THE ROUSE COMPANY

Creating a Portfolio of Quality

ANNUAL REPORT 1998

Creating a Portfolio of Quality

THE ROUSE COMPANY traces its founding back to 1939 as a mortgage banking firm. Since the mid-1950s, the Company's primary business has been the development and management of commercial real estate projects, starting out with retail centers and later including new communities and office and industrial projects.

Among the Company's well-known retail projects are Faneuil Hall Marketplace in Boston, South Street Seaport in New York, Harborplace in Baltimore, The Fashion Show in Las Vegas, Beachwood Place in Cleveland and Perimeter Mall in Atlanta. Well-known, mixed-use projects include Pioneer Place in Portland, Westlake Center in Seattle and Arizona Center in Phoenix. The Company, through its affiliates, is also developer of two of the most successful new communities in the United States: Columbia, Maryland and Summerlin, Nevada.

The Company views the development, property management and acquisition/disposition efforts as long term value creation opportunities. Beginning on page 7, a special section of this report is devoted to the Company's overall objectives and some of the developments, acquisitions, dispositions and management strategies that create and enhance the value of this portfolio of properties.

Highlights

Operating Results	**1998**	1997
Revenues (note 1)	**$ 977,243,000**	$ 927,930,000
Funds from Operations (note 2)	**$ 204,842,000**	$ 181,390,000
Net Earnings	**$ 104,902,000**	$ 167,336,000

Financial Position		
Total Assets (note 1)	**$ 5,783,296,000**	$ 4,179,555,000
Debt and Capital Leases (note 1)	**$ 4,401,920,000**	$ 2,965,551,000
Shareholders' Equity	**$ 628,926,000**	$ 465,515,000

Other Selected Data		
Net Earnings Per Share—Diluted	**$ 1.34**	$ 2.29
Funds from Operations Per Share—Diluted	**$ 2.69**	$ 2.47
Weighted Average Common Shares Outstanding Used in Diluted Per Share Calculations:		
Earnings Per Share	**68,859,000**	76,005,000
Funds from Operations Per Share	**78,748,000**	76,376,000
Dividends Per Share:		
Common stock	**$ 1.12**	$ 1.00
Preferred stock	**$ 3.00**	$ 2.65
Number of Employees	**4,126**	4,040

Note 1—Amounts are adjusted to include unconsolidated real estate ventures in which the Company holds a majority of the financial interest, but does not own a majority voting interest. Revenues also include the Company's share of Funds from Operations of unconsolidated real estate ventures in which it holds a minority interest. See note 3 of the notes to the consolidated financial statements for a description of these ventures.

Note 2—Funds from Operations (FFO) represents revenues less operating, interest and certain current income tax expenses. FFO is also adjusted to include the Company's share of FFO of unconsolidated real estate ventures. See the "Funds from Operations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations on page 64 for a full discussion of FFO.

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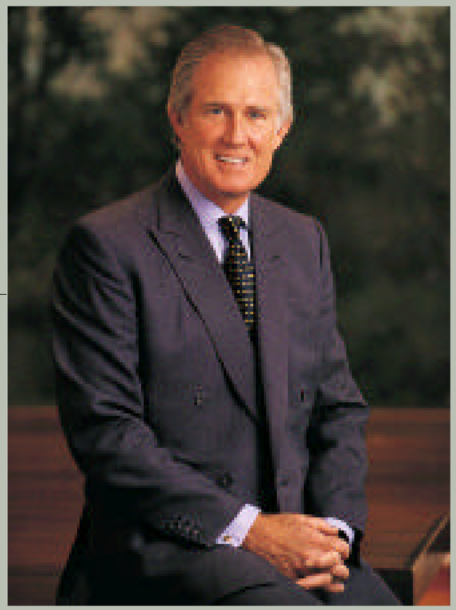
Letter to Shareholders

THE PAST YEAR WAS A PERIOD OF SIGNIFICANT CHANGE and accomplishment for The Rouse Company. On January 1st, after 42 years as a public "C" Corporation, The Rouse Company began operating as a real estate investment trust (REIT). This new corporate structure allows the Company to pursue strategic objectives in a more competitive format. During the year, the Company completed two large acquisitions: the $1.0 billion purchase of five premier retail centers from TrizecHahn Centers, Inc.; and the $373 million purchase of 67 office/industrial buildings and 107 acres of commercially zoned land from Rouse-Teachers Properties, Inc.. In addition to these milestones, each of the Company's operating lines of business produced a record year of financial performance.



ANTHONY W. DEERING
Chairman of the Board and Chief Executive Officer

Total Funds From Operations for the year were $204.8 million, a 13% increase over $181.4 million in 1997. On a diluted per share basis, Funds From Operations totaled $2.69, up from $2.47 a year ago. Net Earnings were $104.9 million, down from 1997's $167.3 million, which included a one time reversal of $124.2 million of net deferred income tax liabilities related to the conversion to REIT status.

This outstanding operating performance was accompanied by significant progress on projects in the commercial development pipeline. Openings during 1998 included a new regional shopping center, eight department store additions to existing centers, five new office/industrial buildings, three complete renovations of village centers in Columbia, Maryland and two new village centers in Summerlin, Nevada.

Current Value Shareholders' Equity increased to $2.4 billion or $33.15 per share, up from $2.1 billion or $31.80 per share at the end of 1997.

The Board of Directors, in recognition of the outstanding year and of the Company's future prospects, approved an increase in the common stock dividend to $.30 per share per quarter, or $1.20 on an annual basis. This 7% increase represents the 19th increase in the dividend rate over the 21 years since the program began.

Retail Centers Post Another Record Year

Funds From Operations from the Company's portfolio of operating retail centers totaled a record $140.1 million, a 14% increase over $123.1 million for 1997. Higher rents from re-leased space and higher average occupancy rates were the primary factors in this growth. A total of 3.2 million square feet of space in existing and new retail projects was leased during the year. In existing centers, new first year rents averaged $31.00 per square foot, almost $7.00 per square foot above the existing rents.

At year-end, occupancy of the Company's retail centers, historically the highest in the industry, was 95.2%, compared to 94.1% at December 31, 1997. Comparable space sales of merchants in the Company's retail centers increased by almost 5% in 1998, while comparable merchant sales on a per square foot basis increased to $371 from $341 at the end of 1997.

Office, Mixed-Use and Other Properties Report Sixth Year of Strong Growth

The Company's portfolio of office, mixed-use and other properties produced record Funds From Operations for 1998 of $35.1 million, a 32% increase over $26.6 million in 1997. Similar to the Company's retail centers, higher rents on re-leasing and high occupancy levels were significant factors in this growth. New projects in Las Vegas, improved operations of the retail segments of the mixed-use projects and lower interest expenses were also important factors.

