

VORNADO REALTY TRUST
Form 10-Q
July 30, 2018

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 ended: June 30, 2018

Or

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

For the transition period from: to

Commission File Number: 001-11954 (Vornado Realty Trust)

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

Vornado Realty Trust

Vornado Realty L.P.

(Exact name of registrants as specified in its charter)

Vornado Realty Trust	Maryland	22-1657560
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Vornado Realty L.P.	Delaware	13-3925979
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

888 Seventh Avenue, New York, New York 10019
(Address of principal executive offices) (Zip Code)

(212) 894-7000

(Registrants' telephone number, including area code)

N/A

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

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post such files).

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

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

Vornado Realty Trust:

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer (Do not check if smaller reporting company)	Smaller Reporting Company
	Emerging Growth Company

Vornado Realty L.P.:

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer (Do not check if smaller reporting company)	Smaller Reporting Company
	Emerging Growth Company

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

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

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

As of June 30, 2018, 190,237,957 of Vornado Realty Trust's common shares of beneficial interest are outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018 of Vornado Realty Trust and Vornado Realty L.P. Unless stated otherwise or the context otherwise requires, references to “Vornado” refer to Vornado Realty Trust, a Maryland real estate investment trust (“REIT”), and references to the “Operating Partnership” refer to Vornado Realty L.P., a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively Vornado, the Operating Partnership and those subsidiaries consolidated by Vornado.

The Operating Partnership is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. Vornado is the sole general partner and also a 93.5% limited partner of the Operating Partnership. As the sole general partner of the Operating Partnership, Vornado has exclusive control of the Operating Partnership’s day-to-day management.

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

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

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

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

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

• Item 1. Financial Statements (unaudited), which includes the following specific disclosures for Vornado Realty Trust and Vornado Realty L.P.:

• Note 12. Redeemable Noncontrolling Interests/Redeemable Partnership Units

• Note 13. Shareholders' Equity/Partners' Capital

• Note 20. Income Per Share/Income Per Class A Unit

• Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable.

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

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
VORNADO REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Amounts in thousands, except unit, share, and per share amounts)	June 30, 2018	December 31, 2017
ASSETS		
Real estate, at cost:		
Land	\$3,175,830	\$3,143,648
Buildings and improvements	9,969,190	9,898,605
Development costs and construction in progress	1,797,301	1,615,101
Leasehold improvements and equipment	105,625	98,941
Total	15,047,946	14,756,295
Less accumulated depreciation and amortization	(3,035,523)	(2,885,283)
Real estate, net	12,012,423	11,871,012
Cash and cash equivalents	1,090,791	1,817,655
Restricted cash	121,168	97,157
Marketable securities	165,650	182,752
Tenant and other receivables, net of allowance for doubtful accounts of \$3,891 and \$5,526	65,773	58,700
Investments in partially owned entities	959,801	1,056,829
Real estate fund investments	373,039	354,804
Receivable arising from the straight-lining of rents, net of allowance of \$1,798 and \$954	936,614	926,711
Deferred leasing costs, net of accumulated amortization of \$198,100 and \$191,827	443,859	403,492
Identified intangible assets, net of accumulated amortization of \$163,406 and \$150,837	146,370	159,260
Assets related to discontinued operations	52	1,357
Other assets	550,543	468,205
	\$ 16,866,083	\$ 17,397,934
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable, net	\$8,108,618	\$8,137,139
Senior unsecured notes, net	843,417	843,614
Unsecured term loan, net	749,494	748,734
Unsecured revolving credit facilities	80,000	—
Accounts payable and accrued expenses	394,079	415,794
Deferred revenue	187,934	227,069
Deferred compensation plan	100,368	109,177
Liabilities related to discontinued operations	214	3,620
Preferred shares redeemed on January 4 and 11, 2018	—	455,514
Other liabilities	520,331	464,635
Total liabilities	10,984,455	11,405,296
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 12,616,515 and 12,528,899 units outstanding	932,613	979,509
Series D cumulative redeemable preferred units - 177,101 units outstanding	5,428	5,428
Total redeemable noncontrolling interests	938,041	984,937
Vornado's shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 36,799,573 shares	891,325	891,988

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Common shares of beneficial interest: \$0.04 par value per share; authorized 250,000,000 shares; issued and outstanding 190,237,957 and 189,983,858 shares	7,587	7,577
Additional capital	7,555,993	7,492,658
Earnings less than distributions	(4,206,381)	(4,183,253)
Accumulated other comprehensive income	33,351	128,682
Total Vornado shareholders' equity	4,281,875	4,337,652
Noncontrolling interests in consolidated subsidiaries	661,712	670,049
Total equity	4,943,587	5,007,701
	\$ 16,866,083	\$ 17,397,934

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share amounts)	For the Three Months		For the Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
REVENUES:				
Property rentals	\$444,595	\$428,643	\$884,705	\$843,535
Tenant expense reimbursements	58,312	51,657	118,622	110,690
Fee and other income	38,911	30,787	74,928	64,920
Total revenues	541,818	511,087	1,078,255	1,019,145
EXPENSES:				
Operating	235,981	215,700	473,583	436,359
Depreciation and amortization	111,846	105,123	220,532	210,251
General and administrative	34,427	35,405	76,960	81,580
Expense from deferred compensation plan liability	2,077	789	1,673	3,258
Transaction related costs and other	1,017	260	14,173	1,012
Total expenses	385,348	357,277	786,921	732,460
Operating income	156,470	153,810	291,334	286,685
Income (loss) from partially owned entities	8,757	46,021	(1,147)	47,379
(Loss) income from real estate fund investments	(28,976)	4,391	(37,783)	4,659
Interest and other investment income, net	30,892	8,541	6,508	15,236
Income from deferred compensation plan assets	2,077	789	1,673	3,258
Interest and debt expense	(87,657)	(84,789)	(175,823)	(167,513)
Net gains on disposition of wholly owned and partially owned assets	23,559	—	23,559	501
Income before income taxes	105,122	128,763	108,321	190,205
Income tax (expense) benefit	(467)	610	(3,021)	(2,303)
Income from continuing operations	104,655	129,373	105,300	187,902
Income from discontinued operations	683	18,111	320	33,429
Net income	105,338	147,484	105,620	221,331
Less net loss (income) attributable to noncontrolling interests in:				
Consolidated subsidiaries	26,175	(7,677)	34,449	(14,414)
Operating Partnership	(7,445)	(7,706)	(6,321)	(10,935)
Net income attributable to Vornado	124,068	132,101	133,748	195,982
Preferred share dividends	(12,534)	(16,129)	(25,569)	(32,258)
Preferred share issuance costs	—	—	(14,486)	—
NET INCOME attributable to common shareholders	\$111,534	\$115,972	\$93,693	\$163,724
INCOME PER COMMON SHARE – BASIC:				
Income from continuing operations, net	\$0.59	\$0.52	\$0.49	\$0.70
Income from discontinued operations, net	—	0.09	—	0.16
Net income per common share	\$0.59	\$0.61	\$0.49	\$0.86
Weighted average shares outstanding	190,200	189,395	190,141	189,304
INCOME PER COMMON SHARE – DILUTED:				
Income from continuing operations, net	\$0.58	\$0.52	\$0.49	\$0.70
Income from discontinued operations, net	—	0.09	—	0.16
Net income per common share	\$0.58	\$0.61	\$0.49	\$0.86
Weighted average shares outstanding	191,168	190,444	191,190	190,674

DIVIDENDS PER COMMON SHARE	\$0.63	\$0.71	\$1.26	\$1.42
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See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 105,338	\$ 147,484	\$ 105,620	\$ 221,331
Other comprehensive income (loss):				
Increase (reduction) in value of interest rate swaps and other	2,908	(1,204)	13,166	4,638
Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries	390	(980)	736	(1,031)
Reduction in unrealized net gain on available-for-sale securities	—	(1,206)	—	(16,215)
Pro rata share of amounts reclassified from accumulated other comprehensive income of a nonconsolidated subsidiary	—	—	—	9,268
Comprehensive income	108,636	144,094	119,522	217,991
Less comprehensive loss (income) attributable to noncontrolling interests	18,525	(15,173)	27,269	(25,142)
Comprehensive income attributable to Vornado	\$ 127,161	\$ 128,921	\$ 146,791	\$ 192,849

