ALEXANDERS INC
Form 10-K
February 11, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-06064
ALEXANDER'S, INC.
(Exact name of registrant as specified in its charter)

Delaware	51-0100517
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
210 Route 4 East, Paramus, New Jersey	07652
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (201) 587-8541

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.
YES NO

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

YES NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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

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

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

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

The aggregate market value of the voting and non-voting shares of common stock held by non-affiliates of the registrant, (i.e., by persons other than officers and directors of Alexander's, Inc.) was $810,094,000 at June 30, 2018.

As of January 31, 2019, there were 5,107,290 shares of the registrant's common stock outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Part III: Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 16, 2019.

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(1) These items are omitted in part or in whole because the registrant will file a definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with the Securities and Exchange Commission no later than 120 days after December 31, 2018, portions of which are incorporated by reference herein.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "inte "plans," "would," "may" or other similar expressions in this Annual Report on Form 10 K. We also note the following forward-looking statements: in the case of our development projects, the estimated completion date, estimated project costs and costs to complete; and estimates of dividends on shares of our common stock. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For a further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A - Risk Factors" in this Annual Report on Form 10 K.

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 Annual Report on Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly, any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL

Alexander’s, Inc. (NYSE: ALX) is a real estate investment trust (“REIT”) incorporated in Delaware, engaged in leasing, managing, developing and redeveloping its properties. All references to “we,” “us,” “our,” “Company” and “Alexander’s” refe to Alexander’s, Inc. and its consolidated subsidiaries. We are managed by, and our properties are leased and developed by, Vornado Realty Trust (“Vornado”) (NYSE: VNO).

We have seven properties in the greater New York City metropolitan area consisting of:

Operating properties

- 731 Lexington Avenue, a 1,311,000 square foot multi-use building, comprising the entire block bounded by Lexington Avenue, East 59th Street, Third Avenue and East 58th Street in Manhattan. The building contains 889,000 and 174,000 of net rentable square feet of office and retail space, respectively, which we own, and 248,000 square feet of residential space consisting of 105 condominium units, which we sold. Bloomberg L.P. (“Bloomberg”) occupies all of the office space. The Home Depot (83,000 square feet), The Container Store (34,000 square feet) and Hennes & Mauritz (27,000 square feet) are the principal retail tenants;

- Rego Park I, a 343,000 square foot shopping center, located on Queens Boulevard and 63rd Road in Queens. On April 4, 2017, Sears closed its 195,000 square foot anchor store at the property ($10,300,000 of annual revenue). On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief and rejected its lease. The center is also anchored by a 50,000 square foot Burlington, a 46,000 square foot Bed Bath & Beyond and a 36,000 square foot Marshalls;

- Rego Park II, a 609,000 square foot shopping center, adjacent to the Rego Park I shopping center in Queens. The center is anchored by a 145,000 square foot Costco, a 135,000 square foot Century 21 and a 133,000 square foot Kohl’s. On January 10, 2019, Kohl’s announced that it plans to close and sublease its store at the property; Kohl’s remains obligated to us under its lease which expires in January 2031. On September 18, 2017, Toys “R” Us, Inc. (“Toys”), a one-third owned affiliate of Vornado as of December 31, 2018, filed for Chapter 11 bankruptcy relief. On June 30, 2018, Toys rejected its 47,000 square foot lease at the property ($2,600,000 of annual revenue) and possession of the space was returned to us;

- The Alexander apartment tower, located above our Rego Park II shopping center, contains 312 units aggregating 255,000 square feet;

- Paramus, located at the intersection of Routes 4 and 17 in Paramus, New Jersey, consists of 30.3 acres of land that is leased to IKEA Property, Inc.; and

- Flushing, a 167,000 square foot building, located on Roosevelt Avenue and Main Street in Queens, that is sub-leased to New World Mall LLC for the remainder of our ground lease term.

Property to be developed

- Rego Park III, a 140,000 square foot land parcel adjacent to the Rego Park II shopping center in Queens, at the intersection of Junction Boulevard and the Horace Harding Service Road.

Relationship with Vornado

We are managed by, and our properties are leased and developed by, Vornado, pursuant to various agreements which expire in March of each year and are automatically renewable. Vornado is a fully-integrated REIT with significant experience in managing, leasing, developing, and operating retail and office properties.

Relationship with Vornado - continued

As of December 31, 2018, Vornado owned 32.4% of our outstanding common stock. Steven Roth is the Chairman of our Board of Directors and Chief Executive Officer, the Managing General Partner of Interstate Properties ("Interstate"), a New Jersey general partnership, and the Chairman of the Board of Trustees and Chief Executive Officer of Vornado. As of December 31, 2018, Mr. Roth, Interstate and its other two general partners, David Mandelbaum and Russell B. Wight, Jr. (who are also directors of the Company and trustees of Vornado) owned, in the aggregate, 26.2% of our outstanding common stock, in addition to the 2.3% they indirectly own through Vornado. Joseph Macnow, our Treasurer, is the Executive Vice President - Chief Financial Officer and Chief Administrative Officer of Vornado. Matthew Iocco, our Chief Financial Officer, is the Executive Vice President - Chief Accounting Officer of Vornado.

Significant Tenant

Bloomberg accounted for revenue of $107,356,000, $105,224,000 and $104,590,000 in the years ended December 31, 2018, 2017, and 2016, respectively, representing approximately 46% of our total revenues in each year. No other tenant accounted for more than 10% of our total revenues. If we were to lose Bloomberg as a tenant, or if Bloomberg were to be unable to fulfill its obligations under its lease, it would adversely affect our results of operations and financial condition. In order to assist us in our continuing assessment of Bloomberg's creditworthiness, we receive certain confidential financial information and metrics from Bloomberg. In addition, we access and evaluate financial information regarding Bloomberg from other private sources, as well as publicly available data.

Competition

We operate in a highly competitive environment. All of our properties are located in the greater New York City metropolitan area. We compete with a large number of property owners and developers. Principal factors of competition are the amount of rent charged, attractiveness of location and quality and breadth of services provided. Our success depends upon, among other factors, trends of the global, national and local economies, the financial condition and operating results of current and prospective tenants and customers, the availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation, population and employment trends, zoning laws, and our ability to lease, sublease or sell our properties, at profitable levels. Our success is also subject to our ability to refinance existing debt on acceptable terms as it comes due.

Employees

We currently have 70 employees.

Executive Office

Our executive office is located at 210 Route 4 East, Paramus, New Jersey, 07652 and our telephone number is (201) 587-8541.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as Reports on Forms 3, 4 and 5 regarding officers, directors, and 10% beneficial owners filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934, are available free of charge on our website (www.alx-inc.com) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Also available on our website are copies of our Audit Committee Charter, Compensation Committee Charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines. In the event of any changes to these items, revised copies will be made available on our website. Copies of these documents are also available directly from us, free of charge.

In May 2009, Vornado and Interstate each filed with the SEC an amendment to their respective Schedule 13D indicating that they, as a group, own 47.2% of our common stock. This ownership level, together with the shares owned by Messrs. Roth, Mandelbaum and Wight, makes us a "controlled" company for the purposes of the New York

Stock Exchange, Inc.'s Corporate Governance Standards (the "NYSE Rules"). This means that we are not required to, among other things, have a majority of the members of our Board of Directors be independent under the NYSE Rules, have all of the members of our Compensation Committee be independent under the NYSE Rules or to have a Nominating Committee. While we have voluntarily complied with a majority of the independence requirements of the NYSE Rules, we are under no obligation to do so and this situation may change at any time.

ITEM 1A. RISK FACTORS

Material factors that may adversely affect our business, operations and financial condition are summarized below. The risks and uncertainties described herein may not be the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business, operations and financial condition. See "Forward-Looking Statements" contained herein on page 4.

OUR INVESTMENTS ARE CONCENTRATED IN THE GREATER NEW YORK CITY METROPOLITAN AREA. CIRCUMSTANCES AFFECTING THIS AREA GENERALLY COULD ADVERSELY AFFECT OUR BUSINESS.

All of our properties are in the greater New York City metropolitan area and are affected by the economic cycles and risks inherent in that area.

All of our revenues come from properties located in the greater New York City metropolitan area. Real estate markets are subject to economic downturns and we cannot predict how economic conditions will impact this market in either the short or long term. Declines in the economy or declines in the real estate market in this area could hurt our financial performance and the value of our properties. In addition to the factors affecting the national economic condition generally, the factors affecting economic conditions in this area include:

- financial performance and productivity of the media, advertising, professional services, financial, technology, retail, insurance and real estate industries;
- business layoffs or downsizing;
- industry slowdowns;
- relocations of businesses;
- changing demographics;
- increased telecommuting and use of alternative work places;
- changes in the number of domestic and international tourists to our markets (including, as a result of changes in the relative strengths of world currencies);
- infrastructure quality;
- changes in the rates or treatment of the deductibility of state and local taxes; and
- any oversupply of, or reduced demand for, real estate.

It is impossible for us to assess the future effects of trends in the economic and investment climates of the greater New York City metropolitan region, and more generally of the United States, on the real estate market in this area. Local, national or global economic downturns could negatively affect our business and profitability.

We are subject to risks that affect the general and New York City retail environments.

Certain of our properties are New York City retail properties. As such, these properties are affected by the general and New York City retail environments, including the level of consumer spending and consumer confidence, change in relative strengths of world currencies, the threat of terrorism, increasing competition from discount retailers, outlet malls, retail websites and catalog companies and the impact of technological change upon the retail environment generally. These factors could adversely affect the financial condition of our retail tenants, or result in the bankruptcy of such tenants, and the willingness of retailers to lease space in our retail locations.

Terrorist attacks may adversely affect the value of our properties and our ability to generate cash flow.

All of our properties are located in the greater New York City metropolitan area, and our most significant property, 731 Lexington Avenue, is located on Lexington Avenue and 59th Street in Manhattan. In response to a terrorist attack or the perceived threat of terrorism, tenants in this area may choose to relocate their businesses to less populated, lower-profile areas of the United States that may be perceived to be less likely targets of future terrorist activity and fewer customers may choose to patronize businesses in this area. This, in turn, could trigger a decrease in the demand for space in these markets, which could increase vacancies in our properties and force us to lease our properties on less favorable terms. Furthermore, we may experience increased costs for security, equipment and personnel. As a result, the value of our properties and the level of our revenues could decline materially.

Natural disasters and the effects of climate change could have a concentrated impact on the area which we operate and could adversely impact our results.

Our investments are in the greater New York City metropolitan area and since they are concentrated along the Eastern Seaboard, natural disasters, including hurricanes, could impact our properties. Potentially adverse consequences of "global warming" could similarly have an impact on our properties. Over time, these conditions could result in declining demand for office space in our buildings or the inability of us to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy at our properties and requiring us to expend funds as we seek to repair and protect our properties against such risks. The incurrence of these losses, costs or business interruptions may adversely affect our operating and financial results.

