

VORNADO REALTY TRUST
Form 424B3
August 11, 2005

As filed pursuant to Rule 424(b)(3)
Registration No. 333-126963

3,972,583 SHARES

**VORNADO REALTY TRUST
COMMON SHARES OF BENEFICIAL INTEREST**

The Selling Shareholders (the Selling Shareholders) of Vornado Realty Trust (Vornado) may offer from time to time up to 3,972,583 common shares of beneficial interest, par value \$0.04 per share (Common Shares), of Vornado, in amounts, at prices and on terms to be determined at the time of sale. Vornado will not receive any of the proceeds from the sale of the Common Shares being sold by the Selling Shareholders. See Use of Proceeds herein.

The Common Shares covered by this prospectus are comprised of up to 3,972,583 Common Shares that may be issued to certain Selling Shareholders, at our option, upon the redemption of 3,972,583 Class A Units of limited partnership interest in Vornado Realty L.P. issued by Vornado Realty L.P., in connection with our 2002 acquisition of Charles E. Smith Commercial Realty L.P. and related transactions. Vornado Realty L.P. is the operating partnership through which we own our assets and operate our business.

We have registered the offering and resale of the Common Shares to allow the Selling Shareholders to sell these Common Shares without restriction in the open market or otherwise, but the registration of the Common Shares does not necessarily mean that the Selling Shareholders will elect to redeem their Units or that the Selling Shareholders will offer or sell their Common Shares. See Selling Shareholders herein.

The Selling Shareholders may sell the Common Shares offered hereby directly to purchasers or through underwriters, dealers, brokers or agents designated from time to time. Sales of Common Shares in particular offerings may be made on the New York Stock Exchange (NYSE) or in the over-the-counter market or otherwise at prices and on terms then prevailing, at prices related to the then current market price, at fixed prices (which may be changed) or in negotiated transactions. To the extent required for any offering, a supplement to this Prospectus (a Prospectus Supplement) will set forth the number of Common Shares then being offered, the initial offering price, the names of any underwriters, dealers, brokers or agents and the applicable sales commission or discount. Any such Prospectus Supplement will also contain a discussion of the material United States Federal income tax considerations relating to the Common Shares to the extent not contained herein. See Plan of Distribution herein.

The Common Shares of Vornado are listed on the NYSE under the symbol VNO.

See Risk Factors beginning on page 3 for certain factors relevant to an investment in the Common Shares.

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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.

Prospectus dated August 11, 2005.

You should rely only on the information contained in this prospectus and any accompanying prospectus supplement or incorporated by reference in these documents. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. If anyone provides you with different, inconsistent or unauthorized information or representations, you must not rely on them. This prospectus and any accompanying prospectus supplement are an offer to sell only the securities offered by these documents, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or any prospectus supplement is current only as of the date on the front of those documents.

TABLE OF CONTENTS

	Page
<u>Available Information</u>	<u>1</u>
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	<u>2</u>
<u>Risk Factors</u>	<u>3</u>
<u>Vornado Realty Trust</u>	<u>13</u>
<u>Use of Proceeds</u>	<u>14</u>
<u>Selling Shareholders</u>	<u>14</u>
<u>Description of Common Shares</u>	<u>15</u>
<u>Federal Income Tax Considerations</u>	<u>20</u>
<u>Plan of Distribution</u>	<u>32</u>
<u>Validity of the Common Shares</u>	<u>34</u>
<u>Experts</u>	<u>34</u>

AVAILABLE INFORMATION

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We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any documents filed by us at the SEC's public reference room at 100 F Street N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public through the SEC's Internet site at <http://www.sec.gov> and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our common shares are listed.

We have filed a registration statement on Form S-3 with the SEC relating to the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all of the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document, please be aware that the reference is only a summary and that you should refer to the exhibits that are a part of the registration statements for a copy of the contract or other document. You may review a copy of the registration statement at the SEC's public reference room in Washington, D.C., as well as through the SEC's Internet site.

