

VORNADO REALTY TRUST  
Form 10-Q  
November 02, 2015

**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 **September 30, 2015**  
ended:

**Or**

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

**For the transition period from:** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number:** **001-11954**

**VORNADO REALTY TRUST**

(Exact name of registrant as specified in its charter)

**Maryland**

**22-1657560**

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

**888 Seventh Avenue, New York, New York**  
(Address of principal executive offices)

**10019**  
(Zip Code)

**(212) 894-7000**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of September 30, 2015, 188,540,876 of the registrant's common shares of beneficial interest are outstanding.



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

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

| (Amounts in thousands, except share and per share amounts)                                       | <b>September 30,<br/>2015</b> | <b>December 31, 2014</b> |
|--|-------------------------------|--------------------------|
| <b>ASSETS</b>  |                               |                          |
| Real estate, at cost:  |                               |                          |
| Land   | \$ 4,045,042                  | \$ 3,861,913             |
| Buildings and improvements   | 12,278,443                    | 11,705,749               |
| Development costs and construction in progress   | 1,389,471                     | 1,128,037                |
| Leasehold improvements and equipment   | 131,760                       | 126,659                  |
| Total  | 17,844,716                    | 16,822,358               |
| Less accumulated depreciation and amortization   | (3,364,932)                   | (3,161,633)              |
| Real estate, net   | 14,479,784                    | 13,660,725               |
| Cash and cash equivalents  | 788,137                       | 1,198,477                |
| Restricted cash  | 107,965                       | 176,204                  |
| Marketable securities  | 152,927                       | 206,323                  |
| Tenant and other receivables, net of allowance for doubtful accounts of \$11,640 and \$12,210    | 108,106                       | 109,998                  |
| Investments in partially owned entities  | 1,460,178                     | 1,240,489                |
| Real estate fund investments   | 555,414                       | 513,973                  |
| Receivable arising from the straight-lining of rents, net of allowance of \$2,922 and \$3,190    | 885,340                       | 787,271                  |
| Deferred leasing and financing costs, net of accumulated amortization of \$292,767 and \$281,109 | 572,969                       | 475,158                  |
| Identified intangible assets, net of accumulated amortization of \$190,543 and \$199,821         | 241,814                       | 225,155                  |
| Assets related to discontinued operations  | 35,142                        | 2,244,481                |
| Other assets   | 584,150                       | 410,066                  |
|  | <b>\$ 19,971,926</b>          | <b>\$ 21,248,320</b>     |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>                               |                               |                          |
| Mortgages payable  | \$ 9,159,413                  | \$ 8,263,165             |
| Senior unsecured notes   | 847,594                       | 1,347,159                |
| Accounts payable and accrued expenses  | 465,045                       | 447,745                  |
| Deferred revenue   | 377,951                       | 358,613                  |
| Deferred compensation plan   | 117,037                       | 117,284                  |
| Liabilities related to discontinued operations   | 11,520                        | 1,511,362                |
| Other liabilities  | 434,980                       | 375,830                  |
| Total liabilities  | 11,413,540                    | 12,421,158               |
| Commitments and contingencies  |                               |                          |
| Redeemable noncontrolling interests:   |                               |                          |

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|   |               |               |
|---|---------------|---------------|
| Class A units - 12,258,987 and 11,356,550 units outstanding   | 1,108,457     | 1,336,780     |
| Series D cumulative redeemable preferred units - 177,101 and 1 units outstanding  | 5,428         | 1,000         |
| Total redeemable noncontrolling interests   | 1,113,885     | 1,337,780     |
| Vornado shareholders' equity:   |               |               |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,677,629 and 52,678,939 shares   | 1,276,985     | 1,277,026     |
| Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,540,876 and 187,887,498 shares | 7,519         | 7,493         |
| Additional capital  | 7,232,766     | 6,873,025     |
| Earnings less than distributions  | (1,878,716)   | (1,505,385)   |
| Accumulated other comprehensive income  | 43,593        | 93,267        |
| Total Vornado shareholders' equity  | 6,682,147     | 6,745,426     |
| Noncontrolling interests in consolidated subsidiaries   | 762,354       | 743,956       |
| Total equity  | 7,444,501     | 7,489,382     |
|   | \$ 19,971,926 | \$ 21,248,320 |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(Amounts in thousands, except per share amounts)

|  | <b>For the Three Months Ended</b> |                   | <b>For the Nine Months Ended</b> |                   |
|--|-----------------------------------|-------------------|----------------------------------|-------------------|
|  | <b>September 30,</b>              |                   | <b>September 30,</b>             |                   |
|  | <b>2015</b>                       | <b>2014</b>       | <b>2015</b>                      | <b>2014</b>       |
| <b>REVENUES:</b>   |                                   |                   |                                  |                   |
| Property rentals   | \$ 526,337                        | \$ 474,978        | \$ 1,541,454                     | \$ 1,420,608      |
| Tenant expense reimbursements                                      | 67,098                            | 65,953            | 196,234                          | 180,364           |
| Fee and other income   | 34,161                            | 37,779            | 112,998                          | 114,530           |
| Total revenues   | 627,596                           | 578,710           | 1,850,686                        | 1,715,502         |
| <b>EXPENSES:</b>   |                                   |                   |                                  |                   |
| Operating  | 256,561                           | 240,088           | 753,744                          | 707,047           |
| Depreciation and amortization                                      | 141,920                           | 114,822           | 402,999                          | 359,814           |
| General and administrative   | 36,157                            | 40,384            | 133,838                          | 128,364           |
| Acquisition and transaction related costs                          | 1,518                             | 1,277             | 7,560                            | 3,629             |
| Total expenses   | 436,156                           | 396,571           | 1,298,141                        | 1,198,854         |
| Operating income   | 191,440                           | 182,139           | 552,545                          | 516,648           |
| Loss from partially owned entities                                 | (325)                             | (26,034)          | (8,709)                          | (78,676)          |
| Income from real estate fund investments                           | 1,665                             | 24,160            | 52,122                           | 142,418           |
| Interest and other investment income, net                          | 3,160                             | 7,568             | 19,618                           | 28,814            |
| Interest and debt expense  | (95,344)                          | (100,817)         | (279,110)                        | (301,042)         |
| Net gain on disposition of wholly owned and partially owned assets | 103,037                           | 2,665             | 104,897                          | 13,205            |
| Income before income taxes   | 203,633                           | 89,681            | 441,363                          | 321,367           |
| Income tax (expense) benefit                                       | (2,856)                           | (2,652)           | 84,245                           | (6,783)           |
| Income from continuing operations                                  | 200,777                           | 87,029            | 525,608                          | 314,584           |
| Income from discontinued operations                                | 34,463                            | 82,168            | 50,278                           | 118,456           |
| Net income   | 235,240                           | 169,197           | 575,886                          | 433,040           |
| Less net income attributable to noncontrolling interests in:       |                                   |                   |                                  |                   |
| Consolidated subsidiaries  | (3,302)                           | (9,685)           | (38,370)                         | (85,239)          |
| Operating Partnership  | (12,704)                          | (7,988)           | (28,189)                         | (16,552)          |
| Net income attributable to Vornado                                 | 219,234                           | 151,524           | 509,327                          | 331,249           |
| Preferred share dividends  | (20,364)                          | (20,365)          | (60,213)                         | (61,099)          |
| <b>NET INCOME attributable to common shareholders</b>              | <b>\$ 198,870</b>                 | <b>\$ 131,159</b> | <b>\$ 449,114</b>                | <b>\$ 270,150</b> |
| <b>INCOME PER COMMON SHARE - BASIC:</b>                            |                                   |                   |                                  |                   |
| Income from continuing operations, net                             | \$ 0.88                           | \$ 0.29           | \$ 2.13                          | \$ 0.84           |
| Income from discontinued operations, net                           | 0.17                              | 0.41              | 0.25                             | 0.60              |
| Net income per common share  | \$ 1.05                           | \$ 0.70           | \$ 2.38                          | \$ 1.44           |
| Weighted average shares outstanding                                | 188,504                           | 187,671           | 188,291                          | 187,503           |



**INCOME PER COMMON SHARE -  
DILUTED:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.88 | \$ 0.28 | \$ 2.12 | \$ 0.84 |
| Income from discontinued operations, net | 0.17    | 0.41    | 0.25    | 0.59    |
| Net income per common share              | \$ 1.05 | \$ 0.69 | \$ 2.37 | \$ 1.43 |
| Weighted average shares outstanding      | 189,581 | 188,812 | 189,789 | 188,592 |

**DIVIDENDS PER COMMON  
SHARE**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
|  | \$ 0.63 | \$ 0.73 | \$ 1.89 | \$ 2.19 |
|--|---------|---------|---------|---------|

See notes to consolidated financial statements (unaudited).

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**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

| (Amounts in thousands)  | <b>For the Three Months Ended<br/>September 30,</b> |             | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2015</b>   | <b>2014</b> | <b>2015</b>  | <b>2014</b> |
| Net income  | \$ 235,240  | \$ 169,197  | \$ 575,886   | \$ 433,040  |
| Other comprehensive income (loss):                                    |   |             |  |             |
| Reduction in unrealized net gain on<br>available-for-sale securities  | (7,064)   | (22,764)    | (53,396)   | (7,761)     |
| Pro rata share of other comprehensive<br>loss of                      |   |             |  |             |
| nonconsolidated<br>subsidiaries                                       | (114)   | (6,028)     | (1,148)  | (151)       |
| (Reduction) increase in value of<br>interest rate swap and other      | (289)   | 4,782       | 1,788  | 5,846       |
| Comprehensive income  | 227,773   | 145,187     | 523,130  | 430,974     |
| Less comprehensive income attributable to<br>noncontrolling interests | (15,559)  | (16,304)    | (63,477)   | (101,682)   |
| Comprehensive income attributable to<br>Vornado                       | \$ 212,214  | \$ 128,883  | \$ 459,653   | \$ 329,292  |

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

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

**Balance,  
September  
30, 2015**

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

|  | Preferred Shares |              | Common Shares |          | Additional Capital | Earnings Less Than Comprehensive Income Distributions | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interests in Consolidated Subsidiaries | Total Equity |
|--|------------------|--------------|---------------|----------|--------------------|---|---|--|--------------|
|  | Shares           | Amount       | Shares        | Amount   |                    |   |   |  |              |
| <b>Balance, December 31, 2013</b>  | 52,683           | \$ 1,277,225 | 187,285       | \$ 7,469 | \$ 7,143,840       | \$ (1,734,839)  | \$ 71,537                                     | \$ 829,512   | \$ 7,594,744 |
| Net income attributable to Vornado   | -                | -            | -             | -        | -                  | 331,249   | -   | -  | 331,249      |
| Net income attributable to noncontrolling interests in consolidated subsidiaries | -                | -            | -             | -        | -                  | -   | -   | 85,239   | 85,239       |
| Dividends on common shares   | -                | -            | -             | -        | -                  | (410,724)   | -   | -  | (410,724)    |
| Dividends on preferred shares  | -                | -            | -             | -        | -                  | (61,099)  | -   | -  | (61,099)     |
| Common shares issued:  |                  |              |               |          |                    |   |   |  |              |
| Upon redemption of Class A units, at redemption value                            | -                | -            | 227           | 9        | 22,659             | -   | -   | -  | 22,668       |
| Under employees' share option plan   | -                | -            | 199           | 8        | 12,342             | -   | -   | -  | 12,350       |
| Under dividend reinvestment plan   | -                | -            | 13            | -        | 1,387              | -   | -   | -  | 1,387        |
| Contributions:   |                  |              |               |          |                    |   |   |  |              |
| Real estate fund   | -                | -            | -             | -        | -                  | -   | -   | 5,297  | 5,297        |

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|                    |     |       |   |   |           |       |         |           |           |  |
|--------------------|-----|-------|---|---|-----------|-------|---------|-----------|-----------|--|
| investments        |     |       |   |   |           |       |         |           |           |  |
| Other              | -   | -     | - | - | -         | -     | -       | 5,000     | 5,000     |  |
| Distributions:     |     |       |   |   |           |       |         |           |           |  |
| Real estate        |     |       |   |   |           |       |         |           |           |  |
| fund               |     |       |   |   |           |       |         |           |           |  |
| investments        | -   | -     | - | - | -         | -     | -       | (182,964) | (182,964) |  |
| Other              | -   | -     | - | - | -         | -     | -       | (643)     | (643)     |  |
| Transfer of        |     |       |   |   |           |       |         |           |           |  |
| noncontrolling     |     |       |   |   |           |       |         |           |           |  |
| interest           |     |       |   |   |           |       |         |           |           |  |
| in real estate     |     |       |   |   |           |       |         |           |           |  |
| fund               |     |       |   |   |           |       |         |           |           |  |
| investments        | -   | -     | - | - | -         | -     | -       | (33,028)  | (33,028)  |  |
| Conversion         |     |       |   |   |           |       |         |           |           |  |
| of Series A        |     |       |   |   |           |       |         |           |           |  |
| preferred          |     |       |   |   |           |       |         |           |           |  |
| shares to          |     |       |   |   |           |       |         |           |           |  |
| common             |     |       |   |   |           |       |         |           |           |  |
| shares             | (4) | (193) | 6 | - | 193       | -     | -       | -         | -         |  |
| Deferred           |     |       |   |   |           |       |         |           |           |  |
| compensation       |     |       |   |   |           |       |         |           |           |  |
| shares             |     |       |   |   |           |       |         |           |           |  |
| and options        | -   | -     | 5 | 1 | 4,645     | (340) | -       | -         | 4,306     |  |
| Reduction in       |     |       |   |   |           |       |         |           |           |  |
| unrealized         |     |       |   |   |           |       |         |           |           |  |
| net gain           |     |       |   |   |           |       |         |           |           |  |
| on                 |     |       |   |   |           |       |         |           |           |  |
| available-for-sale |     |       |   |   |           |       |         |           |           |  |
| securities         | -   | -     | - | - | -         | -     | (7,761) | -         | (7,761)   |  |
| Pro rata share     |     |       |   |   |           |       |         |           |           |  |
| of other           |     |       |   |   |           |       |         |           |           |  |
| comprehensive      |     |       |   |   |           |       |         |           |           |  |
| loss of            |     |       |   |   |           |       |         |           |           |  |
| nonconsolidated    |     |       |   |   |           |       |         |           |           |  |
| subsidiaries       | -   | -     | - | - | -         | -     | (151)   | -         | (151)     |  |
| Increase in        |     |       |   |   |           |       |         |           |           |  |
| value of           |     |       |   |   |           |       |         |           |           |  |
| interest           |     |       |   |   |           |       |         |           |           |  |
| rate swap          | -   | -     | - | - | -         | -     | 5,846   | -         | 5,846     |  |
| Adjustments        |     |       |   |   |           |       |         |           |           |  |
| to carry           |     |       |   |   |           |       |         |           |           |  |
| redeemable         |     |       |   |   |           |       |         |           |           |  |
| Class A            |     |       |   |   |           |       |         |           |           |  |
| units at           |     |       |   |   |           |       |         |           |           |  |
| redemption         |     |       |   |   |           |       |         |           |           |  |
| value              | -   | -     | - | - | (144,231) | -     | -       | -         | (144,231) |  |
| Redeemable         |     |       |   |   |           |       |         |           |           |  |
| noncontrolling     |     |       |   |   |           |       |         |           |           |  |
| interests'         |     |       |   |   |           |       |         |           |           |  |
| share of           | -   | -     | - | - | -         | -     | 109     | -         | 109       |  |
| above              |     |       |   |   |           |       |         |           |           |  |

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|  |        |              |         |          |              |                |           |            |              |
|--|--------|--------------|---------|----------|--------------|----------------|-----------|------------|--------------|
| adjustments                                |        |              |         |          |              |                |           |            |              |
| Other                                      | -      | (6)          | -       | -        | (297)        | (2,372)        | -         | -          | (2,675)      |
| <b>Balance,<br/>September<br/>30, 2014</b> | 52,679 | \$ 1,277,026 | 187,735 | \$ 7,487 | \$ 7,040,538 | \$ (1,878,125) | \$ 69,580 | \$ 708,413 | \$ 7,224,919 |

See notes to consolidated financial statements (unaudited).



**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(Amounts in thousands)

|  | <b>For the Nine Months Ended September 30,</b> |             |
|--|--|-------------|
|  | <b>2015</b>                                    | <b>2014</b> |
| <b>Cash Flows from Operating Activities:</b>                                       |  |             |
| Net income   | \$ 575,886                                     | \$ 433,040  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |  |             |
| Depreciation and amortization (including amortization of deferred financing costs) | 420,494  | 423,959     |
| Straight-lining of rental income   | (108,529)                                      | (56,983)    |
| Net gain on disposition of wholly owned and partially owned assets                 | (104,897)                                      | (13,205)    |
| Return of capital from real estate fund investments                                | 91,036   | 215,676     |
| Reversal of allowance for deferred tax assets                                      | (90,030)                                       | -           |
| Net gains on sale of real estate and other   | (65,396)                                       | (57,796)    |
| Distributions of income from partially owned entities                              | 51,650   | 42,164      |
| Amortization of below-market leases, net   | (45,918)                                       | (32,663)    |
| Net realized and unrealized gains on real estate fund investments                  | (38,781)                                       | (131,558)   |
| Other non-cash adjustments   | 35,190   | 28,691      |
| Loss from partially owned entities   | 7,961  | 77,426      |
| Impairment losses  | 256  | 20,842      |
| Defeasance cost in connection with the refinancing of mortgage notes payable       | -  | 5,589       |
| Changes in operating assets and liabilities:                                       |  |             |
| Real estate fund investments   | (95,010)                                       | (3,392)     |
| Tenant and other receivables, net  | 1,892  | (2,775)     |
| Prepaid assets   | (77,899)                                       | (85,372)    |
| Other assets   | (92,413)                                       | (68,833)    |
| Accounts payable and accrued expenses  | (5,799)  | 36,949      |
| Other liabilities  | (16,168)                                       | (3,190)     |
| Net cash provided by operating activities  | 443,525  | 828,569     |
| <b>Cash Flows from Investing Activities:</b>                                       |  |             |
| Acquisitions of real estate and other  | (388,565)                                      | (95,546)    |
| Proceeds from sales of real estate and related investments                         | 375,850  | 335,489     |
| Development costs and construction in progress                                     | (339,586)                                      | (368,571)   |
| Additions to real estate   | (207,845)                                      | (171,660)   |
| Restricted cash  | 201,895  | 101,592     |
| Investments in partially owned entities  | (144,890)                                      | (91,697)    |
| Distributions of capital from partially owned entities                             | 31,822   | 8,130       |
| Investments in loans receivable  | (25,845)                                       | (11,380)    |
| Proceeds from repayments of mortgage and mezzanine loans receivable and other      | 16,781   | 96,504      |
| Net cash used in investing activities  | (480,383)                                      | (197,139)   |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands)  | <b>For the Nine Months Ended September</b> |              |
|---|--|--------------|
|   | <b>30,</b>                                 |              |
|   | <b>2015</b>                                | <b>2014</b>  |
| <b>Cash Flows from Financing Activities:</b>  |  |              |
| Proceeds from borrowings  | \$ 2,876,460                               | \$ 1,713,285 |
| Repayments of borrowings  | (2,539,677)                                | (343,354)    |
| Dividends paid on common shares   | (355,945)                                  | (410,724)    |
| Cash included in the spin-off of Urban Edge Properties  | (225,000)                                  | -            |
| Distributions to noncontrolling interests   | (93,738)                                   | (208,773)    |
| Dividends paid on preferred shares  | (60,213)                                   | (61,102)     |
| Contributions from noncontrolling interests   | 51,725                                     | 5,297        |
| Debt issuance costs   | (37,467)                                   | (40,424)     |
| Proceeds received from exercise of employee share options   | 15,273                                     | 13,738       |
| Repurchase of shares related to stock compensation agreements and/or related tax withholdings and other | (4,900)                                    | (637)        |
| Purchase of marketable securities in connection with the defeasance of mortgage notes payable           | -  | (198,884)    |
| Net cash (used in) provided by financing activities   | (373,482)                                  | 468,422      |
| Net (decrease) increase in cash and cash equivalents  | (410,340)                                  | 1,099,852    |
| Cash and cash equivalents at beginning of period  | 1,198,477                                  | 583,290      |
| Cash and cash equivalents at end of period  | \$ 788,137                                 | \$ 1,683,142 |
| <b>Supplemental Disclosure of Cash Flow Information:</b>  |  |              |
| Cash payments for interest, excluding capitalized interest of \$40,924 and \$46,517                     | \$ 256,254                                 | \$ 317,162   |
| Cash payments for income taxes  | \$ 7,640                                   | \$ 9,407     |
| <b>Non-Cash Investing and Financing Activities:</b>   |  |              |
| Non-cash distribution of Urban Edge Properties:   |  |              |
| Assets  | \$ 1,722,263                               | \$ -         |
| Liabilities   | (1,482,660)                                | -            |
| Equity  | (239,603)                                  | -            |
| Adjustments to carry redeemable Class A units at redemption value                                       | 295,713                                    | (144,231)    |
| Transfer of interest in real estate to Pennsylvania Real Estate Investment Trust                        | (145,313)                                  | -            |
| Write-off of fully depreciated assets   | (127,788)                                  | (103,184)    |
| Accrued capital expenditures included in accounts payable and accrued expenses                          | 95,535                                     | 103,032      |
| Like-kind exchange of real estate:  |  |              |
| Acquisitions  | 80,269                                     | 50,159       |
| Dispositions  | (213,621)                                  | (50,159)     |

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|   |        |           |
|---|--------|-----------|
| Class A units in connection with acquisition  | 80,000 | -         |
| Financing assumed in acquisitions   | 62,000 | -         |
| Marketable securities transferred in connection with the<br>defeasance of mortgage<br>notes payable | -      | 198,884   |
| Defeasance of mortgage notes payable  | -      | (193,406) |
| Elimination of a mortgage and mezzanine loan asset and<br>liability                                 | -      | 59,375    |
| Transfer of interest in real estate fund investments to an<br>unconsolidated joint venture          | -      | (58,564)  |
| Transfer of noncontrolling interest in real estate fund<br>investments                              | -      | (33,028)  |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**  
**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 at September 30, 2015. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On January 15, 2015, we completed the spin-off of substantially all of our retail segment comprised of 79 strip shopping centers, three malls, a warehouse park and \$225,000,000 of cash to Urban Edge Properties (“UE”) (NYSE: UE). As part of this transaction, we retained 5,717,184 UE operating partnership units (5.4% ownership interest). We are providing transition services to UE for an initial period of up to two years, including information technology, human resources, tax and financial reporting. 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, Inc. (NYSE: ALX) Rego Park retail assets. Steven Roth, our Chairman and Chief Executive Officer is a member of the Board of Trustees of UE. The spin-off distribution was effected by Vornado distributing one UE common share for every two Vornado common shares. The historical financial results of UE are reflected in our consolidated financial statements as discontinued operations for all periods presented.

