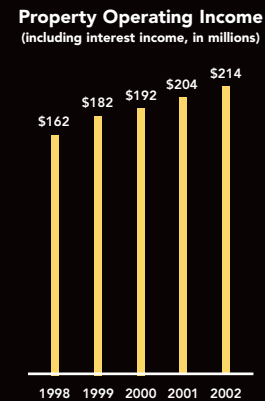
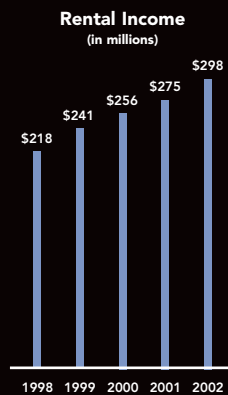
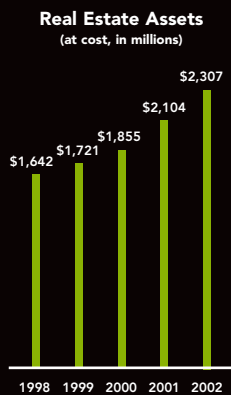


every space filled



Federal Realty Investment Trust

every square foot creating value



Financial Highlights

(in thousands, except per share amounts)	2002	2001	2000	1999	1998
Real Estate Owned, at Cost	\$2,306,826	\$2,104,304	\$1,854,913	\$1,721,459	\$1,642,136
Revenues	318,834	295,110	274,189	260,208	234,259
Funds From Operations ⁽¹⁾	90,503 ⁽²⁾	110,432	102,173	96,795	86,536
Dividends Paid Per Share	1.93	1.89	1.82	1.77	1.73

⁽¹⁾ Defined as income before depreciation and amortization of real estate assets and before extraordinary items and significant non-recurring events less gain on sale of real estate adjustment.

⁽²⁾ Includes \$22.3 million of charges relating to the change in business strategy and associated management changes.



...that's our mission.

Since 1962, Federal Realty has been an innovator specializing in the ownership, management, development and redevelopment of retail and mixed-use properties. The Trust's primary objective is to increase funds from operations and earnings **to enhance shareholder value.**

Today, we have the premier portfolio in the retail REIT sector with 15 million square feet concentrated in the nation's strongest markets.

Federal Realty has paid quarterly dividends to its shareholders continuously since its founding, and has **increased its dividend for 35 consecutive years.**

In 2002, Federal Realty moved forward with a business strategy which renewed our commitment to our shopping center and street retail operating businesses. Under this strategy, the Trust will (1) focus on existing income-producing assets, (2) enhance earnings and net asset value through redevelopment and acquisitions and (3) conservatively manage our balance sheet and capital resources.

DONALD C. WOOD
PRESIDENT AND CHIEF
EXECUTIVE OFFICER



DEAR SHAREHOLDERS,

A great real estate company needs three things:

- Real estate in locations where demand improves over time and opportunities exist for expansion and growth;
- A talented, cohesive group of dedicated employees with clear, focused goals relentlessly pursuing excellence;
- Strong leadership from its Board and executive management that sets direction for the future while safeguarding the present on behalf of all stakeholders.

Federal Realty is a great real estate company. For over 40 years, the Trust has provided investors with an efficient way to participate in the strong and consistent demand for the high quality retail real estate that has long been a trademark of our Company. We are particularly proud to be one of a short list of companies in the United States to have increased dividends every year for the past 35.

In March 2002, we announced a management succession plan in which I would assume the role of Chief Executive from Federal's long-standing Chairman and Chief Executive, Steven Guttman. At that time, we also announced a renewed commitment to our community shopping center and street retail operating businesses and that we would forego ground-up development of new large-scale, mixed-use projects. That transition is now complete, and I am honored to have the opportunity to guide this Company into the future. Steve's vision and guidance were instrumental in making Federal what it is today, and I would like to personally thank him for his many contributions to the Trust over the last 30 years.

Great Real Estate

In our business, there is simply no substitute for superior real estate locations in terms of increasing value and earnings growth. One of the most important underlying premises of Federal Realty's strategy is the requirement that each of our assets meet strict demographic criteria. A superior level of household income and density within a certain radius surrounding our properties is essential. This is why our shopping centers and street retail properties perform well even when economic conditions are not robust, and we believe it's why many of our equity and debt investors have made Federal their investment choice.

During 2002, our leasing team executed leases for a record 1.3 million square feet of retail space in both our shopping center and street retail portfolios at rental rates that were 13% higher than prior in-place rents. Portfolio-wide occupancy was 95% at year-end. Same-store net operating income growth remains healthy at 4% and

continues to outpace our peer group by a significant margin. Our core portfolio is performing well and should continue to outpace our peers in 2003. That said, there are very few signs that retail sales will improve nationally in 2003, and last year's bankruptcies at companies such as Ames and Kmart are sure to be followed by others. We protect ourselves from exposure like this by maintaining a broad mix of high-quality merchants who contribute to the stability and performance of our portfolio year after year. Diversification is as prudent in selecting retail tenants as it is in picking stocks. Our largest tenant accounts for only approximately 2.5% of our total base rent, and our 10 largest retailers combined account for 17%. Furthermore, due to strong demographics and resulting high tenant sales, stores at our properties are generally among the last to close as a result of tenant bankruptcies. In short, I believe that we will weather the continued difficult economic conditions better than our competitors by virtue of our locations, our tenant mix and our diversity.

Much has been said about Santana Row, the very significant retail and residential project in San Jose, California, that has been under planning and then construction for the past five years. Despite a serious fire in August 2002 that destroyed a significant portion of the largest building, we successfully opened much of the project on November 7, 2002. Santana Row opened in Silicon Valley, California, at a time when unemployment was high, consumer confidence was falling and signs of a quick national or regional economic rebound were not visible. Those conditions persist today relatively unchanged. Having said that, our residential leasing has been strong, our retail tenant lineup is enviable and Santana Row's emergence as a destination is growing stronger and stronger with each passing week. It is my firm belief that, because Santana Row is an example of our philosophy of investing in only the strongest locations, it represents the single greatest opportunity in the Federal Realty portfolio for earnings growth and value creation.

Dedicated Employees with Clear Goals

Like many businesses, competition in our business has never been more intense. There are 30 publicly traded retail real estate investment trusts competing for your investment dollar today compared with six 20 years ago. There are alternative ways to shop for necessary goods and services like the Internet and alternative formats such as super stores and warehouse concepts. I believe that for decades to come, well-merchandised, convenient, clean community shopping centers and street retail districts in heavily populated locations will continue to satisfy a great need for an extremely large number of households in metropolitan areas across the country. Federal has the product and the locations.

Nonetheless, we would not outperform our competitors without a clearly directed and focused group of team players who are relentless about making Federal Realty as good as it can be:

- Relentless about finding redevelopment and retenancing opportunities within our existing portfolio of shopping centers and street retail properties;
- Relentless about uncovering new acquisition opportunities that have the potential to be converted into something significantly more than they are;
- Relentless about accomplishing tasks previously thought to be too much of a stretch and not doable; and
- Relentless about accomplishing all of the above while achieving superior returns on investment.

The following two examples from 2002 come to mind. If you were to stand near the charred remains of the badly damaged Building 7 at Santana Row on August 20, the day after the fire, the thought of opening the project for business on November 7 would have surely seemed like a pipe dream, yet it was accomplished. Our development team, tenant coordinators and senior management, as well as all the construction workers, city officials, insurance adjusters and the numerous support staff, all pulled together to open one the the country's most impressive retail and residential districts ever conceived. I am humbled by their efforts and proud to be associated with them.

The identification of opportunities that can enhance value to our stable operating portfolio is part of everyday life at Federal Realty, but we turned up the heat in 2002 and challenged our team to identify at least 20 such opportunities that could be executed in the next three to four years. As of this writing, we have 26 such opportunities either underway or in the planning process, seven of which involve the expansion of an undersized grocer to a full-sized, competitive food store. The grocery expansions are particularly meaningful as they not only cement the shopping center as a destination, but also improve potential rents from the centers' other tenants and increase the underlying asset value of the entire shopping center. Our leasing, redevelopment, asset management and supporting departments all pulled together toward a clear, unambiguous goal, and the results were impressive.

Strong Leadership

We, along with our Board, insist on a conservatively managed balance sheet. In 2002, we issued \$57 million of common equity at then

market rates, sold \$60 million of real estate assets with limited growth potential at very attractive prices, and issued \$150 million of fixed rate unsecured notes that were used to repay the restrictive construction loan secured by Santana Row. Each of these transactions increased our financial flexibility and helped us to emerge from 2002 a stronger company.

While our business focus and senior management changed during 2002, so did the corporate governance climate. Our Board of Trustees took additional steps to protect the interests of our shareholders by separating the functions of Chairman of the Board and Chief Executive Officer. On January 1, 2003, Mark Ordan, a Trustee since 1996, assumed the role of non-executive Chairman. Additionally, in July 2002, two new members with significant public company and retail experience were appointed by the Board to serve as Trustees. Joe Vassalluzzo is Vice Chairman of Staples, Inc. and Amy Lane is the former head of the Global Retailing Investment Banking Group at Merrill Lynch.

In summary, we believe we are a great real estate company. We encountered many challenges and opportunities throughout 2002, and I believe we have emerged a stronger company with a clear vision to build significant value for you, our shareholders.

All of us at Federal Realty share a great sense of pride in our Company, our fine assets and our plans for the future. We hope you will be a part of that future, and I thank you for your continued support.

Sincerely,



Donald C. Wood
President and Chief Executive Officer



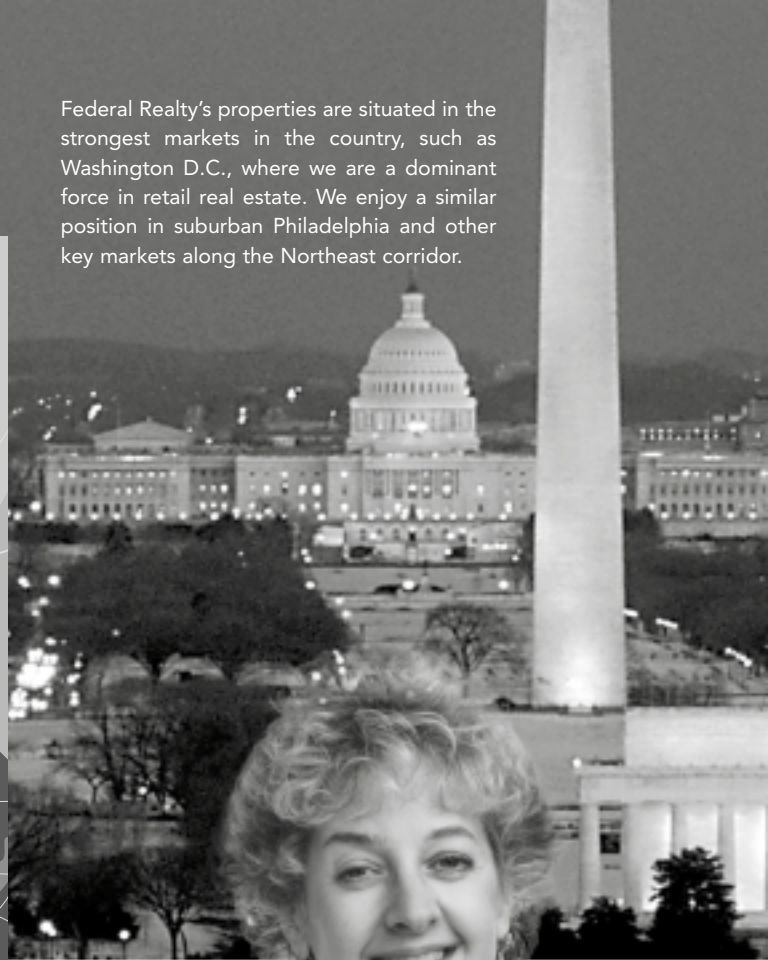
EXECUTIVE TEAM: (LEFT TO RIGHT) **LARRY FINGER**, SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER AND TREASURER; **JEFF BERKES**, SENIOR VICE PRESIDENT, STRATEGIC TRANSACTIONS; **DAWN BECKER**, SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY.

1. Focus on existing income-producing assets...

Federal Realty's properties are situated in the strongest markets in the country, such as Washington D.C., where we are a dominant force in retail real estate. We enjoy a similar position in suburban Philadelphia and other key markets along the Northeast corridor.



in superior locations. Location is the fundamental strength of our portfolio. While our geographic focus has expanded over the years, our objective has remained the same—to own high-quality retail properties in the nation's strongest markets. These markets are characterized by established, densely populated communities, which have, and should continue to provide, a strong economic foundation for our assets. For example, on average, there are more than 127,000 people who live within three miles of our properties with median household incomes exceeding \$70,000, 21% more than the national average of \$58,000.



KRISTINE LOPES
SENIOR LEASING AGENT



with a strong tenant base. Federal Realty shopping centers typically contain necessity-based retailers, such as grocery and drug stores, which provide the steady, daily consumer traffic that is important to the success of any retail property. Because of our strong locations, grocers in our centers generate above-average sales. Outdated, undersized grocers often have the ability and desire to expand their operations in order to capture more of the market. Since 1999, Federal Realty has identified and executed 18 opportunities within our portfolio to expand an existing grocery anchor or add a new grocery anchor where one didn't previously exist.

Garden Market, Western Springs, Illinois

By substantially expanding an undersized Dominick's grocery store and relocating an in-line drug store, we were able to reposition this center, upgrade the tenancy and increase occupancy. At the same time, we captured additional income from the development of a pad site and increased rents.



with the ability to improve profitability.

Increased operating efficiencies help the Trust generate optimum value from its property investments. One of the many ways the Trust achieves these efficiencies is the structuring of our leases to allow for the majority of maintenance costs, property taxes and insurance to be passed through to our tenants. Another way is to use in-house labor and national, regional or local service contracts to improve both efficiency and profitability. We view our tenants as our partners, and as such savings which inure to our tenants also can be shared with the Trust through higher minimum rents. Additionally, we continue to seek new ways to make our properties more vibrant and profitable through strategic marketing programs to produce maximum sales results for our retailers. In 2002, our reporting tenants generated average sales per square foot of \$323, a level nearly 50% higher than the shopping center average.



JONATHAN KAYNE

VICE PRESIDENT, CHIEF OPERATING
OFFICER, EASTERN REGION

2. Enhance earnings and net asset value...

"In Rockville, Catching a Wave of Style"

THE WASHINGTON POST, MARCH 15, 2003

**"In choosing The Crest...we can get
almost anywhere without a car."**

PETER BARNETT, RESIDENT OF THE CREST

One of the most important ways to create value for our shareholders is through strategic redevelopments where we can add leasable square footage on land that we already own. Such is the case at Congressional Plaza in Rockville, Maryland, where we recently completed development of a 146-unit apartment building on an underutilized portion of the parking lot. This redevelopment is expected to generate an 11% return on approximately \$18 million of invested capital.



by redeveloping and remerchandising.

This is a key element of our strategy for maximizing income and increasing property value. From simple improvements such as façade renovations to more comprehensive reconfigurations, these redevelopments typically protect occupancy rates, lower tenant improvement costs and increase rents as tenants roll over or renew their leases.

The Trust has invested over \$140 million of capital into redevelopment opportunities that have stabilized over the last four years at an average return on investment of 12%. We are currently pursuing opportunities to invest an additional \$70 million in opportunities expected to stabilize in the next two years, with projected returns in the low to mid-teens.

MICHAEL MCGREGOR

DEVELOPMENT ASSET MANAGER



by making strategic acquisitions.

Important to the future growth of Federal Realty is our ability to acquire operating properties within our core markets that possess redevelopment and remerchandising potential. Our acquisitions team is focused on opportunities where we can utilize our vision and resources to maximize a property's potential. In addition, we intend to sell existing assets that detract from our internal growth to fund accretive redevelopment and acquisition opportunities.

BARRY CARTY
DIRECTOR, STRATEGIC TRANSACTIONS

Redevelopment Pipeline Expected to Stabilize in 2003 and 2004

Property Name	Opportunity
Congressional Plaza	New 146-unit apartment building and parking structure
Third Street Promenade	Retail redevelopment
Bethesda Row	Grocery store expansion, new pad site, GLA expansion and re-tenanting
Garden Market	Expansion, re-tenanting (new grocer) and new pad site
Ellisburg Circle	Re-tenanting (new grocer) and associated expansion
Finley Square	Multiple anchor re-tenanting
Governor Plaza	New pad sites (furniture and grocer)
Dedham Plaza	Tenant re-location, parking lot and common area improvements
Willow Lawn	Grocery store expansion and renovation
Quince Orchard	Pad site expansion and re-tenanting (drug store)
Santana Row Phase II	Two new pad sites (Best Buy and The Container Store) and additional parking
Andorra	Expansion, re-tenanting and renovation
Lawrence Park	Grocery store expansion, new pad site, common area improvements
Greenlawn Plaza	New pad site (child care center)
Laurel	Grocery store expansion



3. Conservatively manage our balance sheet and capital resources...



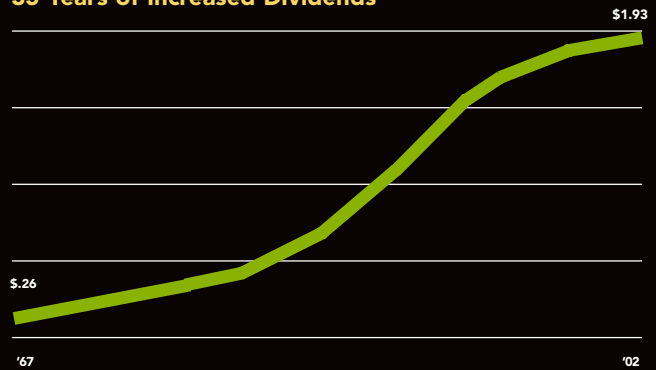
Annual Total Return Comparison

(as of 02/28/2003)

	1-YEAR	3-YEAR	5-YEAR
Federal Realty Investment Trust	25.13%	25.17%	12.35%
Bloomberg Shopping Center REIT Index	19.53%	23.26%	9.18%
Morgan Stanley REIT Index	0.84%	14.02%	3.72%
Dow Jones Industrial Average	-20.21%	-6.25%	0.18%
S&P 500 Index	-22.68%	-13.71%	-2.98%
NASDAQ	-22.39%	-33.99%	-5.13%

Source: Bloomberg

35 Years of Increased Dividends



through strategic capital transactions.

Federal Realty's capital strategy is focused on the efficient generation and deployment of capital resources to fund the Trust's business plan. A primary objective is to improve the financial flexibility of the Trust, ensuring efficient access to capital. In 2002, required capital came from internal and external sources, including our first common equity issuance in six years, our senior unsecured note issuance, and proceeds from the sale of assets that otherwise would have detracted from the Trust's future growth. Federal Realty is committed to managing our capital to enhance liquidity and minimize the risks of volatile financial markets on our balance sheet. This ensures that we can execute our business plan regardless of economic conditions.

ANDREW BLOCHER

VICE PRESIDENT, CAPITAL MARKETS AND INVESTOR RELATIONS

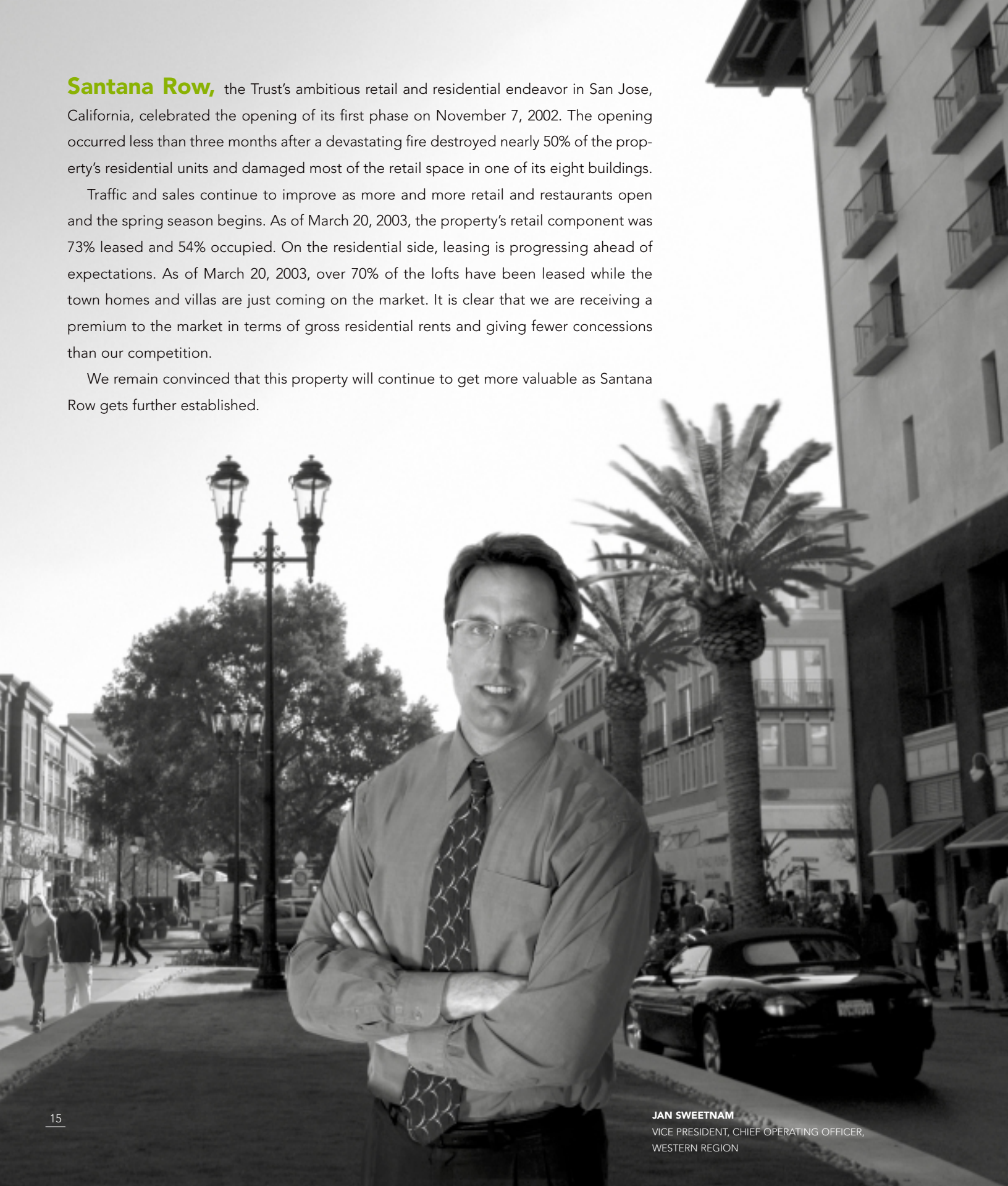
Santana Row



Santana Row, the Trust's ambitious retail and residential endeavor in San Jose, California, celebrated the opening of its first phase on November 7, 2002. The opening occurred less than three months after a devastating fire destroyed nearly 50% of the property's residential units and damaged most of the retail space in one of its eight buildings.

