VORNADO REALTY TRUST
Form 10-Q
May 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **March 31, 2012**

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: **to**

Commission File Number: **001-11954**

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland	**22-1657560**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
888 Seventh Avenue, New York, New York	**10019**
(Address of principal executive offices)	(Zip Code)

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

As of March 31, 2012, 185,642,051 of the registrant's common shares of beneficial interest are outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VORNADO REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	March 31, 2012	December 31, 2011
ASSETS		
Real estate, at cost:		
Land	$ 4,677,940	$ 4,666,929
Buildings and improvements	12,720,139	12,709,356
Development costs and construction in progress	118,811	122,075
Leasehold improvements and equipment	128,391	128,651
Total	17,645,281	17,627,011
Less accumulated depreciation and amortization	(3,173,515)	(3,095,037)
Real estate, net	14,471,766	14,531,974
Cash and cash equivalents	614,359	606,553
Restricted cash	117,423	98,068
Marketable securities	754,510	741,321
Accounts receivable, net of allowance for doubtful accounts of $42,785 and $43,241	191,184	171,798
Investments in partially owned entities	1,285,104	1,233,650
Investment in Toys "R" Us	597,860	506,809
Real Estate Fund investments	324,514	346,650
Mezzanine loans receivable	133,143	133,948
Receivable arising from the straight-lining of rents, net of allowance of $3,986 and $4,046	750,017	728,626
Deferred leasing and financing costs, net of accumulated amortization of $218,111 and $245,087	387,481	376,292
Identified intangible assets, net of accumulated amortization of $361,856 and $359,944	304,385	319,704
Assets related to discontinued operations	-	251,202
Due from officers	-	13,127
Other assets	337,983	386,765
	$ 20,269,729	$ 20,446,487
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Notes and mortgages payable	$ 8,434,938	$ 8,558,275
Senior unsecured notes	1,357,748	1,357,661
Exchangeable senior debentures	499,680	497,898
Convertible senior debentures	10,233	10,168
Revolving credit facility debt	-	138,000
Accounts payable and accrued expenses	453,578	423,512
Deferred revenue	500,266	516,259
Deferred compensation plan	99,810	95,457

Deferred tax liabilities	13,380	13,315
Liabilities related to discontinued operations	-	14,153
Other liabilities	139,660	152,665
Total liabilities	11,509,293	11,777,363
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 12,172,197 and 12,160,771 units outstanding	1,024,899	934,677
Series D cumulative redeemable preferred units - 9,000,001 units outstanding	226,000	226,000
Total redeemable noncontrolling interests	1,250,899	1,160,677
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 42,184,609 and 42,186,709 shares	1,021,555	1,021,660
Common shares of beneficial interest: $.04 par value per share; authorized 250,000,000 shares; issued and outstanding 185,642,051 and 185,080,020 shares	7,396	7,373
Additional capital	7,058,212	7,127,258
Earnings less than distributions	(1,312,670)	(1,401,704)
Accumulated other comprehensive income	67,174	73,729
Total Vornado shareholders' equity	6,841,667	6,828,316
Noncontrolling interests in consolidated subsidiaries	667,870	680,131
Total equity	7,509,537	7,508,447
	$ 20,269,729	$ 20,446,487