**2. Basis of Presentation and Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All intercompany 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 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, 2014, 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 nine months ended September 30, 2015 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 period presentation. Beginning in the three months ended March 31, 2015, the Company classifies signage revenue within “property rentals”. For the three and nine months ended September 30, 2014, \$7,698,000 and \$25,889,000, respectively, related to signage revenue has been reclassified from “fee and other income” to “property rentals” to conform to the current period presentation.

### *Significant Accounting Policies*

**Condominium Units Held For Sale:** Pursuant to ASC 605-35-25-88, *Revenue Recognition: Completed Contract Method*, revenue from condominium unit sales is recognized upon closing of the sale, as all conditions for full profit recognition have not been met until that time. We use the relative sales value method to allocate costs to individual condominium units.

We are constructing a residential condominium tower containing 392,000 salable square feet on our 220 Central Park South development site.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**2. Basis of Presentation and Significant Accounting Policies - continued**

*Significant Accounting Policies - continued*

**Income Taxes:** We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. We distribute to our shareholders 100% of our taxable income and therefore, no provision for Federal income taxes is required.

We have elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries pursuant to an amendment to the Internal Revenue Code that became effective January 1, 2001. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to Federal and State income tax at regular corporate tax rates.

At September 30, 2015 and December 31, 2014, our taxable REIT subsidiaries had deferred tax assets related to net operating loss carryforwards of \$95,419,000 and \$94,100,000, respectively, which are included in "other assets" on our consolidated balance sheets. Prior to the quarter ended June 30, 2015, there was a full valuation allowance against these deferred tax assets because we had not determined that it is more-likely-than-not that we would use the net operating loss carryforwards to offset future taxable income. Based upon residential condominium unit sales, among other factors, we have concluded that it is more-likely-than-not that we will generate sufficient taxable income to realize these deferred tax assets. Accordingly, during the second quarter of 2015, we reversed \$90,030,000 of the allowance for deferred tax assets and recognized an income tax benefit in our consolidated statements of income.

**3. Recently Issued Accounting Literature**

In April 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-08”) *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* to ASC Topic 205, *Presentation of Financial Statements* and ASC Topic 360, *Property Plant and Equipment*. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity’s results and operations would qualify as discontinued operations. In addition, ASU 2014-08 expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that began after December 15, 2014. Upon adoption of this standard on January 1, 2015, individual properties sold in the ordinary course of business are not expected to qualify as discontinued operations. The financial results of UE and certain other retail assets are reflected in our consolidated financial statements as discontinued operations for all periods presented (see Note 8 – *Dispositions* for further details).

In May 2014, the FASB issued an update (“ASU 2014-09”) establishing ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 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. ASU 2014-09 requires an entity to recognize revenue when it transfers 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. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

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

In June 2014, the FASB issued an update (“ASU 2014-12”) to ASC Topic 718, *Compensation – Stock Compensation*. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In February 2015, the FASB issued an update (“ASU 2015-02”) *Amendments to the Consolidation Analysis* to ASC Topic 810, *Consolidation*. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In April 2015, the FASB issued an update (“ASU 2015-03”) *Simplifying the Presentation of Debt Issuance Costs* to ASC Topic 835, *Interest*. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability to which they relate, consistent with debt discounts, as opposed to being presented as assets. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The adoption of this update on January 1, 2016 will not have a material impact on our consolidated financial statements.

**4. Acquisitions**

On January 20, 2015, we and one of our real estate fund’s limited partners co-invested with the Fund to buy out the Fund’s joint venture partner’s 57% interest in the Crowne Plaza Times Square Hotel (see Note 5 – *Real Estate Fund*)

*Investments*).

On March 18, 2015, we acquired the Center Building, a 437,000 square foot office building, located at 33-00 Northern Boulevard in Long Island City, New York, for \$142,000,000, including the assumption of an existing \$62,000,000, 4.43% mortgage maturing in October 2018.

On June 2, 2015, we completed the acquisition of 150 West 34th Street, a 78,000 square foot retail property leased to Old Navy through May 2019, and 226,000 square feet of additional zoning air rights, for approximately \$355,000,000. At closing we completed a \$205,000,000 financing of the property (see Note 10 – *Debt*).

On July 31, 2015, we acquired 260 Eleventh Avenue, a 235,000 square foot office property leased to the City of New York through 2021 with two five-year renewal options, a 10,000 square foot parking lot and additional air rights. The transaction is structured as a 99-year ground lease with an option to purchase the land for \$110,000,000. The \$3,900,000 annual ground rent and the purchase option price escalate annually at the lesser of 1.5% or CPI. The buildings were purchased for 813,900 newly issued Vornado Operating Partnership units valued at approximately \$80,000,000.

On September 25, 2015, we acquired 265 West 34th Street, a 1,700 square foot retail property and 15,200 square feet of additional zoning air rights, for approximately \$28,500,000.

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****(UNAUDITED)****5. Real Estate Fund Investments**

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the “Fund”), which has an eight-year term and a three-year investment period that ended in July 2013. During the investment period, the Fund was our exclusive investment vehicle for all investments that fit within its investment parameters, as defined.

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.

On January 20, 2015, we and one of the Fund’s limited partners co-invested with the Fund to buy out the Fund’s joint venture partner’s 57% interest in the Crowne Plaza Times Square Hotel (the “Co-Investment”). The purchase price for the 57% interest was approximately \$95,000,000 (our share \$39,000,000) which valued the property at approximately \$480,000,000. The property is encumbered by a \$310,000,000 mortgage loan bearing interest at LIBOR plus 2.80% which matures in December 2018 with a one-year extension option. Our aggregate ownership interest in the property increased to 33% from 11%. The Co-Investment is also accounted for under ASC 946 and is included as a component of “real estate fund investments” on our consolidated balance sheet.

On March 25, 2015, the Fund completed the sale of 520 Broadway in Santa Monica, CA for \$91,650,000. The Fund realized a \$23,768,000 net gain over the holding period.

At September 30, 2015, we had six real estate fund investments with an aggregate fair value of \$555,414,000, or \$190,620,000 in excess of cost, and had remaining unfunded commitments of \$102,212,000, of which our share was \$25,553,000. Below is a summary of income from the Fund and the Co-Investment for the three and nine months ended September 30, 2015 and 2014.

| (Amounts in thousands) | For the Three Months Ended |          | For the Nine Months Ended |           |
|------------------------|----------------------------|----------|---------------------------|-----------|
|                        | September 30,              |          | September 30,             |           |
|                        | 2015                       | 2014     | 2015                      | 2014      |
| Net investment income  | \$ 5,116                   | \$ 3,829 | \$ 13,716                 | \$ 10,860 |

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|  |          |           |           |           |
|--|----------|-----------|-----------|-----------|
| Net realized (losses) gains on exited investments                | (907)    | 51,584    | 24,684    | 126,653   |
| Previously recorded unrealized gains on exited investments       | -        | (49,586)  | (23,279)  | (50,316)  |
| Net unrealized (losses) gains on held investments                | (2,544)  | 18,333    | 37,001    | 55,221    |
| Income from real estate fund investments                         | 1,665    | 24,160    | 52,122    | 142,418   |
| Less income attributable to noncontrolling interests             | (42)     | (8,588)   | (29,453)  | (81,217)  |
| Income from real estate fund investments attributable to Vornado |          |           |           |           |
| (1)  | \$ 1,623 | \$ 15,572 | \$ 22,669 | \$ 61,201 |

(1) Excludes property management, leasing and development fees of \$678 and \$669 for the three months ended September 30, 2015 and 2014, respectively, and \$2,015 and \$1,925 for the nine months ended September 30, 2015 and 2014, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

## 6. Marketable Securities

Below is a summary of our marketable securities portfolio as of September 30, 2015 and December 31, 2014.

| (Amounts in thousands) | As of September 30, 2015 |           |                 | As of December 31, 2014 |           |                 |
|------------------------|--------------------------|-----------|-----------------|-------------------------|-----------|-----------------|
|                        | Fair Value               | GAAP Cost | Unrealized Gain | Fair Value              | GAAP Cost | Unrealized Gain |
| Equity securities:     |                          |           |                 |                         |           |                 |
| Lexington Realty Trust | \$ 149,599               | \$ 72,549 | \$ 77,050       | \$ 202,789              | \$ 72,549 | \$ 130,240      |
| Other                  | 3,328                    | -         | 3,328           | 3,534                   | -         | 3,534           |
|                        | \$ 152,927               | \$ 72,549 | \$ 80,378       | \$ 206,323              | \$ 72,549 | \$ 133,774      |

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## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**7. Investments in Partially Owned Entities***Toys "R" Us ("Toys")*

As of September 30, 2015, we own 32.5% of Toys. We have not guaranteed any of Toys' obligations and are not committed to provide any support to Toys. Pursuant to ASC 323-10-35-20, we discontinued applying the equity method for our Toys' investment when the carrying amount was reduced to zero in the third quarter of 2014. We will resume application of the equity method if, during the period the equity method has been suspended, our share of unrecognized net income exceeds our share of unrecognized net losses.

In the first quarter of 2014, we recognized our share of Toys' fourth quarter net income of \$75,196,000 and a corresponding non-cash impairment loss of the same amount.

Below is a summary of Toys' latest available financial information on a purchase accounting basis:

(Amounts in thousands)

|   | <b>Balance as of</b>  |                         |
|---|-----------------------|-------------------------|
|   | <b>August 1, 2015</b> | <b>November 1, 2014</b> |
| <b>Balance Sheet:</b>                   |                       |                         |
| Assets                                  | \$ 9,732,000          | \$ 11,267,000           |
| Liabilities                             | 9,056,000             | 10,377,000              |
| Noncontrolling interests                | 85,000                | 82,000                  |
| Toys "R" Us, Inc. equity <sup>(1)</sup> | 591,000               | 808,000                 |

(Amounts in thousands)

|                               | <b>For the Three Months Ended</b> |                       | <b>For the Nine Months Ended</b> |                       |
|-------------------------------|-----------------------------------|-----------------------|----------------------------------|-----------------------|
|                               | <b>August 1, 2015</b>             | <b>August 2, 2014</b> | <b>August 1, 2015</b>            | <b>August 2, 2014</b> |
| <b>Income Statement:</b>      |                                   |                       |                                  |                       |
| Total revenues                | \$ 2,293,000                      | \$ 2,440,000          | \$ 9,601,000                     | \$ 10,186,000         |
| Net loss attributable to Toys | (108,700)                         | (133,000)             | (44,700)                         | (244,000)             |

- (1) At September 30, 2015, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately \$191,859. This basis difference results primarily from non-cash impairment losses aggregating \$355,953 that we have recognized through September 30, 2015. We have allocated the basis difference primarily to Toys' real estate.

***Alexander's, Inc. ("Alexander's") (NYSE: ALX)***

As of September 30, 2015, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable.

As of September 30, 2015, the market value ("fair value" pursuant to ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820")) of our investment in Alexander's, based on Alexander's September 30, 2015 closing share price of \$374.00, was \$618,621,000, or \$487,226,000 in excess of the carrying amount on our consolidated balance sheet. As of September 30, 2015, the carrying amount of our investment in Alexander's exceeds our share of the equity in the net assets of Alexander's by approximately \$40,527,000. 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.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 7. Investments in Partially Owned Entities - continued

*Alexander's, Inc. ("Alexander's") (NYSE: ALX) - continued*

Below is a summary of Alexander's latest available financial information:

(Amounts in thousands)

|                       | Balance as of         |                      |
|-----------------------|-----------------------|----------------------|
|                       | September 30,<br>2015 | December 31,<br>2014 |
| <b>Balance Sheet:</b> |                       |                      |
| Assets                | \$ 1,457,000          | \$ 1,423,000         |
| Liabilities           | 1,112,000             | 1,075,000            |
| Stockholders' equity  | 345,000               | 348,000              |

|   | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended September<br>30, |            |
|---|---|-----------|--|------------|
| (Amounts in thousands)                    | 2015  | 2014      | 2015                                       | 2014       |
| <b>Income Statement:</b>                  |   |           |  |            |
| Total revenues                            | \$ 52,000                                   | \$ 50,000 | \$ 155,000                                 | \$ 149,000 |
| Net income attributable to<br>Alexander's | 18,000                                      | 18,000    | 53,000                                     | 50,000     |

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

As part of our spin-off of substantially all of our retail segment to UE on January 15, 2015 (see Note 1 – *Organization*), we retained 5,717,184 UE operating partnership units, representing a 5.4% 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. We are providing transition services to UE for an initial period of up to two years, including information

technology, human resources, tax and financial reporting. 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 September 30, 2015, the fair value of our investment in UE, based on UE's September 30, 2015 closing share price of \$21.59, was \$123,434,000, or \$98,033,000 in excess of the carrying amount on our consolidated balance sheet.

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

On March 31, 2015, we transferred the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to PREIT Associates, L.P., which is the operating partnership of PREIT, in exchange for \$485,313,000; comprised of \$340,000,000 of cash and 6,250,000 PREIT operating partnership units (valued at \$145,313,000 or \$23.25 per PREIT unit) (See Note 8 – *Dispositions*). \$19,000,000 of tenant improvements and allowances was credited to PREIT as a closing adjustment. As a result of this transaction, we own an 8.1% 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 September 30, 2015, the fair value of our investment in PREIT, based on PREIT's September 30, 2015 closing share price of \$19.83, was \$123,938,000, or \$14,327,000 lower than the carrying amount on our consolidated balance sheet. As of September 30, 2015, the carrying amount of our investment in PREIT exceeds our share of the equity in the net assets of PREIT by approximately \$65,681,000. 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.

*512 West 22<sup>nd</sup> Street*

On June 24, 2015, we entered into a joint venture, in which we own a 55% interest, to develop a 173,000 square foot Class-A office building, located along the western edge of the High Line at 512 West 22nd Street. The development cost of this project is approximately \$235,000,000. The development is expected to commence during the fourth quarter of 2015 and be completed in 2017. We account for our investment in the joint venture under the equity method.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 7. Investments in Partially Owned Entities – continued

Below are schedules summarizing our investments in, and (loss) income from, partially owned entities.

(Amounts in thousands)

|   | Percentage<br>Ownership at | Balance as of         |                      |
|---|----------------------------|-----------------------|----------------------|
|   |                            | September 30,<br>2015 | December 31,<br>2014 |
| <b>Investments:</b>                     |                            |                       |                      |
| Partially owned office buildings<br>(1) | Various                    | \$ 857,282            | \$ 760,749           |
| PREIT Associates                        | 8.1%                       | 138,265               | -                    |
| Alexander's                             | 32.4%                      | 131,395               | 131,616              |
|   | 4.1%-36.5%                 |                       |                      |
| India real estate ventures              |                            | 48,114                | 76,752               |
| UE                                      | 5.4%                       | 25,401                | -                    |
| Toys                                    | 32.5%                      | -                     | -                    |
| Other investments (2)                   | Various                    | 259,721               | 271,372              |
|   |                            | \$ 1,460,178          | \$ 1,240,489         |

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street and others.

(2) Includes interests in Independence Plaza, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street and others.

| (Amounts in thousands)                      | Percentage<br>Ownership at<br>September 30,<br>2015 | For the Three Months<br>Ended<br>September 30, |          | For the Nine Months Ended<br>September 30, |           |
|---|---|--|----------|--|-----------|
|   |   | 2015   | 2014     | 2015                                       | 2014      |
| <b>Our Share of Net (Loss) Income:</b>      |   |  |          |  |           |
| Alexander's:                                |   |  |          |  |           |
| Equity in net income                        | 32.4%   | \$ 5,716                                       | \$ 5,552 | \$ 16,757                                  | \$ 15,583 |
| Management, leasing and<br>development fees |   | 1,828  | 1,640    | 5,801                                      | 4,888     |
|   |   | 7,544  | 7,192    | 22,558                                     | 20,471    |

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|   |            |          |             |                         |             |
|---|------------|----------|-------------|-------------------------|-------------|
| Partially owned office buildings <sup>(1)</sup> | Various    | (2,039)  | 18          | (14,573)                | (1,387)     |
| Toys:   |            |          |             |                         |             |
| Equity in net loss                              | 32.5%      | -        | (20,357)    | -                       | (4,691)     |
| Non-cash impairment loss                        |            | -        | -           | -                       | (75,196)    |
| Management fees                                 |            | 46       | 1,939       | 2,000                   | 5,725       |
|   |            | 46       | (18,418)    | 2,000                   | (74,162)    |
|   | 4.1%-36.5% |          |             |                         |             |
| India real estate ventures                      |            | (1,704)  | (262)       | (18,380) <sup>(2)</sup> | (2,440)     |
| Other investments <sup>(3)</sup>                | Various    | (4,172)  | (14,564)    | (314)                   | (21,158)    |
|   |            | \$ (325) | \$ (26,034) | \$ (8,709)              | \$ (78,676) |

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street and others.

(2) Includes \$14,806 for our share of non-cash impairment losses.

(3) Includes interests in UE, PREIT Associates, Independence Plaza, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street and others. In the third quarter of 2014, we recognized a \$10,263 non-cash charge, comprised of a \$5,959 impairment loss and a \$4,304 loan loss reserve, on our equity and debt investments in Suffolk Downs.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**8. Dispositions**

On September 9, 2015, we completed the sale of 1750 Pennsylvania Avenue, NW, a 278,000 square foot office building in Washington, DC for \$182,000,000, resulting in a net gain of approximately \$102,000,000 which is included in “net gain on disposition of wholly owned and partially owned assets” on our consolidated statement of income. The tax gain of approximately \$137,000,000 was deferred as part of a like-kind exchange. We are managing the property on behalf of the new owner.

*Discontinued Operations*

On January 15, 2015, we completed the spin-off of substantially all of our retail segment comprised of 79 strip shopping centers, three malls, a warehouse park and \$225,000,000 of cash to UE (NYSE: UE) (see Note 1 – *Organization*). In addition, we completed the following retail property sales, substantially completing the exit of the retail strips and malls business.

On March 13, 2015, we sold our Geary Street, CA lease for \$34,189,000, which resulted in a net gain of \$21,376,000.

On March 31, 2015, we transferred the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to PREIT (see Note 7 – *Investments in Partially Owned Entities*). The financial statement gain was \$7,823,000, of which \$7,192,000 was recognized in the first quarter of 2015 and the remaining \$631,000 was deferred based on our ownership interest in PREIT. On March 31, 2018, we will be entitled to additional consideration of 50% of the increase in the value of Springfield Town Center, if any, over \$465,000,000, calculated utilizing a 5.5% capitalization rate. In the first quarter of 2014, we recorded a non-cash impairment loss of \$20,000,000 on Springfield Town Center which is included in “income from discontinued operations” on our consolidated statements of income.

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On August 6, 2015, we sold our 50% interest in the Monmouth Mall in Eatontown, NJ to our joint venture partner for \$38,000,000, valuing the property at approximately \$229,000,000, which resulted in a net gain of \$33,153,000.

We also sold five residual retail properties, in separate transactions, for an aggregate of \$10,731,000, which resulted in net gains of \$3,675,000.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**8. Dispositions – continued**

We have reclassified the revenues and expenses of the UE portfolio and other retail properties discussed above to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all of the periods presented in the accompanying consolidated financial statements. The net gains resulting from the sale of these properties are included in “income from discontinued operations” on our consolidated statements of income. The tables below set forth the assets and liabilities related to discontinued operations at September 30, 2015 and December 31, 2014 and their combined results of operations and cash flows for the nine months ended September 30, 2015 and 2014.

(Amounts in thousands)

|  | <b>Balance as of</b>          |                              |
|--|-------------------------------|------------------------------|
|  | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
| <b>Assets related to discontinued operations:</b>      |                               |                              |
| Real estate, net                                       | \$ 27,560                     | \$ 2,028,677                 |
| Other assets   | 7,582                         | 215,804                      |
|  | <b>\$ 35,142</b>              | <b>\$ 2,244,481</b>          |
| <b>Liabilities related to discontinued operations:</b> |                               |                              |
| Mortgages payable                                      | \$ -                          | \$ 1,288,535                 |
| Other liabilities (primarily deferred revenue in 2014) | 11,520                        | 222,827                      |
|  | <b>\$ 11,520</b>              | <b>\$ 1,511,362</b>          |

(Amounts in thousands)

|   | <b>For the Three Months Ended<br/>September 30,</b> |             | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2015</b>   | <b>2014</b> | <b>2015</b>  | <b>2014</b> |
| <b>Income from discontinued operations:</b> |   |             |  |             |
| Total revenues                              | \$ 2,589  | \$ 93,440   | \$ 24,868  | \$ 297,039  |
| Total expenses                              | 1,279   | 62,715      | 16,672   | 204,619     |

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|  |           |           |           |            |
|--|-----------|-----------|-----------|------------|
|  | 1,310     | 30,725    | 8,196     | 92,420     |
| Net gain on sale of our interest in Monmouth Mall      | 33,153    | -         | 33,153    | -          |
| Net gains on sale of real estate                       | -         | 57,796    | 10,867    | 57,796     |
| Transaction related costs (primarily UE spin off)      | -         | (5,828)   | (22,972)  | (9,343)    |
| Net gain on sale of lease position in Geary Street, CA | -         | -         | 21,376    | -          |
| Impairment losses                                      | -         | -         | (256)     | (20,842)   |
| Pretax income from discontinued operations             | 34,463    | 82,693    | 50,364    | 120,031    |
| Income tax expense                                     | -         | (525)     | (86)      | (1,575)    |
| Income from discontinued operations                    | \$ 34,463 | \$ 82,168 | \$ 50,278 | \$ 118,456 |

**Cash flows related to discontinued operations:**

|                                      |  |  |             |            |
|--------------------------------------|--|--|-------------|------------|
| Cash flows from operating activities |  |  | \$ (34,490) | \$ 153,815 |
| Cash flows from investing activities |  |  | 348,697     | (122,247)  |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**9. Identified Intangible Assets and Liabilities**

The following summarizes our identified intangible assets (primarily acquired in-place and above-market leases) and liabilities (primarily acquired below-market leases) as of September 30, 2015 and December 31, 2014.

| (Amounts in thousands)   | <b>Balance as of</b>      |                          |
|--|---------------------------|--------------------------|
|  | <b>September 30, 2015</b> | <b>December 31, 2014</b> |
| <b>Identified intangible assets:</b>                                     |                           |                          |
| Gross amount   | \$ 432,357                | \$ 424,976               |
| Accumulated amortization   | (190,543)                 | (199,821)                |
| Net  | \$ 241,814                | \$ 225,155               |
| <b>Identified intangible liabilities (included in deferred revenue):</b> |                           |                          |
| Gross amount   | \$ 666,370                | \$ 657,976               |
| Accumulated amortization   | (316,908)                 | (329,775)                |
| Net  | \$ 349,462                | \$ 328,201               |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$19,786,000 and \$8,099,000 for the three months ended September 30, 2015 and 2014, respectively, and \$45,614,000 and \$26,333,000 for the nine months ended September 30, 2015 and 2014, 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, 2016 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2016                   | \$ 51,780 |
| 2017                   | 44,079    |
| 2018                   | 42,733    |
| 2019                   | 30,775    |
| 2020                   | 23,143    |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$9,658,000 and \$5,866,000 for the three months ended September 30, 2015 and 2014, respectively, and \$24,402,000

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and \$21,697,000 for the nine months ended September 30, 2015 and 2014, 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, 2016 is as follows:

| (Amounts in thousands) |    |        |
|------------------------|----|--------|
| 2016                   | \$ | 30,165 |
| 2017                   |    | 24,745 |
| 2018                   |    | 20,373 |
| 2019                   |    | 15,685 |
| 2020                   |    | 12,245 |

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 of \$458,000 for the three months ended September 30, 2015 and 2014 and \$1,374,000 for the nine months ended September 30, 2015 and 2014. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2016 is as follows:

| (Amounts in thousands) |    |       |
|------------------------|----|-------|
| 2016                   | \$ | 1,832 |
| 2017                   |    | 1,832 |
| 2018                   |    | 1,832 |
| 2019                   |    | 1,832 |
| 2020                   |    | 1,832 |



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**10. Debt**

On January 1, 2015, we redeemed all of the \$500,000,000 principal amount of our outstanding 4.25% senior unsecured notes, which were scheduled to mature on April 1, 2015, at a redemption price of 100% of the principal amount plus accrued interest through December 31, 2014.