During the year, 1.6 million square feet of space was leased, and occupancy at year-end was almost 96% for office space and 95% for industrial space (excluding new buildings opened during 1998). The combination of strong demand in our markets and six new buildings coming on stream gives confidence that 1999 will set the seventh consecutive record year for earnings.

Community Development Results On Target, Another New Record

The Company's two major community development projects, the master-planned communities of Columbia, Maryland, and Summerlin, Nevada, had excellent years again in 1998. Total land sales from community development operations were $197.7 million, while Funds From Operations were a record $48.8 million, as compared to $47.1 million in 1997. Both communities had years of exceptional progress, and both continue to experience outstanding market recognition and demand. Columbia, now approaching the 32nd anniversary of its first residents, is in a more mature phase than Summerlin, but there is still sufficient saleable acreage to produce substantial revenues and earnings well into the first quarter of the next century. In 1998, Summerlin was the best-selling master-planned community in the United States for the sixth time in the last seven years. Its population is now approximately 33,000 out of an anticipated 160,000 at completion, so there is now opportunity not only for residential growth, but also for expansion of the community's commercial base.

The Company's 1999 community development objectives are for approximately $175-$200 million of revenues and $45-$50 million of Funds From Operations, goals undergirded by the strong dynamics of both markets.

In 1998, for the sixth time in seven years, Summerlin was ranked as the nation's top-selling master-planned community.

Development Pipeline Still Brimming with Exciting Projects

A large number of development projects reached fruition with openings during 1998. Oviedo Marketplace in the northeastern suburbs of Orlando, Florida opened on March 4, 1998. The center has Dillard's and Parisian department stores and 300,000 square feet of mall retail space, including several "big boxes" (e.g., Bed, Bath & Beyond and Barnes & Noble) and a 22-screen Regal Cinemas complex. Additionally, Sears will open a store at Oviedo Marketplace in 2000. Further expansion that will create a five department store, dominant center is currently underway.

Sears will join Dillard's, Parisian and Regal Cinemas 22 at the Company's newest regional shopping center, Oviedo Marketplace in the fast-growing northeastern suburbs of Orlando, Florida.

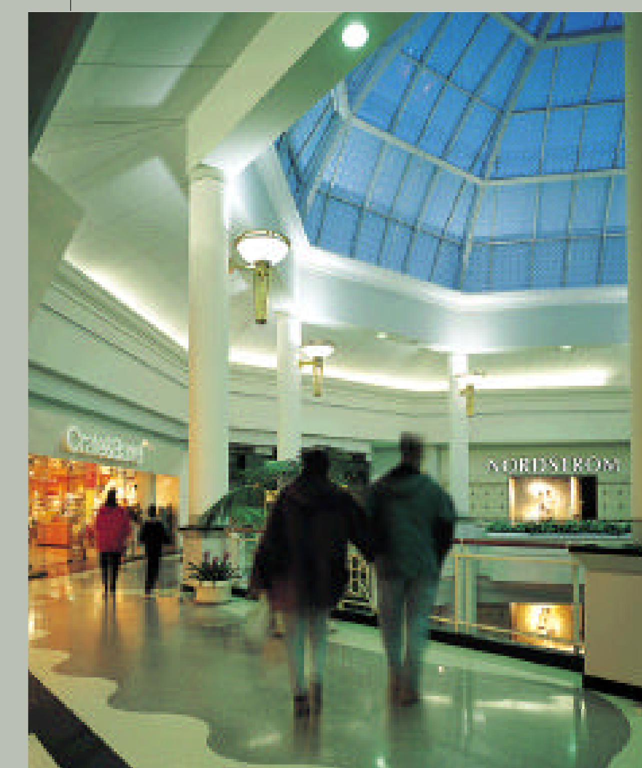
- In March, Nordstrom opened its first store in the southeastern United States at Perimeter Mall in Atlanta, Georgia. Customer response has been very enthusiastic, boosting sales of the other mall tenants and paving the way for a further expansion of the center, which is now underway.
- Lord & Taylor department stores were added to four of the Company's centers during the year: Mall St. Matthews in Louisville, Kentucky and White Marsh, Owings Mills and The Mall in Columbia in metropolitan Baltimore, Maryland.
- Sears opened two new stores, one at Echelon Mall in New Jersey and another at Owings Mills in Maryland, and Dillard's opened at Augusta Mall in Georgia.
- In Nevada, two office projects were opened in Summerlin; an office building and a restaurant at Hughes Center in Las Vegas; and two flex buildings at Hughes Airport Center adjacent to McCarran Airport.
- Two village centers — The Trails and Summerlin Gateway Plaza — opened in Summerlin, and three village centers, Harper's Choice, Long Reach and Oakland Mills, were renovated in Columbia.

This successful activity typifies the Company's development objectives going forward. The pipeline is filled with a wide variety of new regional shopping centers, expansions to existing centers, village centers, office and industrial buildings and other opportunities. The special section of this annual report that begins on page 7 highlights many of these projects, which are scheduled for completion over the next four years.

Banner Year for Major Acquisitions

As noted, the Company completed the acquisition of five premier regional shopping centers during the year. Two of the centers, Park Meadows and Fashion Place, are in the rapidly growing metropolitan areas of Denver and Salt Lake City, respectively. In addition, Bridgewater Commons and Towson Town Center, are in densely populated areas where the Company

The Company solidified its presence in the Baltimore retail market with the acquisition of Towson Town Center — a one million square foot center anchored by Nordstrom and Hecht's.



already has a significant presence, central New Jersey and Baltimore, respectively. The purchase also included a 25% interest in The Fashion Show, the premier traditional retail center in Las Vegas. The Company already owned the other 75% of The Fashion Show, and the acquisition simplifies plans for a pending major expansion. Bridgewater Commons and Fashion Place are also moving forward with major expansions in the next few years.

Subsequent to the purchase of these properties from TrizecHahn Centers Inc., the Company, in early 1999, established a joint venture with a venture consisting of the J. P. Morgan Strategic Property Fund and the New York State Teachers' Retirement System. The venture invested $604 million ($271 million of cash and $333 million of related financing) to acquire a 65% interest in four of the centers (not including Fashion Show), with the Company retaining a 35% interest.

The Company's purchase of its partner's 95% interest in Rouse-Teachers Properties, Inc. was completed late in the year. The 67 office and industrial buildings (three of which were subsequently sold) and 107 acres of land are almost exclusively located in the Baltimore-Washington area and have been managed by the Company for the past ten years. They represent an excellent strategic addition in this dynamic growth market.