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share amounts)	For the Three Months Ended March 31, 2012	2011
REVENUES:		
Property rentals	$ 557,413	$ 562,252
Tenant expense reimbursements	81,607	89,669
Cleveland Medical Mart development project	55,059	40,699
Fee and other income	33,387	34,263
Total revenues	727,466	726,883
EXPENSES:		
Operating	276,826	286,362
Depreciation and amortization	139,437	129,833
General and administrative	55,890	58,946
Cleveland Medical Mart development project	52,761	38,278
Acquisition related costs and tenant buy-outs	685	18,270
Total expenses	525,599	531,689
Operating income	201,867	195,194
Income applicable to Toys "R" Us	116,471	112,944
Income from partially owned entities	20,033	16,284
Income from Real Estate Fund (of which $7,933 and ($74), respectively, are attributable to noncontrolling interests)	11,762	1,080
Interest and other investment income, net	15,681	117,108
Interest and debt expense (including amortization of deferred financing costs of $5,867 and $4,633, respectively)	(135,169)	(134,710)
Net gain on disposition of wholly owned and partially owned assets	-	6,677
Income before income taxes	230,645	314,577
Income tax expense	(7,096)	(6,382)
Income from continuing operations	223,549	308,195
Income from discontinued operations	56,715	137,626
Net income	280,264	445,821
Less net income attributable to noncontrolling interests in:		
Consolidated subsidiaries	(9,597)	(1,350)
Operating Partnership, including unit distributions	(19,145)	(31,808)
Net income attributable to Vornado	251,522	412,663
Preferred share dividends	(17,787)	(13,448)
NET INCOME attributable to common shareholders	$ 233,735	$ 399,215
INCOME PER COMMON SHARE - BASIC:		
Income from continuing operations, net	$ 0.97	$ 1.47
Income from discontinued operations, net	0.29	0.70
Net income per common share	$ 1.26	$ 2.17
Weighted average shares outstanding	185,370	183,988
INCOME PER COMMON SHARE - DILUTED:		

Income from continuing operations, net	$	0.97	$	1.45
Income from discontinued operations, net		0.28		0.67
Net income per common share	$	1.25	$	2.12
Weighted average shares outstanding		191,886		191,529
DIVIDENDS PER COMMON SHARE	$	0.69	$	0.69

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended March 31, 2012	2011
Net income	$ 280,264	$ 445,821
Other comprehensive income (loss):		
Change in unrealized net gain on securities available-for-sale	12,693	68,039
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	(21,944)	(3,791)
Change in value of interest rate swap	2,386	(7,146)
Other	(123)	59
Comprehensive income	273,276	502,982
Less comprehensive income attributable to noncontrolling interests	(28,309)	(36,759)
Comprehensive income attributable to Vornado	$ 244,967	$ 466,223

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares Shares	Preferred Shares Amount	Common Shares Shares	Common Shares Amount	Additional Capital	Earnings Less Than Distributions	Accumulated Other Comprehensive Income	Non-controlling Interests	Total Equity
Balance, December 31, 2010	32,340	$ 783,088	183,662	$ 7,317	$ 6,932,728	$ (1,480,876)	$ 73,453	$ 514,695	$ 6,830,405
Net income	-	-	-	-	-	412,663	-	1,350	414,013
Dividends on common shares	-	-	-	-	-	(126,936)	-	-	(126,936)
Dividends on preferred shares	-	-	-	-	-	(13,559)	-	-	(13,559)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	320	13	27,526	-	-	-	27,539
Under employees' share option plan	-	-	240	10	15,027	(398)	-	-	14,639
Under dividend reinvestment plan	-	-	5	-	434	-	-	-	434
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	92,068	92,068
Other	-	-	-	-	-	-	-	170	170
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(11,027)	(11,027)
Conversion of Series A preferred shares to common shares	(1)	(50)	2	-	50	-	-	-	-

Deferred compensation shares and options	-	-	11	-	2,370	-	-	-	2,370
Change in unrealized net gain on securities available-for-sale	-	-	-	-	-	-	68,039	-	68,039
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(3,791)	-	(3,791)
Change in value of interest rate swap	-	-	-	-	-	-	(7,146)	-	(7,146)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(42,227)	-	-	-	(42,227)
Other	-	(105)	-	-	(173)	113	59	(41)	(147)
Balance, March 31, 2011	32,339	$ 782,933	184,240	$ 7,340	$ 6,935,735	$ (1,208,993)	$ 130,614	$ 597,215	$ 7,244,844

(Amounts in thousands)	**Preferred Shares**		**Common Shares**		**Additional**	**Earnings Less Than**	**Accumulated Other Comprehensive**	**Non-controlling**	**Total**
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Distributions**	**Income**	**Interests**	**Equity**
Balance, December 31, 2011	42,187	$ 1,021,660	185,080	$ 7,373	$ 7,127,258	$ (1,401,704)	$ 73,729	$ 680,131	$ 7,508,447
Net income	-	-	-	-	-	251,522	-	9,597	261,119
Dividends on common shares	-	-	-	-	-	(127,973)	-	-	(127,973)
Dividends on preferred shares	-	-	-	-	-	(17,787)	-	-	(17,787)
Common shares issued:									