On April 1, 2015, we completed a \$308,000,000 refinancing of RiverHouse Apartments, a three building, 1,670 unit rental complex located in Arlington, VA. The loan is interest-only at LIBOR plus 1.28% and matures in 2025. We realized net proceeds of approximately \$43,000,000. The property was previously encumbered by a 5.43%, \$195,000,000 mortgage maturing in April 2015 and a \$64,000,000 mortgage at LIBOR plus 1.53% maturing in 2018.

On June 2, 2015, we completed a \$205,000,000 financing in connection with the acquisition of 150 West 34<sup>th</sup> Street (see Note 4 – *Acquisitions*). The loan bears interest at LIBOR plus 2.25% and matures in 2018 with two one-year extension options.

On July 28, 2015, we completed a \$580,000,000 refinancing of 100 West 33rd Street, a 1.1 million square foot property comprised of 851,000 square feet of office space and the 256,000 square foot Manhattan Mall. The loan is interest only at LIBOR plus 1.65% and matures in July 2020. We realized net proceeds of approximately \$242,000,000.

On September 22, 2015, we upsized the loan on our 220 Central Park South development by \$350,000,000 to \$950,000,000. The interest rate on the loan is LIBOR plus 2.00% and the final maturity date is 2020. In connection with the upsizing, the standby commitment for a \$500,000,000 mezzanine loan for this development has been terminated by payment of a \$15,000,000 contractual termination fee, which was capitalized as a component of “development costs and construction in progress” on our consolidated balance sheet as of September 30, 2015.

The following is a summary of our debt:

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| (Amounts in thousands)         | <b>Interest Rate at<br/>September 30,<br/>2015</b> | <b>September 30, 2015</b> | <b>Balance at<br/>December 31, 2014</b> |
|--------------------------------|--|---------------------------|---|
| <b>Mortgages Payable:</b>      |  |                           |   |
| Fixed rate                     | 4.43%  | \$ 6,341,271              | \$ 6,499,396                            |
| Variable rate                  | 2.01%  | 2,818,142                 | 1,763,769                               |
|                                | 3.69%  | \$ 9,159,413              | \$ 8,263,165                            |
| <b>Unsecured Debt:</b>         |  |                           |   |
| Senior unsecured notes         | 3.68%  | \$ 847,594                | \$ 1,347,159                            |
| Revolving credit facility debt | -  | -                         | -                                       |
|                                | 3.68%  | \$ 847,594                | \$ 1,347,159                            |
|                                | 20   |                           |   |

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## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**11. Redeemable Noncontrolling Interests**

Redeemable noncontrolling interests on our consolidated balance sheets are comprised primarily of Class A Operating Partnership units that are 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 our consolidated statements of changes in equity. Below is a table summarizing the activity of redeemable noncontrolling interests.

|  |              |
|--|--------------|
| (Amounts in thousands)   |              |
| Balance at December 31, 2013                                       | \$ 1,003,620 |
| Net income   | 16,552       |
| Other comprehensive loss   | (109)        |
| Distributions  | (25,166)     |
| Redemption of Class A units for common shares, at redemption value | (22,668)     |
| Adjustments to carry redeemable Class A units at redemption value  | 144,231      |
| Other, net   | 23,592       |
| Balance at September 30, 2014                                      | \$ 1,140,052 |
| Balance at December 31, 2014                                       | \$ 1,337,780 |
| Net income   | 28,189       |
| Other comprehensive loss   | (3,082)      |
| Distributions  | (22,502)     |
| Redemption of Class A units for common shares, at redemption value | (46,693)     |
| Adjustments to carry redeemable Class A units at redemption value  | (295,713)    |
| Issuance of Class A units  | 80,000       |
| Issuance of Series D-17 Preferred Units                            | 4,428        |
| Other, net   | 31,478       |
| Balance at September 30, 2015                                      | \$ 1,113,885 |

As of September 30, 2015 and December 31, 2014, the aggregate redemption value of redeemable Class A units was \$1,108,457,000 and \$1,336,780,000, respectively.

Redeemable noncontrolling interests 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 \$53,135,000 as of September 30, 2015 and \$55,097,000 as of December 31, 2014. 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 12. Accumulated Other Comprehensive Income (“AOCI”)

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

| (Amounts in thousands)                                   | Total     | Securities<br>available-<br>for-sale | Pro rata share<br>of<br>nonconsolidated<br>subsidiaries'<br>OCI | Interest<br>rate<br>swap | Other      |
|--|-----------|--------------------------------------|---|--------------------------|------------|
| <b>For the Three Months Ended<br/>September 30, 2015</b> |           |                                      |   |                          |            |
| Balance as of June 30, 2015                              | \$ 50,613 | \$ 87,442                            | \$ (10,026)   | \$ (23,730)              | \$ (3,073) |
| OCI before reclassifications                             | (7,020)   | (7,064)                              | (114)   | (290)                    | 448        |
| Amounts reclassified from<br>AOCI                        | -         | -                                    | -   | -                        | -          |
| Net current period OCI                                   | (7,020)   | (7,064)                              | (114)   | (290)                    | 448        |
| Balance as of September 30, 2015                         | \$ 43,593 | \$ 80,378                            | \$ (10,140)   | \$ (24,020)              | \$ (2,625) |
| <b>For the Three Months Ended<br/>September 30, 2014</b> |           |                                      |   |                          |            |
| Balance as of June 30, 2014                              | \$ 92,221 | \$ 134,312                           | \$ (5,624)  | \$ (30,817)              | \$ (5,650) |
| OCI before reclassifications                             | (22,641)  | (22,764)                             | (6,028)   | 4,781                    | 1,370      |
| Amounts reclassified from<br>AOCI                        | -         | -                                    | -   | -                        | -          |
| Net current period OCI                                   | (22,641)  | (22,764)                             | (6,028)   | 4,781                    | 1,370      |
| Balance as of September 30, 2014                         | \$ 69,580 | \$ 111,548                           | \$ (11,652)   | \$ (26,036)              | \$ (4,280) |
| <b>For the Nine Months Ended<br/>September 30, 2015</b>  |           |                                      |   |                          |            |
| Balance as of December 31, 2014                          | \$ 93,267 | \$ 133,774                           | \$ (8,992)  | \$ (25,803)              | \$ (5,712) |
| OCI before reclassifications                             | (49,674)  | (53,396)                             | (1,148)   | 1,783                    | 3,087      |
| Amounts reclassified from<br>AOCI                        | -         | -                                    | -   | -                        | -          |
| Net current period OCI                                   | (49,674)  | (53,396)                             | (1,148)   | 1,783                    | 3,087      |

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|                                   |           |            |             |             |            |
|-----------------------------------|-----------|------------|-------------|-------------|------------|
| Balance as of September 30, 2015  | \$ 43,593 | \$ 80,378  | \$ (10,140) | \$ (24,020) | \$ (2,625) |
| <b>For the Nine Months Ended</b>  |           |            |             |             |            |
| <b>September 30, 2014</b>         |           |            |             |             |            |
| Balance as of December 31, 2013   | \$ 71,537 | \$ 119,309 | \$ (11,501) | \$ (31,882) | \$ (4,389) |
| OCI before reclassifications      | (1,957)   | (7,761)    | (151)       | 5,846       | 109        |
| Amounts reclassified from<br>AOCI | -         | -          | -           | -           | -          |
| Net current period OCI            | (1,957)   | (7,761)    | (151)       | 5,846       | 109        |
| Balance as of September 30, 2014  | \$ 69,580 | \$ 111,548 | \$ (11,652) | \$ (26,036) | \$ (4,280) |

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**13. Variable Interest Entities (“VIEs”)**

At September 30, 2015 and December 31, 2014, we have four 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. As of September 30, 2015 and December 31, 2014, the net carrying amounts of our investment in these entities were \$302,649,000 and \$286,783,000, respectively, and our maximum exposure to loss in these entities is limited to our investment. We did not have any consolidated VIEs as of September 30, 2015 and December 31, 2014.

**14. 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

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there is a corresponding liability on our consolidated balance sheet), (iv) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units), and (v) an interest rate swap. The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at September 30, 2015 and December 31, 2014, respectively.

| (Amounts in thousands)  | <b>As of September 30, 2015</b> |                |                |                |
|---|---------------------------------|----------------|----------------|----------------|
|   | <b>Total</b>                    | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Marketable securities   | \$ 152,927                      | \$ 152,927     | \$ -           | \$ -           |
| Real estate fund investments (75% of which is attributable to noncontrolling interests) | 555,414                         | -              | -              | 555,414        |
| Deferred compensation plan assets (included in other assets)                            | 117,037                         | 48,829         | -              | 68,208         |
| Total assets  | \$ 825,378                      | \$ 201,756     | \$ -           | \$ 623,622     |
| Mandatorily redeemable instruments (included in other liabilities)                      | \$ 53,135                       | \$ 53,135      | \$ -           | \$ -           |
| Interest rate swap (included in other liabilities)                                      | 24,014                          | -              | 24,014         | -              |
| Total liabilities   | \$ 77,149                       | \$ 53,135      | \$ 24,014      | \$ -           |

| (Amounts in thousands)  | <b>As of December 31, 2014</b> |                |                |                |
|---|--------------------------------|----------------|----------------|----------------|
|   | <b>Total</b>                   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Marketable securities   | \$ 206,323                     | \$ 206,323     | \$ -           | \$ -           |
| Real estate fund investments (75% of which is attributable to noncontrolling interests) | 513,973                        | -              | -              | 513,973        |
| Deferred compensation plan assets (included in other assets)                            | 117,284                        | 53,969         | -              | 63,315         |
| Total assets  | \$ 837,580                     | \$ 260,292     | \$ -           | \$ 577,288     |
| Mandatorily redeemable instruments (included in other liabilities)                      | \$ 55,097                      | \$ 55,097      | \$ -           | \$ -           |
| Interest rate swap (included in other liabilities)                                      | 25,797                         | -              | 25,797         | -              |
| Total liabilities   | \$ 80,894                      | \$ 55,097      | \$ 25,797      | \$ -           |



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**14. Fair Value Measurements – continued**

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

Real Estate Fund Investments

At September 30, 2015, we had six real estate fund investments with an aggregate fair value of \$555,414,000, or \$190,620,000 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 0.8 to 5.3 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, and current and anticipated market conditions, which are derived from original underwriting assumptions, industry publications and from 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 September 30, 2015 and December 31, 2014.

**Weighted Average**

| Unobservable Quantitative Input | Range              |                   | (based on fair value of investments) |                   |
|---------------------------------|--------------------|-------------------|--------------------------------------|-------------------|
|                                 | September 30, 2015 | December 31, 2014 | September 30, 2015                   | December 31, 2014 |
| Discount rates                  | 12.0% to 14.5%     | 12.0% to 17.5%    | 13.2%                                | 13.7%             |
| Terminal capitalization rates   | 4.8% to 6.5%       | 4.7% to 6.5%      | 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 nine months ended September 30, 2015 and 2014.

| (Amounts in thousands)        | For the Three Months Ended September 30, |            | For the Nine Months Ended September 30, |            |
|-------------------------------|--|------------|---|------------|
|                               | 2015                                     | 2014       | 2015                                    | 2014       |
| Beginning balance             | \$ 565,976                               | \$ 549,091 | \$ 513,973                              | \$ 667,710 |
| Purchases                     | 11                                       | 725        | 95,011                                  | 3,392      |
| Dispositions / distributions  | (8,029)                                  | (74,755)   | (91,450)                                | (307,268)  |
| Net unrealized (losses) gains | (2,544)                                  | 18,333     | 37,001                                  | 55,221     |
| Net realized (losses) gains   | (907)                                    | 1,998      | 1,405                                   | 76,337     |
| Other, net                    | 907                                      | -          | (526)                                   | -          |
| Ending balance                | \$ 555,414                               | \$ 495,392 | \$ 555,414                              | \$ 495,392 |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 14. 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 nine months ended September 30, 2015 and 2014.

| (Amounts in thousands)                 | For the Three Months Ended September |           | For the Nine Months Ended September |           |
|--|--------------------------------------|-----------|-------------------------------------|-----------|
|  | 30,                                  |           | 30,                                 |           |
|  | 2015                                 | 2014      | 2015                                | 2014      |
| Beginning balance                      | \$ 67,668                            | \$ 64,609 | \$ 63,315                           | \$ 68,782 |
| Purchases                              | 2,153                                | 1,377     | 8,384                               | 10,936    |
| Sales                                  | (171)                                | (4,917)   | (5,264)                             | (21,296)  |
| Realized and unrealized<br>(loss) gain | (1,466)                              | 927       | 1,256                               | 2,901     |
| Other, net                             | 24                                   | 1,187     | 517                                 | 1,860     |
| Ending balance                         | \$ 68,208                            | \$ 63,183 | \$ 68,208                           | \$ 63,183 |

*Fair Value Measurements on a Nonrecurring Basis*

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of real estate assets required to be measured for impairment at December 31, 2014. There are no assets remaining at fair value on a nonrecurring basis at September 30, 2015. The fair values of real estate assets required to be measured for impairment were determined using widely accepted valuation techniques, including (i) discounted cash flow analysis, which considers, among other things, leasing assumptions, growth rates, discount rates and terminal capitalization rates, (ii) income capitalization approach, which considers prevailing market capitalization rates, and (iii) comparable sales activity.

| (Amounts in thousands) | <b>As of December 31, 2014</b> |                |                |                |
|------------------------|--------------------------------|----------------|----------------|----------------|
|                        | <b>Total</b>                   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Real estate assets     | \$ 4,848                       | \$ -           | \$ -           | \$ 4,848       |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 14. Fair Value Measurements – continued

*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), mortgage and mezzanine loans receivable 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 value of cash equivalents and borrowings under our revolving credit facility is classified as Level 1, and the fair value of our mortgage and mezzanine loans receivable as of December 31, 2014 is classified as Level 3. There are no borrowings under our revolving credit facility as of September 30, 2015 and December 31, 2014 and no mortgage and mezzanine loans outstanding as of September 30, 2015. The fair value 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 September 30, 2015 and December 31, 2014.

| (Amounts in thousands)                  | As of September 30, 2015 |               | As of December 31, 2014 |              |
|---|--------------------------|---------------|-------------------------|--------------|
|   | Carrying Amount          | Fair Value    | Carrying Amount         | Fair Value   |
| Cash equivalents                        | \$ 545,617               | \$ 546,000    | \$ 749,418              | \$ 749,000   |
| Mortgage and mezzanine loans receivable |                          |               |                         |              |
| (included in other assets)              | -                        | -             | 16,748                  | 17,000       |
|   | \$ 545,617               | \$ 546,000    | \$ 766,166              | \$ 766,000   |
| Debt:                                   |                          |               |                         |              |
| Mortgages payable                       | \$ 9,159,413             | \$ 9,272,000  | \$ 8,263,165            | \$ 8,224,000 |
| Senior unsecured notes                  | 847,594                  | 884,000       | 1,347,159               | 1,385,000    |
| Revolving credit facility debt          | -                        | -             | -                       | -            |
|   | \$ 10,007,007            | \$ 10,156,000 | \$ 9,610,324            | \$ 9,609,000 |

## 15. Incentive Compensation

Our 2010 Omnibus Share Plan (the “Plan”) provides for grants of incentive and non-qualified stock options, restricted shares, 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, *Compensation – Stock Compensation*. Equity-based compensation expense was \$6,501,000 and \$8,315,000 for the three months ended September 30, 2015 and 2014, respectively and \$33,328,000 and \$28,389,000 for the nine months ended September 30, 2015 and 2014, respectively.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**16. 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 Nine Months Ended</b> |                   |
|-----------------------------|-----------------------------------|------------------|----------------------------------|-------------------|
|                             | <b>September 30,</b>              |                  | <b>September 30,</b>             |                   |
|                             | <b>2015</b>                       | <b>2014</b>      | <b>2015</b>                      | <b>2014</b>       |
| BMS cleaning fees           | \$ 18,563                         | \$ 22,467        | \$ 62,937                        | \$ 63,618         |
| Management and leasing fees | 4,045                             | 4,266            | 12,511                           | 15,859            |
| Lease termination fees      | 1,517                             | 3,300            | 8,157                            | 11,422            |
| Other income                | 10,036                            | 7,746            | 29,393                           | 23,631            |
|                             | <b>\$ 34,161</b>                  | <b>\$ 37,779</b> | <b>\$ 112,998</b>                | <b>\$ 114,530</b> |

Management and leasing fees include management fees from Interstate Properties, a related party, of \$132,000 and \$132,000 for the three months ended September 30, 2015 and 2014, and \$403,000 and \$397,000 for the nine months ended September 30, 2015 and 2014, respectively. The above table excludes fee income from partially owned entities, which is included in “loss from partially owned entities” (see Note 7 – *Investments in Partially Owned Entities*).

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

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

| (Amounts in thousands)   | <b>For the Three Months Ended</b> |             | <b>For the Nine Months Ended</b> |             |
|--|-----------------------------------|-------------|----------------------------------|-------------|
|  | <b>September 30,</b>              |             | <b>September 30,</b>             |             |
|  | <b>2015</b>                       | <b>2014</b> | <b>2015</b>                      | <b>2014</b> |
| Dividends on marketable securities   | \$ 3,215                          | \$ 3,200    | \$ 9,620                         | \$ 9,504    |
| Mark-to-market of investments in our deferred compensation plan <sup>(1)</sup> | (2,577)                           | 1,352       | (327)                            | 8,132       |

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|                              |          |          |           |           |
|------------------------------|----------|----------|-----------|-----------|
| Interest on loans receivable | 1,154    | 1,129    | 5,113     | 4,843     |
| Other, net                   | 1,368    | 1,887    | 5,212     | 6,335     |
|                              | \$ 3,160 | \$ 7,568 | \$ 19,618 | \$ 28,814 |

- (1) This (loss) 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.

## 18. Interest and Debt Expense

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

| (Amounts in thousands)  | For the Three Months Ended<br>September 30, |            | For the Nine Months Ended<br>September 30, |            |
|---|---|------------|--|------------|
|   | 2015  | 2014       | 2015                                       | 2014       |
| Interest expense  | \$ 113,485                                  | \$ 110,296 | \$ 305,110                                 | \$ 328,544 |
| Amortization of deferred financing costs  | 7,864                                       | 6,856      | 22,817                                     | 19,015     |
| Capitalized standby loan commitment<br>termination fee<br>(220 Central Park South development<br>project) | (15,000)                                    | -          | (15,000)                                   | -          |
| Capitalized interest and debt expense   | (11,005)                                    | (16,335)   | (33,817)                                   | (46,517)   |
|   | \$ 95,344                                   | \$ 100,817 | \$ 279,110                                 | \$ 301,042 |



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 19. Income Per Share

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share - which 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 share and Out-Performance Plan awards.

(Amounts in thousands, except per share amounts)

|   | For the Three Months Ended<br>September 30, |            | For the Nine Months Ended<br>September 30, |            |
|---|---|------------|--|------------|
|   | 2015  | 2014       | 2015                                       | 2014       |
| <b>Numerator:</b>   |   |            |  |            |
| Income from continuing operations,<br>net of income attributable<br>to noncontrolling interests   | \$ 186,833                                  | \$ 74,066  | \$ 461,996                                 | \$ 219,600 |
| Income from discontinued operations,<br>net of income attributable<br>to noncontrolling interests | 32,401                                      | 77,458     | 47,331                                     | 111,649    |
| Net income attributable to Vornado  | 219,234                                     | 151,524    | 509,327                                    | 331,249    |
| Preferred share dividends   | (20,364)                                    | (20,365)   | (60,213)                                   | (61,099)   |
| Net income attributable to common<br>shareholders   | 198,870                                     | 131,159    | 449,114                                    | 270,150    |
| Earnings allocated to unvested<br>participating securities  | (18)  | (19)       | (56)                                       | (70)       |
| Numerator for basic income per share  | 198,852                                     | 131,140    | 449,058                                    | 270,080    |
| Impact of assumed conversions:  |   |            |  |            |
| Convertible preferred share<br>dividends  | 23  | 23         | 69   | 49         |
| Earnings allocated to<br>Out-Performance Plan units   | -   | -          | 628  | -          |
| Numerator for diluted income per<br>share   | \$ 198,875                                  | \$ 131,163 | \$ 449,755                                 | \$ 270,129 |

**Denominator:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Denominator for basic income per share – weighted average shares                           | 188,504 | 187,671 | 188,291 | 187,503 |
| Effect of dilutive securities <sup>(1)</sup> :   |         |         |         |         |
| Employee stock options and restricted share awards   | 1,032   | 1,099   | 1,187   | 1,046   |
| Convertible preferred shares   | 45      | 42      | 46      | 43      |
| Out-Performance Plan units   | -       | -       | 265     | -       |
| Denominator for diluted income per share – weighted average shares and assumed conversions | 189,581 | 188,812 | 189,789 | 188,592 |

**INCOME PER COMMON SHARE – BASIC:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.88 | \$ 0.29 | \$ 2.13 | \$ 0.84 |
| Income from discontinued operations, net | 0.17    | 0.41    | 0.25    | 0.60    |
| Net income per common share              | \$ 1.05 | \$ 0.70 | \$ 2.38 | \$ 1.44 |

**INCOME PER COMMON SHARE – DILUTED:**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income from continuing operations, net   | \$ 0.88 | \$ 0.28 | \$ 2.12 | \$ 0.84 |
| Income from discontinued operations, net | 0.17    | 0.41    | 0.25    | 0.59    |
| Net income per common share              | \$ 1.05 | \$ 0.69 | \$ 2.37 | \$ 1.43 |

- (1) The effect of dilutive securities for the three months ended September 30, 2015 and 2014 excludes an aggregate of 11,871 and 11,245 weighted average common share equivalents, respectively, and 11,341 and 11,257 weighted average common share equivalents for the nine months ended September 30, 2015 and 2014, respectively, as their effect was anti-dilutive.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**20. Commitments and Contingencies**

*Insurance*

We maintain general liability insurance with limits of \$300,000,000 per occurrence and all risk property and rental value insurance with limits of \$2.0 billion per occurrence, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of \$180,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, up to a \$180,000,000 annual aggregate. 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 Terrorism Risk Insurance Program Reauthorization Act, 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 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 \$2,480,000 and 15% of the balance of a covered loss (16% effective January 1, 2016) and the Federal government is responsible for the remaining 85% of a covered loss (84% effective January 1, 2016). We are ultimately responsible for any loss incurred by PPIC.