Traffic and sales continue to improve as more and more retail and restaurants open and the spring season begins. As of March 20, 2003, the property's retail component was 73% leased and 54% occupied. On the residential side, leasing is progressing ahead of expectations. As of March 20, 2003, over 70% of the lofts have been leased while the town homes and villas are just coming on the market. It is clear that we are receiving a premium to the market in terms of gross residential rents and giving fewer concessions than our competition.

We remain convinced that this property will continue to get more valuable as Santana Row gets further established.





Phase II of Santana Row includes the development of two freestanding buildings at the corner of Steven's Creek and Winchester Boulevards adjacent to Crate & Barrel. The buildings are 95% pre-leased to Best Buy and The Container Store and are expected to generate a 16% return on the Trust's \$27 million investment. Construction is currently underway for these buildings with an anticipated opening in fourth quarter 2003.

This is an excellent example of how all future phases of development at Santana Row will be executed. Future investments will be small, justified on a return on invested capital basis, include risk mitigation measures and compete for capital with other acquisitions and redevelopment opportunities available to the Trust.



PAMELA BRADY

VICE PRESIDENT, STREET RETAIL LEASING

Property Portfolio

■ Shopping Centers ● Street Retail ▲ Apartments

Property/Number of Buildings	Location	Square Feet	Year Acquired	Occupancy	Total Cost
MID-ATLANTIC OPERATING REGION					
DISTRICT OF COLUMBIA					
● Sam's Park N Shop	Washington, DC	50,000	1995	100%	\$ 11,736,000
● Friendship Center	Washington, DC	119,000	2001	100%	33,452,000
FLORIDA					
● Winter Park/2	Winter Park, FL	28,000	1996	90%	6,875,000
MARYLAND					
● Bethesda Row/7 blocks	Bethesda, MD	457,000	1993–1998	99%	78,312,000
■ Congressional Plaza	Rockville, MD	339,000	1965	95%	60,229,000
■ Courthouse Center	Rockville, MD	38,000	1997	94%	4,192,000
■ Federal Plaza	Rockville, MD	247,000	1989	98%	61,768,000
■ Gaithersburg Square	Gaithersburg, MD	219,000	1993	98%	23,578,000
■ Governor Plaza	Glen Burnie, MD	252,000	1985	100%	17,903,000
■ Laurel	Laurel, MD	384,000	1986	97%	45,480,000
■ Magruder's Center	Rockville, MD	109,000	1997	100%	10,388,000
■ Mid-Pike Plaza	Rockville, MD	306,000	1982	99%	16,983,000
■ Perring Plaza	Baltimore, MD	412,000	1985	88%	23,975,000
■ Quince Orchard	Gaithersburg, MD	237,000	1993	97%	18,960,000
▲ Rollingwood Apartments	Silver Spring, MD	282 units	1971	99%	6,683,000
■ Wildwood	Bethesda, MD	84,000	1969	100%	16,016,000
NORTH CAROLINA					
■ Eastgate	Chapel Hill, NC	159,000	1986	99%	14,644,000
VIRGINIA					
■ Barracks Road	Charlottesville, VA	484,000	1985	100%	39,508,000
■ Falls Plaza	Falls Church, VA	73,000	1967	98%	8,145,000
■ Falls Plaza–East	Falls Church, VA	71,000	1972	100%	3,351,000
■ Idylwood Plaza	Falls Church, VA	73,000	1994	100%	14,809,000
■ Leesburg Plaza	Leesburg, VA	247,000	1998	100%	20,343,000
■ Loehmann's Plaza	Fairfax, VA	242,000	1983	99%	25,132,000
■ Old Keene Mill	Springfield, VA	92,000	1976	100%	5,044,000
■ Pan Am	Fairfax, VA	218,000	1993	99%	24,797,000
● Pentagon Row	Arlington, VA	296,000	1999	98%	85,565,000
■ Pike 7	Vienna, VA	164,000	1997	100%	33,370,000
■ Tower	Springfield, VA	109,000	1998	88%	18,093,000
■ Tysons Station	Falls Church, VA	50,000	1978	100%	3,323,000
● The Village at Shirlington	Arlington, VA	204,000	1995	95%	32,115,000
■ Willow Lawn	Richmond, VA	503,000	1983	87%	62,321,000
Total Mid-Atlantic Region		6,266,000			\$827,090,000

■ Shopping Centers ● Street Retail ▲ Apartments

Property/Number of Buildings	Location	Square Feet	Year Acquired	Occupancy	Total Cost
NORTHEAST OPERATING REGION					
CONNECTICUT					
■ Bristol	Bristol, CT	296,000	1995	92%	\$21,793,000
● Greenwich Avenue/3	Greenwich, CT	57,000	1995–1996	99%	19,384,000
● West Hartford/7	West Hartford, CT	125,000	1995	78%	16,137,000
ILLINOIS					
■ Crossroads	Highland Park, IL	173,000	1993	100%	21,703,000
● Evanston/2	Evanston, IL	19,000	1995	100%	4,277,000
■ Finley	Downers Grove, IL	313,000	1995	91%	26,109,000
■ Garden Market	Western Springs, IL	142,000	1994	94%	10,613,000
■ North Lake Commons	Lake Zurich, IL	129,000	1994	88%	12,954,000
MASSACHUSETTS					
● Coolidge Corner	Brookline, MA	13,000	1995	100%	4,022,000
■ Dedham Plaza	Dedham, MA	248,000	1993	99%	29,284,000
■ Queen Anne Plaza	Norwell, MA	149,000	1994	100%	14,642,000
■ Saugus Plaza	Saugus, MA	171,000	1996	100%	13,069,000
MICHIGAN					
■ Gratiot Plaza	Roseville, MI	218,000	1973	100%	16,646,000
NEW JERSEY					
■ Allwood	Clifton, NJ	52,000	1988	100%	4,265,000
■ Blue Star	Watchung, NJ	407,000	1988	96%	38,871,000
■ Brick Plaza	Brick, NJ	409,000	1989	100%	53,735,000
■ Brunswick	North Brunswick, NJ	318,000	1988	69%	21,072,000
■ Clifton	Clifton, NJ	80,000	1988	93%	4,936,000
■ Ellisburg Circle	Cherry Hill, NJ	259,000	1992	99%	26,001,000
■ Hamilton	Hamilton, NJ	190,000	1988	100%	7,662,000
■ Rutgers	Franklin, NJ	217,000	1988	89%	15,915,000
■ Troy	Parsippany-Troy, NJ	202,000	1980	100%	20,446,000
NEW YORK					
● Forest Hills/3	Forest Hills, NY	86,000	1997	100%	23,965,000
■ Fresh Meadows	Queens, NY	408,000	1997	94%	64,381,000
■ Greenlawn Plaza	Greenlawn, NY	92,000	2000	95%	10,584,000
■ Hauppauge	Hauppauge, NY	131,000	1998	100%	26,182,000
■ Huntington	Huntington, NY	279,000	1988	100%	22,521,000

■ Shopping Centers ● Street Retail ▲ Apartments

Property/Number of Buildings	Location	Square Feet	Year Acquired	Occupancy	Total Cost
NORTHEAST OPERATING REGION (CONTINUED)					
PENNSYLVANIA					
■ Andorra	Philadelphia, PA	259,000	1988	95%	\$ 19,086,000
■ Bala Cynwyd	Bala Cynwyd, PA	281,000	1993	100%	23,896,000
■ Feasterville	Feasterville, PA	116,000	1980	96%	11,570,000
■ Flourtown	Flourtown, PA	191,000	1980	100%	8,698,000
■ Lancaster	Lancaster, PA	107,000	1980	95%	9,762,000
■ Langhorne Square	Levittown, PA	216,000	1985	93%	17,542,000
■ Lawrence Park	Broomall, PA	326,000	1980	99%	23,602,000
■ Northeast	Philadelphia, PA	292,000	1983	95%	21,444,000
■ Willow Grove	Willow Grove, PA	215,000	1984	100%	25,875,000
■ Wynnewood	Wynnewood, PA	255,000	1996	99%	35,134,000
Total Northeast Region		7,441,000			\$747,778,000
WESTERN OPERATING REGION					
ARIZONA					
● Mill Avenue/2	Tempe, AZ	40,000	1998	100%	\$ 11,036,000
CALIFORNIA					
● Colorado Boulevard/2	Pasadena, CA	69,000	1996–1998	98%	14,716,000
■ Escondido Promenade	Escondido, CA	222,000	1996	96%	24,624,000
● Fifth Avenue/4	San Diego, CA	51,000	1996–1997	97%	12,090,000
● Hermosa Avenue	Hermosa Beach, CA	23,000	1997	100%	4,336,000
● Hollywood Boulevard/2	Hollywood, CA	148,000	1999	78%	25,907,000
■ Kings Court	Los Gatos, CA	79,000	1998	98%	10,921,000
● Old Town Center	Los Gatos, CA	97,000	1997	94%	32,500,000
● Post Street	San Francisco, CA	103,000	1997	75%	27,927,000
● Santana Row–Retail	San Jose, CA	444,000	1997	73%	434,123,000
▲ Santana Row–Residential	San Jose, CA	255 units	1997	45%	(1)
● Third Street Promenade/9	Santa Monica, CA	209,000	1996–2000	97%	71,278,000
TEXAS					
● Houston Street/9	San Antonio, TX	53,000 ⁽²⁾	1998	37% ⁽²⁾	54,998,000
Total Western Region		1,538,000			\$ 724,456,000
TOTAL PORTFOLIO		15,245,000			\$2,299,324,000 ⁽³⁾

⁽¹⁾ Cost is included in the cost shown for Santana Row–Retail.

⁽²⁾ The Trust is currently redeveloping these properties, many of which are currently vacant.

⁽³⁾ Excludes assets being held for disposition.

Selected Financial Data

(in thousands, except per share data)	Year Ended December 31,				
	2002	2001	2000	1999	1998
Operating Data					
Rental income	\$ 298,085	\$ 274,567	\$ 255,634	\$ 241,356	\$ 218,062
Property operating income	214,057	204,047	192,347	182,493	162,372
Income before gain (loss) on sale of real estate	45,833	59,571	56,842	55,493	44,960
Gain (loss) on sale of real estate	9,454	9,185	3,681	(7,050)	—
Net income	55,287	68,756	60,523	48,443	44,960
Net income available for common shareholders	35,862	59,722	52,573	40,493	37,010
Net cash provided by operating activities	119,069	109,448	107,056	102,183	90,427
Net cash used in investing activities	175,744	232,138	121,741	99,313	187,646
Net cash provided (used) by financing activities	62,235	128,896	14,304	(8,362)	97,406
Funds from operations	90,503	110,432	102,173	96,795	86,536
Dividends declared on common shares	82,273	75,863	72,512	71,630	69,512
Weighted average shares outstanding:					
Basic	41,624	39,164	38,796	39,574	39,174
Diluted	42,882	40,266	39,910	40,638	40,080
Per share:					
Net income, basic	\$.86	\$ 1.52	\$ 1.36	\$ 1.02	\$.94
Net income, diluted	.85	1.52	1.35	1.02	.94
Dividends declared per common share	1.93	1.90	1.84	1.78	1.74

Balance Sheet Data

Real estate owned, at cost	2,306,826	2,104,304	1,854,913	1,721,459	1,642,136
Total assets	1,999,378	1,834,881	1,618,885	1,532,764	1,483,170
Mortgage and construction loans and capital lease obligations	393,212	450,336	340,152	172,573	173,480
Notes payable	198,311	174,843	209,005	162,768	263,159
Senior notes	535,000	410,000	410,000	510,000	335,000
Convertible subordinated debentures	75,000	75,289	75,289	75,289	75,289
Redeemable preferred shares	235,000	235,000	100,000	100,000	100,000
Shareholders' equity	644,287	589,291	465,460	500,543	528,800
Number of common shares outstanding	43,535	40,071	39,469	40,201	40,080

Revenues

Year Ended December 31,	Retail/Mixed-Use Properties	Residential Properties	Other	Total
2002	97%	1%	2%	100%
2001	97%	1%	2%	100%
2000	96%	1%	3%	100%

Taxability of Dividends

Following is the income tax status of dividends paid during the fiscal year ended December 31,

	2002	2001	2000	1999
Ordinary income	81%	100%	92%	91%
Return of capital	—	—	6%	9%
Long-term capital gain	19%	—	2%	—

Market Quotations

Quarter Ended	High	Low	Dividends Paid
December 31, 2002	\$28.75	\$24.55	\$.485
September 30, 2002	27.85	23.70	.48
June 30, 2002	28.50	25.56	.48
March 31, 2002	26.34	22.93	.48
December 31, 2001	\$23.67	\$21.04	\$.48
September 30, 2001	23.71	20.32	.47
June 30, 2001	21.56	18.98	.47
March 31, 2001	20.20	19.0625	.47

The estimated number of holders of record of Federal Realty's shares of beneficial interest at March 20, 2003 was 35,787.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing in Item 8 of this report. Historical results set forth in Selected Financial Information, the Financial Statements and Supplemental Data included in Item 6 and Item 8 and this section should not be taken as indicative of our future operations.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Also, documents that we "incorporate by reference" into this Annual Report on Form 10-K, including documents that we subsequently file with the Securities and Exchange Commission, which we refer to as the SEC, will contain forward-looking statements. When we refer to forward-looking statements or information, sometimes we use words such as "may," "will," "could," "should," "plans," "intends," "expects," "believes," "estimates," "anticipates" and "continues." In particular, the risk factors included or incorporated by reference in this Annual Report on Form 10-K describe forward-looking information. The risk factors describe risks that may affect these statements but are not all-inclusive, particularly with respect to possible future events. Many things can happen that can cause actual results to be different from those we describe. These factors include, but are not limited to:

- risks that our tenants will not pay rent;
- risks of financing, such as our ability to consummate additional financings or obtain replacement financing on terms which are acceptable to us, our ability to comply with our existing financial covenants and the possibility of increases in interest rates that would result in increased interest expense;
- risks normally associated with the real estate industry, including risks that we may be unable to renew leases or relet space at favorable rents as leases expire, that new acquisitions and our development, construction and renovation projects, including our Santana Row project, may fail to perform as expected, that competition for acquisitions could result in increased prices, environmental risks, and, because real estate is illiquid, that we may not be able to sell properties when appropriate;
- risks that our growth will be limited if we cannot obtain additional capital; and
- risks related to our status as a real estate investment trust, commonly referred to as a REIT, for federal income tax purposes, such as our obligation to comply with complex tax regulations relating to our status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences if we fail to qualify as a REIT.

Given these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements or those incorporated into this Annual Report on Form 10-K. We also make no promise to update any of the forward-looking statements. You should carefully review the risks and the risk factors incorporated herein by reference from our Form 8-K filed on March 25, 2003, as well as the other information in this Annual Report on Form 10-K or referred to in this Annual Report on Form 10-K, before making any investment in us.

Overview

We are an equity real estate investment trust specializing in the ownership, management, development and redevelopment of high quality retail and mixed-use properties. As of December 31, 2002, we owned or had an interest in 58 community and neighborhood shopping centers comprising over 12 million square feet, primarily located in densely populated and affluent communities throughout the Northeast and Mid-Atlantic United States. In addition, we owned 55 urban and retail mixed-use properties comprising over 2 million square feet and one apartment complex, all located in strategic metropolitan markets across the United States. Our properties excluding Santana Row were 95.5% leased at December 31, 2002 and December 31, 2001. Including Santana Row our occupancy was 94.7% at December 31, 2002.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, which we refer to as GAAP, requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management's best judgment, after considering past and current events and economic conditions. In addition, information relied upon by management in preparing such estimates includes internally generated financial and operating information, external market information when available, and when necessary, information obtained from consultations with third party experts. Actual results could differ from these estimates. The most significant accounting policies which involve the use of estimates and assumptions as to future uncertainties and, therefore, may result in actual amounts that differ from estimates, are as follows.

Revenue Recognition and Accounts Receivable

Leases with tenants are classified as operating leases. Base rents are recognized on a straight-line basis over the terms of the related leases, net of valuation adjustments, based on management's assessment of credit, collection and other business risk. We make estimates of the collectibility of our accounts receivable related to base rents, including straight line rentals, expense reimbursements and other revenue or income. In some cases the ultimate collectibility of these claims extends beyond one year. These estimates have a direct impact on our net income. We believe that our revenue recognition policies comply with both generally accepted accounting principles and the Securities and Exchange Commissions Staff Accounting Bulletin No. 101, Revenue Recognition.

Real Estate

Land, buildings and real estate under development are recorded at cost. Depreciation is computed using the straight-line method with useful lives ranging from three to 50 years on buildings and improvements. Maintenance and repair costs are charged to operations as incurred. Tenant work and other major improvements, which improve or extend the life of the asset, are capitalized and depreciated over the life of the lease or the estimated useful life of the improvements,

whichever is shorter. Certain external and internal costs directly related to the development, redevelopment and leasing of real estate, including applicable salaries and the related direct costs, are capitalized. The capitalized costs associated with developments, redevelopments and leasing are depreciated or amortized over the life of the improvement and lease, respectively. Unamortized leasing costs are charged to operations if the applicable tenant vacates before the expiration of its lease. Undepreciated tenant work is charged to operations if the applicable tenant vacates and the tenant work is replaced.

When applicable as lessee, we classify our leases of land and building as operating or capital leases in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 13, "Accounting for Leases." We are required to use judgment and make estimates in determining the lease term, the estimated economic life of the property and the interest rate to be used in applying the provisions of SFAS No. 13. These estimates determine whether or not the lease meets the qualification of a capital lease and is recorded as an asset.

We are required to make subjective assessments as to the useful lives of our real estate for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on net income. Should we lengthen the expected useful life of an asset, it would be depreciated over a greater number of years, resulting in less annual depreciation expense and higher annual net income. Likewise, we must make subjective assumptions as to which costs should be capitalized. These assumptions also have a direct impact on net income.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use. Generally, rental property is considered substantially complete and ready for its intended use upon completion of tenant improvements, but no later than one year from completion of major construction activity. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period is extended, more interest is capitalized, thereby increasing net income.

Long-Lived Assets

Through December 31, 2001, we evaluated the carrying value of our long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." In cases where particular assets are being held for sale, impairment is based on whether the fair value (estimated sales price less costs of disposal) of each individual property to be sold is less than the net book value. Otherwise, impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. If a property is impaired, its basis is adjusted to its estimated fair market value.

In August 2001 the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective for us on January 1, 2002). SFAS No. 144 requires that one accounting model be

used for long-lived assets to be disposed of by sale, whether previously held and used or newly-acquired, and broadens the presentation of discontinued operations to include components of an entity comprising operations and cash flows that can be distinguished, operationally and for financial reporting purposes from the rest of the entity.

We are required to make estimates of undiscounted cash flows in determining whether there is an impairment. Actual results could be significantly different from the estimates. These estimates have a direct impact on net income, because recording an impairment charge results in a negative adjustment to net income.

Contingencies

We are sometimes involved in lawsuits and environmental matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the amount and likelihood of loss relating to these matters. These estimates and assumptions have a direct impact on net income.

Outlook

Growth in net income and FFO during 2003 will depend primarily on growth in the core portfolio. Growth of net income from the core portfolio depends, in part, on the general economy, the financial health of our tenants and on our ability, directly or indirectly, to control expenses, some of which are beyond our complete control, such as snow removal, insurance and real estate tax assessments. The current weakening of the retail and overall economic environment could adversely impact us by increasing vacancies and decreasing rents. In past weak retail and real estate environments, however, we have been able to replace weak and bankrupt tenants with stronger tenants. Management believes that due to the quality of our properties there will continue to be demand for our space. Our properties excluding Santana Row were 95.5% leased at December 31, 2002 and December 31, 2001. Including Santana Row our occupancy was 94.7% at December 31, 2002.