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional Capital	Earnings Less Than Distributions	Accumulated Other Comprehensive Income	Non-controlling Interests in Consolidated Subsidiaries	Total Equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2017	36,800	\$891,988	189,984	\$7,577	\$7,492,658	\$(4,183,253)	\$128,682	\$670,049	\$5,007,701
Cumulative effect of accounting change (see Note 3)	—	—	—	—	—	122,893	(108,374)	—	14,519
Net income attributable to Vornado	—	—	—	—	—	133,748	—	—	133,748
Net loss attributable to noncontrolling interests in consolidated subsidiaries	—	—	—	—	—	—	—	(34,449)	(34,449)
Dividends on common shares	—	—	—	—	—	(239,594)	—	—	(239,594)
Dividends on preferred shares	—	—	—	—	—	(25,569)	—	—	(25,569)
Preferred share issuance costs	—	—	—	—	—	(14,486)	—	—	(14,486)
Common shares issued:									
Upon redemption of Class A units, at redemption value	—	—	176	7	12,239	—	—	—	12,246
Under employees' share option plan	—	—	61	3	3,783	—	—	—	3,786
Under dividend reinvestment plan	—	—	10	—	685	—	—	—	685
Contributions:									
Real estate fund investments	—	—	—	—	—	—	—	45,347	45,347
Other	—	—	—	—	—	—	—	14,211	14,211
Distributions:									
Real estate fund investments	—	—	—	—	—	—	—	(10,246)	(10,246)
Other	—	—	—	—	—	—	—	(23,201)	(23,201)
Preferred share issuance	—	(663)	—	—	—	—	—	—	(663)

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Deferred compensation shares and options	—	—	7	—	585	(121)	—	—	464
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	—	—	—	—	—	—	—	736	—	736
Increase in value of interest rate swaps	—	—	—	—	—	—	—	13,166	—	13,166
Unearned 2015 Out-Performance Plan awards acceleration	—	—	—	—	9,046	—	—	—	—	9,046
Adjustments to carry redeemable Class A units at redemption value	—	—	—	—	36,450	—	—	—	—	36,450
Redeemable noncontrolling interests' share of above adjustments	—	—	—	—	—	—	—	(859)	(859
Other	—	—	—	—	547	1	—	—	1	549
Balance, June 30, 2018	36,800	\$891,325	190,238	\$7,587	\$7,555,993	\$(4,206,381)	\$33,351	\$661,712	\$4,943,587	

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 Distributions	Accumulated Other Comprehensive Income	Non-controlling Interests in Consolidated Subsidiaries	Total Equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2016	42,825	\$1,038,055	189,101	\$7,542	\$7,153,332	\$(1,419,382)	\$118,972	\$719,977	\$7,618,496
Net income attributable to Vornado	—	—	—	—	—	195,982	—	—	195,982
Net income attributable to noncontrolling interests in consolidated subsidiaries	—	—	—	—	—	—	—	14,414	14,414
Dividends on common shares	—	—	—	—	—	(268,817)	—	—	(268,817)
Dividends on preferred shares	—	—	—	—	—	(32,258)	—	—	(32,258)
Common shares issued:									
Upon redemption of Class A units, at redemption value	—	—	249	10	25,552	—	—	—	25,562
Under employees' share option plan	—	—	103	4	8,842	—	—	—	8,846
Under dividend reinvestment plan	—	—	8	—	780	—	—	—	780
Contributions	—	—	—	—	—	—	—	991	991
Distributions:									
Real estate fund investments	—	—	—	—	—	—	—	(6,200)	(6,200)
Other	—	—	—	—	—	—	—	(1,339)	(1,339)
Conversion of Series A preferred shares to common shares	(2)	(44)	2	—	44	—	—	—	—
Deferred compensation shares and options	—	—	2	—	1,076	(285)	—	—	791
Reduction in unrealized net	—	—	—	—	—	—	(16,215)	—	(16,215)

gain on available-for-sale securities									
Pro rata share of amounts reclassified related to a nonconsolidated subsidiary	—	—	—	—	—	—	9,268	—	9,268
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	—	—	—	—	—	—	(1,031) —	(1,031)
Increase in value of interest rate swaps	—	—	—	—	—	—	4,636	—	4,636
Adjustments to carry redeemable Class A units at redemption value	—	—	—	—	90,208	—	—	—	90,208
Redeemable noncontrolling interests' share of above adjustments	—	—	—	—	—	—	207	—	207
Other	—	—	—	—	—	(46) 2	(47) (91)
Balance, June 30, 2017	42,823	\$1,038,011	189,465	\$7,556	\$7,279,834	\$(1,524,806)	\$115,839	\$727,796	\$7,644,230

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$105,620	\$221,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	233,748	289,898
Distributions of income from partially owned entities	45,999	44,778
Net realized and unrealized losses on real estate fund investments	30,426	6,201
Other non-cash adjustments	24,320	30,070
Net gains on disposition of wholly owned and partially owned assets	(23,559)	(501)
Amortization of below-market leases, net	(21,107)	(24,391)
Return of capital from real estate fund investments	20,291	—
Decrease in fair value of marketable securities	17,102	—
Straight-lining of rents	(10,122)	(28,581)
Equity in net loss (income) of partially owned entities	1,147	(47,721)
Net gains on sale of real estate and other	—	(2,267)
Changes in operating assets and liabilities:		
Real estate fund investments	(68,950)	—
Tenant and other receivables, net	(7,511)	3,974
Prepaid assets	(19,092)	(146,770)
Other assets	(114,881)	(5,606)
Accounts payable and accrued expenses	(11,036)	(6,029)
Other liabilities	38,865	(18,169)
Net cash provided by operating activities	241,260	316,217
Cash Flows from Investing Activities:		
Development costs and construction in progress	(185,039)	(191,073)
Additions to real estate	(113,300)	(139,611)
Distributions of capital from partially owned entities	81,997	113,507
Acquisitions of real estate and other	(56,500)	(11,841)
Proceeds from sales of real estate and related investments	44,599	5,180
Investments in partially owned entities	(26,663)	(27,720)
Proceeds from repayments of mortgage loans receivable	—	29
Net cash used in investing activities	(254,906)	(251,529)

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Financing Activities:		
Redemption of preferred shares	\$(470,000)	\$—
Dividends paid on common shares	(239,594)	(268,817)
Proceeds from borrowings	189,042	226,929
Repayments of borrowings	(148,408)	(13,971)
Contributions from noncontrolling interests	59,558	991
Distributions to noncontrolling interests	(49,338)	(25,617)
Dividends paid on preferred shares	(30,047)	(32,258)
Proceeds received from exercise of employee share options and other	4,471	9,626
Debt issuance costs	(3,289)	(2,919)
Debt prepayment and extinguishment costs	(818)	—
Repurchase of shares related to stock compensation agreements and related tax withholdings and other	(784)	(285)
Net cash used in financing activities	(689,207)	(106,321)
Net decrease in cash and cash equivalents and restricted cash	(702,853)	(41,633)
Cash and cash equivalents and restricted cash at beginning of period	1,914,812	1,599,322
Cash and cash equivalents and restricted cash at end of period	\$1,211,959	\$1,557,689
Reconciliation of Cash and Cash Equivalents and Restricted Cash:		
Cash and cash equivalents at beginning of period	\$1,817,655	\$1,501,027
Restricted cash at beginning of period	97,157	95,032
Restricted cash included in discontinued operations at beginning of period	—	3,263
Cash and cash equivalents and restricted cash at beginning of period	\$1,914,812	\$1,599,322
Cash and cash equivalents at end of period	\$1,090,791	\$1,471,303
Restricted cash at end of period	121,168	82,651
Restricted cash included in discontinued operations at end of period	—	3,735
Cash and cash equivalents and restricted cash at end of period	\$1,211,959	\$1,557,689
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of \$28,558 and \$20,050	\$155,875	\$175,718
Cash payments for income taxes	\$4,365	\$3,151
Non-Cash Investing and Financing Activities:		
Accrued capital expenditures included in accounts payable and accrued expenses	\$54,176	\$59,733
Write-off of fully depreciated assets	(38,117)	(35,727)
Adjustments to carry redeemable Class A units at redemption value	36,450	90,208
Reduction in unrealized net gain on available-for-sale securities	—	(16,215)