In other transactions designed to strengthen the overall quality of the portfolio, the Company acquired its partners' 50% interest in Governor's Square, a dominant, four department store retail center in Tallahassee, Florida, and disposed of its interests in ten retail centers. In addition to the retail center sales, dispositions included two hotels and two industrial buildings in Columbia that did not fit the long term growth profile.

Organizational Changes Instituted to Improve Operating Efficiencies

Over the course of 1998, several promotions were made at senior management levels. In December, Douglas A. McGregor was elected Vice Chairman and Chief Operating Officer, and Jeffrey H. Donahue and Jerome D. Smalley were named Executive Vice Presidents. Jeff Donahue, who is Chief Financial Officer, now has responsibility for all Finance, Legal, Controllership and Tax functions, while Jerry Smalley now oversees all Commercial Development and New Business activities.

The Operations Committee (pictured on the inside back cover) was expanded to include three individuals who were promoted to the post of corporate vice president. Daniel C. Van Epp, head of the Summerlin Division, and John A. Kilduff, director of commercial development in the west, both join the committee from The Howard Hughes Corporation, replacing John L. Goolsby who retired. Janice A. Fuchs was named Director of Human Resources and Administrative Services and, in recognition of the importance of these functions, was appointed to the Operations Committee.

Summary

Tremendous progress was made during 1998 and operating results were excellent. Like most small capitalization public companies and virtually all public real estate companies, the Company's stock price did not reflect this excellent performance. While the National Association of Real Estate Investment Trusts Index of share prices declined by 25% for 1998, the Company's price decline was 16%, small solace for a difficult market. Every effort is being made to reinforce the Company's story with the investment community again in 1999, but the basic imperative of the Company is to do its business well, while seeking opportunities for growth and value creation.

Operating results for 1999 should reflect continued strong growth from retail and office, mixed-use operations, while community development should meet the Company's Funds From Operations objective of $45-$50 million. As a result, we believe that investors will recognize that our growing Funds From Operations and cash dividends plus the increasing value being created in our portfolio through focused development and acquisition make The Rouse Company a superior equity investment.

Pioneer Place, the Company's highly successful mixed-use project, is presently being expanded to cover a third, prime block in downtown Portland, Oregon.

Anthony W. Deering

ANTHONY W. DEERING
Chairman of the Board and Chief Executive Officer

Creating a Portfolio of Quality

WHILE THE QUEST FOR QUALITY is dynamic and forward-looking, a look at past performance can provide a good sense of the future. The first six pages of this special section deal with the progress over the past five years in each of the Company's three operating lines of business. The balance of the section then highlights some of the projects and programs that will be pursued into the early part of the next century. The quality of the Company's current portfolio now ranks at the top of the industry and will continue to improve with the addition of projects presently underway.

The first Galleries of Neiman Marcus store in the United States opened at Beachwood Place in Cleveland, Ohio, further reinforcing the center's position as the premier fashion mall in Ohio.

Retail Centers

Since 1996, the Company has added six Lord & Taylor department stores to its portfolio, at The Mall in Columbia, Mall St. Matthews, Owings Mills, White Marsh, Willowbrook and Woodbridge Center.

IN 1993, the Company undertook a comprehensive review of its retail properties and concluded that a number of centers were not well positioned for the future. There were a number of factors that created this concern:

- Demographically, the United States was seeing a shrinking middle class, as real family income declined for many, while increasing significantly for some.
- Retailing was changing dramatically as "big boxes," category killers, discounters and outlets proliferated, all reaching out for the price-conscious consumer.
- Department stores were undergoing intense consolidation, with mergers and acquisitions and dissolutions and bankruptcies commonplace. This industry seemed destined to evolve into a classic oligopoly, with only a handful of national department store chains.
- New technologies were emerging that offered the prospect of changing some traditional shopping patterns.

As a result, the Company adopted a strategy of repositioning its shopping center portfolio, focusing on quality and market dominance. The objective would be to own and manage centers that were strategically located in their markets and were convenient, safe, attractive to the consumer and offered the best selection of quality merchandise and services. A related goal would be to attract additional department stores and destination retailers to the centers, thereby reinforcing their competitive market position. As a result of these strategic decisions, the Company undertook an aggressive program of: expanding and/or renovating all existing centers that had strong fundamentals; selectively undertaking the development of new projects; buying centers that conformed to the new strategy; and disposing of interests in those properties with limited future potential.

Retail Portfolio Changes Since 1993

NEW PROJECTS/ EXPANSIONS	DEPARTMENT STORE ADDITIONS	ACQUISITIONS	PARTNER BUY-OUTS
Beachwood Place	Augusta Mall	Bridgewater Commons	Augusta Mall
Hulen Mall	Burlington Center	Collin Creek	Beachwood Place
Mall St. Matthews	The Mall in Columbia	Fashion Place	The Fashion Show
Oakwood Center	Echelon Mall	The Fashion Show	Governor's Square
Perimeter Mall	Owings Mills	Moorestown Mall	Paramus Park
Staten Island Mall	Plymouth Meeting	Park Meadows	Santa Monica Place
Oviedo Marketplace	Willowbrook	Towson Town Center	
	White Marsh		
	Woodbridge Center		

In an effort to quantify the success of this strategy, the Company's Market Research Department developed a model to rank regional malls. Factors used in this analysis included:

- total mall sales
- mall shop sales per square foot
- mall shop occupancy rate
- number of anchor tenants
- quality of national retail alignment
- mall competitive position in market

The model was applied to a universe of 253 regional centers operated by the Company and four other major, publicly owned "mall REITS," and it resulted in 68 "A" centers, 81 "B" centers and 104 "C" centers. The Company's portfolio as it existed in 1993 was then evaluated as a baseline:

	TOTAL CENTERS	"A" CENTERS	"B" CENTERS	"C" CENTERS
1993	51	5	13	33

By the end of 1998, the Company's portfolio, now smaller but more productive, has been altered for the better by a substantial amount.

	TOTAL CENTERS	"A" CENTERS	"B" CENTERS	"C" CENTERS
1998	36	16	10	10

During the five-year period, seven centers were acquired and one newly developed mall was added, but the total number of centers in the portfolio has declined to 36, through the dispositions of centers. At the same time, six of the centers were expanded and upgraded and nine others have added new department stores.

On pages 14-19, future new project and expansion openings are highlighted. By the year 2003, when these projects are completed, the portfolio composition will look as follows:

	TOTAL CENTERS	"A" CENTERS	"B" CENTERS	"C" CENTERS
2003	39	19	15	5

The operating results of the retail portfolio between 1993 and 1998 reflect the improvement in quality over that five year time span. Even with fewer properties, Funds From Operations from retail centers increased every year, gaining 14% in 1998; comparable merchant sales per square foot increased from an average of $285 in 1993 to $371 in 1998, while occupancy levels, which were in the 92% range in 1995 and 1996, rose to 95%. These strong Funds From Operations, sales and occupancy results validate the success of the strategy, and the further improvements and additions to the portfolio occurring over the next few years will reinforce this performance.