Growth in the core portfolio, however, will be offset by expenses at Santana Row. Operating and marketing expenses, as well as additional depreciation and interest expense as the project is phased into operations will have a dilutive effect on 2003 earnings. As a result of the August 2002 fire at Santana Row, as more fully described in this section at "Santana Row", the projected opening of certain retail spaces have been delayed and approximately 50% of the total residential units for the project scheduled to be phased into service throughout 2003 were destroyed. These delayed openings, while lowering the income we will receive, will not substantially reduce the costs associated with maintaining and operating the infrastructure of the project.

Growth in net income is also dependent on the amount of our leverage and interest rates. Our leverage has increased as we financed our development projects. In addition, to the extent variable-rate debt is unhedged, we will continue to have exposure to changes in market interest rates although we have reduced this exposure as of December 31, 2002 as compared to December 31, 2001. If interest rates increase, net income and FFO, as well as the ultimate cost of our development and redevelopment projects, will be negatively impacted.

2002 Property Acquisitions and Dispositions

Acquisitions

We did not acquire any properties in 2002.

Dispositions

On April 11, 2002, we sold the street retail property located at 252 Greenwich Avenue in Greenwich, Connecticut for \$16.5 million, resulting in a gain of \$7.0 million.

On April 30, 2002, we sold three street retail properties, two in Westport, Connecticut and one in Westfield, New Jersey, for \$19.2 million, resulting in a gain of \$6.9 million.

On June 6, 2002, we sold the Uptown Shopping Center located in Portland, Oregon for \$20.8 million, resulting in a gain of \$4.5 million.

The proceeds from the sales of the four street retail properties and the Uptown Shopping Center were used to pay down our syndicated credit facility except \$16.0 million which was used to pay down the Santana Row construction loan. As of December 31, 2002 all of the proceeds previously held by the qualified intermediary have been released to us.

On June 18, 2002, a partnership, in which one of our subsidiaries is the general partner, sold the street retail property located at 6410 Hollywood Boulevard in Hollywood, California for \$2.3 million, resulting in a gain of \$700,000.

On June 20, 2002, the proceeds of \$6 million previously held by a qualified intermediary from the 2001 sale of the street retail property located at 101 East Oak Street in Chicago, Illinois were released to us.

2002 Financing Developments

On February 1, 2002, we received the minority partner's interest in Santana Row in exchange for a \$2.6 million investment in a partnership. We made a \$5.9 million loan to the partnership on January 12, 2001, that is due February 28, 2003. The loan was not repaid on the due date. We are currently exploring all available options we may have as a result of the borrowers failure to pay at maturity.

On June 12, 2002 we issued 2.2 million common shares at \$25.98 per share netting \$56.6 million, after all expenses of the offering.

On November 19, 2002, we completed the sale of \$150 million of senior notes in an underwritten public offering under our shelf registration statement declared effective by the SEC on September 30, 1998. Net proceeds, after deducting the discounts and commissions to the underwriters and other expenses of this offering, totaled approximately \$148.7 million. We used the net proceeds, together with \$20 million in available insurance proceeds relating to the Santana Row fire, and approximately \$7.1 million in borrowings under our credit facility, to pay in full and retire the Santana Row construction loan, including all interest owed on the loan.

Santana Row

In 2002, our single largest capital need was the development of Santana Row, a multi-phase mixed-use project being built on 42 acres in San Jose, California in the heart of Silicon Valley. The project will consist of residential, retail and hotel components, creating a community with the feel of an urban district.

Phase I of the project includes Santana Row, the "1,500 foot long main street" and eight buildings which will contain approximately 444,000 square feet of retail space, 255 residential units, a 213 room hotel and the supporting infrastructure. The first building, containing 40,000 square feet and occupied by Crate & Barrel, opened on June 27, 2002. Six buildings comprising approximately 317,000 square feet of retail space opened on November 7, 2002. Tenants in the final 87,000 square foot building in Phase I are expected to begin opening in early 2003. As of February 4, 2003, approximately 320,000 square feet, or 73%, of the Phase I retail space is leased of which approximately 200,000 square feet, or 46%, of the Phase I retail space is open.

On August 19, 2002 a fire broke out at Building Seven in the Santana Row project. Building Seven contained approximately 87,000 square feet of retail space, approximately 1,000 parking spaces and 246 residential units. All but eleven of the residential units in the building, which were originally scheduled to open in early 2003, were destroyed. The retail units and parking structure sustained water and smoke damage but were not structurally impaired. The opening of these retail units, originally scheduled for September 2002, will be delayed until early 2003. The damage related to the fire was limited almost entirely to this single building. We believe that our insurance coverage will substantially cover our losses from the fire. We estimate the insurance claim to be in the range of \$70 million to \$90 million which includes costs to clean-up, repair and rebuild as well as soft (non-construction) costs and lost rents. The cause of the fire is unknown but will not affect our insurance claim. On October 22, 2002, a \$20 million insurance reimbursement was advanced by the insurance carrier bringing the total amount received to date to \$21 million. This advance, along with the proceeds from the November 19, 2002 note offering and borrowings under our credit facility, were used to pay in full and retire the Santana Row construction loan. Because our final insurance claim has not yet been submitted, insurance proceeds expected to be received over and above those received to date have not been recorded in our December 31, 2002 financial statements.

We estimate the total cost of Phase 1 to be approximately \$445 million, net of anticipated insurance proceeds. Insurance proceeds could exceed our \$70 to \$90 million estimate due to increased fire related costs. Insurance proceeds increased by such costs would therefore not reduce our anticipated Phase I investment below \$445 million. As of December 31, 2002, before applying the \$21 million of insurance proceeds received to date, we have incurred costs of \$434 million including the purchase of all of the project's land, the construction of Phase I, costs associated with the Building Seven fire and related cleanup and costs related to future phases of the project. We estimate that we will spend approximately \$38 million, before insurance reimbursements, in 2003 relating to the completion of Phase I of the project.

We are evaluating our Building Seven residential options and alternatives taking into account costs incurred to date, costs to rebuild and market conditions and believe that we will be able to rebuild a residential component for Building Seven on economically favorable terms as part of a future phase of the project.

The success of Santana Row will depend on many factors which cannot be assured and are not entirely within our control. These factors include among others, the demand for retail and residential space, the cost of operations, including utilities and insurance, the availability and cost of capital and the general economy, particularly in the Silicon Valley.

On February 7, 2003, we announced plans for Phase II of Santana Row, which includes 84,000 square feet of retail space on two pad sites and 275 additional parking spaces. 95% of the Phase II retail space has been pre-leased to Best Buy and The Container Store. Total development costs are expected to be approximately \$27 million.

We have not determined the scope of future phases of Santana Row and will not do so until the success of Phase I, Phase II and future demand for rental space is determined. However, as Phases I and II utilize only part of the retail and residential entitlements of the property, and as Phase I includes the costs of land and infrastructure for future phases, we expect to identify and execute relatively small, additional phases on economically favorable terms.

New Business Plan, Restructuring Charges and CEO Transition

On February 28, 2002, we adopted a new business plan which returned our primary focus to our traditional business of acquiring and redeveloping community and neighborhood shopping centers that are anchored by supermarkets, drug stores, or high volume, value oriented retailers that provide consumer necessities. We will complete Bethesda Row and Santana Row (Pentagon Row was completed in 2002) but do not plan to develop any new large-scale, mixed-use, ground-up development projects. Rather, we will seek to acquire income producing centers around our existing markets and will identify and execute redevelopment opportunities in our existing portfolio. Concurrent with the adoption of the business plan, we adopted a management succession plan and restructured our management team.

In connection with this change in our business plan, we recorded a charge of \$18.2 million. This charge included a reserve for a restructuring charge of \$8.5 million made up of \$6.9 million of severance and other compensation costs for several of our senior officers related to the management restructuring, as well as the write-off of \$1.6 million of development costs. All charges against the reserve, totaling \$8.5 million, were expended during 2002. An additional component of the restructuring charge is an impairment loss of \$9.7 million representing the estimated loss on the abandonment of development projects held for sale, primarily the Tanasbourne development project

located in Portland, Oregon, thereby adjusting the value of these assets to their estimated fair value. We are marketing these properties for sale. The carrying value of these properties as of December 31, 2002, classified on our consolidated balance sheet as real estate under development, is \$8.5 million.

On December 20, 2002, we announced the resignation of Steven J. Guttman as Trustee, Chief Executive Officer and Chairman of the Board of Trustees effective January 1, 2003. Donald C. Wood, our then President and Chief Operating Officer, was named Chief Executive Officer and a member of the Board of Trustees. Mark Ordan, a member of the Board of Trustees since 1996, was named non-executive chairman of the board. As a result of this transition, we recorded a charge of \$13.8 million in the fourth quarter of 2002 for payments and benefits to Mr. Guttman pursuant to his contractual arrangements with us and for other transition related costs. Of this amount, \$7.9 million had not been paid as of December 31, 2002, the majority of which was paid in the first quarter of 2003.

Results of Operations

Comparison of 2002 to 2001

Throughout this section, we have provided certain information on a "same center" basis. Information provided on a same center basis is provided only for those properties owned and operated in the periods being compared and includes properties which were redeveloped or expanded during the periods being compared. Properties purchased or sold and properties under development during the periods being compared are excluded.

Revenue

Total revenues increased \$23.7 million, or 8.0%, to \$318.8 million for the year ended December 31, 2002, as compared to \$295.1 million for the year ended December 31, 2001. The primary components of the increase in total revenues are discussed below.

Rental Income. Rental income consists of minimum rent, percentage rent and cost recoveries for common area maintenance and real estate taxes. The increase in rental income of \$23.5 million, or 8.6%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$8.1 million in rental income attributable to the properties acquired subsequent to January 1, 2001 and properties under development in 2001 and 2002 which phased into service during 2001 and 2002, specifically Santana Row and Pentagon Row. These increases were offset by properties sold in 2001; and
- an increase of \$15.4 million, or 5.7%, on a same center basis due primarily to the increased rental rates at redeveloped and retented centers, as well as increased rental rates associated with lease rollovers and higher cost recoveries as a result of increased rental expenses and real estate tax expenses.

Same center basis for the year ended December 31, 2002 excludes the six properties sold in 2002, the Williamsburg Shopping Center in Williamsburg, Virginia, 101 E. Oak Street in Chicago, Illinois and 70/10 Austin Street in Forest Hills, New York which were sold in 2001, Friendship Center in Washington, D.C. which was purchased on September 21, 2001, the office building located at 580 Market Street in San Francisco, California which was exchanged for the minority partner's interest in Santana Row and properties under development in 2001 and 2002, including Pentagon Row in Arlington, Virginia and Santana Row in San Jose, California. Same center rental income, excluding the contribution from property redevelopments and expansions, for the year ended December 31, 2002 increased 5.1% from 2001, reflecting increases due to retenancing, lease rollovers and cost recoveries.

Interest and Other Income. Interest and other income includes interest earned on mortgage notes receivable, overnight cash investments, including tax-deferred exchange escrow deposits, as well as a provision for estimated losses related to various unconsolidated restaurant joint ventures at Santana Row. The decrease in interest and other income of \$1.4 million, or 21.8% for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to a write down associated with the estimated impairment of \$1.3 million which represents our best estimate of the diminution of value based upon the current economic climate surrounding these joint ventures.

Other Property Income. Other property income includes items, which although recurring, tend to fluctuate more than rental income from period to period, such as utility reimbursements, telephone income, merchant association dues, late fees, lease termination fees and temporary tenant income. The increase in other property income of \$1.6 million, or 11.8%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to:

- a one-time \$800,000 perpetual easement payment from a residential developer that has commenced development on an adjacent site at the Pentagon Row project;
- increases of \$1.3 million in parking income, utility reimbursements and lease termination fees at Pentagon Row, which began phasing into service in the second quarter of 2001, Santana Row, which began phasing into service in the fourth quarter of 2002 and Friendship Center which was purchased in the third quarter of 2001; partially offset by
- lower lease termination fees and parking income from properties owned and operated in both periods.

On a same center basis, other property income decreased \$500,000 in 2002 as compared to 2001, as explained above.

Expenses

Total expenses increased \$36.3 million to \$270.1 million for the year ended December 31, 2002, as compared to \$233.8 million for the year ended December 31, 2001. The primary components of the increase in total expenses are discussed below.

Rental Expense. The increase in rental expense of \$10.9 million, or 17.3%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$9.1 million in non-capitalized operating, leasing and marketing costs associated with our development projects, primarily operating, pre-opening and marketing expenses at our Santana Row project, as well as increased costs reflecting a full year of operating activity at the Pentagon Row project; and
- an increase of \$1.8 million, or 3.1%, on a same center basis due primarily to increased maintenance, insurance and utility costs, offset by lower bad debt and property management costs.

Rental expense as a percentage of rental income and other property income, which we refer to as property income, increased slightly from 21.7% in 2001 to 23.5% in 2002 due primarily to increased marketing and pre-opening expenses at Santana Row. Same center rental expense, excluding the effect of property redevelopments and expansions, as a percentage of property income decreased slightly from 20.0% in 2001 to 19.6% in 2002 and overall for the year ended December 31, 2002 increased 2.2% from 2001.

Real Estate Taxes. The increase in real estate taxes of \$2.8 million, or 10.0%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to increased taxes on new development projects, recently redeveloped properties and overall increases in tax assessments. On a same center basis, real estate taxes increased 7.0% due primarily to increased taxes on recently redeveloped properties and overall increases in tax assessments at various projects, principally Woodmont East, Fresh Meadows, Garden Market and Mid-Pike. Same center real estate taxes, excluding the effect of property redevelopments and expansions, for the year ended December 31, 2002 increased 6.1% from 2001.

Property Operating Income. As a result of the changes and variances explained above, property operating income, total income less rental expenses and real estate taxes, increased \$10.1 million, or 4.9%, to \$214.1 million for the year ended December 31, 2002 as compared to \$204.0 million for the year ended December 31, 2001.

Interest Expense. In 2002, we incurred interest expense of \$88.6 million, of which \$23.5 million was capitalized yielding interest expense of \$65.1 million, as compared to interest of \$87.1 million in 2001, of which \$17.8 million was capitalized yielding interest expense of \$69.3 million. The decrease in interest expense of \$4.2 million, or 6.1%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to:

- a decrease in the weighted-average interest rate on our debt from 7.6% in 2001 to 7.4% in 2002, primarily as a result of decrease in interest rates on our variable rate debt; and
- increased capitalized interest at the Santana Row project which was under construction for the majority of 2002 and began to be phased into service beginning with the first tenant opening in June 2002.

Administrative Expense. The decrease in administrative expense of \$500,000, or 3.4%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is mostly attributable to lower payroll costs in 2002 as a result of our corporate restructuring. As a result, administrative expenses as a percentage of revenue decreased from 4.8% in the year ended December 31, 2001 to 4.3% in the year ended December 31, 2002.

Restructuring Charge. On February 28, 2002, we adopted a new business plan which returned our primary focus to our traditional business of acquiring and redeveloping community and neighborhood shopping centers that are anchored by supermarkets, drug stores, or high volume, value oriented retailers that provide consumer necessities. Concurrently with the adoption of the business plan, we adopted a management succession plan and restructured our management team. In connection with this change in business plan, we recorded a charge of \$18.2 million. This charge included a reserve for a restructuring charge of \$8.5 million made up of \$6.9 million of severance and other compensation costs for several of our senior officers related to the management restructuring, as well as the write-off of \$1.6 million of our development costs. All charges against the reserve, totaling \$8.5 million, were expended during 2002. Please see "New Business Plan, Restructuring Charges and CEO Transition" for additional information.

In addition, in the fourth quarter of 2002 we recorded a charge of \$13.8 million as a result of the accelerated executive transition whereby Donald C. Wood, the Trust's President and Chief Operating Officer, replaced Steven Guttman as Chief Executive Officer of the Trust. The fourth quarter charge, which includes an accrual of \$7.9 million at December 31, 2002 for payments and benefits due to Mr. Guttman pursuant to his contractual arrangements with us and for other transition related costs. No cash payments were made against this charge in 2002 and we expect to expend the majority of the accrual in 2003.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense of \$5.1 million, or 8.6%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001 reflects the impact of recent new developments, tenant improvements and property redevelopments which were placed into service throughout 2001 and 2002.

Other

Investors' Share of Operations. Investors' share of operations represents the minority partner's interest in the income of certain properties. The decrease in investors' share of operations of \$1.1 million, or 20.5%, for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to our 2001 purchase of the minority interest in nine street retail buildings in southern California and three street retail buildings in Forest Hills, New York and the operating unit holders share of the decrease in operating income in 2002.

Gain on Sale of Real Estate Net of Loss on Abandoned Developments Held for Sale. The approximately \$300,000 increase in gain on sale of real estate, net of loss on abandoned developments held for sale for the year ended December 31, 2002, as compared to the year ended December 31, 2001, is attributable to:

- an increase in net gains recognized in 2002 from the sale of six properties for a combined gain of \$19.1 million in the second quarter of 2002, as compared to the sale of one shopping center in the second quarter of 2001 for a gain of \$7.9 million, the sale of one street retail property in the fourth quarter of 2001 for a gain of \$1.8 million and the exchange of a 90% interest in a street retail building for a 10% interest in three street retail buildings with a minority partner which resulted in an accounting loss of \$500,000 in the fourth quarter of 2001; primarily offset by
- the impairment loss of \$9.7 million on the abandonment of developments held for sale as described under "New Business Plan, Restructuring Charges and CEO Transition."

Income from Operations of Discontinued Assets. Beginning in 2002, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires that gains and losses from dispositions of properties and all operating earnings from these properties be reported as income from operations of discontinued assets. This also requires that all past earnings applicable to a property disposed of subsequent to January 1, 2002 be reported as income from operations of discontinued assets. As a result, previously reported income will be updated each time a property is sold. This requirement is for presentation only and has no impact on net income. As described above, in 2002, we sold six properties for a combined gain of \$19.1 million. The earnings generated from these properties have been reported as income from operations of discontinued assets in accordance with SFAS No. 144. Income from operations of discontinued assets for the years ended December 31, 2002 and 2001 was \$1.3 million and \$3.5 million, respectively with the decrease being primarily due to the fact that these properties were owned for less than a full year in 2002.

Comparison of 2001 to 2000

Revenue

Total revenues increased \$20.9 million, or 7.6%, to \$295.1 million for the year ended December 31, 2001, as compared to \$274.2 million for the year ended December 31, 2000. The primary components of the increase in total revenues are discussed below.

Rental Income. The increase in rental income of \$18.9 million, or 7.4%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to:

- an increase of \$2.9 million in rental income attributable to the properties acquired subsequent to January 1, 2000 and properties under development in 2000 and 2001 which began phasing into service during 2001, specifically Pentagon Row and Woodmont East. These increases were offset by properties sold in 2001 and 2000; and
- an increase of \$16.0 million, or 6.4%, on a same center basis due primarily to the increased rental rates at redeveloped and retenanted centers, as well as increased rental rates associated with lease rollovers and higher cost recoveries.

Same center basis for the year ended December 31, 2001 excludes the six properties sold in 2002 because they have been reclassified to Income from Operations of Discontinued Assets on the Consolidated Statements of Operations, the Williamsburg Shopping Center in Williamsburg, Virginia and Peninsula Shopping Center in Palos Verdes, California which were sold on April 27, 2001 and June 30, 2000, respectively, as well as, properties acquired and properties under development in 2000 and 2001, including Friendship Center in Washington, D.C., Woodmont East in Bethesda, Maryland, Pentagon Row in Arlington, Virginia, 214 Wilshire Boulevard in Santa Monica, California and Town & Country Shopping Center in San Jose, California, which was demolished to make way for the Santana Row development.

Interest and Other Income. The decrease in interest and other income of \$900,000, or 12.5%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to a decrease in interest earned on mortgage notes receivable which reflects the \$11.8 million decrease in mortgage notes receivable from December 31, 2000 to December 31, 2001.

Other Property Income. The increase in other property income of \$2.9 million, or 26.6%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to:

- an approximate \$1.2 million increase in lease termination fees; and
- increased parking income and utility reimbursements.

On a same center basis, other property income during the year ended December 31, 2001 increased 18.7% from the year ended December 31, 2000.

Expenses

Total expenses increased \$19.7 million, or 9.2%, to \$233.8 million for the year ended December 31, 2001, as compared to \$214.1 million for the year ended December 31, 2000. The primary components of the decrease in total expenses are discussed below.

Rental Expense. The increase in rental expense of \$7.1 million, or 12.7%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to:

- an increase of \$5.7 million in operating, leasing and marketing costs associated with our development projects, primarily leasing and marketing expenses at our Santana Row project, as well as increased costs reflecting the increased operating activity at the Pentagon Row and Woodmont East projects; and
- an increase of \$2.3 million, or 4.3%, on a same center basis due primarily to general cost increases along with increased property management costs in 2001; partially offset by
- a decrease of \$900,000 in operating costs related to properties acquired and sold during the two periods.

Rental expense as a percentage of rental income and other property income, which we refer to as property income, increased slightly from 20.9% in 2000 to 21.7% in 2001 due primarily to the increased leasing and marketing expenses at Santana Row.

Real Estate Taxes. The increase in real estate taxes of \$2.1 million, or 8.2%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable primarily to increased tax assessments on recently redeveloped properties partially offset by taxes on properties sold in 2001 and 2000. On a same center basis, real estate taxes increased 9.4%, reflecting the increases on redeveloped properties.

Property Operating Income. As a result of the changes and variances explained above, property operating income, total income less rental expenses and real estate taxes, increased \$11.7 million, or 6.1%, to \$204.0 million for the year ended December 31, 2001 as compared to \$192.3 million for the year ended December 31, 2000.