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands, except unit amounts)	June 30, 2018	December 31, 2017
ASSETS		
Real estate, at cost:		
Land	\$3,175,830	\$3,143,648
Buildings and improvements	9,969,190	9,898,605
Development costs and construction in progress	1,797,301	1,615,101
Leasehold improvements and equipment	105,625	98,941
Total	15,047,946	14,756,295
Less accumulated depreciation and amortization	(3,035,523)	(2,885,283)
Real estate, net	12,012,423	11,871,012
Cash and cash equivalents	1,090,791	1,817,655
Restricted cash	121,168	97,157
Marketable securities	165,650	182,752
Tenant and other receivables, net of allowance for doubtful accounts of \$3,891 and \$5,526	65,773	58,700
Investments in partially owned entities	959,801	1,056,829
Real estate fund investments	373,039	354,804
Receivable arising from the straight-lining of rents, net of allowance of \$1,798 and \$954	936,614	926,711
Deferred leasing costs, net of accumulated amortization of \$198,100 and \$191,827	443,859	403,492
Identified intangible assets, net of accumulated amortization of \$163,406 and \$150,837	146,370	159,260
Assets related to discontinued operations	52	1,357
Other assets	550,543	468,205
	\$ 16,866,083	\$ 17,397,934
LIABILITIES, REDEEMABLE PARTNERSHIP UNITS AND EQUITY		
Mortgages payable, net	\$8,108,618	\$8,137,139
Senior unsecured notes, net	843,417	843,614
Unsecured term loan, net	749,494	748,734
Unsecured revolving credit facilities	80,000	—
Accounts payable and accrued expenses	394,079	415,794
Deferred revenue	187,934	227,069
Deferred compensation plan	100,368	109,177
Liabilities related to discontinued operations	214	3,620
Preferred units redeemed on January 4 and 11, 2018	—	455,514
Other liabilities	520,331	464,635
Total liabilities	10,984,455	11,405,296
Commitments and contingencies		
Redeemable partnership units:		
Class A units - 12,616,515 and 12,528,899 units outstanding	932,613	979,509
Series D cumulative redeemable preferred units - 177,101 units outstanding	5,428	5,428
Total redeemable partnership units	938,041	984,937
Equity:		
Partners' capital	8,454,905	8,392,223
Earnings less than distributions	(4,206,381)	(4,183,253)
Accumulated other comprehensive income	33,351	128,682
Total Vornado Realty L.P. equity	4,281,875	4,337,652

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Noncontrolling interests in consolidated subsidiaries	661,712	670,049
Total equity	4,943,587	5,007,701
	\$ 16,866,083	\$ 17,397,934

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY L.P.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per unit amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES:				
Property rentals	\$444,595	\$428,643	\$884,705	\$843,535
Tenant expense reimbursements	58,312	51,657	118,622	110,690
Fee and other income	38,911	30,787	74,928	64,920
Total revenues	541,818	511,087	1,078,255	1,019,145
EXPENSES:				
Operating	235,981	215,700	473,583	436,359
Depreciation and amortization	111,846	105,123	220,532	210,251
General and administrative	34,427	35,405	76,960	81,580
Expense from deferred compensation plan liability	2,077	789	1,673	3,258
Transaction related costs and other	1,017	260	14,173	1,012
Total expenses	385,348	357,277	786,921	732,460
Operating income	156,470	153,810	291,334	286,685
Income (loss) from partially owned entities	8,757	46,021	(1,147)	47,379
(Loss) income from real estate fund investments	(28,976)	4,391	(37,783)	4,659
Interest and other investment income, net	30,892	8,541	6,508	15,236
Income from deferred compensation plan assets	2,077	789	1,673	3,258
Interest and debt expense	(87,657)	(84,789)	(175,823)	(167,513)
Net gains on disposition of wholly owned and partially owned assets	23,559	—	23,559	501
Income before income taxes	105,122	128,763	108,321	190,205
Income tax (expense) benefit	(467)	610	(3,021)	(2,303)
Income from continuing operations	104,655	129,373	105,300	187,902
Income from discontinued operations	683	18,111	320	33,429
Net income	105,338	147,484	105,620	221,331
Less net loss (income) attributable to noncontrolling interests in consolidated subsidiaries	26,175	(7,677)	34,449	(14,414)
Net income attributable to Vornado Realty L.P.	131,513	139,807	140,069	206,917
Preferred unit distributions	(12,582)	(16,177)	(25,666)	(32,355)
Preferred unit issuance costs	—	—	(14,486)	—
NET INCOME attributable to Class A unitholders	\$118,931	\$123,630	\$99,917	\$174,562
INCOME PER CLASS A UNIT – BASIC:				
Income from continuing operations, net	\$0.58	\$0.52	\$0.49	\$0.69
Income from discontinued operations, net	—	0.09	—	0.17
Net income per Class A unit	\$0.58	\$0.61	\$0.49	\$0.86
Weighted average units outstanding	202,064	201,127	201,997	200,987
INCOME PER CLASS A UNIT – DILUTED:				
Income from continuing operations, net	\$0.58	\$0.52	\$0.48	\$0.69
Income from discontinued operations, net	—	0.09	—	0.16
Net income per Class A unit	\$0.58	\$0.61	\$0.48	\$0.85
Weighted average units outstanding	203,354	202,623	203,266	202,617

DISTRIBUTIONS PER CLASS A UNIT	\$0.63	\$0.71	\$1.26	\$1.42
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See notes to consolidated financial statements (unaudited).

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VORNADO REALTY L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$105,338	\$147,484	\$105,620	\$221,331
Other comprehensive income (loss):				
Increase (reduction) in value of interest rate swaps and other	2,908	(1,204)	13,166	4,638
Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries	390	(980)	736	(1,031)
Reduction in unrealized net gain on available-for-sale securities	—	(1,206)	—	(16,215)
Pro rata share of amounts reclassified from accumulated other comprehensive income of a nonconsolidated subsidiary	—	—	—	9,268
Comprehensive income	108,636	144,094	119,522	217,991
Less comprehensive loss (income) attributable to noncontrolling interests in consolidated subsidiaries	26,175	(7,677)	34,449	(14,414)
Comprehensive income attributable to Vornado Realty L.P.	\$134,811	\$136,417	\$153,971	\$203,577

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY L.P.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

(Amounts in thousands)	Preferred Units		Class A Units Owned by Vornado		Earnings Less Than Distributions	Accumulated Other Comprehensive Income	Non-controlling Interests in Consolidated Subsidiaries	Total Equity
	Units	Amount	Units	Amount				
Balance, December 31, 2017	36,800	\$891,988	189,984	\$7,500,235	\$(4,183,253)	\$128,682	\$670,049	\$5,007,701
Cumulative effect of accounting change (see Note 3)	—	—	—	—	122,893	(108,374)	—	14,519
Net income attributable to Vornado Realty L.P.	—	—	—	—	140,069	—	—	140,069
Net income attributable to redeemable partnership units	—	—	—	—	(6,321)	—	—	(6,321)
Net loss attributable to noncontrolling interests in consolidated subsidiaries	—	—	—	—	—	—	(34,449)	(34,449)
Distributions to Vornado	—	—	—	—	(239,594)	—	—	(239,594)
Distributions to preferred unitholders	—	—	—	—	(25,569)	—	—	(25,569)
Preferred unit issuance costs	—	—	—	—	(14,486)	—	—	(14,486)
Class A Units issued to Vornado:								
Upon redemption of redeemable Class A units, at redemption value	—	—	176	12,246	—	—	—	12,246
Under Vornado's employees' share option plan	—	—	61	3,786	—	—	—	3,786
Under Vornado's dividend reinvestment plan	—	—	10	685	—	—	—	685
Contributions:								
Real estate fund investments	—	—	—	—	—	—	45,347	45,347
Other	—	—	—	—	—	—	14,211	14,211
Distributions:								
	—	—	—	—	—	—	(10,246)	(10,246)

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Real estate fund investments									
Other	—	—	—	—	—	—	(23,201)	(23,201)	
Preferred unit issuance	—	(663)	—	—	—	—	—	(663)	
Deferred compensation units and options	—	—	7	585	(121)	—	—	464	
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	—	—	—	—	—	736	—	736	
Increase in value of interest rate swaps	—	—	—	—	—	13,166	—	13,166	
Unearned 2015 Out-Performance Plan awards acceleration	—	—	—	9,046	—	—	—	9,046	
Adjustments to carry redeemable Class A units at redemption value	—	—	—	36,450	—	—	—	36,450	
Redeemable partnership units' share of above adjustments	—	—	—	—	—	(859)	—	(859)	
Other	—	—	—	547	1	—	1	549	
Balance, June 30, 2018	36,800	\$891,325	190,238	\$7,563,580	\$(4,206,381)	\$33,351	\$661,712	\$4,943,587	

See notes to consolidated financial statements (unaudited).

