Cash and Cash Equivalents and Restricted Cash:</b>   |  |              |
| Cash and cash equivalents at beginning of period  | \$ 1,501,027                             | \$ 1,835,707 |
| Restricted cash at beginning of period  | 98,295                                   | 107,799      |
| Cash and cash equivalents and restricted cash at beginning of period  | \$ 1,599,322                             | \$ 1,943,506 |
| Cash and cash equivalents at end of period  | \$ 1,471,303                             | \$ 1,644,067 |
| Restricted cash at end of period  | 86,386                                   | 94,628       |
| Cash and cash equivalents and restricted cash at end of period  | \$ 1,557,689                             | \$ 1,738,695 |
| <b>Supplemental Disclosure of Cash Flow Information:</b>  |  |              |
| Cash payments for interest, excluding capitalized interest of \$20,050 and \$13,918                                     | \$ 175,718                               | \$ 181,432   |
| Cash payments for income taxes  | \$ 3,151                                 | \$ 5,003     |
| <b>Non-Cash Investing and Financing Activities:</b>   |  |              |
| Adjustments to carry redeemable Class A units at redemption value   | \$ 90,208                                | \$ (20,369)  |
| Accrued capital expenditures included in accounts payable and accrued expenses  | 59,733                                   | 144,079      |
| Write-off of fully depreciated assets   | (35,727)                                 | (220,654)    |
| (Reduction) increase in unrealized net gain on available-for-sale securities  | (16,215)                                 | 39,113       |
| Decrease in assets and liabilities resulting from the deconsolidation of investments that were previously consolidated: |  |              |
| Real estate, net  | -  | (122,047)    |

|                       |   |           |
|-----------------------|---|-----------|
| Mortgage payable, net | - | (290,418) |
|-----------------------|---|-----------|

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY L.P.****CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)**

| (Amounts in thousands, except unit amounts)   | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|---|----------------------|--------------------------|
| <b>ASSETS</b>   |                      |                          |
| Real estate, at cost:   |                      |                          |
| Land  | \$ 4,048,971         | \$ 4,065,142             |
| Buildings and improvements  | 12,750,314           | 12,727,980               |
| Development costs and construction in progress  | 1,676,353            | 1,430,276                |
| Leasehold improvements and equipment  | 119,852              | 116,560                  |
| Total   | 18,595,490           | 18,339,958               |
| Less accumulated depreciation and amortization  | (3,682,903)          | (3,513,574)              |
| Real estate, net  | 14,912,587           | 14,826,384               |
| Cash and cash equivalents   | 1,471,303            | 1,501,027                |
| Restricted cash   | 86,386               | 98,295                   |
| Marketable securities   | 187,489              | 203,704                  |
| Tenant and other receivables, net of allowance for doubtful accounts of \$11,513 and \$10,920 | 83,768               | 94,467                   |
| Investments in partially owned entities   | 1,354,089            | 1,428,019                |
| Real estate fund investments  | 455,692              | 462,132                  |
| Receivable arising from the straight-lining of rents, net of allowance of \$1,656 and \$2,227 | 1,062,456            | 1,032,736                |
| Deferred leasing costs, net of accumulated amortization of \$242,373 and \$228,862            | 449,714              | 454,345                  |
| Identified intangible assets, net of accumulated amortization of \$211,285 and \$207,330      | 176,506              | 192,731                  |
| Assets related to discontinued operations   | 4,378                | 5,570                    |
| Other assets  | 644,922              | 515,437                  |
|   | <b>\$ 20,889,290</b> | <b>\$ 20,814,847</b>     |
| <b>LIABILITIES, REDEEMABLE PARTNERSHIP UNITS AND EQUITY</b>                                   |                      |                          |
| Mortgages payable, net  | \$ 9,502,694         | \$ 9,278,263             |
| Senior unsecured notes, net   | 846,286              | 845,577                  |
| Unsecured term loan, net  | 372,975              | 372,215                  |
| Unsecured revolving credit facilities   | 115,630              | 115,630                  |
| Accounts payable and accrued expenses   | 427,401              | 458,694                  |
| Deferred revenue  | 264,035              | 287,846                  |
| Deferred compensation plan  | 104,566              | 121,374                  |
| Liabilities related to discontinued operations  | 2,406                | 2,870                    |
| Other liabilities   | 431,983              | 435,436                  |
| Total liabilities   | 12,067,976           | 11,917,905               |
| Commitments and contingencies   |                      |                          |
| Redeemable partnership units:   |                      |                          |
| Class A units - 12,477,710 and 12,197,162 units outstanding                                   | 1,171,656            | 1,273,018                |
| Series D cumulative redeemable preferred units - 177,101 units outstanding                    | 5,428                | 5,428                    |
| Total redeemable partnership units  | 1,177,084            | 1,278,446                |

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Equity:

|   |               |               |
|---|---------------|---------------|
| Partners' capital                                     | 8,325,401     | 8,198,929     |
| Earnings less than distributions                      | (1,524,806)   | (1,419,382)   |
| Accumulated other comprehensive income                | 115,839       | 118,972       |
| Total Vornado Realty L.P. equity                      | 6,916,434     | 6,898,519     |
| Noncontrolling interests in consolidated subsidiaries | 727,796       | 719,977       |
| Total equity  | 7,644,230     | 7,618,496     |
|   | \$ 20,889,290 | \$ 20,814,847 |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY L.P.

**CONSOLIDATED STATEMENTS OF INCOME**  
(UNAUDITED)

(Amounts in thousands, except per unit amounts)

|   | <b>For the Three Months Ended<br/>June 30,</b> |                   | <b>For the Six Months Ended<br/>June 30,</b> |                   |
|---|--|-------------------|--|-------------------|
|   | <b>2017</b>                                    | <b>2016</b>       | <b>2017</b>                                  | <b>2016</b>       |
| <b>REVENUES:</b>  |  |                   |  |                   |
| Property rentals  | \$ 529,294                                     | \$ 527,178        | \$ 1,043,112                                 | \$ 1,046,670      |
| Tenant expense reimbursements   | 60,687   | 60,841            | 128,357                                      | 120,416           |
| Fee and other income  | 36,058   | 33,689            | 75,418                                       | 67,659            |
| Total revenues  | 626,039  | 621,708           | 1,246,887                                    | 1,234,745         |
| <b>EXPENSES:</b>  |  |                   |  |                   |
| Operating   | 256,687  | 245,138           | 517,594                                      | 501,487           |
| Depreciation and amortization   | 137,015  | 141,313           | 275,826                                      | 284,270           |
| General and administrative  | 42,470   | 45,564            | 99,128                                       | 94,268            |
| Acquisition and transaction related costs   | 6,471  | 2,879             | 14,476                                       | 7,486             |
| Skyline properties impairment loss  | -  | -                 | -  | 160,700           |
| Total expenses  | 442,643  | 434,894           | 907,024                                      | 1,048,211         |
| Operating income  | 183,396  | 186,814           | 339,863                                      | 186,534           |
| Income (loss) from partially owned entities   | 46,276   | 642               | 47,721                                       | (3,598)           |
| Income from real estate fund investments  | 4,391  | 16,389            | 4,659  | 27,673            |
| Interest and other investment income, net   | 9,307  | 10,236            | 18,535                                       | 13,754            |
| Interest and debt expense   | (96,797)                                       | (105,576)         | (191,082)                                    | (206,065)         |
| Net gains on disposition of wholly owned and partially owned assets                   | -  | 159,511           | 501  | 160,225           |
| Income before income taxes  | 146,573  | 268,016           | 220,197                                      | 178,523           |
| Income tax benefit (expense)  | 248  | (2,109)           | (1,957)                                      | (4,940)           |
| Income from continuing operations   | 146,821  | 265,907           | 218,240                                      | 173,583           |
| Income from discontinued operations   | 663  | 2,475             | 3,091  | 3,191             |
| Net income  | 147,484  | 268,382           | 221,331                                      | 176,774           |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries | (7,677)  | (13,025)          | (14,414)                                     | (22,703)          |
| Net income attributable to Vornado Realty L.P.  | 139,807  | 255,357           | 206,917                                      | 154,071           |
| Preferred unit distributions  | (16,177)                                       | (20,412)          | (32,355)                                     | (40,824)          |
| <b>NET INCOME attributable to Class A unitholders</b>                                 | <b>\$ 123,630</b>                              | <b>\$ 234,945</b> | <b>\$ 174,562</b>                            | <b>\$ 113,247</b> |

**INCOME PER CLASS A UNIT - BASIC:**



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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.61 | \$ 1.16 | \$ 0.84 | \$ 0.54 |
| Income from discontinued operations, net | -       | 0.01    | 0.02    | 0.02    |
| Net income per Class A unit              | \$ 0.61 | \$ 1.17 | \$ 0.86 | \$ 0.56 |
| Weighted average units outstanding       | 201,127 | 200,369 | 200,987 | 200,220 |

**INCOME PER CLASS A UNIT - DILUTED:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.61 | \$ 1.15 | \$ 0.84 | \$ 0.54 |
| Income from discontinued operations, net | -       | 0.01    | 0.01    | 0.01    |
| Net income per Class A unit              | \$ 0.61 | \$ 1.16 | \$ 0.85 | \$ 0.55 |
| Weighted average units outstanding       | 202,623 | 201,975 | 202,617 | 201,821 |

**DISTRIBUTIONS PER CLASS A UNIT**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
|  | \$ 0.71 | \$ 0.63 | \$ 1.42 | \$ 1.26 |
|--|---------|---------|---------|---------|

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY L.P.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

| (Amounts in thousands)   | <b>For the Three Months Ended</b> |             | <b>For the Six Months Ended</b> |             |
|--|-----------------------------------|-------------|---------------------------------|-------------|
|  | <b>June 30,</b>                   |             | <b>June 30,</b>                 |             |
|  | <b>2017</b>                       | <b>2016</b> | <b>2017</b>                     | <b>2016</b> |
| Net income   | \$ 147,484                        | \$ 268,382  | \$ 221,331                      | \$ 176,774  |
| Other comprehensive (loss) income:                                 |                                   |             |                                 |             |
| (Reduction) increase in unrealized net gain on                     |                                   |             |                                 |             |
| available-for-sale securities                                      | (1,206)                           | 28,019      | (16,215)                        | 39,113      |
| Pro rata share of amounts reclassified from accumulated            |                                   |             |                                 |             |
| other comprehensive income of a                                    |                                   |             |                                 |             |
| nonconsolidated subsidiary   | -                                 | -           | 9,268                           | -           |
| Pro rata share of other comprehensive loss of                      |                                   |             |                                 |             |
| nonconsolidated subsidiaries                                       | (980)                             | (628)       | (1,031)                         | (622)       |
| (Reduction) increase in value of interest rate swaps and other     | (1,204)                           | (6,976)     | 4,638                           | (11,171)    |
| Comprehensive income   | 144,094                           | 288,797     | 217,991                         | 204,094     |
| Less comprehensive income attributable to noncontrolling interests |                                   |             |                                 |             |
| in consolidated subsidiaries                                       | (7,677)                           | (13,025)    | (14,414)                        | (22,703)    |
| Comprehensive income attributable to Vornado Realty L.P.           | \$ 136,417                        | \$ 275,772  | \$ 203,577                      | \$ 181,391  |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY L.P.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(UNAUDITED)

(Amounts in thousands)

|  | Preferred Units |             | Class A Units Owned by Vornado |             | Earnings Less Than Comprehensive Distributions | Other Consolidated Income | Non-controlling Interests in Consolidated Subsidiaries | Total Equity |
|--|-----------------|-------------|--------------------------------|-------------|--|---------------------------|--|--------------|
|  | Units           | Amount      | Units                          | Amount      |  |                           |  |              |
| <b>Balance, December 31, 2016</b>  | 42,825          | \$1,038,055 | 189,101                        | \$7,160,874 | \$(1,419,382)                                  | \$ 118,972                | \$719,977  | \$7,618,496  |
| Net income attributable to Vornado Realty L.P.                                   | -               | -           | -                              | -           | 206,917  | -                         | -  | 206,917      |
| Net income attributable to redeemable partnership units                          | -               | -           | -                              | -           | (10,935)                                       | -                         | -  | (10,935)     |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | -               | -           | -                              | -           | -  | -                         | 14,414   | 14,414       |
| Distributions to Vornado   | -               | -           | -                              | -           | (268,817)                                      | -                         | -  | (268,817)    |
| Distributions to preferred unitholders   | -               | -           | -                              | -           | (32,258)                                       | -                         | -  | (32,258)     |
| Class A Units issued to Vornado:   |                 |             |                                |             |  |                           |  |              |
| Upon redemption of redeemable Class A units, at redemption value                 | -               | -           | 249                            | 25,562      | -  | -                         | -  | 25,562       |
| Under Vornado's employees' share option plan                                     | -               | -           | 103                            | 8,846       | -  | -                         | -  | 8,846        |

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|  |     |      |   |        |       |          |         |          |
|--|-----|------|---|--------|-------|----------|---------|----------|
| Under Vornado's dividend reinvestment plan                                     | -   | -    | 8 | 780    | -     | -        | -       | 780      |
| Contributions  | -   | -    | - | -      | -     | -        | 991     | 991      |
| Distributions:   |     |      |   |        |       |          |         |          |
| Real estate fund investments   | -   | -    | - | -      | -     | -        | (6,200) | (6,200)  |
| Other  | -   | -    | - | -      | -     | -        | (1,339) | (1,339)  |
| Conversion of Series A preferred units to Class A units                        | (2) | (44) | 2 | 44     | -     | -        | -       | -        |
| Deferred compensation units and options  | -   | -    | 2 | 1,076  | (285) | -        | -       | 791      |
| Reduction in unrealized net gain on available-for-sale securities              | -   | -    | - | -      | -     | (16,215) | -       | (16,215) |
| Pro rata share of amounts reclassified related to a nonconsolidated subsidiary | -   | -    | - | -      | -     | 9,268    | -       | 9,268    |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries     | -   | -    | - | -      | -     | (1,031)  | -       | (1,031)  |
| Increase in value of interest rate swaps                                       | -   | -    | - | -      | -     | 4,636    | -       | 4,636    |
| Adjustments to carry redeemable Class A units at redemption value              | -   | -    | - | 90,208 | -     | -        | -       | 90,208   |
| Redeemable partnership units' share of adjustments                             | -   | -    | - | -      | -     | 207      | -       | 207      |

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|                                   |        |             |         |             |               |            |           |             |
|-----------------------------------|--------|-------------|---------|-------------|---------------|------------|-----------|-------------|
| Other                             | -      | -           | -       | -           | (46)          | 2          | (47)      | (91)        |
| <b>Balance, June<br/>30, 2017</b> | 42,823 | \$1,038,011 | 189,465 | \$7,287,390 | \$(1,524,806) | \$ 115,839 | \$727,796 | \$7,644,230 |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY L.P.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED**  
**(UNAUDITED)**

(Amounts in thousands)

|  | Preferred Units |             | Class A Units<br>Owned by Vornado |             | Earnings<br>Less Than<br>Distributions | Other<br>Comprehensive<br>Income | Non-<br>Accumulated<br>controlling<br>Interests<br>in<br>Consolidated<br>Subsidiaries | Total<br>Equity |
|--|-----------------|-------------|-----------------------------------|-------------|--|----------------------------------|---|-----------------|
|  | Units           | Amount      | Units                             | Amount      |  |                                  |   |                 |
| <b>Balance,<br/>December 31,<br/>2015</b>  | 52,677          | \$1,276,954 | 188,577                           | \$7,140,500 | \$(1,766,780)                          | \$ 46,921                        | \$ 778,483  | \$7,476,078     |
| Net income attributable to Vornado Realty L.P.                                   | -               | -           | -                                 | -           | 154,071                                | -                                | -   | 154,071         |
| Net income attributable to redeemable partnership units                          | -               | -           | -                                 | -           | (7,044)                                | -                                | -   | (7,044)         |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | -               | -           | -                                 | -           | -                                      | -                                | 22,703  | 22,703          |
| Distributions to Vornado   | -               | -           | -                                 | -           | (237,832)                              | -                                | -   | (237,832)       |
| Distributions to preferred unitholders   | -               | -           | -                                 | -           | (40,727)                               | -                                | -   | (40,727)        |
| Class A Units issued to Vornado:   |                 |             |                                   |             |  |                                  |   |                 |
| Upon redemption of redeemable Class A units, at redemption value                 | -               | -           | 195                               | 18,208      | -                                      | -                                | -   | 18,208          |
| Under Vornado's employees' share option plan                                     | -               | -           | 38                                | 3,093       | -                                      | -                                | -   | 3,093           |

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|  |        |             |         |             |               |           |            |             |
|--|--------|-------------|---------|-------------|---------------|-----------|------------|-------------|
| Under Vornado's dividend reinvestment plan                                 | -      | -           | 8       | 717         | -             | -         | -          | 717         |
| Contributions  | -      | -           | -       | -           | -             | -         | 19,674     | 19,674      |
| Distributions:   |        |             |         |             |               |           |            |             |
| Real estate fund investments   | -      | -           | -       | -           | -             | -         | (56,533)   | (56,533)    |
| Other  | -      | -           | -       | -           | -             | -         | (10,970)   | (10,970)    |
| Deferred compensation units and options                                    | -      | -           | 7       | 954         | (186)         | -         | -          | 768         |
| Increase in unrealized net gain on available-for-sale securities           | -      | -           | -       | -           | -             | 39,113    | -          | 39,113      |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | -      | -           | -       | -           | -             | (622)     | -          | (622)       |
| Reduction in value of interest rate swaps                                  | -      | -           | -       | -           | -             | (11,170)  | -          | (11,170)    |
| Adjustments to carry redeemable Class A units at redemption value          | -      | -           | -       | (20,369)    | -             | -         | -          | (20,369)    |
| Redeemable partnership units' share of above adjustments                   | -      | -           | -       | -           | -             | (1,685)   | -          | (1,685)     |
| Other  | -      | -           | 1       | (1)         | (7)           | (1)       | 111        | 102         |
| <b>Balance, June 30, 2016</b>  | 52,677 | \$1,276,954 | 188,826 | \$7,143,102 | \$(1,898,505) | \$ 72,556 | \$ 753,468 | \$7,347,575 |

See notes to consolidated financial statements (unaudited).

## VORNADO REALTY L.P.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

(Amounts in thousands)

|  | <b>For the Six Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                              | <b>2016</b> |
| <b>Cash Flows from Operating Activities:</b>                                       |  |             |
| Net income   | \$ 221,331                               | \$ 176,774  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |             |
| Depreciation and amortization (including amortization of deferred financing costs) | 289,898                                  | 299,541     |
| Equity in net (income) loss of partially owned entities                            | (47,721)                                 | 3,598       |
| Distributions of income from partially owned entities                              | 44,778                                   | 42,012      |
| Other non-cash adjustments   | 30,070                                   | 23,049      |
| Straight-lining of rents   | (28,581)                                 | (83,883)    |
| Amortization of below-market leases, net   | (24,391)                                 | (29,811)    |
| Net realized and unrealized loss (gain) on real estate fund investments            | 6,201                                    | (21,277)    |
| Net gains on sale of real estate and other   | (2,267)                                  | (2,210)     |
| Net gains on disposition of wholly owned and partially owned assets                | (501)                                    | (160,225)   |
| Skyline properties impairment loss   | -  | 160,700     |
| Return of capital from real estate fund investments                                | -  | 71,888      |
| Changes in operating assets and liabilities:                                       |  |             |
| Tenant and other receivables, net  | 8,446                                    | 2,358       |
| Prepaid assets   | (148,446)                                | (131,927)   |
| Other assets   | (8,402)                                  | (29,303)    |
| Accounts payable and accrued expenses  | (1,324)                                  | 6,634       |
| Other liabilities  | (22,874)                                 | (9,113)     |
| Net cash provided by operating activities  | 316,217                                  | 318,805     |
| <b>Cash Flows from Investing Activities:</b>                                       |  |             |
| Development costs and construction in progress                                     | (191,073)                                | (277,214)   |
| Additions to real estate   | (139,611)                                | (170,265)   |
| Distributions of capital from partially owned entities                             | 113,507                                  | 92,465      |
| Investments in partially owned entities  | (27,720)                                 | (90,659)    |
| Acquisitions of real estate and other  | (11,841)                                 | (91,100)    |
| Proceeds from sales of real estate and related investments                         | 5,180                                    | 159,888     |
| Proceeds from repayments of mortgage loans receivable                              | 29                                       | 22          |
| Net deconsolidation of 7 West 34th Street  | -  | (48,000)    |
| Investments in loans receivable and other  | -  | (11,700)    |
| Purchases of marketable securities   | -  | (4,379)     |
| Net cash used in investing activities  | (251,529)                                | (440,942)   |

See notes to consolidated financial statements (unaudited).



## VORNADO REALTY L.P.

**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
(UNAUDITED)

(Amounts in thousands)

|   | <b>For the Six Months Ended June 30,</b> |              |
|---|--|--------------|
|   | <b>2017</b>                              | <b>2016</b>  |
| <b>Cash Flows from Financing Activities:</b>  |  |              |
| Distributions to Vornado  | \$ (268,817)                             | \$ (237,832) |
| Proceeds from borrowings  | 226,929                                  | 1,325,246    |
| Distributions to preferred unitholders  | (32,258)                                 | (40,727)     |
| Distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries      | (25,617)                                 | (83,266)     |
| Repayments of borrowings  | (13,971)                                 | (1,032,115)  |
| Proceeds received from exercise of Vornado stock options  | 9,626                                    | 3,810        |
| Debt issuance and other costs   | (2,919)                                  | (29,478)     |
| Contributions from noncontrolling interests in consolidated subsidiaries                                    | 991                                      | 11,874       |
| Repurchase of Class A units related to stock compensation agreements and related tax withholdings and other | (285)                                    | (186)        |
| Net cash used in financing activities   | (106,321)                                | (82,674)     |
| Net decrease in cash and cash equivalents and restricted cash   | (41,633)                                 | (204,811)    |
| Cash and cash equivalents and restricted cash at beginning of period  | 1,599,322                                | 1,943,506    |
| Cash and cash equivalents and restricted cash at end of period  | \$ 1,557,689                             | \$ 1,738,695 |
| <b>Reconciliation of Cash and Cash Equivalents and Restricted Cash:</b>                                     |  |              |
| Cash and cash equivalents at beginning of period  | \$ 1,501,027                             | \$ 1,835,707 |
| Restricted cash at beginning of period  | 98,295                                   | 107,799      |
| Cash and cash equivalents and restricted cash at beginning of period  | \$ 1,599,322                             | \$ 1,943,506 |
| Cash and cash equivalents at end of period  | \$ 1,471,303                             | \$ 1,644,067 |
| Restricted cash at end of period  | 86,386                                   | 94,628       |
| Cash and cash equivalents and restricted cash at end of period  | \$ 1,557,689                             | \$ 1,738,695 |
| <b>Supplemental Disclosure of Cash Flow Information:</b>  |  |              |
| Cash payments for interest, excluding capitalized interest of \$20,050 and \$13,918                         | \$ 175,718                               | \$ 181,432   |
| Cash payments for income taxes  | \$ 3,151                                 | \$ 5,003     |
| <b>Non-Cash Investing and Financing Activities:</b>   |  |              |
| Adjustments to carry redeemable Class A units at redemption value   | \$ 90,208                                | \$ (20,369)  |
| Accrued capital expenditures included in accounts payable and accrued expenses                              | 59,733                                   | 144,079      |
| Write-off of fully depreciated assets   | (35,727)                                 | (220,654)    |
| (Reduction) increase in unrealized net gain on available-for-sale securities                                | (16,215)                                 | 39,113       |

Decrease in assets and liabilities resulting from the  
deconsolidation of investments

that were previously consolidated:

|                       |   |           |
|-----------------------|---|-----------|
| Real estate, net      | - | (122,047) |
| Mortgage payable, net | - | (290,418) |

See notes to consolidated financial statements (unaudited).

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**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

## **1. Organization**

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 93.6% of the common limited partnership interest in, the Operating Partnership as of June 30, 2017. All references to the “Company,” “we,” “us,” and “our” mean collectively Vornado, the Operating Partnership and those entities/subsidiaries consolidated by Vornado.

On July 17, 2017, we completed the spin-off of our Washington, DC segment comprised of (i) 37 office properties totaling over 11.1 million square feet, five multifamily properties with 3,133 units and five other assets totaling approximately 406,000 square feet and (ii) 18 future development assets totaling over 10.4 million square feet of estimated potential development density, and \$275.0 million of cash to JBG SMITH Properties (“JBGS”). On July 18, 2017, JBGS was combined with the management business and certain Washington, DC assets of The JBG Companies (“JBG”), a Washington, DC real estate company. Steven Roth, the Chairman of the Board of Trustees and Chief Executive Officer of Vornado, is the Chairman of the Board of Trustees of JBGS. Mitchell Schear, former President of our Washington, DC business, is a member of the Board of Trustees of JBGS. We are providing transition services to JBGS initially including information technology, financial reporting and payroll services. The spin-off was effected through a tax-free distribution by Vornado to the holders of Vornado common shares of all of the common shares of JBGS at the rate of one JBGS common share for every two common shares of Vornado and the distribution by the Operating Partnership to the holders of its common units of all of the outstanding common units of JBG SMITH Properties LP (“JBGSLP”) at the rate of one JBGSLP common unit for every two common units of VRLP held of record. See JBGS’ Amendment No. 3 on Form 10 (File No. 001-37994) filed with the Securities and Exchange Commission on June 9, 2017 for additional information. Beginning in the third quarter of 2017, the historical financial results of our Washington, DC segment will be reflected in our consolidated financial statements as discontinued operations for all periods presented.



## **2. Basis of Presentation**

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and the Operating Partnership and their consolidated subsidiaries. All inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2016, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the operating results for the full year.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

### **3. Recently Issued Accounting Literature**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-09”) establishing Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. When adopting this standard, we are permitted to use either the full retrospective method or the modified retrospective method. We will adopt this standard effective as of January 1, 2018 and currently expect to utilize the modified retrospective method of adoption. We have progressed with our project plan for adopting this standard, including gathering and evaluating the inventory of our revenue streams. We expect this standard will have an impact on the presentation of certain lease and non-lease components of revenue from leases upon the adoption of the update (“ASU 2016-02”) *Leases* with no impact on “total revenues.” We expect this standard will have an impact on the timing of gains on certain sales of real estate. We are continuing to evaluate the impact of this standard on our consolidated financial statements.

In January 2016, the FASB issued an update (“ASU 2016-01”) *Recognition and Measurement of Financial Assets and Financial Liabilities* to ASC Topic 825, *Financial Instruments*. ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. While the adoption of this standard requires us to continue to measure “marketable securities” at fair value at each reporting date, the changes in fair value will be recognized in current period earnings as opposed to “other comprehensive income.”

In February 2016, the FASB issued an update ASU 2016-02 establishing ASC Topic 842, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the overall impact of the adoption of ASU 2016-02 on our consolidated financial statements, including the timing of

adopting this standard. ASU 2016-02 will more significantly impact the accounting for leases in which we are a lessee. We have a number of ground leases for which we will be required to record a right-of-use asset and lease liability equal to the present value of the remaining minimum lease payments upon adoption of this standard. We also expect that this standard will have an impact on the presentation of certain lease and non-lease components of revenue from leases with no impact on “total revenues.” In particular, items such as reimbursable real estate taxes and insurance expenses, will be presented in “property rentals” and non-lease components, such as certain reimbursable operating expenses, will be presented in “tenant expense reimbursements” on our consolidated statements of income.

In March 2016, the FASB issued an update (“ASU 2016-09”) *Improvements to Employee Share-Based Payment Accounting* to ASC Topic 718, *Compensation – Stock Compensation* (“ASC 718”). ASU 2016-09 amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The adoption of this update as of January 1, 2017, did not have a material impact on our consolidated financial statements.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

### **3. Recently Issued Accounting Literature - continued**

In August 2016, the FASB issued an update (“ASU 2016-15”) *Classification of Certain Cash Receipts and Cash Payments* to ASC Topic 230, *Statement of Cash Flows*. ASU 2016-15 clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows to reduce diversity in practice with respect to (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-15 effective January 1, 2017, with retrospective application to our consolidated statements of cash flows. The adoption of ASU 2016-15 impacted our classification of distributions received from equity method investees. We selected the nature of earnings approach for classifying distributions. Under this approach, the distributions from equity method investees are classified on the basis of the nature of the activity of the investee that generated the distribution. The retrospective application of ASU 2016-15 resulted in the reclassification of certain distributions of income from partially owned entities to distributions of capital from partially owned entities, which reduced net cash provided by operating activities and net cash used in investing activities by \$4,488,000 for the six months ended June 30, 2016.