Interest Expense. In 2001, we incurred interest expense of \$87.1 million, of which \$17.8 million was capitalized, as compared to 2000's \$79.7 million, of which \$13.3 million was capitalized. The increase in interest expense of \$2.9 million, or 4.4%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to:

- increased mortgage interest, primarily due to the \$152 million of mortgages placed on five properties in the fourth quarter of 2000; partially offset by
- a decrease in the weighted-average interest rate on our debt from 7.9% in 2000 to 7.6% in 2001, primarily as a result of decrease in interest rates on our variable rate debt; and
- increased capitalized interest at the Santana Row project which was under construction during 2001.

Administrative Expense. The increase in administrative expense of \$1.0 million, or 7.2%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to increased personnel costs, legal and accounting fees. However, administrative expenses as a percentage of revenue decreased slightly in 2001 to 4.8% from 4.9% in 2000.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense of \$6.6 million, or 12.6%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, reflects the impact of recent new development, tenant improvements and property redevelopments which were placed in service during the year, specifically the Pentagon Row and Woodmont East developments.

Other

Investors' Share of Operations. The decrease in investors' share of operations of \$1.3 million, or 21.0%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to our buy-out of the minority partners' in nine street retail buildings in southern California, thereby increasing our ownership in these buildings to 100%.

Gain on Sale of Real Estate Net of Loss on Abandoned Developments Held for Sale. The increase in gain on sale of real estate, net of loss on abandoned developments held for sale, of \$5.5 million for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to an increase in net gains recognized in 2001 from:

- the sale of one shopping center in the second quarter of 2001 for a gain of \$7.9 million; and
- the sale of one street retail property in the fourth quarter of 2001 for a gain of \$1.8 million; partially offset by
- the exchange of our 90% interest in a street retail building to the minority partner in exchange for the minority partner's 10% interest in three other street retail buildings in the fourth quarter of 2001 resulting in a loss of approximately \$500,000; as compared to
- the sale of one shopping center in the second quarter of 2000 for a gain of \$3.7 million.

Income from Operations of Discontinued Assets. Beginning in 2002, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires that gains and losses from dispositions of properties and all operating earnings from these properties be reported as income from operations of discontinued assets. This also requires that all past earnings applicable to a property disposed of subsequent to January 1, 2002 be reported as income from operations of discontinued assets. As a result, previously reported income will be updated each time a property is sold. This requirement is for presentation only and has no impact on net income. As described above, in 2002, we sold six properties for a combined gain of \$19.1 million. The earnings generated from these properties have been reported as income from operations of discontinued assets in accordance with SFAS No. 144. Income from operations of discontinued assets for the years ended December 31, 2001 and 2000 was \$3.5 million and \$3.3 million, respectively.

Segment Results

We operate our business on an asset management model, where small focused teams are responsible for a portfolio of assets. We have divided our portfolio of properties into three operating regions: the Northeast, Mid-Atlantic and West. Each region is operated under the direction of an asset manager, with dedicated leasing, property management and financial staff and operates largely autonomously with respect to day to day operating decisions. Incentive compensation, throughout the regional teams, is tied to the net operating income of the respective portfolios.

Historical operating results for the three regions are as follows (in thousands):

	For the Years Ended December 31,		
	2002	2001	2000
Rental Income			
Northeast	\$123,093	\$117,353	\$110,256
Mid-Atlantic	139,596	124,765	114,371
West	35,396	32,449	31,007
Total	<u>\$298,085</u>	<u>\$274,567</u>	<u>\$255,634</u>
Property Operating Income ⁽¹⁾			
Northeast	\$ 92,399	\$ 87,831	\$ 81,633
Mid-Atlantic	103,429	92,086	84,346
West	18,269	21,982	24,212
Total	<u>\$214,097</u>	<u>\$201,899</u>	<u>\$190,191</u>

(1) Property operating income consists of rental income, other property income and interest income on mortgage notes receivable, less rental expense and real estate taxes.

Northeast

As of December 31, 2002, 48 of our properties were located in the Northeast region. The Northeast region extends from suburban Philadelphia north through New York and its suburbs into New England and west to Illinois and Michigan.

Rental Income. The increase in rental income of \$5.7 million, or 4.9%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$6.8 million, or 5.9%, on a same center basis due primarily to the increased rental rates at redeveloped, expanded and retented centers, such as Bala Cynwyd, Brunswick, Dedham, Fresh Meadows, Rutgers and Wynnewood, as well as increased rental rates associated with lease rollovers; partially offset by
- a decrease of \$1.1 million due to the disposition of 101 E. Oak Street and 70/10 Austin Street in 2001.

Same center basis for the year ended December 31, 2002 excludes 101 E. Oak Street and 70/10 Austin Street which were sold in 2001. Same center rental income, excluding the contribution from property redevelopments and expansions, for the year ended December 31, 2002 increased 5.7% from 2001.

When comparing 2001 with 2000, rental income, on an overall and same center basis, increased \$7.1 million, or 6.4%, primarily due to increases at recently redeveloped and retented shopping center and street retail properties such as Greenlawn, Blue Star, Brunswick, Ellisburg, Fresh Meadows and Austin Street.

Property Operating Income. Property operating income consists of rental income, other property income and interest income on mortgage notes receivable, less rental expense and real estate taxes. The increase in property operating income of \$4.6 million, or 5.2%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$5.7 million in rental revenue as described above; offset by
- a decrease of \$600,000 in interest income on mortgage notes receivable as a result of a payoff of a \$10 million mortgage note in July 2002; and
- an increase of \$500,000 in real estate taxes primarily as a result of increased taxes on recently redeveloped and retented properties.

Same center property operating income in the year ended December 31, 2002 increased 7.2% from 2001. Same center property operating income, excluding the contribution from property redevelopments and expansions, for the year ended December 31, 2002 increased 7.1% from 2001.

Property operating income increased \$6.2 million, or 7.6%, for the year ended December 31, 2001 as compared to December 31, 2000. This increase is attributable to:

- an increase of \$7.1 million in rental revenue as described above;
- an increase in other property income of \$1.4 million due primarily to increased lease termination fees of \$1.0 million; partially offset by
- an increase of \$1.5 million in real estate taxes primarily as a result of increased taxes on redeveloped and retented properties;
- an increase in rental expenses of \$300,000; and
- decreased interest income on mortgage notes receivable of \$500,000 as a result of mortgage notes of approximately \$10 million being paid off in late 2000 and early 2001.

Mid-Atlantic

As of December 31, 2002, 32 of our properties, including Pentagon Row, were located in the Mid-Atlantic region. The Mid-Atlantic region extends from Baltimore south to metropolitan Washington, D.C. and further south through Virginia and North Carolina into Florida.

Rental Income. The increase in rental income of \$14.8 million, or 11.9%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$9.4 million from Friendship Center which was purchased in 2001 and from Pentagon Row which was phased into service throughout 2001 and 2002;
- a net increase of \$6.1 million, or 5.0%, on a same center basis due primarily to the increased rental rates attributable to retenting at several shopping centers and street retail properties, as well as the increased rental income from the Trust's Woodmont East project in Bethesda, Maryland which was open and occupied for a full year in 2002. These increases were partially offset by higher vacancy levels at three of the region's shopping centers; offset by
- a decrease of \$700,000 from the Williamsburg Shopping Center which was sold in 2001.

Same center basis for the year ended December 31, 2002 excludes Williamsburg Shopping Center which was sold in 2001, Friendship Center which was purchased in 2001 and Pentagon Row which was being phased into service throughout 2001 and 2002. There were no significant contributions from redevelopments or expansions in this region during 2001 and 2002.

When comparing 2001 with 2000, rental income increased \$10.4 million, or 9.1%, reflecting the contribution from the recently completed Woodmont East project, the rental income generated from the first three buildings at the Pentagon Row project, as well as Friendship Center which was acquired on September 21, 2001. On a same center basis, which excludes Woodmont East, Pentagon Row, Friendship Center and Williamsburg shopping center which was sold on April 27, 2001, rental income increased \$4.8 million, or 4.3%, due to successful retenting at several of the regions properties.

Property Operating Income. The increase in property operating income of \$11.3 million, or 12.3%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$14.8 million in rental revenue as described above; and
- an increase of \$1.8 million in other income primarily from Pentagon Row and Friendship Center, as both of these properties were owned and operated for a full year in 2002; partially offset by

- an increase of \$3.5 million in rental expense, primarily due to the Pentagon Row and Friendship Center properties as well as increased insurance costs; and
- an increase of \$1.8 million in real estate taxes, of which approximately \$800,000 was attributable to Pentagon Row and Friendship Center with the remaining increase primarily as a result of increased taxes on recently redeveloped properties and overall increases in tax assessments.

Same center property operating income in the year ended December 31, 2002 increased 4.8% from 2001.

Property operating income increased \$7.7 million, or 9.2%, for the year ended December 31, 2001 when compared to the year ended December 31, 2000. This increase is attributable to:

- an increase of \$10.4 million in rental revenue as described above;
- an increase in other property income of \$1.8 million due primarily to increased lease termination fees and other miscellaneous income; partially offset by
- an increase of \$3.7 million in rental expenses primarily at Pentagon Row and Woodmont East; and
- an increase in real estate taxes of \$800,000, approximately \$400,000 of which was related to Pentagon Row, Woodmont East and Friendship Center with the remainder attributable to increases in tax assessments throughout the portfolio.

West

As of December 31, 2002, 34 of our properties, including Santana Row, were located in the West region. The West region extends from Texas to the West Coast.

Rental. The increase in rental income of \$2.9 million, or 9.1%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$2.5 million, or 7.9%, on a same center basis due primarily to the increased rental rates at redeveloped and retenant properties in the Los Angeles area, San Francisco and Los Gatos, California, as well as the increased rental income associated with lease rollovers;
- an increase of approximately \$800,000 of rental income generated at Santana Row; offset by
- a decrease of approximately \$400,000 due to the exchange of 580 Market Street in 2002.

Same center basis for the year ended December 31, 2002 excludes 580 Market Street which was exchanged for the minority partner's interest in Santana Row and Santana Row, which was under development in 2001 and 2002. Same center rental income, excluding the contribution from property redevelopments and expansions, for the year ended December 31, 2002 increased 5.1% from 2001.

When comparing 2001 with 2000, rental income increased \$1.4 million, or 4.7%, reflecting the recently redeveloped and retenant properties in Los Angeles and San Francisco, California, offset by the impact of the sale of Peninsula Shopping Center on June 30, 2000. On a same center basis, which excludes properties acquired and sold in 2001 and 2000 and Santana Row, which is under development, rental income increased \$4.1 million, or 15.4%, due to the successful redevelopment and retenanting mentioned above.

Property Operating Income. The decrease in property operating income of \$3.7 million, or 16.9%, for the year ended December 31, 2002 as compared to the year ended December 31, 2001, is attributable to:

- an increase of \$7.4 million in rental expense primarily as a result of leasing, marketing and other start-up costs associated with our Santana Row project;
- an increase of \$500,000 in real estate taxes primarily as a result of increased taxes on recently redeveloped properties and real estate tax expense on Santana Row reflecting the period the project was operating in 2002; and
- a decrease of \$100,000 in other property income primarily as a result of lower parking income which offset the increase associated with Santana Row; partially offset by
- an increase of \$2.9 million in rental income as described above; and
- an increase of \$1.4 million in interest income on mortgage notes receivable primarily as a result of additional loans funded during 2002 and higher participating interest on loans outstanding.

Same center property operating income in the year ended December 31, 2002 increased 5.4% from 2001. Same center property operating income, excluding the contribution from property redevelopments and expansions, for the year ended December 31, 2002 increased 4.0% from 2001.

Property operating income decreased \$2.2 million, or 9.2%, for the year ended December 31, 2001 when compared to the year ended December 31, 2000. This decrease is attributable to:

- an increase of \$3.1 million in rental expenses, consisting primarily of the marketing and leasing costs associated with the Santana Row development;
- a decrease in interest and other income of \$400,000 reflecting the payoff of a note in 2001 and higher participation interest in 2000;
- a decrease in other property income of \$300,000 due primarily to the reduction in earnings when the old Town & Country Shopping Center was demolished to make way for the new Santana Row project; offset by
- an increase of \$1.4 million in rental income as described above; and
- a net decrease in real estate taxes of \$200,000 attributable to the June 30, 2000 sale of Peninsula Shopping Center, which offsets increased assessments on redeveloped properties and overall increases in tax assessments.

Liquidity and Capital Resources

Cash and cash equivalents were \$23.1 million and \$17.5 million at December 31, 2002 and December 31, 2001, respectively. This \$5.6 million increase is attributable to \$119.1 million and \$62.2 million provided by operating and financing activities, respectively, partially offset by \$175.7 million used in investing activities.

<i>(In thousands)</i>	For the Year Ended December 31, 2002
Cash Provided by Operating Activities	\$ 119,069
Cash Provided by Financing Activities	62,235
Cash Used in Investing Activities	<u>(175,744)</u>
Increase in Cash and Cash Equivalents	5,560
Cash and Cash Equivalents, Beginning of Period	17,563
Cash and Cash Equivalents, End of Period	<u>\$ 23,123</u>

Operating Activities

The cash provided by operating activities for the year ended December 31, 2002 of \$119.1 million is attributable to:

- \$99.5 million from property operations; and
- \$19.6 million from the non-cash portion of our restructuring expense.

Financing Activities

The cash provided by financing activities for the year ended December 31, 2002 of \$62.2 million is attributable to:

- \$148.7 million of proceeds, net of costs, from the November 2002 note issuance;
- \$130.6 million of proceeds under the Santana Row and Woodmont East construction loans;
- \$56.6 million of proceeds, net of costs, received from the issuance of 2,200,000 common shares in an underwritten public offering in June 2002;
- \$27.0 million of net proceeds under our credit facility; and
- \$20.1 million of net proceeds received from the issuance of common shares under our dividend reinvestment plan and exercise of common stock options.

The cash provided by financing activities was partially offset by:

- \$191.3 million payoff and retirement of the Santana Row construction loan;
- \$96.5 million of distributions to shareholders;
- the repayment and retirement of our 8% Senior Notes of \$25 million;
- the repayment and retirement of a \$3.4 million note;
- the repayment of \$289,000 of our 5.25% Convertible Subordinated Debentures;
- \$900,000 of principal payments on mortgages, capital leases and notes payable; and
- a \$3.4 million decrease in minority interest.

Investing Activities

The cash used in investing activities for the year ended December 31, 2002 of \$175.7 million is attributable to:

- \$200.3 million for the development of Santana Row and Pentagon Row; and
- \$43.6 million of capital expenditures relating to improvements to common areas, tenant work and various redevelopments including the Congressional Apartments in Rockville, Maryland, the redevelopment of retail buildings in San Antonio, Texas and the completion of tenant work at our Woodmont East development in Bethesda, Maryland.

The cash used in investing activities was partially offset by:

- \$62.5 million of net proceeds from the disposition of the six properties sold in the second quarter of 2002 and the one street retail property sold in the fourth quarter of 2001; and
- the repayment, net of additional loans to existing borrowers, of mortgage notes receivable of \$5.7 million.

Debt Financing Arrangements

As of December 31, 2002, we had total debt outstanding of \$1.1 billion. Of this debt, approximately \$289 million (consisting of \$238 million of fixed rate and \$51 million of variable rate debt) was secured by approximately 12 of our properties.

The following is a summary of our total debt outstanding as of December 31, 2002 and 2001 (dollars in thousands):

Description of Debt	Original Debt Issued or Available	Principal Balance as of December 31, 2002	Principal Balance as of December 31, 2001	Interest Rate as of December 31, 2002	Maturity Date
Mortgage and Construction Loans					
<i>Secured Fixed Rate</i>					
Leesburg Plaza ⁽¹⁾	\$ 9,900	\$ 9,900	\$ 9,900	6.510%	October 1, 2008
164 E. Houston Street ⁽²⁾	345	268	304	7.500%	October 6, 2008
Federal Plaza ⁽³⁾	36,500	35,936	36,304	6.750%	June 1, 2011
Tysons Station ⁽⁴⁾	7,000	6,864	6,967	7.400%	September 1, 2011
Barracks Road ⁽⁵⁾	44,300	44,300	44,300	7.950%	November 1, 2015
Hauppauge ⁽⁶⁾	16,700	16,700	16,700	7.950%	November 1, 2015
Lawrence Park ⁽⁷⁾	31,400	31,400	31,400	7.950%	November 1, 2015
Wildwood ⁽⁸⁾	27,600	27,600	27,600	7.950%	November 1, 2015
Wynnewood ⁽⁹⁾	32,000	32,000	32,000	7.950%	November 1, 2015
Brick Plaza ⁽¹⁰⁾	33,000	33,000	33,000	7.415%	November 1, 2015
<i>Secured Variable Rate</i>					
Woodmont East Construction ⁽¹¹⁾	24,500	24,449	23,164	Libor + 1.20%	August 29, 2003
Friendship Center ⁽¹¹⁾	17,000	17,000	17,000	Libor + 1.35%	September 22, 2003
Santana Row Construction ⁽¹²⁾	295,000	—	62,004	Libor + 2.125%	April 16, 2004
<i>Unsecured Variable Rate</i>					
Escondido (Municipal Bonds) ⁽¹³⁾	9,400	9,400	9,400	3.140%	November 1, 2015
Total Mortgage and Construction Loans		<u>\$288,817</u>	<u>\$350,043</u>		

(1) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$9.5 million.

(2) The loan requires monthly payments of principal and interest.

(3) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$31.7 million.

(4) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$5.6 million.

(5) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$35.0 million.

(6) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$13.2 million.

(7) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$24.8 million.

(8) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$21.8 million.

(9) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$25.3 million.

(10) The loan requires monthly payments of principal and interest with a final balloon payment at maturity of approximately \$25.7 million.

(11) The loans require monthly interest only payments through maturity. The loans were paid off on February 11, 2003 through borrowings under the revolving credit facility.

(12) The loan was repaid on November 19, 2002.

(13) The loan requires monthly interest only payments through maturity. This loan bears interest at a variable rate determined weekly to be the interest rate which would enable the bonds to be remarketed at 100% of their principal amount. The weighted average interest rate for the year ended December 31, 2002 was 3.14%. The property is not encumbered by a lien.

The following is a summary of our total debt outstanding as of December 31, 2002 and 2001 (continued) (dollars in thousands):

Description of Debt	Original Debt Issued or Available	Principal Balance as of December 31, 2002	Principal Balance as of December 31, 2001	Interest Rate as of December 31, 2002	Maturity Date
Notes Payable					
<i>Unsecured Fixed Rate</i>					
Term note with banks ⁽¹⁴⁾	\$125,000	\$ 125,000	\$ 125,000	6.22%	December 19, 2003
Perring Plaza Renovation ⁽¹⁵⁾	3,087	2,266	2,389	10.00%	January 31, 2013
Other	295	45	54	Various	Various
<i>Unsecured Variable Rate</i>					
Land purchase note ⁽¹⁶⁾	3,400	—	3,400	Libor + 1.25%	June 30, 2002
Revolving credit facilities ⁽¹⁷⁾	300,000	71,000	44,000	Libor + .80%	December 19, 2003
Total Notes Payable		<u>\$ 198,311</u>	<u>\$ 174,843</u>		
Senior Notes and Debentures					
<i>Unsecured Fixed Rate</i>					
8.00% Notes ⁽¹⁸⁾	\$ 25,000	—	\$ 25,000	8.000%	April 21, 2002
5.25% Convertible Subordinated Debentures ⁽¹⁹⁾	289	—	289	5.250%	April 30, 2002
5.25% Convertible Subordinated Debentures ⁽²⁰⁾	75,000	\$ 75,000	75,000	5.250%	October 28, 2003
6.74% Medium Term Notes ⁽²¹⁾⁽²²⁾	39,500	39,500	39,500	6.370%	March 10, 2004
6.625% Notes ⁽²¹⁾	40,000	40,000	40,000	6.625%	December 1, 2005
6.99% Medium Term Notes ⁽²¹⁾⁽²³⁾	40,500	40,500	40,500	6.894%	March 10, 2006
6.125% Notes ⁽²¹⁾⁽²⁴⁾	150,000	150,000	—	6.325%	November 15, 2007
8.75% Notes ⁽²¹⁾	175,000	175,000	175,000	8.750%	December 1, 2009
7.48% Debentures ⁽²¹⁾⁽²⁵⁾	50,000	50,000	50,000	7.480%	August 15, 2026
6.82% Medium Term Notes ⁽²¹⁾⁽²⁶⁾	40,000	40,000	40,000	6.820%	August 1, 2027
Total Senior Notes and Debentures		<u>\$ 610,000</u>	<u>\$ 485,289</u>		
Total Debt Outstanding		<u>\$1,097,128</u>	<u>\$1,010,175</u>		

(14) The loan requires monthly interest only payments through maturity. This loan bears interest at LIBOR plus 95 basis points. We purchased interest rate swaps or hedges on this note, thereby locking in the LIBOR rate at 5.27%. As a result, the interest rate on this loan is currently fixed at 6.22%.

(15) The loan requires monthly payments of principal and interest.

(16) The loan was repaid on June 18, 2002.

(17) Amounts borrowed under the facility bear interest at LIBOR plus 80 basis points. The maximum amount drawn under the facility during 2002 was \$100 million. The weighted average interest rate on borrowings under the facility for the year ended December 31, 2002 was 2.59%.

(18) The notes were paid off on April 22, 2002.