VORNADO REALTY L.P.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED
(UNAUDITED)

(Amounts in thousands)	Preferred Units		Class A Units Owned by Vornado		Earnings Less Than Distributions	Accumulated Other Comprehensive Income	Non-controlling Interests in Consolidated Subsidiaries	Total Equity
	Units	Amount	Units	Amount				
Balance, December 31, 2016	42,825	\$1,038,055	189,101	\$7,160,874	\$(1,419,382)	\$ 118,972	\$ 719,977	\$7,618,496
Net income attributable to Vornado Realty L.P.	—	—	—	—	206,917	—	—	206,917
Net income attributable to redeemable partnership units	—	—	—	—	(10,935)	—	—	(10,935)
Net income attributable to noncontrolling interests in consolidated subsidiaries	—	—	—	—	—	—	14,414	14,414
Distributions to Vornado	—	—	—	—	(268,817)	—	—	(268,817)
Distributions to preferred unitholders	—	—	—	—	(32,258)	—	—	(32,258)
Class A Units issued to Vornado:								
Upon redemption of redeemable Class A units, at redemption value	—	—	249	25,562	—	—	—	25,562
Under Vornado's employees' share option plan	—	—	103	8,846	—	—	—	8,846
Under Vornado's dividend reinvestment plan	—	—	8	780	—	—	—	780
Contributions	—	—	—	—	—	—	991	991
Distributions:								
Real estate fund investments	—	—	—	—	—	—	(6,200)	(6,200)
Other	—	—	—	—	—	—	(1,339)	(1,339)
Conversion of Series A preferred units to Class A	(2)	(44)	2	44	—	—	—	—

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units								
Deferred compensation units and options	—	—	2	1,076	(285)	—	791
Reduction in unrealized net gain on available-for-sale securities	—	—	—	—	—	(16,215)	(16,215
Pro rata share of amounts reclassified related to a nonconsolidated subsidiary	—	—	—	—	—	9,268	—	9,268
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	—	—	—	—	—	(1,031)	(1,031
Increase in value of interest rate swaps	—	—	—	—	—	4,636	—	4,636
Adjustments to carry redeemable Class A units at redemption value	—	—	—	90,208	—	—	—	90,208
Redeemable partnership units' share of above adjustments	—	—	—	—	—	207	—	207
Other	—	—	—	—	(46)	2	(47
Balance, June 30, 2017	42,823	\$1,038,011	189,465	\$7,287,390	\$(1,524,806)	\$115,839	\$727,796	\$7,644,230

See notes to consolidated financial statements (unaudited).

VORNADO REALTY L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$105,620	\$221,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	233,748	289,898
Distributions of income from partially owned entities	45,999	44,778
Net realized and unrealized losses on real estate fund investments	30,426	6,201
Other non-cash adjustments	24,320	30,070
Net gains on disposition of wholly owned and partially owned assets	(23,559)	(501)
Amortization of below-market leases, net	(21,107)	(24,391)
Return of capital from real estate fund investments	20,291	—
Decrease in fair value of marketable securities	17,102	—
Straight-lining of rents	(10,122)	(28,581)
Equity in net loss (income) of partially owned entities	1,147	(47,721)
Net gains on sale of real estate and other	—	(2,267)
Changes in operating assets and liabilities:		
Real estate fund investments	(68,950)	—
Tenant and other receivables, net	(7,511)	3,974
Prepaid assets	(19,092)	(146,770)
Other assets	(114,881)	(5,606)
Accounts payable and accrued expenses	(11,036)	(6,029)
Other liabilities	38,865	(18,169)
Net cash provided by operating activities	241,260	316,217
Cash Flows from Investing Activities:		
Development costs and construction in progress	(185,039)	(191,073)
Additions to real estate	(113,300)	(139,611)
Distributions of capital from partially owned entities	81,997	113,507
Acquisitions of real estate and other	(56,500)	(11,841)
Proceeds from sales of real estate and related investments	44,599	5,180
Investments in partially owned entities	(26,663)	(27,720)
Proceeds from repayments of mortgage loans receivable	—	29
Net cash used in investing activities	(254,906)	(251,529)

See notes to consolidated financial statements (unaudited).

VORNADO REALTY L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Financing Activities:		
Redemption of preferred units	\$(470,000)	\$—
Distributions to Vornado	(239,594)	(268,817)
Proceeds from borrowings	189,042	226,929
Repayments of borrowings	(148,408)	(13,971)
Contributions from noncontrolling interests in consolidated subsidiaries	59,558	991
Distributions to redeemable security holders and noncontrolling interests in consolidated subsidiaries	(49,338)	(25,617)
Distributions to preferred unitholders	(30,047)	(32,258)
Proceeds received from exercise of Vornado stock options and other	4,471	9,626
Debt issuance costs	(3,289)	(2,919)
Debt prepayment and extinguishment costs	(818)	—
Repurchase of Class A units related to stock compensation agreements and related tax withholdings and other	(784)	(285)
Net cash used in financing activities	(689,207)	(106,321)
Net decrease in cash and cash equivalents and restricted cash	(702,853)	(41,633)
Cash and cash equivalents and restricted cash at beginning of period	1,914,812	1,599,322
Cash and cash equivalents and restricted cash at end of period	\$1,211,959	\$1,557,689
Reconciliation of Cash and Cash Equivalents and Restricted Cash:		
Cash and cash equivalents at beginning of period	\$1,817,655	\$1,501,027
Restricted cash at beginning of period	97,157	95,032
Restricted cash included in discontinued operations at beginning of period	—	3,263
Cash and cash equivalents and restricted cash at beginning of period	\$1,914,812	\$1,599,322
Cash and cash equivalents at end of period	\$1,090,791	\$1,471,303
Restricted cash at end of period	121,168	82,651
Restricted cash included in discontinued operations at end of period	—	3,735
Cash and cash equivalents and restricted cash at end of period	\$1,211,959	\$1,557,689
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of \$28,558 and \$20,050	\$155,875	\$175,718
Cash payments for income taxes	\$4,365	\$3,151
Non-Cash Investing and Financing Activities:		
Accrued capital expenditures included in accounts payable and accrued expenses	\$54,176	\$59,733
Write-off of fully depreciated assets	(38,117)	(35,727)
Adjustments to carry redeemable Class A units at redemption value	36,450	90,208
Reduction in unrealized net gain on available-for-sale securities	—	(16,215)

See notes to consolidated financial statements (unaudited).

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

1. Organization

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 93.5% of the common limited partnership interest in, the Operating Partnership as of June 30, 2018. All references to the “Company,” “we,” “us,” and “our” mean collectively Vornado, the Operating Partnership and those entities/subsidiaries consolidated by Vornado.

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and the Operating Partnership and their consolidated subsidiaries. All inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2018 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. For the three and six months ended June 30, 2017, an expense of \$789,000 and \$3,258,000, respectively, related to the mark-to-market of our deferred compensation plan liability was reclassified from "general and administrative expenses" to "expense from deferred compensation plan liability" and income of \$789,000 and \$3,258,000, respectively, related to the mark-to-market of our deferred compensation plan assets was reclassified from "interest and other investment income, net" to "income from deferred compensation plan assets" on our consolidated statements of income. In addition, for the six months ended June 30, 2017, an expense of \$1,062,000 related to New York City Unincorporated Business Tax was reclassified from "general and administrative expenses" to "income tax (expense) benefit" on our consolidated statements of income.

3. Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-09”) establishing Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). ASU 2014-09, as amended by subsequent ASUs on the topic, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of promised goods or services to

customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. We adopted this standard effective January 1, 2018 using the modified retrospective method applied to all existing contracts not yet completed as of January 1, 2018 and recorded a \$14,519,000 cumulative-effect adjustment to beginning accumulated deficit. The adoption of ASC 606 did not have a material impact on our financial statements (see Note 4 - Revenue Recognition).