Upon redemption of Class A units, at redemption value	-	-	158	6	13,022	-	-	-	13,028
Under employees' share option plan	-	-	389	16	7,562	(16,389)	-	-	(8,811)
Under dividend reinvestment plan	-	-	5	-	411	-	-	-	411
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(21,856)	(21,856)
Conversion of Series A preferred shares to common shares	(2)	(105)	3	-	105	-	-	-	-
Deferred compensation shares and options	-	-	7	1	5,915	(339)	-	-	5,577
Change in unrealized net gain on securities available-for-sale	-	-	-	-	-	-	12,693	-	12,693
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(21,944)	-	(21,944)
Change in value of interest rate swap	-	-	-	-	-	-	2,386	-	2,386
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(96,061)	-	-	-	(96,061)

Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	433	-	433
Other	-	-	-	-	-	-	(123)	(2)	(125)
Balance, March 31, 2012	42,185	$ 1,021,555	185,642	$ 7,396	$ 7,058,212	$ (1,312,670)	$ 67,174	$ 667,870	$ 7,509,537

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31, 2012	2011
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	$ 280,264	$ 445,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	145,304	136,860
Equity in net income of partially owned entities, including Toys “R” Us	(136,504)	(129,228)
Net gains on sale of real estate	(55,817)	(51,165)
Straight-lining of rental income	(21,808)	(13,942)
Distributions of income from partially owned entities	14,194	25,921
Amortization of below-market leases, net	(13,813)	(16,892)
Other non-cash adjustments	7,795	8,211
Unrealized gain on Real Estate Fund assets	(6,844)	-
Income from the mark-to-market of J.C. Penney derivative position	(1,045)	(17,163)
Net gain on extinguishment of debt	-	(83,907)
Mezzanine loans loss reversal and net gain on disposition	-	(82,744)
Net gain on disposition of wholly owned and partially owned assets	-	(6,677)
Changes in operating assets and liabilities:		
Real Estate Fund investments	28,980	(85,536)
Accounts receivable, net	(19,386)	(10,475)
Prepaid assets	51,202	34,761
Other assets	(8,872)	2,947
Accounts payable and accrued expenses	40,609	30,906
Other liabilities	2,844	8,404
Net cash provided by operating activities	307,103	196,102
Cash Flows from Investing Activities:		
Proceeds from sales of real estate and related investments	306,022	127,199
Investments in partially owned entities	(46,732)	(316,129)
Additions to real estate	(44,052)	(30,281)
Acquisitions of real estate and other	(21,054)	-
Development costs and construction in progress	(20,614)	(10,994)
Restricted cash	(19,355)	12,174
Proceeds from the repayment of loan to officer	13,123	-
Distributions of capital from partially owned entities	4,203	192,523
Proceeds from sales and repayments of mezzanine loans	554	73,608

Proceeds from sales of marketable securities	-	15,162
Investments in mezzanine loans receivable and other	-	(2,841)
Net cash provided by investing activities	172,095	60,421

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	For the Three Months Ended March 31, 2012	2011
Cash Flows from Financing Activities:		
Repayments of borrowings	$ (884,679)	$ (1,197,312)
Proceeds from borrowings	625,000	937,518
Dividends paid on common shares	(127,973)	(126,936)
Distributions to noncontrolling interests	(34,092)	(23,639)
Repurchase of shares related to stock compensation agreements and related tax withholdings	(30,034)	(570)
Dividends paid on preferred shares	(17,789)	(13,559)
Debt issuance and other costs	(9,822)	(12,161)
Proceeds received from exercise of employee share options	7,997	15,470
Contributions from noncontrolling interests	-	92,238
Net cash used in financing activities	(471,392)	(328,951)
Net increase (decrease) in cash and cash equivalents	7,806	(72,428)
Cash and cash equivalents at beginning of period	606,553	690,789
Cash and cash equivalents at end of period	$ 614,359	$ 618,361
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, net of capitalized interest of $16 and $0	$ 117,282	$ 108,458
Cash payments for income taxes	$ 2,563	$ 2,509
Non-Cash Investing and Financing Activities:		
Adjustments to carry redeemable Class A units at redemption value	$ (96,061)	$ (42,227)
Common shares issued upon redemption of Class A units, at redemption value	13,028	27,539
Change in unrealized net gain on securities available-for-sale	12,693	68,039
Contribution of mezzanine loan receivable to a joint venture	-	73,750
Like-kind exchange of real estate	-	(45,625)
Decrease in assets and liabilities resulting from deconsolidation of discontinued operations:		
Assets related to discontinued operations	-	(145,333)
Liabilities related to discontinued operations	-	(232,502)
Write-off of fully depreciated assets	(37,890)	(25,893)