(19) The debentures were paid off on April 29, 2002.

(20) The debentures require semi-annual interest payments with principal due at maturity. The debentures are convertible into our common shares at \$36 per share. The debentures are redeemable by us, in whole, at any time, at 100% of the principal amount plus accrued interest.

(21) The notes require semi-annual payments of interest only during their terms.

(22) We purchased interest rate swaps at issuance, thereby reducing the effective interest rate from 6.74% to 6.37%.

(23) We purchased interest rate swaps at issuance, thereby reducing the effective interest rate from 6.99% to 6.894%.

(24) The Trust purchased an interest rate lock to hedge the planned note offering. A hedge loss of \$1.5 million associated with this hedge is being amortized into the November 2002 note offering thereby increasing the effective interest rate on these notes to 6.325%.

(25) Beginning on August 15, 2008, the debentures are redeemable by the holders thereof at the original purchase price.

(26) Beginning on August 1, 2007, the notes are redeemable by the holders thereof at the original purchase price.

Our credit facility and other debt agreements include financial covenants that may limit our operating activities in the future. These covenants require us to:

- limit the amount of debt as a percentage of gross asset value to less than .6 to 1 (we maintained a ratio of .41 to 1 as of December 31, 2002);
- limit the amount of secured debt as a percentage of gross asset value to less than .35 to 1 (we maintained a ratio of .13 to 1 as of December 31, 2002);
- limit the amount of debt so that our interest coverage will exceed 1.75 to 1 on a rolling four quarter basis (we maintained a ratio of 2.45 to 1 as of December 31, 2002);
- limit the amount of secured debt so that unencumbered asset value to unsecured debt will equal or exceed 1.67 to 1 (we maintained a ratio of 1.81 to 1 as of December 31, 2002); and
- limit the total cost of development projects under construction to 30% or less of gross asset value (the budgeted total cost of our projects under construction represented 15.4% of gross asset value as of December 31, 2002).

We are also obligated to comply with other covenants, including, among others, provisions:

- relating to the maintenance of property securing a mortgage;
- restricting our ability to pledge assets or create liens;
- restricting our ability to incur additional debt;
- restricting our ability to amend or modify existing leases;
- restricting our ability to enter into transactions with affiliates; and
- restricting our ability to consolidate, merge or sell all or substantially all of our assets.

As of December 31, 2002, we were in compliance with all of the listed financial covenants. If we were to breach any of our debt covenants, including the listed covenants, and did not cure the breach within any applicable cure period, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Many of our debt arrangements, including our public notes and our credit facility are cross-defaulted which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a covenant under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares.

Below are the aggregate principal payments required as of December 31, 2002 under our debt financing arrangements by year. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	Secured	Unsecured	Total
2003	\$ 42,149	\$271,137	\$ 313,286
2004	2,659	39,652	42,311
2005	2,896	40,168	43,064
2006	3,227	40,685	43,912
2007	3,482	150,204	153,686
2008 and thereafter	234,404	266,465	500,869
	<u>\$288,817</u>	<u>\$808,311</u>	<u>\$1,097,128</u>

Our organizational documents do not limit the level or amount of debt that we may incur. Also see "Liquidity Requirements" in this section regarding management's plans with respect to debt maturing in 2003.

Interest Rate Hedging

We enter into derivative contracts, which qualify as cash flow hedges under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", in order to manage interest rate risk. Derivatives are not purchased for speculation.

During 2001, to hedge our exposure to interest rates on our \$125 million term loan, we entered into interest rate swaps, which fixed the LIBOR interest rate on the term loan at 5.27%. The current interest rate on the term loan is LIBOR plus 95 basis points, thus fixing the interest rate at 6.22% on notional amounts totaling \$125 million. We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate protection agreement should interest rates exceed the cap. However, management does not anticipate non-performance by the counterparties. The counterparties have long-term debt ratings of A- or above by Standard and Poor's Ratings Service ("S&P") and Aa2 or above by Moody's Investors Service ("Moody's"). Although our cap is not exchange traded, there are a number of financial institutions which enter into these types of transactions as part of their day-to-day activities. The interest rate swaps mature concurrently with the \$125 million term loan on December 19, 2003. The swaps were documented as cash flow hedges and designated as effective at inception of the swap contract. Consequently, the unrealized gain or loss upon measuring the swaps at their fair value is recorded as a component of other comprehensive income within shareholders' equity and either a derivative instrument asset or liability is recorded on the balance sheet. At December 31, 2002, a cumulative unrealized loss of \$4.6 million, representing the difference between the current market value and the 6.22% fixed interest rate on the swap, was recorded in other comprehensive income with a corresponding derivative liability on the balance sheet. Interest expense of approximately \$4.6 million will be reclassified from other comprehensive income into current earnings during 2003 to bring the effective interest rate up to 6.22%.

In anticipation of a \$150 million Senior Unsecured Note offering, on August 1, 2002, we entered into a treasury rate lock that fixed the benchmark five year treasury rate at 3.472% through August 19, 2002. The rate lock was documented as a cash flow hedge of a forecasted transaction and designated as effective at the inception of the contract. On August 16, 2002, we priced the Senior Unsecured Notes with a scheduled closing date of August 21, 2002 and closed out the associated rate lock. Five year treasury rates declined between the pricing period and the settlement of the hedge purchase; therefore, to settle the rate lock, we paid \$1.5 million. As a result of the August 19, 2002 fire at Santana Row, we elected not to proceed with the note offering at that time. However, we consummated a \$150 Senior Unsecured Note offering on November 15, 2002, and thus, the hedge loss will be amortized into interest expense over the life of these Notes.

Liquidity Requirements

As of December 31, 2002, we had unfunded contractual payment obligations of approximately \$403 million due within the next twelve months. The table below specifies our total contractual payment obligations as of December 31, 2002.

(in thousands)	Total Cost	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
Contractual Obligations⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾					
Notes and loans payable	\$1,097,128	\$313,286	\$85,375	\$197,598	\$500,869
Capital lease obligations, principal only	104,395	254	591	722	102,828
Operating leases	265,944	3,910	7,849	7,999	246,186
Development and redevelopment obligations	78,403	78,403	—	—	—
Joint venture obligations	2,991	2,991	—	—	—
Contractual operating obligations	5,104	4,381	723	—	—
Total contractual cash obligations	\$1,553,965	\$403,225	\$94,538	\$206,319	\$849,883

(1) Under the terms of the Congressional Plaza partnership agreement, from and after January 1, 1986 Rockville Plaza Company ("RPC"), an unaffiliated third party, has the right to require us and the two other minority partners to purchase from half to all of RPC's 37.5% interest in Congressional Plaza at the interest's then-current fair market value. Based on management's current estimate of fair market value, our estimated liability upon exercise of the put option is approximately \$27.5 million. Since the timing of this transaction is unknown, the put option is excluded from our capital requirements. In conjunction with a redevelopment currently taking place at the property, we have agreed to acquire an additional 7.5% interest in Congressional Plaza from RPC, thereby lowering their ownership percentage to 30%, in exchange for funding approximately \$7 million of RPC's share of the redevelopment cost. The funding will take place through the first quarter of 2003 and the transaction will be completed in 2003. After the completion of this transaction, our estimated liability upon the exercise of the put option will be approximately \$22 million.

(2) Under the terms of four partnerships which own street retail properties in southern California with a cost of approximately \$61 million, if certain leasing and revenue levels are obtained for the properties owned by the partnerships, the other partners may require us to purchase their partnership interests at a formula price based upon net operating income. The purchase price may be paid in cash or, for two of the partnerships, a limited number of our common shares at the election of the other partners. Because we may elect to issue common shares in settlement of part of our obligations, we have excluded these amounts from our capital requirements. In certain of these partnerships, if the other partners do not redeem their interest, we may choose to purchase the limited partnership interests upon the same terms.

(3) Under the terms of various other partnerships which own shopping center properties with a cost of approximately \$71 million, the partners may exchange their 796,773 operating units for cash or the same number of our common shares, at our option. Because we may elect to issue common shares in settlement of our obligation we have excluded these amounts from our capital requirements. During the second quarter of 2002 we issued 100,000 of our common shares valued at \$2.8 million in exchange for 100,000 operating units and cash of \$205,000 in exchange for an additional 7,816 operating units. On February 14, 2003 we paid \$333,000 to redeem an additional 12,000 operating units.

(4) Street Retail San Antonio LP, a wholly-owned subsidiary of the Trust, entered into a Development Agreement (the "Agreement") on March 13, 2000 with the City of San Antonio, Texas (the "City") related to the redevelopment of land and buildings that we own along Houston Street in the City. Houston Street and the surrounding area have been designated by the City as a Reinvestment Zone (the "Zone"). The City has agreed to facilitate redevelopment of the Zone by undertaking and financing certain public improvements based on our agreement to redevelop our properties in the Zone. Under the terms of the Agreement, the City issued debt to fund specific public improvements within the Zone. The initial and primary source of funding to the City for repayment of the debt and debt service is the incremental tax revenue that accretes to the City as the taxable value of the redeveloped properties within the Zone increase. We are required to issue an annual letter of credit, commencing on October 1, 2002 through September 30, 2014, that covers our designated portion of the debt service should the incremental tax revenue generated not cover the debt service. We posted a letter of credit with the City on September 25, 2002 for \$795,000. Our obligation under this agreement cannot be determined at this time because it is dependent on the annual assessed value of the properties in the Zone and the related tax revenue generated. We were not required to provide any funding in 2002 or for the semi-annual payment due March 15, 2003. Based on the current assessed value of the properties in the Zone, we expect to provide some funding under the Agreement prior to its expiration on September 30, 2014, but anticipate that our obligation will not exceed \$600,000 in any year and will be between \$2 million and \$3 million in total. If the Zone creates sufficient tax increment funding to repay the City's debt prior to the expiration of the Agreement, we will be eligible to receive reimbursement of amounts paid for debt service shortfalls together with interest thereon.

As of December 31, 2002, our current contractual payment obligations due within one year total approximately \$403 million. Included in this amount is \$196 million that represents our revolving credit facility and term loan which mature on December 19, 2003, which we plan to renew.

In addition to our contractual obligations we have other short-term liquidity requirements consisting primarily of normal recurring operating expenses, regular debt service requirements (including debt service relating to additional and replacement debt), recurring corporate expenditures, non-recurring corporate expenditures (such as tenant improvements and redevelopments) and dividends to common and preferred shareholders. Overall capital requirements in 2003 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of future phases of Santana Row. We expect to fund the remaining capital requirements of \$207 million, as well as our development and redevelopment costs, acquisitions and normal recurring operating costs through a combination of cash provided by operating activities, borrowings under our credit facility and other funding sources which

may consist of additional debt, both secured and unsecured, additional equity, joint venture relationships and property dispositions.

We expect to fund our long-term capital requirements, which consist primarily of maturities under our long-term debt, development and redevelopment costs and potential acquisition opportunities through a combination of funding sources which we believe will be available to us including debt, both secured and unsecured, additional equity, joint venture relationships and property dispositions.

The following factors could affect our ability to meet our liquidity requirements:

- we may be unable to obtain debt or equity financing on favorable terms, or at all, as a result of our financial condition or market conditions at the time we seek additional financing;
- restrictions on our debt instruments or outstanding equity may prohibit us from incurring debt or issuing equity at all, or on terms available under then-prevailing market conditions; and
- we may be unable to service additional or replacement debt due to increases in interest rates or a decline in our operating performance.

Dividend Reinvestment and Share Purchase Plan

We have implemented a Dividend Reinvestment and Share Purchase Plan, which was subsequently amended in March 2002 (the "DRIP"). Under the DRIP, current shareholders are permitted to elect to reinvest all, a portion or none of their cash dividends to purchase common shares. The DRIP also allows both new investors and existing shareholders to make optional cash payments to purchase common shares.

The DRIP permits current shareholders and new investors to invest a minimum of \$25 up to a maximum of \$10,000 in common shares per month. Shares purchased under the DRIP through reinvestment of dividends and optional cash payments are purchased at market price.

Common shares may be purchased directly from the Company or in open market purchases, as we determine from time to time, to fulfill the requirements for the DRIP. We issued 134,247 and 159,234 common shares under the DRIP and received approximately \$3.5 million and \$3.3 million in proceeds for the years ended December 31, 2002 and 2001, respectively.

Stock Purchase Plan

In 1991, the Board of Trustees of the Company approved a Stock Purchase Plan (the "ESPP") under Section 423 of the Code. The ESPP is regarded as a noncompensatory plan under APB No. 25, because it meets the qualifications under IRC 423. Under the terms of the ESPP, eligible employees may purchase common shares of the Company at a price that is equal to 90% of the lower of the common shares' fair market value at the beginning or the end of a quarterly period. The fair market value of a common share is equal to the last sale price of the common shares on the New York Stock Exchange. Eligible employees may purchase the common shares through payroll deductions of up to 10% of eligible compensation. The ESPP is not subject to the provisions of ERISA. The ESPP terminated on January 31, 2001.

Under the terms of the ESPP, eligible employees had purchased 446,000 common shares at \$15.125 per share with the assistance of loans of \$6.7 million from us. Originally, ESPP called for one sixteenth of the loan to be forgiven each year for eight years, as long as the participant was still employed by us. The loans for all participants, but two, were modified in 1994 to extend the term an additional four years and to tie forgiveness in 1995 and thereafter to certain criteria related to our performance. One sixteenth of the loan has been forgiven during each year of the plan. At December 31, 2002, we had outstanding purchase loans to participants of approximately \$830,000. The purchase loans bear interest at 9.39%. The shares purchased under the plan may not be sold, pledged or assigned until both the purchase and tax loans associated with the plan are satisfied and the term has expired, without the consent of the Compensation Committee of the Board of Trustees. On January 24, 2003, a \$750,000 loan was repaid.

REIT Qualification

We intend to maintain our qualification as a REIT under Section 856(c) of the Code. As a REIT, we generally will not be subject to corporate federal income taxes as long as we satisfy certain technical requirements of the Code, including the requirement to distribute 90% of our REIT taxable income to our shareholders.

Funds From Operations

We have historically reported our FFO in addition to our net income and net cash provided by operating activities. FFO is a supplemental non-GAAP financial measure of real estate companies' operating performance. NAREIT defines FFO as follows: income available for common shareholders before depreciation and amortization of real estate assets and before extraordinary items less gains on sale of real estate. NAREIT developed FFO as a relative measure of performance and liquidity of an equity REIT in order to recognize that the value of income-producing real estate historically has not depreciated on the basis determined under GAAP. However, FFO:

- does not represent cash flows from operating activities in accordance with GAAP (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income);
- should not be considered an alternative to net income as an indication of our performance; and
- is not necessarily indicative of cash flow as a measure of liquidity or ability to pay dividends.

We consider FFO a meaningful, additional measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time, and because industry analysts have accepted it as a performance measure. Comparison of our presentation of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

An increase or decrease in FFO does not necessarily result in an increase or decrease in aggregate distributions because our Board of Trustees is not required to increase distributions on a quarterly basis unless necessary for us to maintain REIT status. However, we must distribute 90% of our REIT taxable income (as defined in the Code). Therefore, a significant increase in FFO will generally require an increase in distributions to shareholders although not necessarily on a proportionate basis.

The reconciliation of net income available to common shareholders to funds from operations for the years ended December 31, 2002 and 2001 is as follows:

(in thousands)	For the Years Ended December 31,	
	2002	2001
Net income available for common shareholders—basic	\$35,862	\$ 59,722
(Gain) on sale of real estate net of loss on abandoned developments held for sale	(9,454)	(9,185)
Depreciation and amortization of real estate assets	58,605	54,350
Amortization of initial direct costs of leases	4,750	4,161
Income attributable to operating partnership units	740	1,384
Funds from operations for common shareholders	<u>\$90,503</u>	<u>\$110,432</u>
Weighted average number of common shares used to compute basic FFO per share	<u>41,624</u>	<u>39,164</u>
Weighted average number of common shares used to compute diluted FFO per share	<u>42,882</u>	<u>40,266</u>

Consolidated Balance Sheets

	December 31,	
	2002	2001
<i>(in thousands, except share data)</i>		
Assets		
Real estate, at cost		
Operating	\$1,864,244	\$1,741,385
Development	442,582	321,986
Discontinued operations	—	40,933
	2,306,826	2,104,304
Less accumulated depreciation and amortization	(450,697)	(395,767)
	1,856,129	1,708,537
Other Assets		
Cash	23,123	17,563
Mortgage notes receivable	35,577	35,607
Accounts and notes receivable	18,722	15,483
Prepaid expenses and other assets, principally property taxes and lease commissions	57,257	44,733
Tax deferred exchange escrows	—	6,006
Debt issue costs, net of accumulated amortization of \$6,344 and \$4,840, respectively	8,570	6,952
	<u>\$1,999,378</u>	<u>\$1,834,881</u>
Liabilities and Shareholders' Equity		
Liabilities		
Obligations under capital leases	\$ 104,395	\$ 100,293
Mortgages and construction loans payable	288,817	350,043
Notes payable	198,311	174,843
Accounts payable and accrued expenses	79,517	64,014
Dividends payable	24,356	21,664
Security deposits	6,685	6,026
Prepaid rents	13,644	10,400
Senior notes and debentures	535,000	410,000
5¼% Convertible subordinated debentures	75,000	75,289
Investors' interest in consolidated assets	29,366	33,018
Commitments and contingencies		
Shareholders' equity		
Preferred stock, authorized 15,000,000 shares, \$.01 par		
7.95% Series A Cumulative Redeemable Preferred Shares, (stated at liquidation preference \$25 per share), 4,000,000 shares issued in 1997	100,000	100,000
8.5% Series B Cumulative Redeemable Preferred Shares, (stated at liquidation preference \$25 per share), 5,400,000 shares issued in 2001	135,000	135,000
Common shares of beneficial interest, \$.01 par, 100,000,000 shares authorized, 44,996,382 and 41,524,165 issued, respectively	450	417
Additional paid in capital	818,290	730,835
Accumulated dividends in excess of Trust net income	(368,839)	(322,428)
	684,901	643,824
Less: 1,461,147 and 1,452,926 common shares in treasury—at cost, respectively	(28,193)	(27,990)
Deferred compensation on restricted shares	(2,657)	(15,005)
Notes receivable from employee stock plans	(5,151)	(7,245)
Accumulated other comprehensive income (loss)	(4,613)	(4,293)
	<u>644,287</u>	<u>589,291</u>
	<u>\$1,999,378</u>	<u>\$1,834,881</u>

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Operations

(In thousands, except per share data)	Year Ended December 31,		
	2002	2001	2000
Revenue			
Rental income	\$298,085	\$274,567	\$255,634
Interest and other income	5,156	6,590	7,532
Other property income	15,593	13,953	11,023
	<u>318,834</u>	<u>295,110</u>	<u>274,189</u>
Expenses			
Rental	73,591	62,715	55,631
Real estate taxes	31,186	28,348	26,211
Total property operating expenses	<u>104,777</u>	<u>91,063</u>	<u>81,842</u>
Property operating income	214,057	204,047	192,347
Interest	65,054	69,313	66,418
Administrative	13,790	14,281	13,318
Restructuring expenses	22,269	—	—
Depreciation and amortization	64,251	59,171	52,559
Total other expenses	<u>165,364</u>	<u>142,765</u>	<u>132,295</u>
Income before investors' share of operations and discontinued operations	48,693	61,282	60,052
Investors' share of operations	<u>(4,112)</u>	<u>(5,170)</u>	<u>(6,544)</u>
Income before gain on sale of real estate net of loss on abandoned developments held for sale and discontinued operations	44,581	56,112	53,508
Income from operations of discontinued assets	<u>1,252</u>	<u>3,459</u>	<u>3,334</u>
Income before gain on sale of real estate net of loss on abandoned developments held for sale	45,833	59,571	56,842
Gain on sale of real estate net of loss on abandoned developments held for sale	<u>9,454</u>	<u>9,185</u>	<u>3,681</u>
Net income	55,287	68,756	60,523
Dividends on preferred stock	<u>(19,425)</u>	<u>(9,034)</u>	<u>(7,950)</u>
Net income available for common shareholders	<u>\$ 35,862</u>	<u>\$ 59,722</u>	<u>\$ 52,573</u>
Earnings per common share, basic			
Income before gain on sale of real estate net of loss on abandoned developments held for sale and discontinued operations	\$ 0.60	\$ 1.20	\$ 1.17
Discontinued operations	0.03	0.09	0.09
Gain on sale of real estate net of loss on abandoned developments held for sale	0.23	0.23	0.10
	<u>\$ 0.86</u>	<u>\$ 1.52</u>	<u>\$ 1.36</u>
Weighted average number of common shares, basic	<u>41,624</u>	<u>39,164</u>	<u>38,796</u>
Earnings per common share, diluted			
Income before gain on sale of real estate net of loss on abandoned developments held for sale and discontinued operations	\$ 0.60	\$ 1.20	\$ 1.18
Discontinued operations	0.03	0.09	0.08
Gain on sale of real estate net of loss on abandoned developments held for sale	0.22	0.23	0.09
	<u>\$ 0.85</u>	<u>\$ 1.52</u>	<u>\$ 1.35</u>
Weighted average number of common shares, diluted	<u>42,882</u>	<u>40,266</u>	<u>39,910</u>