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

3. Recently Issued Accounting Literature - continued

In January 2016, the FASB issued an update ("ASU 2016-01") Recognition and Measurement of Financial Assets and Financial Liabilities to ASC Topic 825, Financial Instruments. ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We adopted this update effective January 1, 2018 using the modified retrospective approach. While the adoption of this update requires us to continue to measure "marketable securities" at fair value on each reporting date, the changes in fair value will be recognized in current period earnings as opposed to "other comprehensive income (loss)." As a result, on January 1, 2018 we recorded a decrease to beginning accumulated deficit of \$111,225,000 to recognize the unrealized gains previously recorded in "accumulated other comprehensive income" on our consolidated balance sheets. Subsequent changes in the fair value of our marketable securities will be recorded to "interest and other investment income, net" on our consolidated statements of income. For the three and six months ended June 30, 2018, we recorded a \$15,884,000 increase and \$17,102,000 decrease, respectively, in the fair value of our marketable securities which is included in "interest and other investment income, net" on our consolidated statements of income.

In February 2016, the FASB issued an update ("ASU 2016-02") establishing ASC Topic 842, Leases, as amended by subsequent ASUs on the topic, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. The accounting applied by the lessor is largely unchanged from that applied under the existing lease standard. We are currently evaluating the overall impact of the adoption of ASU 2016-02 on our consolidated financial statements and believe that the standard will more significantly impact the accounting for leases in which we are a lessee. We have a number of ground leases for which we will be required to record a right-of-use asset and lease liability equal to the present value of the remaining minimum lease payments, and will continue to recognize expense on a straight-line basis upon adoption of this standard. Under ASU 2016-02, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, we will no longer be able to capitalize internal leasing costs and instead will be required to expense these costs as incurred. During the three and six months ended June 30, 2018 and 2017, we capitalized internal leasing costs of \$1,358,000 and \$2,706,000, and \$1,241,000 and \$2,214,000 respectively, excluding our former Washington, DC segment which was spun-off on July 17, 2017. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We will adopt this standard effective January 1, 2019 using the modified retrospective approach and will elect to use the practical expedients provided by this standard.

In February 2017, the FASB issued an update ("ASU 2017-05") Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets to ASC Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets. ASU 2017-05 clarifies the scope of recently established guidance on nonfinancial asset derecognition, as well as the accounting for partial sales of nonfinancial assets. This update conforms the derecognition guidance on nonfinancial assets with the model for transactions in ASC 606. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We adopted this update on January 1, 2018 using the modified retrospective approach applied to all contracts not yet completed. The adoption of this update did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued an update (“ASU 2017-09”) Scope of Modification Accounting to ASC Topic 718, Compensation - Stock Compensation (“ASC 718”). ASU 2017-09 provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. ASU 2017-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The adoption of this update on January 1, 2018 did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued an update (“ASU 2017-12”) Targeted Improvements to Accounting for Hedging Activities to ASC Topic 815, Derivatives and Hedging (“ASC 815”). ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815. The update is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting and increase transparency as to the scope and results of hedge programs. ASU 2017-12 requires subsequent changes in fair value of a hedging instrument that has been designated and qualifies as a cash flow hedge to be recognized as a component of “other comprehensive income (loss).” ASU 2017-12 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018, with early adoption permitted. We early adopted ASU 2017-12 on January 1, 2018 using the modified retrospective approach. The adoption of this update did not have a material impact on our consolidated financial statements.

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

4. Revenue Recognition

On January 1, 2018, we adopted ASC 606 which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This standard requires us to recognize for certain of our revenue sources the transfer of promised goods or services to customers in an amount that reflects the consideration we are entitled to in exchange for those goods or services. We adopted this standard effective January 1, 2018 using the modified retrospective method applied to all existing contracts not yet completed as of January 1, 2018 and recorded a \$14,519,000 cumulative-effect adjustment to beginning accumulated deficit. The adoption of ASC 606 did not have a material impact on our consolidated financial statements.

Our revenues primarily consist of property rentals, tenant expense reimbursements, and fee and other income. We operate in two reportable segments: New York and Other, with a significant portion of our revenues included in the "New York" segment. We have the following revenue sources and revenue recognition policies:

Base rent is revenue arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements. We commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances where we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease.

Hotel revenue arising from the operation of Hotel Pennsylvania consists of rooms revenue, food and beverage revenue, and banquet revenue. Room revenue is recognized when rooms are occupied. Food and beverage and banquet revenue are recognized when the services have been transferred.

Trade shows revenue arising from the operation of trade shows is primarily booth rentals. This revenue is recognized upon the occurrence of the trade shows.

Operating expense reimbursements is revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the common areas of our properties. Revenue is recognized in the same period as the related expenses are incurred.

Tenant services is revenue arising from sub-metered electric, elevator, trash removal and other services provided to tenants at their request. This revenue is recognized as the services are transferred.

Fee and other income includes management, leasing and other revenue arising from contractual agreements with third parties or with partially owned entities, and includes Building Maintenance Service ("BMS") cleaning, engineering and security services. This revenue is recognized as the services are transferred. Fee and other income also includes lease termination fee income which is recognized immediately if a tenant vacates or is recognized on a straight-line basis over the shortened remaining lease term.

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

4. Revenue Recognition - continued

Below is a summary of our revenues by segment. Base rent, operating expense reimbursements and lease terminations represent revenues from leases and are recognized in accordance with ASC Topic 840, Leases. Revenues from Hotel Pennsylvania, trade shows, tenant services, BMS cleaning fees, management and leasing fees and other income represent revenues recognized in accordance with ASC 606. Additional financial information related to these reportable segments for the three and six months ended June 30, 2018 and 2017 is set forth in Note 22 - Segment Information.

(Amounts in thousands)	For the Three Months Ended June 30, 2018			For the Three Months Ended June 30, 2017		
	Total	New York	Other	Total	New York	Other
Base rent	\$405,927	\$343,084	\$62,843	\$393,116	\$334,476	\$58,640
Hotel Pennsylvania	27,082	27,082	—	24,986	24,986	—
Trade shows	11,586	—	11,586	10,541	—	10,541
Property rentals	444,595	370,166	74,429	428,643	359,462	69,181
Operating expense reimbursements	44,784	40,356	4,428	39,014	35,510	3,504
Tenant services	13,528	10,394	3,134	12,643	10,031	2,612
Tenant expense reimbursements	58,312	50,750	7,562	51,657	45,541	6,116
BMS cleaning fees	30,867	33,407	(2,540)	24,425	26,617	(2,192)
Management and leasing fees	2,707	2,464	243	2,777	2,465	312
Lease termination fees	804	400	404	1,106	1,062	44
Other income	4,533	1,365	3,168	2,479	1,715	764
Fee and other income	38,911	37,636	1,275	30,787	31,859	(1,072)
Total consolidated revenues	\$541,818	\$458,552	\$83,266	\$511,087	\$436,862	\$74,225

(Amounts in thousands)	For the Six Months Ended June 30, 2018			For the Six Months Ended June 30, 2017		
	Total	New York	Other	Total	New York	Other
Base rent	\$812,490	\$687,758	\$124,732	\$776,956	\$660,157	\$116,799
Hotel Pennsylvania	41,754	41,754	—	37,627	37,627	—
Trade shows	30,461	—	30,461	28,952	—	28,952
Property rentals	884,705	729,512	155,193	843,535	697,784	145,751
Operating expense reimbursements	92,652	85,082	7,570	85,389	78,466	6,923
Tenant services	25,970	20,158	5,812	25,301	20,614	4,687
Tenant expense reimbursements	118,622	105,240	13,382	110,690	99,080	11,610
BMS cleaning fees	59,222	63,560	(4,338)	49,496	52,740	(3,244)
Management and leasing fees	5,471	4,945	526	5,052	4,492	560
Lease termination fees	1,149	708	441	4,956	4,789	167
Other income	9,086	3,071	6,015	5,416	4,216	1,200
Fee and other income	74,928	72,284	2,644	64,920	66,237	(1,317)
Total consolidated revenues	\$1,078,255	\$907,036	\$171,219	\$1,019,145	\$863,101	\$156,044

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

5. Acquisition

On February 9, 2018, we acquired 537 West 26th Street, a 14,000 square foot commercial property adjacent to our 260 Eleventh Avenue office property and 55,000 square feet of additional zoning air rights, for \$44,000,000.