In November 2016, the FASB issued an update (“ASU 2016-18”) *Restricted Cash* to ASC Topic 230, *Statement of Cash Flows*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the statement of cash flows upon adoption of this standard. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-18 effective January 1, 2017, with retrospective application to our consolidated statements of cash flows. Accordingly, the consolidated statements of cash flows present a reconciliation of the changes in cash and cash equivalents and restricted cash. Restricted cash primarily consists of security deposits, cash restricted for the purposes of facilitating a Section 1031 Like-Kind Exchange, cash restricted in connection with our deferred compensation plan and cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements.

In February 2017, the FASB issued an update (“ASU 2017-05”) *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* to ASC Subtopic 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 clarifies the scope of recently established guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. This update conforms the derecognition guidance on nonfinancial assets with the model for transactions in ASC 606. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We expect to utilize the modified retrospective method of adoption. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

In May 2017, the FASB issued an update (“ASU 2017-09”) *Scope of Modification Accounting* to ASC 718. ASU 2017-09 provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. ASU 2017-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**4. Real Estate Fund Investments**

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the “Fund”) and own a 25.0% interest in the Fund, which has an eight-year term and a three-year investment period that ended in July 2013. The Fund is accounted for under ASC 946, *Financial Services – Investment Companies* (“ASC 946”) and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

We are also the general partner and investment manager of the Crowne Plaza Times Square Hotel Joint Venture (the “Crowne Plaza Joint Venture”) and own a 57.1% interest in the joint venture which owns the 24.7% interest in the Crowne Plaza Times Square Hotel not owned by the Fund. The Crowne Plaza Joint Venture is also accounted for under ASC 946 and we consolidate the accounts of the joint venture into our consolidated financial statements, retaining the fair value basis of accounting.

As of June 30, 2017, we had six real estate fund investments through the Fund and the Crowne Plaza Joint Venture with an aggregate fair value of \$455,692,000, or \$143,092,000 in excess of cost, and had remaining unfunded commitments of \$117,902,000, of which our share was \$34,519,000. Below is a summary of income from the Fund and the Crowne Plaza Joint Venture for the three and six months ended June 30, 2017 and 2016.

| (Amounts in thousands)                                   | For the Three Months Ended |          | For the Six Months Ended |          |
|--|----------------------------|----------|--------------------------|----------|
|  | June 30,                   |          | June 30,                 |          |
|  | 2017                       | 2016     | 2017                     | 2016     |
| Net investment income                                    | \$ 3,646                   | \$ 1,723 | \$ 10,860                | \$ 6,396 |
| Net realized gain on exited investments                  | -                          | -        | 241                      | 14,676   |
| Previously recorded unrealized gain on exited investment | -                          | -        | -                        | (14,254) |
| Net unrealized gain (loss) on held investments           | 745                        | 14,666   | (6,442)                  | 20,855   |
| Income from real estate fund investments <sup>(1)</sup>  | 4,391                      | 16,389   | 4,659                    | 27,673   |
| Less income attributable to noncontrolling interests     |                            |          |                          |          |

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|   |          |          |            |           |
|---|----------|----------|------------|-----------|
| in consolidated subsidiaries  | (4,695)  | (8,845)  | (8,198)    | (14,818)  |
| (Loss) income from real estate fund investments attributable to the Operating Partnership | (304)    | 7,544    | (3,539)    | 12,855    |
| Less loss (income) attributable to noncontrolling interests in the Operating Partnership  | 19       | (465)    | 221        | (794)     |
| (Loss) income from real estate fund investments attributable to Vornado                   | \$ (285) | \$ 7,079 | \$ (3,318) | \$ 12,061 |

- (1) Excludes \$1,381 and \$935 of management and leasing fees for the three months ended June 30, 2017 and 2016, respectively, and \$2,381 and \$1,695 for the six months ended June 30, 2017 and 2016, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****5. Marketable Securities**

Below is a summary of our marketable securities portfolio as of June 30, 2017 and December 31, 2016.

| (Amounts in thousands) | As of June 30, 2017 |           |                 | As of December 31, 2016 |           |                 |
|------------------------|---------------------|-----------|-----------------|-------------------------|-----------|-----------------|
|                        | Fair Value          | GAAP Cost | Unrealized Gain | Fair Value              | GAAP Cost | Unrealized Gain |
| Equity securities:     |                     |           |                 |                         |           |                 |
| Lexington Realty Trust | \$ 183,027          | \$ 72,549 | \$ 110,478      | \$ 199,465              | \$ 72,549 | \$ 126,916      |
| Other                  | 4,462               | 650       | 3,812           | 4,239                   | 650       | 3,589           |
|                        | \$ 187,489          | \$ 73,199 | \$ 114,290      | \$ 203,704              | \$ 73,199 | \$ 130,505      |

**6. Investments in Partially Owned Entities*****Alexander's, Inc. ("Alexander's") (NYSE: ALX)***

As of June 30, 2017, we own 1,654,068 Alexander's common shares, representing a 32.4% interest in Alexander's. We account for our investment in Alexander's under the equity method. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable.



As of June 30, 2017, the market value (“fair value” pursuant to ASC Topic 820, *Fair Value Measurements* (“ASC 820”)) of our investment in Alexander’s, based on Alexander’s June 30, 2017 closing share price of \$421.46, was \$697,124,000, or \$570,494,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2017, the carrying amount of our investment in Alexander’s, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander’s by approximately \$39,468,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander’s common stock acquired over the book value of Alexander’s net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander’s assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander’s net income. The basis difference related to the land will be recognized upon disposition of our investment.





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On June 1, 2017, Alexander's completed a \$500,000,000 refinancing of the office portion of 731 Lexington Avenue. The interest-only loan is at LIBOR plus 0.90% (2.06% at June 30, 2017) and matures in June 2020 with four one-year extension options. In connection therewith, Alexander's purchased an interest rate cap with a notional amount of \$500,000,000 that caps LIBOR at a rate of 6%. The property was previously encumbered by a \$300,000,000 interest-only mortgage at LIBOR plus 0.95% which was scheduled to mature in March 2021.

*Urban Edge Properties ("UE") (NYSE: UE)*

As of June 30, 2017, we own 5,717,184 UE operating partnership units, representing a 4.8% ownership interest in UE. We account for our investment in UE under the equity method and record our share of UE's net income or loss on a one-quarter lag basis. In 2017 and 2016, we provided UE with information technology support. UE is providing us with leasing and property management services for (i) certain small retail properties that we plan to sell, and (ii) our affiliate, Alexander's, Rego Park retail assets. As of June 30, 2017, the fair value of our investment in UE, based on UE's June 30, 2017 closing share price of \$23.73, was \$135,669,000, or \$93,777,000 in excess of the carrying amount on our consolidated balance sheet.



During the six months ended June 30, 2017, UE issued approximately 14,000,000 operating partnership units related to property acquisitions and a public offering of its common stock. As a result, our ownership interest in UE decreased to 4.8% from 5.4%. In accordance with ASC 323-10-40-1, we account for a unit issuance by an equity method investee as if we had sold a proportionate share of our investment. The average issuance price per unit of the newly issued UE capital is \$26.07. Our average per unit carrying amount is \$4.55. Accordingly, we recorded a \$15,900,000 net gain in connection with this issuance which is included in “income (loss) from partially owned entities” on our consolidated statements of income.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**6. Investments in Partially Owned Entities – continued**

*Pennsylvania Real Estate Investment Trust (“PREIT”) (NYSE: PEI)*

As of June 30, 2017, we own 6,250,000 PREIT operating partnership units, representing an 8.0% interest in PREIT. We account for our investment in PREIT under the equity method and record our share of PREIT’s net income or loss on a one-quarter lag basis. As of June 30, 2017, the fair value of our investment in PREIT, based on PREIT’s June 30, 2017 closing share price of \$11.32, was \$70,750,000, or \$46,854,000 below the carrying amount on our consolidated balance sheet. As of June 30, 2017, the carrying amount of our investment in PREIT exceeds our share of the equity in the net assets of PREIT by approximately \$84,087,000. The majority of this basis difference resulted from the excess of the fair value of the PREIT operating units received over our share of the book value of PREIT’s net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of PREIT’s assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in PREIT’s net loss. The basis difference related to the land will be recognized upon disposition of our investment.

*Farley Post Office Joint Venture*

In September 2016, our 50.1% joint venture with the Related Companies (“Related”) was designated by Empire State Development (“ESD”), an entity of New York State to redevelop the historic Farley Post Office building. The building will include a new Moynihan Train Hall and approximately 850,000 rentable square feet of commercial space, comprised of approximately 730,000 square feet of office space and approximately 120,000 square feet of retail space. On June 15, 2017, the joint venture closed a 99-year, triple-net lease with ESD for the commercial space at the Farley Post Office building and made a \$230,000,000 upfront contribution, of which our share is \$115,230,000, towards the construction of the train hall. The lease calls for annual rent payments of \$5,000,000 plus payments in lieu of real estate taxes. Simultaneously, the joint venture completed a \$271,000,000 loan facility, with an initial advance of \$202,299,000. The interest only loan is at LIBOR plus 3.25% (4.41% at June 30, 2017) and matures in June 2019 with two one-year extension options.

The joint venture has also entered into a development agreement with ESD and a design-build contract with Skanska Moynihan Train Hall Builders. Under the development agreement with ESD, the joint venture is obligated to build the Moynihan Train Hall, with Vornado and Related each guaranteeing the joint venture’s obligations. Under the design-build agreement, Skanska Moynihan Train Hall Builders is obligated to fulfill all of the joint venture’s obligations. The obligations of Skanska Moynihan Train Hall Builders have been bonded by Skanska USA and bears a full guaranty from Skanska AB.

*Mezzanine Loan – New York*

On May 9, 2017, a \$150,000,000 mezzanine loan owned by a joint venture in which we have a 33.3% ownership interest was repaid at its maturity and we received our \$50,000,000 share. The mezzanine loan earned interest at LIBOR plus 9.42%.

*Sterling Suffolk Racecourse, LLC (“Suffolk Downs JV”)*

On May 26, 2017, Suffolk Downs JV, a joint venture in which we have a 21.2% equity interest, sold the property comprising the Suffolk Downs race track in East Boston, Massachusetts (“Suffolk Downs”) for \$155,000,000, which resulted in net proceeds and a net gain to us of \$15,314,000. In addition, we were repaid \$29,318,000 of principal and \$6,129,000 of accrued interest on our debt investments in Suffolk Downs JV, resulting in a net gain of \$11,373,000.

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**6. Investments in Partially Owned Entities – continued**

Below is a schedule summarizing our investments in partially owned entities.

| (Amounts in thousands)                          | <b>Percentage<br/>Ownership at</b> | <b>Balance as of</b> |                              |
|---|------------------------------------|----------------------|------------------------------|
|   | <b>June 30, 2017</b>               | <b>June 30, 2017</b> | <b>December 31,<br/>2016</b> |
| <b>Investments:</b>                             |                                    |                      |                              |
| Partially owned office buildings <sup>(1)</sup> | Various                            | \$ 804,492           | \$ 825,421                   |
| Alexander's PREIT                               | 32.4%                              | 126,630              | 129,324                      |
| UE  | 8.0%                               | 117,604              | 122,883                      |
| India real estate ventures                      | 4.8%                               | 41,892               | 24,523                       |
| Other investments <sup>(2)</sup>                | 4.1%-36.5%                         | 26,491               | 30,290                       |
|   | Various                            | 236,980              | 295,578                      |
|   |                                    | \$ 1,354,089         | \$ 1,428,019                 |
| 7 West 34th Street <sup>(3)</sup>               | 53.0%                              | \$ (45,789)          | \$ (43,022)                  |

- (1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue, 61 Ninth Avenue and others.
- (2) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, Farley Post Office Joint Venture, Toys "R" Us, Inc. (which has a carrying amount of zero) and others.
- (3) Our negative basis results from a deferred gain from the sale of a 47.0% ownership interest in the property and is included in "other liabilities" on our consolidated balance sheets.

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 6. Investments in Partially Owned Entities – continued

Below is a schedule net income (loss) from partially owned entities.

| (Amounts in thousands)   | Percentage<br>Ownership at<br>June 30, 2017 | For the Three Months<br>Ended<br>June 30, |          | For the Six Months Ended<br>June 30, |          |
|--|---|---|----------|--------------------------------------|----------|
|  |   | 2017                                      | 2016     | 2017                                 | 2016     |
| <b>Our Share of Net Income<br/>(Loss):</b>                               |   |   |          |                                      |          |
| UE (see page 23 for<br>details):   |   |   |          |                                      |          |
| Net gain resulting<br>from UE operating<br>partnership unit<br>issuances | 4.8%  | \$ 15,900                                 | \$ -     | \$ 15,900                            | \$ -     |
| Equity in net<br>earnings  |   | 2,894                                     | 1,071    | 3,985                                | 1,947    |
| Management fees  |   | 209                                       | 209      | 418                                  | 418      |
|  |   | 19,003                                    | 1,280    | 20,303                               | 2,365    |
| Alexander's (see page 23<br>for details):                                |   |   |          |                                      |          |
| Equity in net income   | 32.4%                                       | 6,690                                     | 6,812    | 13,582                               | 13,749   |
| Management,<br>leasing and<br>development fees                           |   | 1,507                                     | 1,688    | 3,016                                | 3,413    |
|  |   | 8,197                                     | 8,500    | 16,598                               | 17,162   |
| Partially owned office<br>buildings <sup>(1)</sup>                       | Various                                     | (7,897)                                   | (12,398) | (17,840)                             | (26,647) |
| India real estate ventures   | 4.1%-36.5%                                  | (1,644)                                   | (1,934)  | 10                                   | (2,620)  |
| PREIT (see page 24 for<br>details)                                       | 8.0%  | (902)                                     | (527)    | (3,732)                              | (4,815)  |



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|                                  |         |           |        |           |            |
|----------------------------------|---------|-----------|--------|-----------|------------|
| Other investments <sup>(2)</sup> | Various | 29,519    | 5,721  | 32,382    | 10,957     |
|                                  |         | \$ 46,276 | \$ 642 | \$ 47,721 | \$ (3,598) |

- (1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others.
- (2) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, Toys "R" Us, Inc. and others. In the second quarter of 2017, we recognized \$26,687 of net gains, comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV. See page 24 for details.

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**7. Dispositions***Discontinued Operations*

The tables below set forth the assets and liabilities related to discontinued operations as of June 30, 2017 and December 31, 2016 and their combined results of operations and cash flows for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)

|  | <b>Balance as of</b> |                          |
|--|----------------------|--------------------------|
|  | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
| <b>Assets related to discontinued operations:</b>      |                      |                          |
| Real estate, net                                       | \$ 1,927             | \$ 2,642                 |
| Other assets   | 2,451                | 2,928                    |
|  | <b>\$ 4,378</b>      | <b>\$ 5,570</b>          |
| <b>Liabilities related to discontinued operations:</b> |                      |                          |
| Other liabilities                                      | \$ 2,406             | \$ 2,870                 |

(Amounts in thousands)

|   | <b>For the Three Months Ended June 30,</b> |                 | <b>For the Six Months Ended June 30,</b> |                 |
|---|--|-----------------|--|-----------------|
|   | <b>2017</b>                                | <b>2016</b>     | <b>2017</b>                              | <b>2016</b>     |
| <b>Income from discontinued operations:</b> |  |                 |  |                 |
| Total revenues                              | \$ 848                                     | \$ 947          | \$ 1,172                                 | \$ 2,129        |
| Total expenses                              | 185  | 682             | 348                                      | 1,148           |
|   | 663  | 265             | 824                                      | 981             |
| Net gains on the sale of real estate        | -  | 2,210           | 2,267                                    | 2,210           |
| Pretax income from discontinued operations  | 663  | 2,475           | 3,091                                    | 3,191           |
| Income tax expense                          | -  | -               | -  | -               |
| Income from discontinued operations         | <b>\$ 663</b>                              | <b>\$ 2,475</b> | <b>\$ 3,091</b>                          | <b>\$ 3,191</b> |

(Amounts in thousands)

**For the Six Months Ended June 30,**

|   | 2017   | 2016       |
|---|--------|------------|
| <b>Cash flows related to discontinued operations:</b> |        |            |
| Cash flows from operating activities                  | \$ 400 | \$ (4,685) |
| Cash flows from investing activities                  | 3,419  | -          |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**8. Identified Intangible Assets and Liabilities**

The following summarizes our identified intangible assets (primarily above-market leases) and liabilities (primarily acquired below-market leases) as of June 30, 2017 and December 31, 2016.

| (Amounts in thousands)   | <b>Balance as of</b> |                          |
|--|----------------------|--------------------------|
|  | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
| <b>Identified intangible assets:</b>                                     |                      |                          |
| Gross amount   | \$ 387,791           | \$ 400,061               |
| Accumulated amortization   | (211,285)            | (207,330)                |
| Total, net   | \$ 176,506           | \$ 192,731               |
| <b>Identified intangible liabilities (included in deferred revenue):</b> |                      |                          |
| Gross amount   | \$ 581,471           | \$ 586,969               |
| Accumulated amortization   | (340,131)            | (323,183)                |
| Total, net   | \$ 241,340           | \$ 263,786               |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$12,932,000 and \$12,301,000 for the three months ended June 30, 2017 and 2016, respectively, and \$24,391,000 and \$29,808,000 for the six months ended June 30, 2017 and 2016, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2018 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2018                   | \$ 44,474 |
| 2019                   | 32,297    |
| 2020                   | 23,472    |
| 2021                   | 18,646    |
| 2022                   | 15,530    |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$6,971,000 and \$8,066,000 for the three months ended June 30, 2017 and 2016, respectively, and \$14,079,000 and \$15,859,000 for the six months ended June 30, 2017 and 2016, respectively. Estimated annual amortization of all other identified intangible assets including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years commencing January 1, 2018 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2018                   | \$ 20,073 |
| 2019                   | 15,737    |
| 2020                   | 12,291    |
| 2021                   | 11,288    |
| 2022                   | 9,532     |

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases, net of above-market leases, resulted in an increase to rent expense (a component of operating expense) of \$458,000 and \$458,000 for the three months ended June 30, 2017 and 2016, respectively, and \$916,000 and \$916,000 for the six months ended June 30, 2017 and 2016, respectively. Estimated annual amortization of these below-market leases, net

of above-market leases, for each of the five succeeding years commencing January 1, 2018 is as follows:

(Amounts in thousands)

|      |    |       |
|------|----|-------|
| 2018 | \$ | 1,832 |
| 2019 |    | 1,832 |
| 2020 |    | 1,832 |
| 2021 |    | 1,832 |
| 2022 |    | 1,832 |

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**9. Debt**

The following is a summary of our debt:

| (Amounts in thousands)                  | Interest Rate<br>at | Balance as of |                      |
|---|---------------------|---------------|----------------------|
|   | June 30, 2017       | June 30, 2017 | December 31,<br>2016 |
| <b>Mortgages Payable:</b>               |                     |               |                      |
| Fixed rate                              | 3.84%               | \$ 6,084,795  | \$ 6,099,873         |
| Variable rate                           | 2.93%               | 3,502,460     | 3,274,424            |
| Total                                   | 3.51%               | 9,587,255     | 9,374,297            |
| Deferred financing costs, net and other |                     | (84,561)      | (96,034)             |
| Total, net                              |                     | \$ 9,502,694  | \$ 9,278,263         |
| <b>Unsecured Debt:</b>                  |                     |               |                      |
| Senior unsecured notes                  | 3.68%               | \$ 850,000    | \$ 850,000           |
| Deferred financing costs, net and other |                     | (3,714)       | (4,423)              |
| Senior unsecured notes, net             |                     | 846,286       | 845,577              |
| Unsecured term loan                     | 2.37%               | 375,000       | 375,000              |
| Deferred financing costs, net and other |                     | (2,025)       | (2,785)              |
| Unsecured term loan, net                |                     | 372,975       | 372,215              |
| Unsecured revolving credit facilities   | 2.14%               | 115,630       | 115,630              |
| Total, net                              |                     | \$ 1,334,891  | \$ 1,333,422         |

On June 20, 2017, we completed a \$220,000,000 financing of The Bartlett, a 699-unit residential building with a 39,000 square foot Whole Foods Market at its base, located in Arlington, Virginia. The five-year interest-only loan is at LIBOR plus 1.70% (2.90% at June 30, 2017), and matures in June 2022. On July 17, 2017, the property, the loan and the \$217,000,000 of net proceeds were transferred to JBGS in connection with the tax-free spin-off of our Washington, DC segment.





**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**10. Redeemable Noncontrolling Interests/Redeemable Partnership Units**

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Redeemable noncontrolling interests on Vornado's consolidated balance sheets and redeemable partnership units on the consolidated balance sheets of the Operating Partnership are primarily comprised of Class A Operating Partnership units held by third parties and are recorded at the greater of their carrying amount or redemption value at the end of each reporting period. Changes in the value from period to period are charged to "additional capital" in Vornado's consolidated statements of changes in equity and to "partners' capital" on the consolidated balance sheets of the Operating Partnership.

|  |              |
|--|--------------|
| (Amounts in thousands)   |              |
| Balance as of December 31, 2015  | \$ 1,229,221 |
| Net income   | 7,044        |
| Other comprehensive income   | 1,685        |
| Distributions  | (15,763)     |
| Redemption of Class A units for common shares/units, at redemption value | (18,208)     |
| Adjustments to carry redeemable Class A units at redemption value        | 20,369       |
| Other, net   | 21,149       |
| Balance as of June 30, 2016  | \$ 1,245,497 |
| <br>   |              |
| Balance as of December 31, 2016  | \$ 1,278,446 |
| Net income   | 10,935       |
| Other comprehensive loss   | (207)        |
| Distributions  | (18,078)     |
| Redemption of Class A units for common shares/units, at redemption value | (25,562)     |
| Adjustments to carry redeemable Class A units at redemption value        | (90,208)     |
| Other, net   | 21,758       |
| Balance as of June 30, 2017  | \$ 1,177,084 |

As of June 30, 2017 and December 31, 2016, the aggregate redemption value of redeemable Class A units of the Operating Partnership, which are those units held by third parties, was \$1,171,656,000 and \$1,273,018,000, respectively.

Redeemable noncontrolling interests/redeemable partnership units exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC 480, *Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of “other liabilities” on our consolidated balance sheets and aggregated \$50,561,000 as of June 30, 2017 and December 31, 2016. Changes in the value from period to period, if any, are charged to “interest and debt expense” on our consolidated statements of income.



## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**11. Accumulated Other Comprehensive Income (“AOCI”)**

The following tables set forth the changes in accumulated other comprehensive income by component.

(Amounts in thousands)

|   | Total      | Securities<br>available-<br>for-sale | Pro rata share of<br>nonconsolidated<br>subsidiaries'<br>OCI | Interest<br>rate<br>swaps | Other      |
|---|------------|--------------------------------------|--|---------------------------|------------|
| <b>For the Three Months Ended June 30, 2017</b> |            |                                      |  |                           |            |
| Balance as of March 31, 2017                    | \$ 119,019 | \$ 115,496                           | \$ (2,841)   | \$ 13,908                 | \$ (7,544) |
| OCI before reclassifications                    | (3,180)    | (1,206)                              | (980)  | (1,206)                   | 212        |
| Amounts reclassified from AOCI                  | -          | -                                    | -  | -                         | -          |
| Net current period OCI                          | (3,180)    | (1,206)                              | (980)  | (1,206)                   | 212        |
| Balance as of June 30, 2017                     | \$ 115,839 | \$ 114,290                           | \$ (3,821)   | \$ 12,702                 | \$ (7,332) |
| <b>For the Three Months Ended June 30, 2016</b> |            |                                      |  |                           |            |
| Balance as of March 31, 2016                    | \$ 53,399  | \$ 89,542                            | \$ (9,313)   | \$ (23,563)               | \$ (3,267) |
| OCI before reclassifications                    | 19,157     | 28,019                               | (628)  | (6,975)                   | (1,259)    |
| Amounts reclassified from AOCI                  | -          | -                                    | -  | -                         | -          |
| Net current period OCI                          | 19,157     | 28,019                               | (628)  | (6,975)                   | (1,259)    |
| Balance as of June 30, 2016                     | \$ 72,556  | \$ 117,561                           | \$ (9,941)   | \$ (30,538)               | \$ (4,526) |
| <b>For the Six Months Ended June 30, 2017</b>   |            |                                      |  |                           |            |
| Balance as of December 31, 2016                 | \$ 118,972 | \$ 130,505                           | \$ (12,058)  | \$ 8,066                  | \$ (7,541) |
| OCI before reclassifications                    | (12,401)   | (16,215)                             | (1,031)  | 4,636                     | 209        |
| Amounts reclassified from AOCI                  | 9,268      | -                                    | 9,268  | -                         | -          |
| Net current period OCI                          | (3,133)    | (16,215)                             | 8,237  | 4,636                     | 209        |
| Balance as of June 30, 2017                     | \$ 115,839 | \$ 114,290                           | \$ (3,821)   | \$ 12,702                 | \$ (7,332) |
| <b>For the Six Months Ended June 30, 2016</b>   |            |                                      |  |                           |            |
| Balance as of December 31, 2015                 | \$ 46,921  | \$ 78,448                            | \$ (9,319)   | \$ (19,368)               | \$ (2,840) |
| OCI before reclassifications                    | 25,635     | 39,113                               | (622)  | (11,170)                  | (1,686)    |

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|                             |           |            |            |             |            |
|-----------------------------|-----------|------------|------------|-------------|------------|
| Amounts reclassified from   |           |            |            |             |            |
| AOCI                        | -         | -          | -          | -           | -          |
| Net current period OCI      | 25,635    | 39,113     | (622)      | (11,170)    | (1,686)    |
| Balance as of June 30, 2016 | \$ 72,556 | \$ 117,561 | \$ (9,941) | \$ (30,538) | \$ (4,526) |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

## **12. Variable Interest Entities (“VIEs”)**

### *Unconsolidated VIEs*

As of June 30, 2017 and December 31, 2016, we have several unconsolidated VIEs. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities’ economic performance. We account for our investment in these entities under the equity method (see Note 6 – *Investments in Partially Owned Entities*). As of June 30, 2017 and December 31, 2016, the net carrying amount of our investments in these entities was \$393,418,000 and \$392,150,000, respectively, and our maximum exposure to loss in these entities is limited to our investments.

### *Consolidated VIEs*

Our most significant consolidated VIEs are the Operating Partnership (for Vornado), real estate fund investments, and certain properties that have noncontrolling interests. These entities are VIEs because the noncontrolling interests do not have substantive kick-out or participating rights. We consolidate these entities because we control all of their significant business activities.

As of June 30, 2017, the total assets and liabilities of our consolidated VIEs, excluding the Operating Partnership, were \$3,648,565,000 and \$1,756,632,000, respectively. As of December 31, 2016, the total assets and liabilities of our consolidated VIEs, excluding the Operating Partnership, were \$3,638,483,000 and \$1,762,322,000, respectively.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

### **13. Fair Value Measurements**

ASC 820 defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value. Considerable judgment is necessary to interpret Level 2 and 3 inputs in determining the fair value of our financial and non-financial assets and liabilities. Accordingly, our fair value estimates, which are made at the end of each reporting period, may be different than the amounts that may ultimately be realized upon sale or disposition of these assets.



*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis*



Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of (i) marketable securities, (ii) real estate fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheet), (iv) interest rate swaps and (v) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy as of June 30, 2017 and December 31, 2016, respectively.