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Common Shareholders' Equity

	Year Ended December 31,								
	2002			2001			2000		
(in thousands, except share data)	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Additional Paid-in Capital
Common Shares of Beneficial Interest									
Balance, beginning of year	41,524,165	\$ 417	\$730,835	40,910,972	\$ 410	\$723,078	40,418,766	\$ 404	\$713,354
Exercise of stock options	951,971	9	20,857	22,066	—	459	67,684	1	1,398
Shares issued to purchase partnership interest	2,907	—	77	335,236	3	6,919	—	—	—
Shares issued under dividend reinvestment plan	134,247	1	3,488	159,234	2	3,277	153,713	2	3,136
Performance and Restricted Shares granted, net of									
Restricted Shares retired	98,092	—	2,468	96,657	2	1,877	270,809	3	5,190
Net proceeds from sale of shares	2,185,000	22	56,631	—	—	—	—	—	—
Shares issued to purchase operating partnership units	100,000	1	2,769	—	—	—	—	—	—
Cost of 8.5% Series B Cumulative Preferred Shares	—	—	—	—	—	(4,775)	—	—	—
Accelerated vesting of options and restricted shares	—	—	1,165	—	—	—	—	—	—
Balance, end of year	44,996,382	\$ 450	\$818,290	41,524,165	\$ 417	\$730,835	40,910,972	\$ 410	\$723,078
Accumulated Dividends in Excess of Trust Net Income									
Balance, beginning of year		\$(322,428)			\$(306,287)			\$(286,348)	
Net income		55,287			68,756			60,523	
Dividends declared to common shareholders		(82,273)			(75,863)			(72,512)	
Dividends declared to preferred shareholders		(19,425)			(9,034)			(7,950)	
Balance, end of year		<u>\$(368,839)</u>			<u>\$(322,428)</u>			<u>\$(306,287)</u>	
Common Shares of Beneficial Interest in Treasury									
Balance, beginning of year	(1,452,926)	\$ (27,990)		(1,441,594)	\$ (27,753)		(217,644)	\$ (4,334)	
Performance and Restricted Shares forfeited	(8,221)	(203)		(11,322)	(237)		(38,550)	(787)	
Purchase of treasury shares	—	—		—	—		(1,185,400)	(22,632)	
Balance, end of year	<u>(1,461,147)</u>	<u>\$ (28,193)</u>		<u>(1,452,916)</u>	<u>\$ (27,990)</u>		<u>(1,441,594)</u>	<u>\$ (27,753)</u>	
Deferred Compensation on Restricted Shares									
Balance, beginning of year	(666,656)	\$ (15,005)		(735,875)	\$ (17,254)		(599,427)	\$ (15,219)	
Performance and Restricted Shares issued, net of forfeitures	(73,821)	(1,763)		(61,369)	(830)		(218,771)	(4,151)	
Vesting of Performance and Restricted Shares	586,484	14,111		130,588	3,079		82,323	2,116	
Balance, end of year	<u>(153,993)</u>	<u>\$ (2,657)</u>		<u>(666,656)</u>	<u>\$ (15,005)</u>		<u>(735,875)</u>	<u>\$ (17,254)</u>	
Subscriptions receivable from employee stock plans									
Balance, beginning of year	(218,555)	\$ (7,245)		(242,638)	\$ (6,734)		(317,606)	\$ (7,314)	
Subscription and tax loans issued	(93,469)	(2,986)		(3,333)	(973)		(5,500)	(1,025)	
Subscription and tax loans paid or forgiven	127,961	5,080		27,416	462		80,468	1,605	
Balance, end of year	<u>(184,063)</u>	<u>\$ (5,151)</u>		<u>(218,555)</u>	<u>\$ (7,245)</u>		<u>(242,638)</u>	<u>\$ (6,734)</u>	
Accumulated other comprehensive income (loss)									
Balance, beginning of year		\$ (4,293)			\$ —			—	
Change due to recognizing gain (loss) on securities		(44)			49			—	
Change in valuation on interest rate swap		(276)			(4,342)			—	
Balance, end of year		<u>\$ (4,613)</u>			<u>\$ (4,293)</u>			<u>\$ —</u>	
Comprehensive income									
Net income		\$ 55,287			\$ 68,756			—	
Change due to recognizing gain (loss) on securities		(44)			49			—	
Change in valuation on interest rate swap		(276)			(4,342)			—	
Total comprehensive income		<u>\$ 54,967</u>			<u>\$ 64,463</u>			<u>\$ —</u>	

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31,		
	2002	2001	2000
Operating Activities			
Net income	\$ 55,287	\$ 68,756	\$ 60,523
Items not requiring cash outlays			
Depreciation and amortization, including discontinued operations	64,529	59,914	53,259
Gain on sale of real estate	(19,101)	(9,185)	(3,681)
Loss on abandoned developments held for sale	9,647	—	—
Non-cash portion of restructuring expense	19,586	—	—
Other, net	4,792	1,041	1,634
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(3,239)	(4,641)	1,233
Increase in prepaid expenses and other assets before depreciation and amortization	(19,762)	(18,305)	(6,834)
Increase in operating accounts payable, security deposits and prepaid rent	2,996	4,132	3,342
Increase (decrease) in accrued expenses	4,334	7,736	(2,420)
Net cash provided by operating activities	119,069	109,448	107,056
Investing Activities			
Acquisition of real estate	—	(61,415)	(23,554)
Capital expenditures—development	(200,357)	(158,048)	(81,023)
Capital expenditures—other	(43,579)	(41,013)	(64,815)
Proceeds from sale of real estate	62,544	25,063	47,157
Repayment of mortgage notes receivable, net	5,648	3,275	494
Net cash used in investing activities	(175,744)	(232,138)	(121,741)
Financing Activities			
Borrowing (repayment) of short-term debt, net	27,000	(34,000)	47,400
(Repayment) proceeds from mortgage and construction financing, net of costs	(60,718)	145,427	166,383
Note issuance (repayment), net of costs	148,746	—	(100,000)
Issuance of Series B Preferred shares, net of costs	—	130,225	—
Issuance of common shares, net of subscriptions receivable	76,701	398	2,518
Common shares repurchased	—	—	(22,632)
Payments on mortgages, capital leases and notes payable	(29,627)	(31,550)	(2,169)
Dividends paid	(96,461)	(80,593)	(77,499)
(Decrease) increase in minority interest, net	(3,406)	(1,011)	303
Net cash provided by financing activities	62,235	128,896	14,304
Increase (decrease) in cash	5,560	6,206	(381)
Cash at beginning of year	17,563	11,357	11,738
Cash at end of year	\$ 23,123	\$ 17,563	\$ 11,357

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000

NOTE 1—Summary of Significant Accounting Policies

Federal Realty Investment Trust (the "Trust") is a full-service equity real estate investment trust specializing in the ownership, management, development and redevelopment of high quality community and neighborhood shopping centers and main street mixed-use properties located in densely developed urban and suburban areas in strategic metropolitan markets across the United States.

We operate in a manner intended to enable us to qualify as a real estate investment trust for federal income tax purposes. A trust which distributes at least 90% of its real estate investment trust taxable income to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. Therefore, Federal income taxes have been and are generally expected to be immaterial. We are obligated for state taxes, generally consisting of franchise or gross receipts taxes in certain states. Such state taxes have not been material.

Our consolidated financial statements include the accounts of the Trust, its wholly owned corporate subsidiaries, several corporations where we have a majority ownership, and numerous partnerships, all of which we control. The equity interests of other investors are reflected as investors' interest in consolidated assets. All significant intercompany transactions and balances are eliminated in consolidation. We account for our interest in joint ventures which we do not control or manage using the equity method of accounting.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, which we refer to as GAAP, requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management's best judgement, after considering past and current events and economic conditions. Actual results could differ from these estimates.

Revenue Recognition and Accounts Receivable. Leases with tenants are classified as operating leases. Minimum rents are recognized on a straight-line basis over the terms of the related leases net of valuation adjustments based on management's assessment of credit, collection and other business risk. Percentage rents, which represent additional rents based on gross tenant sales, are recognized at the end of the lease year or other period in which tenant sales' thresholds have been reached and the percentage rents are due. Real estate tax and other cost reimbursements are recognized on an accrual basis over the periods in which the expenditures occurred. We make estimates of the collectibility of our accounts receivable related to base rents, including straight line rentals, expense reimbursements and other revenue or income. In some cases the ultimate collectibility of these claims extends beyond one year.

Real Estate. Land, buildings and real estate under development are recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives range from three to 50 years on apartment buildings and improvements, and from three to 50 years on retail properties and improvements. Maintenance and repair costs are charged to operations as incurred. Tenant work and other major

improvements are capitalized and depreciated over the life of the lease or their estimated useful life, respectively. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 66, "Accounting for Sales of Real Estate", sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement. The gain or loss resulting from the sale of properties is included in net income at the time of sale. Upon termination of a lease, undepreciated tenant improvement costs are charged to operations if the assets are replaced and the asset and the corresponding accumulated depreciation are retired.

We evaluate the carrying value of our long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In cases where particular assets are being held for sale, impairment is based on whether the fair value (estimated sales price less costs of disposal) of each individual property to be sold is less than the net book value. Otherwise, impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. If a property is impaired, its basis is adjusted to its estimated fair market value.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective for us on January 1, 2002). SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly-acquired, and broadens the presentation of discontinued operations to include components of an entity comprising operations and cash flows that can be distinguished, operationally and for financial reporting purposes from the rest of the entity.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting and processing for costs associated with exit or disposal activities. SFAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred verses the date the Company commits to an exit plan. In addition, SFAS No. 146 states that the liability should be initially measured at fair value. The requirements of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. This pronouncement is not expected to have a material impact on our financial position or results of operations.

When applicable as lessee, we classify our leases of land and buildings as operating or capital leases in accordance with the provisions of SFAS No. 13, "Accounting for Leases".

Certain external and internal costs directly related to the development, redevelopment and leasing of real estate including applicable salaries and their related direct costs are capitalized. The capitalized costs associated with developments, redevelopments and leasing are depreciated or amortized over the life of the improvement or lease, whichever is shorter. Unamortized leasing costs are charged to operations if the applicable tenant vacates before the expiration of their lease.

Interest costs on developments and major redevelopments are capitalized as part of the development and redevelopment until it is placed in service. Capitalization of interest commences when

development activities and expenditures begin and end upon completion, i.e., when the asset is ready for its intended use. Generally rental property is considered substantially complete and ready for its intended use upon completion of tenant improvements, but no later than one year from the completion of major construction activity.

Debt Issue Costs. Costs related to the issuance of debt instruments are capitalized and are amortized as interest expense over the life of the related issue using the effective interest method. Upon conversion or in the event of redemption, applicable unamortized costs are charged to shareholders' equity or to operations, respectively.

Cash and Cash Equivalents. We define cash as cash on hand, demand deposits with financial institutions and short term liquid investments with an initial maturity under three months. Cash balances in individual banks may exceed insurable amounts from time to time.

Risk Management. We enter into derivative contracts, which qualify as cash flow hedges under SFAS No. 133, in order to manage interest rate risk. Derivatives are not purchased for speculation. During 2001, to hedge our exposure to interest rates on our \$125 million term loan, we entered into interest rate swaps, which fixed the LIBOR interest rate on the term loan at 5.27%. The current interest rate on the term loan is LIBOR plus 95 basis points, thus fixing the interest rate at 6.22% on notional amounts totaling \$125 million. We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate protection agreement should interest rates exceed the cap. However, management does not anticipate non-performance by the counterparties. The counterparties have long-term debt ratings of A- or above by Standard & Poor's Ratings Service ("S&P") and Aa2 or above by Moody's Investor Service ("Moody's"). Although our cap is not exchange-traded, there are a number of financial institutions which enter into these types of transactions as part of their day-to-day activities. The interest rate swaps mature concurrently with the \$125 million term loan on December 19, 2003. The swaps were documented as cash flow hedges and designated as effective at inception of the swap contract. Consequently, the unrealized gain or loss upon measuring the swaps at their fair market value is recorded as a component of other comprehensive income within shareholders' equity and either a derivative instrument asset or liability is recorded on the balance sheet. At December 31, 2002, a cumulative unrealized loss of \$4.6 million, representing the difference between the current market value and the 6.22% fixed interest rate on the swap, was recorded in other comprehensive income with a corresponding derivative liability on the balance sheet. Interest expense of approximately \$4.6 million will be reclassified from other comprehensive income into current earnings during 2003 to bring the effective interest rate up to 6.22%. There were no open derivative contracts at December 31, 1999.

In anticipation of a \$150 million Senior Unsecured Note offering, on August 1, 2002, we entered into a treasury rate lock that fixed the benchmark five year treasury rate at 3.472% through August 19, 2002. The rate lock was documented as a cash flow hedge of a forecasted transaction and designated as effective at the inception of the contract. On August 16, 2002, we priced the Senior Unsecured Notes with

a scheduled closing date of August 21, 2002 and closed out the associated rate lock. Five year treasury rates declined between the pricing period and the settlement of the hedge purchase; therefore, to settle the rate lock, we paid \$1.5 million. As a result of the August 19, 2002 fire at Santana Row, we elected not to proceed with the note offering at that time. However, we consummated a \$150 Senior Unsecured Note offering on November 15, 2002, and thus, the hedge loss will be amortized into interest expense over the life of the Notes.

Acquisition, Development and Construction Loan Arrangements. We have made certain mortgage loans that, because of their nature, qualify as loan receivables. At the time the loans were made we did not intend for the arrangement to be anything other than a financing and did not contemplate a real estate investment. Using guidance set forth in the Third Notice to Practitioners issued by the AICPA in February 1986 entitled "ADC Arrangements" ("the Third Notice"), we evaluate each investment to determine whether the loan arrangement qualifies under the Third Notice as a loan, joint venture or real estate investment and the appropriate accounting thereon; such determination affects our balance sheet classification of these investments and the recognition of interest income derived therefrom. Generally, we receive additional interest on these loans, however we never receive in excess of 50% of the residual profit in the project (as defined in the Third Notice) and because the borrower has either a substantial investment in the project or has guaranteed all or a portion of our loan (or a combination thereof) the loans qualify for loan accounting. The amounts under ADC arrangements at December 31, 2002 and 2001 were \$35.6 million and interest income recognized thereon was \$4.3 million and \$3.9 million, respectively.

Comprehensive Income. Our interest rate swaps were documented as cash flow hedges and designated as effective at inception of the swap contract, therefore, the unrealized gain or loss upon measuring the swaps at their fair market value is recorded as a component of other comprehensive income within shareholders' equity. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", investments purchased in connection with our nonqualified deferred compensation plan are classified as available for sale securities and reported at fair value. Unrealized gains or losses on these investments purchased to match our obligation to the participants is also recorded as a component of other comprehensive income. At December 31, 2002 these investments consisted of mutual funds and are stated at market value.

Earnings Per Share. We calculate basic and diluted earnings per share in accordance with SFAS No. 128, "Earnings Per Share". Basic EPS excludes dilution and is computed by dividing net income available for common shareholders by the weighted number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares and then shared in the our earnings.

The following table sets forth the reconciliation between basic and diluted EPS (in thousands, except per share data):

	2002	2001	2000
Numerator			
Net income available for common shareholders—basic	\$35,862	\$59,722	\$52,573
Income attributable to operating partnership units	740	1,384	1,311
Net income available for common shareholders—diluted	\$36,602	\$61,106	\$53,884
Denominator			
Denominator for basic EPS—weighted average shares	41,624	39,164	38,796
Effect of dilutive securities, stock options and awards	417	197	155
Operating partnership units	841	905	959
Weighted average shares—diluted	42,882	40,266	39,910
Earnings per common share—basic	\$.86	\$ 1.52	\$ 1.36
Earnings per common share—diluted	\$.85	\$ 1.52	\$ 1.35

Stock-Based Compensation. In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation—Transition and Disclosure" an amendment of FASB Statement No. 123, "Accounting for Stock-Based Compensation". SFAS No. 148 amends the disclosure provisions to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based compensation. Stock options are accounted for using the intrinsic method in accordance with APB No. 25, "Accounting for Stock Issued to Employees," as interpreted, whereby if options are priced at fair market value or above at the date of grant, no compensation expense is recognized. The pro forma information is as follows (in thousands except for earnings per share):

	2002	2001	2000
Net income as reported	\$55,287	\$68,756	\$60,523
Stock-based employee compensation cost included in net income as reported	—	—	—
Stock-based employee compensation cost under the fair value method of SFAS No. 123	\$ 432	\$ 680	\$ 1,078
Pro forma net income	\$54,855	\$68,076	\$59,445
Earnings per common share, basic	\$ 0.86	\$ 1.52	\$ 1.36
Earnings per common share, diluted	\$ 0.85	\$ 1.52	\$ 1.35
Pro forma earnings per share, basic	\$ 0.85	\$ 1.51	\$ 1.33
Pro forma earnings per share, diluted	\$ 0.84	\$ 1.50	\$ 1.32

Reclassifications. Certain components of rental income, other property income, rental expense, real estate tax expense and depreciation and amortization on the December 31, 2001 and 2000 Consolidated Statements of Operations have been reclassified to Income from operations of discontinued assets to assure comparability of all periods presented. In addition, certain balance sheet accounts have been reclassified to assure comparability of all periods presented.

Guarantor's Accounting. In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others. FIN 45 addresses the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for the Company effective December 31, 2002. The liability recognition requirements will be applicable prospectively to all guarantees issued or modified after December 31, 2002. This pronouncement is not expected to have a material impact on our financial position or results of operations.

Variable Interest Entities. On January 31, 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 clarifies existing accounting for whether interest entities should be consolidated in financial statements based upon the investees ability to finance its activities without additional financial support and whether investors possess characteristics of a controlling financial interest. FIN 46 applies to years or interim periods beginning after June 15, 2003 with certain disclosure provisions required for financial statements issued after January 31, 2003. We are currently evaluating the applicability of FIN 46 to our investments in certain restaurant joint ventures established in 2001 and 2002 at Santana Row and have complied with the disclosure provisions of FIN 46 in these financial statements.

Investment in Restaurant Ventures at Santana Row. In lieu of tenant allowances, we have a member interest in six restaurant joint ventures which we account for using the equity method of accounting based on current authoritative generally accepted accounting principles. Our member interests currently range from 20% to 88% and in each venture an unrelated third party member controls and manages the day-to-day operations of each restaurant. We are currently evaluating the applicability of the recently issued FIN 46 on our accounting for these ventures. It is possible that some of these ventures in which we are members may require consolidation in our financial statements, beginning in the third quarter of fiscal 2003. All of the joint venture agreements in which we currently have an interest greater than 50% provide for a reduction in our membership interest upon the distribution, by the joint venture, of our initial capital contributions. These distributions are based on the cash flow of each venture.

As of December 31, 2002, we have invested approximately \$5.0 million in these ventures, principally to fund buildout costs of each restaurant. Of this amount, \$3.7 million has been capitalized as an investment in these ventures and \$1.3 million was expensed in 2002 to reflect our estimate of the permanent impairment of our investment in two of these ventures due principally to declining economic conditions. We are currently committed to invest a total of \$8.0 million in these ventures and as such, our maximum exposure to further losses as a result of involvement in these ventures is \$6.7 million at December 31, 2002.

Because the restaurants have either opened in late 2002 or have not yet opened, operating activity of these ventures and our share of profits and losses earned or incurred through December 31, 2002 is not material.

NOTE 2—Real Estate and Encumbrances

A summary of our properties at December 31, 2002 and 2001 is as follows (in thousands):

	Cost	Accumulated Depreciation and Amortization	Encum- brances
2002			
Retail properties	\$2,123,890	\$378,148	\$288,817
Retail properties under capital leases	176,253	66,538	104,395
Apartments	6,683	6,011	—
	<u>\$2,306,826</u>	<u>\$450,697</u>	<u>\$393,212</u>
2001			
Retail properties	\$1,928,554	\$329,911	\$350,043
Retail properties under capital leases	169,072	59,967	100,293
Apartments	6,678	5,889	—
	<u>\$2,104,304</u>	<u>\$395,767</u>	<u>\$450,336</u>

During 2002 we expended cash of \$243.9 million to improve, redevelop and develop our existing real estate. No properties were acquired during 2002. Of the \$243.9 million spent in 2002 on our existing real estate portfolio, approximately \$200.3 million was invested in our Santana Row, located in San Jose, California, and Pentagon Row, located in Arlington, Virginia, development projects. The remaining \$43.6 million of capital expenditures relates to improvements to common areas, tenant work and various redevelopments, including the Congressional Apartments in Rockville, Maryland, the redevelopment of retail buildings in San Antonio, Texas and the completion of tenant work at the Woodmont East development in Bethesda, Maryland.

On April 11, 2002, we sold the street retail property located at 252 Greenwich Avenue in Greenwich, Connecticut for \$16.5 million, resulting in a gain of \$7.0 million.

On April 30, 2002, we sold three street retail properties, two in Westport, Connecticut and one in Westfield, New Jersey, for \$19.2 million, resulting in a gain of \$6.9 million.

On June 6, 2002, we sold the Uptown Shopping Center located in Portland, Oregon for \$20.8 million, resulting in a gain of \$4.5 million.

The proceeds from the sales of the four street retail properties and the Uptown Shopping Center were used to pay down our syndicated credit facility except \$16.0 million which was used to pay down the Santana Row construction loan. As of December 31, 2002 all of the proceeds previously held by the qualified intermediary have been released to us.

On June 18, 2002, a partnership, in which one of our subsidiaries is the general partner, sold the street retail property located at 6410 Hollywood Boulevard in Hollywood, California for \$2.3 million, resulting in a gain of \$700,000.