6. Real Estate Fund Investments

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the "Fund") and own a 25.0% interest in the Fund, which had an initial eight-year term ending February 2019. On January 29, 2018, the Fund's term was extended to February 2023. The Fund's three-year investment period ended in July 2013. The Fund is accounted for under ASC Topic 946, Financial Services – Investment Companies ("ASC 946") and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

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

On January 17, 2018, the Fund completed the sale of the retail condominium at 11 East 68th Street, a property located on Madison Avenue and 68th Street, for \$82,000,000. From the inception of this investment through its disposition, the Fund realized a \$46,259,000 net gain.

In March 2011, a joint venture (the "Joint Venture") owned 64.7% by the Fund, 30.3% by Vornado and 5.0% by a third party, acquired One Park Avenue for \$394,000,000. In connection with the acquisition, the Joint Venture paid \$3,000,000 of New York City real property transfer tax (the "Transfer Tax") and filed a Real Property Tax Return ("RPTR") with the New York City Department of Finance (the "Department of Finance"). The RPTR was audited by the Department of Finance in 2014 and an increased Transfer Tax was assessed. The Joint Venture appealed the increased Transfer Tax assessment and the Joint Venture's appeal was upheld by a New York City Administrative Law Judge ("ALJ") in January 2017. The Department of Finance appealed the ALJ's decision and on February 16, 2018 the New York City Tax Appeals Tribunal (the "Tax Tribunal") reversed the ALJ's decision and assessed \$9,491,000 of additional Transfer Tax and \$6,764,000 of interest. As a result of the Tax Tribunal's decision, we recorded an expense of \$15,608,000, before noncontrolling interests, during the first quarter of 2018, which was subsequently paid on April 5, 2018, in order to permit us to appeal the Tax Tribunal's decision and stop the accrual of interest, of which \$10,630,000 is included in "(loss) income from real estate fund investments" and \$4,978,000 is included in "income (loss) from partially owned entities" (see Note 8 - Investments in Partially Owned Entities) on our consolidated statements of income. We are appealing the Tax Tribunal's decision.

On April 19, 2018, the joint venture between the Fund and the Crowne Plaza Joint Venture completed a \$255,000,000 refinancing of the Crowne Plaza Times Square Hotel. The interest-only loan is at LIBOR plus 3.51% (5.56% at June 30, 2018) and matures in May 2020 with three one-year extension options. In connection therewith, the joint venture purchased an interest rate cap that caps LIBOR at a rate of 4.00%. The Crowne Plaza Times Square Hotel was previously encumbered by a \$310,000,000 interest-only mortgage at LIBOR plus 2.80%, which was scheduled to mature in December 2018.

As of June 30, 2018, we had four real estate fund investments through the Fund and the Crowne Plaza Joint Venture with an aggregate fair value of \$373,039,000, or \$47,475,000 in excess of cost, and had remaining unfunded commitments of \$50,494,000, of which our share was \$16,119,000. At December 31, 2017, we had five real estate fund investments with an aggregate fair value of \$354,804,000.

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

6. Real Estate Fund Investments - continued

Below is a summary of income (loss) from the Fund and the Crowne Plaza Joint Venture for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net investment income	\$539	\$3,646	\$3,273	\$10,860
Net unrealized (loss) gain on held investments	(29,513)	3745	(29,513)	(6,442)
Net realized (loss) gain on exited investments	(2)	—	(913)	241
Transfer Tax	—	—	(10,630)	—
(Loss) income from real estate fund investments	(28,976)	64,391	(37,783)	4,659
Less loss (income) attributable to noncontrolling interests in consolidated subsidiaries	29,527	(4,695)	34,896	(8,198)
Income (loss) from real estate fund investments attributable to the Operating Partnership (six months ended June 30, 2018 includes \$4,252 of loss related to One Park Avenue potential additional transfer taxes and reduction in carried interest) ⁽¹⁾	551	(304)	(2,887)	(3,539)
Less (income) loss attributable to noncontrolling interests in the Operating Partnership	(34)	19	178	221
Income (loss) from real estate fund investments attributable to Vornado	\$517	\$(285)	\$(2,709)	\$(3,318)

Excludes management and leasing fees of \$1,104 and \$1,381 for the three months ended June 30, 2018 and 2017, (1) respectively, and \$1,906 and \$2,381 for the six months ended June 30, 2018 and 2017, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

7. Marketable Securities

Our portfolio of marketable securities is comprised of equity securities that are presented on our consolidated balance sheets at fair value. On January 1, 2018, we adopted ASU 2016-01, which requires changes in the fair value of our marketable securities to be recorded in current period earnings. Previously, changes in the fair value of marketable securities were recognized in "accumulated other comprehensive income" on our consolidated balance sheets. As a result, on January 1, 2018 we recorded a decrease to beginning accumulated deficit of \$111,225,000 to recognize the unrealized gains previously recorded in "accumulated other comprehensive income" on our consolidated balance sheets. Subsequent changes in the fair value of our marketable securities will be recorded to "interest and other investment income, net" on our consolidated statements of income.

Below is a summary of our marketable securities portfolio as of June 30, 2018 and December 31, 2017.

(Amounts in thousands)	Fair Value at		Decrease in
	June 30, 2018	December 31, 2017	Fair Value ⁽¹⁾
Equity securities:			
Lexington Realty Trust	\$161,234	\$178,226	\$(16,992)
Other	4,416	4,526	(110)
	\$165,650	\$182,752	\$(17,102)

The decrease in fair value of our marketable securities for the six months ended June 30, 2018 is included in (1) "interest and other investment income, net" on our consolidated statements of income (see Note 18 - Interest and Other Investment Income, Net).

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

8. Investments in Partially Owned Entities

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

As of June 30, 2018, 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 June 30, 2018, the market value ("fair value" pursuant to ASC Topic 820, Fair Value Measurements ("ASC 820")) of our investment in Alexander's, based on Alexander's June 29, 2018 quarter ended closing share price of \$382.63, was \$632,896,000, or \$518,128,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2018, the carrying amount of our investment in Alexander's, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander's by approximately \$39,140,000. 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.

Alexander's paid \$3,971,000 of Transfer Tax upon the November 2012 sale of its Kings Plaza Regional Shopping Center located in Brooklyn, New York. Alexander's accrued \$23,797,000 of potential additional Transfer Tax and related interest based on the precedent established by the Tax Tribunal's decision regarding One Park Avenue (see Note 6 - Real Estate Fund Investments for details) during the first quarter of 2018 which was subsequently paid on April 5, 2018 in order to preserve Alexander's rights to continue litigation and stop accrual of interest, of which our 32.4% share is \$7,708,000 and is included in "income (loss) from partially owned entities" on our consolidated statements of income.

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

As of June 30, 2018, we own 5,717,184 UE operating partnership units, representing a 4.5% ownership interest in UE. We account for our investment in UE under the equity method and record our share of UE's net income or loss on a one-quarter lag basis. In 2018 and 2017, we provided UE with information technology support. UE is providing us with leasing and property management services for (i) certain small retail properties that we plan to sell, and (ii) our affiliate, Alexander's, Rego Park retail assets. As of June 30, 2018, the fair value of our investment in UE, based on UE's June 29, 2018 quarter ended closing share price of \$22.87, was \$130,752,000, or \$86,792,000 in excess of the carrying amount on our consolidated balance sheet.

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

As of June 30, 2018, we own 6,250,000 PREIT operating partnership units, representing an 8.0% interest in PREIT. We account for our investment in PREIT under the equity method and record our share of PREIT's net income or loss on a one-quarter lag basis.

As of June 30, 2018, the fair value of our investment in PREIT, based on PREIT's June 29, 2018 quarter ended closing share price of \$10.99, was \$68,688,000 or \$5,448,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2018, the carrying amount of our investment in PREIT exceeds our share of the equity in the net

assets of PREIT by approximately \$33,782,000. 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.

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

8. Investments in Partially Owned Entities - continued

Independence Plaza

We have a 50.1% economic interest in a joint venture that owns Independence Plaza, a three-building 1,327 unit residential complex in the Tribeca submarket of Manhattan. The joint venture paid \$1,730,000 of Transfer Tax upon its acquisition of the property in December 2012. The joint venture accrued \$13,103,000 of potential additional Transfer Tax and related interest based on the precedent established by the Tax Tribunal's decision regarding One Park Avenue (see Note 6 - Real Estate Fund Investments for details) during the first quarter of 2018, which was subsequently paid on April 5, 2018, in order to preserve the joint venture's rights to continue litigation and stop accrual of interest. Because we consolidate the entity that incurred the potential additional Transfer Tax, \$13,103,000 of expense is included in "transaction related costs and other" and \$6,538,000 is allocated to "noncontrolling interests in consolidated subsidiaries" on our consolidated statements of income.