3960 Howard Hughes Parkway, a Class-A office building that opened in May at Hughes Center in Las Vegas, is now fully leased and occupied.

Office, Mixed-Use and Other Properties

THE QUALITY of the Company's Office, Mixed-Use and Other Properties portfolio results from some of the same factors that influence the retail arena. In 1993, the portfolio was primarily located in Columbia and the Baltimore-Washington Corridor and included the assets of Rouse-Teachers Properties, Inc. (RTPI), a joint venture between the Company (5%) and a subsidiary of Teachers Insurance and Annuity Association (95%). The Company was, and remains, the primary developer/owner in downtown Columbia, while RTPI holdings dominate three of the Corridor's principal submarkets: Hunt Valley and Woodlawn in Baltimore County and Landover in Prince George's County. The Company also owns Baltimore City's premier office address, The Gallery at Harborplace. The only significant assets outside this geographic area are the Company's three major mixed-use projects in the downtowns of Phoenix, Seattle and Portland.

In 1996, the Company strengthened its asset base when it added the operating portfolio of The Howard Hughes Corporation. These properties dominate Las Vegas and its submarkets in much the same way that the Company's Baltimore-Washington Corridor properties dominate their respective areas. The acquisition has also provided an excellent commercial development pipeline in a strong and growing region.

The Corporate Center at Owings Mills, in the growth corridor northwest of Baltimore, currently consists of four premier office towers (730,000 square feet) shown here behind the Company's five department store regional shopping center (foreground).

In 1998, the Company purchased its partner's interest in RTPI, thereby gaining total control of this diverse, well-located and productive portfolio.

The quality of the overall office and industrial portfolio is best evidenced by its financial performance since 1993. As office and industrial markets across the country have flourished in the face of increased demand and limited new development, Funds From Operations have grown from \$2.3 million in 1993 to \$35.1 million in 1998, and occupancy has increased from 86% to 95%. Contributors to this success include not only the strategic locations, expert management and attentive maintenance, but also the significant submarket concentrations of buildings that facilitate both efficient operations and detailed market knowledge.

Community Development

FIVE YEARS AGO, community development operations consisted primarily of Columbia, Maryland. In 1993, land sales revenues totaled $35.3 million and Funds From Operations were $11.8 million. By 1998, Columbia's revenues totaled $43.5 million and Funds From Operations were $17.3 million. Although it's been almost 37 years since the first land parcels were purchased for Columbia, and the community is in the advanced stages of its development, remaining land inventory should last well into the first quarter of the 21st century. As residential land is sold, commercial and office land sales should continue to increase, reinforced by Columbia's excellent schools, highly educated work force, proximity to Baltimore and Washington and other quality of life considerations.

In 1996, the purchase of The Howard Hughes Corporation added another major community development, Summerlin, Nevada. Only ten years old, Summerlin is in a much earlier stage of its development cycle than Columbia. During 1998, Summerlin ranked number one in the United States for sales of residential units in master-planned communities for the sixth time in the past seven years. Additionally, in 1998, the first two village centers and two office projects opened. Opportunities for additional retail projects and other commercial uses increase with the success of each new addition and the continuing growth of the population.

Summerlin's development will accelerate with the year 2000 opening of the first phase of the Las Vegas perimeter beltway. It will be a limited access highway connecting the community to McCarran Airport, which will then be only 15 minutes away. The beltway's six interchanges in Summerlin provide excellent commercial development opportunities, including Town Center, a four department store (first phase) regional mall which is expected to open after the beltway is completed. These new amenities will enhance Summerlin as a location for business and industry, just as the low taxes, warm climate and excellent recreational facilities make it appealing to residents of all ages, including a significant component of senior citizen retirees.

		COLUMBIA	SUMMERLIN
ACRES	Total	18,000	22,500
	Remaining	4,800	13,600
RESIDENTS	Total	87,000	33,000
	At Completion	100,000	160,000
JOBS	Today	60,000	5,000
OTHER	A broad range of social, cultural entertainment, educational and recreational programs and facilities		

New high-density luxury housing and new office space highlight the dramatically changing skyline of Columbia's Town Center.

Divided into villages, each with its own park or golf course, Summerlin sits on 22,500 acres along the Las Vegas Valley's western rim. More than 200 model homes are currently open to the home-buying public, offering a wide variety of choices for a multi-generational population.

1999 Openings

The Mall in Columbia
Expansion Phase I

Exton Square
Expansion Phase I

Park Square

Hughes Office
and Industrial

Construction is on pace for a Spring, 1999 opening of the $270 million Resort at Summerlin - a grand new luxury Circle Seven Resort featuring 540 deluxe rooms and suites, a 50,000 square foot casino, a world renown spa, a golf course, gourmet restaurants, specialty shops, gardens, pools and other recreational facilities.

Major commercial development activity in downtown Columbia, Maryland, includes the February opening of a new, fully leased, Class-A office building, Park Square.

With a new Lord & Taylor now open, The Mall in Columbia is poised for a September opening of Nordstrom and a 60,000 square foot expansion wing of high quality retailers. A complete center-wide renovation and remerchandising includes a pedestrian promenade that will link the center to several superstore anchors, a Premium General Cinema, restaurants and

2000 Openings

The Mall in Columbia Expansion Phase II

Exton Square Expansion Phase II

Moorestown Mall Expansion

Perimeter Mall Expansion

Oviedo Marketplace Expansion

Pioneer Place Expansion

Hughes Office and Industrial

An expanded Saks Fifth Avenue store and a new Sundance Cinema will anchor an expansion at Pioneer Place in downtown Portland, Oregon.

Construction has begun on a 171,000 square foot Class-A building which will open later this year at Hughes Center in Las Vegas.

Nordstrom opened its first store in the Southeast at Perimeter Mall in Atlanta, Georgia, paving the way for the addition of a dramatic new garden entrance of restaurants and superstores in the Spring of 2000.


NORDSTROM
NORDSTROM

2001 Openings

The Fashion Show Expansion Phase I

Hughes Office and Industrial

Columbia Office

With its main entrance strategically positioned on Las Vegas Boulevard (The Strip), one of the most dynamic retail locations in the world, the expansion and renovation of The Fashion Show will bring together new Bloomingdale's, Saks Fifth Avenue, Lord & Taylor and Dillard's department stores with newly expanded and remerchandised Neiman Marcus, Robinsons-May and Macy's stores in two million square feet of retail space. One-of-a-kind retail shops, signature restaurants and entertainment venues will debut in two phases in 2001 and 2002.