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 adversely impact our revenues and cash flows.

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

- global, national, regional and local economic conditions;
- competition from other available space;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- how well we manage our properties;
- the development and/or redevelopment of our properties;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- whether we are able to pass all or portions of any increases in operating costs through to tenants;
- changes in real estate taxes and other expenses;
- whether tenants and users such as customers and shoppers consider a property attractive;
- changes in consumer preferences adversely affecting retailers and retail store values;
- changes in space utilization by our tenants due to technology, economic conditions and business environment;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- trends in office real estate;
- the impact on our retail tenants and demand for retail space at our properties due to increased competition from online shopping;
- availability of financing on acceptable terms or at all;
- inflation or deflation;
- fluctuations in interest rates;
- our ability to obtain adequate insurance;
- changes in zoning laws and taxation;
- government regulation;
- consequences of any armed conflict involving, or terrorist attack against, the United States or individual acts of violence in public spaces, including retail centers;
- potential liability under environmental or other laws or regulations;
- natural disasters;
- general competitive factors; and
- climate changes.

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 and/or occupancy levels decline, we generally would expect to have less cash available to pay our indebtedness and for distribution to our stockholders. 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.

Capital markets and economic conditions can materially affect our liquidity, financial condition and results of operations as well as the value of an investment in our debt and equity securities.
There are many factors that can affect the value of our equity securities and any debt securities we may issue in the future, including the state of the capital markets and economy. Demand for office and retail space may decline nationwide due to an economic downturn, bankruptcies, downsizing, layoffs and cost cutting. Government action or inaction may adversely affect the state of the capital markets. The cost and availability of credit may be adversely affected by illiquid credit markets and wider credit spreads, which may adversely affect our liquidity and financial condition, including our results of operations, and the liquidity and financial condition of our tenants. Our inability or the inability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs may materially affect our financial condition and results of operations and the value of our equity securities and any debt securities we may issue in the future.

U.S. federal tax reform legislation now and in the future could affect REITs generally, the geographic markets in which we operate, the trading of our shares and our results of operations, both positively and negatively, in ways that are difficult to anticipate.
The Tax Cuts and Jobs Act of 2017 (the "2017 Act") represented sweeping tax reform legislation that made significant changes to corporate and individual tax rates and the calculation of taxes, as well as international tax rules. As a REIT, we are generally not required to pay federal taxes otherwise applicable to regular corporations if we comply with the various tax regulations governing REITs. Shareholders, however, are generally required to pay taxes on REIT dividends. The 2017 Act and future tax reform legislation could impact our share price or how shareholders and potential investors view an investment in REITs. For example, the decrease in corporate tax rates in the 2017 Act could decrease the attractiveness of the REIT structure relative to companies that are not organized as REITs. In addition, while certain elements of the 2017 Act do not impact us directly as a REIT, they could impact the geographic markets in which we operate as well as our tenants in ways, both positive and negative, that are difficult to anticipate. For example, the limitation in the 2017 Act on the deductibility of certain state and local taxes may make operating in jurisdictions that impose such taxes at higher rates less desirable than operating in jurisdictions imposing such taxes at lower rates. The overall impact of the 2017 Act also depends on the future interpretations and regulations that may be issued by U.S. tax authorities, and it is possible that future guidance could adversely impact us.

Real estate is a competitive business.
We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rents charged, attractiveness of location, the quality of the property and the breadth and the quality of services provided. Our success depends upon, among other factors, trends of the global, national and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation, population and employment trends, zoning laws, and our ability to lease, sublease or sell our properties, at profitable levels.

We may be adversely affected by trends in office real estate.
Telecommuting, flexible work schedules, open workplaces and teleconferencing are becoming more common. These practices enable businesses to reduce their office space requirements. There is also an increasing trend among some businesses to utilize shared office spaces and co-working spaces. A continuation of these trends could, over time, erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations.

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

Our financial results depend significantly on leasing space in our properties to tenants on economically favorable terms. In addition, because a majority of our income is derived from renting real property, our income, funds available to pay indebtedness and for distributions to stockholders will decrease if certain of our tenants cannot pay their rent or if we are not able to maintain our occupancy levels on favorable terms. 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 and other costs. During periods of economic adversity for retailers or otherwise, there may be an increase in the number of tenants that cannot pay their rent, become insolvent or file for bankruptcy, all of which can result in an increase in vacancy rates and lower income and funds available to pay indebtedness and for distributions to stockholders.

Bankruptcy or insolvency of tenants may decrease our revenues, net income and available cash.
From time to time, some of our tenants have declared bankruptcy, and other tenants may declare bankruptcy or become insolvent in the future. The bankruptcy or insolvency of a major tenant could cause us to 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 or multiple tenants could result in a lower level of net income and funds available to pay our indebtedness or make distributions to stockholders.

We depend upon anchor tenants to attract shoppers at our Rego Park I and II retail properties and decisions made by these tenants, or adverse developments in the businesses of these tenants, could materially affect our financial condition and results of operations.
Our Rego Park I and II retail properties are anchored by well-known department stores and other tenants who generate shopping traffic. The value of these properties would be adversely affected if our anchor tenants failed to meet their contractual obligations, sought concessions in order to continue operations or ceased their operations, including as a result of bankruptcy. If the level of sales of stores operating in our properties were to decline significantly due to economic conditions, increased competition from online shopping, closing of anchors or for other reasons, tenants may be unable to pay their minimum rents or expense recovery charges. In the event of a default by a tenant or anchor, we may experience delays and costs in enforcing our rights as landlord. Additionally, closure of an anchor or major tenant could result in lease terminations by, or reductions of rent from, other tenants if the other tenants' leases have co-tenancy clauses. On April 4, 2017, Sears closed its 195,000 square foot store at our Rego Park I shopping center ($10,300,000 of annual revenue). On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief and rejected its lease. On January 10, 2019, Kohl's announced that it plans to close and sublease its 133,000 square foot store at our Rego Park II shopping center; Kohl's remains obligated to us under its lease which expires in January 2031.

We may be unable to renew leases or relet space as leases expire.
When our tenants decide not to renew their leases upon their expiration, we may not be able to relet the space. Even if tenants do renew or we can relet the space, the terms of renewal or reletting, taking into account among other things, the cost of improvements to the property and leasing commissions, may be less favorable than the terms in the expired leases. In addition, changes in space utilization by our tenants may impact our ability to renew or relet space without the need to incur substantial costs in renovating or redesigning the internal configuration of the relevant property. If we are unable to promptly renew the leases or relet the space at similar rates or if we incur substantial costs in renewing or reletting the space, our cash flow and ability to service debt obligations and pay dividends and distributions to stockholders could be adversely affected.

731 Lexington Avenue accounts for a substantial portion of our revenues. Loss of or damage to the building would adversely affect our financial condition and results of operations.
731 Lexington Avenue accounted for revenue of $151,834,000, $148,324,000 and $147,567,000 in the years ended December 31, 2018, 2017, and 2016, respectively, representing approximately 65%, 64% and 65% of our total revenues in each year, respectively. Loss of or damage to the building in excess of our insurance coverage, including as a result of a terrorist attack, would adversely affect our results of operations and financial condition.
Bloomberg represents a significant portion of our revenues. Loss of Bloomberg as a tenant or deterioration in Bloomberg's credit quality could adversely affect our financial condition and results of operations.
Bloomberg accounted for revenue of $107,356,000, $105,224,000 and $104,590,000 in the years ended December 31, 2018, 2017, and 2016, respectively, representing approximately 46% of our total revenues in each year. No other tenant accounted for more than 10% of our total revenues. If we were to lose Bloomberg as a tenant, or if Bloomberg were to be unable to fulfill its obligations under its lease, it would adversely affect our results of operations and financial condition.

We face risks associated with our tenants being designated "Prohibited Persons" by the Office of Foreign Assets Control and similar requirements.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") maintains a list of persons designated as terrorists or who are otherwise blocked or banned ("Prohibited Persons") from conducting business or engaging in transactions in the United States and thereby restricts our doing business with such persons. In addition, our leases, loans and other agreements may require us to comply with OFAC and related requirements, and any failure to do so may result in a breach of such agreements. If a tenant or other party with whom we conduct business is placed on the OFAC list or is otherwise a party with whom we are prohibited from doing business, we may be required to terminate the lease or other agreement or face other penalties. Any such termination could result in a loss of revenue or otherwise negatively affect our financial results and cash flows.

Our business and operations would suffer in the event of system failures.
Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

The occurrence of cyber incidents, or a deficiency in our cyber security, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships or reputation, all of which could negatively impact our financial results.
We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons who access our systems from inside or outside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Although we have not experienced cyber incidents that are individually, or in the aggregate, material, we have experienced cyber attacks in the past, which have thus far been mitigated by preventative, detective, and responsive measures that we have put in place. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Unauthorized parties, whether within or outside our company, may disrupt or gain access to our systems, or those of third parties with whom we do business, through human error, misfeasance, fraud, trickery, or other forms of deceit, including break-ins, use of stolen credentials, social engineering, phishing, computer viruses or other malicious codes, and similar means of unauthorized and destructive tampering. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants; result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or which could expose us to damage claims by third-parties for disruptive, destructive or otherwise harmful purposes and outcomes; result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space; require significant management attention and resources to remedy any damages that result; subject us to litigation claims for breach of contract, damages, credits, fines, penalties, governmental investigations and enforcement actions or termination of leases or other agreements; or damage our reputation among our tenants and investors generally. Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

A cyber attack could interfere with our ability to comply with the financial reporting requirements, which could adversely affect us. A cyber attack could also compromise the confidential information of our employees, tenants, customers and vendors. A successful attack could disrupt and materially affect our business operations, including damaging relationships with tenants, customers and vendors. Any compromise of our information security systems could also result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, loss or misuse of the information (which may be confidential, proprietary and/or commercially sensitive in nature) and a loss of confidence in our security measures, which could harm our business.

We may incur significant costs to comply with environmental laws and environmental contamination may impair our ability to lease and/or sell real estate.
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 some 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 also 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) are also regulated by federal and state laws. We are also subject to risks associated with human exposure to chemical or biological contaminants such as molds, pollens, viruses and bacteria which, above certain levels, can be alleged to be connected to allergic or other health effects and symptoms in susceptible individuals. 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 related claims arising out of environmental contamination or human exposure to contamination at or from our properties.

Each of our properties has been subjected to varying degrees of environmental assessment. To date, these environmental assessments have not revealed 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, human exposure to contamination or changes in clean-up or compliance requirements could result in significant costs to us.