The SEC's rules allow us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of the initial registration statement of which this prospectus is a part and before the date that the offering of the securities by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

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

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- (1) Annual report of Vornado Realty Trust on Form 10-K for the fiscal year ended December 31, 2004, filed with SEC on February 25, 2005 (File No. 001-11954) as amended and restated by the Form 10-K/A filed with the SEC on June 10, 2005;
- (2) Current reports of Vornado Realty Trust on Form 8-K dated February 22, 2005, March 17, 2005, March 22, 2005, April 27, 2005, May 12, 2005, June 2, 2005, June 16, 2005 and July 21, 2005 and filed with the SEC on February 25, 2005, March 17, 2005, March 28, 2005, April 27, 2005, May 19, 2005, June 8, 2005, June 21, 2005 and July 21, 2005, respectively (File No. 001-11954);
- (3) Quarterly report of Vornado Realty Trust on Form 10-Q for the fiscal quarter ended March 31, 2005, filed with the SEC on April 28, 2005 (File No. 001-11954), as amended and restated by the Form 10-Q/A filed with the SEC on June 10, 2005;
- (4) The description of Vornado Realty Trust common shares contained in our registration statement on Form 8-B, filed with the SEC on May 10, 1993 (File No. 001-11954); and
- (5) All documents filed by Vornado Realty Trust under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before the termination of this offering 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.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You can request those documents from our corporate secretary, 888 Seventh Avenue, New York, New York 10019, telephone (212) 894-7000. Alternatively, copies of these documents may be available on our website (www.vno.com). Any other documents available on our website are not incorporated by reference into this prospectus.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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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 documents incorporated by reference. Unless the context otherwise requires or as otherwise specified, references in this prospectus to Vornado, we, us or our refer to Vornado Realty Trust and its subsidiaries, including Vornado Realty L.P., except where we make clear that we mean only the parent company, Vornado Realty Trust. In addition, we sometimes refer to Vornado Realty L.P. as the Operating Partnership.

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;

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 or other party bankruptcies or defaults;

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

how well we manage our properties;

the performance of our investments;

fluctuations in interest rates;

changes in real estate taxes and other expenses;

changes in market rental rates;

the timing and costs associated with property improvements and rentals;

changes in taxation or zoning laws;

government regulation;

Vornado Realty Trust's 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.

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.

RISK FACTORS

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

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

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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;

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 through to tenants;

how well we manage our properties;

fluctuations in interest rates;

changes in real estate taxes and other expenses;

changes in market rental rates;

the timing and costs associated with property improvements and rentals;

changes in taxation or zoning laws;

government regulation;

Vornado Realty Trust's 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 pay our indebtedness and 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.

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

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Our financial results depend significantly on leasing space in our properties to tenants on economically favorable terms. In addition, because a substantial majority of our income comes from renting of real property, our income, funds available to pay indebtedness 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 or insolvency of tenants may decrease our revenues and available cash below.

Bankruptcy or insolvency of tenants may decrease our revenues and available cash.

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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 or the payment of our indebtedness.

Real estate is a competitive business.

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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, the quality of the property and breadth and quality 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.

We may incur costs to comply with environmental laws.

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Our operations and properties are subject to various federal, state and local laws and regulations concerning the protection of the environment including air and water quality, hazardous or toxic 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 damage, demolition, renovation 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 environmental condition material to our business. 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.

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

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We carry comprehensive liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) acts of terrorism as defined in the Terrorism Risk Insurance Act of 2002 which expires in 2005 and (v) rental loss insurance) with respect to our assets. Below is a summary of the all risk property insurance and terrorism risk insurance for each of our business segments:

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	Coverage Per Occurrence	
	All Risk(1)	Sub-limits for Acts of Terrorism
New York Office	\$ 1,400,000,000	\$ 750,000,000
CESCR Office	\$ 1,400,000,000	\$ 750,000,000
Retail	\$ 500,000,000	\$ 500,000,000
Merchandise Mart	\$ 1,400,000,000	\$ 750,000,000
Temperature Controlled Logistics	\$ 225,000,000	\$ 225,000,000

(1) Limited as to terrorism insurance by the sub-limit shown in the adjacent column.