On June 11, 2018, the joint venture completed a \$675,000,000 refinancing of Independence Plaza. The seven-year interest-only loan matures in July 2025 and has a fixed rate of 4.25%. Our share of net proceeds, after repayment of the existing 3.48% \$550,000,000 mortgage and closing costs, was \$55,618,000.

Toys "R" Us, Inc. ("Toys")

We own 32.5% of Toys. On September 18, 2017, Toys filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. In the second quarter of 2018, Toys liquidated the inventory of its U.S. stores and ceased operations. We carry our Toys investment at zero. Further, we do not hold any debt of Toys and do not guarantee any of Toys' obligations. For income tax purposes, we carry our investment in Toys as of June 30, 2018 at approximately \$420,000,000, which could result in a tax deduction in future periods.

666 Fifth Avenue Office Condominium

On May 29, 2018, we entered into an agreement to sell our 49.5% interest in the 666 Fifth Avenue Office Condominium to our joint venture partner, the Kushner Companies. We will receive net proceeds of approximately \$120,000,000 and the financial statement gain is estimated to be \$134,000,000. The net tax gain will be approximately \$244,000,000. We will continue to own all of 666 Fifth Avenue Retail Condominium encompassing the Uniqlo, Tissot and Hollister stores with 125 linear feet of frontage on Fifth Avenue between 52nd and 53rd Street.

Concurrently with the sale of our 49.5% interest, the existing \$1.4 billion mortgage loan on the property will be repaid and we will receive net proceeds of approximately \$58,000,000 for the participation we hold in the mortgage loan.

The contract of sale is conditional, is subject to customary closing conditions and is scheduled to close in the third quarter of 2018. There can be no assurance that this transaction will be completed.

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

8. Investments in Partially Owned Entities - continued

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

(Amounts in thousands)	Percentage Ownership at June 30, 2018	Balance as of	
		June 30, 2018	December 31, 2017
Investments:			
Partially owned office buildings/land ⁽¹⁾	Various	\$ 503,240	\$ 504,393
Alexander's	32.4%	114,768	126,400
PREIT	8.0%	63,240	66,572
UE	4.5%	43,960	46,152
Other investments ⁽²⁾	Various	234,593	313,312
		\$959,801	\$ 1,056,829
330 Madison Avenue ⁽³⁾	25.0%	\$(56,463)	\$(53,999)
7 West 34th Street ⁽⁴⁾	53.0%	(49,363)	(47,369)
		\$(105,826)	\$(101,368)

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 512 West 22nd Street, 85 Tenth Avenue, 61 Ninth Avenue and others.

(2) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, Moynihan Office Building, 666 Fifth Avenue Office Condominium and others.

(3) Our negative basis resulted from a refinancing distribution and is included in "other liabilities" on our consolidated balance sheets.

(4) Our negative basis resulted from a deferred gain from the sale of a 47.0% ownership interest in the property on May 27, 2016 and is included in "other liabilities" on our consolidated balance sheets.

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

(Amounts in thousands)	Percentage Ownership at June 30, 2018	For the Three Months Ended		For the Six Months Ended	
		June 30, 2018	2017	June 30, 2018	2017
Our share of net income (loss):					
Alexander's (see page 25 for details):					
Equity in net income ⁽¹⁾	32.4%	\$6,146	\$6,690	\$2,937	\$13,582
Management, leasing and development fees		1,021	1,507	2,229	3,016
		7,167	8,197	5,166	16,598
Partially owned office buildings ⁽²⁾	Various	2,002	236	(2,281)	1,046
UE (see page 25 for details):					
Equity in net income ⁽³⁾	4.5%	1,038	18,794	321	19,885
Management, leasing and development fees		74	209	150	418
		1,112	19,003	471	20,303
PREIT (see page 25 for details):	8.0%	(1,068)	(902)	(1,497)	(3,732)

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Other investments ⁽⁴⁾	Various	(456)	19,487	(3,006)	13,164
		\$8,757	\$46,021	\$(1,147)	\$47,379

(1) The six month period ended June 30, 2018 includes our \$7,708 share of Alexander's potential additional Transfer Tax.

(2) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street, 85 Tenth Avenue and others. The six month period ended June 30, 2018 includes our \$4,978 share of potential additional Transfer Tax related to the March 2011 acquisition of One Park Avenue (see Note 6 - Real Estate Fund Investments).

(3) 2017 includes a \$15,900 net gain resulting from UE operating partnership unit issuances.

(4) Includes interests in Independence Plaza, Fashion Centre Mall/Washington Tower, Rosslyn Plaza, 50-70 West 93rd Street, 666 Fifth Avenue Office Condominium and others. In the second quarter of 2017, we recognized \$26,687 of net gains, comprised of \$15,314 representing our share of a net gain on the sale of Suffolk Downs and \$11,373 representing the net gain on repayment of our debt investments in Suffolk Downs JV.

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

9. Dispositions

New York

On June 21, 2018, we completed the \$45,000,000 sale of 27 Washington Square North, which resulted in a net gain of \$23,559,000 which is included in "net gains on disposition of wholly owned and partially owned assets" on our consolidated statements of income. We acquired the property in December 2015 for \$20,000,000.

Discontinued Operations

We have reclassified the revenues and expenses of our former Washington, DC segment which was spun off on July 17, 2017 and other related retail assets 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 periods presented in the accompanying financial statements. The tables below set forth the assets and liabilities related to discontinued operations as of June 30, 2018 and December 31, 2017, and their combined results of operations and cash flows for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)	Balance as of	
	June 30,	December 31,
	2018	2017
Assets related to discontinued operations:		
Other assets	\$52	\$ 1,357
Liabilities related to discontinued operations:		
Other liabilities	\$214	\$ 3,620

(Amounts in thousands)	For the Three		For the Six	
	Months Ended		Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Income from discontinued operations:				
Total revenues	\$339	\$118,939	\$693	\$235,222
Total expenses	274	94,510	991	190,222
	65	24,429	(298)	45,000
Additional net gains on sale of real estate	618	—	618	2,267
JBG SMITH Properties spin-off transaction costs	—	(6,211)	—	(13,464)
Income from partially-owned entities	—	255	—	342
Pretax income from discontinued operations	683	18,473	320	34,145
Income tax expense	—	(362)	—	(716)
Income from discontinued operations	\$683	\$18,111	\$320	\$33,429

(Amounts in thousands)	For the Six Months	
	Ended June 30,	
	2018	2017
Cash flows related to discontinued operations:		
Cash flows from operating activities	\$(1,781)	\$83,705
Cash flows from investing activities	—	(52,740)

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

10. Identified Intangible Assets and Liabilities

The following summarizes our identified intangible assets (primarily above-market leases) and liabilities (primarily acquired below-market leases) as of June 30, 2018 and December 31, 2017.

(Amounts in thousands)	Balance as of	
	June 30, 2018	December 31, 2017
Identified intangible assets:		
Gross amount	\$ 309,776	\$ 310,097
Accumulated amortization	(163,406)	(150,837)
Total, net	\$ 146,370	\$ 159,260
Identified intangible liabilities (included in deferred revenue):		
Gross amount	\$ 527,766	\$ 530,497
Accumulated amortization	(346,474)	(324,897)
Total, net	\$ 181,292	\$ 205,600

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$10,526,000 and \$12,588,000 for the three months ended June 30, 2018 and 2017, respectively, and \$21,107,000 and \$23,704,000 for the six months ended June 30, 2018 and 2017, 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, 2019 is as follows:

(Amounts in thousands)	
2019	\$ 29,871
2020	22,213
2021	17,478
2022	14,339
2023	11,661

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$4,876,000 and \$6,846,000 for the three months ended June 30, 2018 and 2017, respectively, and \$9,735,000 and \$13,827,000 for the six months ended June 30, 2018 and 2017, 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, 2019 is as follows:

(Amounts in thousands)	
2019	\$ 14,994
2020	12,008
2021	11,030
2022	9,477
2023	9,349

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases, net of above-market leases, resulted in an increase to rent expense (a component of operating expense) of \$437,000 and \$437,000 for the three months ended June 30, 2018, and 2017, respectively, and \$874,000 and \$874,000 for the six months ended June 30, 2018 and 2017, respectively. Estimated annual amortization of these below-market leases, net of above-market leases, for each of the five succeeding years commencing January 1, 2019 is as follows:

(Amounts in thousands)	
2019	\$ 1,747

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2020	1,747
2021	1,747
2022	1,747
2023	1,747

VORNADO REALTY TRUST AND VORNADO REALTY L.P.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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11. Debt

On January 5, 2018, we completed a \$100,000,000 refinancing of 33-00 Northern Boulevard (Center Building), a 471,000 square foot office building in Long Island City, New York. The seven-year loan is at LIBOR plus 1.80%, which was swapped to a fixed rate of 4.14%. We realized net proceeds of approximately \$37,200,000 after repayment of the existing 4.43% \$59,800,000 mortgage and closing costs.