(Amounts in thousands)

|  | <b>As of June 30, 2017</b> |                |                |                |
|--|----------------------------|----------------|----------------|----------------|
|  | <b>Total</b>               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Marketable securities  | \$ 187,489                 | \$ 187,489     | \$ -           | \$ -           |
| Real estate fund investments   | 455,692                    | -              | -              | 455,692        |
| Deferred compensation plan assets<br>(\$2,691 included in restricted<br>cash and \$101,875 in other<br>assets) | 104,566                    | 54,717         | -              | 49,849         |
| Interest rate swaps (included in other<br>assets)  | 20,998                     | -              | 20,998         | -              |
| Total assets   | \$ 768,745                 | \$ 242,206     | \$ 20,998      | \$ 505,541     |
| Mandatorily redeemable instruments<br>(included in other liabilities)  | \$ 50,561                  | \$ 50,561      | \$ -           | \$ -           |
| Interest rate swap (included in other<br>liabilities)  | 5,011                      | -              | 5,011          | -              |
| Total liabilities  | \$ 55,572                  | \$ 50,561      | \$ 5,011       | \$ -           |

(Amounts in thousands)

|  | <b>As of December 31, 2016</b> |                |                |                |
|--|--------------------------------|----------------|----------------|----------------|
|  | <b>Total</b>                   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Marketable securities  | \$ 203,704                     | \$ 203,704     | \$ -           | \$ -           |
| Real estate fund investments   | 462,132                        | -              | -              | 462,132        |
| Deferred compensation plan assets<br>(\$4,187 included in restricted<br>cash and \$117,187 in other<br>assets) | 121,374                        | 63,930         | -              | 57,444         |
| Interest rate swaps (included in other<br>assets)  | 21,816                         | -              | 21,816         | -              |
| Total assets   | \$ 809,026                     | \$ 267,634     | \$ 21,816      | \$ 519,576     |
| Mandatorily redeemable instruments<br>(included in other liabilities)  | \$ 50,561                      | \$ 50,561      | \$ -           | \$ -           |
| Interest rate swap (included in other<br>liabilities)  | 10,122                         | -              | 10,122         | -              |
| Total liabilities  | \$ 60,683                      | \$ 50,561      | \$ 10,122      | \$ -           |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

### **13. Fair Value Measurements – continued**

*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued*





Real Estate Fund Investments



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As of June 30, 2017, we had six real estate fund investments with an aggregate fair value of \$455,692,000, or \$143,092,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 0.3 to 3.5 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, current and anticipated market conditions, industry publications and the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these real estate fund investments at June 30, 2017 and December 31, 2016.

| Unobservable Quantitative Input | Range<br>June 30, 2017 | December 31,<br>2016 | Weighted Average<br>(based on fair value of investments) |                      |
|---------------------------------|------------------------|----------------------|--|----------------------|
|                                 |                        |                      | June 30,<br>2017   | December 31,<br>2016 |
| Discount rates                  | 3.0% to 16.0%          | 10.0% to 14.9%       | 11.1%  | 12.6%                |
| Terminal capitalization rates   | 4.7% to 5.8%           | 4.3% to 5.8%         | 5.5%   | 5.3%                 |

The above inputs are subject to change based on changes in economic and market conditions and/or changes in use or timing of exit. Changes in discount rates and terminal capitalization rates result in increases or decreases in the fair values of these investments. The discount rates encompass, among other things, uncertainties in the valuation models with respect to terminal capitalization rates and the amount and timing of cash flows. Therefore, a change in the fair value of these investments resulting from a change in the terminal capitalization rate may be partially offset by a change in the discount rate. It is not possible for us to predict the effect of future economic or market conditions on our estimated fair values.



The table below summarizes the changes in the fair value of real estate fund investments that are classified as Level 3, for the three and six months ended June 30, 2017 and 2016.

| (Amounts in thousands)       | For the Three Months Ended |            | For the Six Months Ended |            |
|------------------------------|----------------------------|------------|--------------------------|------------|
|                              | June 30,                   |            | June 30,                 |            |
|                              | 2017                       | 2016       | 2017                     | 2016       |
| Beginning balance            | \$ 454,946                 | \$ 566,696 | \$ 462,132               | \$ 574,761 |
| Dispositions / distributions | -                          | (57,212)   | -                        | (71,888)   |
| Net unrealized gain (loss)   | 745                        | 14,666     | (6,442)                  | 20,855     |
| Net realized gain            | -                          | -          | 241                      | 422        |
| Other, net                   | 1                          | -          | (239)                    | -          |
| Ending balance               | \$ 455,692                 | \$ 524,150 | \$ 455,692               | \$ 524,150 |

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**13. Fair Value Measurements – continued**

*Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued*





Deferred Compensation Plan Assets



Deferred compensation plan assets that are classified as Level 3 consist of investments in limited partnerships and investment funds, which are managed by third parties. We receive quarterly financial reports from a third party administrator, which are compiled from the quarterly reports provided to them from each limited partnership and investment fund. The quarterly reports provide net asset values on a fair value basis which are audited by independent public accounting firms on an annual basis. The third party administrator does not adjust these values in determining our share of the net assets and we do not adjust these values when reported in our consolidated financial statements.

The table below summarizes the changes in the fair value of deferred compensation plan assets that are classified as Level 3, for the three and six months ended June 30, 2017 and 2016.

| (Amounts in thousands)        | For the Three Months Ended |           | For the Six Months Ended |           |
|-------------------------------|----------------------------|-----------|--------------------------|-----------|
|                               | June 30,                   |           | June 30,                 |           |
|                               | 2017                       | 2016      | 2017                     | 2016      |
| Beginning balance             | \$ 56,910                  | \$ 57,184 | \$ 57,444                | \$ 59,186 |
| Purchases                     | 1,350                      | 1,106     | 1,813                    | 2,272     |
| Sales                         | (9,375)                    | (779)     | (12,112)                 | (2,151)   |
| Realized and unrealized gains | 830                        | 2,219     | 1,905                    | 312       |
| Other, net                    | 134                        | 410       | 799                      | 521       |
| Ending balance                | \$ 49,849                  | \$ 60,140 | \$ 49,849                | \$ 60,140 |

*Fair Value Measurements on a Nonrecurring Basis*



There were no assets measured at fair value on a nonrecurring basis on our consolidated balance sheets as of June 30, 2017 and December 31, 2016.

*Financial Assets and Liabilities not Measured at Fair Value*



Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair values of cash equivalents and borrowings under our unsecured revolving credit facilities and unsecured term loan are classified as Level 1. The fair values of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of June 30, 2017 and December 31, 2016.



(Amounts in thousands)

|                                       | As of June 30, 2017          |               | As of December 31, 2016      |               |
|---------------------------------------|------------------------------|---------------|------------------------------|---------------|
|                                       | Carrying Amount              | Fair Value    | Carrying Amount              | Fair Value    |
| Cash equivalents                      | \$ 1,103,553                 | \$ 1,103,553  | \$ 1,307,105                 | \$ 1,307,105  |
| Debt:                                 |                              |               |                              |               |
| Mortgages payable                     | \$ 9,587,255                 | \$ 9,626,000  | \$ 9,374,297                 | \$ 9,356,000  |
| Senior unsecured notes                | 850,000                      | 887,000       | 850,000                      | 899,000       |
| Unsecured term loan                   | 375,000                      | 375,000       | 375,000                      | 375,000       |
| Unsecured revolving credit facilities | 115,630                      | 116,000       | 115,630                      | 116,000       |
| Total                                 | \$ 10,927,885 <sup>(1)</sup> | \$ 11,004,000 | \$ 10,714,927 <sup>(1)</sup> | \$ 10,746,000 |

(1) Excludes \$90,300 and \$103,242 of deferred financing costs, net and other as of June 30, 2017 and December 31, 2016, respectively.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**14. Stock-based Compensation**

Vornado's 2010 Omnibus Share Plan provides for grants of incentive and non-qualified Vornado stock options, restricted stock, restricted Operating Partnership units and Out-Performance Plan awards to certain of our employees and officers. We account for all equity-based compensation in accordance with ASC 718. Equity-based compensation expense was \$7,349,000 and \$7,215,000 for the three months ended June 30, 2017 and 2016, respectively, and \$21,626,000 and \$21,786,000 for the six months ended June 30, 2017 and 2016, respectively.

**15. Fee and Other Income**

The following table sets forth the details of fee and other income:

| (Amounts in thousands)      | <b>For the Three Months Ended</b> |             | <b>For the Six Months Ended</b> |             |
|-----------------------------|-----------------------------------|-------------|---------------------------------|-------------|
|                             | <b>June 30,</b>                   |             | <b>June 30,</b>                 |             |
|                             | <b>2017</b>                       | <b>2016</b> | <b>2017</b>                     | <b>2016</b> |
| BMS cleaning fees           | \$ 21,294                         | \$ 18,794   | \$ 43,290                       | \$ 36,940   |
| Management and leasing fees | 4,892                             | 4,604       | 9,529                           | 9,403       |
| Lease termination fees      | 1,459                             | 3,199       | 5,625                           | 5,604       |
| Other income                | 8,413                             | 7,092       | 16,974                          | 15,712      |
|                             | \$ 36,058                         | \$ 33,689   | \$ 75,418                       | \$ 67,659   |

Management and leasing fees include management fees from Interstate Properties, a related party, of \$124,000 and \$128,000 for the three months ended June 30, 2017 and 2016, respectively, and \$252,000 and \$262,000 for the six months ended June 30, 2017 and 2016, respectively. The above table excludes fee income from partially owned entities, which is included in “income (loss) from partially owned entities” (see Note 6 – *Investments in Partially Owned Entities*).

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**16. Interest and Other Investment Income, Net**

The following table sets forth the details of interest and other investment income, net:

| (Amounts in thousands)  | For the Three Months Ended |           | For the Six Months Ended |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | June 30,                   |           | June 30,                 |           |
|   | 2017                       | 2016      | 2017                     | 2016      |
| Dividends on marketable securities  | \$ 3,539                   | \$ 3,230  | \$ 6,984                 | \$ 6,445  |
| Interest on loans receivable  | 2,102                      | 748       | 2,845                    | 1,496     |
| Mark-to-market income of investments in our deferred compensation plan <sup>(1)</sup> | 789                        | 4,359     | 3,258                    | 2,421     |
| Other, net  | 2,877                      | 1,899     | 5,448                    | 3,392     |
|   | \$ 9,307                   | \$ 10,236 | \$ 18,535                | \$ 13,754 |

(1) This income is entirely offset by the expense resulting from the mark-to-market of the deferred compensation plan liability, which is included in "general and administrative" expense.

**17. Interest and Debt Expense**

The following table sets forth the details of interest and debt expense:

| (Amounts in thousands)                   | For the Three Months Ended |            | For the Six Months Ended |            |
|--|----------------------------|------------|--------------------------|------------|
|  | June 30,                   |            | June 30,                 |            |
|  | 2017                       | 2016       | 2017                     | 2016       |
| Interest expense                         | \$ 100,486                 | \$ 104,435 | \$ 197,060               | \$ 204,730 |
| Amortization of deferred financing costs | 8,353                      | 8,508      | 17,334                   | 17,773     |
| Capitalized interest and debt expense    | (12,042)                   | (7,367)    | (23,312)                 | (16,438)   |
|  | \$ 96,797                  | \$ 105,576 | \$ 191,082               | \$ 206,065 |



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**18. Income Per Share/Income Per Class A Unit**

*Vornado Realty Trust*

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share - which includes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted income per common share - which includes the weighted average common shares and dilutive share equivalents. Dilutive share equivalents may include our Series A convertible preferred shares, employee stock options, restricted stock awards and Out-Performance Plan awards.

(Amounts in thousands, except per share amounts)

|  | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |            |
|--|--|------------|--------------------------------------|------------|
|  | 2017                                   | 2016       | 2017                                 | 2016       |
| <b>Numerator:</b>  |  |            |                                      |            |
| Income from continuing operations, net of income   |  |            |                                      |            |
| attributable to noncontrolling interests   | \$ 131,479                             | \$ 238,504 | \$ 193,084                           | \$ 144,033 |
| Income from discontinued operations, net of income   |  |            |                                      |            |
| attributable to noncontrolling interests   | 622                                    | 2,322      | 2,898                                | 2,994      |
| Net income attributable to Vornado   | 132,101                                | 240,826    | 195,982                              | 147,027    |
| Preferred share dividends  | (16,129)                               | (20,363)   | (32,258)                             | (40,727)   |
| Net income attributable to common shareholders   | 115,972                                | 220,463    | 163,724                              | 106,300    |
| Earnings allocated to unvested participating securities                                    | (13)                                   | (25)       | (27)                                 | (30)       |
| Numerator for basic income per share   | 115,959                                | 220,438    | 163,697                              | 106,270    |
| Impact of assumed conversions:   |  |            |                                      |            |
| Convertible preferred share dividends  | 20                                     | 21         | -                                    | -          |
| Earnings allocated to Out-Performance Plan units   | -                                      | -          | 233                                  | 24         |
| Numerator for diluted income per share   | \$ 115,979                             | \$ 220,459 | \$ 163,930                           | \$ 106,294 |
| <b>Denominator:</b>  |  |            |                                      |            |
| Denominator for basic income per share – weighted average shares                           | 189,395                                | 188,772    | 189,304                              | 188,715    |
| Effect of dilutive securities <sup>(1)</sup> :   |  |            |                                      |            |
| Employee stock options and restricted share awards   | 1,011                                  | 1,070      | 1,089                                | 1,020      |
| Convertible preferred shares   | 38                                     | 43         | -                                    | -          |
| Out-Performance Plan units   | -                                      | -          | 281                                  | 265        |
| Denominator for diluted income per share – weighted average shares and assumed conversions | 190,444                                | 189,885    | 190,674                              | 190,000    |
| <b>INCOME PER COMMON SHARE – BASIC:</b>  |  |            |                                      |            |
| Income from continuing operations, net   | \$ 0.61                                | \$ 1.16    | \$ 0.84                              | \$ 0.54    |
| Income from discontinued operations, net   | -                                      | 0.01       | 0.02                                 | 0.02       |
| Net income per common share  | \$ 0.61                                | \$ 1.17    | \$ 0.86                              | \$ 0.56    |
| <b>INCOME PER COMMON SHARE – DILUTED:</b>  |  |            |                                      |            |

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|   |    |      |    |      |    |      |    |      |
|---|----|------|----|------|----|------|----|------|
| Income from continuing operations, net      | \$ | 0.61 | \$ | 1.15 | \$ | 0.84 | \$ | 0.54 |
| Income from discontinued operations,<br>net |    | -    |    | 0.01 |    | 0.02 |    | 0.02 |
| Net income per common share                 | \$ | 0.61 | \$ | 1.16 | \$ | 0.86 | \$ | 0.56 |

- (1) The effect of dilutive securities for the three months ended June 30, 2017 and 2016 excludes an aggregate of 12,268 and 12,278 weighted average common share equivalents, respectively, and 12,125 and 12,052 weighted average common share equivalents for the six months ended June 30, 2017 and 2016, respectively, as their effect was anti-dilutive.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**18. Income Per Share/Income Per Class A Unit - continued**

*Vornado Realty L.P.*

The following table provides a reconciliation of both net income and the number of Class A units used in the computation of (i) basic income per Class A unit - which includes the weighted average number of Class A units outstanding without regard to dilutive potential Class A units, and (ii) diluted income per Class A unit - which includes the weighted average Class A units and dilutive unit equivalents. Dilutive unit equivalents may include our Series A convertible preferred units, Vornado stock options, restricted unit awards and Out-Performance Plan awards.

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(Amounts in thousands, except per unit amounts)

|  | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |            |
|--|--|------------|--------------------------------------|------------|
|  | 2017                                   | 2016       | 2017                                 | 2016       |
| <b>Numerator:</b>  |  |            |                                      |            |
| Income from continuing operations, net of income attributable to noncontrolling interests        | \$ 139,144                             | \$ 252,882 | \$ 203,826                           | \$ 150,880 |
| Income from discontinued operations  | 663                                    | 2,475      | 3,091                                | 3,191      |
| Net income attributable to Vornado Realty L.P.   | 139,807                                | 255,357    | 206,917                              | 154,071    |
| Preferred unit distributions   | (16,177)                               | (20,412)   | (32,355)                             | (40,824)   |
| Net income attributable to Class A unitholders   | 123,630                                | 234,945    | 174,562                              | 113,247    |
| Earnings allocated to unvested participating securities  | (742)                                  | (1,059)    | (1,759)                              | (1,412)    |
| Numerator for basic income per Class A unit  | 122,888                                | 233,886    | 172,803                              | 111,835    |
| Impact of assumed conversions:   |  |            |                                      |            |
| Convertible preferred unit distributions   | 20                                     | 22         | -                                    | -          |
| Numerator for diluted income per Class A unit  | \$ 122,908                             | \$ 233,908 | \$ 172,803                           | \$ 111,835 |
| <b>Denominator:</b>  |  |            |                                      |            |
| Denominator for basic income per Class A unit – weighted average units                           | 201,127                                | 200,369    | 200,987                              | 200,220    |
| Effect of dilutive securities <sup>(1)</sup> :   |  |            |                                      |            |
| Vornado stock options and restricted unit awards   | 1,458                                  | 1,564      | 1,630                                | 1,601      |
| Convertible preferred units  | 38                                     | 42         | -                                    | -          |
| Denominator for diluted income per Class A unit – weighted average units and assumed conversions | 202,623                                | 201,975    | 202,617                              | 201,821    |
| <b>INCOME PER CLASS A UNIT – BASIC:</b>  |  |            |                                      |            |
| Income from continuing operations, net   | \$ 0.61                                | \$ 1.16    | \$ 0.84                              | \$ 0.54    |
| Income from discontinued operations, net   | -                                      | 0.01       | 0.02                                 | 0.02       |
| Net income per Class A unit  | \$ 0.61                                | \$ 1.17    | \$ 0.86                              | \$ 0.56    |
| <b>INCOME PER CLASS A UNIT – DILUTED:</b>  |  |            |                                      |            |
| Income from continuing operations, net   | \$ 0.61                                | \$ 1.15    | \$ 0.84                              | \$ 0.54    |
| Income from discontinued operations, net   | -                                      | 0.01       | 0.01                                 | 0.01       |
| Net income per Class A unit  | \$ 0.61                                | \$ 1.16    | \$ 0.85                              | \$ 0.55    |

- (1) The effect of dilutive securities for the three months ended June 30, 2017 and 2016 excludes an aggregate of 89 and 187 weighted average Class A unit equivalents, respectively, and 182 and 231 weighted average Class A unit equivalents for the six months ended June 30, 2017 and 2016, respectively, as their effect was anti-dilutive.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**19. Commitments and Contingencies**

*Insurance*

We maintain general liability insurance with limits of \$300,000,000 per occurrence and per property, and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, with sub-limits for certain perils such as flood and earthquake. Our California properties have earthquake insurance with coverage of \$180,000,000 per occurrence and in the annual aggregate, subject to a deductible in the amount of 5% of the value of the affected property. We maintain coverage for terrorism acts with limits of \$4.0 billion per occurrence and in the aggregate, and \$2.0 billion per occurrence and in the aggregate for terrorism involving nuclear, biological, chemical and radiological (“NBCR”) terrorism events, as defined by the Terrorism Risk Insurance Program Reauthorization Act of 2015, which expires in December 2020.

Penn Plaza Insurance Company, LLC (“PPIC”), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for acts of terrorism including NBCR acts. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. For NBCR acts, PPIC is responsible for a deductible of \$1,976,000 and 17% of the balance of a covered loss and the Federal government is responsible for the remaining portion of a covered loss. We are ultimately responsible for any loss incurred by PPIC.

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

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

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**19. Commitments and Contingencies – continued**

*Other Commitments and Contingencies*

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 is not currently expected to have a material adverse effect on our financial position, results of operations or cash flows.



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





Generally, our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of June 30, 2017, the aggregate dollar amount of these guarantees and master leases is approximately \$774,000,000.



As of June 30, 2017, \$20,777,000 of letters of credit were outstanding under one of our unsecured revolving credit facilities. Our unsecured revolving credit facilities contain financial covenants that require us to maintain minimum interest rate coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our unsecured revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.



As of June 30, 2017, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$52,000,000.



As of June 30, 2017, we have construction commitments aggregating approximately \$543,000,000.





Upon completion of the spin-off of our Washington, DC segment, on July 17, 2017, we incurred approximately \$47,000,000 of additional transaction costs, primarily for advisory fees which will be recognized as expense in the quarter ended September 30, 2017.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**20. Segment Information**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> and NOI<sup>(1)</sup> by segment for the three months ended June 30, 2017 and 2016.

(Amounts in thousands)

For the Three Months Ended June 30, 2017

|   | Washington, |                           |                          |                          |
|---|-------------|---------------------------|--------------------------|--------------------------|
|   | Total       | New York                  | DC                       | Other                    |
| Total revenues  | \$ 626,039  | \$ 436,862                | \$ 118,336               | \$ 70,841                |
| Total expenses  | 442,643     | 279,835                   | 82,317                   | 80,491                   |
| Operating income (loss)   | 183,396     | 157,027                   | 36,019                   | (9,650)                  |
| Income (loss) from partially owned entities   | 46,276      | (272)                     | 255                      | 46,293                   |
| Income from real estate fund investments  | 4,391       | -                         | -                        | 4,391                    |
| Interest and other investment income (loss), net  | 9,307       | 1,499                     | (23)                     | 7,831                    |
| Interest and debt expense   | (96,797)    | (60,335)                  | (12,008)                 | (24,454)                 |
| Income before income taxes  | 146,573     | 97,919                    | 24,243                   | 24,411                   |
| Income tax benefit (expense)  | 248         | 906                       | (362)                    | (296)                    |
| Income from continuing operations   | 146,821     | 98,825                    | 23,881                   | 24,115                   |
| Income from discontinued operations   | 663         | -                         | -                        | 663                      |
| Net income  | 147,484     | 98,825                    | 23,881                   | 24,778                   |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (7,677)     | (2,645)                   | -                        | (5,032)                  |
| Net income attributable to the Operating Partnership  | 139,807     | 96,180                    | 23,881                   | 19,746                   |
| Interest and debt expense <sup>(2)</sup>  | 118,585     | 78,202                    | 13,567                   | 26,816                   |
| Depreciation and amortization <sup>(2)</sup>  | 168,248     | 110,449                   | 33,648                   | 24,151                   |
| Income tax expense (benefit) <sup>(2)</sup>   | 289         | (869)                     | 353                      | 805                      |
| EBITDA <sup>(1)</sup>   | 426,929     | 283,962 <sup>(3)</sup>    | 71,449 <sup>(4)</sup>    | 71,518 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (44,580)    | (26,741)                  | (1,826)                  | (16,013)                 |
| NOI <sup>(1)</sup>  | \$ 382,349  | \$ 257,221 <sup>(3)</sup> | \$ 69,623 <sup>(4)</sup> | \$ 55,505 <sup>(5)</sup> |

(Amounts in thousands)

For the Three Months Ended June 30, 2016

|   | Washington, |            |            |           |
|---|-------------|------------|------------|-----------|
|   | Total       | New York   | DC         | Other     |
| Total revenues                              | \$ 621,708  | \$ 425,770 | \$ 127,468 | \$ 68,470 |
| Total expenses                              | 434,894     | 268,135    | 89,106     | 77,653    |
| Operating income (loss)                     | 186,814     | 157,635    | 38,362     | (9,183)   |
| Income (loss) from partially owned entities | 642         | (1,001)    | (2,370)    | 4,013     |
| Income from real estate fund investments    | 16,389      | -          | -          | 16,389    |
| Interest and other investment income, net   | 10,236      | 1,214      | 34         | 8,988     |
| Interest and debt expense                   | (105,576)   | (56,395)   | (19,817)   | (29,364)  |

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|   |            |                           |                          |                          |
|---|------------|---------------------------|--------------------------|--------------------------|
| Net gain on disposition of wholly owned and partially owned assets  | 159,511    | 159,511                   | -                        | -                        |
| Income (loss) before income taxes   | 268,016    | 260,964                   | 16,209                   | (9,157)                  |
| Income tax expense  | (2,109)    | (816)                     | (318)                    | (975)                    |
| Income (loss) from continuing operations  | 265,907    | 260,148                   | 15,891                   | (10,132)                 |
| Income from discontinued operations   | 2,475      | -                         | -                        | 2,475                    |
| Net income (loss)   | 268,382    | 260,148                   | 15,891                   | (7,657)                  |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (13,025)   | (3,397)                   | -                        | (9,628)                  |
| Net income (loss) attributable to the Operating Partnership   | 255,357    | 256,751                   | 15,891                   | (17,285)                 |
| Interest and debt expense <sup>(2)</sup>  | 127,799    | 71,171                    | 21,926                   | 34,702                   |
| Depreciation and amortization <sup>(2)</sup>  | 173,352    | 111,314                   | 37,196                   | 24,842                   |
| Income tax expense <sup>(2)</sup>   | 4,704      | 889                       | 2,205                    | 1,610                    |
| EBITDA <sup>(1)</sup>   | 561,212    | 440,125 <sup>(3)</sup>    | 77,218 <sup>(4)</sup>    | 43,869 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (74,383)   | (50,045)                  | (6,067)                  | (18,271)                 |
| NOI <sup>(1)</sup>  | \$ 486,829 | \$ 390,080 <sup>(3)</sup> | \$ 71,151 <sup>(4)</sup> | \$ 25,598 <sup>(5)</sup> |

See notes on pages 45 through 48.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**20. Segment Information - continued**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> and NOI<sup>(1)</sup> by segment for the six months ended June 30, 2017.

(Amounts in thousands)

For the Six Months Ended June 30, 2017

|   | <b>Total</b> | <b>New York</b>           | <b>Washington,<br/>DC</b> | <b>Other</b>             |
|---|--------------|---------------------------|---------------------------|--------------------------|
| Total revenues  | \$ 1,246,887 | \$ 863,101                | \$ 234,543                | \$ 149,243               |
| Total expenses  | 907,024      | 560,656                   | 166,305                   | 180,063                  |
| Operating income (loss)   | 339,863      | 302,445                   | 68,238                    | (30,820)                 |
| Income (loss) from partially owned entities   | 47,721       | (2,365)                   | 342                       | 49,744                   |
| Income from real estate fund investments  | 4,659        | -                         | -                         | 4,659                    |
| Interest and other investment income, net   | 18,535       | 2,971                     | 41                        | 15,523                   |
| Interest and debt expense   | (191,082)    | (118,322)                 | (23,569)                  | (49,191)                 |
| Net gains on disposition of wholly owned and partially owned assets   | 501          | -                         | -                         | 501                      |
| Income (loss) before income taxes   | 220,197      | 184,729                   | 45,052                    | (9,584)                  |
| Income tax (expense) benefit  | (1,957)      | 763                       | (716)                     | (2,004)                  |
| Income (loss) from continuing operations  | 218,240      | 185,492                   | 44,336                    | (11,588)                 |
| Income from discontinued operations   | 3,091        | -                         | -                         | 3,091                    |
| Net income (loss)   | 221,331      | 185,492                   | 44,336                    | (8,497)                  |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (14,414)     | (5,489)                   | -                         | (8,925)                  |
| Net income (loss) attributable to the Operating Partnership   | 206,917      | 180,003                   | 44,336                    | (17,422)                 |
| Interest and debt expense <sup>(2)</sup>  | 234,912      | 154,125                   | 26,748                    | 54,039                   |
| Depreciation and amortization <sup>(2)</sup>  | 339,785      | 223,259                   | 69,141                    | 47,385                   |
| Income tax expense (benefit) <sup>(2)</sup>   | 2,718        | (642)                     | 720                       | 2,640                    |
| EBITDA <sup>(1)</sup>   | 784,332      | 556,745 <sup>(3)</sup>    | 140,945 <sup>(4)</sup>    | 86,642 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (61,708)     | (52,159)                  | (5,892)                   | (3,657)                  |
| NOI <sup>(1)</sup>  | \$ 722,624   | \$ 504,586 <sup>(3)</sup> | \$ 135,053 <sup>(4)</sup> | \$ 82,985 <sup>(5)</sup> |

See notes on pages 45 through 48.



**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**20. Segment Information - continued**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> and NOI<sup>(1)</sup> by segment for the six months ended June 30, 2016.



