

VORNADO REALTY TRUST
Form 424B2
July 23, 2003

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As Filed Pursuant to Rule 424(b)(2)
Registration No. 333-107024

PROSPECTUS

VORNADO REALTY TRUST

212,477 COMMON SHARES

We are a fully-integrated real estate investment trust. We may issue up to 212,477 common shares to holders of up to 212,477 class A units of limited partnership interest in Vornado Realty L.P. upon tender of those units for redemption. Vornado Realty L.P. is the operating partnership through which we own our assets and operate our business.

The units that may be redeemed for common shares were issued to partners of First Gateway Associates Limited Partnership in connection with the conveyance of an office building in the Crystal City Complex in Arlington, Virginia by First Gateway Associates Limited Partnership to the Operating Partnership on July 1, 2002.

We are required to register the 212,477 common shares pursuant to a registration rights agreement with the holders of those units. We will acquire units from the redeeming unit holders in exchange for any common shares that we issue. We have registered the issuance of the common shares to permit their holders to sell them in the open market or otherwise, but the registration of the shares does not necessarily mean that any holders will elect to redeem their units. Also, upon any redemption, we may elect to pay cash for the units tendered rather than issue common shares. Although we will incur expenses in connection with the registration of the 212,477 common shares, we will not receive any cash proceeds upon their issuance.

The common shares are listed on the New York Stock Exchange under the symbol "VNO."

In order to maintain our qualification as a real estate investment trust for federal income tax purposes and for other purposes, no person generally may own more than 6.7% of the outstanding common shares. Shares owned in excess of this limit will be deemed "excess shares" under the declaration of trust. The holder of any excess shares will lose some ownership rights with respect to these shares, and we will have the right to purchase them from the holder.

See "Risk Factors" beginning on page 4 for information about factors relevant to an investment in the common shares.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 22, 2003.

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You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of these documents.

When we say "we," "our," "us" or "Vornado," we mean Vornado Realty Trust and its consolidated subsidiaries, except where we make it clear that we mean only the parent company. When we say the "operating partnership," we mean Vornado Realty L.P. When we say "you," without any further specification, we mean the holders of units that were issued in connection with our acquisition on July 1, 2002 of an office building from First Gateway Associates Limited Partnership.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

This prospectus is part of a registration statement on Form S-3 filed by Vornado with the SEC under the Securities Act. As permitted by the rules and regulations of the SEC, this prospectus omits some of the information contained in the registration statement. You should read the registration statement and related exhibits for further information about Vornado and the common shares offered by this prospectus. Statements in this prospectus about the provisions of any document filed as an exhibit to the registration statement or otherwise filed with the SEC are only summaries, and in each instance you should read the document so filed for complete information about its provisions. Each statement in this prospectus about the provisions of any document filed with the SEC is qualified in its entirety by reference to the document.

The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and, where applicable, supersede this information.

We incorporate by reference into this prospectus the following documents or information filed with the SEC:

- (1) Annual report of Vornado Realty Trust on Form 10-K for the fiscal year ended December 31, 2002 (File No. 001-11954);
- (2) Current report on Form 8-K of Vornado Realty Trust dated May 28, 2003 and filed with the SEC on June 2, 2003 (File No. 001-11954);
- (3) Quarterly report of Vornado Realty Trust on Form 10-Q for the fiscal quarter ended March 31, 2003 (File No. 001-11954) filed with the SEC on May 8, 2003;
- (4) The description of Vornado's common shares contained in Vornado's registration statement on Form 8-B (File No. 001-11954), filed with the SEC on May 10, 1993; and

(5)

All documents filed by Vornado Realty Trust under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and until we sell all of the securities or after the date of the initial registration statement and before effectiveness of the registration statement, except that the information referred to in Item 402(a)(8) of Regulation S-K of the SEC is not incorporated by reference into this prospectus.

You may request a copy of these filings, excluding exhibits to these filings unless they are specifically incorporated by reference into these filings, at no cost, by writing or telephoning us at the following address: Vornado Realty Trust, 210 Route 4 East, Paramus, New Jersey 07652, telephone (201) 587-1000, Attn: Secretary.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the documents incorporated by reference in it, contains forward-looking statements with respect to our financial condition, results of operations and business. These statements may be made directly in this document or they may be made part of this document by reference to other documents filed with the SEC, which is known as "incorporation by reference." You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions in this prospectus or the documents incorporated by reference.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, those listed under the caption "Risk Factors" in this prospectus as well as the following possibilities:

national, regional and local economic conditions;

the consequences of any armed conflict involving, or terrorist attack against, the United States;

our ability to secure adequate insurance;

local conditions such as an oversupply of space or a reduction in demand for real estate in the area;

competition from other available space;

whether tenants consider a property attractive;

the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;

whether we are able to pass some or all of any increased operating costs we experience through to our tenants;

how well we manage our properties;

increased interest rates;

increases in real estate taxes and other expenses;

decreases in market rental rates;

the timing and costs associated with property improvements and rentals;

changes in taxation or zoning laws;

government regulations;

our failure to continue to qualify as a real estate investment trust;

availability of financing on acceptable terms or at all;

potential liability under environmental or other laws or regulations; and

general competitive factors.

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Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these items are beyond our ability to control or predict. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this prospectus or, if applicable, the date of the applicable document incorporated by reference.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events. For more information on the uncertainty of forward-looking statements, see "Risk Factors" in this prospectus.

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RISK FACTORS

An investment in our common shares involves risks. You should carefully consider, among other factors, the matters described below.

If You Redeem Your Units, You May Incur Adverse Tax Consequences and the Nature of Your Investment Will Change.

You should carefully consider the tax consequences of redeeming your units.

The exercise of your right to require the redemption of your units will be treated for tax purposes as a sale of your units. This sale will be fully taxable to you, and you will be treated as realizing for tax purposes an amount equal to the sum of the cash or the value of the common shares received in the exchange plus the amount of the operating partnership liabilities considered allocable to the redeemed units at the time of the redemption, including the operating partnership's share of the liabilities of certain entities in which the operating partnership owns an interest. Depending upon your particular circumstances, it is possible that the amount of gain recognized, or even the tax liability resulting from that gain, could exceed the amount of cash and the value of other property, e.g., the common shares, received upon the disposition. See "Redemption of Units Tax Consequences of Redemption" for more information on these tax consequences.

The nature of your investment will change upon a redemption of your units.

Unless we elect to assume and perform the operating partnership's obligation with respect to redeeming your units, you will receive cash on the specified redemption date from the operating partnership in an amount equal to the market value of the units to be redeemed. For class A units, which are the kind of units that you hold, the specified redemption date is generally the tenth business day after we receive your notice of redemption if our common shares are publicly traded. In lieu of the operating partnership's acquiring the units for cash, we have the right, except as described below if the common shares are not publicly traded, to elect to acquire the units on the specified redemption date directly from you, in exchange for either cash or common shares, and upon acquiring the units, we will become the owner of your units. See "Redemption of Units" for more information about our right to acquire your units for either cash or common shares when you redeem them. If you receive cash, you will no longer have any interest in the operating partnership or Vornado, will not benefit from any subsequent increases in the price of the common shares and will not receive any future distributions from the operating partnership or Vornado, unless you currently own or acquire in the future additional common shares or units. If you receive common shares, you will become a shareholder of Vornado rather than a holder of units in the operating partnership. Although an investment in common shares is substantially equivalent to an investment in units in the operating partnership, there are some differences between ownership of units and ownership of common shares. These differences, some of which may be material to you, are discussed in "Comparison of Ownership of Units and Common Shares."

Real Estate Investments' Value and Income Fluctuate Due to Various Factors.

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

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

national, regional and local economic conditions;

the consequences of any armed conflict involving, or terrorist attack against, the United States;

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our ability to secure adequate insurance;

local conditions such as an oversupply of space or a reduction in demand for real estate in the area;

competition from other available space;

whether tenants consider a property attractive;

the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;

whether we are able to pass some or all of any increased operating costs we experience through to tenants;

how well we manage our properties;

increased interest rates;

increases in real estate taxes and other expenses;

decreases in market rental rates;

the timing and costs associated with property improvements and rentals;

changes in taxation or zoning laws;

government regulations;

our failure to continue to qualify as a real estate investment trust;

availability of financing on acceptable terms or at all;

potential liability under environmental or other laws or regulations; and

general competitive factors.

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

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

Our financial results depend on leasing space in our properties to tenants on economically favorable terms. In addition, because substantially all of our income comes from rentals of real property, our income and funds available for distribution to our shareholders will decrease if a significant number of our tenants cannot pay their rent. If a tenant does not pay its rent, we might not be able to enforce our rights as landlord without delays and might incur substantial legal costs. For information regarding the bankruptcy of our tenants, see " Bankruptcy of tenants may decrease our revenues and available cash" below.

Bankruptcy of tenants may decrease our revenues and available cash.

A number of companies, including some of our tenants, have declared bankruptcy in recent years, and other tenants may declare bankruptcy or become insolvent in the future. If a major tenant declares bankruptcy or becomes insolvent, the rental property where it leases space may have lower revenues and operational difficulties, and, in the case of our shopping centers, we may have difficulty leasing the

remainder of the affected property. Our leases generally do not contain restrictions designed to ensure the creditworthiness of our tenants. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of funds from operations available for distribution to our shareholders.

U.S. Airways Group Inc. leases its headquarters in Washington, D.C. from us. U.S. Airways has been adversely affected by the downturn in air travel as a result of the terrorist attacks and economic decline. On August 11, 2002, U.S. Airways filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Effective January 1, 2003, we agreed to amend our lease with U.S. Airways at Crystal City to (a) reduce the tenant's space by 90,732 square feet to 205,600 square feet, (b) reduce the annual escalated rent from \$36.00 to \$29.75 per square foot with 2.5% annual base rent escalations, (c) provide the tenant with up to \$1,200,000 of tenant allowances and (d) loan the tenant up to \$1,000,000 at 9% per annum for additional tenant improvements which is to be repaid over the lease term. This lease modification has been approved by the Bankruptcy Court.

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Stop & Shop leases a number of our retail locations and guarantees the leases of a number of our former Bradlees retail locations. In February 2003, Koninklijke Ahold NV, parent of Stop & Shop, announced that it overstated its 2002 and 2001 earnings by at least \$500 million and is under investigation by the U.S. Justice Department and Securities and Exchange Commission. We cannot predict what effect, if any, this situation may have on Stop & Shop's ability to satisfy its obligation under the Bradlees, guarantees and rent for existing Stop & Shop leases aggregating approximately \$10.5 million per annum.

The risk that some of our tenants may declare bankruptcy is higher because of the September 11, 2001 terrorist attacks and the resulting decline in the economy. This is particularly true for our tenants that are dependent on the air or travel industries as a primary source of revenue.

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

We carry comprehensive general liability and all risk property insurance (fire, flood, extended coverage and rental loss insurance) with respect to our assets and are at risk for financial loss in excess of the policies limits, which loss could be material.

Our all risk insurance policies in effect before September 11, 2001 did not expressly exclude coverage for hostile acts, except for acts of war. Since September 11, 2001 and prior to the enactment of the Terrorism Risk Insurance Act of 2002 as described below, insurance companies have for the most part excluded terrorist acts from coverage in all risk policies. We were generally unable to obtain all risk insurance that includes coverage for terrorist acts for policies we renewed during that period for each of our businesses. In 2002, we obtained \$200,000,000 of separate aggregate coverage for terrorist acts for each of our New York City office, Washington, D.C. office, Retail and Merchandise Mart businesses and \$60,000,000 for our Temperature Controlled Logistics business.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), the operating partnership's senior unsecured notes due 2007, and our revolving credit agreement, contain customary covenants requiring us to maintain insurance. There can be no assurance that the lenders under these instruments in place at that time will not take the position that since our all risk insurance policies differ from policies put into effect prior to September 11, 2001 as to coverage for terrorist acts, there are breaches of these debt instruments that allow the lenders to declare an event of default and accelerate repayment of debt. In addition, if lenders insist on coverage for these risks as it existed prior to September 11, 2001, it could adversely affect our ability to finance and/or refinance our properties and to expand our portfolio.

On November 26, 2002, the Terrorism Risk Insurance Act of 2002 was signed into law. Under this new legislation, through 2004 (with a possible extension through 2005), regulated insurers must offer coverage in their commercial property and casualty policies (including existing policies) for losses

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resulting from defined "acts of terrorism". As a result of the legislation, in March 2003, we obtained \$300 million of per occurrence coverage for Certified terrorist acts, as defined in the legislation, which includes \$60 million for Non-Certified Acts for our New York City office and Washington, D.C. office and \$100 million for Non-Certified Acts for our Merchandise Mart businesses. Additionally, in June 2003, we obtained for our Retail business \$500 million of per occurrence coverage for Certified terrorist acts, as defined in the legislation, which includes \$150 million for Non-Certified Acts. We maintain \$60 million of separate aggregate coverage for terrorist acts that we had in 2002 for our Temperature Controlled Logistics businesses (which has been renewed as of January 1, 2003). Therefore, we are at risk for financial loss in excess of these limits for terrorist acts as defined by the policies and the legislation, which loss could be material.

We may acquire or develop new properties, and this may create risks.

We may acquire or develop properties or acquire other real estate companies when we believe that an acquisition or development is consistent with our business strategies. We may not, however, succeed in consummating desired acquisitions or in completing developments on time or within our budget. We also might not succeed in leasing newly developed or acquired properties at rents sufficient to cover their costs of acquisition or development and operations.

We have experienced rapid growth in recent years, increasing our total assets from approximately \$565,000,000 at December 31, 1996 to approximately \$9,042,000,000 at March 31, 2003. This growth included the acquisition of Charles E. Smith Commercial Realty L.P. on January 1, 2002 which increased our total assets as of that date by \$2,506,000,000, of which \$1,758,000,000 is attributable to the acquisition of assets and \$748,000,000 is attributable to Charles E. Smith Commercial Realty L.P. becoming a wholly owned subsidiary of the operating partnership and therefore being consolidated rather than accounted for under the equity method. We may not be able to maintain a similar rate of growth in the future, or manage our past and any future growth effectively. Our failure to do so may have a material adverse effect on our financial condition and results of operations. Difficulties in integrating acquisitions may prove costly or time-consuming and could divert

management's attention.

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

As part of an acquisition of a property, we may agree with the seller that we will not dispose of the acquired properties or reduce the mortgage indebtedness on them for significant periods of time unless we pay certain of the resulting tax costs of the seller. These agreements could result in our holding on to properties that we would otherwise sell and not paying down or refinancing indebtedness that we would otherwise pay down or refinance.

It may be difficult to buy and sell real estate quickly, and transfer restrictions apply to some of our mortgaged properties.

Equity real estate investments are relatively difficult to buy and sell quickly. We therefore have limited ability to vary our portfolio promptly in response to changes in economic or other conditions. Some of our properties are mortgaged to secure payment of indebtedness. If we were unable to meet our mortgage payments, the lender could foreclose on the properties and we could incur a loss. In addition, if we wish to dispose of one or more of the mortgaged properties, we might not be able to obtain release of the lien on the mortgaged property. If a lender forecloses on a mortgaged property or if a mortgage lien prevents us from selling a property, our funds available for distribution to our shareholders could decline. For information relating to the mortgages on our properties, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in our annual report on Form 10-K for the year ended December 31, 2002 and

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quarterly report on Form 10-Q for the quarter ended March 31, 2003 and the notes to our consolidated financial statements in the same reports.

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

During 2002, 86% of our income before gains in sale of real estate and cumulative effect of change in accounting principle came from properties located in New Jersey and the New York City and Washington, D.C. metropolitan areas.

We may continue to concentrate a significant portion of our future acquisitions in New Jersey and the New York City and Washington, D.C. metropolitan areas. Like other real estate markets, the real estate markets in these areas have experienced economic downturns in the past, and we cannot predict how the current economic conditions will impact these markets in both the short and long term. Further declines in the economy or a decline in the real estate markets in these areas could hurt our financial performance and the value of our properties. The factors affecting economic conditions in these regions include:

business layoffs or downsizing;

industry slowdowns;

relocations of businesses;

changing demographics;

increased telecommuting and use of alternative work places;

financial performance and productivity of the publishing, advertising, financial, technology, retail, insurance and real estate industries;

infrastructure quality; and

any oversupply of or reduced demand for real estate.

It is impossible for us to assess the future effects of the current uncertain trends in the economic and investment climates of the New York City/New Jersey and Washington, D.C. regions, and more generally of the United States, on the real estate markets in these areas. If these conditions persist, they may adversely affect our businesses and future profitability.

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

We have agreed to restrictions on our ability to sell, finance, refinance and, in some instances, pay down existing financing on the Charles E. Smith Commercial Realty L.P. properties for a period of up to 20 years, under a tax reporting and protection agreement that we entered into at the closing of the merger. This agreement prohibits us from taking these actions unless the operating partnership also pays the contributing partners based on their tax liabilities as a result of the sale. These arrangements may significantly reduce our ability to sell, finance or repay indebtedness secured by the subject properties or assets.

In addition, subject to limited exceptions, we are restricted from selling or otherwise transferring or disposing of certain properties located in the Crystal City area of Arlington, Virginia or an interest in our division that manages the majority of our office properties in the Washington, D.C. metropolitan area, which we refer to as the "Smith Division," for a period of 12 years with respect to certain

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properties located in the Crystal City area of Arlington, Virginia or six years with respect to an interest in the Smith Division. These restrictions, which currently cover approximately 13.0 million square feet of space, could result in our inability to sell these properties or an interest in the Smith Division at an opportune time and increased costs to us.

We may incur costs to comply with environmental laws.

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

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

Real estate is a competitive business.

Our business segments Office, Retail, Merchandise Mart Properties, Temperature Controlled Logistics, and Other operate in highly competitive environments. We have a large concentration of properties in the New York City metropolitan area and in the Washington, D.C. and Northern Virginia area. We compete with a large number of real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location and quality and breadth of services provided. Our success depends upon, among other factors, trends of the

national and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

The Terrorist Attacks of September 11, 2001 in New York City and the Washington, D.C. Area May Adversely Affect the Value of Our Properties and Our Ability to Generate Cash Flow.

There may be a decrease in demand for space in large metropolitan areas that are considered at risk for future terrorist attacks, and this decrease may reduce our revenues from property rentals.