The following is a summary of our debt:

(Amounts in thousands)	Interest Rate at June 30, 2018	Balance as of	
		June 30, 2018	December 31, 2017
Mortgages Payable:			
Fixed rate	3.53%	\$5,009,211	\$ 5,461,706
Variable rate	3.89%	3,155,262	2,742,133
Total	3.67%	8,164,473	8,203,839
Deferred financing costs, net and other		(55,855)	(66,700)
Total, net		\$8,108,618	\$ 8,137,139
Unsecured Debt:			
Senior unsecured notes	4.21%	\$850,000	\$ 850,000
Deferred financing costs, net and other		(6,583)	(6,386)
Senior unsecured notes, net		843,417	843,614
Unsecured term loan	3.24%	750,000	750,000
Deferred financing costs, net and other		(506)	(1,266)
Unsecured term loan, net		749,494	748,734
Unsecured revolving credit facilities	3.05%	80,000	—
Total, net		\$1,672,911	\$ 1,592,348

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

12. Redeemable Noncontrolling Interests/Redeemable Partnership Units

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

(Amounts in thousands)

Balance, December 31, 2016	\$ 1,278,446
Net income	10,935
Other comprehensive loss	(207)
Distributions	(18,078)
Redemption of Class A units for Vornado common shares, at redemption value	(25,562)
Adjustments to carry redeemable Class A units at redemption value	(90,208)
Other, net	21,758
Balance, June 30, 2017	\$ 1,177,084
Balance, December 31, 2017	\$ 984,937
Net income	6,321
Other comprehensive income	859
Distributions	(15,891)
Redemption of Class A units for Vornado common shares, at redemption value	(12,246)
Adjustments to carry redeemable Class A units at redemption value	(36,450)
Other, net	10,511
Balance, June 30, 2018	\$ 938,041

As of June 30, 2018 and December 31, 2017, the aggregate redemption value of redeemable Class A units of the Operating Partnership, which are those units held by third parties, was \$932,613,000 and \$979,509,000, respectively.

Redeemable noncontrolling interests/redeemable partnership units exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC Topic 480, Distinguishing Liabilities and Equity, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of "other liabilities" on our consolidated balance sheets and aggregated \$50,561,000 as of June 30, 2018 and December 31, 2017. Changes in the value from period to period, if any, are charged to "interest and debt expense" on our consolidated statements of income.

13. Shareholders' Equity/Partners' Capital

On January 4 and 11, 2018, we redeemed all of the outstanding 6.625% Series G and Series I cumulative redeemable preferred shares/units at their redemption price of \$25.00 per share/unit, or \$470,000,000 in the aggregate, plus accrued and unpaid dividends/distributions through the date of redemption, and expensed \$14,486,000 of previously capitalized issuance costs.

VORNADO REALTY TRUST AND VORNADO REALTY L.P.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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14. Accumulated Other Comprehensive Income ("AOCI")

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

(Amounts in thousands)	Total	Marketable securities	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swaps	Other
For the Three Months Ended June 30, 2018					
Balance as of March 31, 2018	\$30,258	\$—	\$ 2,444	\$36,651	\$(8,837)
Net current period OCI:					
OCI before reclassifications	3,093	—	390	2,908	(205)
Amounts reclassified from AOCI	—	—	—	—	—
	3,093	—	390	2,908	(205)
Balance as of June 30, 2018	\$33,351	\$—	\$ 2,834	\$39,559	\$(9,042)
For the Three Months Ended June 30, 2017					
Balance as of March 31, 2017	\$119,019	\$115,496	\$ (2,841)	\$13,908	\$(7,544)
Net current period OCI:					
OCI before reclassifications	(3,180)	(1,206)	(980)	(1,206)	212
Amounts reclassified from AOCI	—	—	—	—	—
	(3,180)	(1,206)	(980)	(1,206)	212
Balance as of June 30, 2017	\$115,839	\$114,290	\$ (3,821)	\$12,702	\$(7,332)
For the Six Months Ended June 30, 2018					
Balance as of December 31, 2017	\$128,682	\$109,554	\$ 3,769	\$23,542	\$(8,183)
Cumulative effect of accounting change (see Note 3)	(108,374)	(109,554)	(1,671)	2,851	—
Net current period OCI:					
OCI before reclassifications	13,043	—	736	13,166	(859)
Amounts reclassified from AOCI	—	—	—	—	—
	13,043	—	736	13,166	(859)
Balance as of June 30, 2018	\$33,351	\$—	\$ 2,834	\$39,559	\$(9,042)
For the Six Months Ended June 30, 2017					
Balance as of December 31, 2016	\$118,972	\$130,505	\$ (12,058)	\$8,066	\$(7,541)
Net current period OCI:					
OCI before reclassifications	(12,401)	(16,215)	(1,031)	4,636	209
Amounts reclassified from AOCI	9,268	—	9,268	(1) —	—
	(3,133)	(16,215)	8,237	4,636	209
Balance as of June 30, 2017	\$115,839	\$114,290	\$ (3,821)	\$12,702	\$(7,332)

(1) Reclassified upon receipt of proceeds related to the sale of an investment by a nonconsolidated subsidiary.

VORNADO REALTY TRUST AND VORNADO REALTY L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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15. Variable Interest Entities ("VIEs")

Unconsolidated VIEs

As of June 30, 2018 and December 31, 2017, we have several unconsolidated VIEs. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities' economic performance. We account for our investment in these entities under the equity method (see Note 8 – Investments in Partially Owned Entities). As of June 30, 2018 and December 31, 2017, the net carrying amount of our investments in these entities was \$304,859,000 and \$352,925,000, respectively, and our maximum exposure to loss in these entities is limited to our investments.

Consolidated VIEs

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

As of June 30, 2018, the total assets and liabilities of our consolidated VIEs, excluding the Operating Partnership, were \$3,578,768,000 and \$1,811,269,000, respectively. As of December 31, 2017, the total assets and liabilities of our consolidated VIEs, excluding the Operating Partnership, were \$3,561,062,000 and \$1,753,798,000, respectively.

VORNADO REALTY TRUST AND VORNADO REALTY L.P.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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16. Fair Value Measurements

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

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

Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of (i) marketable securities, (ii) real estate fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheets), (iv) interest rate swaps and (v) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units, Series D-13 cumulative redeemable preferred units, and 6.625% Series G and Series I cumulative redeemable preferred shares/units which were redeemed on January 4 and 11, 2018 (see Note 13 - Shareholders' Equity/Partners' Capital)). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy as of June 30, 2018 and December 31, 2017, respectively.

(Amounts in thousands)	As of June 30, 2018			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$165,650	\$165,650	\$—	\$—
Real estate fund investments	373,039	—	—	373,039
Deferred compensation plan assets (\$4,375 included in restricted cash and \$95,993 in other assets)	100,368	60,498	—	39,870
Interest rate swaps (included in other assets)	39,584	—	39,584	—
Total assets	\$678,641	\$226,148	\$39,584	\$412,909
Mandatorily redeemable instruments (included in other liabilities)	\$50,561	\$50,561	\$—	\$—
(Amounts in thousands)	As of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$182,752	\$182,752	\$—	\$—
Real estate fund investments	354,804	—	—	354,804
Deferred compensation plan assets (\$11,545 included in restricted cash and \$97,632 in other assets)	109,177	69,049	—	40,128
Interest rate swaps (included in other assets)	27,472	—	27,472	—
Total assets	\$674,205	\$251,801	\$27,472	\$394,932
Mandatorily redeemable instruments (included in other liabilities)	\$520,561	\$520,561	\$—	\$—

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Interest rate swaps (included in other liabilities)	1,052	—	1,052	—
Total liabilities	\$521,613	\$520,561	\$1,052	