On June 20, 2002, the proceeds of \$6 million previously held by a qualified intermediary from the 2001 sale of the street retail property located at 101 East Oak Street in Chicago, Illinois were released to us.

These property sales constitute discontinued operations and as such, the accompanying financial statements have been restated to reclassify the operations of these properties as discontinued operations. A summary of the financial information for the discontinued operations is as follows:

	2002	2001	2000
Revenue	\$2,134	\$5,392	\$5,092
Income from operations of discontinued operations	1,252	3,459	3,334

On February 1, 2002, we received the minority partner's interest in Santana Row in exchange for a \$2.6 million investment in a partnership. We made a \$5.9 million loan to the partnership on January 12, 2001, that is due February 28, 2003. The loan was not repaid on the due date. We are currently exploring all available options we may have as a result of the borrowers failure to pay at maturity.

Our 113 retail properties at December 31, 2002 are located in 14 states and the District of Columbia. There are approximately 2,100 tenants providing a wide range of retail products and services. These tenants range from sole proprietorships to national retailers; no one tenant or corporate group of tenants accounts for more than 2.5% of revenue.

Mortgage notes receivable of \$35.6 million are due over various terms from February 2003 to May 2021 and have an average weighted interest rate of 10.2%. Under the terms of certain of these mortgages, we will receive additional interest based upon the gross income of the secured properties and, upon sale of the properties, we will share in the appreciation of the properties.

Mortgages and construction loans payable and capital lease obligations are due in installments over various terms extending to 2016 and 2060, respectively, with interest rates ranging from 3.14% to 11.25%. Certain of the capital lease obligations require additional interest payments based upon property performance.

On April 17, 2001 we closed on a \$295 million construction loan for Santana Row in San Jose, California. The loan, which initially bore interest at LIBOR plus 212.5 basis points, was scheduled to mature on April 16, 2004 with two one-year extension options, subject to obtaining certain operating targets. The construction loan required fees and had various covenants including the maintenance of a minimum shareholders' equity and a maximum ratio of debt to gross asset value. The initial funding of the construction loan took place on August 23, 2001 when the equity and pre-leasing requirements were met. On November 19, 2002 we used the proceeds from our \$150 million public note offering, as well as \$20 million of available insurance proceeds relating to the Santana Row fire and approximately \$7.1 million in borrowings under our credit facility, to pay in full and retire the Santana Row construction loan.

At December 31, 2002 there was \$24.4 million borrowed under the construction loan for our Woodmont East development in Bethesda, Maryland. The loan had a floating interest rate of LIBOR plus 120 basis points. On February 11, 2003 the \$24.4 million Woodmont East construction loan and the \$17.0 million Friendship Center mortgage were paid off through borrowings under our revolving credit facility.

Scheduled principal payments on mortgage and construction loan indebtedness as of December 31, 2002 are as follows (in thousands):

Year Ending December 31,	
2003	\$ 42,149
2004	2,659
2005	2,896
2006	3,227
2007	3,481
Thereafter	<u>234,405</u>
	<u>\$288,817</u>

Future minimum lease payments and their present value for property under capital leases as of December 31, 2002, are as follows (in thousands):

Year Ending December 31,	
2003	\$ 9,345
2004	9,301
2005	9,252
2006	9,199
2007	9,159
Thereafter	<u>398,402</u>
	<u>444,658</u>
Less amount representing interest	<u>(340,263)</u>
Present value	<u>\$ 104,395</u>

Leasing Arrangements

Our leases with retail property and apartment tenants are classified as operating leases. Leases on apartments are generally for a period of one year or less. Retail property leases generally range from three to 10 years (certain leases with anchor tenants may be longer), and usually provide for contingent rentals based on sales and sharing of certain operating costs.

The components of rental income are as follows (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Retail and mixed-use properties			
Minimum rents	\$236,451	\$219,071	\$204,346
Cost reimbursements	52,669	46,619	42,292
Percentage rent	5,637	5,892	6,206
Apartments—rents	<u>3,328</u>	<u>2,985</u>	<u>2,790</u>
	<u>\$298,085</u>	<u>\$274,567</u>	<u>\$255,634</u>

The components of rental expense are as follows (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Repairs and maintenance	\$18,804	\$17,177	\$16,404
Management fees and costs	12,342	11,764	9,684
Utilities	9,011	8,061	8,018
Payroll—properties	5,947	4,558	4,364
Ground rent	4,801	3,698	3,190
Insurance	4,226	3,104	2,853
Other operating	<u>18,460</u>	<u>14,353</u>	<u>11,118</u>
	<u>\$73,591</u>	<u>\$62,715</u>	<u>\$55,631</u>

Minimum future retail property rentals on noncancelable operating leases, before any reserve for uncollectible amounts, on operating properties as of December 31, 2002 are as follows (in thousands):

Year Ending December 31,	
2003	\$ 246,447
2004	231,629
2005	210,896
2006	187,169
2007	160,751
Thereafter	<u>928,069</u>
	<u>\$1,964,961</u>

NOTE 3—Fair Value of Financial Instruments

The following disclosure of estimated fair value was determined by us, using available market information and appropriate valuation methods. Considerable judgment is necessary to develop estimates of fair value. The estimates presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments.

We estimate the fair value of our financial instruments using the following methods and assumptions: (1) quoted market prices, when available, are used to estimate the fair value of investments in marketable debt and equity securities; (2) quoted market prices are used to estimate the fair value of our marketable convertible subordinated debentures; (3) discounted cash flow analyses are used to estimate the fair value of mortgage notes receivable and payable, using our estimate of current interest rates for similar notes, in 2002 the carrying amount on the balance sheet was used to approximate fair value for mortgage notes receivable since these notes are for specific deals, some contain participation provisions based on the property performance and also are convertible into ownership of the properties; (4) carrying amounts on the balance sheet approximate fair value for cash, accounts payable, accrued expenses and short term

borrowings. Notes receivable from officers are excluded from fair value estimation since they have been issued in connection with employee stock ownership programs.

(in thousands)	December 31, 2002		December 31, 2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash & equivalents	\$ 23,123	\$ 23,123	\$ 17,563	\$ 17,563
Investments	5,929	5,929	2,739	2,739
Mortgage notes receivable	35,577	35,577	35,607	36,427
Mortgages and construction loans and notes payable	487,128	543,535	524,886	559,179
Convertible debentures	75,000	75,103	75,289	70,696
Senior notes	535,000	581,293	410,000	425,970

NOTE 4—Notes Payable

Our notes payable consist of the following (in thousands):

	2002	2001
Revolving credit facilities	\$ 71,000	\$ 44,000
Term note with banks	125,000	125,000
Other	2,311	5,843
	<u>\$198,311</u>	<u>\$174,843</u>

In December 1997, we obtained a five year syndicated revolving credit facility for \$300 million due December 2002. The syndicated facility requires fees and has various covenants including the maintenance of a minimum shareholders' equity and a maximum ratio of debt to net worth. In June 2000, we modified certain covenants and extended the maturity date to December 19, 2003. The current borrowing rate on the syndicated credit facility is LIBOR plus 80 basis points.

In December 1998, we obtained a four year loan of \$125 million from five institutional lenders. The loan was originally due December 2002 and was extended to December 19, 2003 along with the syndicated credit facility. The loan requires the payment of certain fees and has the same covenants as the syndicated credit facility. The current borrowing rate on the term loan is LIBOR plus 95 basis points.

The maximum amount drawn under these facilities during 2002, 2001 and 2000 was \$225.0 million, \$308.5 million and \$343.1 million, respectively. In 2002, 2001 and 2000 the weighted average interest rate on borrowings was 5.0%, 5.6% and 7.2%, respectively, and the average amount outstanding was \$189.1 million, \$269.7 million and \$283.2 million, respectively.

A \$3.4 million note issued in connection with the land held for future development in Hillsboro, Oregon was repaid on June 18, 2002.

NOTE 5—5¼% Convertible Subordinated Debentures

In October 1993, we issued \$75.0 million of 5¼% convertible subordinated debentures, realizing cash proceeds of approximately \$73.0 million. The debentures were not registered under the Securities Act of 1933 and were not publicly distributed within the United States. The debentures, which mature on October 28, 2003, are convertible into shares of beneficial interest at \$36 per share. The debentures are redeemable by us, in whole, at any time after October 28, 1998 at 100% of the principal amount plus accrued interest.

At December 2001, we had outstanding \$289,000 of 5¼% convertible subordinated debentures which were paid off on April 29, 2002. The debentures which were convertible into shares of beneficial interest at \$30.625 were not registered under the Securities Act of 1933 and were not publicly distributed within the United States.

There are no significant financial covenants on these debentures. We are in compliance with the terms and covenants of these borrowings. No principal is due on these notes prior to maturity.

NOTE 6—Senior Notes and Debentures

Unsecured senior notes and debentures at December 31, 2002 and 2001 consist of the following (in thousands):

	2002	2001
8% Notes due April 21, 2002	\$ —	\$ 25,000
6.74% Medium-Term Notes due March 10, 2004	39,500	39,500
6.625% Notes due December 1, 2005	40,000	40,000
6.99% Medium-Term Notes due March 10, 2006	40,500	40,500
6.82% Medium-Term Notes due August 1, 2027, redeemable at par by holder August 1, 2007	40,000	40,000
6.125% Notes due November 15, 2007	150,000	—
7.48% Debentures due August 15, 2026, redeemable at par by holder August 15, 2008	50,000	50,000
8.75% Notes due December 1, 2009	175,000	175,000
	<u>\$535,000</u>	<u>\$410,000</u>

On April 22, 2002 our \$25 million 8.0% Notes matured and were paid with borrowings from our syndicated credit facilities.

On November 19, 2002, we completed the sale of \$150 million of senior notes in an underwritten public offering under its shelf registration statement declared effective by the SEC on September 30, 1998. Net proceeds, after deducting the discounts and commissions to the underwriters and other expenses of this offering, totaled approximately \$148.7 million. The net proceeds, together with \$20 million in available insurance proceeds relating to the Santana Row fire, and approximately \$7.1 million in borrowings under our credit facility, to pay in full and retire the Santana Row construction loan, including all interest owed on the loan.

The loan agreements contain various covenants, including limitations on the amount of debt and minimum debt service coverage ratios. We are in compliance with all covenants. No principal is due on these notes prior to maturity.

In October 2002, we filed a \$500 million shelf registration statement, declared effective on November 6, 2002, with the Securities and Exchange Commission which allows the issuance of debt securities, preferred shares and common shares. As of December 31, 2002, the entire \$500 million is available under the shelf registration.

NOTE 7—Dividends

On October 29, 2002 the Trustees declared a quarterly cash dividend of \$.485 per common share, payable January 15, 2003 to common shareholders of record January 2, 2003. The total dividend declared per common share for 2002 was \$1.93.

Also on October 29, 2002 and December 12, 2002 the Trustees declared a quarterly cash dividend of \$.49688 per share on its Series A Cumulative Redeemable Preferred Shares, payable on January 31, 2003 to shareholders of record on January 15, 2003 and a quarterly cash dividend of \$.532 per share on its Series B Cumulative Redeemable Preferred Shares, payable on January 31, 2003 to shareholders of record on January 15, 2003, respectively.

For the year ended December 31, 2002 \$.37 of dividends paid per common share and per Series B preferred share represent a capital gain. \$.38 of dividends paid per Series A preferred share represents a capital gain. There were no capital gains in 2001.

NOTE 8—Commitments and Contingencies

Pentagon Row is a mixed-use project with the retail component developed by the Trust and the residential component developed by an unrelated developer. In October 2000 the general contractor on the project was replaced because of schedule delays and other events that caused both the residential developer and us to conclude that the original contractor was either unable or unwilling to comply with its contractual obligations. We both filed suit against the original contractor to recover damages that were being incurred as a result of defaults under the contract. The original contractor filed a counterclaim against both of us. On May 9, 2002 the residential developer and ourselves entered into a settlement agreement with the original contractor in which a full settlement, totaling \$5 million payable to us and the residential developer, was reached for all claims and counterclaims between the parties involved. On June 7, 2002 the original contractor paid into an escrow account the agreed upon settlement amount. This settlement was distributed, \$3 million to us, which offset our cost of the development, and \$2 million to the residential developer, in July 2002.

In addition, we are involved in various other lawsuits and environmental matters arising in the normal course of business. Management believes that such matters will not have a material effect on our financial condition or results of operations.

As detailed at Note 1, "Summary of Significant Accounting Policies—Investment in Restaurant Joint Ventures at Santana Row," we are currently committed to invest approximately \$8.0 million in these joint ventures. As of December 31, 2002 we have invested approximately \$5.0 million. We anticipate investing the remaining commitment of \$3.0 million in the first six months of 2003.

Under the terms of the Congressional Plaza partnership agreement, from and after January 1, 1986 Rockville Plaza Company ("RPC"), an unaffiliated third party, has the right to require us and the two other minority partners to purchase from half to all of RPC's 37.5% interest in Congressional Plaza at the interest's then-current fair market value. Based on management's current estimate of fair market value, our estimated liability upon exercise of the put option is approximately \$27.5 million. In conjunction with a redevelopment currently taking place at the property, we have agreed to acquire an additional 7.5% interest in Congressional Plaza from RPC, thereby lowering their ownership percentage to 30%, in exchange for funding approximately \$7 million of RPC's share of the redevelopment cost. The funding will take place through the first quarter of 2003 and the transaction will be completed in 2003. After the completion of this transaction, our estimated liability upon the exercise of the put option will be approximately \$22 million.

Under the terms of various other partnerships which own shopping center properties with a cost of approximately \$71 million, the partners may exchange their 796,773 operating units for cash or the same number of our common shares, at our option. During the second quarter of 2002 we issued 100,000 of our common shares valued at \$2.8 million in exchange for 100,000 operating units and cash of \$205,000 in exchange for an additional 7,816 operating units. On February 14, 2003 we paid \$333,000 to redeem an additional 12,000 operating units.

Under the terms of four other partnerships which own street retail properties in southern California with a cost of approximately \$61 million, if certain leasing and revenue levels are obtained for the properties owned by the partnerships, the other partners may require us to purchase their partnership interests at a formula price based upon net operating income. The purchase price may be paid in cash or for two of the partnerships, a limited number of our common shares at the election of the other partners. In certain of the partnerships, if the other partners do not redeem their interest, we may choose to purchase the limited partnership interests upon the same terms.

Street Retail San Antonio LP, a wholly-owned subsidiary of the Trust, entered into a Development Agreement (the "Agreement") on March 13, 2000 with the City of San Antonio, Texas (the "City") related to the redevelopment of land and buildings that we own along Houston Street in the City. Houston Street and the surrounding

area have been designated by the City as a Reinvestment Zone (the "Zone"). The City has agreed to facilitate redevelopment of the Zone by undertaking and financing certain public improvements based on our agreement to redevelop our properties in the Zone. Under the terms of the Agreement, the City issued debt to fund specific public improvements within the Zone. The initial and primary source of funding to the City for repayment of the debt and debt service is the incremental tax revenue that accretes to the City as the taxable value of the redeveloped properties within the Zone increase. We are required to issue an annual letter of credit, commencing on October 1, 2002 through September 30, 2014, that covers our designated portion of the debt service should the incremental tax revenue generated not cover the debt service. We posted a letter of credit with the City on September 25, 2002 for \$795,000. Our obligation under this agreement cannot be determined at this time because it is dependent on the annual assessed value of the properties in the Zone and the related tax revenue generated. We were not required to provide any funding in 2002 or for the semi-annual payment due March 15, 2003. Based on the current assessed value of the properties in the Zone, we expect to provide some funding under the Agreement prior to its expiration on September 30, 2014, but anticipate that our obligation will not exceed \$600,000 in any year and will be between \$2 million and \$3 million in total. If the Zone creates sufficient tax increment funding to repay the City's debt prior to the expiration of the Agreement, we will be eligible to receive reimbursement of amounts paid for debt service shortfalls together with interest thereon.

As of December 31, 2002 in connection with renovation and development projects, the Trust has contractual obligations of approximately \$78 million, including approximately \$71 million for Santana Row Phase I and Phase II.

We are obligated under ground lease agreements on several shopping centers requiring minimum annual payments as follows (in thousands):

2003	\$ 3,910
2004	3,920
2005	3,929
2006	3,976
2007	4,023
Thereafter	<u>246,186</u>
	<u>\$265,944</u>

NOTE 9—Shareholders' Equity

In May 1999, we reorganized as a Maryland real estate investment trust by amending and restating our declaration of trust and bylaws. The Amended Declaration of Trust changed the number of authorized shares of common and preferred shares from unlimited to 100,000,000 and 15,000,000, respectively. In addition, all common shares of beneficial interest, no par value, which were issued and outstanding were changed to common shares of beneficial interest, \$0.01 par value per share and all Series A Cumulative Redeemable Preferred Shares of beneficial interest, no par value, which were issued and outstanding were changed to Series A Cumulative Redeemable Preferred Shares of beneficial interest, \$0.01 par value per share.

On October 6, 1997 we issued four million 7.95% Series A Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, realizing cash proceeds of approximately \$96.6 million after costs of \$3.4 million. The Series A Preferred Shares were not redeemable prior to October 6, 2002. On or after that date, the Preferred Shares may be redeemed, in whole or in part, at our option, at a redemption price of \$25 per share plus all accrued and unpaid dividends. Dividends on the Preferred Shares are payable quarterly in arrears on the last day of January, April, July and October.

On November 19, 2001 we issued 5.4 million 8.5% Series B Cumulative Redeemable Preferred Shares at \$25 per share in a public offering, realizing cash proceeds of approximately \$130.2 million after costs of \$4.8 million. The Series B Preferred Shares are not redeemable prior to November 27, 2006. On or after that date, the Preferred Shares may be redeemed, in whole or in part, at our option, at a redemption price of \$25 per share plus all accrued and unpaid dividends. Dividends on the Preferred Shares are payable quarterly in arrears on the last day of January, April, July and October.

On June 12, 2002 we issued 2.2 million common shares at \$25.98 per share netting \$56.6 million, after all expenses of the offering.

We have a Dividend Reinvestment Plan, whereby shareholders may use their dividends and make optional cash payments to purchase shares. In 2002, 2001 and 2000, 134,247 shares, 159,234 shares and 153,713 shares, respectively, were issued under the Plan.

In December 1999, the Trustees authorized a share repurchase program for calendar year 2000 of up to an aggregate of 4 million of our common shares. During 2000, a total of 1,325,900 shares were repurchased, at a cost of \$25.2 million. We did not repurchase shares in 2002 or 2001.

In 2002, 2001 and 2000, 98,092 common shares, 96,657 common shares and 270,809 common shares, respectively, were awarded to our former Chief Executive Officer and other key employees under various incentive compensation programs designed to directly link a significant portion of their current and long term compensation to

the prosperity of the Trust and its shareholders. The shares vest over terms from 3 to 8 years. Vesting of common shares awarded to the former Chief Executive Officer was accelerated pursuant to his contractual arrangement.

In January 1994 under the terms of the 1993 Long Term Incentive Plan, Ron Kaplan, an ex-officer of the Trust purchased 40,000 common shares at \$25 per share with the assistance of a \$1.0 million loan from us. The loan, which had a term of 12 years and a current balance of \$375,000, bore interest at 6.24%. Forgiveness of up to 75% of the loan was subject to our future performance. One eighth of the loan was forgiven on January 31, 1995 and an additional one sixteenth has been forgiven each January 31 since then as we met certain performance criteria. The loan was paid in full on October 18, 2002.

On January 26, 1998, we granted 75,000 Performance Shares to an employee for which vesting was tied to leasing performance as it relates to Santana Row and other projects. Performance was to be measured at three separate dates extending to 2003. By December 31, 2002, the first two performance measures had been met. In connection with the restructuring (See Note 13) the 2003 performance measure was accelerated and granted as of December 31, 2002. We applied variable accounting to these awards by valuing the shares at each date the performance measures were either met or accelerated and recorded a charge of \$712,000 as part of the restructuring charge.

In 1991, the Board of Trustees of the Company approved a Stock Purchase Plan (the "ESPP") under Section 423 of the Code. The ESPP is regarded as a noncompensatory plan under APB No. 25, because it meets the qualifications under IRC 423. Under the terms of the ESPP, eligible employees may purchase common shares of the Company at a price that is equal to 90% of the lower of the common shares' fair market value at the beginning or the end of a quarterly period. The fair market value of a common share is equal to the last sale price of the common shares on the New York Stock Exchange. Eligible employees may purchase the common shares through payroll deductions of up to 10% of eligible compensation. The ESPP is not subject to the provisions of ERISA. The ESPP terminated on January 31, 2001.

Under the terms of the ESPP, eligible employees have purchased 446,000 common shares at \$15.125 per share with the assistance of loans of \$6.7 million from us. Originally, ESPP called for one sixteenth of the loan to be forgiven each year for eight years, as long as the participant was still employed by us. The loans for all participants, but two, were modified in 1994 to extend the term an additional four years and to tie forgiveness in 1995 and thereafter to certain criteria

related to our performance. One sixteenth of the loan has been forgiven during each year of the plan. At December 31, 2002, we had outstanding purchase loans to participants of approximately \$830,000. The purchase loans bear interest at 9.39%. The shares purchased under the plan may not be sold, pledged or assigned until both the purchase and tax loans associated with the plan are satisfied and the term has expired, without the consent of the Compensation Committee of the Board of Trustees. On January 24, 2003 a \$750,000 note was repaid.