We have significant investments in large metropolitan areas, including the New York/New Jersey, Washington, D.C. and Chicago metropolitan areas. In the aftermath of the terrorist attacks, tenants in these areas may choose to relocate their business to less populated, lower-profile areas of the United

States that are not as likely to be targets of future terrorist activity. This in turn would trigger a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease our properties on less favorable terms. As a result, the value of our properties and the level of our revenues could decline materially.

Our investment in Hotel Pennsylvania is dependent on the travel industry, and that investment has been and may continue to be impacted severely by the terrorist attacks and the current economic downturn.

Our investment in Hotel Pennsylvania is directly dependent on the travel industry generally and the number of visitors to New York City in particular. Since September 11, 2001, there has been a substantial decline in travel and tourism generally, and in particular in New York City. Accordingly, there has been a significant reduction in occupancy at Hotel Pennsylvania. As a result, revenues generated by this investment have been impacted severely by that decline, and we expect this impact on revenues to continue.

All of Our Temperature Controlled Logistics Warehouses Are Leased to One Tenant, and That Tenant Is Experiencing Operating Difficulties.

The operating partnership indirectly owns a 60% interest in a partnership, which we refer to as the "Vornado Crescent Portland Partnership," that owns 88 cold storage warehouses nationwide with an aggregate of approximately 441.5 million cubic feet of refrigerated, frozen and dry storage space. The Vornado Crescent Portland Partnership sold all of the non-real estate assets encompassing the operations of the temperature controlled business to a new partnership named AmeriCold Logistics owned 60% by Vornado Operating Company, which we refer to as "Vornado Operating," and 40% by Crescent Operating Inc. AmeriCold Logistics leases the underlying temperature controlled warehouses used in this business from the Vornado Crescent Portland Partnership, which continues to own the real estate. During 2002, AmeriCold Logistics generated approximately 4.5% of our income before gains on sale of real estate and cumulative effect of change in accounting principle. The leases, as amended, generally have a 15 year term with two five-year renewal options and provide for the payment of fixed base rent and percentage rent based on revenue AmeriCold Logistics receives from its customers. The contractual rent for 2002 was \$150,000,000. The landlord's share of annual maintenance capital expenditures is \$9,500,000. In accordance with the leases, AmeriCold Logistics deferred payment of \$32,248,000 of 2002 rent due to the landlord, of which our share was \$19,349,000 and \$5,627,000 of rent due for the three months ended March 31, 2003, of which our share was \$3,376,000. Based on the joint venture's policy of recognizing rental income when earned and collection is assured or cash is received, the joint venture did not recognize this rent in the year ended December 31, 2002 or the quarter ended March 31, 2003. At March 31, 2003, our share of the joint venture's total deferred rent receivable from the tenant is \$27,726,000. On December 31, 2001, the landlord released the tenant from its obligation to pay \$39,812,000 of rent deferred in 2001 and 2000, of which our share was \$23,887,000. This amount equaled the rent which was not recognized as income by the joint venture and accordingly had no profit and loss effect to us. On March 7, 2003, AmeriCold Logistics and the Landlord extended the deferred rent period to December 31, 2004 from December 31, 2003.

To the extent that the operations of AmeriCold Logistics may affect its ability to pay rent, including percentage rent due under the leases, we indirectly bear the risks associated with AmeriCold Logistics' cold storage business. The cold storage business is extremely competitive. Factors affecting AmeriCold Logistics' ability to compete include, among others, (a) warehouse locations, (b) customer mix and (c) availability, quality and price of additional services.

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

We depend primarily on external financing to fund the growth of our business. This is because one of the requirements of the Internal Revenue Code of 1986, as amended, for a REIT is that it distribute

90% of its net taxable income, excluding net capital gains, to its shareholders. Our access to debt or equity financing depends on banks' willingness to lend and on conditions in the capital markets. We and other companies in the real estate industry have experienced limited availability of bank loans and capital markets financing from time to time. Although we believe that we will be able to finance any investments we wish to make in the foreseeable future, financing other than what we already have available might not be available on acceptable terms.

For information about our available sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in our annual report on Form 10-K for the year ended December 31, 2002 and quarterly report on Form 10-Q for the quarter ended March 31, 2003 and the notes to the consolidated financial statements in the same reports.

Our Ownership Structure and Related-Party Transactions May Give Rise to Conflicts of Interest.

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

As of March 31, 2003, Interstate Properties, a New Jersey general partnership, and its partners owned approximately 12.9% of the common shares of Vornado and approximately 27.5% of the common stock of Alexander's, Inc., and beneficially owned approximately 7.9% of the common stock of Vornado Operating (approximately 17.0% assuming redemption of 447,017 units of Vornado Operating L.P., the operating subsidiary of Vornado Operating, that are beneficially owned by Interstate Properties and redeemable for common stock of Vornado Operating). Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the three partners of Interstate Properties. Mr. Roth is the Chairman of the Board and Chief Executive Officer of Vornado, the managing general partner of Interstate Properties, the Chief Executive Officer and a director of Alexander's and the Chairman of the Board and Chief Executive Officer of Vornado Operating. Mr. Wight is a trustee of Vornado and is also a director of both Alexander's and Vornado Operating. Mr. Mandelbaum is a trustee of Vornado and is also a director of Alexander's.

As of March 31, 2003, Vornado owned 33.1% of the outstanding common stock of Alexander's. Alexander's is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander's has six properties, which are located in the New York City metropolitan area. Mr. Roth and Michael D. Fascitelli, the President and a trustee of Vornado, are directors of Alexander's. Messrs. Mandelbaum, Richard R. West and Wight are trustees of Vornado and are also directors of Alexander's.

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

Vornado currently manages and leases the real estate assets of Interstate Properties under a management agreement for which Vornado receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on 60 days' notice at the end of the term. Vornado earned \$1,450,000 of management fees under the management agreement for the year ended December 31, 2002 and \$176,000 for the three months ended March 31, 2003. Because Vornado and Interstate Properties are controlled by the same persons, as described above, the terms of the management agreement and any future agreements between us and Interstate Properties may not be comparable to those we could have negotiated with an unaffiliated third party.

Vornado engages in transactions with Vornado Operating on terms that may or may not be comparable to those we could negotiate with unaffiliated third parties.

In October 1998, Vornado Operating was spun off from Vornado in order to own assets that Vornado could not itself own and conduct activities that Vornado could not itself conduct.

In addition to being trustees of Vornado, Messrs. Roth, Fascitelli, West and Wight are directors of Vornado Operating. Mr. Roth is also Chairman of the Board and Chief Executive Officer of Vornado Operating, Mr. Fascitelli is also President of Vornado Operating, and certain other members of Vornado's senior management hold corresponding positions with Vornado Operating.

The operating partnership entered into a \$75,000,000 unsecured revolving credit facility with Vornado Operating that expires on December 31, 2004. Borrowings under the revolving credit agreement bear interest at LIBOR plus 3%. The operating partnership receives an annual commitment fee equal to 1% on the average daily unused portion of the facility. Vornado Operating is not required to pay any amortization under the revolving credit agreement during its term. The revolving credit agreement prohibits Vornado Operating from incurring indebtedness to third parties, other than certain purchase money debt and certain other exceptions, and prohibits Vornado Operating from paying dividends. As of June 30, 2003, there was no outstanding balance under the revolving credit agreement.

The operating partnership and Vornado Operating are parties to an agreement under which, among other things, (a) the operating partnership will offer Vornado Operating, under certain circumstances, an opportunity to become the lessee of certain real property owned now or in the future by the operating partnership under mutually satisfactory lease terms and (b) Vornado Operating will not make any real estate investment or other investments known as REIT-qualified investments unless it first offers the operating partnership the opportunity to make the investment and the operating partnership has rejected that opportunity. Under this agreement, the operating partnership provides Vornado Operating with administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. For these services, Vornado Operating compensates the operating partnership in an amount determined in good faith by the operating partnership as the amount an unaffiliated third party would charge Vornado Operating for comparable services and reimburses the operating partnership for certain costs incurred and paid to third parties on behalf of Vornado Operating. Under this agreement, compensation for these services was approximately \$330,000, \$371,000 and \$330,000 for the years ended December 31, 2000, 2001 and 2002, respectively, and \$82,500 for the three months ended March 31, 2003. Vornado Operating and the operating partnership each have the right to terminate this agreement if the other party is in material default of the agreement or upon 90 days' written notice to the other party at any time after December 31, 2003. In addition, the operating partnership has the right to terminate this agreement upon a change in control of Vornado Operating.

Vornado Operating's restated certificate of incorporation specifies that one of its corporate purposes is to perform this agreement and, for so long as the agreement remains in effect, prohibits

Vornado Operating from making any real estate investment or other REIT-qualified investment without first offering the opportunity to the operating partnership in the manner specified in this agreement.

We and Vornado Operating may enter into additional transactions in the future. Because we and Vornado Operating share common senior management and because a majority of our trustees also constitute the majority of the directors of Vornado Operating, the terms of the foregoing agreements and any future agreements between us and Vornado Operating may not be comparable to those we could have negotiated with an unaffiliated third party.

There may be conflicts of interest between Vornado and Alexander's.

As of March 31, 2003, Vornado owned 33.1% of the outstanding common stock of Alexander's. Alexander's is a REIT engaged in leasing, managing, developing and redeveloping properties, focusing primarily on the locations where its department stores operated before they ceased operations in 1992. Alexander's has six properties. Interstate Properties, which is further described above, owned an additional 27.5% of the outstanding common stock of Alexander's as of December 31, 2002. Mr. Roth, Chairman of the Board and Chief Executive Officer of Vornado, is Chief Executive Officer and a director of Alexander's, and Mr. Fascitelli, President and a trustee of Vornado, is President and a director of Alexander's. Messrs. Mandelbaum, West and Wight, trustees of Vornado, are also directors of Alexander's. Alexander's common stock is listed on the New York Stock Exchange under the symbol "ALX."

At March 31, 2003, the operating partnership had loans receivable from Alexander's of \$119,000,000 at an interest rate of 12.48%. These loans mature on the earlier of January 3, 2006 or the date that Alexander's Lexington Avenue construction loan is repaid in full. The operating partnership manages, develops and leases the Alexander's properties under management and development agreements and leasing agreements

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under which the operating partnership receives annual fees from Alexander's. These agreements have a one-year term expiring in March of each year, except that the Lexington Avenue management and development agreements have a term lasting until substantial completion of development of the Lexington Avenue property, and are all automatically renewable. Because Vornado and Alexander's share common senior management and because a majority of the trustees of Vornado also constitute the majority of the directors of Alexander's, the terms of the foregoing agreements and any future agreements between us and Alexander's may not be comparable to those we could have negotiated with an unaffiliated third party.

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

Archstone-Smith Trust provides services to us under agreements that were not negotiated at arm's length.

We have agreements with the Archstone-Smith Trust under which we lease office space to Archstone-Smith Trust and share the cost of certain office-related services with it that were not negotiated at arms' length. These agreements were entered into by Charles E. Smith Commercial Realty in 1997, before our January 1, 2002 acquisition of Charles E. Smith Commercial Realty, at a time when Mr. Smith and Mr. Kogod were in control of both Charles E. Smith Commercial Realty and the Charles E. Smith Residential Division of Archstone-Smith. Mr. Smith and Mr. Kogod, who became members of our board of trustees on January 1, 2002, are also trustees and shareholders of Archstone-Smith Trust.

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Our Organizational and Financial Structure Gives Rise to Operational and Financial Risks.

We depend on our direct and indirect subsidiaries' dividends and distributions, and these subsidiaries' creditors and preferred security holders are entitled to payment of amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or distributions to us.

Substantially all of our assets consist of our partnership interests in the operating partnership. The operating partnership holds substantially all of its properties and assets through subsidiaries. The operating partnership therefore depends for substantially all of its cash flow on cash distributions to it by its subsidiaries, and we in turn depend for substantially all of our cash flow on cash distributions to us by the operating partnership. The creditors of each of our direct and indirect subsidiaries are entitled to payment of that subsidiary's obligations to them, when due and payable, before distributions may be made by that subsidiary to its equity holders. Thus, the operating partnership's ability to make distributions to holders of units depends on its subsidiaries' ability first to satisfy their obligations to their creditors and then to make distributions to the operating partnership. Likewise, our ability to pay dividends to holders of common and preferred shares depends on the operating partnership's ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to us.

Furthermore, the holders of preferred units of the operating partnership are entitled to receive preferred distributions before payment of distributions to holders of common units of the operating partnership, including us. Thus, our ability to pay dividends to holders of our common shares depends on the operating partnership's ability first to satisfy its obligations to its creditors and make distributions payable to holders of preferred units and then to make distributions to us. There are currently 17 series of preferred units of the operating partnership not held by us that have preference over our common shares. The total liquidation value of these 17 series of preferred units is approximately \$1,494,061,000.

In addition, we may participate in any distribution of the assets of any of our direct or indirect subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary, and consequently our shareholders may participate in those assets, only after the claims of the creditors, including trade creditors, and preferred security holders, if any, of the subsidiary are satisfied.

We have indebtedness, and this indebtedness may increase.

As of March 31, 2003, we had approximately \$5.092 billion in total debt outstanding. Our ratio of total debt to total enterprise value was 45%. When we say "enterprise value" in the preceding sentence, we mean market equity value of Vornado Realty Trust plus debt less cash. In the future, we may incur additional debt, and thus increase our ratio of total debt to total enterprise value, to finance acquisitions or property developments. We may review and modify our debt level from time to time without notice to or any vote of our shareholders.

Loss of our key personnel could harm our operations.

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

We might fail to qualify or remain qualified as a REIT.

Although we believe that Vornado will remain organized and will continue to operate so as to qualify as a REIT for federal income tax purposes, we might fail to remain qualified in this way. Qualification as a REIT for federal income tax purposes is governed by highly technical and complex

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provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations. Vornado's qualification as a REIT also depends on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions might significantly change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT.

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

Vornado's charter documents and applicable law may hinder any attempt to acquire Vornado.

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

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

Vornado's declaration of trust authorizes the Board of Trustees:

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

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

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

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

The Board of Trustees could establish a series of preferred shares whose terms could delay, deter or prevent a change in control of Vornado or other transaction that might involve a premium price or otherwise be in the best interest of our shareholders, although the Board of Trustees does not now

intend to establish a series of preferred shares of this kind. Vornado's declaration of trust and bylaws contain other provisions that may delay, deter or prevent a change in control of Vornado or other transaction that might involve a premium price or otherwise be in the best interest of our shareholders.

Under the Maryland General Corporation Law, as amended, which we refer to as the "MGCL," as applicable to real estate investment trusts, certain "business combinations," including certain mergers, consolidations, share exchanges and asset transfers and certain issuances and reclassifications of equity securities, between a Maryland real estate investment trust and any person who beneficially owns ten percent or more of the voting power of the trust's shares or an affiliate or an associate, as defined in the MGCL, of the trust who, at any time within the two-year period before the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting shares of beneficial interest of the trust, which we refer to as an "interested shareholder," or an affiliate of the interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. After that five-year period, any business combination of these kinds must be recommended by the board of trustees of the trust and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of beneficial interest of the trust and (b) two-thirds of the votes entitled to be cast by holders of voting shares of the trust other than shares held by the interested shareholder with whom, or with whose affiliate, the business combination is to be effected, unless, among other conditions, the trust's common shareholders receive a minimum price, as defined in the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. The provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of trustees of the trust before the interested shareholder becomes an interested shareholder, and a person is not an interested shareholder if the board of trustees approved in advance the transaction by which the person otherwise would have become an interested shareholder. In approving a transaction, the board may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board. The Vornado board has adopted a resolution exempting any business combination between any trustee or officer of Vornado, or their affiliates, and Vornado. As a result, the trustees and officers of Vornado and their affiliates may be able to enter into business combinations with Vornado which may not be in the best interest of shareholders. With respect to business combinations with other persons, the business combination provisions of the MGCL may have the effect of delaying, deferring or preventing a change in control of Vornado or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. The business combination statute may discourage others from trying to acquire control of Vornado and increase the difficulty of consummating any offer.

The Number of Shares of Vornado and the Market for Those Shares Give Rise to Various Risks.

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

As of June 30, 2003, 28,143,854 of Vornado's common shares were reserved for issuance upon redemption of operating partnership units. Some of these shares may be sold in the public market after registration under the Securities Act under registration rights agreements between Vornado and some holders of units of the operating partnership. These shares may also be sold in the public market under Rule 144 under the Securities Act or other available exemptions from registration. In addition, we have reserved a number of common shares for issuance under our employee benefit plans, and these common shares will be available for sale from time to time. We have awarded shares of restrictive stock and granted options to purchase additional common shares to some of our executive officers and employees. We cannot predict the effect that future sales of our common shares, or the perception that sales of common shares could occur, will have on the market prices of the common shares.

Changes in market conditions could hurt the market price of our shares.

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

the extent of institutional investor interest in Vornado;

the reputation of REITs generally and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities (including in connection with any possible change in the taxation of dividends, as discussed below);

our financial condition and performance;

prevailing interest rates; and

general financial market conditions.

In particular, the Jobs and Growth Tax Relief and Reconciliation Act of 2003 which was signed into law by President Bush on May 28, 2003 provides favorable income tax rates for certain corporate dividends received by individuals through December 31, 2008. Under the Act, REIT dividends are not eligible for the preferential rates applicable to dividends unless the dividends are attributable to income that has been subject to corporate-level tax. As a result, substantially all of the distributions paid on our shares are not expected to qualify for such lower rates. This Act could cause stock in non-REIT corporations to be more attractive to investors than stock in REITs, which may negatively affect the value of and the market for our shares.

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

Increased market interest rates may hurt the value of our shares.

We believe that investors consider the distribution rate on REIT shares, expressed as a percentage of the price of the shares, relative to market interest rates as an important factor in deciding whether to buy or sell the shares. If market interest rates go up, prospective purchasers of REIT shares may expect a higher distribution rate. Higher interest rates would not, however, result in more funds for us to distribute and, in fact, would likely increase our borrowing costs and might decrease our funds available for distribution. Thus, higher market interest rates could cause the market price of our shares to decline.

VORNADO AND THE OPERATING PARTNERSHIP

Vornado is a fully-integrated real estate investment trust organized under the laws of Maryland. Vornado conducts its business through, and substantially all of its interests in properties are held by, the operating partnership. Vornado is the sole general partner of, and owned approximately 81% of the common limited partnership interest in, the operating partnership as of March 31, 2003.