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Vornado Realty Trust ("Vornado") is a fully integrated real estate investment trust ("REIT") and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Accordingly, Vornado's cash flow and ability to pay dividends to its shareholders is dependent upon the cash flow of the Operating Partnership and the ability of its direct and indirect subsidiaries to first satisfy their obligations to creditors. Vornado is the sole general partner of, and owned approximately 93.5% of the common limited partnership interest in the Operating Partnership at March 31, 2012. All references to "we," "us," "our," the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries including the Operating Partnership.

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado, and the Operating Partnership and its consolidated partially owned entities. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the "SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2011, 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 months ended March 31, 2012 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

3. Recently Issued Accounting Literature

In May 2011, the Financial Accounting Standards Board ("FASB") issued Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ("ASU No. 2011-04"). ASU No. 2011-04 provides a uniform framework for fair value measurements and related disclosures between GAAP and International Financial Reporting Standards ("IFRS") and requires additional disclosures, including: (i) quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs, for Level 3 fair value measurements; (ii) fair value of financial instruments not measured at fair value but for which disclosure of fair value is required, based on their levels in the fair value hierarchy; and (iii) transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of this update on January 1, 2012 did not have a material impact on our consolidated financial statements, but resulted in additional fair value measurement disclosures (see Note 12 – Fair Value Measurements).

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Vornado Capital Partners Real Estate Fund (the "Fund")

In February 2011, the Fund's subscription period closed with an aggregate of $800,000,000 of capital commitments, of which we committed $200,000,000. We are the general partner and investment manager of the Fund, which has an eight-year term and a three-year investment period. During the investment period, which concludes in July 2013, the Fund is our exclusive investment vehicle for all investments that fit within its investment parameters, as defined. The Fund is accounted for under the AICPA Investment Company Guide 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.

As of March 31, 2012, the Fund has five investments with an aggregate fair value of approximately $324,514,000, or $18,839,000 in excess of cost, and has remaining unfunded commitments of $445,679,000, of which our share is $111,419,750. Below is a summary of income from the Fund for the three months ended March 31, 2012 and 2011.

(Amounts in thousands)	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011
Operating income	$ 4,918	$ 1,080
Net unrealized gains	6,844	-
Income from Real Estate Fund	11,762	1,080
Less (income) loss attributable to noncontrolling interests	(7,933)	74
Income from Real Estate Fund attributable to Vornado [(1)]	$ 3,829	$ 1,154

(1) Excludes $541 and $579 of management, leasing and development fees in the three months ended March 31, 2012 and 2011, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

5. Marketable Securities and Derivative Instruments

Marketable Securities

Our portfolio of marketable securities is comprised of debt and equity securities that are classified as available for sale. Available for sale securities are presented on our consolidated balance sheets at fair value. Gains and losses resulting from the mark-to-market of these securities are included in "other comprehensive income." Gains and losses are recognized in earnings only upon the sale of the securities and are recorded based on the weighted average cost of such securities.

In the three months ended March 31, 2011, we sold certain marketable securities for aggregate proceeds of $15,162,000, resulting in a net gain of $2,091,000.

Below is a summary of our marketable securities portfolio as of March 31, 2012 and December 31, 2011.

	As of March 31, 2012				As of December 31, 2011			
	Maturity	**Fair Value**	**GAAP Cost**	**Unrealized Gain**	**Maturity**	**Fair Value**	**GAAP Cost**	**Unrealized Gain**
Equity securities:								
J.C. Penney	n/a	$ 658,431	$ 591,069	$ 67,362	n/a	$ 653,228	$ 591,069	$ 62,159
Other	n/a	36,503	13,561	22,942	n/a	29,544	13,561	15,983
Debt securities	04/13 - 10/18	59,576	55,460	4,116	04/13 - 10/18	58,549	54,965	3,584
		$ 754,510	$ 660,090	$ 94,420		$ 741,321	$ 659,595	$ 81,726

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

5. Marketable Securities and Derivative Instruments- continued

Investment in J.C. Penney Company, Inc. (“J.C. Penney”) (NYSE: JCP)

We own 23,400,000 J.C. Penney common shares, or 11.0% of its outstanding common shares. Below are the details of our investment.