We continue to monitor the state of the insurance market and the scope and costs 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 costs 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.

*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 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 costs to us.

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 September 30, 2015, the aggregate dollar amount of these guarantees and master leases is approximately \$430,000,000.

At September 30, 2015, \$40,647,000 of letters of credit were outstanding under one of our revolving credit facilities. Our revolving credit facilities contain financial covenants that require us to maintain minimum interest 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 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 September 30, 2015, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$76,000,000.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 21. Segment Information

As a result of the spin-off of substantially all of our Retail Properties segment (see Note 8 – *Dispositions*), the remaining retail properties no longer meet the criteria to be a separate reportable segment. In addition, as a result of our investment in Toys being reduced to zero, we suspended equity method accounting for our investment in Toys (see Note 7 - *Investments in Partially Owned Entities*) and the Toys segment no longer meets the criteria to be a separate reportable segment. Accordingly, effective January 1, 2015, the Retail Properties segment and Toys have been reclassified to the Other segment. We have also reclassified the prior period segment financial results to conform to the current period presentation. Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the three and nine months ended September 30, 2015 and 2014.

(Amounts in thousands)

## For the Three Months Ended September 30, 2015

|  | Total      | New York   | Washington,<br>DC | Other     |
|--|------------|------------|-------------------|-----------|
| Total revenues   | \$ 627,596 | \$ 429,433 | \$ 132,704        | \$ 65,459 |
| Total expenses   | 436,156    | 263,805    | 102,114           | 70,237    |
| Operating income (loss)  | 191,440    | 165,628    | 30,590            | (4,778)   |
| (Loss) income from partially owned entities                        | (325)      | 4,010      | (1,909)           | (2,426)   |
| Income from real estate fund investments                           | 1,665      | -          | -                 | 1,665     |
| Interest and other investment income, net                          | 3,160      | 1,888      | 34                | 1,238     |
| Interest and debt expense  | (95,344)   | (50,480)   | (16,580)          | (28,284)  |
| Net gain on disposition of wholly owned and partially owned assets | 103,037    | -          | 102,404           | 633       |
| Income (loss) before income taxes                                  | 203,633    | 121,046    | 114,539           | (31,952)  |
| Income tax expense   | (2,856)    | (1,147)    | (287)             | (1,422)   |
| Income (loss) from continuing operations                           | 200,777    | 119,899    | 114,252           | (33,374)  |
| Income from discontinued operations                                | 34,463     | -          | -                 | 34,463    |
| Net income   | 235,240    | 119,899    | 114,252           | 1,089     |
| Less net income attributable to noncontrolling interests           | (16,006)   | (2,582)    | -                 | (13,424)  |
|  | 219,234    | 117,317    | 114,252           | (12,335)  |

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|  |            |                           |                           |                          |
|--|------------|---------------------------|---------------------------|--------------------------|
| Net income (loss) attributable to Vornado    |            |                           |                           |                          |
| Interest and debt expense <sup>(2)</sup>     | 118,977    | 64,653                    | 20,010                    | 34,314                   |
| Depreciation and amortization <sup>(2)</sup> | 174,209    | 99,206                    | 48,132                    | 26,871                   |
| Income tax expense <sup>(2)</sup>            | 3,043      | 1,214                     | 294                       | 1,535                    |
| EBITDA <sup>(1)</sup>                        | \$ 515,463 | \$ 282,390 <sup>(3)</sup> | \$ 182,688 <sup>(4)</sup> | \$ 50,385 <sup>(5)</sup> |

(Amounts in thousands)

**For the Three Months Ended September 30, 2014**

|  | <b>Total</b> | <b>New York</b>           | <b>Washington,<br/>DC</b> | <b>Other</b>              |
|--|--------------|---------------------------|---------------------------|---------------------------|
| Total revenues   | \$ 578,710   | \$ 383,828                | \$ 133,541                | \$ 61,341                 |
| Total expenses   | 396,571      | 238,153                   | 88,375                    | 70,043                    |
| Operating income (loss)  | 182,139      | 145,675                   | 45,166                    | (8,702)                   |
| (Loss) income from partially owned entities                        | (26,034)     | 5,810                     | (1,411)                   | (30,433)                  |
| Income from real estate fund investments                           | 24,160       | -                         | -                         | 24,160                    |
| Interest and other investment income, net                          | 7,568        | 1,834                     | 15                        | 5,719                     |
| Interest and debt expense  | (100,817)    | (43,061)                  | (18,685)                  | (39,071)                  |
| Net gain on disposition of wholly owned and partially owned assets | 2,665        | -                         | -                         | 2,665                     |
| Income (loss) before income taxes                                  | 89,681       | 110,258                   | 25,085                    | (45,662)                  |
| Income tax expense   | (2,652)      | (802)                     | (130)                     | (1,720)                   |
| Income (loss) from continuing operations                           | 87,029       | 109,456                   | 24,955                    | (47,382)                  |
| Income from discontinued operations                                | 82,168       | 5,615                     | -                         | 76,553                    |
| Net income   | 169,197      | 115,071                   | 24,955                    | 29,171                    |
| Less net income attributable to noncontrolling interests           | (17,673)     | (2,690)                   | -                         | (14,983)                  |
| Net income attributable to Vornado                                 | 151,524      | 112,381                   | 24,955                    | 14,188                    |
| Interest and debt expense <sup>(2)</sup>                           | 160,252      | 58,010                    | 22,208                    | 80,034                    |
| Depreciation and amortization <sup>(2)</sup>                       | 160,270      | 79,446                    | 36,411                    | 44,413                    |
| Income tax expense <sup>(2)</sup>                                  | 2,232        | 746                       | 145                       | 1,341                     |
| EBITDA <sup>(1)</sup>  | \$ 474,278   | \$ 250,583 <sup>(3)</sup> | \$ 83,719 <sup>(4)</sup>  | \$ 139,976 <sup>(5)</sup> |

See notes on page 32.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 21. Segment Information – continued

(Amounts in thousands)

For the Nine Months Ended September 30, 2015

|  | Total        | New York                  | Washington,<br>DC         | Other                     |
|--|--------------|---------------------------|---------------------------|---------------------------|
| Total revenues   | \$ 1,850,686 | \$ 1,243,208              | \$ 401,528                | \$ 205,950                |
| Total expenses   | 1,298,141    | 766,863                   | 293,772                   | 237,506                   |
| Operating income (loss)  | 552,545      | 476,345                   | 107,756                   | (31,556)                  |
| (Loss) income from partially owned entities                        | (8,709)      | 1,523                     | (3,583)                   | (6,649)                   |
| Income from real estate fund investments                           | 52,122       | -                         | -                         | 52,122                    |
| Interest and other investment income, net                          | 19,618       | 5,642                     | 60                        | 13,916                    |
| Interest and debt expense  | (279,110)    | (143,004)                 | (52,223)                  | (83,883)                  |
| Net gain on disposition of wholly owned and partially owned assets | 104,897      | -                         | 102,404                   | 2,493                     |
| Income (loss) before income taxes                                  | 441,363      | 340,506                   | 154,414                   | (53,557)                  |
| Income tax benefit (expense)                                       | 84,245       | (3,185)                   | (79)                      | 87,509                    |
| Income from continuing operations                                  | 525,608      | 337,321                   | 154,335                   | 33,952                    |
| Income from discontinued operations                                | 50,278       | -                         | -                         | 50,278                    |
| Net income   | 575,886      | 337,321                   | 154,335                   | 84,230                    |
| Less net income attributable to noncontrolling interests           | (66,559)     | (6,640)                   | -                         | (59,919)                  |
| Net income attributable to Vornado                                 | 509,327      | 330,681                   | 154,335                   | 24,311                    |
| Interest and debt expense <sup>(2)</sup>                           | 348,725      | 184,377                   | 62,413                    | 101,935                   |
| Depreciation and amortization <sup>(2)</sup>                       | 493,904      | 288,897                   | 136,687                   | 68,320                    |
| Income tax (benefit) expense <sup>(2)</sup>                        | (85,349)     | 3,368                     | (1,856)                   | (86,861)                  |
| EBITDA <sup>(1)</sup>  | \$ 1,266,607 | \$ 807,323 <sup>(3)</sup> | \$ 351,579 <sup>(4)</sup> | \$ 107,705 <sup>(5)</sup> |

(Amounts in thousands)

For the Nine Months Ended September 30, 2014

| Total | New York | Other |
|-------|----------|-------|
|-------|----------|-------|

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|  |              |                           | <b>Washington,<br/>DC</b> |                           |
|--|--------------|---------------------------|---------------------------|---------------------------|
| Total revenues   | \$ 1,715,502 | \$ 1,120,686              | \$ 403,645                | \$ 191,171                |
| Total expenses   | 1,198,854    | 702,727                   | 265,299                   | 230,828                   |
| Operating income (loss)  | 516,648      | 417,959                   | 138,346                   | (39,657)                  |
| (Loss) income from partially owned entities                        | (78,676)     | 16,372                    | (4,925)                   | (90,123)                  |
| Income from real estate fund investments                           | 142,418      | -                         | -                         | 142,418                   |
| Interest and other investment income, net                          | 28,814       | 4,889                     | 93                        | 23,832                    |
| Interest and debt expense  | (301,042)    | (134,970)                 | (56,692)                  | (109,380)                 |
| Net gain on disposition of wholly owned and partially owned assets | 13,205       | -                         | -                         | 13,205                    |
| Income (loss) before income taxes                                  | 321,367      | 304,250                   | 76,822                    | (59,705)                  |
| Income tax expense   | (6,783)      | (2,997)                   | (46)                      | (3,740)                   |
| Income (loss) from continuing operations                           | 314,584      | 301,253                   | 76,776                    | (63,445)                  |
| Income from discontinued operations                                | 118,456      | 17,401                    | -                         | 101,055                   |
| Net income   | 433,040      | 318,654                   | 76,776                    | 37,610                    |
| Less net income attributable to noncontrolling interests           | (101,791)    | (7,203)                   | -                         | (94,588)                  |
| Net income (loss) attributable to Vornado                          | 331,249      | 311,451                   | 76,776                    | (56,978)                  |
| Interest and debt expense <sup>(2)</sup>                           | 510,724      | 180,150                   | 67,469                    | 263,105                   |
| Depreciation and amortization <sup>(2)</sup>                       | 530,052      | 241,040                   | 108,367                   | 180,645                   |
| Income tax expense <sup>(2)</sup>                                  | 21,489       | 3,069                     | 88                        | 18,332                    |
| EBITDA <sup>(1)</sup>  | \$ 1,393,514 | \$ 735,710 <sup>(3)</sup> | \$ 252,700 <sup>(4)</sup> | \$ 405,104 <sup>(5)</sup> |

See notes on the following page.



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 21. Segment Information – continued

## Notes to preceding tabular information:

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental 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. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Interest and debt expense, depreciation and amortization and income tax expense (benefit) in the reconciliation of net income to EBITDA includes our share of these items from partially owned entities.
- (3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands) | For the Three Months Ended<br>September 30, |            | For the Nine Months Ended<br>September 30, |            |
|------------------------|---|------------|--|------------|
|                        | 2015  | 2014       | 2015                                       | 2014       |
| Office                 | \$ 166,663                                  | \$ 159,568 | \$ 496,762                                 | \$ 480,280 |
| Retail                 | 97,604                                      | 71,327     | 265,060                                    | 205,469    |
| Alexander's            | 10,502                                      | 10,387     | 31,150                                     | 31,088     |
| Hotel Pennsylvania     | 7,621                                       | 9,301      | 14,351                                     | 18,873     |
| Total New York         | \$ 282,390                                  | \$ 250,583 | \$ 807,323                                 | \$ 735,710 |

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

| (Amounts in thousands)                   | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |            |
|--|---|-----------|--|------------|
|  | 2015  | 2014      | 2015                                       | 2014       |
| Office, excluding the Skyline properties | \$ 64,733                                   | \$ 65,904 | \$ 200,631                                 | \$ 200,218 |
| Gain on sale of 1750 Pennsylvania Avenue | 102,404                                     | -         | 102,404                                    | -          |
| Skyline properties                       | 5,998                                       | 7,698     | 19,037                                     | 21,270     |
| Total Office                             | 173,135                                     | 73,602    | 322,072                                    | 221,488    |
| Residential                              | 9,553                                       | 10,117    | 29,507                                     | 31,212     |

|                      |            |           |            |            |
|----------------------|------------|-----------|------------|------------|
| Total Washington, DC | \$ 182,688 | \$ 83,719 | \$ 351,579 | \$ 252,700 |
|----------------------|------------|-----------|------------|------------|

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 21. 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<br>September 30, |          | For the Nine Months Ended<br>September 30, |          |
|---|---|----------|--|----------|
|   | 2015  | 2014     | 2015                                       | 2014     |
| Our share of real estate fund investments:                                  |   |          |  |          |
| Income before net realized/unrealized<br>(losses) gains                     | \$ 2,594                                    | \$ 2,051 | \$ 6,879                                   | \$ 6,668 |
| Net realized/unrealized (losses) gains<br>on investments                    | (922)                                       | 5,083    | 9,542                                      | 32,890   |
| Carried interest  | (49)  | 8,438    | 6,248                                      | 21,643   |
| Total   | 1,623                                       | 15,572   | 22,669                                     | 61,201   |
| The Mart and trade shows<br>555 California Street                           | 19,044                                      | 19,497   | 62,229                                     | 61,038   |
| Our share of Toys <sup>(a)</sup>  | 13,005                                      | 11,994   | 38,237                                     | 35,566   |
| India real estate ventures  | 46  | 12,440   | 2,000                                      | 103,026  |
| Other investments   | 13  | 2,651    | 2,229                                      | 4,574    |
|   | 11,558                                      | 4,372    | 25,787                                     | 13,594   |
|   | 45,289                                      | 66,526   | 153,151                                    | 278,999  |
| Corporate general and administrative<br>expenses <sup>(b) (c)</sup>         | (22,341)                                    | (22,948) | (82,043)                                   | (71,952) |
| Investment income and other, net <sup>(b)</sup>                             | 5,952                                       | 6,659    | 21,275                                     | 22,764   |
| Gains on sale of partially owned entities and<br>other                      | 33,153                                      | -        | 37,666                                     | -        |
| UE and residual retail properties<br>discontinued operations <sup>(d)</sup> | 2,516                                       | 106,602  | 26,313                                     | 192,532  |
| Acquisition and transaction related costs                                   | (1,518)                                     | (1,277)  | (7,560)                                    | (3,629)  |
| Net gain on sale of residential condominiums<br>and a land parcel           | 633   | 2,665    | 2,493                                      | 13,205   |
| Impairment loss and loan loss reserve on<br>investment in Suffolk Downs     | (595)                                       | (10,263) | (595)                                      | (10,263) |
| Our share of impairment losses on India<br>real estate ventures             | -   | -        | (14,806)                                   | -        |
| Net income attributable to noncontrolling<br>interests in                   |   |          |  |          |

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|                           |           |            |            |            |
|---------------------------|-----------|------------|------------|------------|
| the Operating Partnership | (12,704)  | (7,988)    | (28,189)   | (16,552)   |
|                           | \$ 50,385 | \$ 139,976 | \$ 107,705 | \$ 405,104 |

- (a) As a result of our investment being reduced to zero, we suspended equity method accounting in the third quarter of 2014 (see Note 7 - *Investments in Partially Owned Entities*). The nine months ended September 30, 2014 includes an impairment loss of \$75,196.
- (b) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of \$2,577 and \$1,352 for the three months ended September 30, 2015 and 2014, respectively, and \$327 and \$8,132 for the nine months ended September 30, 2015 and 2014, respectively.
- (c) The nine months ended September 30, 2015 includes \$7,084 from the acceleration of the recognition of compensation expense related to 2013-2015 Out-Performance Plans due to the modification of the vesting criteria of awards such that they will fully vest at age 65. The accelerated expense will result in lower general and administrative expense for the remainder of 2015 of \$867 and \$6,217 thereafter.
- (d) The three months ended September 30, 2014 and the nine months ended September 30, 2015 and 2014, includes \$5,828, \$22,972 and \$9,343, respectively, of transaction costs related to the spin-off of our strip shopping centers and malls (see Note 1 - *Organization*).

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**22. Subsequent Events**

*20 Broad Street*

On October 19, 2015, we entered into an agreement to sell our leasehold interest in 20 Broad Street, a 473,000 square foot office building in Manhattan. We ground lease this property, which is contiguous to the New York Stock Exchange (“NYSE”), from the NYSE, who is also the major tenant in the building. By agreement, we early terminated the NYSE space lease which was scheduled to expire in June 2016. The aggregate consideration for the sale of the leasehold and the early termination of the NYSE lease is \$200,000,000 or \$423 per square foot. The total income from this transaction is approximately \$156,000,000 comprised of \$141,000,000 from the gain on sale and \$15,000,000 of lease termination income. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter of 2015.

*Unsecured Term Loan Facility*

On October 30, 2015, we entered into an unsecured delayed-draw term loan facility in the maximum amount of \$750,000,000. The facility matures in October 2018 with two one-year extension options. The interest rate is LIBOR plus 115 basis points with a fee of 20 basis points per annum on the unused portion. At closing, we drew \$187,500,000. The facility provides that the maximum amount available is twice the amount outstanding on April 29, 2016, limited to \$750,000,000, and all draws must be made by October 2017.

**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 September 30, 2015, and the related consolidated statements of income and comprehensive income for the three month and nine month periods ended September 30, 2015 and 2014 and changes in equity and cash flows for the nine month periods ended September 30, 2015 and 2014. 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, 2014, 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 17, 2015, 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, 2014 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

November 2, 2015

## 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, 2014. 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 nine months ended September 30, 2015. 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 nine months ended September 30, 2015 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.



**Overview****Business Objective and Operating Strategy**

Our business objective is to maximize shareholder value, which we measure by the total return provided to our shareholders. Below is a table comparing our performance to the FTSE NAREIT Office REIT Index (“Office REIT”) and the Morgan Stanley REIT Index (“RMS”) for the following periods ended September 30, 2015.

|             | <b>Vornado</b> | <b>Total Return<sup>(1)</sup><br/>Office REIT</b> | <b>RMS</b> |
|-------------|----------------|---|------------|
| Three-month | (4.1%)         | (1.2%)  | 2.1%       |
| Nine-month  | (13.6%)        | (6.4%)  | (4.3%)     |
| One-year    | 2.4%           | 5.5%  | 9.5%       |
| Three-year  | 36.4%          | 24.4%   | 31.1%      |
| Five-year   | 38.0%          | 46.1%   | 75.9%      |
| Ten-year    | 70.3%          | 56.2%   | 93.1%      |

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

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

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit
- Investing in properties in select markets, such as New York City and Washington, DC, where we believe there is 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, 2014, for additional information regarding these factors.

**Overview – continued**Quarter Ended September 30, 2015 Financial Results Summary

Net income attributable to common shareholders for the quarter ended September 30, 2015 was \$198,870,000, or \$1.05 per diluted share, compared to \$131,159,000, or \$0.69 per diluted share, for the prior year's quarter. Net income for the quarters ended September 30, 2015 and 2014 include \$135,557,000 and \$57,796,000, respectively, of net gains on sale of real estate. Net income for the quarter ended September 30, 2015 also includes \$2,313,000 of real estate impairment losses. In addition, the quarters ended September 30, 2015 and 2014 include certain other items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the quarters ended September 30, 2015 and 2014 by \$125,003,000, or \$0.66 per diluted share, and \$51,518,000, or \$0.27 per diluted share, respectively.

Funds From Operations attributable to common shareholders plus assumed conversions ("FFO") for the quarter ended September 30, 2015 was \$236,039,000, or \$1.25 per diluted share, compared to \$217,362,000, or \$1.15 per diluted share, for the prior year's quarter. FFO for the quarters ended September 30, 2015 and 2014 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO for the quarters ended September 30, 2015 and 2014 by \$949,000, or \$0.01 per diluted share, and \$13,192,000, or \$0.07 per diluted share, respectively.

| (Amounts in thousands)  | <b>For the Three Months Ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2015</b>   | <b>2014</b> |
| <b>Items that affect comparability income (expense):</b>  |   |             |
| FFO from discontinued operations and sold properties<br>(including UE spin-off related<br>costs of \$5,828 in 2014) | \$ 3,671  | \$ 41,240   |
| Acquisition and transaction related costs   | (1,518)   | (1,277)     |
| Impairment loss and loan loss reserve on investment in<br>Suffolk Downs   | (595)   | (10,263)    |
| Toys FFO (negative FFO)   | 46  | (18,035)    |
| Other, net  | (593)   | 2,341       |
|   | 1,011   | 14,006      |
| Noncontrolling interests' share of above adjustments  | (62)  | (814)       |
| Items that affect comparability, net  | \$ 949  | \$ 13,192   |

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The percentage increase (decrease) in same store Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and cash basis same store EBITDA of our operating segments for the quarter ended September 30, 2015 over the quarter ended September 30, 2014 and the trailing quarter ended June 30, 2015 are summarized below.

|   | New York   | Washington, DC |
|---|------------|----------------|
| <b>Same Store EBITDA:</b>                 |            |                |
| September 30, 2015 vs. September 30, 2014 |            |                |
| Same store EBITDA                         | 1.4 % (1)  | (4.5%)         |
| Cash basis same store EBITDA              | (0.3%) (1) | (9.4%)         |
| September 30, 2015 vs. June 30, 2015      |            |                |
| Same store EBITDA                         | (0.9%) (2) | (5.4%)         |
| Cash basis same store EBITDA              | (3.5%) (2) | (7.2%)         |

- (1) Excluding Hotel Pennsylvania, same store EBITDA increased by 2.2% and by 0.5% on a cash basis.
- (2) Excluding Hotel Pennsylvania, same store EBITDA decreased by 0.4% and by 3.0% on a cash basis.

**Overview – continued***Nine Months Ended September 30, 2015 Financial Results Summary*

Net income attributable to common shareholders for the nine months ended September 30, 2015 was \$449,114,000, or \$2.37 per diluted share, compared to \$270,150,000, or \$1.43 per diluted share, for the nine months ended September 30, 2014. Net income for the nine months ended September 30, 2015 and 2014 include \$150,937,000 and \$57,796,000, respectively, of net gains on sale of real estate, and \$17,375,000 and \$20,842,000, respectively, of real estate impairment losses. In addition, the nine months ended September 30, 2015 and 2014 include certain items that affect comparability, which are listed in the table below. The aggregate of real estate impairment losses, net gains on sale of real estate and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the nine months ended September 30, 2015 and 2014 by \$219,207,000, or \$1.16 per diluted share, and \$36,090,000, or \$0.19 per diluted share, respectively.