(Amounts in thousands)

For the Six Months Ended June 30, 2016

|   | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b>      | <b>Other</b>             |
|---|--------------|-----------------|--------------------------------|--------------------------|
| Total revenues  | \$ 1,234,745 | \$ 836,595      | \$ 255,480                     | \$ 142,670               |
| Total expenses  | 1,048,211    | 537,730         | 345,671                        | 164,810                  |
| Operating income (loss)   | 186,534      | 298,865         | (90,191)                       | (22,140)                 |
| (Loss) income from partially owned entities   | (3,598)      | (4,564)         | (3,679)                        | 4,645                    |
| Income from real estate fund investments  | 27,673       | -               | -                              | 27,673                   |
| Interest and other investment income, net   | 13,754       | 2,329           | 92                             | 11,333                   |
| Interest and debt expense   | (206,065)    | (110,981)       | (35,752)                       | (59,332)                 |
| Net gains on disposition of wholly owned and partially owned assets   | 160,225      | 159,511         | -                              | 714                      |
| Income (loss) before income taxes   | 178,523      | 345,160         | (129,530)                      | (37,107)                 |
| Income tax expense  | (4,940)      | (1,775)         | (582)                          | (2,583)                  |
| Income (loss) from continuing operations  | 173,583      | 343,385         | (130,112)                      | (39,690)                 |
| Income from discontinued operations   | 3,191        | -               | -                              | 3,191                    |
| Net income (loss)   | 176,774      | 343,385         | (130,112)                      | (36,499)                 |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (22,703)     | (6,826)         | -                              | (15,877)                 |
| Net income (loss) attributable to the Operating Partnership   | 154,071      | 336,559         | (130,112)                      | (52,376)                 |
| Interest and debt expense <sup>(2)</sup>  | 253,919      | 142,369         | 40,637                         | 70,913                   |
| Depreciation and amortization <sup>(2)</sup>  | 348,163      | 219,717         | 77,795                         | 50,651                   |
| Income tax expense <sup>(2)</sup>   | 7,965        | 1,979           | 2,470                          | 3,516                    |
| EBITDA <sup>(1)</sup>   | 764,118      | 700,624         | (9,210) <sup>(4)</sup>         | 72,704 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (133,739)    | (97,555)        | (10,264)                       | (25,920)                 |
| NOI <sup>(1)</sup>  | \$ 630,379   | \$ 603,069      | (3) \$ (19,474) <sup>(4)</sup> | \$ 46,784 <sup>(5)</sup> |

See notes on pages 45 through 48.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**20. Segment Information – continued**

**Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." NOI represents "Net Operating Income" (the equivalent of EBITDA on a cash basis). We calculate EBITDA and NOI on an Operating Partnership basis which is before allocation to the noncontrolling interest of the Operating Partnership. We consider EBITDA the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. We also consider NOI a key non-GAAP financial measure. As properties are bought and sold based on a multiple of NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to those of our peers. EBITDA and NOI should not be considered substitutes for net income. EBITDA and NOI may not be comparable to similarly titled measures employed by other companies.

Our 7.5% interest in Fashion Centre Mall/Washington Tower and our interest in Rosslyn Plaza (ranging from 43.7% to 50.4%) will not be included in the spin-off of our Washington, DC segment and have been reclassified to Other. The prior year's presentation has been conformed to the current year. In addition, on January 1, 2017, we reclassified our investment in 85 Tenth Avenue from Other to the New York segment as a result of the December 1, 2016 repayment of our loans receivable and the receipt of a 49.9% ownership interest in the property.

- (2) Interest and debt expense, depreciation and amortization and income tax expense (benefit) in the reconciliation of net income (loss) to EBITDA and straight-line rents, amortization of acquired below-market leases, net and other non-cash adjustments in the reconciliation of EBITDA to NOI include our share of these items from partially owned entities.

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 20. Segment Information – continued

## Notes to preceding tabular information - continued:

(3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands)   | For the Three Months Ended |                           | For the Six Months Ended |                           |
|--|----------------------------|---------------------------|--------------------------|---------------------------|
|  | June 30,                   |                           | June 30,                 |                           |
|  | 2017                       | 2016                      | 2017                     | 2016                      |
| Office   | \$ 169,327                 | \$ 165,576 <sup>(a)</sup> | \$ 339,405               | \$ 320,585 <sup>(a)</sup> |
| Retail   | 90,183                     | 91,421 <sup>(a)</sup>     | 179,446                  | 181,022 <sup>(a)</sup>    |
| Residential  | 6,190                      | 6,337                     | 12,468                   | 12,687                    |
| Alexander's  | 11,742                     | 11,805                    | 23,304                   | 23,374                    |
| Hotel Pennsylvania   | 6,520                      | 3,797                     | 2,122                    | 325                       |
| Total New York EBITDA,<br>as adjusted                                  | 283,962                    | 278,936                   | 556,745                  | 537,993                   |
| Certain items that impact<br>EBITDA:                                   |                            |                           |                          |                           |
| Net gain on sale of 47%<br>ownership interest<br>in 7 West 34th Street | -                          | 159,511                   | -                        | 159,511                   |
| EBITDA from sold<br>properties   | -                          | 1,678                     | -                        | 3,120                     |
| Total of certain items<br>that impact EBITDA                           | -                          | 161,189                   | -                        | 162,631                   |
| Total New York<br>EBITDA   | \$ 283,962                 | \$ 440,125                | \$ 556,745               | \$ 700,624                |

The elements of "New York" NOI are summarized below.

| (Amounts in thousands)             | For the Three Months Ended |                           | For the Six Months Ended |                           |
|------------------------------------|----------------------------|---------------------------|--------------------------|---------------------------|
|                                    | June 30,                   |                           | June 30,                 |                           |
|                                    | 2017                       | 2016                      | 2017                     | 2016                      |
| Office                             | \$ 158,105                 | \$ 142,639 <sup>(a)</sup> | \$ 317,632               | \$ 277,071 <sup>(a)</sup> |
| Retail                             | 80,193                     | 71,084 <sup>(a)</sup>     | 159,827                  | 139,433 <sup>(a)</sup>    |
| Residential                        | 5,341                      | 5,627                     | 10,881                   | 11,199                    |
| Alexander's                        | 7,029                      | 6,616                     | 14,059                   | 13,233                    |
| Hotel Pennsylvania                 | 6,553                      | 3,830                     | 2,187                    | 390                       |
| Total New York NOI, as<br>adjusted | 257,221                    | 229,796                   | 504,586                  | 441,326                   |

## Certain items that impact NOI:

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net gain on sale of 47% ownership interest |            |            |            |            |
| in 7 West 34th Street                      | -          | 159,511    | -          | 159,511    |
| NOI from sold properties                   | -          | 773        | -          | 2,232      |
| Total of certain items that impact NOI     | -          | 160,284    | -          | 161,743    |
| Total New York NOI                         | \$ 257,221 | \$ 390,080 | \$ 504,586 | \$ 603,069 |

- (a) Beginning in January 2017 for office buildings with retail at the base, we have adjusted the allocation of real estate taxes between the retail and office elements above. This has no effect on our consolidated financial statements but resulted in a reallocation of \$3,931 and \$7,845 of income from retail to office for the three and six months ended June 30, 2016, respectively.

## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 20. Segment Information – continued

## Notes to preceding tabular information - continued:

(4) The elements of "Washington, DC" EBITDA are summarized below.

| (Amounts in thousands)                       | For the Three Months Ended |           | For the Six Months Ended |            |
|--|----------------------------|-----------|--------------------------|------------|
|  | June 30,                   |           | June 30,                 |            |
|  | 2017                       | 2016      | 2017                     | 2016       |
| Office                                       | \$ 57,418                  | \$ 61,357 | \$ 113,710               | \$ 119,376 |
| Residential                                  | 14,031                     | 10,118    | 27,235                   | 20,426     |
| Total Washington, DC<br>EBITDA, as adjusted  | 71,449                     | 71,475    | 140,945                  | 139,802    |
| Certain items that impact EBITDA:            |                            |           |                          |            |
| EBITDA from sold properties                  | -                          | 5,743     | -                        | 11,688     |
| Skyline properties impairment<br>loss        | -                          | -         | -                        | (160,700)  |
| Total of certain items that<br>impact EBITDA | -                          | 5,743     | -                        | (149,012)  |
| Total Washington, DC<br>EBITDA               | \$ 71,449                  | \$ 77,218 | \$ 140,945               | \$ (9,210) |

The elements of "Washington, DC" NOI are summarized below.

| (Amounts in thousands)                    | For the Three Months Ended |           | For the Six Months Ended |             |
|---|----------------------------|-----------|--------------------------|-------------|
|   | June 30,                   |           | June 30,                 |             |
|   | 2017                       | 2016      | 2017                     | 2016        |
| Office                                    | \$ 55,592                  | \$ 57,501 | \$ 107,818               | \$ 112,937  |
| Residential                               | 14,031                     | 10,118    | 27,235                   | 20,426      |
| Total Washington, DC NOI, as<br>adjusted  | 69,623                     | 67,619    | 135,053                  | 133,363     |
| Certain items that impact NOI:            |                            |           |                          |             |
| NOI from sold properties                  | -                          | 3,532     | -                        | 7,863       |
| Skyline properties impairment<br>loss     | -                          | -         | -                        | (160,700)   |
| Total of certain items that<br>impact NOI | -                          | 3,532     | -                        | (152,837)   |
| Total Washington, DC<br>NOI               | \$ 69,623                  | \$ 71,151 | \$ 135,053               | \$ (19,474) |

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## VORNADO REALTY TRUST AND VORNADO REALTY L.P.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 20. Segment Information – continued

## Notes to preceding tabular information - continued:

(5) The elements of "Other" EBITDA are summarized below.

| (Amounts in thousands)  | For the Three Months Ended |           | For the Six Months Ended |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | June 30,                   |           | June 30,                 |           |
|   | 2017                       | 2016      | 2017                     | 2016      |
| theMART (including trade shows)                                 | \$ 24,122                  | \$ 25,965 | \$ 48,306                | \$ 48,993 |
| 555 California Street   | 12,144                     | 12,117    | 24,227                   | 23,732    |
| Other investments   | 12,383                     | 17,407    | 23,998                   | 33,091    |
|   | 48,649                     | 55,489    | 96,531                   | 105,816   |
| Our share of real estate fund investments                       | (304)                      | 7,544     | (3,539)                  | 12,855    |
| Corporate general and administrative expenses <sup>(a)</sup>    | (23,235)                   | (24,239)  | (56,222)                 | (54,845)  |
| Investment income and other, net <sup>(a)</sup>                 | 9,629                      | 5,471     | 18,169                   | 12,446    |
| Net gain resulting from UE operating partnership unit issuances | 15,900                     | -         | 15,900                   | -         |
| Net gain on sale of property at Suffolk Downs                   | 15,314                     | -         | 15,314                   | -         |
| Net gain on repayment of our Suffolk Downs JV debt investments  | 11,373                     | -         | 11,373                   | -         |
| Acquisition and transaction related costs <sup>(b)</sup>        | (6,471)                    | (2,879)   | (14,476)                 | (7,486)   |
| Residual retail properties discontinued operations              | 663                        | 2,483     | 3,091                    | 3,204     |
| Other   | -                          | -         | 501                      | 714       |
| Total Other   | \$ 71,518                  | \$ 43,869 | \$ 86,642                | \$ 72,704 |

The elements of "Other" NOI are summarized below.

| (Amounts in thousands)          | For the Three Months Ended |           | For the Six Months Ended |           |
|---------------------------------|----------------------------|-----------|--------------------------|-----------|
|                                 | June 30,                   |           | June 30,                 |           |
|                                 | 2017                       | 2016      | 2017                     | 2016      |
| theMART (including trade shows) | \$ 22,904                  | \$ 24,233 | \$ 45,808                | \$ 45,955 |
| 555 California Street           | 11,258                     | 8,033     | 22,633                   | 13,922    |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Other investments  | 6,630     | 6,002     | 15,909    | 13,528    |
|  | 40,792    | 38,268    | 84,350    | 73,405    |
| Our share of real estate fund investments                      | 1,995     | 1,522     | 4,931     | 3,865     |
| Corporate general and administrative expenses <sup>(a)</sup>   | (17,790)  | (19,267)  | (40,268)  | (39,364)  |
| Investment income and other, net <sup>(a)</sup>                | 9,629     | 5,471     | 18,169    | 12,446    |
| Net gain on sale of property at Suffolk Downs                  | 15,314    | -         | 15,314    | -         |
| Net gain on repayment of our Suffolk Downs JV debt investments | 11,373    | -         | 11,373    | -         |
| Acquisition and transaction related costs <sup>(b)</sup>       | (6,471)   | (2,879)   | (14,476)  | (7,486)   |
| Residual retail properties discontinued operations             | 663       | 2,483     | 3,091     | 3,204     |
| Other  | -         | -         | 501       | 714       |
| Total Other  | \$ 55,505 | \$ 25,598 | \$ 82,985 | \$ 46,784 |

- (a) The amounts in these captions (for this table only) exclude the results of the mark-to-market of our deferred compensation plan of \$789 and \$4,359 of income for the three months ended June 30, 2017 and 2016, respectively, and \$3,258 and \$2,421 of income for the six months ended June 30, 2017 and 2016, respectively.
- (b) Includes transaction costs related to the spin-off of our Washington, DC business of \$6,211 and \$1,606 for the three months ended June 30, 2017 and 2016, respectively, and \$13,464 and \$1,858 for the six months ended June 30, 2017 and 2016, respectively.

**VORNADO REALTY TRUST AND VORNADO REALTY L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**21. Subsequent Event**

*330 Madison Avenue*

On July 19, 2017, the joint venture, in which we have a 25% interest, completed a \$500,000,000 refinancing of 330 Madison Avenue, an 845,000 square foot Manhattan office building. The seven-year interest only loan matures in August 2024 and has a fixed rate of 3.43%. Our share of net proceeds, after repayment of the existing LIBOR plus 1.30% \$150,000,000 mortgage and closing costs, was approximately \$85,000,000.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust (the “Company”) as of June 30, 2017, and the related consolidated statements of income and comprehensive income for the three month and six month periods ended June 30, 2017 and 2016 and changes in equity and cash flows for the six month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty Trust as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 13, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

July 31, 2017

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Partners

Vornado Realty L.P.

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty L.P. and consolidated subsidiaries (the "Partnership") as of June 30, 2017, and the related consolidated statements of income and comprehensive income for the three month and six month periods ended June 30, 2017 and 2016 and changes in equity, and cash flows for the six month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Partnership's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty L.P. as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 13, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

July 31, 2017

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements contained in this Quarterly Report constitute forward looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as “approximates,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “would,” “may” or other similar expressions in this Quarterly Report on Form 10 Q. We also note the following forward-looking statements: in the case of our development and redevelopment projects, the estimated completion date, estimated project cost and cost to complete; and estimates of future capital expenditures, dividends to common and preferred shareholders and operating partnership distributions. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see “Item 1A. Risk Factors” in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2016. 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 Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.



Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three and six months ended June 30, 2017. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to the current year presentation.

## Overview

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 93.6% of the common limited partnership interest in, the Operating Partnership as of June 30, 2017. All references to the “Company,” “we,” “us,” and “our” mean collectively Vornado, the Operating Partnership and those entities/subsidiaries consolidated by Vornado.

On July 17, 2017, we completed the spin-off of our Washington, DC segment comprised of (i) 37 office properties totaling over 11.1 million square feet, five multifamily properties with 3,133 units and five other assets totaling approximately 406,000 square feet and (ii) 18 future development assets totaling over 10.4 million square feet of estimated potential development density, and \$275.0 million of cash to JBG SMITH Properties (“JBGS”). On July 18, 2017, JBGS was combined with the management business and certain Washington, DC assets of The JBG Companies (“JBG”), a Washington, DC real estate company. Steven Roth, the Chairman of the Board of Trustees and Chief Executive Officer of Vornado, is the Chairman of the Board of Trustees of JBGS. Mitchell Schear, former President of our Washington, DC business, is a member of the Board of Trustees of JBGS. We are providing transition services to JBGS initially including information technology, financial reporting and payroll services. The spin-off was effected through a tax-free distribution by Vornado to the holders of Vornado common shares of all of the common shares of JBGS at the rate of one JBGS common share for every two common shares of Vornado and the distribution by the Operating Partnership to the holders of its common units of all of the outstanding common units of JBG SMITH Properties LP (“JBGSLP”) at the rate of one JBGSLP common unit for every two common units of VRLP held of record. See JBGS’ Amendment No. 3 on Form 10 (File No. 001-37994) filed with the Securities and Exchange Commission on June 9, 2017 for additional information. Beginning in the third quarter of 2017, the historical financial results of our Washington, DC segment will be reflected in our consolidated financial statements as discontinued operations for all periods presented.



Business Objective and Operating Strategy

Our business objective is to maximize Vornado shareholder value, which we measure by the total return provided to Vornado's shareholders. Below is a table comparing Vornado's performance to the FTSE NAREIT Office Index ("Office REIT") and the MSCI US REIT Index ("MSCI") for the following periods ended June 30, 2017:

|             | <b>Vornado</b> | <b>Total Return<sup>(1)</sup><br/>Office REIT</b> | <b>MSCI</b> |
|-------------|----------------|---|-------------|
| Three-month | (5.7%)         | 1.0%  | 1.7%        |
| Six-month   | (8.8%)         | 2.6%  | 2.7%        |
| One-year    | (3.6%)         | 6.6%  | (1.8%)      |
| Three-year  | 5.2%           | 24.4%   | 26.6%       |
| Five-year   | 44.6%          | 55.3%   | 56.5%       |
| Ten-year    | 36.3%          | 44.3%   | 78.2%       |

(1) Past performance is not necessarily indicative of future performance.

**Overview – continued**

We intend to achieve our business objective by continuing to pursue our investment philosophy and executing our operating strategies through:



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- maintaining a superior team of operating and investment professionals and an entrepreneurial spirit
- investing in properties in select markets, such as New York City, 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
- developing and redeveloping existing properties to increase returns and maximize value
- investing in operating companies that have a significant real estate component

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





We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, sales prices, attractiveness of location, the quality of the property and the breadth and the quality of services provided. Our success depends upon, among other factors, trends of the global, national, regional and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation, population and employment trends. See “Item 1A. Risk Factors” in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2016, for additional information regarding these factors.



**Overview – continued**

*Vornado Realty Trust*

*Quarter Ended June 30, 2017 Financial Results Summary*

Net income attributable to common shareholders for the quarter ended June 30, 2017 was \$115,972,000, or \$0.61 per diluted share, compared to \$220,463,000, or \$1.16 per diluted share, for the prior year's quarter. The quarters ended June 30, 2017 and 2016 include certain items that impact net income attributable to common shareholders, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the quarters ended June 30, 2017 and 2016 by \$34,021,000, or \$0.18 per diluted share, and \$153,920,000, or \$0.81 per diluted share, respectively.

Funds From Operations attributable to common shareholders plus assumed conversions ("FFO") for the quarter ended June 30, 2017 was \$257,673,000, or \$1.35 per diluted share, compared to \$229,432,000, or \$1.21 per diluted share, for the prior year's quarter. FFO for the quarters ended June 30, 2017 and 2016 include certain items that impact FFO, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO for the quarters ended June 30, 2017 and 2016 by \$19,788,000, or \$0.10 per diluted share, and \$4,418,000, or \$0.02 per diluted share, respectively.

*Six Months Ended June 30, 2017 Financial Results Summary*

Net income attributable to common shareholders for the six months ended June 30, 2017 was \$163,724,000, or \$0.86 per diluted share, compared to \$106,300,000, or \$0.56 per diluted share, for the six months ended June 30, 2016. The six months ended June 30, 2017 and 2016 include certain items that impact net income attributable to common shareholders, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the six months ended June 30, 2017 by \$25,095,000, or \$0.13 per diluted share, and decreased net income attributable to common shareholders for the six months ended June 30, 2016 by \$949,000, or \$0.00 per diluted share.



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FFO for the six months ended June 30, 2017 was \$463,422,000, or \$2.43 per diluted share, compared to \$433,104,000, or \$2.28 per diluted share, for the six months ended June 30, 2016. FFO for the six months ended June 30, 2017 and 2016 include certain items that impact FFO, which are listed in the table on the following page. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO for the six months ended June 30, 2017 and 2016 by \$9,863,000, or \$0.05 per diluted share, and \$9,102,000, or \$0.05 per diluted share, respectively.



**Overview – continued***Vornado Realty Trust - continued*

(Amounts in thousands)

|   | <b>For the Three Months Ended<br/>June 30,</b> |             | <b>For the Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2017</b>                                    | <b>2016</b> | <b>2017</b>                                  | <b>2016</b> |
| Certain items that impact net income attributable to common shareholders:                 |  |             |  |             |
| Net gain on repayment of our Suffolk Downs JV debt investments                            | \$ 11,373                                      | \$ -        | \$ 11,373                                    | \$ -        |
| Acquisition and transaction related costs   | (6,471)  | (2,879)     | (14,476)                                     | (7,486)     |
| Net income (loss) from discontinued operations and sold properties                        | 663  | 104         | 824  | (1,325)     |
| (Loss) income from real estate fund investments, net                                      | (304)  | 7,544       | (3,539)                                      | 12,855      |
| Net gains on sale of real estate  | -  | 161,721     | 2,267  | 161,721     |
| Default interest on Skyline properties mortgage loan                                      | -  | (2,711)     | -  | (2,711)     |
| Skyline properties impairment loss  | -  | -           | -  | (160,700)   |
| Other   | -  | -           | 501  | 714         |
| Our share of partially owned entities:  |  |             |  |             |
| Net gain resulting from Urban Edge Properties ("UE") operating partnership unit issuances | 15,900   | -           | 15,900                                       | -           |
| Net gains on sale of real estate  | 15,339   | 319         | 17,192                                       | 319         |
| Real estate impairment losses   | (167)  | (49)        | (3,218)                                      | (4,402)     |
| Other   | (67)   | (25)        | (67)   | (25)        |
|   | 36,266   | 164,024     | 26,757                                       | (1,040)     |
| Noncontrolling interests' share of above adjustments                                      | (2,245)  | (10,104)    | (1,662)                                      | 91          |
| Total of certain items that impact net income attributable to common shareholders, net    | \$ 34,021                                      | \$ 153,920  | \$ 25,095                                    | \$ (949)    |

Certain items that impact FFO:

|           |      |           |      |
|-----------|------|-----------|------|
| \$ 11,373 | \$ - | \$ 11,373 | \$ - |
|-----------|------|-----------|------|



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|   |           |          |          |          |
|---|-----------|----------|----------|----------|
| Net gain on repayment of our Suffolk Downs JV debt investments  |           |          |          |          |
| Acquisition and transaction related costs                       | (6,471)   | (2,879)  | (14,476) | (7,486)  |
| FFO from discontinued operations and sold properties            | 663       | 2,889    | 824      | 6,349    |
| (Loss) income from real estate fund investments, net            | (304)     | 7,544    | (3,539)  | 12,855   |
| Default interest on Skyline properties mortgage loan            | -         | (2,711)  | -        | (2,711)  |
| Other   | -         | -        | 501      | 714      |
| Our share of partially owned entities:                          |           |          |          |          |
| Net gain resulting from UE operating partnership unit issuances | 15,900    | -        | 15,900   | -        |
| Other   | (67)      | (25)     | (67)     | (25)     |
|   | 21,094    | 4,818    | 10,516   | 9,696    |
| Noncontrolling interests' share of above adjustments            | (1,306)   | (400)    | (653)    | (594)    |
| Total of certain items that impact FFO, net                     | \$ 19,788 | \$ 4,418 | \$ 9,863 | \$ 9,102 |

**Overview – continued**

***Vornado Realty L.P.***

***Quarter Ended June 30, 2017 Financial Results Summary***

Net income attributable to Class A unitholders for the quarter ended June 30, 2017 was \$123,630,000, or \$0.61 per diluted Class A unit, compared to \$234,945,000, or \$1.16 per diluted Class A unit, for the prior year's quarter. The quarters ended June 30, 2017 and 2016 include certain items that impact net income attributable to Class A unitholders, which are listed in the table below. The aggregate of these items increased net income attributable to Class A unitholders for the quarters ended June 30, 2017 and 2016 by \$36,266,000, or \$0.18, and \$164,024,000, or \$0.81 per diluted Class A unit, respectively.

***Six Months Ended June 30, 2017 Financial Results Summary***

Net income attributable to Class A unitholders for the six months ended June 30, 2017 was \$174,562,000, or \$0.85 per diluted Class A unit, compared to \$113,247,000, or \$0.55 per diluted Class A unit, for the six months ended June 30, 2016. The six months ended June 30, 2017 and 2016 include certain items that impact net income attributable to Class A unitholders, which are listed in the table below. The aggregate of these items increased net income attributable to Class A unitholders for the six months ended June 30, 2017 by \$26,757,000, or \$0.13 per diluted Class A unit, and decreased net income attributable to Class A unitholders for the six months ended June 30, 2016 by \$1,040,000, or \$0.01 per diluted Class A unit.

| (Amounts in thousands)  | <b>For the Three Months Ended</b> |             | <b>For the Six Months Ended</b> |             |
|---|-----------------------------------|-------------|---------------------------------|-------------|
|   | <b>June 30,</b>                   |             | <b>June 30,</b>                 |             |
|   | <b>2017</b>                       | <b>2016</b> | <b>2017</b>                     | <b>2016</b> |
| Certain items that impact net income attributable to            |                                   |             |                                 |             |
| Class A unitholders:  |                                   |             |                                 |             |
| Net gain on repayment of our Suffolk Downs JV debt investments  | \$ 11,373                         | \$ -        | \$ 11,373                       | \$ -        |
| Acquisition and transaction related costs                       | (6,471)                           | (2,879)     | (14,476)                        | (7,486)     |
| Net income (loss) from discontinued operations and              |                                   |             |                                 |             |
| sold properties   | 663                               | 104         | 824                             | (1,325)     |
| (Loss) income from real estate fund investments, net            | (304)                             | 7,544       | (3,539)                         | 12,855      |
| Net gains on sale of real estate                                | -                                 | 161,721     | 2,267                           | 161,721     |
| Default interest on Skyline properties mortgage loan            | -                                 | (2,711)     | -                               | (2,711)     |
| Skyline properties impairment loss                              | -                                 | -           | -                               | (160,700)   |
| Other   | -                                 | -           | 501                             | 714         |
| Our share of partially owned entities:                          |                                   |             |                                 |             |
| Net gain resulting from UE operating partnership unit issuances | 15,900                            | -           | 15,900                          | -           |
| Net gains on sale of real estate                                | 15,339                            | 319         | 17,192                          | 319         |
| Real estate impairment losses                                   | (167)                             | (49)        | (3,218)                         | (4,402)     |
| Other   | (67)                              | (25)        | (67)                            | (25)        |
| Total of certain items that impact net income attributable to   |                                   |             |                                 |             |
| Class A unitholders, net  | \$ 36,266                         | \$ 164,024  | \$ 26,757                       | \$ (1,040)  |

**Overview – continued**

***Vornado Realty Trust and Vornado Realty L.P.***

**Same Store EBITDA and NOI**

The percentage (decrease) increase in same store Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and same store Net Operating Income (“NOI”) of our operating segments and theMART and 555 California Street, which are included in Other, are summarized below.



|  | New York      | Washington,<br>DC | theMART    | 555<br>California<br>Street |
|--|---------------|-------------------|------------|-----------------------------|
| Same store EBITDA % (decrease)<br>increase :                   |               |                   |            |                             |
| Three months ended June 30, 2017<br>compared to June 30, 2016  | (0.5%) (1)(2) | (2.7%)            | (4.5%) (3) | (2.9%)                      |
| Six months ended June 30, 2017 compared<br>to June 30, 2016    | 1.5% (1)(2)   | (1.2%)            | (0.2%) (4) | (1.0%)                      |
| Three months ended June 30, 2017<br>compared to March 31, 2017 | 3.6% (1)(2)   | (0.5%)            | 1.7%       | 0.5%                        |
| Same store NOI % increase (decrease):                          |               |                   |            |                             |
| Three months ended June 30, 2017<br>compared to June 30, 2016  | 10.6% (1)(2)  | 0.5%              | (2.8%) (3) | 33.7%                       |
| Six months ended June 30, 2017 compared<br>to June 30, 2016    | 12.9% (1)(2)  | 0.1%              | 0.9% (4)   | 54.3%                       |
| Three months ended June 30, 2017<br>compared to March 31, 2017 | 4.5% (1)(2)   | 2.5%              | 2.3%       | (1.0%)                      |

|   | EBITDA | NOI   |
|---|--------|-------|
| Excluding Hotel Pennsylvania - same store % (decrease)<br>(1) increase: |        |       |
| Three months ended June 30, 2017 compared to<br>June 30, 2016           | (1.5%) | 9.6%  |
| Six months ended June 30, 2017 compared to<br>June 30, 2016             | 1.2%   | 12.5% |
| Three months ended June 30, 2017 compared to<br>March 31, 2017          | (0.4%) | 0.1%  |

|  | EBITDA | NOI   |
|--|--------|-------|
| Excluding \$2,557,000 of one-time prior period tenant<br>(2) adjustments in the<br>three months ended June 30, 2017 - same store % increase: |        |       |
| Three months ended June 30, 2017 compared to<br>June 30, 2016  | 0.4%   | 11.7% |
| Six months ended June 30, 2017 compared to<br>June 30, 2016  | 2.0%   | 13.5% |
| Three months ended June 30, 2017 compared to<br>March 31, 2017   | 4.5%   | 5.5%  |

- (3) The three months ended June 30, 2016 includes a \$2,300,000 reversal of an expense accrued in the prior quarters. Excluding this amount, same store EBITDA increased by 4.0% and same store NOI increased by 6.5%.
- (4) The six months ended June 30, 2016 includes a \$2,000,000 reversal of an expense accrued in 2015. Excluding this amount, same store EBITDA increased by 3.8% and same store NOI increased by 5.2%.