We own 18,584,010 common shares at an average economic cost of $25.75 per share, or $478,532,000 in the aggregate. As of March 31, 2012, these shares have an aggregate fair value of $658,431,000, based on J.C. Penney’s closing share price of $35.43 per share. Unrealized gains from the mark-to-market of these shares are included in “other comprehensive income” and were $5,203,000 and $66,903,000 in the three months ended March 31, 2012 and 2011, respectively.

We also own an economic interest in 4,815,990 common shares through a forward contract executed on October 7, 2010, at a weighted average strike price of $28.86 per share, or $138,986,000 in the aggregate. The contract may be settled, at our election, in cash or common shares, in whole or in part, at any time prior to October 9, 2012. The strike price per share increases at an annual rate of LIBOR plus 80 basis points. The contract is a derivative instrument that does not qualify for hedge accounting treatment. Mark-to-market adjustments on the underlying common shares are recognized in “interest and other investment income, net” on our consolidated statements of income. In the three months ended March 31, 2012 and 2011, we recognized gains of $1,045,000 and $17,163,000, respectively, from the mark-to-market of the underlying common shares.

As of March 31, 2012, the aggregate economic net gain on our investment in J.C. Penney was $211,544,000, based on our economic cost of $26.39 per share.

6. Investments in Partially Owned Entities

Toys "R" Us ("Toys")

As of March 31, 2012, we own 32.7% of Toys. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. We account for our investment in Toys under the equity method and record our 32.7% share of Toys net income or loss on a one-quarter lag basis because Toys' fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. As of March 31, 2012, the carrying amount of our investment in Toys does not differ materially from our share of the equity in the net assets of Toys on a purchase accounting basis.

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

(Amounts in thousands)	**Balance as of**	
Balance Sheet:	**January 28, 2012**	**October 29, 2011**
Assets	$ 11,890,000	$ 13,221,000
Liabilities	9,894,000	11,530,000
Noncontrolling interests	29,000	-
Toys "R" Us, Inc. equity	1,967,000	1,691,000
	For the Three Months Ended	
Income Statement:	**January 28, 2012**	**January 29, 2011**
Total revenues	$ 5,925,000	$ 5,972,000
Net income attributable to Toys	349,000	339,000

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

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

As of March 31, 2012, 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 March 31, 2012, Alexander's owed us $40,685,000 in fees under these agreements.

As of March 31, 2012, the market value of our investment in Alexander's, based on Alexander's March 31, 2012 closing share price of $393.88, was $651,504,000, or $462,362,000 in excess of the carrying amount on our consolidated balance sheet. As of March 31, 2012, 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 $58,833,000. 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.

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

(Amounts in thousands)	Balance as of	
Balance Sheet:	**March 31, 2012**	**December 31, 2011**
Assets	$ 1,773,000	$ 1,771,000
Liabilities	1,410,000	1,408,000

Noncontrolling interests	4,000	4,000
Stockholders' equity	359,000	359,000
	For the Three Months Ended	
Income Statement:	**March 31, 2012**	**March 31, 2011**
Total revenues	$ 64,000	$ 63,000
Net income attributable to Alexander’s	19,000	18,000

Lexington Realty Trust (“Lexington”) (NYSE: LXP)

As of March 31, 2012, we own 18,468,969 Lexington common shares, or approximately 11.9% of Lexington’s common equity. We account for our investment in Lexington under the equity method because we believe we have the ability to exercise significant influence over Lexington’s operating and financial policies, based on, among other factors, our representation on Lexington’s Board of Trustees and the level of our ownership in Lexington as compared to other shareholders. We record our pro rata share of Lexington’s net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its consolidated financial statements.