FFO for the nine months ended September 30, 2015 was \$779,506,000, or \$4.11 per diluted share, compared to \$684,247,000, or \$3.63 per diluted share, for the nine months ended September 30, 2014. FFO for the nine months ended September 30, 2015 and 2014 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO for the nine months ended September 30, 2015 and 2014 by \$94,683,000, or \$0.5 per diluted share, and \$63,506,000, or \$0.34 per diluted share, respectively.

| (Amounts in thousands)   | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2015</b>  | <b>2014</b> |
| <b>Items that affect comparability income (expense):</b>   |  |             |
| Reversal of allowance for deferred tax assets (re: taxable REIT subsidiary's ability to utilize NOLs)                            | \$ 90,030  | \$ -        |
| FFO from discontinued operations and sold properties (including UE spin-off related costs of \$22,972 and \$9,343, respectively) | 16,891   | 134,668     |
| Acquisition and transaction related costs  | (7,560)  | (3,629)     |
| Our share of impairment loss on India real estate venture's non-depreciable real estate  | (4,502)  | -           |
| Net gain on sale of residential condominiums and a land parcel in 2014   | 2,493  | 13,205      |
| Toys FFO (negative FFO) (including impairment losses of \$75,196 in 2014)  | 2,000  | (60,630)    |
| Impairment loss and loan loss reserve on investment in Suffolk Downs   | (595)  | (10,263)    |

|  |           |           |
|--|-----------|-----------|
| Other, net   | 1,928     | (5,913)   |
|  | 100,685   | 67,438    |
| Noncontrolling interests' share of above adjustments | (6,002)   | (3,932)   |
| Items that affect comparability, net                 | \$ 94,683 | \$ 63,506 |

The percentage increase (decrease) in same store EBITDA and cash basis same store EBITDA of our operating segments for the nine months ended September 30, 2015 over the nine months ended September 30, 2014 is summarized below.

|   | New York  | Washington, DC |
|---|-----------|----------------|
| <b>Same Store EBITDA:</b>                 |           |                |
| September 30, 2015 vs. September 30, 2014 |           |                |
| Same store EBITDA                         | 2.0 % (1) | (1.4%)         |
| Cash basis same store EBITDA              | 2.4 % (1) | (6.8%)         |

- (1) Excluding Hotel Pennsylvania, same store EBITDA increased by 2.7% and by 3.1% on a cash basis.

Calculations of same store EBITDA, 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

### 2015 Acquisitions

On January 20, 2015, we and one of our real estate fund's limited partners co-invested with the Fund to buy out the Fund's joint venture partner's 57% interest in the Crowne Plaza Times Square Hotel. The purchase price for the 57% interest was approximately \$95,000,000 (our share \$39,000,000) which valued the property at approximately \$480,000,000. The property is encumbered by a \$310,000,000 mortgage loan bearing interest at LIBOR plus 2.80% which matures in December 2018 with a one-year extension option. Our aggregate ownership interest in the property increased to 33% from 11%.

On March 18, 2015, we acquired the Center Building, a 437,000 square foot office building, located at 33-00 Northern Boulevard in Long Island City, New York, for \$142,000,000, including the assumption of an existing \$62,000,000, 4.43% mortgage maturing in October 2018.

On June 2, 2015, we completed the acquisition of 150 West 34<sup>th</sup> Street, a 78,000 square foot retail property leased to Old Navy through May 2019, and 226,000 square feet of additional zoning air rights, for approximately \$355,000,000. At closing we completed a \$205,000,000 financing of the property.

On June 24, 2015, we entered into a joint venture, in which we own a 55% interest, to develop a 173,000 square foot Class-A office building, located along the western edge of the High Line at 512 West 22nd Street. The development cost of this project is approximately \$235,000,000. The development is expected to commence during the fourth quarter of 2015 and be completed in 2017.

On July 31, 2015, we acquired 260 Eleventh Avenue, a 235,000 square foot office property leased to the City of New York through 2021 with two five-year renewal options, a 10,000 square foot parking lot and additional air rights. The transaction is structured as a 99-year ground lease with an option to purchase the land for \$110,000,000. The \$3,900,000 annual ground rent and the purchase option price escalate annually at the lesser of 1.5% or CPI. The buildings were purchased for 813,900 newly issued Vornado Operating Partnership units valued at approximately \$80,000,000.

On September 25, 2015, we acquired 265 West 34th Street, a 1,700 square foot retail property and 15,200 square feet of additional zoning air rights, for approximately \$28,500,000.

## 2015 Dispositions

On January 15, 2015, we completed the spin-off of substantially all of our retail segment comprised of 79 strip shopping centers, three malls, a warehouse park and \$225,000,000 of cash to Urban Edge Properties (“UE”) (NYSE: UE). As part of this transaction, we retained 5,717,184 UE operating partnership units (5.4% ownership interest). We are providing transition services to UE for an initial period of up to two years, including information technology, human resources, tax and financial reporting. 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, Inc. (NYSE: ALX) Rego Park retail assets. Steven Roth, our Chairman and Chief Executive Officer is a member of the Board of Trustees of UE. The spin-off distribution was effected by Vornado distributing one UE common share for every two Vornado common shares.

On March 13, 2015, we sold our Geary Street, CA lease for \$34,189,000, which resulted in a net gain of \$21,376,000.

On March 25, 2015, the Fund completed the sale of 520 Broadway in Santa Monica, CA for \$91,650,000. The Fund realized a \$23,768,000 net gain over the holding period.

On March 31, 2015, we transferred the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to PREIT Associates, L.P., which is the operating partnership of Pennsylvania Real Estate Investment Trust (NYSE: PEI) (collectively, “PREIT”). The financial statement gain was \$7,823,000, of which \$7,192,000 was recognized in the first quarter of 2015 and the remaining \$631,000 was deferred based on our ownership interest in PREIT. In the first quarter of 2014, we recorded a non-cash impairment loss of \$20,000,000 on Springfield Town Center which is included in “income from discontinued operations” on our consolidated statements of income.

On August 6, 2015, we sold our 50% interest in the Monmouth Mall in Eatontown, NJ to our joint venture partner for \$38,000,000, valuing the property at approximately \$229,000,000, which resulted in a net gain of \$33,153,000.

On September 9, 2015, we completed the sale of 1750 Pennsylvania Avenue, NW, a 278,000 square foot office building in Washington, DC for \$182,000,000, resulting in a net gain of approximately \$102,000,000 which is included in “net gain on disposition of wholly owned and partially owned assets” on our consolidated statement of income. The tax gain of approximately \$137,000,000 was deferred as part of a like-kind exchange. We are managing the property on behalf of the new owner.





## Overview – continued

### 2015 Dispositions – continued

On October 19, 2015, we entered into an agreement to sell our leasehold interest in 20 Broad Street, a 473,000 square foot office building in Manhattan. We ground lease this property, which is contiguous to the New York Stock Exchange (“NYSE”), from the NYSE, who is also the major tenant in the building. By agreement, we early terminated the NYSE space lease which was scheduled to expire in June 2016. The aggregate consideration for the sale of the leasehold and the early termination of the NYSE lease is \$200,000,000 or \$423 per square foot. The total income from this transaction is approximately \$156,000,000 comprised of \$141,000,000 from the gain on sale and \$15,000,000 of lease termination income. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter of 2015.

We also sold five residual retail properties, in separate transactions, for an aggregate of \$10,731,000, which resulted in net gains of \$3,675,000.

### 2015 Financings

On January 1, 2015, we redeemed all of the \$500,000,000 principal amount of our outstanding 4.25% senior unsecured notes, which were scheduled to mature on April 1, 2015, at a redemption price of 100% of the principal amount plus accrued interest through December 31, 2014.

On April 1, 2015, we completed a \$308,000,000 refinancing of RiverHouse Apartments, a three building, 1,670 unit rental complex located in Arlington, VA. The loan is interest-only at LIBOR plus 1.28% and matures in 2025. We realized net proceeds of approximately \$43,000,000. The property was previously encumbered by a 5.43%, \$195,000,000 mortgage maturing in April 2015 and a \$64,000,000 mortgage at LIBOR plus 1.53% maturing in 2018.

On June 2, 2015, we completed a \$205,000,000 financing in connection with the acquisition of 150 West 34<sup>th</sup> Street. The loan bears interest at LIBOR plus 2.25% and matures in 2018 with two one-year extension options.

On July 28, 2015, we completed a \$580,000,000 refinancing of 100 West 33rd Street, a 1.1 million square foot property comprised of 851,000 square feet of office space and the 256,000 square foot Manhattan Mall. The loan is interest only at LIBOR plus 1.65% and matures in July 2020. We realized net proceeds of approximately

\$242,000,000.

On September 22, 2015, we upsized the loan on our 220 Central Park South development by \$350,000,000 to \$950,000,000. The interest rate on the loan is LIBOR plus 2.00% and the final maturity date is 2020. In connection with the upsizing, the standby commitment for a \$500,000,000 mezzanine loan for this development has been terminated by payment of a \$15,000,000 contractual termination fee, which was capitalized as a component of “development costs and construction in progress” on our consolidated balance sheet as of September 30, 2015.

On October 30, 2015, we entered into an unsecured delayed-draw term loan facility in the maximum amount of \$750,000,000. The facility matures in October 2018 with two one-year extension options. The interest rate is LIBOR plus 115 basis points with a fee of 20 basis points per annum on the unused portion. At closing, we drew \$187,500,000. The facility provides that the maximum amount available is twice the amount outstanding on April 29, 2016, limited to \$750,000,000, and all draws must be made by October 2017.

### **Recently Issued Accounting Literature**

In April 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-08”) *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* to ASC Topic 205, *Presentation of Financial Statements* and ASC Topic 360, *Property Plant and Equipment*. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity’s results and operations would qualify as discontinued operations. In addition, ASU 2014-08 expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that began after December 15, 2014. Upon adoption of this standard on January 1, 2015, individual properties sold in the ordinary course of business are not expected to qualify as discontinued operations. The financial results of UE and certain other retail assets are reflected in our consolidated financial statements as discontinued operations for all periods presented.

In May 2014, the FASB issued an update (“ASU 2014-09”) establishing ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 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. ASU 2014-09 requires an entity to recognize revenue when it transfers 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. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.



## Overview – continued

### Recently Issued Accounting Literature - continued

In June 2014, the FASB issued an update (“ASU 2014-12”) to ASC Topic 718, *Compensation – Stock Compensation*. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In February 2015, the FASB issued an update (“ASU 2015-02”) *Amendments to the Consolidation Analysis* to ASC Topic 810, *Consolidation*. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In April 2015, the FASB issued an update (“ASU 2015-03”) *Simplifying the Presentation of Debt Issuance Costs* to ASC Topic 835, *Interest*. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability to which they relate, consistent with debt discounts, as opposed to being presented as assets. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The adoption of this update on January 1, 2016 will not have a material 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, 2014 in Management’s Discussion and Analysis of Financial Condition. Although there have been no significant changes during 2015, the following updates have been made to our policies.

**Condominium Units Held For Sale:** Pursuant to ASC 605-35-25-88, *Revenue Recognition: Completed Contract Method*, revenue from condominium unit sales is recognized upon closing of the sale, as all conditions for full profit recognition have not been met until that time. We use the relative sales value method to allocate costs to individual condominium units.

We are constructing a residential condominium tower containing 392,000 salable square feet on our 220 Central Park South development site.

**Income Taxes:** We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. We distribute to our shareholders 100% of our taxable income and therefore, no provision for Federal income taxes is required.

We have elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries pursuant to an amendment to the Internal Revenue Code that became effective January 1, 2001. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to Federal and State income tax at regular corporate tax rates.

At September 30, 2015 and December 31, 2014, our taxable REIT subsidiaries had deferred tax assets related to net operating loss carryforwards of \$95,419,000 and \$94,100,000, respectively, which are included in "other assets" on our consolidated balance sheets. Prior to the quarter ended June 30, 2015, there was a full valuation allowance against these deferred tax assets because we had not determined that it is more-likely-than-not that we would use the net operating loss carryforwards to offset future taxable income. Based upon residential condominium unit sales, among other factors, we have concluded that it is more-likely-than-not that we will generate sufficient taxable income to realize these deferred tax assets. Accordingly, during the second quarter of 2015, we reversed \$90,030,000 of the allowance for deferred tax assets and recognized an income tax benefit in our consolidated statements of income.

**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.

| (Square feet in thousands)                      | New York<br>Office | Retail    | Washington,<br>DC<br>Office |
|---|--------------------|-----------|-----------------------------|
| <b>Quarter Ended September 30, 2015</b>         |                    |           |                             |
| Total square feet leased                        | 509                | 45        | 414                         |
| Our share of square feet leased:                | 371                | 45        | 405                         |
| Initial rent <sup>(1)</sup>                     | \$ 79.80           | \$ 707.96 | \$ 45.46                    |
| Weighted average lease term (years)             | 5.7                | 15.2      | 5.9                         |
| Second generation relet space:                  |                    |           |                             |
| Square feet                                     | 334                | 44        | 331                         |
| Cash basis:                                     |                    |           |                             |
| Initial rent <sup>(1)</sup>                     | \$ 78.61           | \$ 722.36 | \$ 46.32                    |
| Prior escalated rent                            | \$ 63.04           | \$ 321.63 | \$ 48.57                    |
| Percentage increase<br>(decrease)               | 24.7%              | 124.6%    | (4.6%)                      |
| GAAP basis:                                     |                    |           |                             |
| Straight-line rent <sup>(2)</sup>               | \$ 77.76           | \$ 783.69 | \$ 43.03                    |
| Prior straight-line rent                        | \$ 62.00           | \$ 274.10 | \$ 46.56                    |
| Percentage increase<br>(decrease)               | 25.4%              | 185.9%    | (7.6%)                      |
| Tenant improvements and leasing<br>commissions: |                    |           |                             |
| Per square foot                                 | \$ 42.07           | \$ 777.37 | \$ 36.10                    |
| Per square foot<br>per annum                    | \$ 7.38            | \$ 51.14  | \$ 6.12                     |
| Percentage of initial<br>rent                   | 9.2%               | 7.2%      | 13.5%                       |

**Nine Months Ended September 30, 2015**

|                                  |       |    |       |
|----------------------------------|-------|----|-------|
| Total square feet leased         | 1,666 | 88 | 1,579 |
| Our share of square feet leased: | 1,282 | 79 | 1,492 |

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|  |    |       |    |          |    |                        |
|--|----|-------|----|----------|----|------------------------|
| Initial rent <sup>(1)</sup>                  | \$ | 80.09 | \$ | 907.45   | \$ | 39.31                  |
| Weighted average lease term (years)          |    | 8.7   |    | 14.1     |    | 9.0                    |
| Second generation relet space:               |    |       |    |          |    |                        |
| Square feet                                  |    | 854   |    | 71       |    | 1,038                  |
| Cash basis:                                  |    |       |    |          |    |                        |
| Initial rent <sup>(1)</sup>                  | \$ | 80.64 | \$ | 895.79   | \$ | 38.91 <sup>(3)</sup>   |
| Prior escalated rent                         | \$ | 68.56 | \$ | 336.95   | \$ | 43.63 <sup>(3)</sup>   |
| Percentage increase (decrease)               |    | 17.6% |    | 165.9%   |    | (10.8%) <sup>(3)</sup> |
| GAAP basis:                                  |    |       |    |          |    |                        |
| Straight-line rent <sup>(2)</sup>            | \$ | 78.58 | \$ | 1,051.09 | \$ | 36.45 <sup>(3)</sup>   |
| Prior straight-line rent                     | \$ | 64.70 | \$ | 514.67   | \$ | 41.02 <sup>(3)</sup>   |
| Percentage increase (decrease)               |    | 21.5% |    | 104.2%   |    | (11.1%) <sup>(3)</sup> |
| Tenant improvements and leasing commissions: |    |       |    |          |    |                        |
| Per square foot                              | \$ | 69.06 | \$ | 712.66   | \$ | 60.08                  |
| Per square foot per annum                    | \$ | 7.94  | \$ | 50.54    | \$ | 6.68                   |
| Percentage of initial rent                   |    | 9.9%  |    | 5.6%     |    | 17.0%                  |

- (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.
- (3) Excluding 371 square feet of leasing activity with the U.S. Marshals Service (of which 293 square feet are second generation relet space), the initial rent and prior escalated rent on a cash basis was \$41.63 and \$43.45 per square foot, respectively (4.2% decrease), and the initial rent and prior escalated rent on a GAAP basis was \$39.00 and \$41.34 per square foot, respectively (5.7% decrease).



**Overview - continued****Square footage (in service) and Occupancy as of September 30, 2015:**

| (Square feet in thousands)                  | Number of<br>Properties | Square Feet (in service) |              | Occupancy % |
|---|-------------------------|--------------------------|--------------|-------------|
|   |                         | Total<br>Portfolio       | Our<br>Share |             |
| New York:                                   |                         |                          |              |             |
| Office                                      | 36                      | 21,724                   | 18,051       | 96.2%       |
| Retail                                      | 62                      | 2,550                    | 2,370        | 96.3%       |
| Alexander's                                 | 7                       | 2,178                    | 706          | 99.7%       |
| Hotel Pennsylvania                          | 1                       | 1,400                    | 1,400        |             |
| Residential - 1,653 units                   | 2                       | 1,521                    | 761          | 94.7%       |
|   |                         | 29,373                   | 23,288       | 96.2%       |
| Washington, DC:                             |                         |                          |              |             |
| Office, excluding the Skyline<br>properties | 49                      | 13,148                   | 10,782       | 89.8%       |
| Skyline properties                          | 8                       | 2,648                    | 2,648        | 51.0%       |
| Total Office                                | 57                      | 15,796                   | 13,430       | 82.2%       |
| Residential - 2,414 units                   | 7                       | 2,597                    | 2,455        | 95.3%       |
| Other                                       | 7                       | 555                      | 555          | 100.0%      |
|   |                         | 18,948                   | 16,440       | 84.7%       |
| Other:                                      |                         |                          |              |             |
| The Mart                                    | 1                       | 3,637                    | 3,628        | 98.4%       |
| 555 California Street                       | 3                       | 1,800                    | 1,260        | 93.6%       |
| Other                                       | 2                       | 751                      | 751          | 100.0%      |
|   |                         | 6,188                    | 5,639        |             |
| Total square feet at September 30,<br>2015  |                         | 54,509                   | 45,367       |             |

**Overview - continued****Square footage (in service) and Occupancy as of December 31, 2014:**

| (Square feet in thousands)                  | Number of<br>properties | Square Feet (in service) |              | Occupancy % |
|---|-------------------------|--------------------------|--------------|-------------|
|   |                         | Total<br>Portfolio       | Our<br>Share |             |
| New York:                                   |                         |                          |              |             |
| Office                                      | 32                      | 20,625                   | 17,094       | 97.0%       |
| Retail                                      | 58                      | 2,736                    | 2,278        | 96.5%       |
| Alexander's                                 | 6                       | 2,178                    | 706          | 99.7%       |
| Hotel Pennsylvania                          | 1                       | 1,400                    | 1,400        |             |
| Residential - 1,654 units                   | 2                       | 1,524                    | 763          | 95.7%       |
|   |                         | 28,463                   | 22,241       | 96.9%       |
| Washington, DC:                             |                         |                          |              |             |
| Office, excluding the Skyline<br>properties | 50                      | 13,184                   | 10,806       | 87.4%       |
| Skyline properties                          | 8                       | 2,648                    | 2,648        | 53.5%       |
| Total Office                                | 58                      | 15,832                   | 13,454       | 80.7%       |
| Residential - 2,414 units                   | 7                       | 2,597                    | 2,455        | 97.4%       |
| Other                                       | 6                       | 384                      | 384          | 100.0%      |
|   |                         | 18,813                   | 16,293       | 83.6%       |
| Other:                                      |                         |                          |              |             |
| The Mart                                    | 1                       | 3,587                    | 3,578        | 94.7%       |
| 555 California Street                       | 3                       | 1,801                    | 1,261        | 97.6%       |
| Other                                       | 2                       | 672                      | 672          | 100.0%      |
|   |                         | 6,060                    | 5,511        |             |
| Total square feet at December 31,<br>2014   |                         | 53,336                   | 44,045       |             |

**Overview - continued****Washington, DC Segment**

EBITDA before gains on sale of real estate and discontinued operations for the nine months ended September 30, 2015, was \$3,438,000 behind last year's nine months. We expect EBITDA for the fourth quarter to be flat to the fourth quarter of last year. Accordingly, we expect 2015 EBITDA before gains on sale of real estate and discontinued operations will be approximately \$3,500,000 less than 2014. Of the 2,395,000 square feet subject to the effects of the Base Realignment and Closure ("BRAC") statute, 393,000 square feet has been taken out of service for redevelopment and 1,298,000 square feet has been leased or is pending. The table below summarizes the status of the BRAC space as of September 30, 2015.

|  | Rent Per    |           | Square Feet  |         |         |
|--|-------------|-----------|--------------|---------|---------|
|  | Square Foot | Total     | Crystal City | Skyline | Rosslyn |
| Resolved:                              |             |           |              |         |         |
| Relet as of September 30, 2015         | \$ 37.62    | 1,293,000 | 825,000      | 384,000 | 84,000  |
| Leases pending                         | 39.63       | 5,000     | -            | 5,000   | -       |
| Taken out of service for redevelopment |             | 393,000   | 393,000      | -       | -       |
|  |             | 1,691,000 | 1,218,000    | 389,000 | 84,000  |
| To Be Resolved:                        |             |           |              |         |         |
| Vacated as of September 30, 2015       | 35.43       | 684,000   | 198,000      | 422,000 | 64,000  |
| Expiring in 2015                       | 41.87       | 20,000    | 20,000       | -       | -       |
|  |             | 704,000   | 218,000      | 422,000 | 64,000  |
| Total square feet subject to BRAC      |             | 2,395,000 | 1,436,000    | 811,000 | 148,000 |

**Net Income and EBITDA by Segment for the Three Months Ended September 30, 2015 and 2014**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the three months ended September 30, 2015 and 2014.