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



## Overview – continued

### Financings

On June 1, 2017, Alexander's, Inc. (NYSE: ALX), in which we have a 32.4% ownership interest, completed a \$500,000,000 refinancing of the office portion of 731 Lexington Avenue. The interest-only loan is at LIBOR plus 0.90% (2.06% at June 30, 2017) and matures in June 2020 with four one-year extension options. In connection therewith, Alexander's purchased an interest rate cap with a notional amount of \$500,000,000 that caps LIBOR at a rate of 6%. The property was previously encumbered by a \$300,000,000 interest-only mortgage at LIBOR plus 0.95% which was scheduled to mature in March 2021.

On June 20, 2017, we completed a \$220,000,000 financing of The Bartlett, a 699-unit residential building with a 39,000 square foot Whole Foods Market at its base, located in Arlington, Virginia. The five-year interest-only loan is at LIBOR plus 1.70% (2.90% at June 30, 2017), and matures in June 2022. On July 17, 2017, the property, the loan and the \$217,000,000 of net proceeds were transferred to JBGS in connection with the tax-free spin-off of our Washington, DC segment.

On July 19, 2017, the joint venture, in which we have a 25% interest, completed a \$500,000,000 refinancing of 330 Madison Avenue, an 845,000 square foot Manhattan office building. The seven-year interest only loan matures in August 2024 and has a fixed rate of 3.43%. Our share of net proceeds, after repayment of the existing LIBOR plus 1.30% \$150,000,000 mortgage and closing costs, was approximately \$85,000,000.

### Other Activities

On May 9, 2017, a \$150,000,000 mezzanine loan owned by a joint venture in which we have a 33.3% ownership interest was repaid at its maturity and we received our \$50,000,000 share. The mezzanine loan earned interest at LIBOR plus 9.42%.

On May 26, 2017, Suffolk Downs JV, a joint venture in which we have a 21.2% equity interest, sold the property comprising the Suffolk Downs race track in East Boston, Massachusetts ("Suffolk Downs") for \$155,000,000, which resulted in net proceeds and a net gain to us of \$15,314,000. In addition, we were repaid \$29,318,000 of principal and \$6,129,000 of accrued interest on our debt investments in Suffolk Downs JV, resulting in a net gain of \$11,373,000.



**Washington, DC Segment**

We completed the spin-off of our Washington, DC segment on July 17, 2017. Our Washington, DC segment EBITDA as adjusted was \$140,945,000 for the six months ended June 30, 2017, which is \$1,143,000 ahead of the prior year's first half as a result of an increase in EBITDA from the core business of \$6,665,000, offset by a decline in EBITDA of \$5,522,000 from 1700 M Street, 1800 South Bell and 1750 Crystal Drive being taken out-of-service for redevelopment. These results are slightly ahead of the guidance we published for the first half of 2017.

## Overview – continued

### Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-09”) establishing Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. When adopting this standard, we are permitted to use either the full retrospective method or the modified retrospective method. We will adopt this standard effective as of January 1, 2018 and currently expect to utilize the modified retrospective method of adoption. We have progressed with our project plan for adopting this standard, including gathering and evaluating the inventory of our revenue streams. We expect this standard will have an impact on the presentation of certain lease and non-lease components of revenue from leases upon the adoption of the update (“ASU 2016-02”) *Leases* with no impact on “total revenues.” We expect this standard will have an impact on the timing of gains on certain sales of real estate. We are continuing to evaluate the impact of this standard on our consolidated financial statements.

In January 2016, the FASB issued an update (“ASU 2016-01”) *Recognition and Measurement of Financial Assets and Financial Liabilities* to ASC Topic 825, *Financial Instruments*. ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. While the adoption of this standard requires us to continue to measure “marketable securities” at fair value at each reporting date, the changes in fair value will be recognized in current period earnings as opposed to “other comprehensive income.”

In February 2016, the FASB issued an update ASU 2016-02 establishing ASC Topic 842, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the overall impact of the adoption of ASU 2016-02 on our consolidated financial statements, including the timing of adopting this standard. ASU 2016-02 will more significantly impact the accounting for leases in which we are a lessee. We have a number of ground leases for which we will be required to record a right-of-use asset and lease liability equal to the present value of the remaining minimum lease payments upon adoption of this standard. We also expect that this standard will have an impact on the presentation of certain lease and non-lease components of revenue from leases with no impact on “total revenues.” In particular, items such as reimbursable real estate taxes and insurance

expenses, will be presented in “property rentals” and non-lease components, such as certain reimbursable operating expenses, will be presented in “tenant expense reimbursements” on our consolidated statements of income.

In March 2016, the FASB issued an update (“ASU 2016-09”) *Improvements to Employee Share-Based Payment Accounting* to ASC Topic 718, *Compensation – Stock Compensation* (“ASC 718”). ASU 2016-09 amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The adoption of this update as of January 1, 2017, did not have a material impact on our consolidated financial statements.

## Overview – continued

### Recently Issued Accounting Literature – continued

In August 2016, the FASB issued an update (“ASU 2016-15”) *Classification of Certain Cash Receipts and Cash Payments* to ASC Topic 230, *Statement of Cash Flows*. ASU 2016-15 clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows to reduce diversity in practice with respect to (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-15 effective January 1, 2017, with retrospective application to our consolidated statements of cash flows. The adoption of ASU 2016-15 impacted our classification of distributions received from equity method investees. We selected the nature of earnings approach for classifying distributions. Under this approach, the distributions from equity method investees are classified on the basis of the nature of the activity of the investee that generated the distribution. The retrospective application of ASU 2016-15 resulted in the reclassification of certain distributions of income from partially owned entities to distributions of capital from partially owned entities, which reduced net cash provided by operating activities and net cash used in investing activities by \$4,488,000 for the six months ended June 30, 2016.

In November 2016, the FASB issued an update (“ASU 2016-18”) *Restricted Cash* to ASC Topic 230, *Statement of Cash Flows*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the statement of cash flows upon adoption of this standard. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-18 effective January 1, 2017, with retrospective application to our consolidated statements of cash flows. Accordingly, the consolidated statements of cash flows present a reconciliation of the changes in cash and cash equivalents and restricted cash. Restricted cash primarily consists of security deposits, cash restricted for the purposes of facilitating a Section 1031 Like-Kind Exchange, cash restricted in connection with our deferred compensation plan and cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements.

In February 2017, the FASB issued an update (“ASU 2017-05”) *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* to ASC Subtopic 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 clarifies the scope of recently established guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. This update conforms the derecognition guidance on nonfinancial assets with the model for transactions in ASC 606. ASU

2017-05 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We expect to utilize the modified retrospective method of adoption. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

In May 2017, the FASB issued an update (“ASU 2017-09”) *Scope of Modification Accounting* to ASC 718. ASU 2017-09 provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. ASU 2017-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

### **Critical Accounting Policies**

A summary of our critical accounting policies is included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2016 in Management’s Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to our policies during 2017.

**Overview – continued**

**Leasing Activity**

The leasing activity and related statistics in the table below are based on leases signed during the period and are not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Second generation relet space represents square footage that has not been vacant for more than nine months and tenant improvements and leasing commissions are based on our share of square feet leased during the period.



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| (Square feet in thousands)                   | New York |           |          | 555 California Street | Washington, DC Office |
|--|----------|-----------|----------|-----------------------|-----------------------|
|  | Office   | Retail    | theMART  |                       |                       |
| <b>Three Months Ended June 30, 2017</b>      |          |           |          |                       |                       |
| Total square feet leased                     | 543      | 24        | 91       | 5                     | 196                   |
| Our share of square feet leased:             | 402      | 19        | 91       | 3                     | 186                   |
| Initial rent <sup>(1)</sup>                  | \$ 79.50 | \$ 160.08 | \$ 46.91 | \$ 89.00              | \$ 42.43              |
| Weighted average lease term (years)          | 7.8      | 7.8       | 6.2      | 7.2                   | 5.2                   |
| Second generation relet space:               |          |           |          |                       |                       |
| Square feet                                  | 288      | 18        | 89       | -                     | 141                   |
| GAAP basis:                                  |          |           |          |                       |                       |
| Straight-line rent <sup>(2)</sup>            | \$ 66.53 | \$ 154.39 | \$ 45.98 | \$ -                  | \$ 44.63              |
| Prior straight-line rent                     | \$ 56.47 | \$ 114.45 | \$ 41.49 | \$ -                  | \$ 43.70              |
| Percentage increase                          | 17.8%    | 34.9%     | 10.8%    | - %                   | 2.1%                  |
| Cash basis:                                  |          |           |          |                       |                       |
| Initial rent <sup>(1)</sup>                  | \$ 67.31 | \$ 145.80 | \$ 46.45 | \$ -                  | \$ 44.67              |
| Prior escalated rent                         | \$ 59.19 | \$ 116.83 | \$ 44.97 | \$ -                  | \$ 45.90              |
| Percentage increase (decrease)               | 13.7%    | 24.8%     | 3.3%     | - %                   | (2.7%)                |
| Tenant improvements and leasing commissions: |          |           |          |                       |                       |
| Per square foot                              | \$ 57.66 | \$ 70.12  | \$ 31.10 | \$ 134.00             | \$ 37.58              |
| Per square foot per annum                    | \$ 7.39  | \$ 8.99   | \$ 5.02  | \$ 18.61              | \$ 7.23               |
| Percentage of initial rent                   | 9.3%     | 5.6%      | 10.7%    | 20.9%                 | 17.0%                 |

| (Square feet in thousands)                   | New York |           |          | 555 California Street | Washington, DC Office |
|--|----------|-----------|----------|-----------------------|-----------------------|
|  | Office   | Retail    | theMART  |                       |                       |
| <b>Six Months Ended June 30, 2017</b>        |          |           |          |                       |                       |
| Total square feet leased                     | 1,096    | 36        | 191      | 71                    | 740                   |
| Our share of square feet leased:             | 782      | 30        | 191      | 50                    | 710                   |
| Initial rent <sup>(1)</sup>                  | \$ 77.41 | \$ 190.57 | \$ 47.28 | \$ 87.03              | \$ 42.88              |
| Weighted average lease term (years)          | 7.6      | 5.8       | 7.2      | 10.8                  | 7.9                   |
| Second generation relet space:               |          |           |          |                       |                       |
| Square feet                                  | 492      | 22        | 185      | 46                    | 623                   |
| GAAP basis:                                  |          |           |          |                       |                       |
| Straight-line rent <sup>(2)</sup>            | \$ 68.94 | \$ 229.02 | \$ 46.86 | \$ 95.09              | \$ 44.11              |
| Prior straight-line rent                     | \$ 60.51 | \$ 169.89 | \$ 36.44 | \$ 80.30              | \$ 42.06              |
| Percentage increase                          | 13.9%    | 34.8%     | 28.6%    | 18.4%                 | 4.9%                  |
| Cash basis:                                  |          |           |          |                       |                       |
| Initial rent <sup>(1)</sup>                  | \$ 70.21 | \$ 215.42 | \$ 46.77 | \$ 86.49              | \$ 43.12              |
| Prior escalated rent                         | \$ 63.67 | \$ 177.62 | \$ 38.69 | \$ 78.67              | \$ 45.73              |
| Percentage increase (decrease)               | 10.3%    | 21.3%     | 20.9%    | 9.9%                  | (5.7%)                |
| Tenant improvements and leasing commissions: |          |           |          |                       |                       |



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|                               |          |          |          |          |          |
|-------------------------------|----------|----------|----------|----------|----------|
| Per square foot               | \$ 69.35 | \$ 59.96 | \$ 44.48 | \$ 95.09 | \$ 59.36 |
| Per square foot<br>per annum  | \$ 9.13  | \$ 10.34 | \$ 6.18  | \$ 8.80  | \$ 7.51  |
| Percentage of<br>initial rent | 11.8%    | 5.4%     | 13.1%    | 10.1%    | 17.5%    |

- (1) Represents the cash basis weighted average starting rent per square foot, which is generally indicative of market rents. Most leases include free rent and periodic step-ups in rent which are not included in the initial cash basis rent per square foot but are included in the GAAP basis straight-line rent per square foot.
- (2) Represents the GAAP basis weighted average rent per square foot that is recognized over the term of the respective leases, and includes the effect of free rent and periodic step-ups in rent.

**Overview - continued****Square footage (in service) and Occupancy as of June 30, 2017**

| (Square feet in thousands)                       |                             | <b>Square Feet (in service)</b> |                  |                    |
|--|-----------------------------|---------------------------------|------------------|--------------------|
|  | <b>Number of Properties</b> | <b>Total Portfolio</b>          | <b>Our Share</b> | <b>Occupancy %</b> |
| New York:  |                             |                                 |                  |                    |
| Office   | 36                          | 20,231                          | 16,959           | 96.7%              |
| Retail   | 71                          | 2,677                           | 2,472            | 95.3%              |
| Residential - 1,699 units                        | 11                          | 1,564                           | 831              | 94.8%              |
| Alexander's, including 312 residential units     | 7                           | 2,437                           | 790              | 99.4%              |
| Hotel Pennsylvania                               | 1                           | 1,400                           | 1,400            |                    |
|  |                             | 28,309                          | 22,452           | 96.6%              |
| Washington, DC:                                  |                             |                                 |                  |                    |
| Office   | 40                          | 10,364                          | 9,618            | 87.9%              |
| Residential - 3,104 units                        | 7                           | 3,111                           | 3,111            | 98.4%              |
| Other  | 5                           | 330                             | 330              | 100.0%             |
|  |                             | 13,805                          | 13,059           | 90.4%              |
| Other:   |                             |                                 |                  |                    |
| theMART  | 3                           | 3,682                           | 3,673            | 98.9%              |
| 555 California Street                            | 3                           | 1,738                           | 1,217            | 90.7%              |
| Rosslyn Plaza Office and Residential - 196 units | 6                           | 705                             | 319              | 67.3%              |
| Other  | 4                           | 1,837                           | 877              | 99.7%              |
|  |                             | 7,962                           | 6,086            |                    |
| Total square feet as of June 30, 2017            |                             | 50,076                          | 41,597           |                    |
|  |                             | 63                              |                  |                    |

**Overview - continued****Square footage (in service) and Occupancy as of December 31, 2016**

| (Square feet in thousands)                       |                             | <b>Square Feet (in service)</b> |                  |                    |
|--|-----------------------------|---------------------------------|------------------|--------------------|
|  | <b>Number of properties</b> | <b>Total Portfolio</b>          | <b>Our Share</b> | <b>Occupancy %</b> |
| New York:  |                             |                                 |                  |                    |
| Office   | 36                          | 20,227                          | 16,962           | 96.3%              |
| Retail   | 70                          | 2,672                           | 2,464            | 97.1%              |
| Residential - 1,692 units                        | 11                          | 1,559                           | 826              | 95.7%              |
| Alexander's, including 312 residential units     | 7                           | 2,437                           | 790              | 99.8%              |
| Hotel Pennsylvania                               | 1                           | 1,400                           | 1,400            |                    |
|  |                             | 28,295                          | 22,442           | 96.5%              |
| Washington, DC:                                  |                             |                                 |                  |                    |
| Office   | 40                          | 10,648                          | 9,890            | 88.8%              |
| Residential - 2,862 units                        | 7                           | 2,992                           | 2,992            | 97.9%              |
| Other  | 5                           | 330                             | 330              | 100.0%             |
|  |                             | 13,970                          | 13,212           | 90.9%              |
| Other:   |                             |                                 |                  |                    |
| theMART  | 3                           | 3,671                           | 3,662            | 98.9%              |
| 555 California Street                            | 3                           | 1,738                           | 1,217            | 92.4%              |
| Rosslyn Plaza Office and Residential - 196 units | 6                           | 746                             | 339              | 64.0%              |
| Other  | 4                           | 1,811                           | 850              | 99.8%              |
|  |                             | 7,966                           | 6,068            |                    |
| Total square feet as of December 31, 2016        |                             | 50,231                          | 41,722           |                    |

**Net Income, EBITDA and NOI by Segment for the Three Months Ended June 30, 2017 and 2016**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> and NOI<sup>(1)</sup> by segment for the three months ended June 30, 2017 and 2016.

(Amounts in thousands)

For the Three Months Ended June 30, 2017

|   | Washington, |                           |                          |                          |
|---|-------------|---------------------------|--------------------------|--------------------------|
|   | Total       | New York                  | DC                       | Other                    |
| Total revenues  | \$ 626,039  | \$ 436,862                | \$ 118,336               | \$ 70,841                |
| Total expenses  | 442,643     | 279,835                   | 82,317                   | 80,491                   |
| Operating income (loss)   | 183,396     | 157,027                   | 36,019                   | (9,650)                  |
| Income (loss) from partially owned entities   | 46,276      | (272)                     | 255                      | 46,293                   |
| Income from real estate fund investments  | 4,391       | -                         | -                        | 4,391                    |
| Interest and other investment income (loss), net  | 9,307       | 1,499                     | (23)                     | 7,831                    |
| Interest and debt expense   | (96,797)    | (60,335)                  | (12,008)                 | (24,454)                 |
| Income before income taxes  | 146,573     | 97,919                    | 24,243                   | 24,411                   |
| Income tax benefit (expense)  | 248         | 906                       | (362)                    | (296)                    |
| Income from continuing operations   | 146,821     | 98,825                    | 23,881                   | 24,115                   |
| Income from discontinued operations   | 663         | -                         | -                        | 663                      |
| Net income  | 147,484     | 98,825                    | 23,881                   | 24,778                   |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (7,677)     | (2,645)                   | -                        | (5,032)                  |
| Net income attributable to the Operating Partnership  | 139,807     | 96,180                    | 23,881                   | 19,746                   |
| Interest and debt expense <sup>(2)</sup>  | 118,585     | 78,202                    | 13,567                   | 26,816                   |
| Depreciation and amortization <sup>(2)</sup>  | 168,248     | 110,449                   | 33,648                   | 24,151                   |
| Income tax expense (benefit) <sup>(2)</sup>   | 289         | (869)                     | 353                      | 805                      |
| EBITDA <sup>(1)</sup>   | 426,929     | 283,962 <sup>(3)</sup>    | 71,449 <sup>(4)</sup>    | 71,518 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (44,580)    | (26,741)                  | (1,826)                  | (16,013)                 |
| NOI <sup>(1)</sup>  | \$ 382,349  | \$ 257,221 <sup>(3)</sup> | \$ 69,623 <sup>(4)</sup> | \$ 55,505 <sup>(5)</sup> |

(Amounts in thousands)

For the Three Months Ended June 30, 2016

|   | Washington, |            |            |           |
|---|-------------|------------|------------|-----------|
|   | Total       | New York   | DC         | Other     |
| Total revenues                              | \$ 621,708  | \$ 425,770 | \$ 127,468 | \$ 68,470 |
| Total expenses                              | 434,894     | 268,135    | 89,106     | 77,653    |
| Operating income (loss)                     | 186,814     | 157,635    | 38,362     | (9,183)   |
| Income (loss) from partially owned entities | 642         | (1,001)    | (2,370)    | 4,013     |
| Income from real estate fund investments    | 16,389      | -          | -          | 16,389    |
| Interest and other investment income, net   | 10,236      | 1,214      | 34         | 8,988     |
| Interest and debt expense                   | (105,576)   | (56,395)   | (19,817)   | (29,364)  |

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|   |            |                           |                          |                          |
|---|------------|---------------------------|--------------------------|--------------------------|
| Net gain on disposition of wholly owned and partially owned assets  | 159,511    | 159,511                   | -                        | -                        |
| Income (loss) before income taxes   | 268,016    | 260,964                   | 16,209                   | (9,157)                  |
| Income tax expense  | (2,109)    | (816)                     | (318)                    | (975)                    |
| Income (loss) from continuing operations  | 265,907    | 260,148                   | 15,891                   | (10,132)                 |
| Income from discontinued operations   | 2,475      | -                         | -                        | 2,475                    |
| Net income (loss)   | 268,382    | 260,148                   | 15,891                   | (7,657)                  |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (13,025)   | (3,397)                   | -                        | (9,628)                  |
| Net income (loss) attributable to the Operating Partnership   | 255,357    | 256,751                   | 15,891                   | (17,285)                 |
| Interest and debt expense <sup>(2)</sup>  | 127,799    | 71,171                    | 21,926                   | 34,702                   |
| Depreciation and amortization <sup>(2)</sup>  | 173,352    | 111,314                   | 37,196                   | 24,842                   |
| Income tax expense <sup>(2)</sup>   | 4,704      | 889                       | 2,205                    | 1,610                    |
| EBITDA <sup>(1)</sup>   | 561,212    | 440,125 <sup>(3)</sup>    | 77,218 <sup>(4)</sup>    | 43,869 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (74,383)   | (50,045)                  | (6,067)                  | (18,271)                 |
| NOI <sup>(1)</sup>  | \$ 486,829 | \$ 390,080 <sup>(3)</sup> | \$ 71,151 <sup>(4)</sup> | \$ 25,598 <sup>(5)</sup> |

See notes on the following pages.

**Net Income, EBITDA and NOI by Segment for the Three Months Ended June 30, 2017 and 2016 - continued**

**Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." NOI represents "Net Operating Income" (the equivalent of EBITDA on a cash basis). We calculate EBITDA and NOI on an Operating Partnership basis which is before allocation to the noncontrolling interest of the Operating Partnership. We consider EBITDA the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. We also consider NOI a key non-GAAP financial measure. As properties are bought and sold based on a multiple of NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to those of our peers. EBITDA and NOI should not be considered substitutes for net income. EBITDA and NOI may not be comparable to similarly titled measures employed by other companies.

Our 7.5% interest in Fashion Centre Mall/Washington Tower and our interest in Rosslyn Plaza (ranging from 43.7% to 50.4%) will not be included in the spin-off of our Washington, DC segment and have been reclassified to Other. The prior year's presentation has been conformed to the current year. In addition, on January 1, 2017, we reclassified our investment in 85 Tenth Avenue from Other to the New York segment as a result of the December 1, 2016 repayment of our loans receivable and the receipt of a 49.9% ownership interest in the property.

- (2) Interest and debt expense, depreciation and amortization and income tax expense (benefit) in the reconciliation of net income (loss) to EBITDA and straight-line rents, amortization of acquired below-market leases, net and other non-cash adjustments in the reconciliation of EBITDA to NOI include our share of these items from partially owned entities.

**Net Income, EBITDA and NOI by Segment for the Three Months Ended June 30, 2017 and 2016 - continued****Notes to preceding tabular information:**

(3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands)   | For the Three Months Ended June 30, |                           |
|--|-------------------------------------|---------------------------|
|  | 2017                                | 2016                      |
| Office   | \$ 169,327                          | \$ 165,576 <sup>(a)</sup> |
| Retail   | 90,183                              | 91,421 <sup>(a)</sup>     |
| Residential  | 6,190                               | 6,337                     |
| Alexander's  | 11,742                              | 11,805                    |
| Hotel Pennsylvania   | 6,520                               | 3,797                     |
| Total New York EBITDA, as adjusted                               | 283,962                             | 278,936                   |
| Certain items that impact EBITDA:                                |                                     |                           |
| Net gain on sale of 47% ownership interest in 7 West 34th Street | -                                   | 159,511                   |
| EBITDA from sold properties                                      | -                                   | 1,678                     |
| Total of certain items that impact EBITDA                        | -                                   | 161,189                   |
| Total New York EBITDA  | \$ 283,962                          | \$ 440,125                |

The elements of "New York" NOI are summarized below.

| (Amounts in thousands)   | For the Three Months Ended June 30, |                           |
|--|-------------------------------------|---------------------------|
|  | 2017                                | 2016                      |
| Office   | \$ 158,105                          | \$ 142,639 <sup>(a)</sup> |
| Retail   | 80,193                              | 71,084 <sup>(a)</sup>     |
| Residential  | 5,341                               | 5,627                     |
| Alexander's  | 7,029                               | 6,616                     |
| Hotel Pennsylvania   | 6,553                               | 3,830                     |
| Total New York NOI, as adjusted                                  | 257,221                             | 229,796                   |
| Certain items that impact NOI:                                   |                                     |                           |
| Net gain on sale of 47% ownership interest in 7 West 34th Street | -                                   | 159,511                   |
| NOI from sold properties   | -                                   | 773                       |
| Total of certain items that impact NOI                           | -                                   | 160,284                   |
| Total New York NOI   | \$ 257,221                          | \$ 390,080                |

(a) Beginning in January 2017 for office buildings with retail at the base, we have adjusted the allocation of real estate taxes between the retail and office elements above. This has no effect on our consolidated financial statements but resulted in a reallocation of \$3,931 of income from retail to office for the three months ended June 30, 2016.



**Net Income, EBITDA and NOI by Segment for the Three Months Ended June 30, 2017 and 2016 - continued****Notes to preceding tabular information - continued:**

- (4) The elements of "Washington, DC" EBITDA are summarized below.

| (Amounts in thousands)                   | <b>For the Three Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                                | <b>2016</b> |
| Office                                   | \$ 57,418                                  | \$ 61,357   |
| Residential                              | 14,031                                     | 10,118      |
| Total Washington, DC EBITDA, as adjusted | 71,449                                     | 71,475      |
| Certain items that impact EBITDA:        |  |             |
| EBITDA from sold properties              | -  | 5,743       |
| Total Washington, DC EBITDA              | \$ 71,449                                  | \$ 77,218   |

The elements of "Washington, DC" NOI are summarized below.

| (Amounts in thousands)                | <b>For the Three Months Ended June 30,</b> |             |
|---------------------------------------|--|-------------|
|                                       | <b>2017</b>                                | <b>2016</b> |
| Office                                | \$ 55,592                                  | \$ 57,501   |
| Residential                           | 14,031                                     | 10,118      |
| Total Washington, DC NOI, as adjusted | 69,623                                     | 67,619      |
| Certain items that impact NOI:        |  |             |
| NOI from sold properties              | -  | 3,532       |
| Total Washington, DC NOI              | \$ 69,623                                  | \$ 71,151   |

**Net Income, EBITDA and NOI by Segment for the Three Months Ended June 30, 2017 and 2016 - continued****Notes to preceding tabular information - continued:**

(5) The elements of "Other" EBITDA are summarized below.

| (Amounts in thousands)  | <b>For the Three Months Ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2017</b>                                | <b>2016</b> |
| theMART (including trade shows)                                 | \$ 24,122                                  | \$ 25,965   |
| 555 California Street   | 12,144                                     | 12,117      |
| Other investments   | 12,383                                     | 17,407      |
|   | 48,649                                     | 55,489      |
| Our share of real estate fund investments                       | (304)                                      | 7,544       |
| Corporate general and administrative expenses <sup>(a)</sup>    | (23,235)                                   | (24,239)    |
| Investment income and other, net <sup>(a)</sup>                 | 9,629                                      | 5,471       |
| Net gain resulting from UE operating partnership unit issuances | 15,900                                     | -           |
| Net gain on sale of property at Suffolk Downs                   | 15,314                                     | -           |
| Net gain on repayment of our Suffolk Downs JV debt investments  | 11,373                                     | -           |
| Acquisition and transaction related costs <sup>(b)</sup>        | (6,471)                                    | (2,879)     |
| Residual retail properties discontinued operations              | 663  | 2,483       |
| Total Other   | \$ 71,518                                  | \$ 43,869   |

The elements of "Other" NOI are summarized below.

| (Amounts in thousands)   | <b>For the Three Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                                | <b>2016</b> |
| theMART (including trade shows)                                | \$ 22,904                                  | \$ 24,233   |
| 555 California Street  | 11,258                                     | 8,033       |
| Other investments  | 6,630                                      | 6,002       |
|  | 40,792                                     | 38,268      |
| Our share of real estate fund investments                      | 1,995                                      | 1,522       |
| Corporate general and administrative expenses <sup>(a)</sup>   | (17,790)                                   | (19,267)    |
| Investment income and other, net <sup>(a)</sup>                | 9,629                                      | 5,471       |
| Net gain on sale of property at Suffolk Downs                  | 15,314                                     | -           |
| Net gain on repayment of our Suffolk Downs JV debt investments | 11,373                                     | -           |
| Acquisition and transaction related costs <sup>(b)</sup>       | (6,471)                                    | (2,879)     |
| Residual retail properties discontinued operations             | 663  | 2,483       |
| Total Other  | \$ 55,505                                  | \$ 25,598   |

(a) The amounts in these captions (for this table only) exclude the results of the mark-to-market of our deferred compensation plan of \$789 and \$4,359 of income for the three months ended June 30, 2017 and 2016, respectively.