Tax loans with a balance of \$1.8 million in 2002, \$3.1 million in 2001 and \$2.2 million in 2000 have been made in connection with restricted share grants to certain of our officers and in connection with the Share Purchase Plans. The loans, which bear interest ranging from 6.36% to 9.39%, are due over periods ranging from 8 to 13 years from the date of the loan. On January 24, 2003 a \$908,000 tax loan was repaid.

On April 13, 1999, the Shareholder Rights Plan adopted in 1989 expired. On March 11, 1999 we entered into an Amended and Restated Rights Agreement with American Stock Transfer and Trust Company, pursuant to which (i) the expiration date of our shareholder rights plan was extended for an additional ten years to April 24, 2009, (ii) the beneficial ownership percentage at which a person becomes an "Acquiring Person" under the plan was reduced from 20% to 15%, and (iii) certain other amendments were made.

NOTE 10—Stock Option Plan

The 1993 Long Term Incentive Plan ("Plan") has been amended to authorize the grant of options and other stock based awards for up to 5.5 million shares. Options granted under the Plan have ten year terms and vest in one to five years. Under the Plan, on each annual meeting date during the term of the Plan, each nonemployee Trustee will be awarded 2,500 options.

In May 2001 our shareholders' approved the 2001 Long Term Incentive Plan ("2001 Plan") which authorized an additional 1,750,000 shares for future option and other stock based awards.

The option price to acquire shares under the 2001 Plan and previous plans is required to be at least the fair market value at the date of grant. As a result of the exercise of options, we had outstanding from our officers and employees notes for \$2.5 million, \$2.5 million and \$2.6 million at December 31, 2002, 2001 and 2000, respectively. Notes issued after 2001 bear interest at LIBOR plus 200 basis points with the rate adjusted annually. Notes issued prior to 2002 under the 1993 Plan bear interest at the lesser of (i) our borrowing rate on the date of exercise or (ii) the dividend rate on the date of exercise divided by the purchase price of such shares. The notes issued under the previous plans bear interest at the lesser of (i) our borrowing rate or

(ii) the current indicated annual dividend rate on the shares acquired pursuant to the option, divided by the purchase price of such shares. The notes are collateralized by the shares and are with recourse and have five-year terms.

SFAS No. 123, "Accounting for Stock-Based Compensation" requires pro forma information regarding net income and earnings per share as if we accounted for our stock options under the fair value method of that Statement. The fair value for options issued in 2002, 2001 and 2000 has been estimated as \$536,000, \$350,000 and \$549,000, respectively, as of the date of grant, using a Black Scholes model with the following weighted-average assumptions for 2002, 2001 and 2000, respectively: risk-free interest rates of 4.5%, 4.9% and 5.2%; volatility factors of the expected market price of our shares of 16%, 20% and 14%; and a weighted average expected life of the option of 6.9 years, 6.9 years and 5.7 years. Our assumed weighted average dividend yield used to estimate the fair value of the options issued was 7.70% in 2002.

Because option valuation models require the input of highly subjective assumptions, such as the expected stock price volatility, and because changes in these subjective input assumptions can materially affect the fair value estimate, the existing model may not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options are amortized to expense over the options' vesting period. The pro forma information is as follows (in thousands, except for earnings per share):

	Year Ended December 31,		
	2002	2001	2000
Pro forma net income	\$54,855	\$68,076	\$59,445
Pro forma earnings per share, basic	\$.85	\$ 1.51	\$ 1.33
Pro forma earnings per share, diluted	\$.84	\$ 1.50	\$ 1.32

A summary of our stock option activity for the years ended December 31, is as follows:

	Shares under Option	Weighted Average Exercise Price
January 1, 2000	3,895,514	\$24.31
Options granted	737,500	19.75
Options exercised	(67,684)	20.50
Options forfeited	(847,049)	24.27
December 31, 2000	3,718,281	23.46
Options granted	417,500	19.80
Options exercised	(27,566)	20.81
Options forfeited	(351,834)	22.88
December 31, 2001	3,756,381	23.12
Options granted	435,500	25.26
Options exercised	(951,971)	21.92
Options forfeited	(19,168)	23.95
December 31, 2002	3,220,742	23.76

At December 31, 2002 and 2001, options for 2.5 million and 2.7 million shares, respectively, were exercisable. The average remaining contractual life of options outstanding at December 31, 2002 and 2001 was 5.4 years and 5.8 years, respectively. The weighted average grant date fair value per option for options granted in 2002 and 2001 was \$1.23 and \$1.04, respectively. The exercise price of options outstanding at December 31, 2002 ranged from \$18.00 per share to \$27.75 per share.

NOTE 11—Savings and Retirement Plans

We have a savings and retirement plan in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Employees' contributions range, at the discretion of each employee, from 1% to 20% of compensation up to a maximum of \$11,000. Under the plan, we contribute out of our current net income, 50% of each employee's first 5% of contributions. In addition, we may make discretionary contributions within the limits of deductibility set forth by the Code. Our employees are immediately eligible to become plan participants. Employees are not eligible to receive matching contributions until their first anniversary of employment. Our expense for the years ended December 31, 2002, 2001 and 2000 was \$271,000, \$243,000 and \$216,000, respectively.

A nonqualified deferred compensation plan for our officers and directors was established in 1994. The plan allows the participants to defer future income until the earlier of age 65 or termination of employment. As of December 31, 2002, we are liable to participants for approximately \$2.2 million under this plan. Although this is an unfunded plan, we have purchased certain investments with which to match this obligation.

NOTE 12—Interest Expense

We incurred interest totaling \$88.6 million, \$87.1 million and \$79.7 million in 2002, 2001 and 2000, respectively, of which \$23.5 million, \$17.8 million, and \$13.3 million respectively, was capitalized. Interest paid was \$86.2 million in 2002, \$84.1 million in 2001 and \$83.1 million in 2000.

NOTE 13—Change in Business Plan

On February 28, 2002, we adopted a new business plan which returned our primary focus to our traditional business of acquiring and redeveloping community and neighborhood shopping centers that are anchored by supermarkets, drug stores, or high volume, value oriented retailers that provide consumer necessities. We will complete Bethesda Row and Santana Row (Pentagon Row was completed in 2002) but do not plan to develop any new large-scale, mixed-use, ground-up development projects. Rather, we will seek to acquire income producing centers around our existing markets and will identify and execute redevelopment opportunities in our existing portfolio. Concurrent with the adoption of the business plan, we adopted a management succession plan and restructured our management team.

In connection with this change in our business plan, we recorded a charge of \$18.2 million. This charge included a reserve for a restructuring charge of \$8.5 million made up of \$6.9 million of severance and other compensation costs for several of our senior officers related to the management restructuring, as well as the write-off of \$1.6 million of our development costs. All charges against the reserve, totaling \$8.5 million, were expended during 2002. An additional component of the restructuring charge is an impairment loss of \$9.7 million representing the estimated loss on the abandonment of development projects held for sale, primarily the Tanasbourne development project located in Portland, Oregon, thereby adjusting the value of these assets to their estimated fair value. We are marketing these properties, components of our Western region, for sale. The carrying value of these properties as of December 31, 2002, classified on our consolidated balance sheet as real estate under development, is \$8.5 million.

On December 20, 2002, we announced the resignation of Steven J. Guttman as Trustee, Chief Executive Officer and Chairman of the Board of Trustees effective January 1, 2003. Donald C. Wood, our then President and Chief Operating Officer, was named Chief Executive Officer and a member of the Board of Trustees. Mark Ordan, a member of the Board of Trustees since 1996, was named non-executive chairman of the board. As a result of this transition, we recorded a charge of \$13.8 million in the fourth quarter of 2002 for payments and benefits to Mr. Guttman pursuant to his contractual arrangements with the Trust and for other transition related costs. Of this amount, \$7.9 million had not been paid as of December 31, 2002, the majority of which was paid in the first quarter of 2003.

NOTE 14—Subsequent Events

On February 11, 2003 the \$24.4 million Woodmont East construction loan and the \$17.0 million Friendship Center mortgage were paid off through borrowings under our revolving credit facility.

Pursuant to the 2001 Incentive Bonus Plan, vice presidents and certain key employees receive part of their 2002 bonus in Federal Realty shares which vest over three years. Consequently, on February 12, 2003, 16,496 shares were awarded under this plan.

Also in February 2003, 265,000 options and 113,500 performance shares were granted to certain officers and key employees.

NOTE 15—Related Party Transactions

Our former Chairman and CEO, Steven J. Guttman, has an ownership interest in three retailers, comprising approximately 3,500 square feet, at Santana Row. The leases were negotiated at what management believes to be arms length at market terms.

In addition, Nate Fishkin, one of our officers, whose last day of employment with the Trust will be March 31, 2003, has an ownership interest in a retailer occupying approximately 2,600 square feet at Santana Row. This lease was also negotiated at what management believes to be arms length at market terms.

NOTE 16—Segment Information

We operate our portfolio of assets in three geographic operating regions: Northeast, Mid-Atlantic and West.

A summary of our operations by geographic region is presented below (in thousands):

	Northeast	Mid-Atlantic	West	Other	Consolidated
2002					
Rental income	\$123,093	\$139,596	\$ 35,396		\$ 298,085
Other income	5,604	7,509	2,480		15,593
Interest income—mortgage notes	3,294		1,902		5,196
Rental expense	(23,447)	(31,897)	(18,247)		(73,591)
Real estate tax	(16,145)	(11,779)	(3,262)		(31,186)
Property operating income	92,399	103,429	18,269		214,097
Interest and other income (expense)				\$ (40)	(40)
Interest expense				(65,054)	(65,054)
Administrative expense				(13,790)	(13,790)
Restructuring expense				(22,269)	(22,269)
Depreciation and amortization	(27,784)	(27,073)	(8,583)	(811)	(64,251)
Income before investors' share of operations and discontinued operations	\$ 64,615	\$ 76,356	\$ 9,686	\$(101,964)	\$ 48,693
Capital expenditures	\$ 10,539	\$ 34,265	\$220,539		\$ 265,343
Real estate assets	\$747,778	\$827,090	\$731,958		\$2,306,826
	Northeast	Mid-Atlantic	West	Other	Consolidated
2001					
Rental income	\$117,353	\$124,765	\$ 32,449		\$ 274,567
Other income	5,657	5,715	2,581		13,953
Interest income—mortgage notes	3,908	—	534		4,442
Rental expense	(23,442)	(28,443)	(10,830)		(62,715)
Real estate tax	(15,645)	(9,951)	(2,752)		(28,348)
Property operating income	87,831	92,086	21,982		201,899
Interest and other income (expense)				\$ 2,148	2,148
Interest expense				(69,313)	(69,313)
Administrative expense				(14,281)	(14,281)
Depreciation and amortization	(27,118)	(23,921)	(7,098)	(1,034)	(59,171)
Income before investors' share of operations and discontinued operations	\$ 60,713	\$ 68,165	\$ 14,884	\$(82,480)	\$ 61,282
Capital expenditures	\$ 15,386	\$ 87,706	\$169,278		\$ 272,370
Real estate assets	\$760,849	\$793,566	\$549,889		\$2,104,304
	Northeast	Mid-Atlantic	West	Other	Consolidated
2000					
Rental income	\$110,256	\$114,371	\$ 31,007		\$ 255,634
Other income	4,206	3,900	2,917		11,023
Interest income—mortgage notes	4,433	—	943		5,376
Rental expense	(23,131)	(24,766)	(7,734)		(55,631)
Real estate tax	(14,131)	(9,159)	(2,921)		(26,211)
Property operating income	81,633	84,346	24,212		190,191
Interest and other income (expense)				\$ 2,156	2,156
Interest expense				(66,418)	(66,418)
Administrative expense				(13,318)	(13,318)
Depreciation and amortization	(24,715)	(21,915)	(4,996)	(933)	(52,559)
Income before investors' share of operations and discontinued operations	\$ 56,918	\$ 62,431	\$ 19,216	\$(78,513)	\$ 60,052
Capital expenditures	\$ 38,696	\$ 60,783	\$ 83,205		\$ 182,684
Real estate assets	\$754,048	\$720,208	\$380,657		\$1,854,913

There are no transactions between geographic areas.

NOTE 17—Quarterly Data (Unaudited)

The following summary represents the results of operations for each quarter in 2002 and 2001 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter ⁽⁵⁾
2002				
Revenue ⁽¹⁾	\$75,236	\$75,828	\$78,333	\$89,437
Net income (loss) available for common shares	(6,187) ⁽²⁾	30,479 ⁽³⁾	13,648	(2,078) ⁽⁴⁾
Earnings (loss) per common share—basic ⁽⁶⁾	(.15)	.75	.32	(.05)
Earnings (loss) per common share—diluted	(.15)	.74	.31	(.05)
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Revenue ⁽¹⁾	\$70,399	\$72,093	\$74,149	\$78,469
Net income available for common shares	12,245	20,180 ⁽⁷⁾	13,194	14,103 ⁽⁸⁾
Earnings per common share—basic	.32	.51	.34	.35
Earnings per common share—diluted ⁽⁹⁾	.32	.51	.33	.35

(1) As required by SFAS No. 144, revenue in the first quarter of 2002 and for all of 2001 has been reduced to reflect the discontinued assets sold in the second quarter of 2002.

Total revenue from these discontinued assets, by quarter, is summarized as follows (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002 Revenue from discontinued assets	\$1,415	\$ 688	\$ 6	\$ 25
2001 Revenue from discontinued assets	1,304	1,305	1,375	1,408

(2) Net income includes an \$8.5 million restructuring charge (\$.21 per share expense—basic and diluted) and a \$9.6 million loss on abandoned developments held for sale (\$.24 loss per share—basic and diluted).

(3) Net income includes a \$19.1 million gain on sale of real estate (\$.47 gain per share—basic and \$.46 gain per share—diluted).

(4) Net income includes a \$13.8 million restructuring charge (\$.32 per share expense—basic and \$.31 per share expense—diluted).

(5) In the fourth quarter of 2002 we recorded adjustments to increase revenue accruals for estimated tenant expense reimbursements by \$3.3 million and decrease certain expense accruals by \$1.0 million. These adjustments were offset by a revision to the cumulative amount of interest capitalized on development projects in the amount of \$4.2 million. The net effect of such adjustments did not have a material effect on net income or net income per share for the year ended December 31, 2002.

(6) The sum of the quarterly earnings per common share—basic, \$.87 differs from the annual earnings per common share—basic, \$.86, due to rounding.

(7) Net income includes a \$7.9 million gain on sale of real estate (\$.20 gain per share—basic and diluted).

(8) Net income includes a net \$1.3 million gain on sale of real estate (\$.03 gain per share—basic and \$.02 gain per share—diluted).

(9) The sum of the quarterly earnings per common share—diluted, \$1.51 differs from the annual earnings per common share—diluted, \$1.52, due to rounding.

Report of Independent Certified Accountants

Trustees and Shareholders of Federal Realty Investment Trust:

We have audited the consolidated balance sheet of Federal Realty Investment Trust (a Maryland real estate investment trust) and subsidiaries as of December 31, 2002 and the related consolidated statements of operations, common shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Federal Realty Investment Trust and subsidiaries as of December 31, 2001 and for the two years then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 12, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Federal Realty Investment Trust and subsidiaries as of December 31, 2002 and the consolidated results of its operations and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedules III and IV for the year ended December 31, 2002. In our opinion, these schedules present fairly, when considered in relation to the basic financial statements taken as a whole, in all material respects, the information therein.

As discussed above, the consolidated financial statements of Federal Realty Investment Trust and subsidiaries as of December 31, 2001 and for the two years then ended were audited by other auditors, who have ceased operations. As described in Note 1, these financial statements have been restated. We audited the adjustments described in Note 1 that were applied to restate the 2000 and 2001 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2000 and 2001 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2000 and 2001 financial statements taken as a whole.

GRANT THORNTON LLP
Washington, D.C.
February 6, 2003

Report of Independent Public Accountants

To the Trustees and Shareholders of Federal Realty Investment Trust:

We have audited the accompanying consolidated balance sheets of Federal Realty Investment Trust (a Maryland real estate investment trust) and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, common shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federal Realty Investment Trust and subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The financial statement schedules included on pages F-29 through F-34 of the Form 10-K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Vienna, Virginia

February 12, 2002

Note: As permitted by Rule 2-02(e) of Regulation S-X promulgated under the Securities Act, this is a copy of the audit report previously issued by Arthur Andersen LLP in connection with the filing of our Form 10-K for the fiscal year ended December 31, 2001. After reasonable efforts, we have been unable to have Arthur Andersen LLP reissue this audit report in connection with the filing of this Form 10-K. See "Item 8. Financial Statements and Supplemental Data – Notice Regarding Arthur Andersen LLP" for a further discussion. The consolidated balance sheet as of December 31, 2000, and the related consolidated statements of operations, changes in shareholders' equity and other comprehensive income, and cash flows for the fiscal years ended December 31, 1999 referred to in this report have not been included in the accompanying financial statements or schedule. In addition, Arthur Andersen's audit report relates to the financial statements of the Trust for 2000 and 2001 before restatement adjustments to reflect discontinued operations. The restatement adjustments for these years have been audited by Grant Thornton LLP.

Corporate Information

Corporate Office

1626 East Jefferson Street
Rockville, MD 20852-4041
(301) 998-8100
(301) 998-3700 fax

General Counsel

Shaw Pittman, LLP
Washington, D.C.

Independent Auditors

Grant Thornton, LLP
Vienna, VA

Transfer Agent and Registrar

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
(212) 936-5100
(800) 937-5449
www.amstock.com

Common Stock Listing

New York Stock Exchange
Symbol: FRT

SEC Form 10-K

Copies of Federal Realty's Annual Report filed with the Securities and Exchange Commission on Form 10-K are available, without charge, upon written request to the Investor Relations department at the Trust.

Memberships

National Association of Real Estate Investment Trusts
International Council of Shopping Centers
Association of Foreign Investors in U.S. Real Estate
Urban Land Institute

Annual Meeting

Federal Realty Investment Trust will hold its Annual Shareholder Meeting at 10:00 a.m. on May 7, 2003 at Woodmont Country Club, 1201 Rockville Pike, Rockville, Maryland.

Corporate Governance

The Trust's Corporate Governance Guidelines and the charters for each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are available in the Investor Information section of our website at www.federalrealty.com.

Dividend Reinvestment and Share Purchase Plan

The Trust offers a Dividend Reinvestment and Share Purchase Plan (DRP) which enables its shareholders to automatically reinvest dividends as well as make voluntary cash payments towards the purchase of additional shares. Information and enrollment forms regarding the Plan and automatic cash investment can be obtained by calling (888) 378-8727. Shareholders may enroll on-line at www.amstock.com.

Direct Deposit

Federal Realty now offers shareholders direct deposit of dividends. Interested shareholders should call (888) 378-8727 to request the appropriate enrollment forms. Shareholders may sign up on-line at www.amstock.com.

Voice and Fax on Demand

As a service to our shareholders and other interested parties, copies of the Trust's recent news releases can be transmitted, at no charge, via fax by calling Federal Realty Shareholder Direct at (888) 378-8727. This service also allows callers to hear recordings of earnings and dividend releases, current news and shareholder programs, retrieve stock quotes, and can connect callers directly to American Stock Transfer or to Federal Realty's Investor Relations department.

Internet

www.federalrealty.com

Visitors to the site can search for and download Securities and Exchange Commission filings, review Federal Realty's Dividend Reinvestment Plan, obtain current stock quotes and read recent press releases. Visitors can also request printed materials or sign up to receive news by e-mail.

E-Mail

You may communicate directly with Federal Realty's Investor Relations department via electronic mail at: IR@federalrealty.com

Trustees



STANDING LEFT TO RIGHT: **AMY LANE**, DIRECTOR, BORDERS GROUP; **DONALD C. WOOD**, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FEDERAL REALTY INVESTMENT TRUST; **MARK S. ORDAN**, CHAIRMAN, FEDERAL REALTY INVESTMENT TRUST; CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HIGH NOON ALWAYS.
SEATED LEFT TO RIGHT: **WALTER F. LOEB**, PRESIDENT, LOEB ASSOCIATES; **JOSEPH S. VASSALLUZZO**, VICE CHAIRMAN, STAPLES, INC.; **DENNIS L. BERMAN**, GENERAL PARTNER, BERMAN ENTERPRISES; **KRISTIN GAMBLE**, PRESIDENT, FLOOD GAMBLE ASSOCIATES, INC.

Management



STANDING LEFT TO RIGHT: **ANDREW BLOCHER**, VICE PRESIDENT, CAPITAL MARKETS AND INVESTOR RELATIONS; **KRISTINE WARNER**, DIRECTOR, MARKETING AND CORPORATE COMMUNICATIONS; **JOHN TSCHIDERER**, VICE PRESIDENT, DEVELOPMENT; **PAMELA BRADY**, VICE PRESIDENT, STREET RETAIL LEASING; **JONATHAN KAYNE**, VICE PRESIDENT, CHIEF OPERATING OFFICER, EASTERN REGION; **JAN SWEETNAM**, VICE PRESIDENT, CHIEF OPERATING OFFICER, WESTERN REGION; **LISA DENSON**, VICE PRESIDENT, INFORMATION TECHNOLOGY AND SPECIAL PROJECTS.
SEATED LEFT TO RIGHT: **PHILIP ALTSHULER**, VICE PRESIDENT, HUMAN RESOURCES; **KENNETH SHOOP**, VICE PRESIDENT, CONTROLLER; **CHRIS WEILMINSTER**, VICE PRESIDENT, ANCHOR TENANT LEASING; **DEBBIE COLSON**, VICE PRESIDENT, LEGAL OPERATIONS.



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