(Amounts in thousands)

|  | <b>For the Three Months Ended September 30, 2015</b> |                           |                           |                          |
|--|--|---------------------------|---------------------------|--------------------------|
|  |  |                           | <b>Washington,</b>        |                          |
|  | <b>Total</b>   | <b>New York</b>           | <b>DC</b>                 | <b>Other</b>             |
| Total revenues   | \$ 627,596   | \$ 429,433                | \$ 132,704                | \$ 65,459                |
| Total expenses   | 436,156  | 263,805                   | 102,114                   | 70,237                   |
| Operating income (loss)  | 191,440  | 165,628                   | 30,590                    | (4,778)                  |
| (Loss) income from partially owned entities                        | (325)  | 4,010                     | (1,909)                   | (2,426)                  |
| Income from real estate fund investments                           | 1,665  | -                         | -                         | 1,665                    |
| Interest and other investment income, net                          | 3,160  | 1,888                     | 34                        | 1,238                    |
| Interest and debt expense  | (95,344)   | (50,480)                  | (16,580)                  | (28,284)                 |
| Net gain on disposition of wholly owned and partially owned assets | 103,037  | -                         | 102,404                   | 633                      |
| Income (loss) before income taxes                                  | 203,633  | 121,046                   | 114,539                   | (31,952)                 |
| Income tax expense   | (2,856)  | (1,147)                   | (287)                     | (1,422)                  |
| Income (loss) from continuing operations                           | 200,777  | 119,899                   | 114,252                   | (33,374)                 |
| Income from discontinued operations                                | 34,463   | -                         | -                         | 34,463                   |
| Net income   | 235,240  | 119,899                   | 114,252                   | 1,089                    |
| Less net income attributable to noncontrolling interests           | (16,006)   | (2,582)                   | -                         | (13,424)                 |
| Net income (loss) attributable to Vornado                          | 219,234  | 117,317                   | 114,252                   | (12,335)                 |
| Interest and debt expense <sup>(2)</sup>                           | 118,977  | 64,653                    | 20,010                    | 34,314                   |
| Depreciation and amortization <sup>(2)</sup>                       | 174,209  | 99,206                    | 48,132                    | 26,871                   |
| Income tax expense <sup>(2)</sup>                                  | 3,043  | 1,214                     | 294                       | 1,535                    |
| EBITDA <sup>(1)</sup>  | \$ 515,463   | \$ 282,390 <sup>(3)</sup> | \$ 182,688 <sup>(4)</sup> | \$ 50,385 <sup>(5)</sup> |

(Amounts in thousands)

|   | <b>For the Three Months Ended September 30, 2014</b> |                 |                    |              |
|---|--|-----------------|--------------------|--------------|
|   |  |                 | <b>Washington,</b> |              |
|   | <b>Total</b>   | <b>New York</b> | <b>DC</b>          | <b>Other</b> |
| Total revenues                              | \$ 578,710   | \$ 383,828      | \$ 133,541         | \$ 61,341    |
| Total expenses                              | 396,571  | 238,153         | 88,375             | 70,043       |
| Operating income (loss)                     | 182,139  | 145,675         | 45,166             | (8,702)      |
| (Loss) income from partially owned entities | (26,034)   | 5,810           | (1,411)            | (30,433)     |
| Income from real estate fund investments    | 24,160   | -               | -                  | 24,160       |

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|  |            |                           |                          |                           |
|--|------------|---------------------------|--------------------------|---------------------------|
| Interest and other investment income, net                          | 7,568      | 1,834                     | 15                       | 5,719                     |
| Interest and debt expense  | (100,817)  | (43,061)                  | (18,685)                 | (39,071)                  |
| Net gain on disposition of wholly owned and partially owned assets | 2,665      | -                         | -                        | 2,665                     |
| Income (loss) before income taxes                                  | 89,681     | 110,258                   | 25,085                   | (45,662)                  |
| Income tax expense   | (2,652)    | (802)                     | (130)                    | (1,720)                   |
| Income (loss) from continuing operations                           | 87,029     | 109,456                   | 24,955                   | (47,382)                  |
| Income from discontinued operations                                | 82,168     | 5,615                     | -                        | 76,553                    |
| Net income   | 169,197    | 115,071                   | 24,955                   | 29,171                    |
| Less net income attributable to noncontrolling interests           | (17,673)   | (2,690)                   | -                        | (14,983)                  |
| Net income attributable to Vornado                                 | 151,524    | 112,381                   | 24,955                   | 14,188                    |
| Interest and debt expense <sup>(2)</sup>                           | 160,252    | 58,010                    | 22,208                   | 80,034                    |
| Depreciation and amortization <sup>(2)</sup>                       | 160,270    | 79,446                    | 36,411                   | 44,413                    |
| Income tax expense <sup>(2)</sup>                                  | 2,232      | 746                       | 145                      | 1,341                     |
| EBITDA <sup>(1)</sup>  | \$ 474,278 | \$ 250,583 <sup>(3)</sup> | \$ 83,719 <sup>(4)</sup> | \$ 139,976 <sup>(5)</sup> |

See notes on the following page.

**Net Income and EBITDA by Segment for the Three Months Ended September 30, 2015 and 2014 - continued****Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental 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. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Interest and debt expense, depreciation and amortization and income tax expense in the reconciliation of net income to EBITDA includes our share of these items from partially owned entities.
- (3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands) | <b>For the Three Months Ended September</b> |             |
|------------------------|---|-------------|
|                        | <b>30,</b>                                  |             |
|                        | <b>2015</b>                                 | <b>2014</b> |
| Office                 | \$ 166,663                                  | \$ 159,568  |
| Retail                 | 97,604                                      | 71,327      |
| Alexander's            | 10,502                                      | 10,387      |
| Hotel Pennsylvania     | 7,621                                       | 9,301       |
| Total New York         | \$ 282,390                                  | \$ 250,583  |

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

| (Amounts in thousands)                   | <b>For the Three Months Ended September</b> |             |
|--|---|-------------|
|  | <b>30,</b>                                  |             |
|  | <b>2015</b>                                 | <b>2014</b> |
| Office, excluding the Skyline properties | \$ 64,733                                   | \$ 65,904   |
| Gain on sale of 1750 Pennsylvania Avenue | 102,404                                     | -           |
| Skyline properties                       | 5,998                                       | 7,698       |
| Total Office                             | 173,135                                     | 73,602      |
| Residential                              | 9,553                                       | 10,117      |
| Total Washington, DC                     | \$ 182,688                                  | \$ 83,719   |

**Net Income and EBITDA by Segment for the Three Months Ended September 30, 2015 and 2014 - 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 September 30,</b> |             |
|--|---|-------------|
|  | <b>2015</b>                                     | <b>2014</b> |
| Our share of real estate fund investments:                                       |   |             |
| Income before net realized/unrealized (losses) gains                             | \$ 2,594  | \$ 2,051    |
| Net realized/unrealized (losses) gains on investments                            | (922)   | 5,083       |
| Carried interest   | (49)  | 8,438       |
| Total  | 1,623   | 15,572      |
| The Mart and trade shows   | 19,044  | 19,497      |
| 555 California Street  | 13,005  | 11,994      |
| Our share of Toys  | 46  | 12,440      |
| India real estate ventures   | 13  | 2,651       |
| Other investments  | 11,558  | 4,372       |
|  | 45,289  | 66,526      |
| Corporate general and administrative expenses <sup>(a)</sup>                     | (22,341)  | (22,948)    |
| Investment income and other, net <sup>(a)</sup>                                  | 5,952   | 6,659       |
| Gains on sale of partially owned entities  | 33,153  | -           |
| UE and residual retail properties discontinued operations <sup>(b)</sup>         | 2,516   | 106,602     |
| Acquisition and transaction related costs  | (1,518)   | (1,277)     |
| Net gain on sale of residential condominiums                                     | 633   | 2,665       |
| Impairment loss and loan loss reserve on investment in Suffolk Downs             | (595)   | (10,263)    |
| Net income attributable to noncontrolling interests in the Operating Partnership | (12,704)  | (7,988)     |
|  | \$ 50,385                                       | \$ 139,976  |

- (a) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of \$2,577 and \$1,352 for the three months ended September 30, 2015 and 2014, respectively.
- (b) The three months ended September 30, 2014, includes \$5,828 of transaction costs related to the spin-off of our strip shopping centers and malls.

**EBITDA by Region**

Below is a summary of the percentages of EBITDA by geographic region, excluding discontinued operations and other items that affect comparability.

| <b>Region:</b>                          | <b>For the Three Months Ended</b> |                                     |
|---|-----------------------------------|-------------------------------------|
|   | <b>2015</b>                       | <b>September 30,</b><br><b>2014</b> |
| New York City metropolitan area         | 72%                               | 68%                                 |
| Washington, DC / Northern Virginia area | 20%                               | 23%                                 |
| Chicago, IL                             | 5%                                | 6%                                  |
| San Francisco, CA                       | 3%                                | 3%                                  |
|   | 100%                              | 100%                                |

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**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014****Revenues**

Our revenues, which consist primarily of property rentals, tenant expense reimbursements, and fee and other income, were \$627,596,000 for the three months ended September 30, 2015, compared to \$578,710,000 for the prior year's quarter, an increase of \$48,886,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands)                | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|---------------------------------------|--------------|-----------------|---------------------------|--------------|
| Increase (decrease) due to:           |              |                 |                           |              |
| <b>Property rentals:</b>              |              |                 |                           |              |
| Acquisitions and other                | \$ 19,320    | \$ 19,775       | \$ (455)                  | \$ -         |
| Development and redevelopment         | 16,192       | 15,289          | 62                        | 841          |
| Hotel Pennsylvania                    | (1,319)      | (1,319)         | -                         | -            |
| Trade shows                           | 458          | -               | -                         | 458          |
| Same store operations                 | 16,708       | 15,455          | (411)                     | 1,664        |
|                                       | 51,359       | 49,200          | (804)                     | 2,963        |
| <b>Tenant expense reimbursements:</b> |              |                 |                           |              |
| Acquisitions and other                | 1,549        | 1,718           | (169)                     | -            |
| Development and redevelopment         | 758          | 788             | (30)                      | -            |
| Same store operations                 | (1,162)      | (937)           | (5)                       | (220)        |
|                                       | 1,145        | 1,569           | (204)                     | (220)        |
| <b>Fee and other income:</b>          |              |                 |                           |              |
| BMS cleaning fees                     | (3,904)      | (4,000)         | -                         | 96           |
| Management and leasing fees           | (221)        | 232             | (508)                     | 55           |
| Lease termination fees                | (1,782)      | (3,021)         | 1,208                     | 31           |
| Other income (loss)                   | 2,289        | 1,625           | (529)                     | 1,193        |
|                                       | (3,618)      | (5,164)         | 171                       | 1,375        |
| Total increase (decrease) in revenues | \$ 48,886    | \$ 45,605       | \$ (837)                  | \$ 4,118     |

**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014 - continued**Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were \$436,156,000 for the three months ended September 30, 2015, compared to \$396,571,000 for the prior year's quarter, an increase of \$39,585,000. Below are the details of the increase by segment:

| (Amounts in thousands)  | Total     | New York  | Washington,<br>DC | Other   |
|---|-----------|-----------|-------------------|---------|
| Increase due to:  |           |           |                   |         |
| <b>Operating:</b>   |           |           |                   |         |
| Acquisitions and other  | \$ 5,331  | \$ 5,534  | \$ (203)          | \$ -    |
| Development and redevelopment   | 4,643     | 3,741     | 482               | 420     |
| Non-reimbursable expenses, including                                  |           |           |                   |         |
| bad debt reserves   | 1,552     | 1,037     | 528               | (13)    |
| Hotel Pennsylvania  | (57)      | (57)      | -                 | -       |
| Trade shows   | (212)     | -         | -                 | (212)   |
| BMS expenses  | (2,966)   | (3,300)   | -                 | 334     |
| Same store operations   | 8,182     | 5,093     | 1,751             | 1,338   |
|   | 16,473    | 12,048    | 2,558             | 1,867   |
| <b>Depreciation and amortization:</b>                                 |           |           |                   |         |
| Acquisitions and other  | 10,527    | 10,652    | (125)             | -       |
| Development and redevelopment   | 13,083    | 1,513     | 10,697            | 873     |
| Same store operations   | 3,488     | 1,120     | 780               | 1,588   |
|   | 27,098    | 13,285    | 11,352            | 2,461   |
| <b>General and administrative:</b>                                    |           |           |                   |         |
| Mark-to-market of deferred compensation plan liability <sup>(1)</sup> | (3,929)   | -         | -                 | (3,929) |
| Same store operations   | (298)     | 319       | (171)             | (446)   |
|   | (4,227)   | 319       | (171)             | (4,375) |
| <b>Acquisition and transaction related costs</b>                      | 241       | -         | -                 | 241     |
| Total increase in expenses  | \$ 39,585 | \$ 25,652 | \$ 13,739         | \$ 194  |

(1) This decrease in expense is entirely offset by a corresponding decrease 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.

**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014 - continued**Loss from Partially Owned Entities

Summarized below are the components of loss from partially owned entities for the three months ended September 30, 2015 and 2014.

| (Amounts in thousands)                          | Percentage<br>Ownership at<br>September<br>30, 2015 | For the Three Months Ended September<br>30, |             |
|---|---|---|-------------|
|   |   | 2015  | 2014        |
| <b>Our Share of Net (Loss) Income:</b>          |   |   |             |
| Alexander's                                     | 32.4%   | \$ 7,544                                    | \$ 7,192    |
| Partially owned office buildings <sup>(1)</sup> | Various   | (2,039)                                     | 18          |
| India real estate ventures                      | 4.1%-36.5%  | (1,704)                                     | (262)       |
| Toys <sup>(2)</sup>                             | 32.5%   | 46  | (18,418)    |
| Other investments <sup>(3)</sup>                | Various   | (4,172)                                     | (14,564)    |
|   |   | \$ (325)                                    | \$ (26,034) |

- (1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street and others.
- (2) For the three months ended September 30, 2015, we recognized net income of \$46 from our investment in Toys, representing management fees earned and received, compared to a net loss of \$18,418 for the three months ended September 30, 2014, comprised of \$20,357 for our share of Toys' net loss, partially offset by \$1,939 of management fees earned and received.
- (3) Includes interests in UE, PREIT Associates, Independence Plaza, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street and others. In the third quarter of 2014, we recognized a \$10,263 non-cash charge, comprised of a \$5,959 impairment loss and a \$4,304 loan loss reserve, on our equity and debt investments in Suffolk Downs.

Income from Real Estate Fund Investments

Below are the components of the income from our real estate fund investments for the three months ended September 30, 2015 and 2014.

(Amounts in thousands)

For the Three Months Ended September 30,

Revenues

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|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Net investment income   | \$ 5,116    | \$ 3,829    |
| Net realized (losses) gains on exited investments                               | (907)       | 51,584      |
| Previously recorded unrealized gains on exited investments                      | -           | (49,586)    |
| Net unrealized (losses) gains on held investments                               | (2,544)     | 18,333      |
| Income from real estate fund investments  | 1,665       | 24,160      |
| Less income attributable to noncontrolling interests                            | (42)        | (8,588)     |
| Income from real estate fund investments attributable to Vornado <sup>(1)</sup> | \$ 1,623    | \$ 15,572   |

- (1) Excludes property management, leasing and development fees of \$678 and \$669 for the three months ended September 30, 2015 and 2014, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014 - continued**

Interest and Other Investment Income, net

Interest and other investment income, net was \$3,160,000 for the three months ended September 30, 2015, compared to \$7,568,000 in the prior year's quarter, a decrease of \$4,408,000. This decrease resulted primarily from a decrease 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).

Interest and Debt Expense

Interest and debt expense was \$95,344,000 for the three months ended September 30, 2015, compared to \$100,817,000 in the prior year's quarter, a decrease of \$5,473,000. This decrease was primarily due to (i) \$8,761,000 of interest savings from the redemption of the \$445,000,000 principal amount of the outstanding 7.875% senior unsecured notes during the fourth quarter of 2014, (ii) \$5,354,000 of interest savings from the redemption of the \$500,000,000 principal amount of the outstanding 4.25% senior unsecured notes on January 1, 2015, partially offset by (iii) \$5,330,000 of lower capitalized interest and (iv) \$1,983,000 of higher interest expense from the current year's financings of 150 West 34<sup>th</sup> Street and the Center Building.

Net Gain on Disposition of Wholly Owned and Partially Owned Assets

For the three months ended September 30, 2015, we recognized a \$103,037,000 net gain on disposition of wholly owned and partially owned assets, primarily from the sale of 1750 Pennsylvania Avenue, compared to \$2,665,000 in the prior year's quarter, primarily from the sale of residential condominiums.

Income Tax Expense

Income tax expense related to our taxable REIT subsidiaries was \$2,856,000 for the three months ended September 30, 2015, compared to an expense of \$2,652,000 in the prior year's quarter. The increase in expense of \$204,000 was primarily attributable to higher income from our taxable REIT subsidiaries.

Income from Discontinued Operations

Revenues

We have reclassified the revenues and expenses of the UE portfolio and other retail properties that were sold or are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the three months ended September 30, 2015 and 2014.

| (Amounts in thousands)                            | <b>For the Three Months Ended</b> |             |
|---|-----------------------------------|-------------|
|   | <b>September 30,</b>              |             |
|   | <b>2015</b>                       | <b>2014</b> |
| Total revenues                                    | \$ 2,589                          | \$ 93,440   |
| Total expenses                                    | 1,279                             | 62,715      |
|   | 1,310                             | 30,725      |
| Net gain on sale of our interest in Monmouth Mall | 33,153                            | -           |
| Net gains on sale of real estate                  | -                                 | 57,796      |
| Transaction related costs (primarily UE spin off) | -                                 | (5,828)     |
| Pretax income from discontinued operations        | 34,463                            | 82,693      |
| Income tax expense                                | -                                 | (525)       |
| Income from discontinued operations               | \$ 34,463                         | \$ 82,168   |

**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014 - continued**

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$3,302,000 for the three months ended September 30, 2015, compared to \$9,685,000 for the prior year's quarter, a decrease of \$6,383,000. 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

Net income attributable to noncontrolling interests in the Operating Partnership was \$12,704,000 for the three months ended September 30, 2015, compared to \$7,988,000 for the prior year's quarter, an increase of \$4,716,000. This increase resulted primarily from higher net income subject to allocation to unitholders.

Preferred Share Dividends

Preferred share dividends were \$20,364,000 for the three months ended September 30, 2015, compared to \$20,365,000 for the prior year's quarter, a decrease of \$1,000.



**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014 - 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 EBITDA on a cash basis 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.

Below are reconciliations of EBITDA to same store EBITDA for each of our segments for the three months ended September 30, 2015, compared to the three months ended September 30, 2014.

| (Amounts in thousands)  | <b>New York</b> | <b>Washington, DC</b> |
|---|-----------------|-----------------------|
| EBITDA for the three months ended September 30, 2015            | \$ 282,390      | \$ 182,688            |
| Add-back:   |                 |                       |
| Non-property level overhead expenses included above             | 8,305           | 6,282                 |
| Less EBITDA from:   |                 |                       |
| Acquisitions  | (15,826)        | -                     |
| Dispositions, including net gains on sale                       | 121             | (104,006)             |
| Properties taken out-of-service for redevelopment               | (19,588)        | (20)                  |
| Other non-operating income                                      | (8,045)         | (1,414)               |
| Same store EBITDA for the three months ended September 30, 2015 | \$ 247,357      | \$ 83,530             |
| EBITDA for the three months ended September 30, 2014            | \$ 250,583      | \$ 83,719             |
| Add-back:   |                 |                       |
| Non-property level overhead expenses included above             | 7,986           | 6,454                 |
| Less EBITDA from:   |                 |                       |
| Acquisitions  | 50              | -                     |
| Dispositions, including net gains on sale                       | (5,800)         | (1,926)               |
| Properties taken out-of-service for redevelopment               | (5,944)         | (401)                 |
| Other non-operating income                                      | (3,010)         | (421)                 |

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|  |                         |                           |
|--|-------------------------|---------------------------|
| Same store EBITDA for the three months ended September 30, 2014  | \$ 243,865              | \$ 87,425                 |
| Increase (decrease) in same store EBITDA -<br>Three months ended September 30, 2015 vs. September 30, 2014 | \$ 3,492 <sup>(1)</sup> | \$ (3,895) <sup>(2)</sup> |
| % increase (decrease) in same store EBITDA   | 1.4%                    | (4.5%)                    |

See notes on following page

**Results of Operations – Three Months Ended September 30, 2015 Compared to September 30, 2014 - continued****Notes to preceding tabular information:****(1) New York:**

The \$3,492,000 increase in New York same store EBITDA resulted primarily from increases in Office and Retail EBITDA of \$3,287,000 and \$1,799,000, respectively, partially offset by a decrease in Hotel Pennsylvania EBITDA of \$1,681,000. The Office and Retail EBITDA increases resulted primarily from higher rents, including signage, partially offset by lower BMS EBITDA and higher operating expenses, net of reimbursements.

**(2) Washington, DC:**

The \$3,895,000 decrease in Washington, DC same store EBITDA resulted primarily from higher net operating expenses of \$2,284,000, lower fee and other income of \$530,000, and lower management and leasing fees of \$508,000.

**Reconciliation of Same Store EBITDA to Cash basis Same Store EBITDA**

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> |
|---|-----------------|---------------------------|
| Same store EBITDA for the three months ended September 30, 2015   | \$ 247,357      | \$ 83,530                 |
| Less: Adjustments for straight line rents, amortization of acquired<br>below-market leases, net, and other non-cash adjustments | (36,095)        | (6,913)                   |
| Cash basis same store EBITDA for the three months ended<br>September 30, 2015   | \$ 211,262      | \$ 76,617                 |

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|   |            |            |
|---|------------|------------|
| Same store EBITDA for the three months ended September 30, 2014   | \$ 243,865 | \$ 87,425  |
| Less: Adjustments for straight line rents, amortization of acquired<br>below-market leases, net, and other non-cash adjustments | (31,993)   | (2,840)    |
| Cash basis same store EBITDA for the three months ended<br>September 30, 2014   | \$ 211,872 | \$ 84,585  |
| Decrease in Cash basis same store EBITDA -<br>Three months ended September 30, 2015 vs. September 30, 2014                      | \$ (610)   | \$ (7,968) |
| % decrease in Cash basis same store EBITDA  | (0.3%)     | (9.4%)     |

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**Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2015 and 2014**

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the nine months ended September 30, 2015 and 2014.