(b) The three months ended June 30, 2017 and 2016 include \$6,211 and \$1,606, respectively, of transaction costs related to the spin-off of our Washington, DC business.

**EBITDA by Region**

Below is a summary of the percentages of EBITDA by geographic region, excluding gains on sale of real estate, non-cash impairment losses and operations of sold properties.

|   | <b>For the Three Months Ended</b> |             |
|---|-----------------------------------|-------------|
|   | <b>June 30,</b>                   |             |
| <b>Region:</b>                          | <b>2017</b>                       | <b>2016</b> |
| New York City metropolitan area         | 72%                               | 72%         |
| Washington, DC / Northern Virginia area | 19%                               | 18%         |
| Chicago, IL                             | 6%                                | 7%          |
| San Francisco, CA                       | 3%                                | 3%          |
|   | 100%                              | 100%        |

## **Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016**

### **Revenues**

Our revenues, which consist of property rentals, tenant expense reimbursements, and fee and other income, were \$626,039,000 for the three months ended June 30, 2017, compared to \$621,708,000 for the prior year's quarter, an increase of \$4,331,000. Below are the details of the increase (decrease) by segment:



| (Amounts in thousands)<br>(Decrease) increase due to: | Total      | New York  | Washington,<br>DC | Other    |
|---|------------|-----------|-------------------|----------|
| <b>Property rentals:</b>                              |            |           |                   |          |
| Acquisitions, dispositions and other                  | \$ (3,264) | \$ 6,115  | \$ (9,379)        | \$ -     |
| Development and redevelopment                         | 9          | 29        | (221)             | 201      |
| Hotel Pennsylvania                                    | 2,921      | 2,921     | -                 | -        |
| Trade shows   | 195        | -         | -                 | 195      |
| Same store operations                                 | 2,255      | 850       | 76                | 1,329    |
|   | 2,116      | 9,915     | (9,524)           | 1,725    |
| <b>Tenant expense reimbursements:</b>                 |            |           |                   |          |
| Acquisitions, dispositions and other                  | (1,344)    | (1,158)   | (186)             | -        |
| Development and redevelopment                         | 1,307      | -         | 319               | 988      |
| Same store operations                                 | (117)      | (198)     | (4)               | 85       |
|   | (154)      | (1,356)   | 129               | 1,073    |
| <b>Fee and other income:</b>                          |            |           |                   |          |
| BMS cleaning fees                                     | 2,500      | 3,210     | -                 | (710)    |
| Management and leasing fees                           | 288        | 625       | (429)             | 92       |
| Lease termination fees                                | (1,740)    | (1,913)   | 217               | (44)     |
| Other income  | 1,321      | 611       | 475               | 235      |
|   | 2,369      | 2,533     | 263               | (427)    |
| Total increase (decrease) in revenues                 | \$ 4,331   | \$ 11,092 | \$ (9,132)        | \$ 2,371 |

## **Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016 - continued**

### **Expenses**

Our expenses, which consist of operating, depreciation and amortization, general and administrative expenses, and acquisition and transaction related costs, were \$442,643,000 for the three months ended June 30, 2017, compared to \$434,894,000 for the prior year's quarter, an increase of \$7,749,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands)<br>(Decrease) increase due to:     | <b>Total</b>    | <b>New York</b>  | <b>Washington,<br/>DC</b> | <b>Other</b>    |
|---|-----------------|------------------|---------------------------|-----------------|
| <b>Operating:</b>   |                 |                  |                           |                 |
| Acquisitions, dispositions and other                      | \$ (5,498)      | \$ (952)         | \$ (4,546)                | \$ -            |
| Development and redevelopment                             | 203             | 7                | 133                       | 63              |
| Non-reimbursable expenses,<br>including                   |                 |                  |                           |                 |
| bad debt reserves   | 1,296           | 48               | 1,048                     | 200             |
| Hotel Pennsylvania  | 197             | 197              | -                         | -               |
| Trade shows   | (500)           | -                | -                         | (500)           |
| BMS expenses  | 3,017           | 3,726            | -                         | (709)           |
| Same store operations                                     | 12,834          | 8,344            | 885                       | 3,605           |
|   | 11,549          | 11,370           | (2,480)                   | 2,659           |
| <b>Depreciation and amortization:</b>                     |                 |                  |                           |                 |
| Acquisitions, dispositions and other                      | (2,127)         | (20)             | (2,107)                   | -               |
| Development and redevelopment                             | (4,357)         | -                | (4,239)                   | (118)           |
| Same store operations                                     | 2,186           | (1,751)          | 3,056                     | 881             |
|   | (4,298)         | (1,771)          | (3,290)                   | 763             |
| <b>General and administrative:</b>                        |                 |                  |                           |                 |
| Mark-to-market of deferred<br>compensation plan liability | (3,570)         | -                | -                         | (3,570) (1)     |
| Same store operations                                     | 476             | 2,101            | (1,019)                   | (606)           |
|   | (3,094)         | 2,101            | (1,019)                   | (4,176)         |
| <b>Acquisition and transaction related costs</b>          | 3,592           | -                | -                         | 3,592 (2)       |
| <b>Total increase (decrease) in expenses</b>              | <b>\$ 7,749</b> | <b>\$ 11,700</b> | <b>\$ (6,789)</b>         | <b>\$ 2,838</b> |

- (1) This decrease in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment income, net” on our consolidated statements of income.
- (2) Primarily from the transaction costs related to the spin-off of our Washington, DC business. Upon completion of the spin-off on July 17, 2017, we incurred approximately \$47,000 of additional transaction costs, primarily for advisory fees which will be recognized as expense in the quarter ended September 30, 2017.



## **Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016 - continued**

### **Income from Partially Owned Entities**

Summarized below are the components of income (loss) from partially owned entities for the three months ended June 30, 2017 and 2016.



| (Amounts in thousands)                          | <b>Percentage<br/>Ownership at<br/>June 30, 2017</b> | <b>For the Three Months Ended June 30,<br/>2017</b> |         | <b>2016</b> |
|---|--|---|---------|-------------|
| <b>Our Share of Net Income (Loss):</b>          |  |   |         |             |
| UE <sup>(1)</sup>                               | 4.8%   | \$  | 19,003  | \$ 1,280    |
| Alexander's                                     | 32.4%  |   | 8,197   | 8,500       |
| Partially owned office buildings <sup>(2)</sup> | Various  |   | (7,897) | (12,398)    |
| India real estate ventures                      | 4.1%-36.5%   |   | (1,644) | (1,934)     |
| PREIT   | 8.0%   |   | (902)   | (527)       |
| Other investments <sup>(3)</sup>                | Various  |   | 29,519  | 5,721       |
|   |  | \$  | 46,276  | \$ 642      |

- (1) 2017 includes a \$15,900 net gain resulting from UE operating partnership unit issuances.
- (2) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others.
- (3) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, Toys "R" Us, Inc. and others. In the second quarter of 2017, we recognized \$26,687 of net gains, comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV. See page 59 for details.

### **Income from Real Estate Fund Investments**

Below are the components of the (loss) income from our real estate fund investments for the three months ended June 30, 2017 and 2016.

(Amounts in thousands)

|   | <b>For the Three Months Ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2017</b>                                | <b>2016</b> |
| Net investment income   | \$ 3,646                                   | \$ 1,723    |
| Net unrealized gain on held investments   | 745  | 14,666      |
| Income from real estate fund investments <sup>(1)</sup>                                   | 4,391                                      | 16,389      |
| Less income attributable to noncontrolling interests in consolidated subsidiaries         | (4,695)                                    | (8,845)     |
| (Loss) income from real estate fund investments attributable to the Operating Partnership | (304)                                      | 7,544       |
| Less loss (income) attributable to noncontrolling interests in the Operating Partnership  | 19   | (465)       |
| (Loss) income from real estate fund investments attributable to Vornado                   | \$ (285)                                   | \$ 7,079    |

**(1)** Excludes \$1,381 and \$935 of management and leasing fees for the three months ended June 30, 2017 and 2016, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016 - continued**

**Interest and Other Investment Income, net**

Interest and other investment income, net, was \$9,307,000 for the three months ended June 30, 2017, compared to \$10,236,000 in the prior year's quarter, a decrease of \$929,000. This decrease resulted primarily from a reduction in the value of investments in our deferred compensation plan (offset by a corresponding increase in the liability for plan assets in general and administrative expenses).

**Interest and Debt Expense**

Interest and debt expense was \$96,797,000 for the three months ended June 30, 2017, compared to \$105,576,000 in the prior year's quarter, a decrease of \$8,779,000. This decrease was primarily due to (i) \$10,344,000 of interest savings from the disposition of the Skyline properties and the refinancing of theMART and (ii) \$4,675,000 higher capitalized interest and debt expense, partially offset by (iii) \$2,011,000 of higher interest expense from the refinancing of 350 Park Avenue and the \$375,000,000 drawn on our \$750,000,000 delayed draw term loan and (iv) \$2,054,000 of higher interest expense from the 1535 Broadway capital lease obligation.

**Net Gain on Disposition of Wholly Owned and Partially Owned Assets**

For the three months ended June 30, 2016, we recognized a \$159,511,000 net gain from the sale of a 47% ownership interest in 7 West 34th Street.

**Income Tax Benefit (Expense)**

For the three months ended June 30, 2017, income tax benefit was \$248,000, compared to an expense of \$2,109,000 for the prior year's quarter, a decrease of \$2,357,000. This decrease was primarily due to our right this year to offset certain tax losses against certain taxable income of our taxable REIT subsidiaries.

**Income from Discontinued Operations**

The table below sets forth the combined results of operations of assets related to discontinued operations for the three months ended June 30, 2017 and 2016.

(Amounts in thousands)

|  | <b>For the Three Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                                | <b>2016</b> |
| Total revenues                             | \$ 848                                     | \$ 947      |
| Total expenses                             | 185  | 682         |
|  | 663  | 265         |
| Net gains on the sale of real estate       | -  | 2,210       |
| Pretax income from discontinued operations | 663  | 2,475       |
| Income tax expense                         | -  | -           |
| Income from discontinued operations        | \$ 663                                     | \$ 2,475    |

**Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016 - continued**

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$7,677,000 for the three months ended June 30, 2017, compared to \$13,025,000 for the prior year's quarter, a decrease of \$5,348,000. This decrease resulted primarily from lower net income allocated to the noncontrolling interests, including noncontrolling interests of our real estate fund investments.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership (Vornado Realty Trust)

Net income attributable to noncontrolling interests in the Operating Partnership was \$7,706,000 for the three months ended June 30, 2017, compared to \$14,531,000 for the prior year's quarter, a decrease of \$6,825,000. This decrease resulted primarily from lower net income subject to allocation to unitholders.

Preferred Share Dividends of Vornado Realty Trust

Preferred share dividends were \$16,129,000 for the three months ended June 30, 2017, compared to \$20,363,000 for the prior year's quarter, a decrease of \$4,234,000. The decrease is primarily due to the redemption of the 6.875% Series J cumulative redeemable preferred shares on September 1, 2016.



**Preferred Unit Distributions of Vornado Realty L.P.**

Preferred unit distributions were \$16,177,000 for the three months ended June 30, 2017, compared to \$20,412,000 for the prior year's quarter, a decrease of \$4,235,000. The decrease is primarily due to the redemption of the 6.875% Series J cumulative redeemable preferred units on September 1, 2016.





**Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016 - continued**



**Same Store EBITDA**

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



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Below are reconciliations of EBITDA to same store EBITDA for each of our segments and theMART and 555 California Street, which are included in Other, for the three months ended June 30, 2017 compared to June 30, 2016.



|  |              | Washington,<br>DC | theMART    | 555<br>California<br>Street |
|--|--------------|-------------------|------------|-----------------------------|
| (Amounts in thousands)                                     | New York     |                   |            |                             |
| EBITDA for the three months ended June 30, 2017            | \$ 283,962   | \$ 71,449         | \$ 24,122  | \$ 12,144                   |
| Add-back:  |              |                   |            |                             |
| Non-property level overhead expenses included above        | 9,908        | 6,276             | 2,063      | -                           |
| Less EBITDA from:  |              |                   |            |                             |
| Acquisitions   | (4,963)      | -                 | 169        | -                           |
| Dispositions   | (235)        | (382)             | -          | -                           |
| Development properties placed into and out of service      | (6,081)      | (3,454)           | -          | -                           |
| Other non-operating income, net                            | (899)        | (396)             | -          | -                           |
| Same store EBITDA for the three months ended June 30, 2017 | \$ 281,692   | \$ 73,493         | \$ 26,354  | \$ 12,144                   |
| EBITDA for the three months ended June 30, 2016            | \$ 440,125   | \$ 77,218         | \$ 25,965  | \$ 12,117                   |
| Add-back:  |              |                   |            |                             |
| Non-property level overhead expenses included above        | 7,807        | 7,295             | 1,626      | 125                         |
| Less EBITDA from:  |              |                   |            |                             |
| Acquisitions   | (153)        | -                 | -          | -                           |
| Dispositions, including net gains on sale                  | (161,429)    | (5,713)           | -          | -                           |
| Development properties placed into and out of service      | (7,508)      | (3,097)           | -          | 262                         |
| Other non-operating loss (income), net                     | 4,368        | (137)             | -          | -                           |
| Same store EBITDA for the three months ended June 30, 2016 | \$ 283,210   | \$ 75,566         | \$ 27,591  | \$ 12,504                   |
| Decrease in same store EBITDA for the three months ended   |              |                   |            |                             |
| June 30, 2017 compared to June 30, 2016                    | \$ (1,518)   | \$ (2,073)        | \$ (1,237) | \$ (360)                    |
| % decrease in same store EBITDA                            | (0.5%)(1)(2) | (2.7%)            | (4.5%) (3) | (2.9%)                      |

(1) Excluding Hotel Pennsylvania, same store EBITDA decreased by 1.5%.

(2) The three months ended June 30, 2017 includes \$2,557 of one-time prior period tenant adjustments. Excluding this item, same store EBITDA increased by 0.4%.

(3) The three months ended June 30, 2016 includes a \$2,300 reversal of an expense accrued in the prior quarters. Excluding this amount, same store EBITDA increased by 4.0%.



## Results of Operations – Three Months Ended June 30, 2017 Compared to June 30, 2016 - continued

### Reconciliation of NOI to Same Store NOI

| (Amounts in thousands)   | New York   | Washington,<br>DC | theMART   | 555<br>California<br>Street |
|--|------------|-------------------|-----------|-----------------------------|
| NOI for the three months ended June 30, 2017                     | \$ 257,221 | \$ 69,623         | \$ 22,904 | \$ 11,258                   |
| Add-back:  |            |                   |           |                             |
| Non-property level overhead expenses included above              | 8,771      | 5,672             | 1,997     | -                           |
| Less NOI from:   |            |                   |           |                             |
| Acquisitions   | (4,569)    | -                 | 169       | -                           |
| Dispositions   | (235)      | (382)             | -         | -                           |
| Development properties placed into and out of service            | (1,562)    | (3,661)           | -         | -                           |
| Other non-operating income, net                                  | (2,252)    | (396)             | -         | -                           |
| Same store NOI for the three months ended June 30, 2017          | \$ 257,374 | \$ 70,856         | \$ 25,070 | \$ 11,258                   |
| NOI for the three months ended June 30, 2016                     | \$ 390,080 | \$ 71,151         | \$ 24,233 | \$ 8,033                    |
| Add-back:  |            |                   |           |                             |
| Non-property level overhead expenses included above              | 6,752      | 6,182             | 1,567     | 124                         |
| Less NOI from:   |            |                   |           |                             |
| Acquisitions   | (105)      | -                 | -         | -                           |
| Dispositions, including net gains on sale                        | (160,524)  | (3,502)           | -         | -                           |
| Development properties placed into and out of service            | (1,218)    | (3,210)           | -         | 262                         |
| Other non-operating income, net                                  | (2,262)    | (135)             | -         | -                           |
| Same store NOI for the three months ended June 30, 2016          | \$ 232,723 | \$ 70,486         | \$ 25,800 | \$ 8,419                    |
| Increase (decrease) in same store NOI for the three months ended |            |                   |           |                             |
| June 30, 2017 compared to June 30, 2016                          | \$ 24,651  | \$ 370            | \$ (730)  | \$ 2,839                    |

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|   |             |      |            |       |
|---|-------------|------|------------|-------|
| % increase (decrease) in same store NOI | 10.6%(1)(2) | 0.5% | (2.8%) (3) | 33.7% |
|---|-------------|------|------------|-------|

- (1) Excluding Hotel Pennsylvania, same store NOI increased by 9.6%.
- (2) The three months ended June 30, 2017 includes \$2,557 of one-time prior period tenant adjustments. Excluding this item, same store NOI increased by 11.7%.
- (3) The three months ended June 30, 2016 includes a \$2,300 reversal of an expense accrued in the prior quarters. Excluding this amount, same store NOI increased by 6.5%.

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**Net Income, EBITDA and NOI by Segment for the Six Months Ended June 30, 2017 and 2016**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> and NOI<sup>(1)</sup> by segment for the six months ended June 30, 2017 and 2016.

| (Amounts in thousands)  | <b>For the Six Months Ended June 30, 2017</b> |                           |                           |                          |
|---|---|---------------------------|---------------------------|--------------------------|
|   | <b>Total</b>                                  | <b>New York</b>           | <b>Washington,<br/>DC</b> | <b>Other</b>             |
| Total revenues  | \$ 1,246,887                                  | \$ 863,101                | \$ 234,543                | \$ 149,243               |
| Total expenses  | 907,024                                       | 560,656                   | 166,305                   | 180,063                  |
| Operating income (loss)   | 339,863                                       | 302,445                   | 68,238                    | (30,820)                 |
| Income (loss) from partially owned entities   | 47,721  | (2,365)                   | 342                       | 49,744                   |
| Income from real estate fund investments  | 4,659   | -                         | -                         | 4,659                    |
| Interest and other investment income, net   | 18,535  | 2,971                     | 41                        | 15,523                   |
| Interest and debt expense   | (191,082)                                     | (118,322)                 | (23,569)                  | (49,191)                 |
| Net gains on disposition of wholly owned and partially owned assets   | 501   | -                         | -                         | 501                      |
| Income (loss) before income taxes   | 220,197                                       | 184,729                   | 45,052                    | (9,584)                  |
| Income tax (expense) benefit  | (1,957)                                       | 763                       | (716)                     | (2,004)                  |
| Income (loss) from continuing operations  | 218,240                                       | 185,492                   | 44,336                    | (11,588)                 |
| Income from discontinued operations   | 3,091   | -                         | -                         | 3,091                    |
| Net income (loss)   | 221,331                                       | 185,492                   | 44,336                    | (8,497)                  |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (14,414)                                      | (5,489)                   | -                         | (8,925)                  |
| Net income (loss) attributable to the Operating Partnership   | 206,917                                       | 180,003                   | 44,336                    | (17,422)                 |
| Interest and debt expense <sup>(2)</sup>  | 234,912                                       | 154,125                   | 26,748                    | 54,039                   |
| Depreciation and amortization <sup>(2)</sup>  | 339,785                                       | 223,259                   | 69,141                    | 47,385                   |
| Income tax expense (benefit) <sup>(2)</sup>   | 2,718   | (642)                     | 720                       | 2,640                    |
| EBITDA <sup>(1)</sup>   | 784,332                                       | 556,745 <sup>(3)</sup>    | 140,945 <sup>(4)</sup>    | 86,642 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (61,708)                                      | (52,159)                  | (5,892)                   | (3,657)                  |
| NOI <sup>(1)</sup>  | \$ 722,624                                    | \$ 504,586 <sup>(3)</sup> | \$ 135,053 <sup>(4)</sup> | \$ 82,985 <sup>(5)</sup> |

(Amounts in thousands)

**For the Six Months Ended June 30, 2016**

| <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|--------------|-----------------|---------------------------|--------------|
|--------------|-----------------|---------------------------|--------------|

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|   |              |                           |                            |                          |
|---|--------------|---------------------------|----------------------------|--------------------------|
| Total revenues  | \$ 1,234,745 | \$ 836,595                | \$ 255,480                 | \$ 142,670               |
| Total expenses  | 1,048,211    | 537,730                   | 345,671                    | 164,810                  |
| Operating income (loss)   | 186,534      | 298,865                   | (90,191)                   | (22,140)                 |
| (Loss) income from partially owned entities   | (3,598)      | (4,564)                   | (3,679)                    | 4,645                    |
| Income from real estate fund investments  | 27,673       | -                         | -                          | 27,673                   |
| Interest and other investment income, net   | 13,754       | 2,329                     | 92                         | 11,333                   |
| Interest and debt expense   | (206,065)    | (110,981)                 | (35,752)                   | (59,332)                 |
| Net gains on disposition of wholly owned and partially owned assets   | 160,225      | 159,511                   | -                          | 714                      |
| Income (loss) before income taxes   | 178,523      | 345,160                   | (129,530)                  | (37,107)                 |
| Income tax expense  | (4,940)      | (1,775)                   | (582)                      | (2,583)                  |
| Income (loss) from continuing operations  | 173,583      | 343,385                   | (130,112)                  | (39,690)                 |
| Income from discontinued operations   | 3,191        | -                         | -                          | 3,191                    |
| Net income (loss)   | 176,774      | 343,385                   | (130,112)                  | (36,499)                 |
| Less net income attributable to noncontrolling interests in consolidated subsidiaries                                     | (22,703)     | (6,826)                   | -                          | (15,877)                 |
| Net income (loss) attributable to the Operating Partnership   | 154,071      | 336,559                   | (130,112)                  | (52,376)                 |
| Interest and debt expense <sup>(2)</sup>  | 253,919      | 142,369                   | 40,637                     | 70,913                   |
| Depreciation and amortization <sup>(2)</sup>  | 348,163      | 219,717                   | 77,795                     | 50,651                   |
| Income tax expense <sup>(2)</sup>   | 7,965        | 1,979                     | 2,470                      | 3,516                    |
| EBITDA <sup>(1)</sup>   | 764,118      | 700,624 <sup>(3)</sup>    | (9,210) <sup>(4)</sup>     | 72,704 <sup>(5)</sup>    |
| Non-cash adjustments for straight-line rents, amortization of acquired below-market leases, net, and other <sup>(2)</sup> | (133,739)    | (97,555)                  | (10,264)                   | (25,920)                 |
| NOI <sup>(1)</sup>  | \$ 630,379   | \$ 603,069 <sup>(3)</sup> | \$ (19,474) <sup>(4)</sup> | \$ 46,784 <sup>(5)</sup> |

See notes on the following pages.

**Net Income, EBITDA and NOI by Segment for the Six Months Ended June 30, 2017 and 2016 - continued**

**Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." NOI represents "Net Operating Income" (the equivalent of EBITDA on a cash basis). We calculate EBITDA and NOI on an Operating Partnership basis which is before allocation to the noncontrolling interest of the Operating Partnership. We consider EBITDA the primary non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. We also consider NOI a key non-GAAP financial measure. As properties are bought and sold based on a multiple of NOI, we utilize this measure to make investment decisions as well as to compare the performance of our assets to those of our peers. EBITDA and NOI should not be considered substitutes for net income. EBITDA and NOI may not be comparable to similarly titled measures employed by other companies.

Our 7.5% interest in Fashion Centre Mall/Washington Tower and our interest in Rosslyn Plaza (ranging from 43.7% to 50.4%) will not be included in the spin-off of our Washington, DC segment and have been reclassified to Other. The prior year's presentation has been conformed to the current year. In addition, on January 1, 2017, we reclassified our investment in 85 Tenth Avenue from Other to the New York segment as a result of the December 1, 2016 repayment of our loans receivable and the receipt of a 49.9% ownership interest in the property.

- (2) Interest and debt expense, depreciation and amortization and income tax expense (benefit) in the reconciliation of net income (loss) to EBITDA and straight-line rents, amortization of acquired below-market leases, net and other non-cash adjustments in the reconciliation of EBITDA to NOI include our share of these items from partially owned entities.

**Net Income, EBITDA and NOI by Segment for the Six Months Ended June 30, 2017 and 2016 - continued****Notes to preceding tabular information:**

(3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands)   | For the Six Months Ended June 30, |                           |
|--|-----------------------------------|---------------------------|
|  | 2017                              | 2016                      |
| Office   | \$ 339,405                        | \$ 320,585 <sup>(a)</sup> |
| Retail   | 179,446                           | 181,022 <sup>(a)</sup>    |
| Residential  | 12,468                            | 12,687                    |
| Alexander's  | 23,304                            | 23,374                    |
| Hotel Pennsylvania   | 2,122                             | 325                       |
| Total New York EBITDA, as adjusted                               | 556,745                           | 537,993                   |
| Certain items that impact EBITDA                                 |                                   |                           |
| Net gain on sale of 47% ownership interest in 7 West 34th Street | -                                 | 159,511                   |
| EBITDA from sold properties                                      | -                                 | 3,120                     |
| Total of certain items that impact EBITDA                        | -                                 | 162,631                   |
| Total of New York EBITDA   | \$ 556,745                        | \$ 700,624                |

The elements of "New York" NOI are summarized below.

| (Amounts in thousands)   | For the Six Months Ended June 30, |                           |
|--|-----------------------------------|---------------------------|
|  | 2017                              | 2016                      |
| Office   | \$ 317,632                        | \$ 277,071 <sup>(a)</sup> |
| Retail   | 159,827                           | 139,433 <sup>(a)</sup>    |
| Residential  | 10,881                            | 11,199                    |
| Alexander's  | 14,059                            | 13,233                    |
| Hotel Pennsylvania   | 2,187                             | 390                       |
| Total New York NOI, as adjusted                                  | 504,586                           | 441,326                   |
| Certain items that impact NOI:                                   |                                   |                           |
| Net gain on sale of 47% ownership interest in 7 West 34th Street | -                                 | 159,511                   |
| NOI from sold properties   | -                                 | 2,232                     |
| Total of certain items that impact NOI                           | -                                 | 161,743                   |
| Total New York NOI   | \$ 504,586                        | \$ 603,069                |

(a) Beginning in January 2017 for office buildings with retail at the base, we have adjusted the allocation of real estate taxes between the retail and office elements above. This has no effect on our consolidated financial statements but resulted in a reallocation of \$7,845 of income from retail to office for the six months ended June 30, 2016.