In addition, we may become subject to costs or taxes, or increases therein, associated with natural resource or energy usage (such as a "carbon tax"). These costs or taxes could increase our operating costs and decrease the cash available to pay our obligations or distribute to equity holders.

Some of our potential losses may not be covered by insurance.
We maintain general liability insurance with limits of $300,000,000 per occurrence and per property, and all-risk property and rental value insurance coverage with limits of $1.7 billion per occurrence, including coverage for acts of terrorism, with sub-limits for certain perils such as floods and earthquakes on each of our properties.

Fifty Ninth Street Insurance Company, LLC ("FNSIC"), our wholly owned consolidated subsidiary, acts as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological ("NBCR") acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020. Coverage for acts of terrorism (including NBCR acts) is up to $1.7 billion per occurrence and in the aggregate. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to FNSIC. For NBCR acts, FNSIC is responsible for a $323,000 deductible and 19% of the balance of a covered loss, and the Federal government is responsible for the remaining 81% of a covered loss. We are ultimately responsible for any loss incurred by FNSIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism or other events. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for uninsured losses and for deductibles and losses in excess of our insurance coverage, which could be material.

Our mortgage loans are non-recourse to us and contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance or refinance our properties.

Compliance or failure to comply with the Americans with Disabilities Act (“ADA”) or other safety regulations and requirements could result in substantial costs.
The ADA generally requires that public buildings, including our properties, meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants and/or legal fees to their counsel. If, under the ADA, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations, as well as the amount of cash available for distribution to stockholders.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results.
The chief executive of the United Kingdom Financial Conduct Authority (“FCA”), which regulates LIBOR, has recently announced that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom or elsewhere. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. On August 24, 2017, the Federal Reserve Board requested public comment on a proposal by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, to produce three new reference rates intended to serve as alternatives to LIBOR. These alternative rates are based on overnight repurchase agreement transactions secured by U.S. Treasury Securities.
Any changes announced by the FCA, other regulators or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments we incur may change. In addition, although certain of our LIBOR based obligations provide for alternative methods of calculating the interest rate payable on certain of our obligations if LIBOR is not reported, which include requesting certain rates from major reference banks in London or New York, or alternatively using LIBOR for the immediately preceding interest period or using the initial interest rate, as applicable, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher than, lower than or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR rate was available in its current form.

WE MAY ACQUIRE OR SELL ASSETS OR DEVELOP 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 may acquire, develop, or redevelop properties and this may create risks.
Although our stated business strategy is not to engage in acquisitions, we may acquire or develop properties when we believe that an acquisition or development project is otherwise consistent with our business strategy. We may not succeed in (i) developing, redeveloping or acquiring properties; (ii) completing these activities on time or within budget; and (iii) leasing or selling developed, redeveloped or acquired properties at amounts sufficient to cover our costs. Competition in these activities could also significantly increase our costs. Difficulties in integrating acquisitions may prove costly or time-consuming and could divert management’s attention. Acquisitions or developments in new markets or types of properties where we do not have the same level of market knowledge may result in weaker than anticipated performance. We may also abandon acquisition or development opportunities that we

have begun pursuing and consequently fail to recover expenses already incurred. Furthermore, we may be exposed to the liabilities of properties acquired, some of which we may not be aware of at the time of acquisition.

It may be difficult to buy and sell real estate quickly, which may limit our flexibility.

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. Moreover, our ability to buy, sell, or finance real estate assets may be adversely affected during periods of uncertainty or unfavorable conditions in the credit markets as we, or potential buyers of our assets, may experience difficulty in obtaining financing.

We have an investment in marketable equity securities. The value of this investment may decline as a result of operating performance or economic or market conditions.
We have an investment in Macerich, a retail shopping center company. As of December 31, 2018, this investment had a carrying amount of $23,166,000. A decline in the value of this investment due to, among other reasons, Macerich's operating performance or economic or market conditions, would result in recognized GAAP losses, which could be material.

OUR ORGANIZATIONAL AND FINANCIAL STRUCTURE GIVES RISE TO OPERATIONAL AND FINANCIAL RISKS.
Substantially all of our assets are owned by subsidiaries. We depend on dividends and distributions from these subsidiaries. The creditors of these subsidiaries are entitled to amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or distributions to us.
Substantially all of our properties and assets are held through our subsidiaries. We depend on cash distributions and dividends from our subsidiaries for substantially all of our cash flow. 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 that subsidiary may make distributions or dividends to us. Thus, our ability to pay dividends, if any, to our security holders depends on our subsidiaries' ability to first satisfy their obligations to their creditors and our ability to satisfy our obligations, if any, to our creditors.

In addition, our participation in any distribution of the assets of any of our 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 applicable direct or indirect subsidiaries are satisfied.

Our existing financing documents contain covenants and restrictions that may restrict our operational and financial flexibility.
As of December 31, 2018, we had outstanding mortgage indebtedness of $1,170,544,000, secured by three of our properties. These mortgages contain covenants that limit our ability to incur additional indebtedness on these properties, provide for lender approval of tenants' leases in certain circumstances, and provide for yield maintenance or defeasance premiums to prepay them. These mortgages may significantly restrict our operational and financial flexibility. In addition, if we were to fail to perform our obligations under existing indebtedness or become insolvent or were liquidated, secured creditors would be entitled to payment in full from the proceeds of the sale of the pledged assets prior to any proceeds being paid to other creditors or to any holders of our securities. In such an event, it is possible that we would have insufficient assets remaining to make payments to other creditors or to any holders of our securities.

We have a substantial amount of indebtedness that could affect our future operations.
As of December 31, 2018, total debt outstanding was $1,170,544,000. We are subject to the risks normally associated with debt financing, including the risk that our cash flow from operations will be insufficient to meet required debt service. Our debt service costs generally will not be reduced if developments in the market or at our properties, such as the entry of new competitors or the loss of major tenants, cause a reduction in the income from our properties. Should such events occur, our operations may be adversely affected. If a property is mortgaged to secure payment of indebtedness and income from such property is insufficient to pay that indebtedness, the property could be foreclosed upon by the mortgagee resulting in a loss of income and a decline in our total asset value.

We have outstanding debt, and the amount of debt and its cost may increase and refinancing may not be available on acceptable terms.
As of December 31, 2018, total debt outstanding was $1,170,544,000 and our ratio of total debt to total enterprise value was 47.9%. "Enterprise value" means the market equity value of our common stock, plus debt, less cash and cash equivalents at such date. In addition, we have significant debt service obligations. For the year ended December 31,

2018, our scheduled cash payments for principal and interest were $41,881,000. In the future, we may incur additional debt, and thus increase the ratio of total debt to total enterprise value. If our level of indebtedness increases, there may be an increased risk of default which could adversely affect our financial condition and results of operations. In addition, in a rising interest rate environment, the cost of refinancing our existing debt and any new debt or market rate security or instrument may increase. Continued uncertainty in the equity and credit markets may negatively impact our ability to obtain financing on reasonable terms or at all, which may negatively affect our ability to refinance our debt.

We might fail to qualify or remain qualified as a REIT, and may be required to pay income taxes at corporate rates.
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. Qualification as a REIT for federal income tax purposes is governed by highly technical and complex provisions of the Internal Revenue Code (the "Code") for which there are only limited judicial or administrative interpretations and depends on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions may significantly change the relevant tax laws and/or the federal income tax consequences of qualifying as a REIT. If, with respect to any taxable year, we fail to maintain our qualification as a REIT and do not qualify under statutory relief provisions, we could not deduct distributions to stockholders in computing our taxable income and would have to pay federal income tax on our taxable income at regular corporate rates. The federal income tax payable would include any applicable alternative minimum tax. If we had to pay federal income tax, the amount of money available to distribute to stockholders and pay our indebtedness would be reduced for the year or years involved, and we would no longer be required to make distributions to stockholders in that taxable year and in future years until we were able to qualify as a REIT and did so. In addition, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, unless we were entitled to relief under the relevant statutory provisions.

We face possible adverse changes in tax laws, which may result in an increase in our tax liability.
From time to time changes in tax laws or regulations are enacted, which may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for payment of dividends.

Loss of our key personnel could harm our operations and adversely affect the value of our common stock.
We are dependent on the efforts of Steven Roth, our Chief Executive Officer. Although we believe that we could find a replacement, the loss of his services could harm our operations and adversely affect the value of our common stock.

ALEXANDER'S CHARTER DOCUMENTS AND APPLICABLE LAW MAY HINDER ANY ATTEMPT TO ACQUIRE US.

Provisions in Alexander's certificate of incorporation and by laws, as well as provisions of the Code and Delaware corporate law, may delay or prevent a change in control of the Company or a tender offer, even if such action might be beneficial to stockholders, and limit the stockholders' opportunity to receive a potential premium for their shares of common stock over then prevailing market prices.

Primarily to facilitate maintenance of its qualification as a REIT, Alexander's certificate of incorporation generally prohibits ownership, directly, indirectly or beneficially, by any single stockholder of more than 9.9% of the outstanding shares of preferred stock of any class or 4.9% of outstanding common stock of any class. The Board of Directors may waive or modify these ownership limits with respect to one or more persons if it is satisfied that ownership in excess of these limits will not jeopardize Alexander's status as a REIT for federal income tax purposes. In addition, the Board of Directors has, subject to certain conditions and limitations, exempted Vornado and certain of its affiliates from these ownership limitations. Stock owned in violation of these ownership limits will be subject to the loss of rights and other restrictions. These ownership limits may have the effect of inhibiting or impeding a change in control.

Alexander's Board of Directors is divided into three classes of directors. Directors of each class are chosen for three-year staggered terms. Staggered terms of directors may have the effect of delaying or preventing changes in control or management, even though changes in management or a change in control might be in the best interest of our stockholders.

In addition, Alexander's charter documents authorize the Board of Directors to:

- cause Alexander's to issue additional authorized but unissued common stock or preferred stock;
- classify or reclassify, in one or more series, any unissued preferred stock; and
- set the preferences, rights and other terms of any classified or reclassified stock that Alexander's issues.

The Board of Directors could establish a series of preferred stock with terms that could delay, deter or prevent a change in control of Alexander's or other transaction that might involve a premium price or otherwise be in the best interest of our stockholders, although the Board of Directors does not, at present, intend to establish a series of preferred stock of this kind. Alexander's charter documents contain other provisions that may delay, deter or prevent a change in control of the Company or other transaction that might involve a premium price or otherwise be in the best interest of our stockholders.

In addition, Vornado, Interstate and its three general partners (each of whom are both trustees of Vornado and Directors of Alexander's) together beneficially own approximately 58.6% of our outstanding shares of common stock. This degree of ownership is likely to reduce the possibility of a tender offer or an attempt to change control of the Company by a third party.