(Amounts in thousands)

**For the Nine Months Ended September 30, 2015**

|  |              | <b>Washington,</b>        |                           |                           |
|--|--------------|---------------------------|---------------------------|---------------------------|
|  | <b>Total</b> | <b>New York</b>           | <b>DC</b>                 | <b>Other</b>              |
| Total revenues   | \$ 1,850,686 | \$ 1,243,208              | \$ 401,528                | \$ 205,950                |
| Total expenses   | 1,298,141    | 766,863                   | 293,772                   | 237,506                   |
| Operating income (loss)  | 552,545      | 476,345                   | 107,756                   | (31,556)                  |
| (Loss) income from partially owned entities                        | (8,709)      | 1,523                     | (3,583)                   | (6,649)                   |
| Income from real estate fund investments                           | 52,122       | -                         | -                         | 52,122                    |
| Interest and other investment income, net                          | 19,618       | 5,642                     | 60                        | 13,916                    |
| Interest and debt expense  | (279,110)    | (143,004)                 | (52,223)                  | (83,883)                  |
| Net gain on disposition of wholly owned and partially owned assets | 104,897      | -                         | 102,404                   | 2,493                     |
| Income (loss) before income taxes                                  | 441,363      | 340,506                   | 154,414                   | (53,557)                  |
| Income tax benefit (expense)                                       | 84,245       | (3,185)                   | (79)                      | 87,509                    |
| Income from continuing operations                                  | 525,608      | 337,321                   | 154,335                   | 33,952                    |
| Income from discontinued operations                                | 50,278       | -                         | -                         | 50,278                    |
| Net income   | 575,886      | 337,321                   | 154,335                   | 84,230                    |
| Less net income attributable to noncontrolling interests           | (66,559)     | (6,640)                   | -                         | (59,919)                  |
| Net income attributable to Vornado                                 | 509,327      | 330,681                   | 154,335                   | 24,311                    |
| Interest and debt expense <sup>(2)</sup>                           | 348,725      | 184,377                   | 62,413                    | 101,935                   |
| Depreciation and amortization <sup>(2)</sup>                       | 493,904      | 288,897                   | 136,687                   | 68,320                    |
| Income tax (benefit) expense <sup>(2)</sup>                        | (85,349)     | 3,368                     | (1,856)                   | (86,861)                  |
| EBITDA <sup>(1)</sup>  | \$ 1,266,607 | \$ 807,323 <sup>(3)</sup> | \$ 351,579 <sup>(4)</sup> | \$ 107,705 <sup>(5)</sup> |

(Amounts in thousands)

**For the Nine Months Ended September 30, 2014**

|   |              | <b>Washington,</b> |            |              |
|---|--------------|--------------------|------------|--------------|
|   | <b>Total</b> | <b>New York</b>    | <b>DC</b>  | <b>Other</b> |
| Total revenues                              | \$ 1,715,502 | \$ 1,120,686       | \$ 403,645 | \$ 191,171   |
| Total expenses                              | 1,198,854    | 702,727            | 265,299    | 230,828      |
| Operating income (loss)                     | 516,648      | 417,959            | 138,346    | (39,657)     |
| (Loss) income from partially owned entities | (78,676)     | 16,372             | (4,925)    | (90,123)     |
| Income from real estate fund investments    | 142,418      | -                  | -          | 142,418      |
|   | 28,814       | 4,889              | 93         | 23,832       |

Revenues

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|  |              |                           |                           |                           |
|--|--------------|---------------------------|---------------------------|---------------------------|
| Interest and other investment income, net                          |              |                           |                           |                           |
| Interest and debt expense  | (301,042)    | (134,970)                 | (56,692)                  | (109,380)                 |
| Net gain on disposition of wholly owned and partially owned assets | 13,205       | -                         | -                         | 13,205                    |
| Income (loss) before income taxes                                  | 321,367      | 304,250                   | 76,822                    | (59,705)                  |
| Income tax expense   | (6,783)      | (2,997)                   | (46)                      | (3,740)                   |
| Income (loss) from continuing operations                           | 314,584      | 301,253                   | 76,776                    | (63,445)                  |
| Income from discontinued operations                                | 118,456      | 17,401                    | -                         | 101,055                   |
| Net income   | 433,040      | 318,654                   | 76,776                    | 37,610                    |
| Less net income attributable to noncontrolling interests           | (101,791)    | (7,203)                   | -                         | (94,588)                  |
| Net income (loss) attributable to Vornado                          | 331,249      | 311,451                   | 76,776                    | (56,978)                  |
| Interest and debt expense <sup>(2)</sup>                           | 510,724      | 180,150                   | 67,469                    | 263,105                   |
| Depreciation and amortization <sup>(2)</sup>                       | 530,052      | 241,040                   | 108,367                   | 180,645                   |
| Income tax expense <sup>(2)</sup>                                  | 21,489       | 3,069                     | 88                        | 18,332                    |
| EBITDA <sup>(1)</sup>  | \$ 1,393,514 | \$ 735,710 <sup>(3)</sup> | \$ 252,700 <sup>(4)</sup> | \$ 405,104 <sup>(5)</sup> |

See notes on the following page.

**Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2015 and 2014 - continued****Notes to preceding tabular information:**

- (1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a supplemental 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. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income to EBITDA includes our share of these items from partially owned entities.
- (3) The elements of "New York" EBITDA are summarized below.

| (Amounts in thousands) | <b>For the Nine Months Ended September</b> |             |
|------------------------|--|-------------|
|                        | <b>30,</b>                                 |             |
|                        | <b>2015</b>                                | <b>2014</b> |
| Office                 | \$ 496,762                                 | \$ 480,280  |
| Retail                 | 265,060                                    | 205,469     |
| Alexander's            | 31,150                                     | 31,088      |
| Hotel Pennsylvania     | 14,351                                     | 18,873      |
| Total New York         | \$ 807,323                                 | \$ 735,710  |

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

| (Amounts in thousands)                   | <b>For the Nine Months Ended September</b> |             |
|--|--|-------------|
|  | <b>30,</b>                                 |             |
|  | <b>2015</b>                                | <b>2014</b> |
| Office, excluding the Skyline properties | \$ 200,631                                 | \$ 200,218  |
| Gain on sale of 1750 Pennsylvania Avenue | 102,404                                    | -           |
| Skyline properties                       | 19,037                                     | 21,270      |
| Total Office                             | 322,072                                    | 221,488     |
| Residential                              | 29,507                                     | 31,212      |
| Total Washington, DC                     | \$ 351,579                                 | \$ 252,700  |





## Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2015 and 2014 - continued

## Notes to preceding tabular information - continued:

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

| (Amounts in thousands)  | For the Nine Months Ended September 30, |            |
|---|---|------------|
|   | 2015                                    | 2014       |
| Our share of real estate fund investments:  |   |            |
| Income before net realized/unrealized gains   | \$ 6,879                                | \$ 6,668   |
| Net realized/unrealized gains on investments  | 9,542                                   | 32,890     |
| Carried interest  | 6,248                                   | 21,643     |
| Total   | 22,669                                  | 61,201     |
| The Mart and trade shows  | 62,229                                  | 61,038     |
| 555 California Street   | 38,237                                  | 35,566     |
| India real estate ventures  | 2,229                                   | 4,574      |
| Our share of Toys <sup>(a)</sup>  | 2,000                                   | 103,026    |
| Other investments   | 25,787                                  | 13,594     |
|   | 153,151                                 | 278,999    |
| Corporate general and administrative expenses <sup>(b) (c)</sup>                    | (82,043)                                | (71,952)   |
| Investment income and other, net <sup>(b)</sup>                                     | 21,275                                  | 22,764     |
| Gains on sale of partially owned entities and other                                 | 37,666                                  | -          |
| UE and residual retail properties discontinued operations <sup>(d)</sup>            | 26,313                                  | 192,532    |
| Our share of impairment loss on India real estate ventures                          | (14,806)                                | -          |
| Acquisition and transaction related costs   | (7,560)                                 | (3,629)    |
| Net gain on sale of residential condominiums and a land parcel                      | 2,493                                   | 13,205     |
| Impairment loss and loan loss reserve on investment in<br>Suffolk Downs             | (595)                                   | (10,263)   |
| Net income attributable to noncontrolling interests in the<br>Operating Partnership | (28,189)                                | (16,552)   |
|   | \$ 107,705                              | \$ 405,104 |

- (a) As a result of our investment being reduced to zero, we suspended equity method accounting in the third quarter of 2014. The nine months ended September 30, 2014 includes an impairment loss of \$75,196.
- (b) The amounts in these captions (for this table only) exclude income/expense from the mark-to-market of our deferred compensation plan of \$327 and \$8,132 for the nine months ended September 30, 2015 and 2014, respectively.
- (c) The nine months ended September 30, 2015 includes \$7,084 from the acceleration of the recognition of compensation expense related to 2013-2015 Out-Performance Plans due to the modification of the vesting criteria of awards such that they will fully vest at age 65. The accelerated expense will result in lower general and administrative expense for the remainder of 2015 of \$867 and \$6,217 thereafter.
- (d) The nine months ended September 30, 2015 and 2014, include \$22,972 and \$9,343, respectively, of transaction costs related to the spin-off of our strip shopping centers and malls.

**EBITDA by Region**

Below is a summary of the percentages of EBITDA by geographic region, excluding discontinued operations and other items that affect comparability.

| <b>Region:</b>                          | <b>For the Nine Months Ended</b> |             |
|---|----------------------------------|-------------|
|   | <b>2015</b>                      | <b>2014</b> |
| New York City metropolitan area         | 70%                              | 68%         |
| Washington, DC / Northern Virginia area | 21%                              | 23%         |
| Chicago, IL                             | 6%                               | 6%          |
| San Francisco, CA                       | 3%                               | 3%          |
|   | 100%                             | 100%        |

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**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014**Revenues

Our revenues, which consist primarily of property rentals, tenant expense reimbursements, and fee and other income, were \$1,850,686,000 for the nine months ended September 30, 2015, compared to \$1,715,502,000 for the prior year's nine months, an increase of \$135,184,000. Below are the details of the increase (decrease) by segment:

| (Amounts in thousands)                | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|---------------------------------------|--------------|-----------------|---------------------------|--------------|
| Increase (decrease) due to:           |              |                 |                           |              |
| <b>Property rentals:</b>              |              |                 |                           |              |
| Acquisitions and other                | \$ 38,683    | \$ 38,269       | \$ 414                    | \$ -         |
| Development and redevelopment         | 41,826       | 39,519          | 57                        | 2,250        |
| Hotel Pennsylvania                    | (3,931)      | (3,931)         | -                         | -            |
| Trade shows                           | 2,060        | -               | -                         | 2,060        |
| Same store operations                 | 42,208       | 35,779          | (283)                     | 6,712        |
|                                       | 120,846      | 109,636         | 188                       | 11,022       |
| <b>Tenant expense reimbursements:</b> |              |                 |                           |              |
| Acquisitions and other                | 2,797        | 2,945           | (148)                     | -            |
| Development and redevelopment         | 2,179        | 2,166           | 13                        | -            |
| Same store operations                 | 10,894       | 7,537           | 459                       | 2,898        |
|                                       | 15,870       | 12,648          | 324                       | 2,898        |
| <b>Fee and other income:</b>          |              |                 |                           |              |
| BMS cleaning fees                     | (681)        | (1,213)         | -                         | 532          |
| Management and leasing fees           | (3,348)      | (2,510)         | (676)                     | (162)        |
| Lease termination fees                | (3,265)      | (641)           | (2,284)                   | (340)        |
| Other income                          | 5,762        | 4,602           | 331                       | 829          |
|                                       | (1,532)      | 238             | (2,629)                   | 859          |
| Total increase (decrease) in revenues | \$ 135,184   | \$ 122,522      | \$ (2,117)                | \$ 14,779    |

**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014 - continued**Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were \$1,298,141,000 for the nine months ended September 30, 2015, compared to \$1,198,854,000 for the prior year's nine months, an increase of \$99,287,000. Below are the details of the increase by segment:

| (Amounts in thousands)  | <b>Total</b>          | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|---|-----------------------|-----------------|---------------------------|--------------|
| Increase due to:  |                       |                 |                           |              |
| <b>Operating:</b>   |                       |                 |                           |              |
| Acquisitions and other  | \$ 8,544              | \$ 8,628        | \$ (84)                   | \$ -         |
| Development and redevelopment   | 14,876                | 11,245          | 1,134                     | 2,497        |
| Non-reimbursable expenses, including bad debt reserves                | (1,749)               | (1,715)         | (316)                     | 282          |
| Hotel Pennsylvania  | 165                   | 165             | -                         | -            |
| Trade shows   | 68                    | -               | -                         | 68           |
| BMS expenses  | (425)                 | (1,307)         | -                         | 882          |
| Same store operations   | 25,218                | 19,194          | 1,747                     | 4,277        |
|   | 46,697                | 36,210          | 2,481                     | 8,006        |
| <b>Depreciation and amortization:</b>                                 |                       |                 |                           |              |
| Acquisitions and other  | 23,110                | 23,094          | 16                        | -            |
| Development and redevelopment   | 9,560                 | (9,313)         | 24,855                    | (5,982)      |
| Same store operations   | 10,515                | 8,331           | 3,096                     | (912)        |
|   | 43,185                | 22,112          | 27,967                    | (6,894)      |
| <b>General and administrative:</b>                                    |                       |                 |                           |              |
| Mark-to-market of deferred compensation plan liability <sup>(1)</sup> | (8,459)               | -               | -                         | (8,459)      |
| Same store operations   | 13,933 <sup>(2)</sup> | 5,814           | (1,975)                   | 10,094       |
|   | 5,474                 | 5,814           | (1,975)                   | 1,635        |
| <b>Acquisition and transaction related costs</b>                      |                       |                 |                           |              |
|   | 3,931                 | -               | -                         | 3,931        |
| Total increase in expenses  | \$ 99,287             | \$ 64,136       | \$ 28,473                 | \$ 6,678     |

## Revenues

- (1) This decrease in expense is entirely offset by a corresponding decrease 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) Results primarily from the acceleration of the recognition of compensation expense of \$8,911 related to 2013-2015 Out-Performance Plans due to the modification of the vesting criteria of awards such that they fully vest at age 65. The accelerated expense will result in lower general and administrative expense during the remainder of 2015 of \$1,077 and \$7,834 thereafter.

**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014 - continued**Loss from Partially Owned Entities

Summarized below are the components of loss from partially owned entities for the nine months ended September 30, 2015 and 2014.

| (Amounts in thousands)                          | Percentage<br>Ownership at<br>September<br>30, 2015 | For the Nine Months Ended September<br>30, |             |
|---|---|--|-------------|
|   |   | 2015                                       | 2014        |
| <b>Our Share of Net (Loss) Income:</b>          |   |  |             |
| Alexander's                                     | 32.4%   | \$ 22,558                                  | \$ 20,471   |
| India real estate ventures                      | 4.1%-36.5%  | (18,380) <sup>(1)</sup>                    | (2,440)     |
| Partially owned office buildings <sup>(2)</sup> | Various   | (14,573)                                   | (1,387)     |
| Toys <sup>(3)</sup>                             | 32.5%   | 2,000                                      | (74,162)    |
| Other investments <sup>(4)</sup>                | Various   | (314)                                      | (21,158)    |
|   |   | \$ (8,709)                                 | \$ (78,676) |

- (1) Includes \$14,806 for our share of non-cash impairment losses.
- (2) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street and others.
- (3) For the nine months ended September 30, 2015, we recognized net income of \$2,000 from our investment in Toys, representing management fees earned and received, compared to a net loss of \$74,162 for the nine months ended September 30, 2014, comprised of (i) \$4,691 for our share of Toys' net loss, (ii) a \$75,196 non-cash impairment loss, partially offset by (iii) \$5,725 of management fees earned and received.
- (4) Includes interests in UE, PREIT Associates, Independence Plaza, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street and others. In the third quarter of 2014, we recognized a \$10,263 non-cash charge, comprised of a \$5,959 impairment loss and a \$4,304 loan loss reserve, on our equity and debt investments in Suffolk Downs.

Income from Real Estate Fund Investments

Below are the components of the income from our real estate fund investments for the nine months ended September 30, 2015 and 2014.

(Amounts in thousands)

**For the Nine Months Ended September 30,**

Revenues

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|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Net investment income   | \$ 13,716   | \$ 10,860   |
| Net realized gains on exited investments  | 24,684      | 126,653     |
| Previously recorded unrealized gains on exited investments                      | (23,279)    | (50,316)    |
| Net unrealized gains on held investments  | 37,001      | 55,221      |
| Income from real estate fund investments  | 52,122      | 142,418     |
| Less income attributable to noncontrolling interests                            | (29,453)    | (81,217)    |
| Income from real estate fund investments attributable to Vornado <sup>(1)</sup> | \$ 22,669   | \$ 61,201   |

- (1) Excludes property management, leasing and development fees of \$2,015 and \$1,925 for the nine months ended September 30, 2015 and 2014, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014 - continued**

Interest and Other Investment Income, net

Interest and other investment income, net was \$19,618,000 for the nine months ended September 30, 2015, compared to \$28,814,000 for the prior year's nine months, a decrease of \$9,196,000. This decrease resulted primarily from a decrease 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).

Interest and Debt Expense

Interest and debt expense was \$279,110,000 for the nine months ended September 30, 2015, compared to \$301,042,000 for the prior year's nine months, a decrease of \$21,932,000. This decrease was primarily due to (i) \$26,652,000 of interest savings from the redemption of the \$445,000,000 principal amount of the outstanding 7.875% senior unsecured notes during the fourth quarter of 2014, (ii) \$16,021,000 of interest savings from the redemption of the \$500,000,000 principal amount of the outstanding 4.25% senior unsecured notes on January 1, 2015, partially offset by (iii) \$12,700,000 of lower capitalized interest, (iv) \$5,297,000 of interest expense from the issuance of \$450,000,000 of senior unsecured notes in June 2014 and (v) \$3,188,000 of higher interest expense from the current year's financings of 150 West 34<sup>th</sup> Street and the Center Building.

Net Gain on Disposition of Wholly Owned and Partially Owned Assets

For the nine months ended September 30, 2015, we recognized a \$104,897,000 net gain on disposition of wholly owned and partially owned assets, primarily from the sale of 1750 Pennsylvania Avenue, compared to \$13,205,000 for the prior year's nine months, primarily from the sale of residential condominiums and a land parcel.

Income Tax Benefit (Expense)

Income tax benefit related to our taxable REIT subsidiaries was \$84,245,000 for the nine months ended September 30, 2015, compared to an expense of \$6,783,000 for the prior year's nine months. The decrease in expense of \$91,028,000 was primarily attributable to the reversal of the valuation allowances against certain of our deferred tax assets, as we have concluded that it is more-likely-than-not that we will generate sufficient taxable income from the sale of 220



Central Park South residential condominium units to realize the deferred tax assets.

**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014 - continued**Income from Discontinued Operations

We have reclassified the revenues and expenses of the UE portfolio and other retail properties that were sold or are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the nine months ended September 30, 2015 and 2014.

| (Amounts in thousands)                                 | For the Nine Months Ended September |            |
|--|-------------------------------------|------------|
|  | 2015                                | 2014       |
| Total revenues   | \$ 24,868                           | \$ 297,039 |
| Total expenses   | 16,672                              | 204,619    |
|  | 8,196                               | 92,420     |
| Net gain on sale of our interest in Monmouth Mall      | 33,153                              | -          |
| Transaction related costs (primarily UE spin off)      | (22,972)                            | (9,343)    |
| Net gain on sale of lease position in Geary Street, CA | 21,376                              | -          |
| Net gains on sale of real estate                       | 10,867                              | 57,796     |
| Impairment losses                                      | (256)                               | (20,842)   |
| Pretax income from discontinued operations             | 50,364                              | 120,031    |
| Income tax expense                                     | (86)                                | (1,575)    |
| Income from discontinued operations                    | \$ 50,278                           | \$ 118,456 |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$38,370,000 for the nine months ended September 30, 2015, compared to \$85,239,000 for the prior year’s nine months, a decrease of \$46,869,000. 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

Net income attributable to noncontrolling interests in the Operating Partnership was \$28,189,000 for the nine months ended September 30, 2015, compared to \$16,552,000 for the prior year's nine months, an increase of \$11,637,000. This increase resulted primarily from higher net income subject to allocation to unitholders.

Preferred Share Dividends

Preferred share dividends were \$60,213,000 for the nine months ended September 30, 2015, compared to \$61,099,000 for the prior year's nine months, a decrease of \$886,000.

**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014 - 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 EBITDA on a cash basis 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.

Below are reconciliations of EBITDA to same store EBITDA for each of our segments for the nine months ended September 30, 2015, compared to nine months ended September 30, 2014.

| (Amounts in thousands)   | <b>New York</b> | <b>Washington, DC</b> |
|--|-----------------|-----------------------|
| EBITDA for the nine months ended September 30, 2015            | \$ 807,323      | \$ 351,579            |
| Add-back:  |                 |                       |
| Non-property level overhead expenses included above            | 28,238          | 18,498                |
| Less EBITDA from:  |                 |                       |
| Acquisitions   | (34,824)        | -                     |
| Dispositions, including net gains on sale                      | 316             | (108,055)             |
| Properties taken out-of-service for redevelopment              | (50,303)        | (144)                 |
| Other non-operating income                                     | (20,381)        | (3,296)               |
| Same store EBITDA for the nine months ended September 30, 2015 | \$ 730,369      | \$ 258,582            |
| EBITDA for the nine months ended September 30, 2014            | \$ 735,710      | \$ 252,700            |
| Add-back:  |                 |                       |
| Non-property level overhead expenses included above            | 22,424          | 20,473                |
| Less EBITDA from:  |                 |                       |
| Acquisitions   | 50              | -                     |
| Dispositions, including net gains on sale                      | (18,187)        | (5,751)               |
| Properties taken out-of-service for redevelopment              | (17,795)        | (981)                 |
| Other non-operating income                                     | (6,347)         | (4,109)               |

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|   |                          |                           |
|---|--------------------------|---------------------------|
| Same store EBITDA for the nine months ended September 30, 2014  | \$ 715,855               | \$ 262,332                |
| Increase (decrease) in same store EBITDA -<br>Nine months ended September 30, 2015 vs. September 30, 2014 | \$ 14,514 <sup>(1)</sup> | \$ (3,750) <sup>(2)</sup> |
| % increase (decrease) in same store EBITDA  | 2.0%                     | (1.4%)                    |

See notes on following page.

**Results of Operations – Nine Months Ended September 30, 2015 Compared to September 30, 2014 - continued****Notes to preceding tabular information:****(1) New York:**

The \$14,514,000 increase in New York same store EBITDA resulted primarily from increases in Office and Retail EBITDA of \$8,496,000 and \$10,369,000, respectively, partially offset by a decrease in Hotel Pennsylvania EBITDA of \$4,523,000. The Office and Retail EBITDA increases resulted primarily from higher rents, including signage, partially offset by higher operating expenses, net of reimbursements.

**(2) Washington, DC:**

The \$3,750,000 decrease in Washington, DC same store EBITDA resulted primarily from higher net operating expenses of \$972,000, lower fee and other income of \$1,311,000, lower management and leasing fees of \$677,000, and lower income from partially owned entities.