## Net Income, EBITDA and NOI by Segment for the Six Months Ended June 30, 2017 and 2016 - continued

## Notes to preceding tabular information - continued:

(4) The elements of "Washington, DC" EBITDA are summarized below.

| (Amounts in thousands)                    | <b>For the Six Months Ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2017</b>                              | <b>2016</b> |
| Office                                    | \$ 113,710                               | \$ 119,376  |
| Residential                               | 27,235                                   | 20,426      |
| Total Washington, DC EBITDA, as adjusted  | 140,945                                  | 139,802     |
| Certain items that impact EBITDA:         |  |             |
| Skyline properties impairment loss        | -  | (160,700)   |
| EBITDA from sold properties               | -  | 11,688      |
| Total of certain items that impact EBITDA | -  | (149,012)   |
| Total Washington, DC EBITDA               | \$ 140,945                               | \$ (9,210)  |

The elements of "Washington, DC" NOI are summarized below.

| (Amounts in thousands)                 | <b>For the Six Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                              | <b>2016</b> |
| Office                                 | \$ 107,818                               | \$ 112,937  |
| Residential                            | 27,235                                   | 20,426      |
| Total Washington, DC NOI, as adjusted  | 135,053                                  | 133,363     |
| Certain items that impact NOI:         |  |             |
| Skyline properties impairment loss     | -  | (160,700)   |
| NOI from sold properties               | -  | 7,863       |
| Total of certain items that impact NOI | -  | (152,837)   |
| Total Washington, DC NOI               | \$ 135,053                               | \$ (19,474) |

**Net Income, EBITDA and NOI by Segment for the Six Months Ended June 30, 2017 and 2016 - continued****Notes to preceding tabular information - continued:**

(5) The elements of "Other" EBITDA are summarized below.

| (Amounts in thousands)  | <b>For the Six Months Ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2017</b>                              | <b>2016</b> |
| theMART (including trade shows)                                 | \$ 48,306                                | \$ 48,993   |
| 555 California Street   | 24,227                                   | 23,732      |
| Other investments   | 23,998                                   | 33,091      |
|   | 96,531                                   | 105,816     |
| Our share of real estate fund investments                       | (3,539)                                  | 12,855      |
| Corporate general and administrative expenses <sup>(a)</sup>    | (56,222)                                 | (54,845)    |
| Investment income and other, net <sup>(a)</sup>                 | 18,169                                   | 12,446      |
| Net gain resulting from UE operating partnership unit issuances | 15,900                                   | -           |
| Net gain on sale of property at Suffolk Downs                   | 15,314                                   | -           |
| Net gain on repayment of our Suffolk Downs JV debt investments  | 11,373                                   | -           |
| Acquisition and transaction related costs <sup>(b)</sup>        | (14,476)                                 | (7,486)     |
| Residual retail properties discontinued operations              | 3,091                                    | 3,204       |
| Other   | 501                                      | 714         |
| Total Other   | \$ 86,642                                | \$ 72,704   |

The elements of "Other" NOI are summarized below.

| (Amounts in thousands)   | <b>For the Six Months Ended June 30,</b> |             |
|--|--|-------------|
|  | <b>2017</b>                              | <b>2016</b> |
| theMART (including trade shows)                                | \$ 45,808                                | \$ 45,955   |
| 555 California Street  | 22,633                                   | 13,922      |
| Other investments  | 15,909                                   | 13,528      |
|  | 84,350                                   | 73,405      |
| Our share of real estate fund investments                      | 4,931                                    | 3,865       |
| Corporate general and administrative expenses <sup>(a)</sup>   | (40,268)                                 | (39,364)    |
| Investment income and other, net <sup>(a)</sup>                | 18,169                                   | 12,446      |
| Net gain on sale of property at Suffolk Downs                  | 15,314                                   | -           |
| Net gain on repayment of our Suffolk Downs JV debt investments | 11,373                                   | -           |
| Acquisition and transaction related costs <sup>(b)</sup>       | (14,476)                                 | (7,486)     |
| Residual retail properties discontinued operations             | 3,091                                    | 3,204       |
| Other  | 501                                      | 714         |
| Total Other  | \$ 82,985                                | \$ 46,784   |

(a) The amounts in these captions (for this table only) exclude the results of the mark-to-market of our deferred compensation plan of \$3,258 and \$2,421 of income for the six months ended June 30, 2017 and 2016, respectively.

(b) The six months ended June 30, 2017 and 2016 include \$13,464 and \$1,858, respectively, of transaction costs related to the spin-off of our Washington, DC business.



**EBITDA by Region**

Below is a summary of the percentages of EBITDA by geographic region, excluding gains on sale of real estate, non-cash impairment losses and operations of sold properties.

|   | <b>For the Six Months Ended</b> |             |
|---|---------------------------------|-------------|
|   | <b>June 30,</b>                 |             |
| <b>Region:</b>                          | <b>2017</b>                     | <b>2016</b> |
| New York City metropolitan area         | 72%                             | 72%         |
| Washington, DC / Northern Virginia area | 19%                             | 19%         |
| Chicago, IL                             | 6%                              | 6%          |
| San Francisco, CA                       | 3%                              | 3%          |
|   | 100%                            | 100%        |

## **Results of Operations – Six Months Ended June 30, 2017 Compared to June 30, 2016**

### **Revenues**

Our revenues, which consist of property rentals, tenant expense reimbursements, and fee and other income, were \$1,246,887,000 for the six months ended June 30, 2017, compared to \$1,234,745,000 for the prior year's six months, an increase of \$12,142,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands)<br>(Decrease) increase due to: | Total       | New York  | Washington,<br>DC          | Other    |
|---|-------------|-----------|----------------------------|----------|
| <b>Property rentals:</b>                              |             |           |                            |          |
| Acquisitions, dispositions<br>and other               | \$ (13,603) | \$ 5,173  | \$ (18,776) <sup>(1)</sup> | \$ -     |
| Development and<br>redevelopment                      | (573)       | 29        | (1,173)                    | 571      |
| Hotel Pennsylvania                                    | 3,003       | 3,003     | -                          | -        |
| Trade shows   | 1,188       | -         | -                          | 1,188    |
| Same store operations                                 | 6,427       | 2,725     | 606                        | 3,096    |
|   | (3,558)     | 10,930    | (19,343)                   | 4,855    |
| <b>Tenant expense<br/>reimbursements:</b>             |             |           |                            |          |
| Acquisitions, dispositions<br>and other               | (2,339)     | (1,993)   | (346)                      | -        |
| Development and<br>redevelopment                      | 1,449       | -         | 87                         | 1,362    |
| Same store operations                                 | 8,831       | 9,179     | (616)                      | 268      |
|   | 7,941       | 7,186     | (875)                      | 1,630    |
| <b>Fee and other income:</b>                          |             |           |                            |          |
| BMS cleaning fees                                     | 6,891       | 6,674     | 541                        | (324)    |
| Management and leasing<br>fees                        | 127         | 1,099     | (1,103)                    | 131      |
| Lease termination fees                                | 21          | (377)     | 369                        | 29       |
| Other income  | 720         | 994       | (526)                      | 252      |
|   | 7,759       | 8,390     | (719)                      | 88       |
| Total increase (decrease) in<br>revenues              | \$ 12,142   | \$ 26,506 | \$ (20,937)                | \$ 6,573 |

(1) Primarily from the disposition of the Skyline properties by the receiver on December 21, 2016.

## **Results of Operations – Six Months Ended June 30, 2017 Compared to June 30, 2016 - continued**

### **Expenses**

Our expenses, which consist of operating, depreciation and amortization, general and administrative expenses, acquisition and transaction related costs and Skyline properties impairment loss, were \$907,024,000 for the six months ended June 30, 2017, compared to \$1,048,211,000 for the prior year's six months, a decrease of \$141,187,000. Below are the details of the (decrease) increase by segment:

| (Amounts in thousands)<br>(Decrease) increase due to:  | Total        | New York   | Washington,<br>DC         | Other                |
|--|--------------|------------|---------------------------|----------------------|
| <b>Operating:</b>                                      |              |            |                           |                      |
| Acquisitions, dispositions and other                   | \$ (12,449)  | \$ (2,998) | \$ (9,451) <sup>(1)</sup> | \$ -                 |
| Development and redevelopment                          | (807)        | (3)        | (895)                     | 91                   |
| Non-reimbursable expenses, including bad debt reserves | (2,239)      | (2,268)    | (239)                     | 268                  |
| Hotel Pennsylvania                                     | 1,267        | 1,267      | -                         | -                    |
| Trade shows  | 91           | -          | -                         | 91                   |
| BMS expenses   | 6,292        | 6,616      | -                         | (324)                |
| Same store operations                                  | 23,952       | 16,556     | 2,139                     | 5,257                |
|  | 16,107       | 19,170     | (8,446)                   | 5,383                |
| <b>Depreciation and amortization:</b>                  |              |            |                           |                      |
| Acquisitions, dispositions and other                   | (6,427)      | (292)      | (6,135) <sup>(1)</sup>    | -                    |
| Development and redevelopment                          | (10,553)     | -          | (10,364) <sup>(2)</sup>   | (189)                |
| Same store operations                                  | 8,536        | (329)      | 8,310                     | 555                  |
|  | (8,444)      | (621)      | (8,189)                   | 366                  |
| <b>General and administrative:</b>                     |              |            |                           |                      |
| Mark-to-market of deferred compensation plan liability | 837          | -          | -                         | 837 <sup>(3)</sup>   |
| Same store operations                                  | 4,023        | 4,377      | (2,031)                   | 1,677                |
|  | 4,860        | 4,377      | (2,031)                   | 2,514                |
| <b>Acquisition and transaction related costs</b>       | 6,990        | -          | -                         | 6,990 <sup>(4)</sup> |
| <b>Skyline properties impairment loss</b>              | (160,700)    | -          | (160,700) <sup>(5)</sup>  | -                    |
| Total (decrease) increase in expenses                  | \$ (141,187) | \$ 22,926  | \$ (179,366)              | \$ 15,253            |

(1) Primarily from the disposition of the Skyline properties by the receiver on December 21, 2016.

(2) Primarily due to the demolition of two adjacent office properties, 1726 M Street and 1150 17th Street.

(3) This increase in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of "interest and other investment income, net" on our consolidated statements of income.



- (4) Primarily from the transaction costs related to the spin-off of our Washington, DC business.
- (5) On March 15, 2016, we notified the servicer of the \$678,000 mortgage loan on the Skyline properties in Virginia that cash flow would be insufficient to service the debt and pay other property related costs and expenses and that we were not willing to fund additional cash shortfalls. Accordingly, at our request, the loan was transferred to the special servicer. Consequently, based on our shortened estimated holding period for the underlying assets, we concluded that the excess of carrying amount over our estimate of fair value was not recoverable and recognized a \$160,700 non-cash impairment loss in the first quarter of 2016. The Company's estimate of fair value was derived from a discounted cash flow model based upon market conditions and expectations of growth and utilized unobservable quantitative inputs, including a capitalization rate of 8.0% and a discount rate of 8.2%. In the second quarter of 2016, cash flow became insufficient to service the debt and we ceased making debt service payments. Pursuant to the loan agreement, the loan was in default and was subject to incremental default interest which increased the weighted average interest rate from 2.97% to 4.51% while the outstanding balance remained unpaid. On August 24, 2016, the Skyline properties were placed into receivership. On December 21, 2016, the disposition of Skyline properties was completed by the servicer. In connection therewith, the Skyline properties' assets (approximately \$236,535) and liabilities (approximately \$724,412), were removed from our consolidated balance sheet which resulted in a net gain of \$487,877. There was no taxable income related to this transaction.

## Results of Operations – Six Months Ended June 30, 2017 Compared to June 30, 2016 - continued

### Income (Loss) from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the six months ended June 30, 2017 and 2016.

(Amounts in thousands)

|   | <b>Percentage<br/>Ownership at<br/>June 30, 2017</b> | <b>For the Six Months Ended June 30,<br/>2017</b> |          | <b>2016</b> |
|---|--|---|----------|-------------|
| <b>Our Share of Net Income (Loss):</b>          |  |   |          |             |
| UE <sup>(1)</sup>                               | 4.8%   | \$  | 20,303   | \$ 2,365    |
| Partially owned office buildings <sup>(2)</sup> | Various  |   | (17,840) | (26,647)    |
| Alexander's                                     | 32.4%  |   | 16,598   | 17,162      |
| PREIT   | 8.0%   |   | (3,732)  | (4,815)     |
| India real estate ventures                      | 4.1%-36.5%   |   | 10       | (2,620)     |
| Other investments <sup>(3)</sup>                | Various  |   | 32,382   | 10,957      |
|   |  | \$  | 47,721   | \$ (3,598)  |

(1) 2017 includes a \$15,900 net gain resulting from the issuance of UE operating partnership units.

(2) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others.

(3) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, Toys "R" Us, Inc. and others. In the second quarter of 2017, we recognized \$26,687 of net gains, comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV. See page 59 for details.

### Income from Real Estate Fund Investments

Below are the components of the income from our real estate fund investments for the six months ended June 30, 2017 and 2016.

(Amounts in thousands)

|                       | <b>For the Six Months Ended June 30,</b> |             |
|-----------------------|--|-------------|
|                       | <b>2017</b>                              | <b>2016</b> |
| Net investment income | \$ 10,860                                | \$ 6,396    |

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|   |            |           |
|---|------------|-----------|
| Net realized gain on exited investments   | 241        | 14,676    |
| Previously recorded unrealized gain on exited investment                                  | -          | (14,254)  |
| Net unrealized (loss) gain on held investments  | (6,442)    | 20,855    |
| Income from real estate fund investments <sup>(1)</sup>                                   | 4,659      | 27,673    |
| Less income attributable to noncontrolling interests in consolidated subsidiaries         | (8,198)    | (14,818)  |
| (Loss) income from real estate fund investments attributable to the Operating Partnership | (3,539)    | 12,855    |
| Less loss (income) attributable to noncontrolling interests in Operating Partnership      | 221        | (794)     |
| (Loss) income from real estate fund investments attributable to Vornado                   | \$ (3,318) | \$ 12,061 |

(1) Excludes \$2,381 and \$1,695 of management and leasing fees for the six months ended June 30, 2017 and 2016, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**Interest and Other Investment Income, net**

Interest and other investment income, net, was \$18,535,000 for the six months ended June 30, 2017, compared to \$13,754,000 for the prior year's six months, an increase of \$4,781,000. This increase resulted primarily from an increase in the value of investments in our deferred compensation plan (offset by a corresponding decrease in the liability for plan assets in general and administrative expenses).



## Results of Operations – Six Months Ended June 30, 2017 Compared to June 30, 2016 - continued

### Interest and Debt Expense

Interest and debt expense was \$191,082,000 for the six months ended June 30, 2017, compared to \$206,065,000 for the prior year's six months, a decrease of \$14,983,000. This decrease was primarily due to (i) \$17,856,000 of interest savings from the disposition of the Skyline properties and the refinancing of theMART and (ii) \$6,874,000 higher capitalized interest and debt expense, partially offset by (iii) \$3,963,000 of higher interest expense from the refinancing of 350 Park Avenue and the \$375,000,000 drawn on our \$750,000,000 delayed draw term loan and (iv) \$3,137,000 of higher interest expense from the 1535 Broadway capital lease obligation.

### Income Tax Expense

For the six months ended June 30, 2017, income tax expense was \$1,957,000, compared to \$4,940,000 for the prior year's six months, a decrease of \$2,983,000.

### Income from Discontinued Operations

The table below sets forth the combined results of operations of assets related to discontinued operations for the six months ended June 30, 2017 and 2016.

| (Amounts in thousands)                     | For the Six Months Ended June 30, |          |
|--|-----------------------------------|----------|
|  | 2017                              | 2016     |
| Total revenues                             | \$ 1,172                          | \$ 2,129 |
| Total expenses                             | 348                               | 1,148    |
|  | 824                               | 981      |
| Net gains on the sale of real estate       | 2,267                             | 2,210    |
| Pretax income from discontinued operations | 3,091                             | 3,191    |
| Income tax expense                         | -                                 | -        |
| Income from discontinued operations        | \$ 3,091                          | \$ 3,191 |

### Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$14,414,000 for the six months ended June 30, 2017, compared to \$22,703,000 for the prior year's six months, a decrease of \$8,289,000. This decrease resulted primarily from lower net income allocated to the noncontrolling interests, including noncontrolling interests of our real estate fund investments.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership (Vornado Realty Trust)

Net income attributable to noncontrolling interests in the Operating Partnership was \$10,935,000 for the six months ended June 30, 2017, compared to \$7,044,000 for the prior year's six months, an increase of \$3,891,000. This increase resulted primarily from higher net income subject to allocation to unitholders.

Preferred Share Dividends of Vornado Realty Trust

Preferred share dividends were \$32,258,000 for the six months ended June 30, 2017, compared to \$40,727,000 for the prior year's six months, a decrease of \$8,469,000. This decrease resulted primarily from the redemption of the 6.875% Series J cumulative redeemable preferred shares on September 1, 2016.

**Preferred Unit Distributions of Vornado Realty L.P.**

Preferred unit distributions were \$32,355,000 for the six months ended June 30, 2017, compared to \$40,824,000 for the prior year's six months, a decrease of \$8,469,000. This decrease resulted primarily from the redemption of the 6.875% Series J cumulative redeemable preferred units on September 1, 2016.





**Results of Operations – Six Months Ended June 30, 2017 Compared to June 30, 2016 - continued**



**Same Store EBITDA**

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



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Below are reconciliations of EBITDA to same store EBITDA for each of our segments and theMART and 555 California Street, which are included in Other, for the six months ended June 30, 2017 compared to June 30, 2016.

|   |                 | <b>Washington,<br/>DC</b> |                | <b>555 California<br/>Street</b> |
|---|-----------------|---------------------------|----------------|----------------------------------|
| (Amounts in thousands)  | <b>New York</b> |                           | <b>theMART</b> |                                  |
| EBITDA for the six months ended June 30, 2017   | \$ 556,745      | \$ 140,945                | \$ 48,306      | \$ 24,227                        |
| Add-back:   |                 |                           |                |                                  |
| Non-property level overhead expenses included above   | 22,151          | 13,228                    | 3,773          | -                                |
| Less EBITDA from:   |                 |                           |                |                                  |
| Acquisitions  | (10,160)        | -                         | 169            | -                                |
| Dispositions  | (533)           | (384)                     | -              | -                                |
| Development properties placed into and out of service   | (12,336)        | (5,711)                   | -              | -                                |
| Other non-operating income, net   | (2,887)         | (713)                     | (20)           | -                                |
| Same store EBITDA for the six months ended June 30, 2017  | \$ 552,980      | \$ 147,365                | \$ 52,228      | \$ 24,227                        |
| EBITDA for the six months ended June 30, 2016   | \$ 700,624      | \$ (9,210)                | \$ 48,993      | \$ 23,732                        |
| Add-back:   |                 |                           |                |                                  |
| Non-property level overhead expenses included above   | 17,774          | 15,259                    | 3,344          | 189                              |
| Less EBITDA from:   |                 |                           |                |                                  |
| Acquisitions  | (152)           | -                         | -              | -                                |
| Dispositions, including net gains on sale   | (162,461)       | (11,615)                  | -              | -                                |
| Development properties placed into and out of service   | (16,078)        | (5,702)                   | -              | 556                              |
| Other non-operating loss, net   | 5,139           | 160,400                   | -              | -                                |
| Same store EBITDA for the six months ended June 30, 2016  | \$ 544,846      | \$ 149,132                | \$ 52,337      | \$ 24,477                        |
| Increase (decrease) in same store EBITDA for the six months ended June 30, 2017 compared to June 30, 2016 | \$ 8,134        | \$ (1,767)                | \$ (109)       | \$ (250)                         |
| % increase (decrease) in same store EBITDA  | 1.5%(1)(2)      | (1.2%)                    | (0.2%)(3)      | (1.0%)                           |

(1) Excluding Hotel Pennsylvania, same store EBITDA increased by 1.2%.

(2) The six months ended June 30, 2017 includes \$2,557 one-time prior period tenant adjustments. Excluding this item, same store EBITDA increased by 2.0%.

(3) The six months ended June 30, 2016 includes a \$2,000 reversal of an expense accrued in 2015. Excluding this amount, same store EBITDA increased by 3.8%.



## Results of Operations – Six Months Ended June 30, 2017 Compared to June 30, 2016 - continued

### Reconciliation of NOI to Same Store NOI

|   | <b>New York</b>         | <b>Washington,<br/>DC</b> | <b>theMART</b>      | <b>555<br/>California<br/>Street</b> |
|---|-------------------------|---------------------------|---------------------|--------------------------------------|
| (Amounts in thousands)                                |                         |                           |                     |                                      |
| NOI for the six months ended June 30, 2017            | \$ 504,586              | \$ 135,053                | \$ 45,808           | \$ 22,633                            |
| Add-back:   |                         |                           |                     |                                      |
| Non-property level overhead expenses included above   | 18,205                  | 11,933                    | 3,629               | -                                    |
| Less NOI from:  |                         |                           |                     |                                      |
| Acquisitions  | (9,951)                 | -                         | 169                 | -                                    |
| Dispositions  | (533)                   | (382)                     | -                   | -                                    |
| Development properties placed into and out of service | (2,841)                 | (5,934)                   | -                   | -                                    |
| Other non-operating income, net                       | (6,971)                 | (713)                     | (31)                | -                                    |
| Same store NOI for the six months ended June 30, 2017 | \$ 502,495              | \$ 139,957                | \$ 49,575           | \$ 22,633                            |
| NOI for the six months ended June 30, 2016            | \$ 603,069              | \$ (19,474)               | \$ 45,955           | \$ 13,922                            |
| Add-back:   |                         |                           |                     |                                      |
| Non-property level overhead expenses included above   | 13,995                  | 12,815                    | 3,201               | 189                                  |
| Less NOI from:  |                         |                           |                     |                                      |
| Acquisitions  | (105)                   | -                         | -                   | -                                    |
| Dispositions, including net gains on sale             | (161,573)               | (7,791)                   | -                   | -                                    |
| Development properties placed into and out of service | (3,905)                 | (6,074)                   | -                   | 556                                  |
| Other non-operating (income) loss, net                | (6,483)                 | 160,400                   | -                   | -                                    |
| Same store NOI for the six months ended June 30, 2016 | \$ 444,998              | \$ 139,876                | \$ 49,156           | \$ 14,667                            |
| Increase in same store NOI for the six months ended   |                         |                           |                     |                                      |
| June 30, 2017 compared to June 30, 2016               | \$ 57,497               | \$ 81                     | \$ 419              | \$ 7,966                             |
| % increase in same store NOI                          | 12.9% <sup>(1)(2)</sup> | 0.1%                      | 0.9% <sup>(3)</sup> | 54.3%                                |



- (1) Excluding Hotel Pennsylvania, same store NOI increased by 12.5%.
- (2) The six months ended June 30, 2017 includes \$2,557 of one-time prior period tenant adjustments. Excluding this amount, same store NOI increased by 13.5%.
- (3) The six months ended June 30, 2016 includes a \$2,000 reversal of an expense accrued in 2015. Excluding this amount, same store NOI increased by 5.2%.

**SUPPLEMENTAL INFORMATION****Reconciliation of Net Income to EBITDA for the Three Months Ended March 31, 2017**

| (Amounts in thousands)   | <b>New York</b> | <b>Washington, DC</b> |
|--|-----------------|-----------------------|
| Net income attributable to Vornado for the three months ended March 31, 2017 | \$ 83,823       | \$ 20,455             |
| Interest and debt expense  | 75,923          | 13,181                |
| Depreciation and amortization  | 112,810         | 35,493                |
| Income tax expense   | 227             | 367                   |
| EBITDA for the three months ended March 31, 2017                             | \$ 272,783      | \$ 69,496             |

**Reconciliation of EBITDA to Same Store EBITDA – Three Months Ended June 30, 2017 Compared to March 31, 2017**

|  |            | 555               |           |            |
|--|------------|-------------------|-----------|------------|
| (Amounts in thousands)   | New York   | Washington,<br>DC | theMART   | California |
| EBITDA for the three months ended June 30, 2017  | \$ 283,962 | \$ 71,449         | \$ 24,122 | \$ 12,144  |
| Add-back:  |            |                   |           |            |
| Non-property level overhead expenses included above  | 9,908      | 6,276             | 2,063     | -          |
| Less EBITDA from:  |            |                   |           |            |
| Acquisitions   | (164)      | -                 | 169       | -          |
| Dispositions   | (164)      | (383)             | -         | -          |
| Development properties placed into and out of service  | (6,081)    | (3,454)           | -         | -          |
| Other non-operating income, net  | (899)      | (396)             | -         | -          |
| Same store EBITDA for the three months ended June 30, 2017   | \$ 286,562 | \$ 73,492         | \$ 26,354 | \$ 12,144  |
| EBITDA for the three months ended March 31, 2017   | \$ 272,783 | \$ 69,496         | \$ 24,184 | \$ 12,083  |
| Add-back:  |            |                   |           |            |
| Non-property level overhead expenses included above  | 12,243     | 6,952             | 1,710     | -          |
| Less EBITDA from:  |            |                   |           |            |
| Acquisitions   | -          | -                 | 31        | -          |
| Dispositions   | (228)      | -                 | -         | -          |
| Development properties placed into and out of service  | (6,255)    | (2,260)           | -         | -          |
| Other non-operating income, net  | (1,892)    | (316)             | (20)      | -          |
| Same store EBITDA for the three months ended March 31, 2017  | \$ 276,651 | \$ 73,872         | \$ 25,905 | \$ 12,083  |
| Increase (decrease) in same store EBITDA for the three months ended June 30, 2017 compared to March 31, 2017 | \$ 9,911   | \$ (380)          | \$ 449    | \$ 61      |
| % increase (decrease) in same store EBITDA   | 3.6%(1)(2) | (0.5%)            | 1.7%      | 0.5%       |

(1) Excluding Hotel Pennsylvania, same store EBITDA decreased by 0.4%.

(2)

The three months ended June 30, 2017 includes \$2,557 of one-time prior period tenant adjustments. Excluding this item, same store EBITDA increased by 4.5%.

**SUPPLEMENTAL INFORMATION – CONTINUED****Reconciliation of NOI to Same Store NOI – Three Months Ended June 30, 2017 Compared to March 31, 2017**

| (Amounts in thousands)   | New York   | Washington,<br>DC | theMART   | 555<br>California<br>Street |
|--|------------|-------------------|-----------|-----------------------------|
| NOI for the three months ended June 30, 2017                     | \$ 257,221 | \$ 69,623         | \$ 22,904 | \$ 11,258                   |
| Add-back:  |            |                   |           |                             |
| Non-property level overhead expenses included above              | 8,771      | 5,672             | 1,997     | -                           |
| Less NOI from:   |            |                   |           |                             |
| Acquisitions   | (63)       | -                 | 169       | -                           |
| Dispositions   | (164)      | (382)             | -         | -                           |
| Development properties placed into and out of service            | (1,562)    | (3,661)           | -         | -                           |
| Other non-operating income, net                                  | (2,252)    | (396)             | -         | -                           |
| Same store NOI for the three months ended June 30, 2017          | \$ 261,951 | \$ 70,856         | \$ 25,070 | \$ 11,258                   |
| NOI for the three months ended March 31, 2017                    | \$ 247,365 | \$ 65,430         | \$ 22,904 | \$ 11,375                   |
| Add-back:  |            |                   |           |                             |
| Non-property level overhead expenses included above              | 9,434      | 6,261             | 1,632     | -                           |
| Less NOI from:   |            |                   |           |                             |
| Dispositions   | (228)      | -                 | -         | -                           |
| Development properties placed into and out of service            | (1,279)    | (2,275)           | -         | -                           |
| Other non-operating income, net                                  | (4,623)    | (316)             | (31)      | -                           |
| Same store NOI for the three months ended March 31, 2017         | \$ 250,669 | \$ 69,100         | \$ 24,505 | \$ 11,375                   |
| Increase (decrease) in same store NOI for the three months ended |            |                   |           |                             |
| June 30, 2017 compared to March 31, 2017                         | \$ 11,282  | \$ 1,756          | \$ 565    | \$ (117)                    |
| % increase (decrease) in same store NOI                          | 4.5%(1)(2) | 2.5%              | 2.3%      | (1.0%)                      |

(1) Excluding Hotel Pennsylvania, same store NOI increased by 0.1%.