We may change our policies without obtaining the approval of our stockholders.

Our operating and financial policies, including our policies with respect to acquisitions of real estate or other assets, growth, operations, indebtedness, capitalization and dividends, are exclusively determined by our Board of Directors. Accordingly, our stockholders do not control these policies.

OUR OWNERSHIP STRUCTURE AND RELATED-PARTY TRANSACTIONS MAY GIVE RISE TO CONFLICTS OF INTEREST.

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

As of December 31, 2018, Interstate and its partners owned approximately 7.1% of the common shares of beneficial interest of Vornado and approximately 26.2% of our outstanding common stock. Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the partners of Interstate. Mr. Roth is the Chairman of our Board of Directors and Chief Executive Officer, the Chairman of the Board of Trustees and Chief Executive Officer of Vornado and the Managing General Partner of Interstate. Mr. Wight and Mr. Mandelbaum are both trustees of Vornado and members of our Board of Directors. In addition, Vornado manages and leases the real estate assets of Interstate.

As of December 31, 2018, Vornado owned 32.4% of our outstanding common stock, in addition to the 26.2% owned by Interstate and its partners. In addition to the relationships described in the immediately preceding paragraph, Dr. Richard West is a trustee of Vornado and a member of our Board of Directors and Joseph Macnow, our Treasurer, is the Executive Vice President - Chief Financial Officer and Chief Administrative Officer of Vornado. Matthew Iocco is our Chief Financial Officer and the Executive Vice President - Chief Accounting Officer of Vornado.

Because of their overlapping interests, Vornado, Mr. Roth, Interstate and the other individuals noted in the preceding paragraphs may have substantial influence over Alexander's, and on the outcome of any matters submitted to Alexander's stockholders for approval. In addition, certain decisions concerning our operations or financial structure may present conflicts of interest among Vornado, Messrs. Roth, Mandelbaum and Wight and Interstate and other security holders. Vornado, Mr. Roth and Interstate 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 us, 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 us, competition for properties and tenants, possible corporate transactions such as acquisitions, and other strategic decisions affecting the future of these entities.

There may be conflicts of interest between Vornado, its affiliates and us.

Vornado manages, develops and leases our properties under agreements that have one-year terms expiring in March of each year, which are automatically renewable. Because we share common senior management with Vornado and because four of the trustees of Vornado are on our Board of Directors, the terms of the foregoing agreements and any future agreements may not be comparable to those we could have negotiated with an unaffiliated third party.

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

THE NUMBER OF SHARES OF ALEXANDER'S COMMON STOCK AND THE MARKET FOR THOSE SHARES GIVE RISE TO VARIOUS RISKS.

The trading price of our common shares has been volatile and may continue to fluctuate.

The trading price of our common shares has been volatile and may continue to fluctuate widely as a result of a number of factors, many of which are outside of our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations have in the past and may in the future adversely affect the market price of our common shares. Among the factors that could affect the price of our common shares are:

- our financial condition and performance;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- our dividend policy;
- the reputation of REITs and real estate investments generally and the attractiveness of REIT equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities;
- uncertainty and volatility in the equity and credit markets;
- fluctuations in interest rates;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our securities or those of other REITs;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- the extent of institutional investor interest in us;
- the extent of short-selling of our common shares and the shares of our competitors;
- fluctuations in the stock price and operating results of our competitors;
- general financial and economic market conditions and, in particular, developments related to market conditions for REITs and other real estate related companies;
- domestic and international economic factors unrelated to our performance;
- changes in tax laws and rules; and
- all other risk factors addressed elsewhere in this Annual Report on Form 10-K.

A significant decline in our stock price could result in substantial losses for stockholders.

Alexander's has additional shares of its common stock available for future issuance, which could decrease the market price of the common stock currently outstanding.

The interest of our current stockholders could be diluted if we issue additional equity securities. As of December 31, 2018, we had authorized but unissued 4,826,550 shares of common stock, par value of $1.00 per share and 3,000,000 shares of preferred stock, par value $1.00 per share; of which 10,057 shares of common stock are reserved for issuance upon redemption of the deferred stock units previously granted to our Board of Directors. In addition, 495,730 shares are available for future grant under the terms of our 2016 Omnibus Stock Plan. These awards may be granted in the form of options, restricted stock, stock appreciation rights, deferred stock units, or other equity-based interests, and if granted, would reduce that number of shares available for future grants, provided however that an award that may be settled only in cash, would not reduce the number of shares available under the plan. We cannot predict the impact that future issuances of common or preferred stock or any exercise of outstanding options or grants of additional equity-based interests would have on the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the staff of the Securities and Exchange Commission as of the date of this Annual Report on Form 10-K.

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ITEM 2. PROPERTIES

The following table shows the location, ownership, approximate size (excluding parking garages) and occupancy of each of our properties as of December 31, 2018.

Property	Land Acreage	Building Square Feet	Occupancy Rate	Average Annualized Rent Per Square Foot	(1)	Tenants	Lease Expiration (s) Original Term	(2)	Option Term	(3)
Operating Properties:										
731 Lexington Avenue										
New York, New York										
Office		889,000	100%	$ 117.66		Bloomberg L.P.	2029		2039	
Retail		83,000				The Home Depot	2025		2035	
		34,000				The Container Store	2021		N/A	
		27,000				Hennes & Mauritz	2019		N/A	
		30,000				Various	Various		Various	
		174,000	99%	193.81						
	1.9	1,063,000								
Rego Park I										
Queens, New York										
		50,000				Burlington	2022		2027	
		46,000				Bed Bath & Beyond	2021		N/A	
		36,000				Marshalls	2021		N/A	
		16,000				Old Navy	2021		N/A	
		195,000				(4)	N/A		N/A	
	4.8	343,000	43%	46.93						
Rego Park II										
Queens, New York										
		145,000				Costco	2034		2059	
		135,000				Century 21	2031		2051	
		133,000				Kohl's (5)	2031		2051	
		47,000				(6)	N/A		N/A	
		149,000				Various	Various		Various	
	6.6	609,000	100%	44.73						
The Alexander apartment tower, 312 units										
Queens, New York	—	255,000	96%	45.09	(7)	Residential	(8)		N/A	

Paramus							
Paramus, New Jersey	30.3	—	100%	—	IKEA (ground lessee)	2041	N/A
Flushing							
Queens, New York (9)	1	167,000	100%	18.22	New World Mall LLC	2027	2037
Property to be Developed:							
Rego Park III, adjacent to Rego Park II							
Queens, New York	3.2	—	—	—	—	—	—
		2,437,000					

(1) Represents the contractual weighted average rent per square foot, which excludes the impact of tenant concessions (such as free rent) and tenant reimbursements, as of December 31, 2018. For a discussion of our leasing activity, see Item 7 - Overview - Square Footage, Occupancy and Leasing Activity.

(2) Represents the year in which the tenant's lease expires, without consideration of any renewal or extension options. Lease expiration dates are based on non-cancelable lease terms and do not extend beyond any early termination rights that tenants may have under their lease.

(3) Represents the year in which the tenant's lease expires if all renewal or extension options are exercised.

(4) Formerly occupied by Sears. On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief and rejected its lease.

(5) On January 10, 2019, Kohl's announced that it plans to close and sublease its store at the property; Kohl's remains obligated to us under its lease which expires in January 2031.

(6) Formerly occupied by Toys. On September 18, 2017, Toys filed for Chapter 11 bankruptcy relief. On June 30, 2018, Toys rejected its lease and possession of the space was returned to us. Occupied by a temporary tenant as of December 31, 2018.

(7) Average monthly rent per unit is $3,075.

(8) Residential tenants have one or two year leases.

(9) Ground leased through January 2027 with one 10-year extension option.

Operating Properties

731 Lexington Avenue

731 Lexington Avenue, a 1,311,000 square foot multi-use building, comprises the entire block bounded by Lexington Avenue, East 59th Street, Third Avenue and East 58th Street in Manhattan, New York, and is situated in the heart of one of Manhattan's busiest business and shopping districts, with convenient access to several subway and bus lines. The property is located across the street from Bloomingdale's flagship store and only a few blocks away from Fifth Avenue and 57th Street. The building contains 889,000 and 174,000 of net rentable square feet of office and retail space, respectively, which we own, and 248,000 square feet of residential space consisting of 105 condominium units, which we sold. Bloomberg occupies all of the office space. The Home Depot (83,000 square feet), The Container Store (34,000 square feet) and Hennes & Mauritz (27,000 square feet) are the principal retail tenants.

The office portion of 731 Lexington Avenue is encumbered by a mortgage loan with a balance of $500,000,000 as of December 31, 2018. The interest-only loan is at LIBOR plus 0.90% (3.36% as of December 31, 2018) and matures in June 2020, with four one-year extension options. In connection therewith, we purchased an interest rate cap with a notional amount of $500,000,000 that caps LIBOR at a rate of 6.0%.

The retail portion of 731 Lexington Avenue is encumbered by a mortgage loan with a balance of $350,000,000 as of December 31, 2018. The interest-only loan is at LIBOR plus 1.40% (3.78% as of December 31, 2018) and matures in August 2020, with two one-year extension options.

Rego Park I

Rego Park I, a 343,000 square foot shopping center, located on Queens Boulevard and 63rd Road in Queens. On April 4, 2017, Sears closed its 195,000 square foot anchor store at the property ($10,300,000 of annual revenue). On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief and rejected its lease. The center is also anchored by a 50,000 square foot Burlington, a 46,000 square foot Bed Bath & Beyond and a 36,000 square foot Marshalls. The center contains a parking deck (1,241 spaces) that provides for paid parking.

Rego Park II

Rego Park II, a 609,000 square foot shopping center, adjacent to the Rego Park I shopping center in Queens. The center is anchored by a 145,000 square foot Costco, a 135,000 square foot Century 21 and a 133,000 square foot Kohl's. On January 10, 2019, Kohl's announced that it plans to close and sublease its store at the property; Kohl's remains obligated to us under its lease which expires in January 2031. On September 18, 2017, Toys, a one-third owned affiliate of Vornado as of December 31, 2018, filed for Chapter 11 bankruptcy relief. On June 30, 2018, Toys rejected its 47,000 square foot lease at the property ($2,600,000 of annual revenue) and possession of the space was returned to us. The center contains a parking deck (1,326 spaces) that provides for paid parking.

This center is encumbered by a mortgage loan with a balance of $252,544,000 as of December 31, 2018. The loan bears interest at LIBOR plus 1.35% (3.87% as of December 31, 2018) and matures in December 2025. We hold a $195,708,000 participation in the loan at LIBOR plus 1.35%.

The Alexander Apartment Tower

The Alexander apartment tower, located above our Rego Park II shopping center, contains 312 units aggregating 255,000 square feet.

Operating Properties - continued

Paramus

We own 30.3 acres of land located at the intersection of Routes 4 and 17 in Paramus, New Jersey. The land is located directly across from the Garden State Plaza regional shopping mall and is within two miles of three other regional shopping malls and ten miles of New York City. The land has been ground leased to IKEA Property, Inc. since 2001. The lease expires in 2041, with a purchase option in 2021 for $75,000,000. The property is encumbered by a $68,000,000 interest-only mortgage loan with a fixed rate of 4.72%, which matures in October 2021. The annual triple-net rent is the sum of $700,000 plus the amount of interest on the mortgage loan. If the purchase option is exercised, we will receive net cash proceeds of approximately $7,000,000 and recognize a gain on sale of land of approximately $60,000,000. If the purchase option is not exercised, the triple-net rent for the last 20 years would include debt service sufficient to fully amortize $68,000,000 over the remaining 20-year lease term.

Flushing

Flushing is located on Roosevelt Avenue and Main Street in the downtown, commercial section of Flushing, Queens, New York. Roosevelt Avenue and Main Street are active shopping districts and there are many national retailers located in the area. A subway entrance is located directly in front of the property with bus service across the street. The property comprises a four-floor building containing 167,000 square feet and a parking garage, which is sub-leased to New World Mall LLC for the remainder of our ground lease term, which expires in 2027 and has one 10-year extension option.

Property to be Developed

Rego Park III

We own a 140,000 square foot land parcel adjacent to the Rego Park II shopping center in Queens, New York, at the intersection of Junction Boulevard and the Horace Harding Service Road. The land is currently being used for paid public parking. In 2016, the Company began the entitlement process.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, after consultation with our legal counsel, the outcome of such matters will not have a material effect on our financial condition, results of operations or cash flows.

In June 2014, Sears Roebuck and Co. (“Sears”) filed a lawsuit in the Supreme Court of the State of New York against Vornado and us (and certain of our subsidiaries) with regard to space that Sears leased at our Rego Park I property alleging that the defendants are liable for harm that Sears has suffered as a result of (a) water intrusions into the premises, (b) two fires in February 2014 that caused damages to those premises, and (c) alleged violations of the Americans with Disabilities Act in the premises’ parking garage. Sears asserted various causes of actions for damages and sought to compel compliance with landlord’s obligations to repair the premises and to provide security, and to compel us to abate a nuisance that Sears claims was a cause of the water intrusions into its premises. In addition to injunctive relief, Sears sought, among other things, damages of not less than $4 million and future damages it estimated would not be less than $25 million. In March 2016, Sears withdrew its claim for future damages leaving a remaining claim for property damages, which we estimate to be approximately $650,000 based on information provided by Sears. We intend to defend the remaining claim vigorously. The amount or range of reasonable possible losses, if any, is not expected to be greater than $650,000. On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief resulting in an automatic stay of this case.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange under the symbol "ALX."

As of January 31, 2019, there were 220 holders of record of our common stock.

Recent Sales of Unregistered Securities

During 2018, we did not sell any unregistered securities.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Part III, Item 12 of this Annual Report on Form 10-K and such information is incorporated by reference herein.

Recent Purchases of Equity Securities

During 2018, we did not repurchase any of our equity securities.

Performance Graph

The following graph is a comparison of the five-year cumulative return of our common stock, the Standard & Poor's 500 Index (the "S&P 500 Index") and the National Association of Real Estate Investment Trusts' ("NAREIT") All Equity Index, a peer group index. The graph assumes that $100 was invested on December 31, 2013 in our common stock, the S&P 500 Index and the NAREIT All Equity Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our stock will continue in line with the same or similar trends depicted in the graph below.

	2013	2014	2015	2016	2017	2018
Alexander's	$100	$137	$125	$144	$139	$113
S&P 500 Index	100	114	115	129	157	150
The NAREIT All Equity Index	100	128	132	143	155	149

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating data. This data should be read in conjunction with the consolidated financial statements and notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K. This data may not be comparable to, or indicative of, future operating results.

	Year Ended December 31,				
(Amounts in thousands, except per share amounts)	2018	2017	2016	2015	2014
Total revenues	$232,825	$230,574	$226,936	$207,915	$200,814
Income from continuing operations (1)	$56,641	$80,509	$86,477	$76,907	$67,396
(Loss) income from discontinued operations	(23,797)	—	—	—	529
Net income	$32,844	$80,509	$86,477	$76,907	$67,925
Income per common share:					
Income from continuing operations - basic	$11.07	$15.74	$16.91	$15.04	$13.19
Income from continuing operations - diluted	11.07	15.74	16.91	15.04	13.19
Net income per common share - basic	6.42	15.74	16.91	15.04	13.29
Net income per common share - diluted	6.42	15.74	16.91	15.04	13.29
Dividends per common share	$18.00	$17.00	$16.00	$14.00	$13.00
Balance sheet data:					
Total assets	$1,481,257	$1,632,395	$1,451,230	$1,447,808	$1,418,392
Real estate, at cost	1,027,691	1,037,368	1,033,551	1,029,472	993,927
Accumulated depreciation and amortization	297,421	283,044	252,737	225,533	210,025
Mortgages payable, net of deferred debt issuance costs	1,161,534	1,240,222	1,052,359	1,053,262	1,027,956
Total equity	285,092	343,955	352,845	352,880	348,399

(1) 2018 includes $11,990 from the decrease in the fair value of marketable securities resulting from a new GAAP accounting standard effective January 1, 2018. Previously, changes in the fair value of marketable securities were recognized through "accumulated other comprehensive (loss) income" on our consolidated balance sheets and did not impact our consolidated statements of income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Alexander's, Inc. (NYSE: ALX) is a real estate investment trust ("REIT"), incorporated in Delaware, engaged in leasing, managing, developing and redeveloping its properties. All references to "we," "us," "our," "Company" and "Alexander's" refe to Alexander's, Inc. and its consolidated subsidiaries. We are managed by, and our properties are leased and developed by, Vornado Realty Trust ("Vornado") (NYSE: VNO). We have seven properties in the greater New York City metropolitan area.

We compete with a large number of property owners and developers. Our success depends upon, among other factors, trends of the global, national and local economies, the financial condition and operating results of current and prospective tenants and customers, the availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation, population and employment trends, zoning laws, and our ability to lease, sublease or sell our properties, at profitable levels. Our success is also subject to our ability to refinance existing debt on acceptable terms as it comes due.

Year Ended December 31, 2018 Financial Results Summary

Net income for the year ended December 31, 2018 was $32,844,000 or $6.42 per diluted share, compared to $80,509,000, or $15.74 per diluted share for the year ended December 31, 2017. Net income for the year ended December 31, 2018 included (i) $23,797,000, or $4.65 per diluted share, of expense for potential additional New York City real property transfer taxes on the 2012 sale of Kings Plaza Regional Shopping Center ("Kings Plaza") which is being contested and (ii) $11,990,000, or $2.34 per diluted share, from the decrease in the fair value of marketable securities resulting from a new GAAP accounting standard effective January 1, 2018. Previously, changes in the fair value of marketable securities were recognized through "accumulated other comprehensive (loss) income" on our consolidated balance sheets and did not impact our consolidated statements of income.

Funds from operations ("FFO") (non-GAAP) for the year ended December 31, 2018 was $77,429,000, or $15.13 per diluted share, compared to $114,908,000, or $22.46 per diluted share for the year ended December 31, 2017. FFO (non-GAAP) for the year ended December 31, 2018 included $23,797,000, or $4.65 per diluted share, of expense for the contested Kings Plaza transfer taxes.

Quarter Ended December 31, 2018 Financial Results Summary

Net income for the quarter ended December 31, 2018 was $9,971,000, or $1.95 per diluted share, compared to $17,883,000, or $3.50 per diluted share for the quarter ended December 31, 2017. Net income for the quarter ended December 31, 2018 included $6,429,000, or $1.26 per diluted share, from the decrease in the fair value of marketable securities.

FFO (non-GAAP) for the quarter ended December 31, 2018 was $24,158,000, or $4.72 per diluted share, compared to $28,062,000, or $5.49 per diluted share for the quarter ended December 31, 2017.

Square Footage, Occupancy and Leasing Activity

As of December 31, 2018, our portfolio was comprised of seven properties aggregating 2,437,000 square feet. As of December 31, 2018, our properties had an occupancy rate of 91.4%.

Overview - continued

Real Property Transfer Tax Litigation

In 2012, we sold Kings Plaza and paid real property transfer taxes to New York City in connection with the sale. In 2015, the New York City Department of Finance (“NYC DOF”) issued a Notice of Determination to us assessing an additional New York City real property transfer tax amount, including interest, which we are contesting.

In 2014, in a case with similar facts, the NYC DOF issued a Notice of Determination to a Vornado joint venture assessing an additional New York City real property transfer tax amount, including interest. In January 2017, a New York City administrative law judge made a determination upholding the Vornado joint venture’s position that such additional real property transfer taxes were not due. On February 16, 2018, the New York City Tax Appeals Tribunal (the “Tribunal”) overturned the January 2017 determination. The Vornado joint venture is appealing the Tribunal’s decision to the Appellate Division of the Supreme Court of the State of New York which is scheduled to be heard in the first half of 2019.

In 2018, based on the precedent of the Tribunal’s decision, we recorded an expense for the potential additional real property transfer taxes of $23,797,000 ($15,874,000 of real property transfer tax and $7,923,000 of interest) and paid this amount in order to stop the interest from accruing. Our case is on hold pending the outcome of the Vornado joint venture’s appeal.

Tenant Matters

On April 4, 2017, Sears closed its 195,000 square foot store at our Rego Park I shopping center ($10,300,000 of annual revenue). On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief and rejected its lease. Consequently, we wrote off the remaining balance of the Sears receivable arising from the straight-lining of rent of $2,973,000 during the year ended December 31, 2018. In addition, we accelerated depreciation and amortization of the remaining balance of $312,000 of deferred leasing costs during the year ended December 31, 2018.

On September 18, 2017, Toys filed for Chapter 11 bankruptcy relief. On June 30, 2018, Toys rejected its 47,000 square foot lease at our Rego Park II shopping center ($2,600,000 of annual revenue) and possession of the space was returned to us. Consequently, we accelerated depreciation and amortization of the remaining balances of $588,000 of tenant improvements and $215,000 of deferred leasing costs during the year ended December 31, 2018. We also wrote off the Toys receivable arising from the straight-lining of rent of $500,000 during the year ended December 31, 2018.

On January 10, 2019, Kohl’s announced that it plans to close and sublease its 133,000 square foot store at our Rego Park II shopping center; Kohl’s remains obligated to us under its lease which expires in January 2031.

Financing

On October 3, 2018, we extended our mortgage loan on our Paramus property. The $68,000,000 interest-only loan has a fixed rate of 4.72% and matures in October 2021. Previously the loan bore interest at a fixed rate of 2.90%. The tenant pays all of the interest on this mortgage loan as part of its rent.

On December 12, 2018, we completed a $252,544,000 refinancing of our Rego Park II shopping center. The interest-only loan is at LIBOR plus 1.35% (3.87% as of December 31, 2018) and matures in December 2025. The previous loan bore interest at LIBOR plus 1.85% and was scheduled to mature in January 2019. As of December 31, 2018, we hold a $195,708,000 participation in the mortgage loan, earning interest at LIBOR plus 1.35%. The participation in the previous mortgage loan earned interest at LIBOR plus 1.60%.

Significant Tenant

Bloomberg accounted for revenue of $107,356,000, $105,224,000 and $104,590,000 in the years ended December 31, 2018, 2017 and 2016, respectively, representing approximately 46% of our total revenues in each year. No other tenant accounted for more than 10% of our total revenues. If we were to lose Bloomberg as a tenant, or if Bloomberg were to be unable to fulfill its obligations under its lease, it would adversely affect our results of operations and financial condition. In order to assist us in our continuing assessment of Bloomberg’s creditworthiness, we receive certain confidential financial information and metrics from Bloomberg. In addition, we access and evaluate financial information regarding Bloomberg from other private sources, as well as publicly available data.

Critical Accounting Policies and Estimates

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of our accounting policies that we believe are critical to the preparation of our consolidated financial statements. This summary should be read in conjunction with a more complete discussion of our accounting policies included in Note 2 – Summary of Significant Accounting Policies, to the consolidated financial statements in this Annual Report on Form 10-K.

Real Estate

Real estate is carried at cost, net of accumulated depreciation and amortization. As of December 31, 2018 and 2017, the carrying amount of our real estate, net of accumulated depreciation and amortization, was $730,270,000 and $754,324,000, respectively. Maintenance and repairs are expensed as incurred. Depreciation requires an estimate by management of the useful life of each property and improvement as well as an allocation of the costs associated with a property to its various components. If we do not allocate these costs appropriately or incorrectly estimate the useful lives of our real estate, depreciation expense may be misstated. We capitalize all property operating expenses directly associated with and attributable to, the development and construction of a project, including interest expense. The capitalization period begins when development activities are underway and ends when it is determined that the asset is substantially complete and ready for its intended use, which is typically evidenced by the receipt of a temporary certificate of occupancy. General and administrative costs are expensed as incurred.

Our properties and related intangible assets, including properties to be developed in the future, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Estimates of future cash flows are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. For our development properties, estimates of future cash flows also include all future expenditures necessary to develop the asset, including interest payments that will be capitalized as part of the cost of the asset. An impairment loss is recognized only if the carrying amount of the asset is not recoverable and is measured based on the excess of the property's carrying amount over its estimated fair value. If our estimates of future cash flows, anticipated holding periods, or fair values change, based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our consolidated financial statements. Estimates of future cash flows are subjective and are based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

Allowance for Doubtful Accounts

We periodically evaluate the collectibility of amounts due from tenants, including the receivable arising from the straight-lining of rents, and maintain an allowance for doubtful accounts ($671,000 and $1,501,000 as of December 31, 2018 and 2017, respectively) for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We exercise judgment in establishing these allowances and consider payment history and current credit status in developing these estimates. These estimates may differ from actual results, which could be material to our consolidated financial statements.

Critical Accounting Policies and Estimates - continued

Revenue Recognition

Our revenues consist of property rentals and expense reimbursements. We have the following revenue sources and revenue recognition policies:

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

- Percentage Rent is revenue arising from retail tenant leases that is contingent upon the sales of tenants exceeding defined thresholds. These rents are recognized only after the contingency has been removed (i.e., when tenant sales thresholds have been achieved).

- Parking Revenue arising from the rental of parking space at our properties. This income is recognized as the services are provided.

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

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

Before we recognize revenue, we assess, among other things, its collectibility. If our assessment of the collectibility of revenue changes, the impact on our consolidated financial statements could be material.

Income Taxes

We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856 – 860 of the Internal Revenue Code of 1986, as amended (the “Code”). In order to maintain our qualification as a REIT under the Code, we must distribute at least 90% of our taxable income to stockholders each year. We distribute to our stockholders 100% of our taxable income and therefore, no provision for Federal income taxes is required. If we fail to distribute the required amount of income to our stockholders, or fail to meet other REIT requirements, we may fail to qualify as a REIT, which may result in substantial adverse tax consequences.

Results of Operations – Year Ended December 31, 2018 compared to December 31, 2017

Property Rentals
Property rentals were $152,795,000 in the year ended December 31, 2018, compared to $152,857,000 in the prior year, a decrease of $62,000. This decrease was primarily due to lower revenue from Sears at our Rego Park I property and Toys at our Rego Park II property, partially offset by higher revenue from a new restaurant tenant at our 731 Lexington Avenue property.

Expense Reimbursements
Tenant expense reimbursements were $80,030,000 in the year ended December 31, 2018, compared to $77,717,000 in the prior year, an increase of $2,313,000. This increase was primarily due to higher real estate taxes and higher operating expenses.

Operating Expenses
Operating expenses were $93,775,000 in the year ended December 31, 2018, compared to $85,127,000 in the prior year, an increase of $8,648,000. This increase was primarily due to (i) higher bad debt expense of $4,406,000, (ii) higher real estate taxes of $2,180,000 and (iii) higher operating expenses of $1,664,000.

Depreciation and Amortization
Depreciation and amortization was $33,089,000 in the year ended December 31, 2018, compared to $34,925,000 in the prior year, a decrease of $1,836,000. This decrease was primarily due to additional depreciation and amortization of tenant improvements and deferred leasing costs of $2,444,000 related to a tenant lease termination at our 731 Lexington Avenue property in 2017.

General and Administrative Expenses
General and administrative expenses were $5,339,000 in the year ended December 31, 2018, compared to $5,252,000 in the prior year, an increase of $87,000.

Interest and Other Income, net
Interest and other income, net was $12,546,000 in the year ended December 31, 2018, compared to $6,716,000 in the prior year, an increase of $5,830,000. This increase was primarily due to (i) $4,673,000 of higher interest income from the Rego Park II loan participation entered into in July 2017 and (ii) $3,693,000 of higher interest income due to an increase in average interest rates, partially offset by (iii) $1,600,000 of expense from a litigation settlement and (iv) $760,000 of lower interest income due to lower average investment balances.

Interest and Debt Expense
Interest and debt expense was $44,533,000 in the year ended December 31, 2018, compared to $31,474,000 in the prior year, an increase of $13,059,000. This increase was primarily due to (i) $8,482,000 resulting from an increase in average LIBOR, (ii) $2,620,000 resulting from the refinancing of the office portion of 731 Lexington Avenue on June 1, 2017 for $500,000,000 at LIBOR plus 0.90% (previously a $300,000,000 loan at LIBOR plus 0.95%) and (iii) $1,641,000 of higher amortization of debt issuance costs.

Change in Fair Value of Marketable Securities
Change in fair value of marketable securities was an expense of $11,990,000 in the year ended December 31, 2018, resulting from Macerich's closing share prices of $43.28 and $65.68 as of December 31, 2018 and 2017, respectively, on 535,265 shares owned. See Note 5 – Marketable Securities, to our consolidated financial statements in this Annual Report on Form 10-K.

Income Taxes

Income tax expense was $4,000 in the year ended December 31, 2018, compared to $3,000 in the prior year.

Loss from Discontinued Operations

Loss from discontinued operations was $23,797,000 in the year ended December 31, 2018. The loss was due to a payment of potential additional real property transfer taxes from the 2012 sale of Kings Plaza which is being contested. See Note 6 – Discontinued Operations, to our consolidated financial statements in this Annual Report on Form 10-K.

Results of Operations – Year Ended December 31, 2017 compared to December 31, 2016

Property Rentals
Property rentals were $152,857,000 in the year ended December 31, 2017, compared to $151,444,000 in the prior year, an increase of $1,413,000. This increase was primarily due to higher rental income of $3,730,000 from The Alexander apartment tower, which was placed in service in phases beginning July 2015 and leased up to stabilization in September 2016, partially offset by income of $2,257,000 in 2016 resulting from a tenant lease termination at our Rego Park II property.

Expense Reimbursements
Tenant expense reimbursements were $77,717,000 in the year ended December 31, 2017, compared to $75,492,000 in the prior year, an increase of $2,225,000. This increase was primarily due to higher real estate taxes and higher operating expenses.

Operating Expenses
Operating expenses were $85,127,000 in the year ended December 31, 2017, compared to $82,232,000 in the prior year, an increase of $2,895,000. This increase was primarily due to (i) higher real estate taxes of $3,267,000 and (ii) higher operating expenses of $903,000, partially offset by (iii) lower marketing costs for The Alexander apartment tower of $1,098,000 and (iv) lower bad debt expense of $504,000.

Depreciation and Amortization
Depreciation and amortization was $34,925,000 in the year ended December 31, 2017, compared to $33,807,000 in the prior year, an increase of $1,118,000. This increase was primarily due to additional depreciation and amortization of tenant improvements and deferred leasing costs of $2,444,000 related to a tenant lease termination at our 731 Lexington Avenue property in 2017, partially offset by additional depreciation and amortization of tenant improvements and deferred leasing costs of $1,077,000 in 2016 related to a tenant lease termination at our Rego Park II property.

General and Administrative Expenses
General and administrative expenses were $5,252,000 in the year ended December 31, 2017, compared to $5,436,000 in the prior year, a decrease of $184,000. This decrease was primarily due to lower director's fees and stock-based compensation expense as a result of having one less member on our Board of Directors in 2017.

Interest and Other Income, net
Interest and other income, net was $6,716,000 in the year ended December 31, 2017, compared to $3,305,000 in the prior year, an increase of $3,411,000. This increase was primarily due to higher interest income of (i) $2,453,000 from the Rego Park II loan participation, (ii) $1,418,000 from an increase in the average interest rates and (iii) $216,000 from an increase in the average investment balances, partially offset by (iv) lower income of $429,000 in connection with bankruptcy recoveries and (v) income of $367,000 in 2016 from a cost reimbursement settlement with a retail tenant at our 731 Lexington Avenue property.

Interest and Debt Expense

Interest and debt expense was $31,474,000 in the year ended December 31, 2017, compared to $22,241,000 in the prior year, an increase of $9,233,000. This increase was primarily due to (i) $5,289,000 resulting from an increase in average LIBOR, (ii) $2,658,000 resulting from the refinancing of the office portion of 731 Lexington Avenue on June 1, 2017 for $500,000,000 at LIBOR plus 0.90% (previously a $300,000,000 loan at LIBOR plus 0.95%) and (iii) $1,188,000 of higher amortization of debt issuance costs.

Income Taxes

Income tax expense was $3,000 in the year ended December 31, 2017, compared to $48,000 in the prior year.

Related Party Transactions

Vornado

As of December 31, 2018, Vornado owned 32.4% of our outstanding common stock. We are managed by, and our properties are leased and developed by, Vornado, pursuant to various agreements, which expire in March of each year and are automatically renewable. These agreements are described in Note 4 – Related Party Transactions, to our consolidated financial statements in this Annual Report on Form 10-K.

Steven Roth is the Chairman of our Board of Directors and Chief Executive Officer, the Managing General Partner of Interstate Properties ("Interstate"), a New Jersey general partnership, and the Chairman of the Board of Trustees and Chief Executive Officer of Vornado. As of December 31, 2018, Mr. Roth, Interstate and its other two general partners, David Mandelbaum and Russell B. Wight, Jr. (who are also directors of the Company and trustees of Vornado) owned, in the aggregate, 26.2% of our outstanding common stock, in addition to the 2.3% they indirectly own through Vornado. Joseph Macnow, our Treasurer, is the Executive Vice President - Chief Financial Officer and Chief Administrative Officer of Vornado. Matthew Iocco, our Chief Financial Officer, is the Executive Vice President - Chief Accounting Officer of Vornado.

Toys

Our affiliate, Vornado, owned 32.5% of Toys as of December 31, 2018. On February 1, 2019, in connection with the Toys Chapter 11 bankruptcy, the plan of reorganization for Toys was declared effective and Vornado's ownership in Toys was canceled and Toys' Board of Directors was dissolved. Joseph Macnow, Vornado's Executive Vice President and Chief Financial Officer and Wendy A. Silverstein, a member of our Board of Directors, represented Vornado as members of Toys' Board of Directors. Also in connection with the Toys Chapter 11 bankruptcy, Toys rejected its 47,000 square foot lease at our Rego Park II shopping center ($2,600,000 of annual revenue) effective June 30, 2018 and possession of the space was returned to us. Consequently, we accelerated depreciation and amortization of the remaining balances of $588,000 of tenant improvements and $215,000 of deferred leasing costs during the year ended December 31, 2018. We also wrote off the Toys receivable arising from the straight-lining of rent of $500,000 during the year ended December 31, 2018.

Liquidity and Capital Resources

Property rental income is our primary source of cash flow and is dependent on a number of factors including the occupancy level and rental rates of our properties, as well as our tenants' ability to pay their rents. Our properties provide us with a relatively consistent stream of cash flow that enables us to pay our operating expenses, interest expense, recurring capital expenditures and cash dividends to stockholders. Other sources of liquidity to fund cash requirements include our existing cash, proceeds from financings, including mortgage or construction loans secured by our properties and proceeds from asset sales. We anticipate that cash flows from continuing operations over the next twelve months, together with existing cash balances, will be adequate to fund our business operations, cash dividends to stockholders, debt amortization and capital expenditures.

Dividends

On January 16, 2019, we set our regular quarterly dividend to $4.50 per share (an indicated annual rate of $18.00 per share). The dividend, when declared by the Board of Directors for all of 2019, will require us to pay out approximately $92,100,000.

Financing Activities and Contractual Obligations

On June 1, 2017, we completed a $500,000,000 refinancing of the office portion of 731 Lexington Avenue. The interest-only loan is at LIBOR plus 0.90% (3.36% as of December 31, 2018) and matures in June 2020, with four one-year extension options. In connection therewith, we purchased an interest rate cap with a notional amount of $500,000,000 that caps LIBOR at a rate of 6.0%. The property was previously encumbered by a $300,000,000 interest-only mortgage at LIBOR plus 0.95% which was scheduled to mature in March 2021.

On October 3, 2018, we extended our mortgage loan on our Paramus property. The $68,000,000 interest-only loan has a fixed rate of 4.72% and matures in October 2021. Previously the loan bore interest at a fixed rate of 2.90%. The tenant pays all of the interest on this mortgage loan as part of its rent.

Liquidity and Capital Resources - continued

On December 12, 2018, we completed a $252,544,000 refinancing of our Rego Park II shopping center. The interest-only loan is at LIBOR plus 1.35% (3.87% as of December 31, 2018) and matures in December 2025. The previous loan bore interest at LIBOR plus 1.85% and was scheduled to mature in January 2019. As of December 31, 2018, we hold a $195,708,000 participation in the mortgage loan, earning interest at LIBOR plus 1.35%. The participation in the previous mortgage loan earned interest at LIBOR plus 1.60%.
Below is a summary of our outstanding debt and maturities as of December 31, 2018. We may refinance our maturing debt as it comes due or choose to repay it.

(Amounts in thousands)	Balance	Interest Rate	Maturity [1]
Paramus	$68,000	4.72 %	Oct. 2021
731 Lexington Avenue, retail space[2]	350,000	3.78 %	Aug. 2022
731 Lexington Avenue, office space[3]	500,000	3.36 %	Jun. 2024
Rego Park II shopping center[4]	252,544	3.87 %	Dec. 2025
Total	1,170,544		
Deferred debt issuance costs, net of accumulated amortization of $9,212	(9,010)		
Total, net	$1,161,534		

(1) Represents the extended maturity where we have the unilateral right to extend.
(2) Interest at LIBOR plus 1.40%.
(3) Interest at LIBOR plus 0.90%.
(4) Interest at LIBOR plus 1.35%. See above for details of our Rego Park II loan participation.

Below is a summary of our contractual obligations and commitments as of December 31, 2018.

(Amounts in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations (principal and interest)[1]:					
Long-term debt obligations	$1,388,931	$43,602	$154,502	$411,860	$778,967
Operating lease obligations	6,467	800	1,600	1,600	2,467
	$1,395,398	$44,402	$156,102	$413,460	$781,434
Commitments:					
Standby letters of credit	$1,030	$1,020	$10	$—	$—

(1) Interest on variable rate debt is computed using rates in effect as of December 31, 2018.

Commitments and Contingencies

Insurance
We maintain general liability insurance with limits of $300,000,000 per occurrence and per property, and all-risk property and rental value insurance coverage with limits of $1.7 billion per occurrence, including coverage for acts of terrorism, with sub-limits for certain perils such as floods and earthquakes on each of our properties.

Fifty Ninth Street Insurance Company, LLC ("FNSIC"), our wholly owned consolidated subsidiary, acts as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological ("NBCR") acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020. Coverage for acts of terrorism (including NBCR acts) is up to $1.7 billion per occurrence and in the aggregate. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to FNSIC. For NBCR acts, FNSIC is responsible for a $323,000 deductible and 19% of the balance of a covered loss, and the Federal government is responsible for the remaining 81% of a covered loss. We are ultimately responsible for any loss incurred by FNSIC.

Liquidity and Capital Resources - continued

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism or other events. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for uninsured losses and for deductibles and losses in excess of our insurance coverage, which could be material.

Our mortgage loans are non-recourse to us and contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance or refinance our properties.

Rego Park I Litigation
In June 2014, Sears filed a lawsuit in the Supreme Court of the State of New York against Vornado and us (and certain of our subsidiaries) with regard to space that Sears leased at our Rego Park I property alleging that the defendants are liable for harm that Sears has suffered as a result of (a) water intrusions into the premises, (b) two fires in February 2014 that caused damages to those premises, and (c) alleged violations of the Americans with Disabilities Act in the premises' parking garage. Sears asserted various causes of actions for damages and sought to compel compliance with landlord's obligations to repair the premises and to provide security, and to compel us to abate a nuisance that Sears claims was a cause of the water intrusions into its premises. In addition to injunctive relief, Sears sought, among other things, damages of not less than \$4 million and future damages it estimated would not be less than \$25 million. In March 2016, Sears withdrew its claim for future damages leaving a remaining claim for property damages, which we estimate to be approximately \$650,000 based on information provided by Sears. We intend to defend the remaining claim vigorously. The amount or range of reasonable possible losses, if any, is not expected to be greater than \$650,000. On October 15, 2018, Sears filed for Chapter 11 bankruptcy relief resulting in an automatic stay of this case.

Paramus
In 2001, we leased 30.3 acres of land located in Paramus, New Jersey to IKEA Property, Inc. The lease has a purchase option in 2021 for \$75,000,000. The property is encumbered by a \$68,000,000 interest-only mortgage loan with a fixed rate of 4.72%, which matures in October 2021. The annual triple-net rent is the sum of \$700,000 plus the amount of interest on the mortgage loan. If the purchase option is exercised, we will receive net cash proceeds of approximately \$7,000,000 and recognize a gain on sale of land of approximately \$60,000,000. If the purchase option is not exercised, the triple-net rent for the last 20 years would include debt service sufficient to fully amortize \$68,000,000 over the remaining 20-year lease term.

Letters of Credit
Approximately \$1,030,000 of standby letters of credit were outstanding as of December 31, 2018.

Other
We received \$165,000, \$396,000 and \$825,000 from bankruptcy recoveries during the years ended December 31, 2018, 2017 and 2016, respectively, which is included as "interest and other income, net" in our consolidated statements of income.

There are various other legal actions against us in the ordinary course of business. In our opinion, the outcome of such matters in the aggregate will not have a material effect on our financial position, results of operations or cash flows.

Liquidity and Capital Resources - continued

Cash Flows for the Year Ended December 31, 2018

Cash and cash equivalents and restricted cash were $289,495,000 at December 31, 2018, compared to $393,279,000 at December 31, 2017, a decrease of $103,784,000. This decrease resulted from (i) $176,185,000 of net cash used in financing activities and (ii) $1,137,000 of net cash used in investing activities, partially offset by (iii) $73,538,000 of net cash provided by operating activities.

Net cash used in financing activities of $176,185,000 was primarily comprised of net debt repayments of $81,896,000 (primarily the refinancing and subsequent repayment of the mortgage loan on our Rego Park I shopping center) and dividends paid of $92,100,000.

Net cash used in investing activities of $1,137,000 was comprised of construction in progress and real estate additions of $3,966,000, partially offset by repayment of Rego Park II loan participation of $2,829,000.

Net cash provided by operating activities of $73,538,000 was comprised of (i) net income of $32,844,000 and (ii) adjustments for non-cash items of $56,807,000, partially offset by (iii) the net change in operating assets and liabilities of $16,113,000. The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of $38,499,000, (ii) the change in fair value of marketable securities of $11,990,000, (iii) straight-lining of rental income of $5,924,000 and (iv) stock-based compensation expense of $394,000.

Cash Flows for the Year Ended December 31, 2017

Cash and cash equivalents and restricted cash were $393,279,000 at December 31, 2017, compared to $374,678,000 at December 31, 2016, an increase of $18,601,000. This increase resulted from (i) $123,426,000 of net cash provided by operating activities and (ii) $97,146,000 of net cash provided by financing activities, partially offset by (iii) $201,971,000 of net cash used in investing activities.

Net cash provided by operating activities of $123,426,000 was comprised of (i) net income of $80,509,000 and (ii) adjustments for non-cash items of $43,372,000, partially offset by (iii) the net change in operating assets and liabilities of $455,000. The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of $38,681,000, (ii) straight-lining of rental income of $4,297,000 and (iii) stock-based compensation expense of $394,000.

Net cash provided by financing activities of $97,146,000 was primarily comprised of (i) $500,000,000 of proceeds from the refinancing of the office portion of 731 Lexington Avenue, partially offset by (ii) debt repayments of $303,707,000 (primarily the repayment of the former loan on the office portion of 731 Lexington Avenue) and (iii) dividends paid of $86,961,000.

Net cash used in investing activities of $201,971,000 was comprised of (i) Rego Park II loan participation of $200,000,000 and (ii) construction in progress and real estate additions of $3,434,000, partially offset by (iii) principal repayment proceeds from the Rego Park II loan participation of $1,463,000.

Cash Flows for the Year Ended December 31, 2016

Cash and cash equivalents and restricted cash were $374,678,000 at December 31, 2016, compared to $344,656,000 at December 31, 2015, an increase of $30,022,000. This increase resulted from (i) $130,820,000 of net cash provided by operating activities, partially offset by (ii) $85,292,000 of net cash used in financing activities and (iii) $15,506,000 of net cash used in investing activities.

Net cash provided by operating activities of $130,820,000 was comprised of (i) net income of $86,477,000, (ii) adjustments for non-cash items of $39,171,000, and (iii) the net change in operating assets and liabilities of $5,172,000. The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of $36,374,000, (ii) straight-lining of rental income of $2,347,000 and (iii) stock-based compensation expense of $450,000.

Net cash used in financing activities of $85,292,000 was primarily comprised of dividends paid of $81,822,000.

Net cash used in investing activities of $15,506,000 was comprised of construction in progress and real estate additions of $15,506,000 (primarily related to The Alexander apartment tower), including the payment of a development fee to Vornado of $5,784,000.

Funds from Operations ("FFO") (non-GAAP)

FFO is computed in accordance with the December 2018 restated definition adopted by the Board of Governors of NAREIT. NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciable real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets and other specified items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flow as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. A reconciliation of our net income to FFO is provided below.

In accordance with the NAREIT December 2018 restated definition of FFO, we have elected to exclude the mark-to-market adjustments of marketable securities from the calculation of FFO. Our FFO for the nine months ended September 30, 2018 has been adjusted to exclude the $5,561,000, or $1.08 per diluted share, from the decrease in fair value of marketable securities previously reported. Net income for the year and quarter ended December 31, 2018 included $11,990,000, or $2.34 per diluted share, and $6,429,000, or $1.26 per diluted share, respectively, from the decrease in fair value of marketable securities.

FFO (non-GAAP) for the years and quarters ended December 31, 2018 and 2017

FFO (non-GAAP) for the year ended December 31, 2018 was $77,429,000, or $15.13 per diluted share, compared to $114,908,000, or $22.46 per diluted share for the year ended December 31, 2017. FFO (non-GAAP) for the year ended December 31, 2018 included $23,797,000, or $4.65 per diluted share, of expense for the potential additional New York City real property transfer taxes on the 2012 sale of Kings Plaza which is being contested.

FFO (non-GAAP) for the quarter ended December 31, 2018 was $24,158,000, or $4.72 per diluted share, compared to $28,062,000, or $5.49 per diluted share for the quarter ended December 31, 2017.

The following table reconciles our net income to FFO (non-GAAP):

(Amounts in thousands, except share and per share amounts)	For the Year Ended December 31,		For the Three Months Ended December 31,	
	2018	2017	2018	2017
Net income	$32,844	$80,509	$9,971	$17,883
Depreciation and amortization of real property	32,595	34,399	7,758	10,179
Change in fair value of marketable securities	11,990	—	6,429	—
FFO (non-GAAP)	$77,429	$114,908	$24,158	$28,062
FFO per diluted share (non-GAAP)	$15.13	$22.46	$4.72	$5.49
Weighted average shares used in computing FFO per diluted share	5,116,838	5,115,501	5,117,347	5,115,982

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to fluctuations in interest rates, which are sensitive to many factors that are beyond our control. Our exposure to a change in interest rates is summarized in the table below.

	2018			2017	
(Amounts in thousands, except per share amounts)	December 31, Balance	Weighted Average Interest Rate	Effect of 1% Change in Base Rates	December 31, Balance	Weighted Average Interest Rate
Variable rate	$1,102,544	3.61%	$11,025	$1,106,194	2.75%
Fixed rate	68,000	4.72%	—	146,246	1.54%
	$1,170,544	3.67%	$11,025	$1,252,440	2.61%
Total effect on diluted earnings per share			$2.15		

As of December 31, 2018 we had an interest rate cap with a notional amount of $500,000,000 that caps LIBOR at a rate of 6.0%.

Fair Value of Debt

The fair value of our consolidated debt is calculated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit ratings, which are provided by a third-party specialist. As of December 31, 2018 and 2017, the estimated fair value of our consolidated debt was $1,165,000,000 and $1,239,000,000, respectively. Our fair value estimates, which are made at the end of the reporting period, may be different from the amounts that may ultimately be realized upon the disposition of our financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Alexander’s, Inc.
Paramus, New Jersey

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Alexander’s, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
February 11, 2019

We have served as the Company’s auditor since 1969.

ALEXANDER'S, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share amounts)

	December 31,	
ASSETS	2018	2017
Real estate, at cost:		
Land	$44,971	$44,971
Buildings and leasehold improvements	978,474	988,846
Development and construction in progress	4,246	3,551
Total	1,027,691	1,037,368
Accumulated depreciation and amortization	(297,421)	(283,044)
Real estate, net	730,270	754,324
Cash and cash equivalents	283,056	307,536
Restricted cash	6,439	85,743
Rego Park II loan participation	195,708	198,537
Marketable securities	23,166	35,156
Tenant and other receivables, net of allowance for doubtful accounts of $671 and $1,501, respectively	4,075	2,693
Receivable arising from the straight-lining of rents	168,789	174,713
Deferred lease and other property costs, net, including unamortized leasing fees to Vornado of $31,039 and $35,152, respectively	40,669	45,790
Other assets	29,085	27,903
	$1,481,257	$1,632,395
LIABILITIES AND EQUITY		
Mortgages payable, net of deferred debt issuance costs	$1,161,534	$1,240,222
Amounts due to Vornado	708	2,490
Accounts payable and accrued expenses	30,889	42,827
Other liabilities	3,034	2,901
Total liabilities	1,196,165	1,288,440
Commitments and contingencies		
Preferred stock: $1.00 par value per share; authorized, 3,000,000 shares; issued and outstanding, none	—	—
Common stock: $1.00 par value per share; authorized, 10,000,000 shares; issued, 5,173,450 shares; outstanding, 5,107,290 shares	5,173	5,173
Additional capital	31,971	31,577
Retained earnings	248,443	302,543
Accumulated other comprehensive (loss) income	(127)	5,030
	285,460	344,323
Treasury stock: 66,160 shares, at cost	(368)	(368)
Total equity	285,092	343,955
	$1,481,257	$1,632,395

See notes to consolidated financial statements.

ALEXANDER'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except share and per share amounts)

	Year Ended December 31,		
	2018	2017	2016
REVENUES			
Property rentals	$152,795	$152,857	$151,444
Expense reimbursements	80,030	77,717	75,492
Total revenues	232,825	230,574	226,936
EXPENSES			
Operating, including fees to Vornado of $4,700, $4,671 and $4,590, respectively	93,775	85,127	82,232
Depreciation and amortization	33,089	34,925	33,807
General and administrative, including management fees to Vornado of $2,380 in each year	5,339	5,252	5,436
Total expenses	132,203	125,304	121,475
OPERATING INCOME	100,622	105,270	105,461
Interest and other income, net	12,546	6,716	3,305
Interest and debt expense	(44,533)	(31,474)	(22,241)
Change in fair value of marketable securities (see Note 5)	(11,990)	—	—
Income before income taxes	56,645	80,512	86,525
Income tax expense	(4)	(3)	(48)
Income from continuing operations	56,641	80,509	86,477
Loss from discontinued operations (see Note 6)	(23,797)	—	—
Net income	$32,844	$80,509	$86,477
Income per common share - basic and diluted:			
Income from continuing operations	$11.07	$15.74	$16.91
Loss from discontinued operations (see Note 6)	(4.65)	—	—
Net income per common share	$6.42	$15.74	$16.91
Weighted average shares outstanding- basic and diluted	5,116,838	5,115,501	5,114,084

See notes to consolidated financial statements.

ALEXANDER'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	$32,844	$80,509	$86,477
Other comprehensive (loss) income:			
Change in fair value of marketable securities (see Note 5)	—	(2,762)	(5,273)
Change in value of interest rate cap	(1)	(70)	133
Comprehensive income	$32,843	$77,677	$81,337

See notes to consolidated financial statements.

ALEXANDER’S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands)

	Common Stock Shares	Amount	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
Balance, December 31, 2015	5,173	$ 5,173	$ 30,739	$ 304,340	$ 13,002	$ (374)	$ 352,880
Net income	—	—	—	86,477	—	—	86,477
Dividends paid	—	—	—	(81,822)	—	—	(81,822)
Change in fair value of marketable securities	—	—	—	—	(5,273)	—	(5,273)
Change in fair value of interest rate cap	—	—	—	—	133	—	133
Deferred stock unit grants	—	—	450	—	—	—	450
Balance, December 31, 2016	5,173	5,173	31,189	308,995	7,862	(374)	352,845
Net income	—	—	—	80,509	—	—	80,509
Dividends paid	—	—	—	(86,961)	—	—	(86,961)
Change in fair value of marketable securities	—	—	—	—	(2,762)	—	(2,762)
Change in fair value of interest rate cap	—	—	—	—	(70)		(70)
Deferred stock unit grants	—	—	394	—	—	—	394
Other	—	—	(6)	—	—	6	—
Balance, December 31, 2017	5,173	5,173	31,577	302,543	5,030	(368)	