Based on Lexington’s March 31, 2012 closing share price of $8.99, the market value of our investment in Lexington was $166,036,000, or $109,930,000 in excess of the March 31, 2012 carrying amount on our consolidated balance sheet. As of March 31, 2012, the carrying amount of our investment in Lexington was less than our share of the equity in the net assets of Lexington by approximately $45,082,000. This basis difference resulted primarily from $107,882,000 of non-cash impairment charges recognized in 2008, partially offset by purchase accounting for our acquisition of an additional 8,000,000 common shares of Lexington in October 2008, of which the majority relates to our estimate of the fair values of Lexington’s real estate (land and buildings) as compared to the carrying amounts in Lexington’s consolidated financial statements. The basis difference related to the buildings is being amortized over their estimated useful lives as an adjustment to our equity in net income or loss of Lexington. This amortization is not material to our share of equity in Lexington’s net income or loss. The basis difference attributable to the land will be recognized upon disposition of our investment.

Alexander’s, Inc. (“Alexander’s”) (NYSE: ALX)

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Balance as of	
	December 31,	September 30,
Balance Sheet:	2011	2011
Assets	$ 3,078,000	$ 3,164,000
Liabilities	1,857,000	1,888,000
Noncontrolling interests	58,000	59,000
Shareholders' equity	1,163,000	1,217,000
	For the Three Months Ended	
	December 31,	December 31,
Income Statement:	2011	2010
Total revenues	$ 83,000	$ 86,000
Net income attributable to Lexington	13,000	12,000

LNR Property LLC ("LNR")

As of March 31, 2012, we own a 26.2% equity interest in LNR. We account for our investment in LNR under the equity method and record our 26.2% share of LNR's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to receiving LNR's consolidated financial statements.

LNR consolidates certain Commercial Mortgage-Backed Securities ("CMBS") and Collateralized Debt Obligation ("CDO") trusts for which it is the primary beneficiary. The assets of these trusts (primarily commercial mortgage loans), which aggregate approximately $78.7 billion as of December 31, 2011, are the sole source of repayment of the related liabilities, which are non-recourse to LNR and its equity holders, including us. Changes in the fair value of these assets each period are offset by changes in the fair value of the related liabilities through LNR's consolidated income statement. As of March 31, 2012, the carrying amount of our investment in LNR does not materially differ from our share of LNR's equity.

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

(Amounts in thousands)	Balance as of	
Balance Sheet:	**December 31, 2011**	**September 30, 2011**
Assets	$ 79,951,000	$ 128,536,000
Liabilities	79,214,000	127,809,000
Noncontrolling interests	16,000	55,000
LNR Property Corporation equity	721,000	672,000
	For the Three Months Ended	
Income Statement:	**December 31, 2011**	**December 31, 2010**
Total revenues	$ 49,000	$ 36,000
Net income attributable to LNR	51,000	58,000

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

Below is a schedule of our investments in partially owned entities as of March 31, 2012 and December 31, 2011.

(Amounts in thousands) **Investments:**	**Percentage Ownership at March 31, 2012**	**Balance as of March 31, 2012**	**Balance as of December 31, 2011**
Toys	32.7 %	$ 597,860	$ 506,809
Alexander's	32.4 %	$ 189,142	$ 189,775
Lexington	11.9 %[1]	56,106	57,402
LNR	26.2 %	187,251	174,408
India real estate ventures	4.0%-36.5%	100,571	80,499
Partially owned office buildings:			
280 Park Avenue	49.5 %	182,998	184,516
Rosslyn Plaza	43.7%-50.4%	62,562	53,333
West 57th Street properties	50.0 %	58,841	58,529
One Park Avenue	30.3 %	47,899	47,568
666 Fifth Avenue Office Condominium	49.5 %	31,769	23,655
330 Madison Avenue	25.0 %	22,238	20,353
1101 17th Street	55.0 %	21,056	20,407
Fairfax Square	20.0 %	6,199	6,343
Warner Building	55.0 %	4,746	2,715
Other partially owned office buildings	Various	10,991	11,547
Other equity method investments:			
Verde Realty Operating Partnership	8.3 %	59,478	59,801
Independence Plaza	51.0 %	50,194	48,511
Downtown Crossing, Boston	50.0 %	46,821	46,691
Monmouth Mall	50.0 %	7,805	7,536