An expansion and remerchandising program will soon commence at Bridgewater Commons, located in the New Jersey suburbs of New York City. A new Bloomingdale's and new expansion retail space will join Lord & Taylor, Macy's, Sterns in one million square feet of retail space.

2002 Openings

Bridgewater Commons Expansion

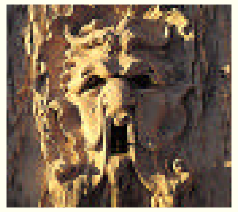
The Village of Merrick Park

The Fashion Show Expansion Phase II

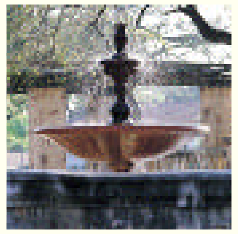
Ft. Myers Center

Fashion Place Expansion

Hughes Office and Industrial



The Village of Merrick Park, a mixed-use project in affluent Coral Gables, Florida, will be anchored by Neiman Marcus and Florida's first Nordstrom. This project will blend retail, residential, restaurant, entertainment, recreational and commercial office uses in an extraordinary park-like setting of landscaped public plazas and ornately detailed fountains.



Summerlin Center, a regional shopping place with more than one million square feet of retail space, including Robinsons-May, Lord & Taylor and Dillard's department stores will form the heart of Town Center in the rapidly growing master-planned community.


GAP

Financial Review

The financial review section of this annual report to shareholders contains the following sections:

Park Meadows, in Denver, Colorado, one of the five premier regional shopping centers purchased in 1998, will add a new Lord & Taylor this summer.

MANAGEMENT'S STATEMENT ON RESPONSIBILITIES FOR ACCOUNTING, AUDITING AND FINANCIAL REPORTING

The financial statements and other information included in the financial review section of this annual report to shareholders have been prepared by management of the Company. Financial information presented elsewhere in this report is consistent with the data presented in the financial review section.

The consolidated financial statements have been prepared on the basis of the generally accepted accounting principles considered appropriate in the circumstances. Preparation of the financial statements and other financial information requires a certain amount of estimation and judgment. Management has made these estimates and judgments based on extensive experience and substantive understanding of relevant events and transactions. The primary objective of financial reporting is to provide users of financial statements with sufficient, relevant information to enable them to evaluate the financial strength and profitability of the Company. Consistent with this objective, this annual report includes a measurement of operating results (Funds from Operations) which supplements net earnings (loss).

In fulfilling its responsibility for the reliability and integrity of financial information, management has established and maintains a system of internal control. Management believes that this system provides reasonable assurance regarding achievement of the Company's objectives with respect to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This system is supported by the Company's business ethics policy and is regularly tested by internal auditors. The independent auditors also consider the system of internal control to the extent necessary to determine the nature, timing and extent of their audit procedures.

The Audit Committee of the Board of Directors is composed of directors who are neither officers nor employees of the Company. The Committee meets periodically with management, the Company's internal auditors and the independent auditors to review the work and conclusions of each. The internal auditors and the independent auditors have full and free access to the Audit Committee and meet with it, with and without management present, to discuss accounting, auditing and financial reporting matters. The Audit Committee recommends, and the Board of Directors appoints, the Company's independent auditors.

INDEPENDENT AUDITORS' REPORT

KPMG LLP
Certified Public Accountants
111 South Calvert Street
Baltimore, Maryland 21202

The Board of Directors and Shareholders
The Rouse Company:

We have audited the accompanying consolidated balance sheets of The Rouse Company and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 aforementioned consolidated financial statements present fairly, in all material respects, the financial position of The Rouse Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

February 24, 1999

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1997 (in thousands, except share data)

	1998	1997
Assets		
Property (notes 4 and 7):		
Operating properties:		
Property and deferred costs of projects	$4,718,727	$3,079,962
Less accumulated depreciation and amortization	578,311	515,229
	4,140,416	2,564,733
Properties in development	167,360	232,349
Properties held for sale	165,894	20,052
Total property	4,473,670	2,817,134
Investments in and advances to unconsolidated real estate ventures (notes 3 and 7)	322,066	338,692
Prepaid expenses, receivables under finance leases and other assets (note 15)	241,040	228,956
Accounts and notes receivable (note 5)	75,917	114,300
Investments in marketable securities	4,256	3,586
Cash and cash equivalents	37,694	87,100
Total	$5,154,643	$3,589,768

	1998	1997
Liabilities		
Debt (note 7):		
Property debt not carrying a Parent Company guarantee of repayment	$2,923,119	$2,085,456
Parent Company debt and debt carrying a Parent Company guarantee of repayment:		
Property debt	161,986	158,093
Convertible subordinated debentures	128,515	130,000
Other debt	845,200	256,000
	1,135,701	544,093
Total debt	4,058,820	2,629,549
Obligations under capital leases	9,639	54,591
Accounts payable, accrued expenses and other liabilities	320,293	302,613
Company-obligated mandatorily redeemable preferred securities of a trust holding solely Parent Company subordinated debt securities (note 8)	136,965	137,500
Commitments and contingencies (notes 15 and 16)		
Shareholders' equity (notes 12 and 13)		
Series B Convertible Preferred stock with a liquidation preference of $202,500	41	41
Common stock of 1¢ par value per share; 250,000,000 shares authorized; issued 72,225,223 shares in 1998 and 66,910,901 shares in 1997	723	669
Additional paid-in capital	836,508	686,976
Accumulated deficit	(206,520)	(222,171)
Accumulated other comprehensive income	(1,826)	—
Net shareholders' equity	628,926	465,515
Total	$5,154,643	$3,589,768

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years ended December 31, 1998, 1997 and 1996 (in thousands, except per share data)

	1998	1997	1996
Revenues	$692,571	$916,771	$821,036
Operating expenses, exclusive of provision for bad debts, depreciation and amortization	350,647	530,076	468,366
Interest expense (note 7)	209,564	207,490	220,381
Provision for bad debts	7,735	5,766	3,688
Depreciation and amortization (note 4)	84,068	82,944	77,414
Equity in earnings of unconsolidated real estate ventures (note 3)	75,769	6,815	8,917
Loss on dispositions of assets and other provisions, net (note 11)	11,174	23,484	16,499
Earnings before income taxes, extraordinary items and cumulative effect of changes in accounting principle	105,152	73,826	43,605
Income tax provision (benefit) (note 10):			
Current	(24)	8,137	123
Deferred — primarily Federal	—	(124,203)	25,596
	(24)	(116,066)	25,719
Earnings before extraordinary items and cumulative effect of changes in accounting principle	105,176	189,892	17,886
Extraordinary gain (loss), net (note 7)	4,355	(21,342)	(1,453)
Cumulative effect at January 1, 1998 of change in accounting for participating mortgages (note 1)	(4,629)	—	—
Cumulative effect at October 1, 1997 of change in accounting for business process reengineering costs, net (note 1)	—	(1,214)	—
Net earnings	104,902	167,336	16,433
Other items of comprehensive income — minimum pension liability adjustment	(1,826)	—	—
Comprehensive income	$103,076	$167,336	$ 16,433
Net earnings applicable to common shareholders	$ 92,750	$157,023	$ 5,900
Earnings per share of common stock (note 14):			
Basic:			
Earnings before extraordinary items and cumulative effect of changes in accounting principle	$ 1.36	$ 2.70	$ .13
Extraordinary items	.07	(.32)	(.03)
Cumulative effect of changes in accounting principle	(.07)	(.02)	—
Total	$ 1.36	$ 2.36	$ .10
Diluted:			
Earnings before extraordinary items and cumulative effect of changes in accounting principle	$ 1.34	$ 2.59	$ .12
Extraordinary items	.07	(.28)	(.03)
Cumulative effect of changes in accounting principle	(.07)	(.02)	—
Total	$ 1.34	$ 2.29	$ .09

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1998, 1997 and 1996 (in thousands)

	Series A Preferred stock	*Series B Preferred stock*	*Common stock*	*Additional paid-in capital*	*Accumulated deficit*	*Accumulated other comprehensive income*
Balance at December 31, 1995	$ 45	$ —	$479	$309,943	$(267,883)	$ —
Net earnings	—	—	—	—	16,433	—
Dividends declared:						
Common stock — $.88 per share	—	—	—	—	(50,384)	—
Preferred stock — $2.44 per share	—	—	—	—	(10,533)	—
Conversion of Series A Preferred stock (note 12)	(45)	—	106	(61)	—	—
Purchases of common stock	—	—	(2)	(7,005)	—	—
Common stock issued in acquisition of The Hughes Corporation (note 2)	—	—	78	178,008	—	—
Common stock issued pursuant to Contingent Stock Agreement (note 13)	—	—	2	5,023	—	—
Proceeds from exercise of stock options, net	—	—	4	1,038	—	—
Lapse of restrictions on common stock awards	—	—	—	1,903	—	—
Balance at December 31, 1996	—	—	667	488,849	(312,367)	—
Net earnings	—	—	—	—	167,336	—
Dividends declared:						
Common stock — $1.00 per share	—	—	—	—	(66,827)	—
Preferred stock — $2.65 per share	—	—	—	—	(10,313)	—
Issuance of Series B Preferred stock (note 12)	—	41	—	196,787	—	—
Purchases of common stock	—	—	(8)	(26,357)	—	—
Common stock issued pursuant to Contingent Stock Agreement (note 13)	—	—	8	23,305	—	—
Proceeds from exercise of stock options, net	—	—	2	2,077	—	—
Lapse of restrictions on common stock awards	—	—	—	2,315	—	—
Balance at December 31, 1997	—	41	669	686,976	(222,171)	—
Net earnings	—	—	—	—	104,902	—
Other comprehensive income	—	—	—	—	—	(1,826)
Dividends declared:						
Common stock — $1.12 per share	—	—	—	—	(77,099)	—
Preferred stock — $3.00 per share	—	—	—	—	(12,152)	—
Purchases of common stock	—	—	(21)	(65,412)	—	—
Conversion of convertible subordinated debentures	—	—	1	1,484	—	—
Common stock issued pursuant to Contingent Stock Agreement (note 13)	—	—	21	65,002	—	—
Other common stock issued	—	—	50	143,378	—	—
Proceeds from exercise of stock options, net	—	—	3	484	—	—
Lapse of restrictions on common stock awards	—	—	—	4,596	—	—
Balance at December 31, 1998	$ —	$ 41	$723	$836,508	$(206,520)	$(1,826)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1998, 1997 and 1996 (in thousands)

	1998	1997	1996
Cash flows from operating activities			
Rents and other revenues received	$ 666,080	$ 714,784	$ 685,990
Proceeds from land sales and on notes receivable from land sales	80,017	159,932	122,245
Interest received	14,038	11,877	11,939
Land development expenditures	—	(97,868)	(54,343)
Operating expenditures	(339,962)	(395,528)	(381,061)
Interest paid	(204,897)	(207,681)	(216,644)
Dividends, interest and other operating distributions from unconsolidated majority financial interest ventures	45,907	—	—
Net cash provided by operating activities	261,183	185,516	168,126
Cash flows from investing activities			
Expenditures for properties in development and improvements to existing properties funded by debt	(306,950)	(283,401)	(123,985)
Expenditures for acquisition of The Hughes Corporation, net of acquired cash	—	—	(36,331)
Expenditures for property acquisitions	(882,404)	(79,420)	(18,152)
Expenditures for improvements to existing properties funded by cash provided by operating activities:			
Tenant leasing and remerchandising	(7,955)	(5,964)	(8,095)
Building and equipment	(13,873)	(15,933)	(12,691)
Proceeds from sales of operating properties	130,070	81,281	26,345
Payments received on loans and advances to unconsolidated majority financial interest ventures	47,483	—	—
Other	1,429	(19,042)	(10,086)
Net cash used by investing activities	(1,032,200)	(322,479)	(182,995)
Cash flows from financing activities			
Proceeds from issuance of property debt	650,987	693,525	291,373
Repayments of property debt:			
Scheduled principal payments	(50,689)	(46,282)	(39,048)
Other payments	(347,725)	(572,139)	(251,807)
Proceeds from issuance of other debt	602,000	11,868	31,652
Repayments of other debt	(15,287)	(1,520)	—
Proceeds from issuance of Series B Preferred stock	—	196,828	—
Proceeds from issuance of common stock	43,428	—	—
Purchases of common stock	(65,433)	(26,365)	(7,007)
Dividends paid	(89,251)	(77,140)	(60,917)
Other	(6,419)	1,522	(533)
Net cash provided (used) by financing activities	721,611	180,297	(36,287)
Net increase (decrease) in cash and cash equivalents	(49,406)	43,334	(51,156)
Cash and cash equivalents at beginning of year	87,100	43,766	94,922
Cash and cash equivalents at end of year	$ 37,694	$ 87,100	$ 43,766

The accompanying notes are an integral part of these statements.

Reconciliation of Net Earnings to Net Cash Provided by Operating Activities

	1998	1997	1996
Net earnings	$104,902	$ 167,336	$ 16,433
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	84,068	82,944	77,414
Undistributed earnings of majority financial interest ventures	(41,720)	—	—
Loss on dispositions of assets and other provisions, net	11,174	23,484	16,499
Extraordinary (gain) loss, net	(4,355)	21,342	1,453
Cumulative effect of changes in accounting principle, net	4,629	1,214	—
Additions to preconstruction reserve	1,700	2,800	2,700
Participation expense pursuant to Contingent Stock Agreement	44,075	35,832	28,844
Provision for bad debts	7,735	5,766	3,688
Decrease (increase) in:			
Accounts and notes receivable	32,507	(70,045)	(26,862)
Other assets	1,845	(2,312)	(5,694)
Increase in accounts payable, accrued expenses and other liabilities	8,852	48,783	25,885
Deferred income taxes	—	(124,203)	25,596
Other, net	5,771	(7,425)	2,170
Net cash provided by operating activities	$261,183	$ 185,516	$168,126

Schedule of Noncash Investing and Financing Activities

	1998	1997	1996
Common stock issued pursuant to Contingent Stock Agreement (note 13)	$ 65,023	$ 23,313	$ 5,025
Common stock and other noncash consideration issued in acquisitions of property interests (note 4)	100,000	5,323	13,520
Mortgage and other debt assumed or issued in acquisitions of property interests	599,795	—	21,090
Mortgage debt extinguished on dispositions of interests in properties	19,875	—	—
Termination of capital lease obligation	46,387	—	—
Common stock issued on conversion of convertible subordinated debentures	1,485	—	—
Capital lease obligations incurred	2,743	1,101	3,789
Debt assumed by purchasers of land	2	21,928	16,991
Mortgage and other debt of subsidiaries in which a majority voting interest was sold to an affiliate (note 3)	—	280,595	—
Property of subsidiaries in which a majority voting interest was sold to an affiliate (note 3)	—	547,295	—
Debt and other liabilities assumed in acquisition of The Hughes Corporation, net (note 2)	—	—	334,155
Common stock issued in acquisition of The Hughes Corporation (note 2)	—	—	178,086
Notes received from sales of operating properties	—	—	8,440

(1) Summary of significant accounting policies

(a) Description of business

Through its subsidiaries and affiliates, the Company acquires, develops and/or manages income-producing properties located throughout the United States and develops and sells land for residential, commercial and other uses. The income-producing properties consist of retail centers, office and industrial buildings and mixed-use and other properties. The retail centers are primarily regional shopping centers in suburban market areas, but also include specialty marketplaces in certain downtown areas and several village centers, primarily in Columbia, Maryland. The office and industrial properties are located primarily in the Columbia, Baltimore and Las Vegas market areas or are components of large-scale mixed-use properties (which include retail, parking and other uses) located in other urban markets. Land development and sales operations are predominantly related to large-scale, long-term community development projects in Columbia and Summerlin, Nevada.

(b) Basis of presentation

The consolidated financial statements include the accounts of The Rouse Company, all subsidiaries and partnerships in which it has a majority voting interest and control and the Company's proportionate share of the assets, liabilities, revenues and expenses of unconsolidated real estate ventures in which it has joint interest and control with other venturers. Investments in other ventures are accounted for using the equity or cost methods as appropriate in the circumstances. Significant intercompany balances and transactions are eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of the Company's financial statements in a number of areas, including evaluation of impairment of long-lived assets (including operating properties and properties held for development or sale), determination of useful lives of assets subject to depreciation or amortization, evaluation of collectibility of accounts and notes receivable and measurement of pension and postretirement obligations. Actual results could differ from those and other estimates.

Certain amounts for prior years have been reclassified to conform to the presentation for 1998.

(c) Property

Properties to be developed or held and used in operations are carried at cost reduced for impairment losses, where appropriate. Properties held for sale are carried at cost reduced for valuation allowances, where appropriate. Acquisition, development and construction costs of properties in development are capitalized including, where applicable, salaries and related costs, real estate taxes, interest and preconstruction costs. The preconstruction stage of development of an operating property (or an expansion of an existing property) includes efforts and related costs to secure land control and zoning, evaluate feasibility and complete other initial tasks which are essential to development. Provision is made for potentially unsuccessful preconstruction efforts by charges to operations. Development and construction costs and costs of significant improvements, replacements and renovations at operating properties are capitalized, while costs of maintenance and repairs are expensed as incurred.

Direct costs associated with financing and leasing of operating properties are capitalized as deferred costs and amortized over the periods benefited by the expenditures. Effective March 19, 1998, the Company adopted a policy of charging internal staff costs associated with acquisitions of operating properties to expense as incurred as required by a consensus of the Emerging Issues Task Force of the Financial Accounting Standards Board. Prior to that date, such costs were capitalized as part of the cost of properties acquired. This change did not have a material effect on net earnings for 1998.

Depreciation of operating properties is computed using the straight-line method. The annual rate of depreciation for most of the Company's retail centers is based on a 55-year composite life and a salvage value of approximately 10%, producing an effective annual rate of depreciation for new properties of 1.6%. The other retail centers, all office buildings and other properties are generally depreciated using composite lives of 40 years producing an effective annual rate of depreciation for such properties of 2.5%.

If events or circumstances indicate that the carrying value of an operating property to be held and used may be impaired, a recoverability analysis is performed based on estimated nondiscounted future cash flows to be generated from the property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized.

Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and any impairment loss recognized, where applicable) or estimated fair values less costs to sell. The net carrying values of operating properties are classified as properties held for sale when marketing of the properties for sale is authorized by management. Depreciation of these properties is discontinued at that time, but operating revenues, interest and other operating expenses continue to be recognized until the date of sale. Revenues and expenses related to property interests acquired with the intention to resell are not recognized.

(d) Sales of property

Gains from sales of operating properties and revenues from land sales are recognized using the full accrual method provided that various criteria relating to the terms of the transactions and any subsequent involvement by the Company with the properties sold are met. Gains or revenues relating to transactions that do not meet the established criteria are deferred and recognized when the criteria are met or using the installment or cost recovery methods, as appropriate in the circumstances. For land sale transactions under the terms of which the Company is required to perform additional services and incur significant costs after title has passed, revenues and cost of sales are recognized on a percentage of completion basis.

Cost of land sales is generally determined as a specified percentage of land sales revenues recognized for each land development project. The cost percentages used are based on estimates of development costs and sales revenues to completion of each project and are revised periodically for changes in estimates or development plans. The specific identification method is used to determine cost of sales of certain parcels of land.

(e) Leases

Leases which transfer substantially all the risks and benefits of ownership to tenants are considered finance leases and the present values of the minimum lease payments and the estimated residual values of the leased properties, if any, are accounted for as receivables. Leases which transfer substantially all the risks and benefits of ownership to the Company are considered capital leases and the present values of the minimum lease payments are accounted for as property and debt.

In general, minimum rent revenues are recognized when due from tenants; however, estimated collectible minimum rent revenues under leases which provide for varying rents over their terms are averaged over the terms of the leases.

(f) Income taxes

In December 1997, the Company determined that it would elect to be taxed as a real estate investment trust (REIT) pursuant to the Internal Revenue Code of 1986, as amended, effective January 1, 1998. In general, a corporation that distributes at least 95% of its REIT taxable income to shareholders in any taxable year and complies with certain other requirements (relating primarily to the nature of its assets and the sources of its revenues) is not subject to Federal income taxation to the extent of the income which it distributes. Management believes that the Company met the qualifications for REIT status as of December 31, 1998 and intends for it to continue to meet the qualifications in the future and to distribute at least 100% of its REIT taxable income (determined after taking into account any net operating loss deduction) to shareholders in 1999 and subsequent years. As discussed more fully in note 10, management also does not expect that the Company will pay significant taxes on "built-in gains" on its assets. Based on these considerations, management does not believe that the Company will be liable for income taxes at the Federal level or in most of the states in which it operates in 1998 and future years. Accordingly, the Company eliminated substantially all of its existing deferred tax assets and liabilities at December 31, 1997, and does not expect to provide for deferred income taxes in future periods except in certain states.

Where required, deferred income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

(g) Investments in marketable securities and cash and cash equivalents

The Company's investment policy defines authorized investments and establishes various limitations on the maturities, credit quality and amounts of investments held. Authorized investments include U.S. government and agency obligations, certificates of deposit, bankers acceptances, repurchase agreements, commercial paper, money market mutual funds and corporate debt and equity securities.

Investments with maturities at dates of purchase in excess of three months are classified as marketable securities and carried at amortized cost as it is the Company's intention to hold these investments until maturity. Short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments purchased with the proceeds of loans which may be expended only for specified purposes are classified as investments in marketable securities. At December 31, 1998 and 1997, investments in marketable securities consist primarily of U.S. government and agency obligations with maturities of less than one year which are held for restricted uses.

(h) Derivative financial instruments

The Company makes limited use of interest rate exchange agreements, including interest rate caps and swaps, to manage interest rate risk associated with variable rate debt. The Company may also use other types of agreements to hedge interest rate risk associated with anticipated project financing transactions. These instruments are designated as hedges and, accordingly, changes in their fair values are not recognized in the financial statements, provided that they meet defined correlation and effectiveness criteria at inception and thereafter. Instruments that cease to qualify for hedge accounting are marked-to-market with gains or losses recognized in income.

Under interest rate cap agreements, the Company makes initial premium payments to the counterparties in exchange for the right to receive payments from them if interest rates on the related variable rate debt exceed specified levels during the agreement period. Premiums paid are amortized to interest expense over the terms of the agreements using the interest method and payments receivable from the counterparties are accrued as reductions of interest expense. Under interest rate swap agreements, the Company and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Amounts receivable or payable under swap agreements are accounted for as adjustments to interest expense on the related debt.

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. The Company does not require any collateral under these agreements, but deals only with highly rated financial institution counterparties (which, in certain cases, are also the lenders on the related debt) and does not expect that any counterparties will fail to meet their obligations.

(i) Other information about financial instruments

Fair values of financial instruments approximate their carrying values in the financial statements except for debt and related interest rate exchange agreements for which fair value information is provided in note 7.

(j) Earnings per share of common stock

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of convertible securities are computed using the "if-converted" method and the dilutive effects of options, warrants and their equivalents (including fixed awards and nonvested stock issued under stock-based compensation plans) are computed using the "treasury stock" method.

(k) Stock-based compensation

The Company uses the intrinsic value method to account for stock-based employee compensation plans. Under this method, compensation cost is recognized for awards of shares of common stock or stock options to employees only if the quoted market price of the stock at the grant date (or other measurement date, if later) is greater than the amount the employee must pay to acquire the stock. Information concerning the pro forma effects on net earnings and earnings per share of common stock of using an optional fair value-based method, rather than the intrinsic value method, to account for stock-based compensation plans is provided in note 13.

(l) Business process reengineering costs

Effective October 1, 1997, the Company adopted a policy of charging costs of business process reengineering activities to expense as incurred as required by a consensus of the Emerging Issues Task Force of the Financial Accounting Standards Board. Prior to that date, such costs were deferred and amortized over the period benefited by the expenditures. The cumulative effect at October 1, 1997 of this accounting change was to reduce net earnings for 1997 by $1,214,000 ($.02 per share), net of related income tax benefits of $654,000. The effect of this change on earnings before extraordinary losses and net earnings for 1997, excluding the cumulative effect of the change, was not material and application of the new policy in 1996 would not have had a material effect on reported earnings before extraordinary losses, net earnings or related per share amounts.

(m) Participating mortgages

Effective January 1, 1998, the Company adopted the American Institute of Certified Public Accountants' Statement of Position 97-1 "Accounting by Participating Mortgage Loan Borrowers." This Statement prescribes borrowers' accounting for participating mortgage loans and requires, among other things, that borrowers recognize liabilities for the estimated fair value of lenders' participations in the appreciation in value (if any) of mortgaged real estate projects and record such participations as interest over the terms of the related loans. The Company had not previously recognized lenders' participations in the appreciation in value of mortgaged properties. The cumulative effect of this accounting change at January 1, 1998 was to reduce net earnings by approximately $4,629,000 ($.07 per share basic and diluted). The effect of this change, excluding the cumulative effect of initial adoption, was not material (approximately $.01 per share basic and diluted) in 1998.

(n) Comprehensive income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This Statement establishes standards for reporting and presentation of comprehensive income and its components in financial statements. Comprehensive income includes all changes in shareholders' equity during a period, except those relating to investments by and distributions to shareholders. The Company's comprehensive income consists of net earnings and adjustments to minimum pension liability and is presented in the statements of operations and comprehensive income. Accumulated other comprehensive income is displayed as a separate component of shareholders' equity. No amounts were required to be reclassified to other comprehensive income for 1997 and 1996.

(o) Pension and other postretirement plans

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits." This Statement revises disclosure requirements about pension and other postretirement benefit plans, but does not change the method of accounting for them.

(2) The Hughes Corporation acquisition and related matters

On June 12, 1996, the Company acquired all of the outstanding equity interests in The Hughes Corporation and its affiliated partnership, Howard Hughes Properties, Limited Partnership (together, "Hughes"). In connection with the acquisition, the Company issued 7,742,884 shares of common stock valued at $178,086,000 and incurred or assumed debt and other liabilities of $370,486,000 (net of certain receivables and other current assets acquired). As discussed in note 13, additional shares of common stock (or, in certain circumstances, