

conjunction with Mr. Macnow's June 2002 exercise of options to purchase 225,000 shares of the Company's common stock. The loan is collateralized by assets with a value of not less than two times the loan amount. In 2002, as a result of the decline in the value of the options, Mr. Macnow supplemented the collateral with cash and marketable securities.

One other executive officer of the Company has a loan outstanding pursuant to an employment agreement totaling \$500,000 at December 31, 2003. The loan matures in April 2005 and bears interest at the applicable Federal rate provided (4.5% at December 31, 2003).

Transactions with Affiliates and Officers and Trustees of the Company

ALEXANDER'S

The Company owns 33.1% of Alexander's. Mr. Roth and Mr. Fascitelli are Officers and Directors of Alexander's. The Company provides various services to Alexander's in accordance with management, development and leasing agreements and the Company has made loans to Alexander's aggregating \$124,000,000 at December 31, 2003. These agreements and the loans are described in Note 5. Investments in Partially-Owned Entities to the Company's consolidated financial statements in this annual report.

In 2002, the Company constructed a \$16.3 million community facility and low-income residential housing development (the "30th Street Venture"), in order to receive 163,728 square feet of transferable development rights, generally referred to as "air rights". The Company donated the building to a charitable organization. The Company sold 106,796 square feet of these air rights to third parties at an average price of \$120 per square foot. An additional 28,821 square feet of air rights was sold to Alexander's at a price of \$120 per square foot for use at Alexander's 59th Street development project (the "59th Street Project"). In each case, the Company received cash in exchange for air rights. The Company identified third party buyers for the remaining 28,111 square feet of air rights related to the 30th Street Venture. These third party buyers wanted to use the air rights for the development of two projects located in the general area of 86th Street which was not within the required geographical radius of the construction site nor in the same Community Board as the low-income housing and community facility project. The 30th Street Venture asked Alexander's to sell 28,111 square feet of the air rights it already owned to the third party buyers (who could use them) and the 30th Street Venture would replace them with 28,111 square feet of air rights. In October 2002, the Company sold 28,111 square feet of air rights to Alexander's for an aggregate sales price of \$3,058,000 (an average of \$109 per square foot). Alexander's then sold an equal amount of air rights to the third party buyers for an aggregate sales price of \$3,339,000 (an average of \$119 per square foot).

INTERSTATE PROPERTIES

The Company manages and leases the real estate assets of Interstate Properties pursuant to a management agreement for which the Company receives an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on sixty days' notice at the end of the term. Although the management agreement was not negotiated at arms length, the Company believes based upon comparable fees charged by other real estate companies that its terms are fair to the Company. The Company earned \$703,000, \$747,000 and \$1,133,000 of management fees under the management agreement for the years ended December 31, 2003, 2002 and 2001. In addition, during fiscal years 2003, 2002 and 2001, as a result of a previously existing leasing arrangement with Alexander's, Alexander's paid to Interstate \$587,000, \$703,000 and \$522,000, respectively, for the leasing and other services actually rendered by the Company. Upon receipt of these payments, Interstate promptly paid them over to the Company without retaining any interest therein. This arrangement was terminated in 2003 and all payments by Alexander's for these leasing and other services are made directly to the Company.