- (2) The three months ended June 30, 2017 includes \$2,557 of one-time prior period tenant adjustments. Excluding this item, same store NOI increased by 5.5%.

## Liquidity and Capital Resources

Property rental income is our primary source of cash flow and is dependent upon the occupancy and rental rates of our properties. Our cash requirements include property operating expenses, capital improvements, tenant improvements, debt service, leasing commissions, dividends to shareholders, distributions to unitholders of the Operating Partnership, as well as acquisition and development costs. Other sources of liquidity to fund cash requirements include proceeds from debt financings, including mortgage loans, senior unsecured borrowings, and our revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales.

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

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

**Liquidity and Capital Resources – continued**



*Cash Flows for the Six Months Ended June 30, 2017*

Our cash and cash equivalents and restricted cash were \$1,557,689,000 as of June 30, 2017, a \$41,633,000 decrease from the balance at December 31, 2016. Our consolidated outstanding debt, net was \$10,837,585,000 as of June 30, 2017, a \$225,900,000 increase from the balance at December 31, 2016. As of June 30, 2017 and December 31, 2016, \$115,630,000 was outstanding under our revolving credit facilities. During the remainder of 2017 and 2018, \$117,919,000 and \$207,930,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

Net Cash Provided by Operating Activities

Net cash provided by operating activities of \$316,217,000 was comprised of (i) net income of \$221,331,000, (ii) \$222,708,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rents, amortization of below-market leases, net, net realized and unrealized loss on real estate fund investments, net gains on sale of real estate and other, equity in net income from partially owned entities and net gains on disposition of wholly owned and partially owned assets and (iii) distributions of income from partially owned entities of \$44,778,000, partially offset by (iv) the net change in operating assets and liabilities of \$172,600,000.

Net Cash Used in Investing Activities

Net cash used in investing activities of \$251,529,000 was primarily comprised of (i) \$191,073,000 of development costs and construction in progress, (ii) \$139,611,000 of additions to real estate, (iii) \$27,720,000 of investments in partially owned entities and (iv) \$11,841,000 of acquisitions of real estate, partially offset by (v) \$113,507,000 of capital distributions from partially owned entities and (vi) \$5,180,000 of proceeds from sales of real estate and related investments.

Net Cash Used in Financing Activities

Net cash used in financing activities of Vornado Realty Trust of \$106,321,000 was primarily comprised of (i) \$268,817,000 of dividends paid on common shares, (ii) \$32,258,000 of dividends paid on preferred shares, (iii) \$25,617,000 of distributions to noncontrolling interests and (iv) \$13,971,000 for the repayments of borrowings, partially offset by (v) \$226,929,000 of proceeds from borrowings and (vi) \$9,626,000 of proceeds received from exercise of employee share options.

Net cash used in financing activities of the Operating Partnership of \$106,321,000 was primarily comprised of (i) \$268,817,000 of distributions to Vornado, (ii) \$32,258,000 of distributions to preferred unitholders, (iii) \$25,617,000 of distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries and (iv) \$13,971,000 for the repayments of borrowings, partially offset by (v) \$226,929,000 of proceeds from borrowings and (vi) \$9,626,000 of proceeds received from exercise of Vornado stock options.

**Liquidity and Capital Resources – continued**

***Capital Expenditures for the Six Months Ended June 30, 2017***

Capital expenditures consist of expenditures to maintain assets, tenant improvement allowances and leasing commissions. Recurring capital expenditures include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures to lease space that has been vacant for more than nine months and expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition, as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property.

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended for the six months ended June 30, 2017.



|  |              |                 |                | <b>555<br/>California</b> | <b>Washington,<br/>DC</b> |
|--|--------------|-----------------|----------------|---------------------------|---------------------------|
| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>theMART</b> | <b>Street</b>             | <b>DC</b>                 |
| Expenditures to maintain assets                                    | \$ 54,674    | \$ 39,972       | \$ 4,361       | \$ 3,148                  | \$ 7,193                  |
| Tenant improvements  | 56,737       | 14,828          | 7,309          | 3,454                     | 31,146                    |
| Leasing commissions  | 15,264       | 7,768           | 1,083          | 768                       | 5,645                     |
| Non-recurring capital expenditures                                 | 37,725       | 32,905          | 110            | 526                       | 4,184                     |
| Total capital expenditures and leasing commissions (accrual basis) | 164,400      | 95,473          | 12,863         | 7,896                     | 48,168                    |
| Adjustments to reconcile to cash basis:                            |              |                 |                |                           |                           |
| Expenditures in the current year applicable to prior periods       | 65,985       | 26,238          | 5,987          | 8,439                     | 25,321                    |
| Expenditures to be made in future periods for the current period   | (68,784)     | (25,576)        | (7,704)        | 4,263                     | (39,767)                  |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 161,601   | \$ 96,135       | \$ 11,146      | \$ 20,598                 | \$ 33,722                 |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                |                           |                           |
| <i>Per square foot per annum</i>                                   | \$ 8.37      | \$ 9.16         | \$ 6.18        | \$ 8.80                   | \$ 7.51                   |
| <i>Percentage of initial rent</i>                                  | 13.2%        | 11.2%           | 13.1%          | 10.1%                     | 17.5%                     |

### ***Development and Redevelopment Expenditures for the Six Months Ended June 30, 2017***

Development and redevelopment expenditures consist of all hard and soft costs associated with the development or redevelopment of a property, including capitalized interest, debt and operating costs until the property is substantially completed and ready for its intended use. Our development project budgets below include initial leasing costs, which are reflected as non-recurring capital expenditures in the table above.

We are constructing a residential condominium tower containing 397,000 salable square feet on our 220 Central Park South development site. The incremental development cost of this project is estimated to be approximately \$1.3 billion, of which \$744,967,000 has been expended as of June 30, 2017.





We are developing a 173,000 square foot Class A office building, located along the western edge of the High Line at 512 West 22nd Street in the West Chelsea submarket of Manhattan (55.0% owned). The incremental development cost of this project is estimated to be approximately \$130,000,000, of which our share is \$72,000,000. As of June 30, 2017, \$50,847,000 has been expended, of which our share is \$27,966,000.

We are developing a 170,000 square foot office and retail building at 61 Ninth Avenue, located on the southwest corner of Ninth Avenue and 15th Street in the West Chelsea submarket of Manhattan. In February 2016, the venture purchased an adjacent five story loft building and air rights in exchange for a 10% common and preferred equity interest in the venture valued at \$19,400,000, which reduced our ownership interest to 45.1% from 50.1%. The incremental development cost of this project is estimated to be approximately \$152,000,000, of which our share is \$69,000,000. As of June 30, 2017, \$74,055,000 has been expended, of which our share is \$33,399,000.

**Liquidity and Capital Resources – continued**

***Development and Redevelopment Expenditures for the Six Months Ended June 30, 2017 - continued***

We are developing a 34,000 square foot office and retail building at 606 Broadway, located on the northeast corner of Broadway and Houston Street in Manhattan (50.0% owned). The venture's incremental development cost of this project is estimated to be approximately \$60,000,000, of which our share is \$30,000,000. As of June 30, 2017, \$28,430,000 has been expended, of which our share is \$14,215,000.

During the first quarter of 2017, we completed the demolition of two adjacent Washington, DC office properties, 1726 M Street and 1150 17th Street, and will replace them in the future with a new 335,000 square foot Class A office building, to be addressed 1700 M Street. The incremental development cost of the project is estimated to be approximately \$170,000,000, of which \$18,577,000 has been expended as of June 30, 2017.

A joint venture in which we have a 50.1% ownership interest is redeveloping the historic Farley Post Office building which will include a new Moynihan Train Hall and approximately 850,000 rentable square feet of commercial space, comprised of approximately 730,000 square feet of office space and approximately 120,000 square feet of retail space. As of June 30, 2017, \$255,467,000 has been expended, of which our share is \$127,989,000. The joint venture has also entered into a development agreement with Empire State Development ("ESD") and a design-build contract with Skanska Moynihan Train Hall Builders. Under the development agreement with ESD, the joint venture is obligated to build the Moynihan Train Hall, with Vornado and Related each guaranteeing the joint venture's obligations. Under the design-build agreement, Skanska Moynihan Train Hall Builders is obligated to fulfill all of the joint venture's obligations. The obligations of Skanska Moynihan Train Hall Builders have been bonded by Skanska USA and bears a full guaranty from Skanska AB.

We are also evaluating other development and redevelopment opportunities at certain of our properties in Manhattan, including the Penn Plaza District.

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

Below is a summary of development and redevelopment expenditures incurred for the six months ended June 30, 2017. These expenditures include interest of \$23,312,000, payroll of \$4,581,000 and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$15,089,000, which were capitalized in connection with the development and redevelopment of these projects.

| (Amounts in thousands)    | <b>555</b>   |                 |                |                   |               |                           |              |
|---------------------------|--------------|-----------------|----------------|-------------------|---------------|---------------------------|--------------|
|                           | <b>Total</b> | <b>New York</b> | <b>theMART</b> | <b>California</b> | <b>Street</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
| 220 Central Park South    | \$ 126,384   | \$ -            | \$ -           | \$ -              | \$ -          | \$ -                      | \$ 126,384   |
| 606 Broadway              | 9,467        | 9,467           | -              | -                 | -             | -                         | -            |
| 1700 M Street             | 7,442        | -               | -              | -                 | 7,442         | -                         | -            |
| The Bartlett              | 6,690        | -               | -              | -                 | 6,690         | -                         | -            |
| 315/345 Montgomery Street | 6,632        | -               | -              | 6,632             | -             | -                         | -            |
| 90 Park Avenue            | 6,002        | 6,002           | -              | -                 | -             | -                         | -            |
| Penn Plaza                | 3,724        | 3,724           | -              | -                 | -             | -                         | -            |
| 304 Canal Street          | 2,534        | 2,534           | -              | -                 | -             | -                         | -            |
| Other                     | 22,198       | 5,138           | 3,957          | -                 | 12,207        | 896                       | -            |
|                           | \$ 191,073   | \$ 26,865       | \$ 3,957       | \$ 6,632          | \$ 26,339     | \$ 127,280                | -            |

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**Liquidity and Capital Resources – continued**

***Cash Flows for the Six Months Ended June 30, 2016***

Our cash and cash equivalents and restricted cash were \$1,738,695,000 at June 30, 2016, a \$204,811,000 decrease from the balance at December 31, 2015. The decrease is due to cash flows from investing and financing activities, partially offset by cash flows from operating activities, as discussed below.

Net Cash Provided by Operating Activities

Net cash provided by operating activities of \$318,805,000 was comprised of (i) net income of \$176,774,000, (ii) \$189,482,000 of non-cash adjustments, which include depreciation and amortization expense, real estate impairment losses, net gain on the disposition of wholly owned and partially owned assets, the effect of straight-lining of rents, net realized and unrealized gain on real estate fund investments and equity in net loss of partially owned entities, (iii) return of capital from real estate fund investments of \$71,888,000, (iv) distributions of income from partially owned entities of \$42,012,000, partially offset by (v) the net change in operating assets and liabilities of \$161,351,000.

Net Cash Used in Investing Activities

Net cash used in investing activities of \$440,942,000 was primarily comprised of (i) \$277,214,000 of development costs and construction in progress, (ii) \$170,265,000 of additions to real estate, (iii) \$91,100,000 of acquisitions of real estate and other, (iv) \$90,659,000 of investments in partially owned entities, (v) \$48,000,000 due to the net deconsolidation of 7 West 34th Street, (vi) \$11,700,000 of investments in loans receivable and other and (vii) \$4,379,000 in purchases of marketable securities, partially offset by (viii) \$159,888,000 of proceeds from sales of real estate and related investments and (ix) \$92,465,000 of capital distributions from partially owned entities.

Net Cash Used in Financing Activities

Net cash used in financing activities of Vornado Realty Trust of \$82,674,000 was comprised of (i) \$1,032,115,000 for the repayments of borrowings, (ii) \$237,832,000 of dividends paid on common shares, (iii) \$83,266,000 of distributions to noncontrolling interests, (iv) \$40,727,000 of dividends paid on preferred shares, (v) \$29,478,000 of debt issuance and other costs, and (vi) \$186,000 for the repurchase of shares related to stock compensation agreements

and related tax withholdings and other, partially offset by (vii) \$1,325,246,000 of proceeds from borrowings, (viii) \$11,874,000 of contributions from noncontrolling interests and (ix) \$3,810,000 of proceeds received from exercise of employee share options.

Net cash used in financing activities of the Operating Partnership of \$82,674,000 was comprised of (i) \$1,032,115,000 for the repayments of borrowings, (ii) \$237,832,000 of distributions to Vornado, (iii) \$83,266,000 of distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries, (iv) \$40,727,000 of distributions to preferred unitholders, (v) \$29,478,000 of debt issuance and other costs, and (vi) \$186,000 for the repurchase of Class A units related to stock compensation agreements and related tax withholdings and other, partially offset by (vii) \$1,325,246,000 of proceeds from borrowings, (viii) \$11,874,000 of contributions from noncontrolling interests in consolidated subsidiaries and (ix) \$3,810,000 of proceeds received from exercise of Vornado stock options.

**Liquidity and Capital Resources – continued**

*Capital Expenditures for the Six Months Ended June 30, 2016*



Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended for the six months ended June 30, 2016.





| (Amounts in thousands)   | 555<br>California |            |           |           |                   |  |
|--|-------------------|------------|-----------|-----------|-------------------|--|
|  | Total             | New York   | theMART   | Street    | Washington,<br>DC |  |
| Expenditures to maintain assets                                    | \$ 37,688         | \$ 22,201  | \$ 6,653  | \$ 2,400  | \$ 6,434          |  |
| Tenant improvements  | 46,270            | 38,490     | 1,383     | -         | 6,397             |  |
| Leasing commissions  | 24,939            | 22,499     | 146       | -         | 2,294             |  |
| Non-recurring capital expenditures                                 | 22,971            | 17,104     | 132       | 874       | 4,861             |  |
| Total capital expenditures and leasing commissions (accrual basis) | 131,868           | 100,294    | 8,314     | 3,274     | 19,986            |  |
| Adjustments to reconcile to cash basis:                            |                   |            |           |           |                   |  |
| Expenditures in the current year applicable to prior periods       | 118,340           | 60,696     | 14,903    | 5,056     | 37,685            |  |
| Expenditures to be made in future periods for the current period   | (44,768)          | (38,368)   | 2,550     | 2,757     | (11,707)          |  |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 205,440        | \$ 122,622 | \$ 25,767 | \$ 11,087 | \$ 45,964         |  |
| <i>Tenant improvements and leasing commissions:</i>                |                   |            |           |           |                   |  |
| Per square foot per annum  | \$ 6.20           | \$ 6.88    | \$ 3.46   | \$ 9.20   | \$ 4.00           |  |
| Percentage of initial rent   | 9.9%              | 8.6%       | 6.8%      | 10.9%     | 10.0%             |  |

### ***Development and Redevelopment Expenditures for the Six Months Ended June 30, 2016***

Below is a summary of development and redevelopment expenditures incurred for the six months ended June 30, 2016. These expenditures include interest of \$16,438,000, payroll of \$6,401,000, and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$30,224,000, which were capitalized in connection with the development and redevelopment of these projects.

| (Amounts in thousands)                           | 555<br>California |          |         |        |                   |            | Other |
|--|-------------------|----------|---------|--------|-------------------|------------|-------|
|  | Total             | New York | theMART | Street | Washington,<br>DC |            |       |
| 220 Central Park South                           | \$ 130,696        | \$ -     | \$ -    | \$ -   | \$ -              | \$ 130,696 |       |
| The Bartlett                                     | 48,700            | -        | -       | -      | 48,700            | -          |       |
| 640 Fifth Avenue                                 | 17,368            | 17,368   | -       | -      | -                 | -          |       |
| 90 Park Avenue                                   | 16,243            | 16,243   | -       | -      | -                 | -          |       |
| 2221 South Clark Street (residential conversion) | 12,589            | -        | -       | -      | 12,589            | -          |       |
| Wayne Towne Center                               | 7,055             | -        | -       | -      | -                 | 7,055      |       |
| Penn Plaza                                       | 6,766             | 6,766    | -       | -      | -                 | -          |       |
| 330 West 34th Street                             | 2,812             | 2,812    | -       | -      | -                 | -          |       |
| Other  | 34,985            | 5,391    | 11,031  | 836    | 17,713            | 14         |       |

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|    |         |    |        |    |        |    |     |    |        |    |         |
|----|---------|----|--------|----|--------|----|-----|----|--------|----|---------|
| \$ | 277,214 | \$ | 48,580 | \$ | 11,031 | \$ | 836 | \$ | 79,002 | \$ | 137,765 |
|----|---------|----|--------|----|--------|----|-----|----|--------|----|---------|

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**Liquidity and Capital Resources – continued**

*Other Commitments and Contingencies*

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 is not currently expected to have a material adverse effect on our financial position, results of operations or cash flows.



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



Generally, our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of June 30, 2017, the aggregate dollar amount of these guarantees and master leases is approximately \$774,000,000.





As of June 30, 2017, \$20,777,000 of letters of credit were outstanding under one of our unsecured revolving credit facilities. Our unsecured revolving credit facilities contain financial covenants that require us to maintain minimum interest rate coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our unsecured revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.



As of June 30, 2017, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$52,000,000.



As of June 30, 2017, we have construction commitments aggregating approximately \$543,000,000.



Upon completion of the spin-off of our Washington, DC segment, on July 17, 2017, we incurred approximately \$47,000,000 of additional transaction costs, primarily for advisory fees which will be recognized as expense in the quarter ended September 30, 2017.





## Funds From Operations (“FFO”)

### *Vornado Realty Trust*

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are non-GAAP financial measures used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flow as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 18 – *Income Per Share/Income Per Class A Unit*, in our consolidated financial statements on page 38 of this Quarterly Report on Form 10-Q.



*FFO for the Three and Six Months Ended June 30, 2017 and 2016*



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FFO attributable to common shareholders plus assumed conversions was \$257,673,000, or \$1.35 per diluted share for the three months ended June 30, 2017, compared to \$229,432,000, or \$1.21 per diluted share, for the prior year's three months. FFO attributable to common shareholders plus assumed conversions was \$463,422,000, or \$2.43 per diluted share for the six months ended June 30, 2017, compared to \$433,104,000, or \$2.28 per diluted share, for the prior year's six months. Details of certain adjustments to FFO are discussed in the financial results summary of our "Overview".



| (Amounts in thousands, except per share amounts)                               | <b>For the Three Months<br/>Ended<br/>June 30,</b> |             | <b>For the Six Months<br/>Ended<br/>June 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2017</b>  | <b>2016</b> | <b>2017</b>                                      | <b>2016</b> |
| <b>Reconciliation of our net income to FFO:</b>                                |  |             |  |             |
| Net income attributable to common shareholders                                 | \$ 115,972   | \$ 220,463  | \$ 163,724                                       | \$ 106,300  |
| Per diluted share  | \$ 0.61  | \$ 1.16     | \$ 0.86  | \$ 0.56     |
| FFO adjustments:   |  |             |  |             |
| Depreciation and amortization of real property                                 | \$ 128,527   | \$ 133,218  | \$ 258,996                                       | \$ 267,339  |
| Net gains on sale of real estate   | -  | (161,721)   | (2,267)  | (161,721)   |
| Real estate impairment losses  | -  | -           | -  | 160,700     |
| Proportionate share of adjustments to equity in net income<br>(loss) of        |  |             |  |             |
| partially owned entities to arrive at FFO:                                     |  |             |  |             |
| Depreciation and amortization of real property                                 | 37,682   | 38,308      | 76,756   | 77,354      |
| Net gains on sale of real estate   | (15,339)   | (319)       | (17,192)   | (319)       |
| Real estate impairment losses  | 167  | 49          | 3,218  | 4,402       |
|  | 151,037  | 9,535       | 319,511  | 347,755     |
| Noncontrolling interests' share of above adjustments                           | (9,356)  | (588)       | (19,873)   | (21,469)    |
| FFO adjustments, net   | \$ 141,681   | \$ 8,947    | \$ 299,638                                       | \$ 326,286  |
| FFO attributable to common shareholders (non-GAAP)                             | \$ 257,653   | \$ 229,410  | \$ 463,362                                       | \$ 432,586  |
| Convertible preferred share dividends  | 20   | 22          | 60   | 43          |
| Earnings allocated to Out-Performance Plan units                               | -  | -           | -  | 475         |
| FFO attributable to common shareholders plus assumed<br>conversions (non-GAAP) | \$ 257,673   | \$ 229,432  | \$ 463,422                                       | \$ 433,104  |
| Per diluted share (non-GAAP)   | \$ 1.35  | \$ 1.21     | \$ 2.43  | \$ 2.28     |
| <b>Reconciliation of Weighted Average Shares</b>                               |  |             |  |             |
| Weighted average common shares outstanding                                     | 189,395  | 188,772     | 189,304  | 188,715     |
| Effect of dilutive securities:   |  |             |  |             |
| Employee stock options and restricted share awards                             | 1,011  | 1,070       | 1,089  | 1,020       |
| Convertible preferred shares   | 38   | 43          | 57   | 43          |
| Out-Performance Plan units   | -  | -           | -  | 265         |
| Denominator for FFO per diluted share  | 190,444  | 189,885     | 190,450  | 190,043     |



### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

(Amounts in thousands,  
except per share amounts)

|  | <b>June 30,<br/>Balance</b> | <b>2017<br/>Weighted<br/>Average<br/>Interest Rate</b> | <b>Effect of 1%<br/>Change In<br/>Base Rates</b> | <b>December 31,<br/>Balance</b> | <b>2016<br/>Weighted<br/>Average<br/>Interest Rate</b> |
|--|-----------------------------|--|--|---------------------------------|--|
| Consolidated debt:   |                             |  |  |                                 |  |
| Variable rate  | \$ 3,993,090                | 2.86%  | \$ 39,931  | \$ 3,765,054                    | 2.40%  |
| Fixed rate   | 6,934,795                   | 3.82%  | -  | 6,949,873                       | 3.82%  |
|  | \$ 10,927,885               | 3.47%  | 39,931   | \$ 10,714,927                   | 3.32%  |
| Pro rata share of debt of<br>non-consolidated<br>entities<br>(non-recourse):                                     |                             |  |  |                                 |  |
| Variable rate –<br>excluding Toys "R"<br>Us, Inc.  | \$ 1,272,836                | 2.96%  | 12,728   | \$ 1,109,376                    | 2.49%  |
| Variable rate – Toys<br>"R" Us, Inc.   | 1,255,604                   | 6.43%  | 12,556   | 1,162,072                       | 6.05%  |
| Fixed rate - excluding<br>Toys "R" Us, Inc.  | 2,102,611                   | 5.04%  | -  | 2,120,068                       | 5.04%  |
| Fixed rate - Toys "R"<br>Us, Inc.  | 466,577                     | 10.06%   | -  | 671,181                         | 9.42%  |
|  | \$ 5,097,628                | 5.32%  | 25,284   | \$ 5,062,697                    | 5.30%  |
| Noncontrolling interests'<br>share of consolidated<br>subsidiaries   |                             |  |  |                                 |  |
|  |                             |  | (1,427)  |                                 |  |
| Total change in annual net<br>income attributable to<br>the Operating<br>Partnership                             |                             |  |  |                                 |  |
|  |                             |  | 63,788   |                                 |  |
| Noncontrolling interests'<br>share of the Operating<br>Partnership   |                             |  |  |                                 |  |
|  |                             |  | (3,948)  |                                 |  |
| Total change in annual net<br>income attributable to<br>Vornado  |                             |  |  |                                 |  |
|  |                             |  | \$ 59,840  |                                 |  |
| Total change in annual net<br>income attributable to<br>the Operating<br>Partnership per diluted<br>Class A unit |                             |  |  |                                 |  |
|  |                             |  | \$ 0.31  |                                 |  |
| Total change in annual net<br>income attributable to<br>Vornado per diluted<br>share                             |                             |  |  |                                 |  |
|  |                             |  | \$ 0.31  |                                 |  |

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and

risks of such strategies. As of June 30, 2017, we have an interest rate swap on a \$410,000,000 mortgage loan on Two Penn Plaza that swapped the rate from LIBOR plus 1.65% (2.70% as of June 30, 2017) to a fixed rate of 4.78% through March 2018, an interest rate swap on a \$375,000,000 mortgage loan on 888 Seventh Avenue that swapped the rate from LIBOR plus 1.60% (2.65% as of June 30, 2017) to a fixed rate of 3.15% through December 2020 and an interest rate swap on a \$700,000,000 mortgage loan on 770 Broadway that swapped the rate from LIBOR plus 1.75% (2.83% as of June 30, 2017) to a fixed rate of 2.56% through September 2020.



*Fair Value of Debt*

The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt. As of June 30, 2017, the estimated fair value of our consolidated debt was \$11,004,000,000.



**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures (Vornado Realty Trust)*

Disclosure Controls and Procedures: Our management, with the participation of Vornado's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, Vornado's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2017, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Evaluation of Disclosure Controls and Procedures (Vornado Realty L.P.)*

Disclosure Controls and Procedures: Vornado Realty L.P.'s management, with the participation of Vornado's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, Vornado's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2017, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**PART II. OTHER INFORMATION**

**Item 1. 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 is not currently expected to have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*Vornado Realty Trust*

None.

*Vornado Realty L.P.*

During the quarter ended June 30, 2017, we issued 30,204 Class A units in connection with equity awards issued pursuant to Vornado's omnibus share plan, including with respect to grants of restricted Vornado common shares and restricted units of the Operating Partnership and upon conversion, surrender or exchange of the Operating Partnership's units or Vornado stock options, and consideration received included \$774,032 in cash proceeds. Such units were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**VORNADO REALTY TRUST**  
(Registrant)

Date: July 31, 2017

By: /s/ Matthew Iocco  
Matthew Iocco, Chief Accounting Officer (duly  
authorized officer and principal accounting officer)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**VORNADO REALTY L.P.**

(Registrant)

Date: July 31, 2017

By: /s/ Matthew Iocco  
Matthew Iocco, Chief Accounting Officer of Vornado Realty Trust, sole General Partner of Vornado Realty L.P. (duly authorized officer and principal accounting officer)

**EXHIBIT INDEX**

**Exhibit No.**

- 10.32    \*\*    -    Form of 2017 Amendment to Vornado Realty Trust 2015, 2016, and 2017 Outperformance Plan  
  
Award Agreements.
- 15.1        -    Letter regarding Unaudited Interim Financial Information of Vornado Realty Trust
- 15.2        -    Letter regarding Unaudited Interim Financial Information of Vornado Realty L.P.
- 31.1        -    Rule 13a-14 (a) Certification of the Chief Executive Officer of Vornado Realty Trust
- 31.2        -    Rule 13a-14 (a) Certification of the Chief Financial Officer of Vornado Realty Trust
- 31.3        -    Rule 13a-14 (a) Certification of the Chief Executive Officer of Vornado Realty L.P.
- 31.4        -    Rule 13a-14 (a) Certification of the Chief Financial Officer of Vornado Realty L.P.
- 32.1        -    Section 1350 Certification of the Chief Executive Officer of Vornado Realty Trust
- 32.2        -    Section 1350 Certification of the Chief Financial Officer of Vornado Realty Trust
- 32.3        -    Section 1350 Certification of the Chief Executive Officer of Vornado Realty L.P.
- 32.4        -    Section 1350 Certification of the Chief Financial Officer of Vornado Realty L.P.
- 101.INS     -    XBRL Instance Document of Vornado Realty Trust and Vornado Realty L.P.
- 101.SCH     -    XBRL Taxonomy Extension Schema of Vornado Realty Trust and Vornado Realty L.P.
- 101.CAL     -    XBRL Taxonomy Extension Calculation Linkbase of Vornado Realty Trust and Vornado Realty L.P.
- 101.DEF     -

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XBRL Taxonomy Extension Definition Linkbase of Vornado Realty Trust and Vornado Realty L.P.

101.LAB - XBRL Taxonomy Extension Label Linkbase of Vornado Realty Trust and Vornado Realty L.P.

101.PRE - XBRL Taxonomy Extension Presentation Linkbase of Vornado Realty Trust and Vornado Realty L.P.

\*\* Management contract or compensatory agreement