In addition to the coverage above, we carry lesser amounts of coverage for terrorist acts not covered by the Terrorism Risk Insurance Act of 2002. To the extent that we incur losses in excess of our insurance coverage, these losses would be borne by us and could be material.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), Vornado Realty L.P.'s senior unsecured notes due 2007, 2009 and 2010, exchangeable senior debentures due 2025 and our revolving credit agreement, contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage under these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain, or if the Terrorism Risk Insurance Act of 2002 is not extended, it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

Our Investments Are Concentrated in the New York City/New Jersey and Washington D.C. Metropolitan Areas. Circumstances Affecting These Areas Generally Could Adversely Affect Our Business.

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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.

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During 2004, 64.2% of our EBITDA, excluding items that affect comparability came from properties located in New Jersey and the New York City and Washington, D.C. metropolitan areas. In addition, 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 economic conditions will impact these markets in both the short and long term. 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:

space needs of the United States Government including the effect of base closures and repositioning under the Defense Base Closure and Realignment Act of 1990, as amended;

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, or the real estate markets in these areas. If these conditions persist or if any local, national or global economic recovery is of a short term, businesses and future profitability may be adversely affected.

Terrorist attacks such as those 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.

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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 may be perceived to be less likely 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.

We May Acquire or Sell Additional Assets or Develop Additional Properties. Our Failure or Inability to Consummate These Transactions or Manage the Results of These Transactions Could Adversely Affect Our Operations and Financial Results.

We have grown rapidly through acquisitions. We may not be able to maintain this rapid growth and our failure to do so could adversely affect our stock price.

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We have experienced rapid growth in recent years, increasing our total assets from approximately \$565 million at December 31, 1996 to approximately \$11.6 billion at December 31, 2004. We may not be able to maintain a similar rate of growth in the future or manage our growth effectively. Our failure to do so may have a material adverse effect on our financial condition and results of operations and ability to pay dividends to our shareholders.

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

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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 budget. We also may not succeed in leasing newly developed or acquired properties at rents sufficient to cover their costs of acquisition or development and operations. Difficulties in integrating acquisitions may prove costly or time-consuming and could divert management's attention.

It may be difficult to buy and sell real estate quickly.

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Real estate investments are relatively difficult to buy and sell quickly. Consequently, we may have limited ability to vary our portfolio promptly in response to changes in economic or other conditions.

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.

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As part of an acquisition of a property, including our January 1, 2002, acquisition of Charles E. Smith Commercial Realty L.P.'s 13.0 million square foot portfolio, we may agree, and in the case of Charles E. Smith Commercial Realty L.P. did 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 pay down or refinance indebtedness that we would otherwise pay down or refinance.

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.

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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 CESC Division, for a period of 12 years with respect to certain properties located in the Crystal City area of Arlington, Virginia or six years with respect to an interest in the CESC 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 CESC Division at an opportune time and increase costs to us.

From time to time we make investments in companies that we do not control. Some of these companies operate in industries that differ from our current operations, with different risks than investing in real estate.

From time to time we make debt or equity investments in other companies that we may not control or over which we may not have sole control. These investments include: a 33% interest in Alexander's, Inc.; a 22.5% interest in The Newkirk Master Limited Partnership; a 12.25% interest in GMH Communities L.P.; a 1.7% common equity interest in Sears Holdings Corporation; and mezzanine investments in other real estate related companies. In addition, on July 21, 2005, a joint venture that we own equally with Bain Capital and Kohlberg Kravis Roberts & Co. acquired Toys 'R Us, Inc. Although they generally have a significant real estate component, several of these entities operate in businesses that are different from our line of business. Consequently, our investment in these businesses, among other risks, subjects us to the operating and financial risks of industries other than real estate as well as not being able to solely control the operations of these businesses. From time to time we may (or may seek to) make additional investments in or acquire other entities that may subject us to additional similar risks.