**Reconciliation of Same Store EBITDA to Cash Basis Same Store EBITDA**

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> |
|---|-----------------|---------------------------|
| Same store EBITDA for the nine months ended September 30, 2015  | \$ 730,369      | \$ 258,582                |
| Less: Adjustments for straight line rents, amortization of acquired<br>below-market leases, net, and other non-cash adjustments | (91,370)        | (18,203)                  |
| Cash basis same store EBITDA for the nine months ended<br>September 30, 2015  | \$ 638,999      | \$ 240,379                |

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|   |            |             |
|---|------------|-------------|
| Same store EBITDA for the nine months ended September 30, 2014  | \$ 715,855 | \$ 262,332  |
| Less: Adjustments for straight line rents, amortization of acquired<br>below-market leases, net, and other non-cash adjustments | (91,576)   | (4,383)     |
| Cash basis same store EBITDA for the nine months ended<br>September 30, 2014  | \$ 624,279 | \$ 257,949  |
| Increase (decrease) in cash basis same store EBITDA -<br>Nine months ended September 30, 2015 vs. September 30, 2014            | \$ 14,720  | \$ (17,570) |
| % increase (decrease) in cash basis same store EBITDA   | 2.4%       | (6.8%)      |

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**SUPPLEMENTAL INFORMATION****Reconciliation of Net Income to EBITDA for the Three Months Ended June 30, 2015**

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> |
|---|-----------------|---------------------------|
| Net income attributable to Vornado for the three months ended June 30, 2015 | \$ 118,212      | \$ 16,454                 |
| Interest and debt expense   | 61,057          | 20,891                    |
| Depreciation and amortization   | 95,567          | 47,803                    |
| Income tax expense  | 1,152           | 486                       |
| EBITDA for the three months ended June 30, 2015                             | \$ 275,988      | \$ 85,634                 |

**Reconciliation of EBITDA to Same Store EBITDA – Three Months Ended September 30, 2015 Compared to June 30, 2015**

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> |
|---|-----------------|---------------------------|
| EBITDA for the three months ended September 30, 2015            | \$ 282,390      | \$ 182,688                |
| Add-back:   |                 |                           |
| Non-property level overhead expenses included above             | 8,305           | 6,282                     |
| Less EBITDA from:   |                 |                           |
| Acquisitions  | (7,379)         | -                         |
| Dispositions, including net gains on sale                       | 121             | (104,006)                 |
| Properties taken out-of-service for redevelopment               | (19,588)        | (20)                      |
| Other non-operating income                                      | (11,145)        | (1,414)                   |
| Same store EBITDA for the three months ended September 30, 2015 | \$ 252,704      | \$ 83,530                 |
| EBITDA for the three months ended June 30, 2015                 | \$ 275,988      | \$ 85,634                 |
| Add-back:   |                 |                           |
| Non-property level overhead expenses included above             | 7,889           | 6,512                     |
| Less EBITDA from:   |                 |                           |
| Acquisitions  | (3,534)         | -                         |
| Dispositions, including net gains on sale                       | 161             | (2,067)                   |
| Properties taken out-of-service for redevelopment               | (17,162)        | (47)                      |
| Other non-operating income                                      | (8,329)         | (1,753)                   |
| Same store EBITDA for the three months ended June 30, 2015      | \$ 255,013      | \$ 88,279                 |
| Decrease in same store EBITDA -                                 |                 |                           |
| Three months ended September 30, 2015 vs. June 30, 2015         | \$ (2,309)      | \$ (4,749)                |



|                                 |        |        |
|---------------------------------|--------|--------|
| % decrease in same store EBITDA | (0.9%) | (5.4%) |
|---------------------------------|--------|--------|

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## SUPPLEMENTAL INFORMATION – CONTINUED

**Reconciliation of Same Store EBITDA to Cash Basis Same Store EBITDA – Three Months Ended September 30, 2015 Compared to June 30, 2015**

| (Amounts in thousands)  | <b>New York</b> | <b>Washington,<br/>DC</b> |
|---|-----------------|---------------------------|
| Same store EBITDA for the three months ended September 30, 2015   | \$ 252,704      | \$ 83,530                 |
| Less: Adjustments for straight line rents, amortization of acquired<br>below-market leases, net, and other non-cash adjustments | (38,937)        | (6,913)                   |
| Cash basis same store EBITDA for the three months ended<br>September 30, 2015   | \$ 213,767      | \$ 76,617                 |
| Same store EBITDA for the three months ended June 30, 2015  | \$ 255,013      | \$ 88,279                 |
| Less: Adjustments for straight line rents, amortization of acquired<br>below-market leases, net, and other non-cash adjustments | (33,593)        | (5,707)                   |
| Cash basis same store EBITDA for the three months ended<br>June 30, 2015  | \$ 221,420      | \$ 82,572                 |
| Decrease in cash basis same store EBITDA -<br>Three months ended September 30, 2015 vs. June 30, 2015                           | \$ (7,653)      | \$ (5,955)                |
| % decrease in cash basis same store EBITDA  | (3.5%)          | (7.2%)                    |

## 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, 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.

### *Cash Flows for the Nine Months Ended September 30, 2015*

Our cash and cash equivalents were \$788,137,000 at September 30, 2015, a \$410,340,000 decrease over the balance at December 31, 2014. Our consolidated outstanding debt was \$10,007,007,000 at September 30, 2015, a \$396,683,000 increase over the balance at December 31, 2014. As of September 30, 2015 and December 31, 2014, \$0 and \$0, respectively, was outstanding under our revolving credit facilities. During the remainder of 2015 and 2016, \$0 and \$1,409,929,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

Cash flows provided by operating activities of \$443,525,000 was comprised of (i) net income of \$575,886,000, (ii) return of capital from real estate fund investments of \$91,036,000, (iii) distributions of income from partially owned entities of \$51,650,000, and (iv) \$10,350,000 of non-cash adjustments, which include depreciation and amortization expense, the reversal of allowance for deferred tax assets, the effect of straight-lining of rental income, loss from partially owned entities and impairment losses on real estate, partially offset by (v) the net change in operating assets and liabilities of \$285,397,000 (including the acquisition of real estate fund investments of \$95,010,000).

Net cash used in investing activities of \$480,383,000 was comprised of (i) \$388,565,000 of acquisitions of real estate and other, (ii) \$339,586,000 of development costs and construction in progress, (iii) \$207,845,000 of additions to real estate, (iv) \$144,890,000 of investments in partially owned entities, and (v) \$25,845,000 of investments in loans receivable, partially offset by (vi) \$375,850,000 of proceeds from sales of real estate and related investments, (vii) \$201,895,000 of changes in restricted cash, (viii) \$31,822,000 of capital distributions from partially owned entities, and (ix) \$16,781,000 of proceeds from repayments of mortgage and mezzanine loans receivable and other.

Net cash used in financing activities of \$373,482,000 was comprised of (i) \$2,539,677,000 for the repayments of borrowings, (ii) \$355,945,000 of dividends paid on common shares, (iii) \$225,000,000 of distributions in connection with the spin-off of UE, (iv) \$93,738,000 of distributions to noncontrolling interests, (v) \$60,213,000 of dividends paid on preferred shares, (vi) \$37,467,000 of debt issuance costs, and (vii) \$4,900,000 for the repurchase of shares related to stock compensation agreements resulting from exercises of long-term equity awards by executives of the company and/or related tax withholdings and other, partially offset by (viii) \$2,876,460,000 of proceeds from borrowings, (ix) \$51,725,000 of contributions from noncontrolling interests, and (x) \$15,273,000 of proceeds received from the exercise of employee share options.

#### *Capital Expenditures*

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.

**Liquidity and Capital Resources – continued***Capital Expenditures - continued*

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2015.

| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|--|--------------|-----------------|---------------------------|--------------|
| Expenditures to maintain assets                                    | \$ 76,461    | \$ 41,796       | \$ 14,722                 | \$ 19,943    |
| Tenant improvements  | 128,271      | 50,702          | 45,837                    | 31,732       |
| Leasing commissions  | 40,661       | 26,909          | 5,792                     | 7,960        |
| Non-recurring capital expenditures                                 | 101,517      | 67,623          | 32,762                    | 1,132        |
| Total capital expenditures and leasing commissions (accrual basis) | 346,910      | 187,030         | 99,113                    | 60,767       |
| Adjustments to reconcile to cash basis:                            |              |                 |                           |              |
| Expenditures in the current year applicable to prior periods       | 100,704      | 50,013          | 27,029                    | 23,662       |
| Expenditures to be made in future periods for the current period   | (196,872)    | (99,269)        | (70,128)                  | (27,475)     |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 250,742   | \$ 137,774      | \$ 56,014                 | \$ 56,954    |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                           |              |
| <i>Per square foot per annum</i>                                   | \$ 9.13      | \$ 11.81        | \$ 6.68                   | \$ n/a       |
| <i>Percentage of initial rent</i>                                  | 11.2%        | 9.2%            | 17.0%                     | n/a          |

*Development and Redevelopment Expenditures*

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 392,000 salable square feet on our 220 Central Park South development site. The incremental development cost of this project is approximately \$1.3 billion of which \$238,000,000 has been expended as of September 30, 2015. On September 22, 2015, we upsized the loan on our 220 Central Park South development by \$350,000,000 to \$950,000,000. In connection with the upsizing, the standby

commitment for a \$500,000,000 mezzanine loan for this development has been terminated.

We are in the process of redeveloping the retail space at the Marriott Marquis Times Square Hotel, including converting the below grade parking garage into retail, which is expected to be completed by the end of 2015. The retail space includes 20,000 square feet on grade and 24,000 square feet below grade. As part of the redevelopment, we have completed the construction of a six-story, 300 foot wide block front, dynamic LED sign, which was lit for the first time in November 2014. The incremental development cost of this project is approximately \$220,000,000, of which \$196,000,000 has been expended as of September 30, 2015.

We are developing The Bartlett, a 699-unit residential project in Pentagon City, which is expected to be completed in 2016. The project will include a 37,000 square foot Whole Foods Market at the base of the building. The incremental development cost of this project is approximately \$250,000,000, of which \$145,000,000 has been expended as of September 30, 2015.

We are redeveloping an existing 171,000 square foot office building in Crystal City (2221 S. Clark Street), which we have leased to WeWork, into 216 rental residential units and 2 floors of co-working space. The incremental development cost of this project is approximately \$40,000,000, of which \$19,000,000 has been expended as of September 30, 2015. The redevelopment is expected to be completed in phases beginning in the fourth quarter of 2015.

We have substantially completed the repositioning of 280 Park Avenue (50% owned). Our share of the incremental development costs of this project is approximately \$63,000,000, of which \$61,000,000 was expended as of September 30, 2015.

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

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.

**Liquidity and Capital Resources – continued***Development and Redevelopment Expenditures - continued*

Below is a summary of development and redevelopment expenditures incurred in the nine months ended September 30, 2015. These expenditures include interest of \$48,817,000, payroll of \$3,557,000 and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$68,003,000, that were capitalized in connection with the development and redevelopment of these projects.

| (Amounts in thousands)                             | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|--|--------------|-----------------|---------------------------|--------------|
| 220 Central Park South                             | \$ 98,680    | \$ -            | \$ -                      | \$ 98,680    |
| The Bartlett                                       | 72,309       | -               | 72,309                    | -            |
| 330 West 34th Street                               | 25,707       | 25,707          | -                         | -            |
| 90 Park Avenue                                     | 20,430       | 20,430          | -                         | -            |
| Marriott Marquis Times Square - retail and signage | 19,069       | 19,069          | -                         | -            |
| Wayne Towne Center                                 | 17,827       | -               | -                         | 17,827       |
| 2221 South Clark Street (residential conversion)   | 14,478       | -               | 14,478                    | -            |
| 640 Fifth Avenue                                   | 11,603       | 11,603          | -                         | -            |
| Penn Plaza   | 11,003       | 11,003          | -                         | -            |
| 251 18th Street                                    | 4,863        | -               | 4,863                     | -            |
| S. Clark Street/12th Street                        | 3,120        | -               | 3,120                     | -            |
| 608 Fifth Avenue                                   | 2,527        | 2,527           | -                         | -            |
| Other  | 37,970       | 4,932           | 17,969                    | 15,069       |
|  | \$ 339,586   | \$ 95,271       | \$ 112,739                | \$ 131,576   |

*Cash Flows for the Nine Months Ended September 30, 2014*

Our cash and cash equivalents were \$1,683,142,000 at September 30, 2014, a \$1,099,852,000 increase over the balance at December 31, 2013. The increase is primarily due to cash flows from operating and financing activities, partially offset by cash flows from investing activities, as discussed below.

Cash flows provided by operating activities of \$828,569,000 was comprised of (i) net income of \$433,040,000, (ii) \$264,302,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net loss of partially owned entities and impairment losses on real estate, (iii) return of capital from real estate fund investments of \$215,676,000 and (iv) distributions of income from partially owned entities of \$42,164,000, partially offset by (v) the net change in operating assets and liabilities of

\$126,613,000, including \$3,392,000 related to Real Estate Fund investments.

Net cash used in investing activities of \$197,139,000 was comprised of (i) \$368,571,000 of development costs and construction in progress, (ii) \$171,660,000 of additions to real estate, (iii) \$95,546,000 of acquisitions of real estate and other, (iv) \$91,697,000 of investments in partially owned entities, and (v) \$11,380,000 of investment in loans receivable, partially offset by (vi) \$335,489,000 of proceeds from sales of real estate and related investments, (vii) \$101,592,000 of changes in restricted cash, (viii) \$96,504,000 of proceeds from repayments of mortgage and mezzanine loans receivable and other and (ix) \$8,130,000 of distributions of capital from partially owned entities.

Net cash provided by financing activities of \$468,422,000 was comprised of (i) \$1,713,285,000 of proceeds from borrowings, (ii) \$13,738,000 of proceeds received from the exercise of employee share options, and (iii) \$5,297,000 of contributions from noncontrolling interests, partially offset by (iv) \$410,724,000 of dividends paid on common shares, (v) \$343,354,000 for the repayments of borrowings, (vi) \$208,773,000 of distributions to noncontrolling interests, (vii) purchase of marketable securities in connection with the defeasance of mortgage notes payable of \$198,884,000, (viii) \$61,102,000 of dividends paid on preferred shares, (ix) \$40,424,000 of debt issuance costs and (x) \$637,000 for the repurchase of shares related to stock compensation agreements and/or related tax withholdings.



**Liquidity and Capital Resources – continued***Capital Expenditures in the nine months ended September 30, 2014*

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2014.

| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|--|--------------|-----------------|---------------------------|--------------|
| Expenditures to maintain assets                                    | \$ 61,235    | \$ 33,464       | \$ 9,815                  | \$ 17,956    |
| Tenant improvements  | 135,999      | 102,411         | 16,280                    | 17,308       |
| Leasing commissions  | 59,322       | 50,173          | 3,555                     | 5,594        |
| Non-recurring capital expenditures                                 | 67,016       | 25,038          | 23,428                    | 18,550       |
| Total capital expenditures and leasing commissions (accrual basis) | 323,572      | 211,086         | 53,078                    | 59,408       |
| Adjustments to reconcile to cash basis:                            |              |                 |                           |              |
| Expenditures in the current year applicable to prior periods       | 110,934      | 40,117          | 48,294                    | 22,523       |
| Expenditures to be made in future periods for the current period   | (209,157)    | (132,814)       | (35,664)                  | (40,679)     |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 225,349   | \$ 118,389      | \$ 65,708                 | \$ 41,252    |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                           |              |
| <i>Per square foot per annum</i>                                   | \$ 6.40      | \$ 6.80         | \$ 5.09                   | \$ n/a       |
| <i>Percentage of initial rent</i>                                  | 10.3%        | 9.5%            | 12.9%                     | n/a          |

*Development and Redevelopment Expenditures in the nine months ended September 30, 2014*

Below is a summary of development and redevelopment expenditures incurred in the nine months ended September 30, 2014. These expenditures include interest of \$46,517,000, payroll of \$5,460,000 and other soft costs (primarily architectural and engineering fees, permits, real estate taxes and professional fees) aggregating \$46,799,000, that were capitalized in connection with the development and redevelopment of these projects.

| (Amounts in thousands)                             | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Other</b> |
|--|--------------|-----------------|---------------------------|--------------|
| Springfield Town Center                            | \$ 92,696    | \$ -            | \$ -                      | \$ 92,696    |
| Marriott Marquis Times Square - retail and signage | 71,566       | 71,566          | -                         | -            |
| 220 Central Park South                             | 54,543       | -               | -                         | 54,543       |
| 330 West 34th Street                               | 32,014       | 32,014          | -                         | -            |
| The Bartlett                                       | 20,300       | -               | 20,300                    | -            |
| 608 Fifth Avenue                                   | 18,127       | 18,127          | -                         | -            |
| Wayne Towne Center                                 | 16,109       | -               | -                         | 16,109       |
| 7 West 34th Street                                 | 9,454        | 9,454           | -                         | -            |
| 90 Park Avenue                                     | 6,293        | 6,293           | -                         | -            |
| Other  | 47,469       | 13,347          | 23,443                    | 10,679       |
|  | \$ 368,571   | \$ 150,801      | \$ 43,743                 | \$ 174,027   |

## 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 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 costs to us.

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 September 30, 2015, the aggregate dollar amount of these guarantees and master leases is approximately \$430,000,000.

At September 30, 2015, \$40,647,000 of letters of credit were outstanding under one of our revolving credit facilities. Our revolving credit facilities contain financial covenants that require us to maintain minimum interest 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 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 September 30, 2015, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$76,000,000.

**Funds From Operations (“FFO”)**

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as 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, extraordinary items 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 flows 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 19 – *Income per Share*, in our consolidated financial statements on page 28 of this Quarterly Report on Form 10-Q.

*FFO for the Three and Nine Months Ended September 30, 2015 and 2014*

FFO attributable to common shareholders plus assumed conversions was \$236,039,000, or \$1.25 per diluted share for the three months ended September 30, 2015, compared to \$217,362,000, or \$1.15 per diluted share, for the prior year’s three months. FFO attributable to common shareholders plus assumed conversions was \$779,506,000, or \$4.11 per diluted share for the nine months ended September 30, 2015, compared to \$684,247,000, or \$3.63 per diluted share, for the prior year’s nine months. Details of certain items that affect comparability are discussed in the financial results summary of our “Overview”.

(Amounts in thousands, except per share amounts)

|   | <b>For The Three Months Ended<br/>September 30,</b> |             | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2015</b>   | <b>2014</b> | <b>2015</b>  | <b>2014</b> |
| <b>Reconciliation of our net income to FFO:</b>             |   |             |  |             |
| Net income attributable to Vornado                          | \$ 219,234  | \$ 151,524  | \$ 509,327   | \$ 331,249  |
| Depreciation and amortization of real property              | 134,623   | 123,578     | 382,175  | 387,549     |
| Net gains on sale of real estate                            | (135,557)   | (57,796)    | (146,424)  | (57,796)    |
| Real estate impairment losses                               | -   | -           | 256  | 20,842      |
| Proportionate share of adjustments to equity in net loss of |   |             |  |             |
| partially owned entities to arrive at FFO:                  |   |             |  |             |
| Depreciation and amortization of real property              | 38,131  | 26,604      | 106,685  | 93,416      |
| Net gains on sale of real estate                            | -   | (760)       | (4,513)  | (760)       |

Revenues

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Real estate impairment losses                                    | 2,313      | -          | 12,617     | -          |
| Income tax effect of above adjustments                           | -          | (207)      | -          | (7,287)    |
| Noncontrolling interests' share of above adjustments             | (2,364)    | (5,240)    | (20,473)   | (21,916)   |
| FFO attributable to Vornado                                      | 256,380    | 237,703    | 839,650    | 745,297    |
| Preferred share dividends  | (20,364)   | (20,365)   | (60,213)   | (61,099)   |
| FFO attributable to common shareholders                          | 236,016    | 217,338    | 779,437    | 684,198    |
| Convertible preferred share dividends                            | 23         | 24         | 69         | 49         |
| FFO attributable to common shareholders plus assumed conversions | \$ 236,039 | \$ 217,362 | \$ 779,506 | \$ 684,247 |

**Reconciliation of Weighted Average Shares**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Weighted average common shares outstanding         | 188,504 | 187,671 | 188,291 | 187,503 |
| Effect of dilutive securities:                     |         |         |         |         |
| Employee stock options and restricted share awards | 1,032   | 1,099   | 1,187   | 1,046   |
| Convertible preferred shares                       | 45      | 42      | 46      | 43      |
| Denominator for FFO per diluted share              | 189,581 | 188,812 | 189,524 | 188,592 |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| FFO attributable to common shareholders plus assumed conversions per diluted share | \$ 1.25 | \$ 1.15 | \$ 4.11 | \$ 3.63 |
|--|---------|---------|---------|---------|

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**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)                             | September 30, | 2015<br>Weighted<br>Average<br>Interest<br>Rate | Effect of 1%<br>Change In<br>Base Rates | 2014<br>December 31,<br>Balance | 2014<br>Weighted<br>Average<br>Interest<br>Rate |
|--|---------------|---|---|---------------------------------|---|
|  | Balance       | Rate  | Base Rates                              | Balance                         | Rate  |
| Consolidated debt:   |               |   |   |                                 |   |
| Variable rate  | \$ 2,818,142  | 2.01%   | \$ 28,181                               | \$ 1,763,769                    | 2.20%   |
| Fixed rate   | 7,188,865     | 4.34%   | -                                       | 7,846,555                       | 4.36%   |
|  | \$ 10,007,007 | 3.69%   | 28,181                                  | \$ 9,610,324                    | 3.97%   |
| Pro rata share of debt of non-consolidated entities (non-recourse):          |               |   |   |                                 |   |
| Variable rate – excluding Toys   | \$ 472,046    | 1.86%   | 4,720                                   | \$ 319,387                      | 1.72%   |
| Variable rate – Toys   | 1,046,123     | 7.05%   | 10,461                                  | 1,199,835                       | 6.47%   |
| Fixed rate (including \$662,214 and \$674,443 of Toys debt in 2015 and 2014) | 2,780,337     | 6.39%   | -                                       | 2,754,410                       | 6.45%   |
|  | \$ 4,298,506  | 6.05%   | 15,181                                  | \$ 4,273,632                    | 6.10%   |
| Noncontrolling interests' share of above                                     |               |   | (2,515)                                 |                                 |   |
| Total change in annual net income  |               |   | \$ 40,847                               |                                 |   |
| Per share-diluted  |               |   | \$ 0.22                                 |                                 |   |

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 September 30, 2015, we have one interest rate swap on a \$418,000,000 mortgage loan that swapped the rate from LIBOR plus 1.65% (1.85% at September 30, 2015) to a fixed rate of 4.78% through March 2018.

*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 rate at which similar loans could be made currently to borrowers with similar credit ratings, for the remaining term of such debt. As of September 30, 2015, the estimated fair value of our consolidated debt was \$10,156,000,000.

#### **Item 4. Controls and Procedures**

**Disclosure Controls and Procedures:** The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's 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, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2015, such disclosure controls and procedures were effective.

**Internal Control Over Financial Reporting:** There have not been any changes in the Company's 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, the Company's 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 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, 2014.

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

None.

**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: November 2, 2015

By: /s/ Stephen W. Theriot  
Stephen W. Theriot, Chief Financial Officer  
(duly authorized officer and principal financial and  
accounting officer)

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**EXHIBIT INDEX**

**Exhibit No.**

|         |   |  |
|---------|---|--|
| 15.1    | - | Letter regarding Unaudited Interim Financial Information     |
| 31.1    | - | Rule 13a-14 (a) Certification of the Chief Executive Officer |
| 31.2    | - | Rule 13a-14 (a) Certification of the Chief Financial Officer |
| 32.1    | - | Section 1350 Certification of the Chief Executive Officer    |
| 32.2    | - | Section 1350 Certification of the Chief Financial Officer    |
| 101.INS | - | XBRL Instance Document                                       |
| 101.SCH | - | XBRL Taxonomy Extension Schema                               |
| 101.CAL | - | XBRL Taxonomy Extension Calculation Linkbase                 |
| 101.DEF | - | XBRL Taxonomy Extension Definition Linkbase                  |
| 101.LAB | - | XBRL Taxonomy Extension Label Linkbase                       |
| 101.PRE | - | XBRL Taxonomy Extension Presentation Linkbase                |