The operating partnership currently owns directly or indirectly:

Office Properties:

all or portions of 76 office properties in the New York City metropolitan area (primarily Manhattan) and in the Washington, D.C. and Northern Virginia area aggregating approximately 27.7 million square feet;

Retail Properties:

62 retail center properties in six states and Puerto Rico aggregating approximately 12.5 million square feet, including 1.8 million square feet built by tenants on land leased from Vornado;

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Merchandise Mart Properties:

the Merchandise Mart Properties portfolio containing approximately 8.6 million square feet, including the 3.4 million square foot Merchandise Mart in Chicago;

Temperature Controlled Logistics:

a 60% interest in the Vornado Crescent Portland Partnership that owns 88 cold storage warehouses nationwide with an aggregate of approximately 441.5 million cubic feet of refrigerated space leased to AmeriCold Logistics;

Other Real Estate Investments:

33.1% of the outstanding common stock of Alexander's, Inc.;

the Hotel Pennsylvania in New York City consisting of a hotel portion containing 1,000,000 square feet with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space;

a 22.5% interest in The Newkirk Master Limited Partnership, which owns office, retail and industrial properties and various debt interests in those properties;

eight dry warehouse/industrial properties in New Jersey containing approximately 2.0 million square feet; and

other investments including interests in other real estate, marketable securities and loans and rates receivable.

The principal executive offices of Vornado and the operating partnership are located at 888 Seventh Avenue, New York, New York 10019; telephone (212) 894-7000.

USE OF PROCEEDS

Vornado will not receive any cash proceeds from the issuance of the shares offered by this prospectus but will acquire units in the operating partnership in exchange for any shares that Vornado may issue to a redeeming unit holder.

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REDEMPTION OF UNITS

You have the right to have your units redeemed in whole or in part by the operating partnership for cash equal to the fair market value, at the time of redemption, of one common share of Vornado for each unit redeemed. We have the right to issue you one common share for each unit tendered instead of paying the cash redemption amount. You may redeem units only in compliance with the securities laws, the Second Amended and Restated Agreement of Limited Partnership of the operating partnership, dated as of October 20, 1997, as amended, and the declaration of trust's limits on ownership of common shares. We refer to the Second Amended and Restated Agreement of Limited Partnership of the operating partnership, as amended, as the "partnership agreement."

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You may exercise the right to redeem your units by providing a notice of redemption, substantially in the form attached as an exhibit to the partnership agreement, to the operating partnership, with a copy to Vornado. You may also be required to furnish the operating partnership and Vornado with certain other certificates and forms. The partnership agreement establishes some limitations on your right to redeem units. Unless we elect to assume and perform the operating partnership's obligation with respect to the redemption, as described below, you will receive cash on the specified redemption date from the operating partnership in an amount equal to the market value of the units to be redeemed. The "specified redemption date" with respect to your units will be either (a) in the case of a redemption that qualifies as a "block transfer" or that satisfies the "lack of actual trading" safe harbor from publicly traded partnership status, both as defined in the Treasury regulations under the Internal Revenue Code, the tenth business day after we receive your notice of redemption if our common shares are publicly traded or the thirtieth business day after we receive your notice of redemption if our common shares are not publicly traded, or (b) in the case of a redemption that does not qualify as a block transfer or satisfy the lack of actual trading safe harbor, a date up to 60 days after we receive your notice of redemption as determined by us in our sole discretion.

Furthermore, redemptions of class A units by the operating partnership pursuant to the redemption right discussed above, together with other transfers and redemptions of operating partnership units (other than certain of the redemptions or transfers qualifying as "private transfers" under the regulations under Section 7704 of the Internal Revenue Code), are limited in any one taxable year to 10% of the interests in capital or profits not held by Vornado or certain of its affiliates, and Vornado has the right and currently intends to refuse to permit certain redemptions and other transfers of operating partnership units that, when aggregated with prior redemptions and transfers, would exceed this limit.

When we say "business day," we mean a day that is not a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close. The market value of a unit for the purpose of redemption will be equal to the average of the closing trading prices of a Vornado common share on the NYSE for the ten trading days before the day on which we received the notice of redemption or, if that day is not a business day, the first business day after that day.

Instead of the operating partnership's acquiring the units for cash, we have the right to acquire the units on the specified redemption date directly from you, in exchange for either the market value of the units in cash or for common shares. However, we do not have this right if the common shares are not publicly traded, as described below. If we acquire the units, we will become their owner. In either case, acquisition of the units by Vornado will be treated as a sale of the units by you to Vornado for federal income tax purposes. See "Tax Consequences of Redemption Tax Treatment of Redemption of Units" for information about the tax consequences of redeeming units to the redeeming unit holder.

If we determine to acquire the units in exchange for common shares, the total number of common shares to be paid to you will be equal to the product of the number of units times the conversion factor. See "Description of the Units and the Operating Partnership Sales of Assets" for further

information about the conversion factor, which is 1.0 as of the date of this prospectus. Vornado currently anticipates that it generally will elect to acquire directly units tendered for redemption and to issue common shares in exchange for the units rather than pay cash, but we will decide whether to pay cash or issue common shares upon redemption of units when units are tendered for redemption.

When you redeem units, your right to receive distributions on the units so redeemed or exchanged will cease, unless the record date for a distribution was a date before the specified redemption date. You must redeem at least 1,000 units at a time, or all of your remaining units if you own less than 1,000 units. No redemption or exchange can occur if delivery of common shares on the specified redemption date to the unit holder seeking redemption would be prohibited either under Vornado's declaration of trust or under applicable federal or state securities laws as long as the common shares are publicly traded.

Each unit holder has agreed with Vornado under the partnership agreement that all units delivered for redemption must be delivered to the operating partnership or Vornado, as the case may be, free and clear of all liens. Neither Vornado nor the operating partnership will be under any obligation to acquire units if there are liens on the units. Each unit holder has also agreed to pay any state or local property transfer tax that is payable as a result of the transfer of his or her units to the operating partnership or Vornado.

If a unit holder assigns his or her units to another person, that person may redeem the units. In that case, the redemption price will be paid directly to that person and not to the unit holder.

If Vornado provides notice to the unit holders that it intends to make an extraordinary distribution of cash or property to its shareholders or to effect a merger, a sale of all or substantially all of its assets or any other similar extraordinary transaction, the right to redeem units will be exercisable during the period commencing on the date on which Vornado provides that notice and ending on either:

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if there is a record date to determine shareholders eligible to receive the extraordinary distribution or to vote upon the approval of the merger, sale or other extraordinary transaction, the record date; or

if there is no record date of this kind, the date that is twenty days after the date on which Vornado provides notice of the extraordinary distribution or extraordinary transaction.

A holder must have held his or her units for at least one year from the date of issuance to have the right to redeem them under these circumstances. If this paragraph applies, the specified redemption date will be the sooner of:

the tenth business day after the operating partnership receives the notice of redemption; or

the business day immediately preceding the record date to determine shareholders eligible to receive the extraordinary distribution or vote on approval of the extraordinary transaction.

However, if the specified redemption date occurs in less than ten business days and the operating partnership elects to redeem the units for cash, the operating partnership will have up to ten business days after receiving the notice of redemption to deliver payment for the units.

If Vornado merges or consolidates with another company or sells all or substantially all of its assets as a whole and Vornado's shareholders are obligated to accept cash and/or debt obligations in full or partial payment for their common shares in the transaction, then the portion of the payment per unit payable upon redemption of the units that must be accepted in cash and/or debt obligations will be equal to an amount of cash equal to the sum of:

the cash payable for one common share multiplied by the conversion factor; and

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the value, on the date on which the transaction is consummated, of the debt obligations to be received with respect to one common share multiplied by the conversion factor.

The balance of the amount payable per unit when units are redeemed will be payable in an amount calculated consistently with the first paragraph of this section.

If the common shares are not publicly traded but another entity whose shares are publicly traded owns more than 50% of the shares of Vornado, the unit holders' right to redeem units will be determined by reference to the publicly traded stock of that majority owner of Vornado. In that case, the general partner of the operating partnership will have the right to elect to acquire the units to be redeemed for publicly traded stock of the majority owner of Vornado. If the common shares are not publicly traded and there is no majority owner of Vornado with publicly traded stock, the unit holders' right to redeem units would be based upon the net fair market value of the operating partnership's assets at the time the units are redeemed, as determined in good faith by Vornado. In that case, Vornado and the operating partnership would be obligated to pay for redeemed units in cash, payable on the thirtieth business day after Vornado receives the notice of redemption.

Registration Rights

Under the registration rights agreement between Vornado and the unit holders named in the agreement, which has been filed as an exhibit to the registration statement of which this prospectus forms a part, those unit holders have the right to demand registration of the common shares for which their units may be redeemed when they redeem their units, unless the shares they receive are already registered under an effective registration statement filed with the SEC. The registration rights agreement provides that Vornado will pay all expenses of registering the shares. The agreement also provides that the holders of the shares will pay any brokerage and sales commissions, fees and disbursements of counsel to the holders, accountants and other advisors, and any transfer taxes relating to the sale or disposition of the shares by the holders.

Tax Consequences of Redemption

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The following discussion summarizes the material federal income tax considerations that may be relevant to a unit holder who redeems his or her units. This discussion only applies to unit holders that provide an affidavit to the operating partnership, at the time their units are redeemed, stating that the unit holder is not a foreign person and stating the unit holder's taxpayer identification number, under penalties of perjury.

You should consult your own tax advisors regarding the tax consequences to you of redeeming your units, including the federal, state, local and foreign tax consequences of redeeming units in your particular circumstances and potential changes in applicable laws.

Tax Treatment of Redemption of Units

If Vornado assumes and performs the redemption obligation, the partnership agreement provides that the redemption will be treated by Vornado, the operating partnership and the redeeming unit holder as a sale of units by the redeeming unit holder to Vornado at the time the units are redeemed. This sale will be fully taxable to the redeeming unit holder, and the redeeming unit holder will be treated as realizing for tax purposes an amount equal to the sum of:

the cash or the value of the common shares received in the exchange; plus

the amount of operating partnership liabilities allocable to the redeemed units at the time they are redeemed.

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The amount of operating partnership liabilities considered in this calculation will include the operating partnership's share of the liabilities of some entities in which the operating partnership owns an interest. The determination of the amount of gain or loss is discussed more fully under " Tax Treatment of Disposition of Units by Unit Holders Generally" below.

If Vornado does not elect to assume the obligation to redeem a unit holder's units, the operating partnership will redeem the units for cash. If the operating partnership redeems units for cash that Vornado contributes to the operating partnership for that purpose, the redemption likely would be treated for tax purposes as a sale of the units to Vornado in a fully taxable transaction, although this is not certain. If the redemption is treated that way for tax purposes, the redeeming unit holder would be treated as realizing an amount equal to the sum of:

the cash received in the exchange; plus

the amount of operating partnership liabilities allocable to the redeemed units at the time they are redeemed.

The amount of operating partnership liabilities considered in this calculation will include the operating partnership's share of the liabilities of some entities in which the operating partnership owns an interest. The determination of the amount of gain or loss if a redemption is treated as a sale for tax purposes is discussed more fully under " Tax Treatment of Disposition of Units by Unit Holders Generally" below.

If, instead, the operating partnership chooses to redeem units for cash that is not contributed by Vornado for that purpose, the tax consequences would be the same as described in the previous paragraph with the following exception. If the operating partnership redeems less than all of a unit holder's units, the unit holder would not be permitted to recognize any loss occurring on the transaction and would recognize taxable gain only to the extent that the amount he or she would be treated as receiving, as described above, exceeded his or her adjusted basis in all of his or her units immediately before the redemption.

Potential Application of Disguised Sale Regulations to a Redemption of Units

A redemption of units may cause the original transfer of property to the operating partnership in exchange for units to be treated as a "disguised sale" of property. The Internal Revenue Code and the Treasury regulations under the Internal Revenue Code generally provide that, unless one of the prescribed exceptions is applicable, a partner's contribution of property to a partnership and a simultaneous or subsequent transfer of money or other consideration from the partnership to the partner, including the partnership's assumption of a liability or taking the property subject to a liability, will be presumed to be a sale, in whole or in part, of the property by the partner to the partnership. Further, the Treasury regulations provide generally that, in the absence of an applicable exception, if a partnership transfers money or other consideration to a partner within two years after the partner contributed property to the partnership, the transactions will be presumed to be a sale of the contributed property unless the facts and circumstances clearly establish that the transfers do not constitute a sale. The Treasury regulations also

provide that if two years have passed between the time when the partner contributed property to the partnership and the time when the partnership transferred money or other consideration to the partner, the transactions will be presumed not to be a sale unless the facts and circumstances clearly establish that the transfers constitute a sale.

Accordingly, if the operating partnership redeems a unit, the Internal Revenue Service could contend that the redemption should be treated as a disguised sale because the redeeming unit holder will receive cash or common shares after having contributed property to the operating partnership. If the IRS took that position successfully, the issuance of the units in exchange for the contributed property could be taxable as a disguised sale under the Treasury regulations.

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Tax Treatment of Disposition of Units by Unit Holders Generally

If a unit holder redeems units in a manner that is treated as a sale of the units, the gain or loss from the sale or other disposition will be based on the difference between:

the amount considered realized for tax purposes; and

the unit holder's tax basis in the units.

See " Basis of Units" below for information about the tax basis of units.

If a unit holder sells units, the "amount realized" will be measured by the sum of:

the cash and fair market value of other property received, including any common shares; plus

the portion of the operating partnership's liabilities allocable to the units sold.

The amount of operating partnership liabilities considered in this calculation will include the operating partnership's share of the liabilities of some entities in which the operating partnership owns an interest.

A selling unit holder will recognize gain to the extent that the amount he or she realizes in the sale exceeds his or her basis in the units sold. It is possible that the amount of gain recognized or even the tax liability resulting from the gain could exceed the amount of cash and the value of any other property, including common shares, received in exchange for the units.

Except as described below, any gain recognized upon a sale or other disposition of units will be treated as gain attributable to the sale or disposition of a capital asset. To the extent, however, that the amount realized upon the sale of a unit attributable to a unit holder's share of "unrealized receivables" of the operating partnership, as defined in Section 751 of the Internal Revenue Code, exceeds the basis attributable to those assets, this excess will be treated as ordinary income. Unrealized receivables include, to the extent not previously included in operating partnership income, any rights to payment for services rendered or to be rendered. Unrealized receivables also include amounts that would be subject to recapture as ordinary income if the operating partnership had sold its assets at their fair market value at the time of the transfer of a unit.

For non-corporate holders, the maximum rate of tax on the net capital gain from the sale or exchange of a capital asset prior to January 1, 2009 is generally taxed at a maximum rate of 15% where the asset is held for more than one year. The maximum rate for net capital gains attributable to the sale of depreciable real property held for more than one year is 25% to the extent of the prior deductions for depreciation that are not otherwise recaptured as ordinary income under the existing depreciation recapture rules.

The IRS has authority to issue regulations that could, among other things, apply these rates on a look-through basis in the case of "pass-through" entities such as Vornado and the operating partnership. The IRS has not yet issued regulations of this kind. If it does not issue regulations of this kind in the future, the rate of tax that would apply to the disposition of a unit by a non-corporate holder would be determined based upon the period of time over which the non-corporate holder held the unit. The IRS might, however, issue regulations that would provide that the rate of tax that would apply to the disposition of a unit by a non-corporate holder would be determined based upon the nature of the

assets of the operating partnership and the periods of time over which the operating partnership held the assets. Moreover, if the IRS adopts regulations of this kind, they might apply retroactively.

Basis of Units

In general, a unit holder who received units in exchange for contributing an interest in a partnership has an initial tax basis in the units equal to his or her basis in the contributed partnership interest. A unit holder's initial basis in his or her units generally is increased by:

the unit holder's share of operating partnership taxable and tax-exempt income;

increases in his or her share of the liabilities of the operating partnership, including the operating partnership's share of the liabilities of some entities in which the operating partnership owns an interest; and

any gain recognized under Section 737 of the Internal Revenue Code due to the receipt of a distribution from the operating partnership within seven years after the unit holder contributed property to the operating partnership.

Generally, a unit holder's initial basis in his or her units is decreased by:

his or her share of operating partnership distributions;

decreases in his or her share of liabilities of the operating partnership, including the operating partnership's share of the liabilities of some entities in which the operating partnership owns an interest;

his or her share of losses of the operating partnership; and

his or her share of nondeductible expenditures of the operating partnership that are not chargeable to capital.

However, a unit holder's initial basis will not decrease below zero.

DESCRIPTION OF COMMON SHARES

The following description of the material terms of the common shares of Vornado is only a summary and is qualified in its entirety by reference to the provisions governing the common shares contained in the declaration of trust, including all amendments and supplements to the declaration of trust, and bylaws of Vornado. Copies of the declaration of trust and bylaws are exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information" for information regarding how to obtain a copy of those documents.

Vornado's Authorized and Outstanding Classes of Shares

The declaration of trust authorizes the issuance of up to 540,000,000 shares of beneficial interest, consisting of:

200,000,000 common shares of beneficial interest, par value \$0.04 per share;

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70,000,000 preferred shares of beneficial interest, without par value; and

270,000,000 excess shares of beneficial interest, par value \$0.04 per share.

Of the authorized 70,000,000 preferred shares, Vornado Realty Trust has designated:

5,789,239 as \$3.25 Series A Convertible Preferred Shares;

3,400,000 as 8.5% Series B Cumulative Redeemable Preferred Shares;

4,600,000 as 8.5% Series C Cumulative Redeemable Preferred Shares;

3,500,000 as Series D-1 8.5% Cumulative Redeemable Preferred Shares;

549,336 as 8.375% Series D-2 Cumulative Redeemable Preferred Shares;

8,000,000 as Series D-3 8.25% Cumulative Redeemable Preferred Shares;

5,000,000 as Series D-4 8.25% Cumulative Redeemable Preferred Shares;

7,480,000 as Series D-5 8.25% Cumulative Redeemable Preferred Shares;

1,000,000 as Series D-6 8.25% Cumulative Redeemable Preferred Shares;

7,200,000 as Series D-7 8.25% Cumulative Redeemable Preferred Shares;

360,000 as Series D-8 8.25% Cumulative Redeemable Preferred Shares; and

1,800,000 as Series D-9 8.25% Cumulative Redeemable Preferred Shares.

As of June 30, 2003, the following shares were issued and outstanding:

112,275,653 common shares;

1,436,623 Series A preferred shares;

3,400,000 Series B preferred shares; and

4,600,000 Series C preferred shares.

No Series D-1, Series D-2, Series D-3, Series D-4, Series D-5, Series D-6, Series D-7, Series D-8, or Series D-9 preferred shares were issued and outstanding as of June 30, 2003. Shares of each of these series may be issued in the future upon redemption of preferred units of limited partnership interest of the operating partnership of a corresponding series that were issued and outstanding as of June 30, 2003. No

excess shares were issued and outstanding as of June 30, 2003.

Dividend and Voting Rights of Holders of Common Shares

The holders of common shares are entitled to receive dividends when, if and as authorized by the Vornado board and declared by Vornado out of assets legally available to pay dividends, if receipt of the dividends is in compliance with the provisions in the declaration of trust restricting the transfer of shares of beneficial interest. However, if any preferred shares are at the time outstanding, Vornado may only pay dividends or other distributions on common shares or purchase common shares if full cumulative dividends have been paid on outstanding preferred shares and there is no arrearage in any mandatory sinking fund on outstanding preferred shares. The terms of the series of preferred shares that are now issued and outstanding do not provide for any mandatory sinking fund.

The holders of common shares are entitled to one vote for each share on all matters on which shareholders are entitled to vote, including elections of trustees. There is no cumulative voting in the election of trustees, which means that the holders of a majority of the outstanding common shares can elect all of the trustees then standing for election. The holders of common shares do not have any conversion, redemption or preemptive rights to subscribe to any securities of Vornado. If Vornado is dissolved, liquidated or wound up, holders of common shares are entitled to share proportionally in any assets remaining after the prior rights of creditors, including holders of the indebtedness of Vornado Realty Trust, and the aggregate liquidation preference of any preferred shares then outstanding are satisfied in full.

The common shares have equal dividend, distribution, liquidation and other rights and have no preference, appraisal or exchange rights. All outstanding common shares are, and the common shares offered by this prospectus, upon issuance, will be, duly authorized, fully paid and non-assessable.

Restrictions on Ownership of Common Shares

The common shares beneficial ownership limit

For Vornado to maintain its qualification as a REIT under the Internal Revenue Code, not more than 50% of the value of its outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of a taxable year and the shares of beneficial interest must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. The Internal Revenue Code defines "individuals" to include some entities for purposes of the preceding sentence. All references to a shareholder's ownership of common shares in this section "The common shares beneficial ownership limit" assume application of the applicable attribution rules of the Internal Revenue Code under which, for example, a shareholder is deemed to own shares owned by his or her spouse.

The declaration of trust contains a number of provisions that restrict the ownership and transfer of shares and are designed to safeguard Vornado against an inadvertent loss of its REIT status. These provisions also seek to deter non-negotiated acquisitions of, and proxy fights for, us by third parties. The declaration of trust contains a limitation that restricts, with some exceptions, shareholders from owning more than a specified percentage of the outstanding common shares. We call this percentage the "common shares beneficial ownership limit." The common shares beneficial ownership limit was initially set at 2.0% of the outstanding common shares. The Vornado board subsequently adopted a resolution raising the common shares beneficial ownership limit from 2.0% to 6.7% of the outstanding common shares and has the authority to grant exemptions from the common shares beneficial ownership limit. The shareholders who owned more than 6.7% of the common shares immediately after the merger of Vornado, Inc. into Vornado in May 1993 may continue to do so and may acquire additional common shares through stock option and similar plans or from other shareholders who owned more than 6.7% of the common shares immediately after that merger. However, common shares cannot be transferred if, as a result, more than 50% in value of the outstanding shares of Vornado

would be owned by five or fewer individuals. While the shareholders who owned more than 6.7% of the common shares immediately after the merger of Vornado, Inc. into Vornado in May 1993 are not generally permitted to acquire additional common shares from any other source, these shareholders may acquire additional common shares from any source if Vornado issues additional common shares, up to the percentage held by them immediately before Vornado issues the additional shares.

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Shareholders should be aware that events other than a purchase or other transfer of common shares can result in ownership, under the applicable attribution rules of the Internal Revenue Code, of common shares in excess of the common shares beneficial ownership limit. For instance, if two shareholders, each of whom owns 3.5% of the outstanding common shares, were to marry, then after their marriage both shareholders would be deemed to own 7.0% of the outstanding common shares, which is in excess of the common shares beneficial ownership limit. Similarly, if a shareholder who owns 4.9% of the outstanding common shares were to purchase a 50% interest in a corporation which owns 4.8% of the outstanding common shares, then the shareholder would be deemed to own 7.3% of the outstanding common shares. You should consult your own tax advisors concerning the application of the attribution rules of the Internal Revenue Code in your particular circumstances.

The constructive ownership limit

Under the Internal Revenue Code, rental income received by a REIT from persons in which the REIT is treated, under the applicable attribution rules of the Code, as owning a 10% or greater interest does not constitute qualifying income for purposes of the income requirements that REITs must satisfy. For these purposes, a REIT is treated as owning any stock owned, under the applicable attribution rules of the Code, by a person that owns 10% or more of the value of the outstanding shares of the REIT. The attribution rules of the Code applicable for these purposes are different from those applicable with respect to the common shares beneficial ownership limit. All references to a shareholder's ownership of common shares in this section "The constructive ownership limit" assume application of the applicable attribution rules of the Code.

In order to ensure that rental income of Vornado will not be treated as nonqualifying income under the rule described in the preceding paragraph, and thus to ensure that Vornado will not inadvertently lose its REIT status as a result of the ownership of shares by a tenant, or a person that holds an interest in a tenant, the declaration of trust contains an ownership limit that restricts, with some exceptions, shareholders from owning more than 9.9% of the outstanding shares of any class. We refer to this 9.9% ownership limit as the "constructive ownership limit." The shareholders who owned shares in excess of the constructive ownership limit immediately after the merger of Vornado, Inc. into Vornado in May 1993 generally are not subject to the constructive ownership limit. The declaration of trust also contains restrictions that are designed to ensure that the shareholders who owned shares in excess of the constructive ownership limit immediately after the merger of Vornado, Inc. into Vornado in May 1993 will not, in the aggregate, own a large enough interest in a tenant or subtenant of the REIT to cause rental income received, directly or indirectly, by the REIT from that tenant or subtenant to be treated as nonqualifying income for purposes of the income requirements that REITs must satisfy. The restrictions described in the preceding sentence have an exception for tenants and subtenants from whom the REIT receives, directly or indirectly, rental income that is not in excess of a specified threshold.

Shareholders should be aware that events other than a purchase or other transfer of shares can result in ownership, under the applicable attribution rules of the Internal Revenue Code, of shares in excess of the constructive ownership limit. As the attribution rules that apply with respect to the constructive ownership limit differ from those that apply with respect to the common shares beneficial ownership limit, the events other than a purchase or other transfer of shares which can result in share ownership in excess of the constructive ownership limit can differ from those which can result in share ownership in excess of the common shares beneficial ownership limit. You should consult your own tax

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advisors concerning the application of the attribution rules of the Code in your particular circumstances.

Issuance of excess shares if the ownership limits are violated

The declaration of trust provides that a transfer of common shares that would otherwise result in ownership, under the applicable attribution rules of the Internal Revenue Code, of common shares in excess of the common shares beneficial ownership limit or the constructive ownership limit, or which would cause the shares of beneficial interest of Vornado to be beneficially owned by fewer than 100 persons, will have no effect and the purported transferee will acquire no rights or economic interest in the common shares. In addition, the declaration of trust provides that common shares that would otherwise be owned, under the applicable attribution rules of the Code, in excess of the common shares beneficial ownership limit or the constructive ownership limit will be automatically exchanged for excess shares. These excess shares will be transferred, by operation of law, to Vornado as trustee of a trust for the exclusive benefit of a beneficiary designated by the purported transferee or purported holder. While so held in trust, excess shares are not entitled to vote and are not entitled to participate in any dividends or distributions made by Vornado. Any dividends or distributions received by the purported transferee or other purported holder of the excess shares before Vornado discovers the automatic exchange for excess shares must be repaid to Vornado upon demand.

If the purported transferee or purported holder elects to designate a beneficiary of an interest in the trust with respect to the excess shares, he or she may designate only a person whose ownership of the shares will not violate the common shares beneficial ownership limit or the constructive ownership limit. When the designation is made, the excess shares will be automatically exchanged for common shares. The declaration of trust contains provisions designed to ensure that the purported transferee or other purported holder of the excess shares may not

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receive in return for transferring an interest in the trust with respect to the excess shares, an amount that reflects any appreciation in the common shares for which the excess shares were exchanged during the period that the excess shares were outstanding but will bear the burden of any decline in value during that period. Any amount received by a purported transferee or other purported holder for designating a beneficiary in excess of the amount permitted to be received must be turned over to Vornado. The declaration of trust provides that Vornado, or its designee, may purchase any excess shares that have been automatically exchanged for common shares as a result of a purported transfer or other event. The price at which Vornado, or its designee, may purchase the excess shares will be equal to the lesser of:

in the case of excess shares resulting from a purported transfer for value, the price per share in the purported transfer that resulted in the automatic exchange for excess shares, or in the case of excess shares resulting from some other event, the market price of the common shares exchanged on the date of the automatic exchange for excess shares; and

the market price of the common shares exchanged for the excess shares on the date that Vornado accepts the deemed offer to sell the excess shares.

The right of Vornado to buy the excess shares will exist for 90 days, beginning on the date that the automatic exchange for excess shares occurred or, if Vornado did not receive a notice concerning the purported transfer that resulted in the automatic exchange for excess shares, the date that the Vornado board determines in good faith that an exchange for excess shares has occurred.

Other provisions concerning the restrictions on ownership

The Vornado board may exempt persons from the common shares beneficial ownership limit or the constructive ownership limit, including the limitations applicable to holders who owned in excess of 6.7% of the common shares immediately after the merger of Vornado, Inc. into Vornado in May 1993, if evidence satisfactory to the Vornado board is presented showing that the exemption will not

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jeopardize the status of Vornado as a REIT under the Internal Revenue Code. No exemption to a person that is an individual for purposes of Section 542(a)(2) of the Internal Revenue Code, however, may permit the individual to have beneficial ownership in excess of 9.9% of the outstanding shares of the class. Before granting an exemption of this kind, the Vornado board may require a ruling from the IRS, and/or an opinion of counsel satisfactory to it and/or representations and undertakings from the applicant with respect to preserving the REIT status of Vornado.

The foregoing restrictions on transferability and ownership will not apply if the Vornado board determines that it is no longer in the best interests of Vornado to attempt to qualify, or to continue to qualify, as a REIT.

All persons who own, directly or by virtue of the applicable attribution rules of the Internal Revenue Code, more than 2.0% of the outstanding common shares must give a written notice to Vornado containing the information specified in the declaration of trust by January 31 of each year. In addition, each shareholder will be required to disclose to Vornado upon demand any information that Vornado may request, in good faith, to determine the status of Vornado as a REIT or to comply with Treasury regulations promulgated under the REIT provisions of the Code.

The ownership restrictions described above may have the effect of precluding acquisition of control of Vornado unless the Vornado board determines that maintenance of REIT status is no longer in the best interests of Vornado.

Transfer Agent

The transfer agent for common shares of Vornado is Wachovia Bank, N.A., located in Charlotte, North Carolina.

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FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the taxation of Vornado Realty Trust and the material Federal income tax consequences to holders of the common shares for your general information only. It is not tax advice. The tax treatment of a holder of common shares will vary depending upon the holder's particular situation, and this discussion addresses only holders that hold common shares as capital assets and does not deal with all aspects of taxation that may be relevant to particular holders in light of their personal investment or tax circumstances. This section also does not deal with all aspects of taxation that may be relevant to certain types of holders to which special provisions of the Federal income tax laws apply, including:

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

banks;

tax-exempt organizations;

certain insurance companies;

persons liable for the alternative minimum tax;

persons that hold securities that are a hedge, that are hedged against currency risks or that are part of a straddle or conversion transaction; and

U.S. shareholders whose functional currency is not the U.S. dollar.

This summary is based on the Internal Revenue Code, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions. This summary describes the provisions of these sources of law only as they are currently in effect. All of these sources of law may change at any time, and any change in the law may apply retroactively.

We urge you to consult with your own tax advisors regarding the tax consequences to you of acquiring, owning and selling common shares, including the federal, state, local and foreign tax consequences of acquiring, owning and selling common shares in your particular circumstances and potential changes in applicable laws.

Taxation of Vornado Realty Trust as a REIT

In the opinion of Sullivan & Cromwell LLP, commencing with its taxable year ended December 31, 1993, Vornado Realty Trust has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code, and Vornado Realty Trust's proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code. Investors should be aware, however, that opinions of counsel are not binding upon the Internal Revenue Service or any court.

In providing its opinion, Sullivan & Cromwell LLP is relying,

as to certain factual matters upon the statements and representations contained in certificates provided to Sullivan & Cromwell LLP by Vornado, Two Penn Plaza, REIT, Inc. and AmeriCold Corporation;

without independent investigation, as to certain factual matters upon the statements and representations contained in the certificate provided to Sullivan & Cromwell LLP by Alexander's; and

without independent investigation, upon the opinion of Shearman & Sterling LLP concerning the qualification of Alexander's as a REIT for each taxable year commencing with its taxable year ended December 31, 1995.

In providing its opinion regarding the qualification of Alexander's as a REIT for Federal income tax purposes, Shearman & Sterling LLP is relying, as to certain factual matters, upon representations received from Alexander's.

Vornado's qualification as a REIT will depend upon the continuing satisfaction by Vornado and, given Vornado's current ownership interest in Alexander's, AmeriCold and Two Penn, by Alexander's, AmeriCold and Two Penn, of the requirements of the Internal Revenue Code relating to qualification for REIT status. Some of these requirements depend upon actual operating results, distribution levels, diversity of stock ownership, asset composition, source of income and record keeping. Accordingly, while Vornado intends to continue to qualify to be taxed as a REIT, the actual results of Vornado's, Two Penn's, AmeriCold's or Alexander's operations for any particular year might not satisfy these requirements. Neither Sullivan & Cromwell LLP nor Shearman & Sterling LLP will monitor the compliance of Vornado, Two Penn, AmeriCold or Alexander's with the requirements for REIT qualification on an ongoing basis.

The sections of the Internal Revenue Code applicable to REITs are highly technical and complex. The following discussion summarizes material aspects of these sections of the Internal Revenue Code.

As a REIT, Vornado generally will not have to pay Federal corporate income taxes on its net income that it currently distributes to shareholders. This treatment substantially eliminates the "double taxation" at the corporate and shareholder levels that generally results from investment in a regular corporation.

However, Vornado will have to pay Federal income tax as follows:

First, Vornado will have to pay tax at regular corporate rates on any undistributed real estate investment trust taxable income, including undistributed net capital gains.

Second, under certain circumstances, Vornado may have to pay the alternative minimum tax on its items of tax preference.

Third, if Vornado has (a) net income from the sale or other disposition of "foreclosure property", as defined in the Internal Revenue Code, which is held primarily for sale to customers in the ordinary course of business or (b) other non-qualifying income from foreclosure property, it will have to pay tax at the highest corporate rate on that income.

Fourth, if Vornado has net income from "prohibited transactions", as defined in the Internal Revenue Code, Vornado will have to pay a 100% tax on that income. Prohibited transactions are, in general, certain sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.

Fifth, if Vornado should fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below under "Requirements for Qualification Income Tests", but has nonetheless maintained its qualification as a REIT because Vornado has satisfied some other requirements, it will have to pay a 100% tax on an amount equal to (a) the gross income attributable to the greater of (i) 75% of Vornado's gross income over the amount of gross income that is qualifying income for purposes of the 75% test, and (ii) 90% of Vornado's gross income (95% for taxable years ending before January 1, 2001) over the amount of gross income that is qualifying income for purposes of the 95% test, multiplied by (b) a fraction intended to reflect Vornado's profitability.

Sixth, if Vornado should fail to distribute during each calendar year at least the sum of (1) 85% of its real estate investment trust ordinary income for that year, (2) 95% of its real estate investment trust capital gain net income for that year and

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(3) any undistributed taxable income from prior periods, Vornado would have to pay a 4% excise tax on the excess of that required distribution over the amounts actually distributed.

Seventh, if during the 10-year period beginning on the first day of the first taxable year for which Vornado qualified as a REIT, Vornado recognizes gain on the disposition of any asset held by Vornado as of the beginning of that period, then, to the extent of the excess of (a) fair market value of that asset as of the beginning of that period over (b) Vornado's adjusted basis in that asset as of the beginning of that period, Vornado will have to pay tax on that gain at the highest regular corporate rate. We refer to the excess of fair market value over adjusted basis described in the preceding sentence as "built-in gain."

Notwithstanding the taxation of built-in gain described in the preceding paragraph of this bullet point, Vornado will not have to pay tax on recognized built-in gain with respect to assets held as of the first day of the 10-year period beginning on the first day of the first taxable year for which Vornado qualified as a REIT, to the extent that the aggregate amount of that recognized built-in gain exceeds the net aggregate amount of Vornado's unrealized built-in gain as of the first day of that period.

Eighth, if Vornado acquires any asset from a C corporation in certain transactions in which Vornado must adopt the basis of the asset or any other property in the hands of the C corporation as the basis of the asset in the hands of Vornado, and Vornado recognizes gain on the disposition of that asset during the 10-year period beginning on the date on which Vornado acquired that asset, then Vornado will have to pay tax on the built-in gain at the highest regular corporate rate. A C corporation means generally a corporation that has to pay full corporate-level tax.

Ninth, for taxable years beginning after December 31, 2000, if Vornado receives non-arm's-length income from a taxable REIT subsidiary (as defined under "Requirements for Qualification Asset Tests"), or as a result of services provided by a taxable REIT subsidiary to tenants of Vornado, Vornado will be subject to a 100% tax on the amount of Vornado's non-arm's-length income.

Requirements for Qualification

The Internal Revenue Code defines a REIT as a corporation, trust or association

which is managed by one or more trustees or directors;

the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

which would otherwise be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code;

which is neither a financial institution nor an insurance company to which certain provisions of the Internal Revenue Code apply;

the beneficial ownership of which is held by 100 or more persons;

during the last half of each taxable year, not more than 50% in value of the outstanding stock of which is owned, directly or constructively, by five or fewer individuals, as defined in the Internal Revenue Code to include certain entities; and

which meets certain other tests, described below, regarding the nature of its income and assets.

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The Internal Revenue Code provides that the conditions described in the first through fourth bullet points above must be met during the entire taxable year and that the condition described in the fifth bullet point above must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

Vornado has satisfied the conditions described in the first through fifth bullet points of the preceding paragraph and believes that it has also satisfied the condition described in the sixth bullet point of the preceding paragraph. In addition, Vornado's declaration of trust provides for restrictions regarding the ownership and transfer of Vornado's shares of beneficial interest. These restrictions are intended to assist Vornado in continuing to satisfy the share ownership requirements described in the fifth and sixth bullet points of the preceding paragraph. The ownership and transfer restrictions pertaining to the common shares are described in this prospectus under the heading "Description of Common Shares Restrictions on Ownership of Common Shares."

Vornado owns a number of wholly owned corporate subsidiaries. Internal Revenue Code Section 856(i) provides that unless a REIT makes an election to treat the corporation as a taxable REIT subsidiary, a corporation which is a "qualified REIT subsidiary", as defined in the Internal Revenue Code, will not be treated as a separate corporation, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary will be treated as assets, liabilities and items of these kinds of the REIT. Thus, in applying the requirements described in this section, Vornado's qualified REIT subsidiaries will be ignored, and all assets, liabilities and items of income, deduction and credit of these subsidiaries will be treated as assets, liabilities and items of these kinds of Vornado. Vornado believes that all of its wholly owned corporate subsidiaries are qualified REIT subsidiaries.

If a REIT is a partner in a partnership, Treasury regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to that share. In addition, the character of the assets and gross income of the partnership will retain the same character in the hands of the REIT for purposes of Section 856 of the Internal Revenue Code, including satisfying the gross income tests and the asset tests. Thus, Vornado's proportionate share of the assets, liabilities and items of income of any partnership in which Vornado is a partner, including the operating partnership, will be treated as assets, liabilities and items of income of Vornado for purposes of applying the requirements described in this section. Thus, actions taken by partnerships in which Vornado owns an interest either directly or through one or more tiers of partnerships or qualified REIT subsidiaries, can affect Vornado's ability to satisfy the REIT income and assets tests and the determination of whether Vornado has net income from prohibited transactions. See the fourth bullet point on page 31 for a discussion of prohibited transactions.

Income Tests.

In order to maintain its qualification as a REIT, Vornado annually must satisfy three gross income requirements.

First, Vornado must derive at least 75% of its gross income, excluding gross income from prohibited transactions, for each taxable year directly or indirectly from investments relating to real property or mortgages on real property, including "rents from real property", as defined in the Internal Revenue Code, or from certain types of temporary investments. Rents from real property generally include expenses of Vornado that are paid or reimbursed by tenants.

Second, at least 95% of Vornado's gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from real property investments as described in the preceding bullet point, dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of these types of source.

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Third, for its taxable years before 1998, short-term gain from the sale or other disposition of stock or securities, gain from prohibited transactions and gain on the sale or other disposition of real property held for less than four years, apart from involuntary conversions and sales of foreclosure property, was required to represent less than 30% of Vornado's gross income, including gross income from prohibited transactions, for each of these taxable years.

Rents that Vornado receives will qualify as rents from real property in satisfying the gross income requirements for a REIT described above only if the rents satisfy several conditions.

First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely because it is based on a fixed

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percentage or percentages of receipts or sales.

Second, the Internal Revenue Code provides that rents received from a tenant will not qualify as rents from real property in satisfying the gross income tests if the REIT, directly or under the applicable attribution rules, owns a 10% or greater interest in that tenant; except that for tax years beginning after December 31, 2000, rents received from a taxable REIT subsidiary, under certain circumstances qualify as rents from real property even if Vornado owns more than a 10% interest in the subsidiary. We refer to a tenant in which Vornado owns a 10% or greater interest as a "related party tenant."

Third, if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

Finally, for rents received to qualify as rents from real property, the REIT generally must not operate or manage the property or furnish or render services to the tenants of the property, other than through an independent contractor from whom the REIT derives no revenue or through a taxable REIT subsidiary. However, Vornado may directly perform certain services that landlords usually or customarily render when renting space for occupancy only or that are not considered rendered to the occupant of the property.

Vornado does not derive significant rents from related party tenants. Vornado also does not and will not derive rental income attributable to personal property, other than personal property leased in connection with the lease of real property, the amount of which is less than 15% of the total rent received under the lease.

Vornado directly performs services for some of its tenants. Vornado does not believe that the provision of these services will cause its gross income attributable to these tenants to fail to be treated as rents from real property. If Vornado were to provide services to a tenant that are other than those landlords usually or customarily provide when renting space for occupancy only, amounts received or accrued by Vornado for any of these services will not be treated as rents from real property for purposes of the REIT gross income tests. However, the amounts received or accrued for these services will not cause other amounts received with respect to the property to fail to be treated as rents from real property unless the amounts treated as received in respect of the services, together with amounts received for certain management services, exceed 1% of all amounts received or accrued by Vornado during the taxable year with respect to the property. If the sum of the amounts received in respect of the services to tenants and management services described in the preceding sentence exceeds the 1% threshold, then all amounts received or accrued by Vornado with respect to the property will not qualify as rents from real property, even if Vornado provides the impermissible services to some, but not all, of the tenants of the property.

The term "interest" generally does not include any amount received or accrued, directly or indirectly, if the determination of that amount depends in whole or in part on the income or profits of

any person. However, an amount received or accrued generally will not be excluded from the term interest solely because it is based on a fixed percentage or percentages of receipts or sales.

If Vornado fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for that year if it satisfies the requirements of other provisions of the Internal Revenue Code that allow relief from disqualification as a REIT. These relief provisions will generally be available if:

Vornado's failure to meet the income tests was due to reasonable cause and not due to willful neglect;

Vornado attaches a schedule of the sources of its income to its Federal income tax return; and

any incorrect information on the schedule was not due to fraud with intent to evade tax.

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Vornado might not be entitled to the benefit of these relief provisions, however. As discussed in the fifth bullet point on page 31, even if these relief provisions apply, Vornado would have to pay a tax on the excess income.

Asset Tests.

Vornado, at the close of each quarter of its taxable year, must also satisfy three tests relating to the nature of its assets.

First, at least 75% of the value of Vornado's total assets must be represented by real estate assets, including (a) real estate assets held by Vornado's qualified REIT subsidiaries, Vornado's allocable share of real estate assets held by partnerships in which Vornado owns an interest and stock issued by another REIT, (b) for a period of one year from the date of Vornado's receipt of proceeds of an offering of its shares of beneficial interest or publicly offered debt with a term of at least five years, stock or debt instruments purchased with these proceeds and (c) cash, cash items and government securities.

Second, not more than 25% of Vornado's total assets may be represented by securities other than those in the 75% asset class.

Third, for taxable years beginning after December 31, 2000, not more than 20% of Vornado's total assets may constitute securities issued by taxable REIT subsidiaries and of the investments included in the 25% asset class, the value of any one issuer's securities, other than securities issued by another REIT or by a taxable REIT subsidiary, owned by Vornado may not exceed 5% of the value of Vornado's total assets. Moreover, Vornado may not own more than 10% of the vote or value of the outstanding securities of any one issuer, except for issuers that are REITs, qualified REIT subsidiaries or taxable REIT subsidiaries, or debt instruments that are considered straight debt under a safe harbor provision of the Internal Revenue Code. For these purposes, a taxable REIT subsidiary is any corporation in which Vornado owns an interest that joins with Vornado in making an election to be treated as a "taxable REIT subsidiary" and certain subsidiaries of a taxable REIT subsidiary, if the subsidiaries do not engage in certain activities.

Fourth, of the investments included in the 25% asset class, the value of any one issuer's securities, other than securities issued by another REIT, owned by Vornado may not exceed 5% of the value of Vornado's total assets and Vornado may not own more than 10% of any one issuer's outstanding voting securities.

The test described in the fourth bullet point above, and not that described in the third bullet point, will continue to apply for taxable years of Vornado that begin after December 31, 2000, only with respect to stock in any corporation owned by Vornado before July 12, 1999, so long as a taxable REIT

subsidiary election is not made with respect to the corporation and the corporation does not acquire substantial new assets or engage in a substantial new line of business and certain other conditions are satisfied.

Since March 2, 1995, Vornado has owned more than 10% of the voting securities of Alexander's. Since April of 1997, Vornado's ownership of Alexander's has been through the operating partnership rather than direct. Vornado's ownership interest in Alexander's will not cause Vornado to fail to satisfy the asset tests for REIT status so long as Alexander's qualified as a REIT for each of the taxable years beginning with its taxable year ended December 31, 1995 and continues to so qualify. In the opinion of Shearman & Sterling LLP, commencing with Alexander's taxable year ended December 31, 1995, Alexander's has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code, and its proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code. In providing its opinion, Shearman & Sterling LLP is relying upon representations received from Alexander's.

Since April of 1997, Vornado has also owned, through the operating partnership, more than 10% of the voting securities of Two Penn. Vornado's indirect ownership interest in Two Penn will not cause Vornado to fail to satisfy the asset tests for REIT status so long as Two Penn qualifies as a REIT for its first taxable year and each subsequent taxable year. Vornado believes that Two Penn will also qualify as a REIT.

Annual Distribution Requirements.

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Vornado, in order to qualify as a REIT, is required to distribute dividends, other than capital gain dividends, to its shareholders in an amount at least equal to (1) the sum of (a) 90% of Vornado's "real estate investment trust taxable income", computed without regard to the dividends paid deduction and Vornado's net capital gain, and (b) 90% of the net after-tax income, if any, from foreclosure property minus (2) the sum of certain items of non-cash income.

For taxable years beginning before January 1, 2001, the required amount of distributions described above and below was 95% of the amount of Vornado's income or gain, as the case may be.

In addition, if Vornado disposes of any asset within 10 years of acquiring it, Vornado will be required to distribute at least 90% of the after-tax built-in gain, if any, recognized on the disposition of the asset.

These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before Vornado timely files its tax return for the year to which they relate and if paid on or before the first regular dividend payment after the declaration.

To the extent that Vornado does not distribute all of its net capital gain or distributes at least 90%, but less than 100%, of its real estate investment trust taxable income, as adjusted, it will have to pay tax on those amounts at regular ordinary and capital gain corporate tax rates. Furthermore, if Vornado fails to distribute during each calendar year at least the sum of (a) 85% of its ordinary income for that year, (b) 95% of its capital gain net income for that year and (c) any undistributed taxable income from prior periods, Vornado would have to pay a 4% excise tax on the excess of the required distribution over the amounts actually distributed.

Vornado intends to satisfy the annual distribution requirements.

From time to time, Vornado may not have sufficient cash or other liquid assets to meet the 90% distribution requirement due to timing differences between (a) when Vornado actually receives income and when it actually pays deductible expenses and (b) when Vornado includes the income and deducts the expenses in arriving at its taxable income. If timing differences of this kind occur, in order to meet

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the 90% distribution requirement, Vornado may find it necessary to arrange for short-term, or possibly long-term, borrowings or to pay dividends in the form of taxable stock dividends.

Under certain circumstances, Vornado may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to shareholders in a later year, which may be included in Vornado's deduction for dividends paid for the earlier year. Thus, Vornado may be able to avoid being taxed on amounts distributed as deficiency dividends; however, Vornado will be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

Failure to Qualify as a REIT

If Vornado fails to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, Vornado will have to pay tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Vornado will not be able to deduct distributions to shareholders in any year in which it fails to qualify, nor will Vornado be required to make distributions to shareholders. In this event, to the extent of current and accumulated earnings and profits, all distributions to shareholders will be taxable to the shareholders as dividend income (which may be subject to tax at preferential rates) and corporate distributees may be eligible for the dividends received deduction if they satisfy the relevant provisions of the Internal Revenue Code. Unless entitled to relief under specific statutory provisions, Vornado will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. Vornado might not be entitled to the statutory relief described in this paragraph in all circumstances.

Taxation of Holders of Common Shares

U.S. Shareholders

As used in this section, the term "U.S. shareholder" means a holder of common shares who, for United States Federal income tax purposes, is

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a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to United States Federal income taxation regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons have authority to control all substantial decisions of the trust.

As long as Vornado qualifies as a REIT, distributions made by Vornado out of its current or accumulated earnings and profits, and not designated as capital gain dividends, will constitute dividends taxable to its taxable U.S. shareholders as ordinary income. Under recently enacted law, individual U.S. shareholders will be entitled to the new lower rate on dividends only for the portion of any distribution equal to Vornado's real estate investment trust taxable income (taking into account the dividends paid deduction available to Vornado) and realized built-in gains from Vornado's previous taxable year less any taxes paid by Vornado on these items during Vornado's previous taxable year. Individual U.S. shareholders should consult their own tax advisors to determine the impact of this new legislation. Distributions of this kind will not be eligible for the dividends received deduction in the case of U.S. shareholders that are corporations. Distributions made by Vornado that Vornado properly designates as capital gain dividends will be taxable to U.S. shareholders as gain from the sale of a capital asset held for more than one year, to the extent that they do not exceed Vornado's actual net capital gain for the taxable year, without regard to the period for which a U.S. shareholder has held his shares. Thus, with certain limitations, capital gain dividends received by an individual U.S. shareholder may be eligible for

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preferential rates of taxation. U.S. shareholders that are corporations may, however, be required to treat up to 20% of certain capital gain dividends as ordinary income.

To the extent that Vornado makes distributions, not designated as capital gain dividends, in excess of its current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to each U.S. shareholder. Thus, these distributions will reduce the adjusted basis which the U.S. shareholder has in his shares for tax purposes by the amount of the distribution, but not below zero. Distributions in excess of a U.S. shareholder's adjusted basis in his shares will be taxable as capital gains, provided that the shares have been held as a capital asset. For purposes of determining the portion of distributions on separate classes of shares that will be treated as dividends for Federal income tax purposes, current and accumulated earnings and profits will be allocated to distributions resulting from priority rights of preferred shares before being allocated to other distributions.

Dividends authorized by Vornado in October, November, or December of any year and payable to a shareholder of record on a specified date in any of these months will be treated as both paid by Vornado and received by the shareholder on December 31 of that year, provided that Vornado actually pays the dividend on or before January 31 of the following calendar year. Shareholders may not include in their own income tax returns any net operating losses or capital losses of Vornado.

U.S. shareholders holding shares at the close of Vornado's taxable year will be required to include, in computing their long-term capital gains for the taxable year in which the last day of Vornado's taxable year falls, the amount that Vornado designates in a written notice mailed to its shareholders. Vornado may not designate amounts in excess of Vornado's undistributed net capital gain for the taxable year. Each U.S. shareholder required to include the designated amount in determining the shareholder's long-term capital gains will be deemed to have paid, in the taxable year of the inclusion, the tax paid by Vornado in respect of the undistributed net capital gains. U.S. shareholders to whom these rules apply will be allowed a credit or a refund, as the case may be, for the tax they are deemed to have paid. U.S. shareholders will increase their basis in their shares by the difference between the amount of the includible gains and the tax deemed paid by the shareholder in respect of these gains.

Distributions made by Vornado and gain arising from a U.S. shareholder's sale or exchange of shares will not be treated as passive activity income. As a result, U.S. shareholders generally will not be able to apply any passive losses against that income or gain.

When a U.S. shareholder sells or otherwise disposes of shares, the shareholder will recognize gain or loss for Federal income tax purposes in an amount equal to the difference between (a) the amount of cash and the fair market value of any property received on the sale or other

disposition, and (b) the holder's adjusted basis in the shares for tax purposes. This gain or loss will be capital gain or loss if the U.S. shareholder has held the shares as a capital asset. The gain or loss will be long-term gain or loss if the U.S. shareholder has held the shares for more than one year. Long-term capital gain of an individual U.S. shareholder is generally taxed at preferential rates. In general, any loss recognized by a U.S. shareholder when the shareholder sells or otherwise disposes of shares of Vornado that the shareholder has held for six months or less, after applying certain holding period rules, will be treated as a long-term capital loss, to the extent of distributions received by the shareholder from Vornado which were required to be treated as long-term capital gains.

Backup Withholding.

Vornado will report to its U.S. shareholders and the IRS the amount of dividends paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, backup withholding may apply to a shareholder with respect to dividends paid unless the holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. The

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IRS may also impose penalties on a U.S. shareholder that does not provide Vornado with his correct taxpayer identification number. A shareholder may credit any amount paid as backup withholding against the shareholder's income tax liability. In addition, Vornado may be required to withhold a portion of capital gain distributions to any shareholders who fail to certify their non-foreign status to Vornado.

Taxation of Tax-Exempt Shareholders.

The IRS has ruled that amounts distributed as dividends by a REIT generally do not constitute unrelated business taxable income when received by a tax-exempt entity. Based on that ruling, provided that a tax-exempt shareholder is not one of the types of entity described in the next paragraph and has not held its shares as "debt financed property" within the meaning of the Internal Revenue Code, and the shares are not otherwise used in a trade or business, the dividend income from shares will not be unrelated business taxable income to a tax-exempt shareholder. Similarly, income from the sale of shares will not constitute unrelated business taxable income unless the tax-exempt shareholder has held the shares as "debt financed property" within the meaning of the Internal Revenue Code or has used the shares in a trade or business.

Income from an investment in Vornado's shares will constitute unrelated business taxable income for tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from Federal income taxation under the applicable subsections of Section 501(c) of the Internal Revenue Code, unless the organization is able to properly deduct amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its shares. Prospective investors of the types described in the preceding sentence should consult their own tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the foregoing, however, a portion of the dividends paid by a "pension-held REIT" will be treated as unrelated business taxable income to any trust which

is described in Section 401(a) of the Internal Revenue Code;

is tax exempt under Section 501(a) of the Internal Revenue Code; and

holds more than 10% (by value) of the equity interests in the REIT.

Tax-exempt pension, profit-sharing and stock bonus funds that are described in Section 401(a) of the Internal Revenue Code are referred to below as "qualified trusts." A REIT is a "pension-held REIT" if:

it would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Internal Revenue Code provides that stock owned by qualified trusts will be treated, for purposes of the "not closely held" requirement, as owned by the beneficiaries of the trust (rather than by the trust itself); and

either (a) at least one qualified trust holds more than 25% by value of the interests in the REIT or (b) one or more qualified trusts, each of which owns more than 10% by value of the interests in the REIT, hold in the aggregate more than 50% by value of the interests in the REIT.

The percentage of any REIT dividend treated as unrelated business taxable income to a qualifying trust is equal to the ratio of (a) the gross income of the REIT from unrelated trades or businesses, determined as though the REIT were a qualified trust, less direct expenses related to this gross income, to (b) the total gross income of the REIT, less direct expenses related to the total gross income. A *de minimis* exception applies where this percentage is less than 5% for any year. Vornado does not expect to be classified as a pension-held REIT.

The rules described above under the heading "U.S. shareholders" concerning the inclusion of Vornado's designated undistributed net capital gains in the income of its shareholders will apply to tax-exempt entities. Thus, tax-exempt entities will be allowed a credit or refund of the tax deemed paid by these entities in respect of the includible gains.

Non-U.S. Shareholders

The rules governing U.S. Federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and estates or trusts that in either case are not subject to United States Federal income tax on a net income basis, which we call "non-U.S. shareholders", are complex. The following discussion is only a limited summary of these rules. Prospective non-U.S. shareholders should consult with their own tax advisors to determine the impact of U.S. Federal, state and local income tax laws with regard to an investment in common shares, including any reporting requirements.

Ordinary Dividends.

Distributions, other than distributions that are treated as attributable to gain from sales or exchanges by Vornado of U.S. real property interests, as discussed below, and other than distributions designated by Vornado as capital gain dividends, will be treated as ordinary income to the extent that they are made out of current or accumulated earnings and profits of Vornado. A withholding tax equal to 30% of the gross amount of the distribution will ordinarily apply to distributions of this kind to non-U.S. shareholders, unless an applicable tax treaty reduces that tax. However, if income from the investment in the shares is treated as effectively connected with the non-U.S. shareholder's conduct of a U.S. trade or business or is attributable to a permanent establishment that the non-U.S. shareholder maintains in the United States if that is required by an applicable income tax treaty as a condition for subjecting the non-U.S. shareholder to U.S. taxation on a net income basis, tax at graduated rates will generally apply to the non-U.S. shareholder in the same manner as U.S. shareholders are taxed with respect to dividends, and the 30% branch profits tax may also apply if the shareholder is a foreign corporation. Vornado expects to withhold U.S. tax at the rate of 30% on the gross amount of any dividends, other than dividends treated as attributable to gain from sales or exchanges of U.S. real property interests and capital gain dividends, paid to a non-U.S. shareholder, unless (a) a lower treaty rate applies and the required form evidencing eligibility for that reduced rate is filed with Vornado or the appropriate withholding agent or (b) the non-U.S. shareholder files an IRS Form W-8 ECI or a successor form with Vornado or the appropriate withholding agent claiming that the distributions are effectively connected with the non-U.S. shareholder's conduct of a U.S. trade or business.

Distributions to a non-U.S. shareholder that are designated by Vornado at the time of distribution as capital gain dividends which are not attributable to or treated as attributable to the disposition by Vornado of a U.S. real property interest generally will not be subject to U.S. Federal income taxation, except as described below.

Return of Capital.

Distributions in excess of Vornado's current and accumulated earnings and profits, which are not treated as attributable to the gain from Vornado's disposition of a U.S. real property interest, will not be taxable to a non-U.S. shareholder to the extent that they do not exceed the adjusted basis of the non-U.S. shareholder's shares. Distributions of this kind will instead reduce the adjusted basis of the shares. To the extent that distributions of this kind exceed the adjusted basis of a non-U.S. shareholder's shares, they will give rise to tax liability if the non-U.S. shareholder otherwise would have to pay tax on any gain from the sale or disposition of its shares, as described below. If it cannot be determined at the time a distribution is made whether the distribution will be in excess of current and accumulated earnings and profits, withholding will apply to the distribution at the rate applicable to dividends. However, the non-U.S. shareholder may seek a refund of these amounts from the IRS if it is

subsequently determined that the distribution was, in fact, in excess of current accumulated earnings and profits of Vornado.

Capital Gain Dividends.

For any year in which Vornado qualifies as a REIT, distributions that are attributable to gain from sales or exchanges by Vornado of U.S. real property interests will be taxed to a non-U.S. shareholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980, as amended. Under this statute, these distributions are taxed to a non-U.S. shareholder as if the gain were effectively connected with a U.S. business. Thus, non-U.S. shareholders will be taxed on the distributions at the normal capital gain rates applicable to U.S. shareholders, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of individuals. Vornado is required by applicable Treasury regulations under this statute to withhold 35% of any distribution that Vornado could designate as a capital gain dividend. However, if Vornado designates as a capital gain dividend a distribution made before the day Vornado actually effects the designation, then although the distribution may be taxable to a non-U.S. shareholder, withholding does not apply to the distribution under this statute. Rather, Vornado must effect the 35% withholding from distributions made on and after the date of the designation, until the distributions so withheld equal the amount of the prior distribution designated as a capital gain dividend. The non-U.S. shareholder may credit the amount withheld against its U.S. tax liability.

Sales of Shares.

Gain recognized by a non-U.S. shareholder upon a sale or exchange of common shares generally will not be taxed under the Foreign Investment in Real Property Tax Act if Vornado is a "domestically controlled REIT", defined generally as a REIT, less than 50% in value of whose stock is and was held directly or indirectly by foreign persons at all times during a specified testing period. Vornado believes that it is and will continue to be a domestically controlled REIT, and, therefore, that taxation under this statute generally will not apply to the sale of Vornado shares. However, gain to which this statute does not apply will be taxable to a non-U.S. shareholder if investment in the shares is treated as effectively connected with the non-U.S. shareholder's U.S. trade or business or is attributable to a permanent establishment that the non-U.S. shareholder maintains in the United States if that is required by an applicable income tax treaty as a condition for subjecting the non-U.S. shareholder to U.S. taxation on a net income basis. In this case, the same treatment will apply to the non-U.S. shareholder as to U.S. shareholders with respect to the gain. In addition, gain to which the Foreign Investment in Real Property Tax Act does not apply will be taxable to a non-U.S. shareholder if the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, or maintains an office or a fixed place of business in the United States to which the gain is attributable. In this case, a 30% tax will apply to the nonresident alien individual's capital gains. A similar rule will apply to capital gain dividends to which this statute does not apply.

If Vornado were not a domestically controlled REIT, tax under the Foreign Investment in Real Property Tax Act would apply to a non-U.S. shareholder's sale of shares only if the selling non-U.S. shareholder owned more than 5% of the class of shares sold at any time during a specified period. This period is generally the shorter of the period that the non-U.S. shareholder owned the shares sold or the five-year period ending on the date when the shareholder disposed of the shares. If tax under this statute applies to the gain on the sale of shares, the same treatment would apply to the non-U.S. shareholder as to U.S. shareholders with respect to the gain, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals.

Federal estate taxes.

Common shares held by a non-U.S. shareholder at the time of death will be included in the shareholder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting.

If you are a non-U.S. shareholder, you are generally exempt from backup withholding and information reporting requirements with respect to:

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dividend payments and

the payment of the proceeds from the sale of common shares effected at a United States office of a broker,

as long as the income associated with these payments is otherwise exempt from United States federal income tax, and:

the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished to the payor or broker:

a valid Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person, or

other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations, or

you otherwise establish an exemption.

Payment of the proceeds from the sale of common shares effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of common shares that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

the proceeds are transferred to an account maintained by you in the United States,

the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or

the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of common shares will be subject to information reporting if it is effected at a foreign office of a broker that is:

a United States person,

a controlled foreign corporation for United States tax purposes,

a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or

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a foreign partnership, if at any time during its tax year:

one or more of its partners are "U.S. persons", as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or

such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the Internal Revenue Service.

Other Tax Consequences

State or local taxation may apply to Vornado and its shareholders in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of Vornado and its shareholders may not conform to the Federal income tax consequences discussed above. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in Vornado.

DESCRIPTION OF THE UNITS AND THE OPERATING PARTNERSHIP

The following description of the material terms of the units and some material provisions of the partnership agreement does not describe every aspect of the units or the partnership agreement and is only a summary of, and qualified in its entirety by reference to, applicable provisions of Delaware law and the partnership agreement. A copy of the partnership agreement is filed as an exhibit to the registration statement of which this prospectus is a part. See "Where You Can Find More Information" for information about how to obtain a copy of the partnership agreement. For a comparison of the voting rights and some other rights of unit holders in the operating partnership and shareholders of Vornado, see "Comparison of Ownership of Units and Common Shares."

The Operating Partnership's Outstanding Classes of Units

Holders of units, other than Vornado in its capacity as general partner, hold a limited partnership interest in the operating partnership. All holders of units, including Vornado in its capacity as general partner, are entitled to share in cash distributions from, and in the profits and losses of, the operating partnership.

Holders of units have the rights to which limited partners are entitled under the partnership agreement and the Delaware Revised Uniform Limited Partnership Act. The units are not registered under any federal or state securities laws, and they are not listed on any exchange or quoted on any national market system. The partnership agreement imposes restrictions on the transfer of units. See "Restrictions on Transfers of Units by Limited Partners" below for further information about these restrictions.

As of June 30, 2003, there were outstanding:

1,436,623 series A preferred units;

3,400,000 series B pass-through preferred units;

4,600,000 series C pass-through preferred units;

899,566 series B-1 convertible preferred units;

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449,783 series B-2 restricted convertible preferred units;

747,912 series C-1 convertible preferred units;

3,500,000 series D-1 preferred units;

549,336 series D-2 preferred units;

8,000,000 series D-3 preferred units;

5,000,000 series D-4 preferred units;

6,480,000 series D-5 preferred units;

840,000 series D-6 preferred units;

7,200,000 series D-7 preferred units;

360,000 series D-8 preferred units;

1,800,000 series D-9 preferred units;

4,998,000 series E-1 convertible preferred units;

400,000 series F-1 preferred units; and

130,661,767 class A units, including 18,386,114 not held by Vornado.

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Distributions with Respect to Units

The partnership agreement provides for distributions, as determined in the manner provided in the partnership agreement, to Vornado and the limited partners in proportion to their percentage interests in the operating partnership, subject to the distribution preferences that are described in the next paragraph. As general partner of the operating partnership, Vornado has the exclusive right to declare and cause the operating partnership to make distributions as and when Vornado deems appropriate or desirable in its sole discretion. For so long as Vornado elects to qualify as a REIT, Vornado will make reasonable efforts, as determined by it in its sole discretion, to make distributions to partners in amounts such that Vornado will be able to pay shareholder dividends that will satisfy the requirements for qualification as a REIT and avoid any federal income or excise tax liability for Vornado.

Distributions vary among the holders of different classes of units:

The series A preferred units entitle Vornado as their holder to a cumulative preferential distribution at an annual rate of \$3.25 per series A preferred unit, which we refer to as the "series A preferred distribution preference." The series A preferred units correspond to the series A preferred shares of Vornado.

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The series B pass-through preferred units entitle Vornado as their holder to a cumulative preferential distribution at an annual rate of \$2.125 per unit, which we call the "series B pass-through preferred distribution preference." The series B pass-through preferred units correspond to the series B preferred shares of Vornado.

The series C pass-through preferred units entitle Vornado as their holder to a cumulative preferential distribution at an annual rate of \$2.125 per unit, which we call the "series C pass-through preferred distribution preference." The series C pass-through preferred units correspond to the series C preferred shares of Vornado.

The series B-1 convertible preferred units entitle their holder to a preferential distribution at the annual rate of \$2.50 per unit, and the series B-2 restricted preferred units entitle their holders to a preferential distribution at the annual rate of \$4.00 per unit. We refer to these preferential distributions as the "series B-1 and B-2 preferred distribution preferences."

The series C-1 preferred units entitle their holder to a preferential distribution at the annual rate of \$3.25 per unit, which we refer to as the "series C-1 preferred distribution preference."

The series D-1 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.125 per unit, which we refer to as the "series D-1 preferred distribution preference."

The series D-2 preferred units entitle their holder to a preferential distribution at the annual rate of \$4.1875 per unit, which we refer to as the "series D-2 preferred distribution preference."

The series D-3 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-3 preferred distribution preference."

The series D-4 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-4 preferred distribution preference."

The series D-5 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-5 preferred distribution preference."

The series D-6 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-6 preferred distribution preference."

The series D-7 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-7 preferred distribution preference."

The series D-8 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-8 preferred distribution preference."

The series D-9 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.0625 per unit, which we refer to as the "series D-9 preferred distribution preference."

The series E-1 preferred units entitle their holder to a preferential distribution at the annual rate of (a) \$3.00 per unit for distributions paid in respect of the period from the date of issuance through, but excluding, the first anniversary of that date,

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(b) \$3.125 per unit for distributions paid in respect of the period from the first anniversary of the date of issuance through, but excluding, the second anniversary of that date, (c) \$3.25 per unit for distributions paid in respect of the period from the second anniversary of the date of issuance through, but excluding, the seventh anniversary of the date of issuance and (d) \$3.375 per unit for distributions paid in respect of any period thereafter. We refer to this preferential distribution as the "series E-1 preferred distribution preference."

The series F-1 preferred units entitle their holder to a preferential distribution at the annual rate of \$2.25 per unit, which we call the "series F-1 preferred distribution preference."

We sometimes refer to the series A preferred distribution preference, the series B pass-through preferred distribution preference, the series C pass-through preferred distribution preference, the series B-1 and B-2 preferred distribution preferences, the series C-1 preferred distribution preference, the series D-1 preferred distribution preference, the series D-2 preferred distribution preference, the series D-3 preferred distribution preference, the series D-4 preferred distribution preference, the series D-5 preferred distribution preference, the series D-6 preferred distribution preference, the series D-7 preferred distribution preference, the series D-8 preferred distribution preference, the series D-9 preferred distribution preference, the series E-1 preferred distribution preference and the series F-1 preferred distribution preference as the "preferred distribution preferences."

The value of each common unit, regardless of its class, equates to one common share of Vornado. Preferred units do not have a value equating to one common share, but have the liquidation preferences and conversion prices for conversion into class A units or terms for redemption for cash or corresponding preferred shares that are established in the partnership agreement.

The partnership agreement provides that the operating partnership will make distributions when, as and if declared by Vornado in the order of preference provided for in the partnership agreement. The order of preference in the partnership agreement provides that distributions will be paid first to Vornado as necessary to enable Vornado to pay REIT expenses. The partnership agreement defines "REIT expenses" to mean:

costs and expenses relating to the continuity of existence of Vornado and any entity in which Vornado owns an equity interest;

costs and expenses relating to any offer or registration of securities by Vornado;

costs and expenses associated with preparing and filing periodic reports of Vornado under federal, state and local laws, including SEC filings;

costs and expenses associated with Vornado's compliance with laws, rules and regulations applicable to it; and

all other operating or administrative expenses incurred by Vornado in the ordinary course of its business.

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After the operating partnership pays Vornado distributions as necessary to enable Vornado to pay REIT expenses, distributions will be paid:

first, to holders of any class of preferred units ranking senior, as to distributions or redemption or voting rights, to class A units; and

second, to holders of class A units.

Ranking of Units

The series A preferred units, series B pass-through preferred units, series C pass-through preferred units, series D-1 preferred units, series D-2 preferred units, series D-3 preferred units, series D-4 preferred units, series D-5 preferred units, series D-6 preferred units, series D-7 preferred units, series D-8 preferred units, series D-9 preferred units, series E-1 convertible preferred units and series F-1 preferred units rank

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senior to the class A units with respect to the payment of distributions and amounts upon liquidation, dissolution or winding up of the operating partnership. The series A preferred units, series B pass-through preferred units, series C pass-through preferred units, series B-1 convertible preferred units, series B-2 restricted preferred units, series C-1 preferred units, series D-1 preferred units, series D-2 preferred units, series D-3 preferred units, series D-4 preferred units, series D-5 preferred units, series D-6 preferred units, series D-7 preferred units, series D-8 preferred units, series D-9 preferred units, series E-1 preferred units, series F-1 preferred units and any other units designated as "parity units" all rank on a parity with each other, in each case with respect to the payment of distributions and amounts upon liquidation, dissolution or winding up of the operating partnership, without preference or priority of one over the other.

The series of preferred units have the following liquidation preferences:

\$50.00 per series A preferred unit, series B-1 convertible preferred unit, series B-2 restricted preferred unit, series C-1 preferred unit, series D-2 preferred unit, and series E-1 convertible preferred unit;

\$25.00 per series B pass-through preferred unit, series C pass-through preferred unit, series D-3 preferred unit, series D-4 preferred unit, series D-5 preferred unit and series F-1 preferred unit; and

an amount per series D-1 preferred unit, series D-6 preferred unit, series D-7 preferred unit, Series D-8 preferred unit and series D-9 preferred unit equal to the capital account of the unit. The capital account of the series D-1 preferred units, series D-6 preferred units, series D-7 preferred units, series D-8 preferred units and series D-9 preferred units is equal to an original capital contribution of \$25.00 per unit, adjusted from time to time to reflect the operating partnership's income, gains, losses and deductions that are allocated to the units and actual or deemed distributions to, or capital contributions by, the holders of the units.

From time to time as determined by Vornado, in its discretion, the operating partnership may create additional series of preference units or classes of other units senior to or on parity with the class A units with respect to the payment of distributions and amounts upon liquidation, dissolution or winding up of the partnership.

Redemption or Conversion of Units

The holders of class A units, other than Vornado or any subsidiary of Vornado, have the right to redeem their units for cash or, at Vornado's option, common shares. See "Redemption of Units" above for further information about this right.

The series A preferred units became redeemable at Vornado's option for class A units on April 1, 2001, and are convertible at Vornado's option into class A units at any time, provided that an

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equivalent number of series A preferred shares are concurrently converted into common shares by their holders. The number of class A units into which the series A preferred units are redeemable or convertible is equal to the aggregate liquidation preference of the series A preferred units being redeemed or converted divided by their conversion price. The conversion price of the series A preferred units is now \$36.10 and may be adjusted from time to time to take account of stock dividends and other transactions.

The series B pass-through preferred units are redeemable at Vornado's option for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series B pass-through preferred units at any time beginning on March 17, 2004, provided that an equivalent number of series B preferred shares are concurrently redeemed by Vornado.

The series C pass-through preferred units are redeemable at Vornado's option for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series C pass-through preferred units at any time beginning on May 17, 2004, provided that an equivalent number of series C preferred shares are concurrently redeemed by Vornado.

The series B-1 convertible preferred units are redeemable at any time beginning on January 1, 2008 at Vornado's option for a number of class A units equal to the aggregate liquidation preference of the series B-1 convertible preferred units of \$50.00 per unit divided by the

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conversion price of the series B-1 convertible preferred units of \$54.7050. The series B-2 restricted preferred units are redeemable at any time beginning on January 1, 2008 at Vornado's option for cash of \$50 per unit. The series B-1 convertible preferred units and series B-2 restricted preferred units are convertible at any time at the option of their holders in groups of two series B-1 convertible preferred units and one series B-2 restricted preferred unit into a number of class A units equal to the aggregate series B-1 and B-2 preferred liquidation preferences of the units being converted divided by the conversion price of \$54.7050.

The series C-1 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on November 24, 2003 for 1.1431 class A units per series C-1 preferred unit, subject to anti-dilution adjustments. Holders of series C-1 preferred units have the right to convert all or a portion of their series C-1 preferred units at any time into class A units at the same rate.

The series D-1 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on November 12, 2003 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-1 preferred units being redeemed. At any time beginning on November 12, 2008, or earlier upon the occurrence of specified events, holders of series D-1 preferred units will have the right to have their series D-1 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-1 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-1 preferred units being redeemed; or

at Vornado's option, one series D-1 8.5% cumulative redeemable preferred share of beneficial interest, no par value, of Vornado for each series D-1 preferred unit redeemed.

The series D-2 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on May 27, 2004 for cash equal to \$50.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-2 units being redeemed. At any time beginning on May 27, 2009, or earlier upon the occurrence of specified events,

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holders of series D-2 preferred units will have the right to have their series D-2 preferred units redeemed by the operating partnership for either:

cash equal to \$50.00 for each series D-2 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-2 preferred units being redeemed; or

at Vornado's option, one series D-2 preferred share of Vornado for each series D-2 preferred unit redeemed.

The series D-3 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on September 3, 2004 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-3 units being redeemed. At any time beginning on September 3, 2009, or earlier upon the occurrence of specified events, holders of series D-3 preferred units will have the right to have their series D-3 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-3 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-3 preferred units being redeemed; or

at Vornado's option, one series D-3 preferred share of Vornado for each series D-3 preferred unit redeemed.

The series D-4 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on September 3, 2004 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-4 units being redeemed. At any time beginning on September 3, 2009, or earlier upon the occurrence of specified events, holders of series D-4 preferred units will have the right to have their series D-4 preferred units redeemed by the operating partnership for either:

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cash equal to \$25.00 for each series D-4 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-4 preferred units being redeemed; or

at Vornado's option, one series D-4 preferred share of Vornado for each series D-4 preferred unit redeemed.

The series D-5 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on November 24, 2004 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-5 units being redeemed. At any time beginning on November 24, 2009, or earlier upon the occurrence of specified events, holders of series D-5 preferred units will have the right to have their series D-5 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-5 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-5 preferred units being redeemed; or

at Vornado's option, one series D-5 preferred share of Vornado for each series D-5 preferred unit redeemed.

The series D-6 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on May 1, 2005 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-6 units being redeemed. At any time beginning on May 1, 2010, or earlier upon the occurrence of specified events, holders of series D-6 preferred units will have the right to have their series D-6 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-6 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-6 preferred units being redeemed; or

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at Vornado's option, one series D-6 preferred share of Vornado for each series D-6 preferred unit redeemed.

The series D-7 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on May 25, 2005 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-7 units being redeemed. At any time beginning on May 25, 2010, or earlier upon the occurrence of specified events, holders of series D-7 preferred units will have the right to have their series D-7 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-7 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-7 preferred units being redeemed; or

at Vornado's option, one series D-7 preferred share of Vornado for each series D-7 preferred unit redeemed.

The series D-8 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on May 1, 2005 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-8 units being redeemed. At any time beginning on May 1, 2010, or earlier upon the occurrence of specified events, holders of series D-8 preferred units will have the right to have their series D-8 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-8 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-8 preferred units being redeemed; or

at Vornado's option, one series D-8 preferred share of Vornado for each series D-8 preferred unit redeemed.

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The series D-9 preferred units are perpetual and may be redeemed without penalty in whole or in part by the operating partnership at any time beginning on September 21, 2006 for cash equal to \$25.00 per unit and any accumulated and unpaid distributions owing in respect of the series D-9 units being redeemed. At any time beginning on September 21, 2011, or earlier upon the occurrence of specified events, holders of series D-9 preferred units will have the right to have their series D-9 preferred units redeemed by the operating partnership for either:

cash equal to \$25.00 for each series D-9 preferred unit and any accumulated and unpaid distributions owing in respect of the series D-9 preferred units being redeemed; or

at Vornado's option, one series D-9 preferred share of Vornado for each series D-9 preferred unit redeemed.

The series E-1 convertible preferred units are redeemable at any time beginning on March 3, 2004 at Vornado's option for cash equal to \$50.00 for each series E-1 convertible preferred unit and any accumulated and unpaid distributions owing in respect of the series E-1 convertible preferred units being redeemed. Since May 1, 2000, holders of series E-1 convertible preferred units have had the right to have their series E-1 convertible preferred units redeemed by the operating partnership for either:

a number of class A units equal to the aggregate liquidation preferences of the series E-1 convertible preferred units being converted divided by the conversion price of \$44.00, subject to customary antidilution adjustments; or

at the holder's option, cash equal to that same number of class A units multiplied by the value on the redemption date of one common share.

However, if a holder of series E-1 convertible preferred units elects to have its series E-1 convertible preferred units redeemed by the operating partnership for cash as described above, we, in

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our sole and absolute discretion, may elect to satisfy this redemption right by delivering to such holder the same number of common shares as class A units required to be delivered by the operating partnership or the same amount of cash as required to be delivered by the operating partnership.

The operating partnership may redeem the series F-1 units on the first business day in January 2012 for class A units in an amount equal to the quotient of (a) the sum of the aggregate liquidation preference of the series F-1 units being redeemed and all accrued and unpaid distributions, divided by (b) the product of the value of a common share of Vornado and the applicable conversion factor, which is currently one. The holder of series F-1 preferred units has the right to have the units redeemed for either cash in an amount equal to the sum of the aggregate liquidation preference of the series F-1 units being redeemed plus any accumulated and unpaid distributions or, at Vornado's option subject to certain limitations, common shares in an amount equal to the amount of class A units described in the preceding sentence.

Formation of the Operating Partnership

The operating partnership was formed as a limited partnership under the Delaware Revised Uniform Limited Partnership Act on October 2, 1996. Vornado is the sole general partner of, and owned approximately 81% of the common limited partnership interest in, the operating partnership at March 31, 2003.

Purposes, Business and Management of the Operating Partnership

The purpose of the operating partnership includes the conduct of any business that may be lawfully conducted by a limited partnership formed under the Delaware Revised Uniform Limited Partnership Act, except that the partnership agreement requires the business of the operating partnership to be conducted in a manner that will permit Vornado to be classified as a REIT under Section 856 of the Internal Revenue Code, unless Vornado ceases to qualify as a REIT for any reason. In furtherance of its business, the operating partnership may enter into partnerships, joint ventures, limited liability companies or similar arrangements and may own interests in any other entity engaged, directly or indirectly, in any of the foregoing.

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Vornado, as the general partner of the operating partnership, has the exclusive power and authority to conduct the business of the operating partnership, except that the consent of the limited partners is required in some limited circumstances discussed under " Meetings and Voting" below. No limited partner may take part in the operation, management or control of the business of the operating partnership by virtue of being a holder of units.

In particular, the limited partners expressly acknowledge in the partnership agreement that the general partner is acting on behalf of the operating partnership and Vornado's shareholders collectively, and is under no obligation to consider the tax consequences to, or other separate interests of, limited partners when making decisions on behalf of the operating partnership. Except as required by lockup agreements, Vornado intends to make decisions in its capacity as general partner of the operating partnership taking into account the interests of Vornado and the operating partnership as a whole, independent of the tax effects on the limited partners. See " Borrowing by the Operating Partnership" below for a discussion of lockup agreements. Vornado and its trustees and officers will have no liability to the operating partnership or to any partner or assignee for any losses sustained, liabilities incurred or benefits not derived as a result of errors in judgment or mistakes of fact or law or any act or omission if Vornado acted in good faith.

Ability of Vornado to Engage in Other Businesses; Conflicts of Interest

Vornado generally may not conduct any business other than through the operating partnership without the consent of the holders of a majority of the common limited partnership interests, excluding

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the limited partnership interests held by Vornado. Other persons including officers, trustees, employees, agents and other affiliates of Vornado are not prohibited under the partnership agreement from engaging in other business activities and are not required to present any business opportunities to the operating partnership. In addition, the partnership agreement does not prevent another person or entity that acquires control of Vornado in the future from conducting other businesses or owning other assets, even though those businesses or assets may be ones that it would be in the best interests of the limited partners for the operating partnership to own.

Borrowing by the Operating Partnership

Vornado is authorized to cause the operating partnership to borrow money and to issue and guarantee debt as it deems necessary for the conduct of the activities of the operating partnership. The operating partnership's debt may be secured by mortgages, deeds of trust, liens or encumbrances on the operating partnership's properties. Vornado also may cause the operating partnership to borrow money to enable the operating partnership to make distributions, including distributions in an amount sufficient to permit Vornado to avoid the payment of any federal income tax.

From time to time in connection with acquisitions of properties or other assets in exchange for limited partner interests in the operating partnership, Vornado and the operating partnership have entered into contractual arrangements that impose restrictions on the operating partnership's ability to sell, finance, refinance and, in some instances, pay down existing financing on certain of the operating partnership's properties or other assets. These arrangements are sometimes referred to as "lockup agreements" and include, for example, arrangements in which the operating partnership agrees that it will not sell the property or other assets in question for a period of years unless the operating partnership also pays the contributing partner a portion of the federal income tax liability that will accrue to that partner as a result of the sale. Arrangements of this kind may significantly reduce the operating partnership's ability to sell, finance or repay indebtedness secured by the subject properties or assets. Vornado expects to cause the operating partnership to continue entering into transactions of this type in the future and may do so without obtaining the consent of any partners in the operating partnership.

Reimbursement of Vornado; Transactions with Vornado and Its Affiliates

Vornado does not receive any compensation for its services as general partner of the operating partnership. Vornado, however, as a partner in the operating partnership, has the same right to allocations and distributions with respect to the units it holds as other partners in the operating partnership holding the same classes of units. In addition, the operating partnership reimburses Vornado for all expenses it incurs relating to the ongoing operation of Vornado and any offering of additional partnership interests in the operating partnership, securities of Vornado or rights, options, warrants or convertible or exchangeable securities, including expenses in connection with this registration of common shares for issuance in exchange for units if Vornado assumes the obligation to redeem units and elects to redeem them for common shares instead of cash when a limited partner in the operating partnership exercises the right to redeem units. See "Redemption of Units" above for further information about the right to redeem units.

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Except as expressly permitted by the partnership agreement, the operating partnership will not, directly or indirectly, sell, transfer or convey any property to, or purchase any property from, or borrow funds from, or lend funds to, any partner in the operating partnership or any affiliate of the operating partnership or Vornado that is not also a subsidiary of the operD>

June 30, 2008

158 1,975 9 1,850 43 3,877

- (a) Net of tax of \$1-million.
- (b) Net of tax of \$11-million.
- (c) Adjustment at January 1, 2008 for adoption of accounting standards for inventory. Net of tax of \$1-million.
- (d) Net of non-controlling interest of \$7-million.

See accompanying notes.

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

For the six months ended June 30, 2009

(Millions of U.S. dollars, except per share amounts)

(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are in accordance with accounting principles generally accepted in Canada and are consistent with those outlined in the annual audited financial statements except where stated below. These interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

The agricultural products business is seasonal in nature. Sales are concentrated in the spring and fall planting seasons, while produced inventories are accumulated throughout the year. Cash collections generally occur after the planting seasons in North and South America.

Certain comparative figures have been reclassified to conform to the current year's presentation.

Significant accounting standard and policy changes

Description	Date and method of adoption	Impact
<i>Goodwill and Intangible Assets</i> establishes guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including guidance on pre-production and start-up costs, requiring that these costs be expensed as incurred. The current goodwill standards are carried forward unchanged.	January 1, 2009; prospective for intangible items initially expensed; retrospective for intangible items initially capitalized	No material impact on earnings or financial position

Recent accounting pronouncements not yet adopted

Description	Date and method of adoption	Impact
<i>International Financial Reporting Standards (IFRS)</i> – the Canadian Institute of Chartered Accountants Accounting Standards Board has published its strategic plan for convergence of Canadian generally accepted accounting standards with IFRS as issued by the International Accounting Standards Board. The changeover date for Canadian publicly accountable enterprises is January 1, 2011 and will require restatement of comparative figures.	January 1, 2011 or earlier; in accordance with IFRS 1	Currently being reviewed
<i>Business Combinations, Consolidated Financial Statements and Non-controlling Interests</i> amend previously existing standards on accounting for and reporting business acquisitions and non-controlling interests. The new standards change the recognition of assets and liabilities in purchase price allocations and require expensing of certain acquisition-related costs.	January 1, 2011 or earlier; in accordance with IFRS 1	Impact depends on nature of acquisitions

AGRIUM INC.

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For the six months ended June 30, 2009

(Millions of U.S. dollars, except per share amounts)

(Unaudited)

2. BUSINESS ACQUISITIONS**CF Industries Holdings, Inc.**

On March 16, 2009 (as amended on May 14, 2009), the Company filed an exchange offer to acquire all of the outstanding shares of CF Industries Holdings, Inc. (CF). Under the terms of the amended offer, for each CF share CF stockholders have the choice of receiving one of the following:

\$40.00 in cash and one common share of Agrium,

1.8850 common shares of Agrium, or

\$85.20 in cash.

In total, a maximum of 47 percent of the shares tendered will be exchanged for cash and a maximum of 53 percent of the shares tendered will be exchanged for Agrium common shares. The total cash and stock to be paid by Agrium under the amended offer will be approximately \$2.01-billion and 50.2 million Agrium common shares. The offer and withdrawal rights will expire on August 19, 2009, unless extended. As of July 17, 2009, approximately 10.4 million CF shares (approximately 21 percent) had been tendered and not withdrawn from the exchange offer.

During February 2009, Agrium acquired 1.2 million shares of CF at an average cost of \$52.34 for total consideration of \$65-million. The shares are recorded in marketable securities and classified as available for sale financial instruments with changes to fair value, comprised of a gain of \$27-million to June 30, 2009, recorded in other comprehensive income. At June 30, 2009, the fair value of the CF shares was \$92-million.

3. OTHER (INCOME) EXPENSES

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Stock-based compensation	4	115	14	109
(Gain) loss on derivative financial instruments	(15)	(191)	54	(258)
Environmental remediation and accretion of asset retirement obligations	(5)	6	1	7
Interest income	(17)	(11)	(29)	(31)
Foreign exchange loss (gain)	5	(11)	11	(11)
Bad debt expense	14	9	19	10
Other	(1)	(8)	(6)	5
	(15)	(91)	64	(169)

AGRIUM INC.

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(Unaudited)

4. EARNINGS PER SHARE

	Three months ended		Six months ended	
	June 30, 2009	2008	June 30, 2009	2008
Numerator				
Net earnings	370	636	310	831
Denominator				
Weighted-average number of shares outstanding for basic earnings per share	157	158	157	158
Dilutive instruments Stock options ^(a)		1		1
Weighted-average number of shares outstanding for diluted earnings per share	157	159	157	159
Basic earnings per share	2.36	4.03	1.98	5.27
Diluted earnings per share	2.35	4.00	1.97	5.24

(a) For diluted earnings per share, conversion or exercise is assumed only if the effect is dilutive to basic earnings per share.

5. INVENTORIES

	As at June 30,		As at December 31,
	2009	2008	2008
Raw materials	260	181	216
Finished goods	320	179	417
Product for resale	1,738	1,862	2,414
	2,318	2,222	3,047

AGRIUM INC.

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(Unaudited)

6. INVESTMENT IN EQUITY INVESTEES

	Interest	As at June 30, 2009	2008	As at December 31, 2008
MISR Oil Processing Company, S.A.E. (MOPCO)	26.0%	264		
Hanfeng Evergreen Inc.	19.5%	83	77	67
Other		4	4	4
		351	81	71

MOPCO is a private company located in Egypt. In January 2009, Agrium acquired its 26 percent interest through an agreement exchanging its shares and all related contractual obligations of its EAgrium subsidiary for shares in MOPCO. Previously, Agrium's Egypt operations had been carried in its EAgrium subsidiary.

As at December 31, 2008, the Company adjusted the carrying value of its Egypt operations based on the fair value of the MOPCO interest received. Prior to such adjustment, the Egypt operations had a net carrying value of \$295-million (net of non-controlling interest). The major categories of assets and liabilities of the EAgrium subsidiary were production assets under construction, accounts payable and accrued liabilities, and bank indebtedness. On adjusting the Egypt operations to fair value of \$250-million, the Company recorded an impairment charge in its Wholesale business unit of \$87-million (\$45-million net of non-controlling interest).

The Company determined the fair value of the interest in MOPCO using an income approach, discounting a range of possible outcomes, with each possible outcome bearing different risk factors, at a risk-free rate plus an adjustment for the risk factors of each scenario. The analysis included various management estimates about future revenue, operating margins, growth rates, discount rates, terminal value and non-controlling interest discount. The assumptions included anticipated future cash flows, budgets and long-term business plans, marketplace information, industry data, economic analysis and contracts in place at the time of the analysis. Actual results could differ from management's estimates and assumptions, potentially resulting in future impairment losses.

Hanfeng Evergreen Inc. is listed on the Toronto Stock Exchange. The investment, consisting of 11.9 million common shares, is carried in the Advanced Technologies business unit.

AGRIUM INC.

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(Millions of U.S. dollars, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net earnings				
MOPCO	10		14	
Hanfeng	1	1	3	2
	11	1	17	2

	As at June 30,		As at December 31,	
	2009	2008	2008	
Cumulative undistributed earnings				
MOPCO	14			
Hanfeng	7	2		4
	21	2		4

The following summarizes the assets, liabilities and results of operations of the above equity investees:

	June 30, 2009	
	Three months ended	Six months ended
Net sales	113	213
Net earnings	42	72

	As at June 30, 2009
Assets	930
Liabilities	266
Shareholders' equity	664

AGRIUM INC.

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(Unaudited)

7. DEBT

	As at June 30, 2009			As at December 31, 2008
	Total	Unutilized	Utilized	Utilized
Bank indebtedness ^(a)				
North American revolving credit facilities expiring 2010 and 2012 ^(b)	835	639	196	300
European credit facilities expiring in 2009 ^(c)	233	155	78	120
South American credit facilities expiring 2009 to 2012	165	90	75	70
EAgrium bridge loan				120
	1,233	884	349	610
Long-term debt ^(a)				
Unsecured				
Floating rate bank loans due May 5, 2013			460	460
6.75% debentures due January 15, 2019			500	500
7.125% debentures due May 23, 2036			300	300
7.7% debentures due February 1, 2017			100	100
7.8% debentures due February 1, 2027			125	125
8.25% debentures due February 15, 2011			125	125
Secured				
Other			38	24
			1,648	1,634
Transaction costs			(11)	(12)
			1,637	1,622
		Three months ended June 30,	Six months ended June 30,	
Accounts receivable securitization		2009	2008	2009
Proceeds from sales of receivables ^(d)		200		400

- (a) The Company has committed available facilities, subject to certain terms and conditions, of \$1.4-billion for the CF acquisition not included in the table. The facilities are comprised of \$1-billion of long-term debt with repayment terms of two to three years and \$400-million of bank indebtedness. All facilities, if drawn, will bear interest at U.S. base rate plus a variable margin or LIBOR plus a variable margin. These facilities are available to fund a portion of the proposed acquisition of CF and cannot be used for other purposes.

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- (b) The Company has issued letters of credit under its revolving credit facilities. Outstanding letters of credit at June 30, 2009 of \$67-million reduce unutilized credit available under the facilities to \$572-million.

- (c) Of the total, \$136-million is secured. Security pledged for the utilized balance includes inventory, accounts receivable and other items with a total carrying value of \$83-million. The facilities bear interest at various base rates plus a fixed or variable margin. The utilized balance includes Euro debt of \$31-million.

- (d) The Company has a revolving purchase and sale agreement to sell, with limited recourse, accounts receivable to a maximum of \$200-million (June 30, 2008 \$200-million). The receivables are sold to an unrelated financial institution. The Company provides a security interest to the financial institution in the form of accounts receivable in excess of the net cash proceeds received. The agreement expires in December 2012. Proceeds from collections reinvested in revolving-period securitizations were \$685-million for the three months ended June 30, 2009 (June 30, 2008 nil) and \$955-million for the six months ended June 30, 2009 (June 30, 2008 nil).

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

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8. ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at June 30,		As at December 31,	
	2009	2008	2008	
Cash flow hedges, net of tax	4	9		6
Available for sale financial instruments, net of tax	16			
Foreign currency translation	(132)	34		(178)
	(112)	43		(172)

9. EMPLOYEE FUTURE BENEFITS

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Defined benefit pension plans				
Service cost	1	1	2	2
Interest cost	3	2	5	5
Expected return on plan assets	(2)	(3)	(4)	(6)
Net amortization and deferral	1	1	2	1
Net expense	3	1	5	2
Post-retirement benefit plans				
Service cost	1	1	2	2
Interest cost	1	2	2	3
Net expense	2	3	4	5
Defined contribution pension plans	7	7	16	17
Total expense	12	11	25	24

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

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(Unaudited)

10. FINANCIAL INSTRUMENTS**Risk management**

In the normal course of business, the Company's financial position, results of operation and cash flows are exposed to various risks. On an annual basis, the Board approves a strategic plan that takes into account the opportunities and major risks of the Company's business and mitigation factors to reduce these risks. The Board also reviews risk management policies and procedures on an annual basis and sets upper limits on the transactional exposure to be managed and the time periods over which exposures may be managed. The Company manages risk in accordance with its Exposure Management Policy. The objective of the policy is to reduce volatility in cash flow and earnings.

Sensitivity analysis to risk is provided where the effect on net earnings or shareholders' equity could be material. Sensitivity analysis is performed by relating the reasonably possible changes in the risk variable at June 30, 2009 to financial instruments outstanding on that date while assuming all other variables remain constant.

Market risk

(a) Currency risk

U.S. dollar denominated transactions in our Canadian operations generates foreign exchange gains and losses on outstanding balances which are recognized in net earnings. The net U.S. dollar denominated balance in Canadian operations is \$224-million. A strengthening of \$0.01 in the U.S. dollar against the Canadian dollar would have increased net earnings by \$2-million.

Balances in non-U.S. dollar subsidiaries (in U.S. dollar equivalent)	Canadian dollars	Euro
Cash and cash equivalents	18	2
Accounts receivable	146	61
Bank indebtedness		(31)
Accounts payable and accrued liabilities	(202)	(18)
	(38)	14

A foreign currency translation adjustment is recognized in other comprehensive income upon translation of our Canadian and European operations to U.S. dollars. A strengthening of \$0.01 of the Canadian dollar against the U.S. dollar would have an impact of less than \$1-million on other comprehensive income. A \$0.01 weakening of the Canadian dollar would have an equal but opposite impact. A strengthening of \$0.01 of the Euro against the U.S. dollar would have an impact of less than \$1-million on other comprehensive income. A \$0.01 weakening of the Euro would have an equal but opposite impact.

(b) Commodity price risk

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For natural gas derivative financial instruments outstanding at June 30, 2009, an increase of \$0.10 per MMBtu would have increased net earnings by \$2-million. A \$0.10 decrease per MMBtu would have an equal but opposite impact.

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

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(Unaudited)

(c) Interest rate risk

The Company's cash and cash equivalents include highly liquid investments with a term of three months or less that earn interest at market rates. The Company manages its interest rate risk on these investments by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash and cash equivalents do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments.

Credit risk

There were no significant uncollectible trade receivable balances at June 30, 2009.

The Company may be exposed to certain losses in the event that counterparties to short-term investments and derivative financial instruments are unable to meet their contractual obligations. The Company manages this counterparty credit risk with policies requiring that counterparties to short-term investments and derivative financial instruments have an investment grade or higher credit rating and policies that limit the investing of excess funds to liquid instruments with a maximum term of one year and limit the maximum exposure to any one counterparty. The Company also enters into master netting agreements that mitigate its exposure to counterparty credit risk. At June 30, 2009, all counterparties to derivative financial instruments have maintained an investment grade or higher credit rating and there is no indication that any counterparty will be unable to meet their obligations under derivative contracts.

	As at June 30,		As at December 31,
	2009	2008	2008
Maximum credit exposure based on derivative financial instruments in an asset position			
Foreign exchange contracts		81	
Natural gas, power and nutrient contracts	13	144	21
	13	225	21

Liquidity risk

The Company's bank indebtedness and accounts payable and accrued liabilities generally have contractual maturities of six months or less.

Fair values

The fair values of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate carrying value due to their short-term nature. The fair value of floating-rate loans approximates their carrying value.

Marketable securities are carried at fair value and measured using information classified as Level 1 (observable inputs based on unadjusted quoted prices in active markets for identical assets).

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

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The fair value of derivative financial instruments is recorded at the estimated amount that the Company would receive or pay to terminate the contracts. The Company's derivative financial instruments measured at fair value on a recurring basis are measured using information classified as Level 2 (observable inputs based on quoted prices for similar assets and liabilities in active markets).

The fair value of long-term debt at June 30, 2009 was \$1,630-million (June 30, 2008 \$1,964-million, December 31, 2008 \$1,578-million). The carrying value of long-term debt at June 30, 2009 was \$1,648-million (June 30, 2008 \$1,921-million, December 31, 2008 \$1,634-million). The weighted-average effective interest rate on long-term debt at June 30, 2009, was 6 percent (June 30, 2008 5 percent, December 31, 2008 6 percent). The fair value of long-term debt is determined using information classified as Level 2 (valuation techniques based on quoted prices for similar instruments in active markets).

The following items are carried at fair value, which is equal to carrying value.

	As at June 30,		As at December 31,
	2009	2008	2008
Marketable securities			
Investment in CF (available for sale)	92		
Other (held for trading)	16		
	108		
Other assets (available for sale)	29	29	27
Net fair value of held for trading derivative financial instruments			
Foreign exchange derivative financial instruments			
Accounts receivable		81	
Accounts payable and accrued liabilities	(3)	(20)	(18)
	(3)	61	(18)
Interest rate derivative financial instruments			
Accounts payable and accrued liabilities		(25)	
		(25)	
Natural gas, power and nutrient derivative financial instruments			
Accounts receivable	3	71	5
Other assets	10	73	16
Accounts payable and accrued liabilities	(46)	(2)	(64)
Other liabilities	(12)	(4)	(11)

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

For the six months ended June 30, 2009

(Millions of U.S. dollars, except per share amounts)

(Unaudited)

11. CAPITAL MANAGEMENT

The Company manages capital by monitoring the ratios outlined in the table below. Net debt includes bank indebtedness and long-term debt including the current portion, net of cash and cash equivalents. Equity includes shareholders' equity. EBITDA is net earnings before interest expense, income taxes, depreciation, amortization and asset impairment. Interest includes interest on long-term debt plus other interest. The measures of debt, equity and EBITDA described above are non-GAAP financial measures which do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other issuers.

	As at June 30,		As at December 31,
	2009	2008	2008
Net debt to net debt plus equity (%)	28	38	31
EBITDA interest coverage (multiple)	10.4	36.2	22.1

The Company's revolving credit facilities require the Company maintain a specific interest coverage and debt to capital ratios as well as other non-financial covenants as defined in the debt agreement. The Company was in compliance with all covenants at June 30, 2009.

Normal course issuer bid

There were no shares repurchased during the six months ended June 30, 2009 under the Company's normal course issuer bid which expires October 5, 2009.

AGRIUM INC.

Summarized Notes to the Consolidated Financial Statements

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(Millions of U.S. dollars, except per share amounts)

(Unaudited)

12. SEGMENTATION

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Consolidated net sales				
Retail ^(a)				
Crop nutrients	1,309	1,250	1,746	1,499
Crop protection products	1,210	860	1,636	953
Seed, services and other	629	396	817	448
	3,148	2,506	4,199	2,900
Wholesale ^(b)				
Nitrogen	464	635	693	962
Potash	47	244	89	375
Phosphate	118	235	231	377
Product purchased for resale	240	201	506	252
Other	81	82	126	139
	950	1,397	1,645	2,105
Advanced Technologies ^(c)	82	107	149	186
Other	(90)	(140)	(150)	(214)
	4,090	3,870	5,843	4,977
Consolidated net earnings				
Retail	283	409	189	413
Wholesale	215	647	272	960
Advanced Technologies	8	11	9	17
Other	37	(95)	17	(113)
Earnings before interest and income taxes ^(d)	543	972	487	1,277
Interest on long-term debt	21	17	46	28
Other interest	6	8	12	10
Earnings before income taxes ^(d)	516	947	429	1,239
Income taxes	146	311	119	408
	370	636	310	831

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- (a) Includes inter-segment sales for the three months ended June 30, 2009 of \$1-million and for the six months ended June 30, 2009 of \$2-million (three months ended June 30, 2008 \$2-million, six months ended June 30, 2008 \$3-million).
- (b) Includes inter-segment sales for the three months ended June 30, 2009 of \$78-million and for the six months ended June 30, 2009 of \$120-million (three months ended June 30, 2008 \$118-million, six months ended June 30, 2008 \$180-million).
- (c) Includes inter-segment sales for the three months ended June 30, 2009 of \$11-million and for the six months ended June 30, 2009 of \$28-million (three months ended June 30, 2008 \$20-million, six months ended June 30, 2008 \$31-million).
- (d) Net of non-controlling interests.

AGRIUM INC.

Segmentation

(Unaudited millions of U.S. dollars)

Schedule 1

	Three months ended June 30									
	Retail		Wholesale		Advanced Technologies		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net Sales										
external	3,147	2,504	872	1,279	71	87			4,090	3,870
inter-segment	1	2	78	118	11	20	(90)	(140)		
Total net sales	3,148	2,506	950	1,397	82	107	(90)	(140)	4,090	3,870
Cost of product	2,551	1,839	706	815	65	87	(154)	(132)	3,168	2,609
Inventory write-down			32						32	
Gross profit	597	667	212	582	17	20	64	(8)	890	1,261
Gross profit (%)	19	27	22	42	21	19			22	33
Selling expenses	273	212	9	8	2	2	(3)	(2)	281	220
EBITDA ⁽¹⁾	307	431	244	682	12	15	39	(93)	602	1,035
EBIT ⁽²⁾	283	409	215	647	8	11	37	(95)	543	972
	Six months ended June 30									
	Retail		Wholesale		Advanced Technologies		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net Sales										
external	4,197	2,897	1,525	1,925	121	155			5,843	4,977
inter-segment	2	3	120	180	28	31	(150)	(214)		
Total net sales	4,199	2,900	1,645	2,105	149	186	(150)	(214)	5,843	4,977
Cost of product	3,460	2,118	1,266	1,250	122	149	(218)	(193)	4,630	3,324
Inventory write-down			50						50	
Gross profit	739	782	329	855	27	37	68	(21)	1,163	1,653
Gross profit (%)	18	27	20	41	18	20			20	33
Selling expenses	471	311	17	13	3	3	(6)	(4)	485	323
EBITDA ⁽¹⁾	239	444	323	1,017	18	25	21	(110)	601	1,376
EBIT ⁽²⁾	189	413	272	960	9	17	17	(113)	487	1,277

(1) Net earnings (loss) before interest expense, income taxes, depreciation, amortization and asset impairment.

(2) Net earnings (loss) before interest expense and income taxes.

AGRIUM INC.

Product Lines

Three months ended June 30

(Unaudited millions of U.S. dollars)

Schedule 2a

	2009							2008						
	Net Sales	Cost of Product ⁽¹⁾	Gross Profit	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Cost of Product (\$/Tonne)	Margin (\$/Tonne)	Net Sales	Cost of Product	Gross Profit	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Cost of Product (\$/Tonne)	Margin (\$/Tonne)
Wholesale														
Nitrogen	464	282	182	1,244	373	227	146	635	389	246	1,254	506	310	196
Potash	47	24	23	61	770	393	377	244	60	184	574	425	104	321
Phosphate	118	106	12	260	454	408	46	235	139	96	297	791	468	323
Product purchased for resale														
Other	240	268	(28)	681	352	393	(41)	201	172	29	376	535	458	77
	81	58	23	176				82	55	27	202			
	950	738	212	2,422	392	304	88	1,397	815	582	2,703	517	302	215
Retail ⁽²⁾														
Crop nutrients	1,309	1,192	117					1,250	915	335				
Crop protection products	1,210	906	304					860	637	223				
Seed, services and other	629	453	176					396	287	109				
	3,148	2,551	597					2,506	1,839	667				
Advanced Technologies ⁽³⁾														
Turf and ornamental	57	48	9					72	60	12				
Agriculture	25	17	8					35	27	8				
	82	65	17					107	87	20				
Other inter-segment eliminations														
	(90)	(154)	64					(140)	(132)	(8)				
Total	4,090	3,200	890					3,870	2,609	1,261				

(1) Includes inventory write-down of \$32-million in Wholesale.

(2) International retail net sales were \$30-million (2008 \$84-million) and gross profit was \$5-million (2008 \$30-million).

- (3) The current presentation has been revised from prior periods to revise the categories.

AGRIUM INC.

Product Lines

Six months ended June 30

(Unaudited millions of U.S. dollars)

Schedule 2b

	2009							2008						
	Net Sales	Cost of Product ⁽¹⁾	Gross Profit	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Cost of Product (\$/Tonne)	Margin (\$/Tonne)	Net Sales	Cost of Product	Gross Profit	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Cost of Product (\$/Tonne)	Margin (\$/Tonne)
Wholesale														
Nitrogen	693	456	237	1,917	362	238	124	962	590	372	2,022	476	292	184
Potash	89	45	44	137	650	329	321	375	104	271	1,023	367	102	265
Phosphate	231	193	38	462	500	418	82	377	237	140	529	713	448	265
Product purchased for resale														
	506	532	(26)	1,564	324	341	(17)	252	217	35	488	516	444	72
Other	126	90	36	321				139	102	37	370			
	1,645	1,316	329	4,401	374	299	75	2,105	1,250	855	4,432	475	282	193
Retail⁽²⁾														
Crop nutrients	1,746	1,611	135					1,499	1,092	407				
Crop protection products	1,636	1,255	381					953	701	252				
Seed, services and other	817	594	223					448	325	123				
	4,199	3,460	739					2,900	2,118	782				
Advanced Technologies⁽³⁾														
Turf and ornamental	100	85	15					131	106	25				
Agriculture	49	37	12					55	43	12				
	149	122	27					186	149	37				
Other inter-segment eliminations														
	(150)	(218)	68					(214)	(193)	(21)				
Total	5,843	4,680	1,163					4,977	3,324	1,653				

(1) Includes inventory write-down of \$50-million in Wholesale.

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- (2) International retail net sales were \$50-million (2008 \$113-million) and gross profit was \$9-million (2008 \$37-million).
- (3) The current presentation has been revised from prior periods to revise the categories.

AGRIUM INC.

Selected Wholesale sales prices and volumes

(Unaudited)

Schedule 3

	Three months ended June 30				Six months ended June 30			
	2009		2008		2009		2008	
	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Sales Tonnes (000 s)	Selling Price (\$/Tonne)	Sales Tonnes (000 s)	Selling Price (\$/Tonne)
Nitrogen								
Domestic								
Ammonia	402	521	390	632	543	480	552	582
Urea	422	340	411	538	781	347	736	502
Other	260	253	347	364	377	263	502	355
Total domestic nitrogen	1,084	385	1,148	517	1,701	370	1,790	485
International nitrogen	160	284	106	391	216	291	232	400
Total nitrogen	1,244	373	1,254	506	1,917	362	2,022	476
Potash								
Domestic								
Domestic	34	728	317	459	53	737	554	409
International	27	818	257	386	84	590	469	317
Total potash	61	770	574	425	137	650	1,023	367
Phosphate								
Product purchased for resale								
Product purchased for resale	681	352	376	535	1,564	324	488	516
Ammonium sulfate	88	264	100	331	194	242	175	310
Other	88		102		127		195	
Total Wholesale	2,422	392	2,703	517	4,401	374	4,432	475