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

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

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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 (there is a separate requirement to distribute net capital gains or pay a corporate level tax in lieu thereof). Our access to debt or equity financing depends on the willingness of third parties to lend or make equity investments and on conditions in the capital markets generally. We and other companies in the real estate industry have experienced limited availability of financing from time to time. Although we believe that we will be able to finance any investments we may wish to make in the foreseeable future, new financing may 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/A for the year ended December 31, 2004 and quarterly report on Form 10-Q/A for the quarter ended March 31, 2005 and the notes to the consolidated financial statements in the same reports.

Vornado Realty Trust depends on its 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 Vornado Realty Trust.

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Substantially all of Vornado Realty Trust's assets are held through its Operating Partnership which 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 Vornado Realty Trust in turn depends for substantially all of its cash flow on cash distributions to it by the Operating Partnership. The creditors of each of Vornado Realty Trust's 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, Vornado Realty Trust's 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 Vornado Realty Trust.

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 Vornado Realty Trust. Thus, Vornado Realty Trust's ability to pay dividends to holders of its shares and satisfy its debt obligations 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 Vornado Realty Trust. There are currently 14 series of preferred units of the Operating Partnership not held by Vornado Realty Trust that have preference over Vornado Realty Trust common shares. The total liquidation value of these 14 series of preferred units is approximately \$916,335,000.

In addition, Vornado Realty Trust's participation in any distribution of the assets of any of its direct or indirect subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary, is 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.

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As of June 30, 2005, we had approximately \$5.964 billion in total debt outstanding. Our ratio of total debt to total enterprise value was approximately 34%. 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.

Vornado Realty Trust might fail to qualify or remain qualified as a REIT.

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Although we believe that we 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 provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations. Our 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 Realty Trust fails to maintain its qualification as a REIT and does not qualify under statutory relief provisions, 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 Realty Trust had to pay federal income tax, the amount of money available to distribute to shareholders and pay its indebtedness would be reduced for the year or years involved, and Vornado Realty Trust would no longer be required to distribute money to shareholders. In addition, Vornado Realty Trust would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, unless it was entitled to relief under the relevant statutory provisions. Although Vornado Realty Trust 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.

Loss of our key personnel could harm our operations and adversely affect the value of our common shares.

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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 Realty Trust, and Michael D. Fascitelli, the President of Vornado Realty Trust. While we believe that we could find

replacements for these key personnel, the loss of their services could harm our operations and adversely affect the value of our common shares.

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

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Generally, for Vornado Realty Trust 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 Realty Trust may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of Vornado Realty Trust'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 Realty Trust'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 Realty Trust adopted the limit and other persons approved by Vornado Realty Trust's Board of Trustees. These restrictions on transferability and ownership may delay, deter or prevent a change in control of Vornado Realty Trust or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. We refer to Vornado Realty Trust's Amended and Restated Declaration of Trust, as amended, as the "declaration of trust."

Vornado Realty Trust'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 Realty Trust, even though a tender offer or change in control might be in the best interest of Vornado Realty Trust's shareholders.

Vornado Realty Trust's declaration of trust authorizes the Board of Trustees to:

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

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

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

increase, without shareholder approval, the number of shares of beneficial interest that Vornado Realty Trust 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 Realty Trust or other transaction that might involve a premium price or otherwise be in the best interest of Vornado Realty Trust's shareholders, although the Board of Trustees does not now intend to establish a series of preferred shares of this kind. Vornado Realty Trust's declaration of trust and bylaws contain other provisions that may delay, deter or prevent a change in control of Vornado Realty Trust 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

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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 applicable 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. Vornado Realty Trust's board has adopted a resolution exempting any business combination between any trustee or officer of Vornado Realty Trust, or their affiliates, and Vornado Realty Trust. As a result, the trustees and officers of Vornado Realty Trust and their affiliates may be able to enter into business combinations with Vornado Realty Trust 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 Realty Trust 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 Realty Trust and increase the difficulty of consummating any offer.

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

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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.

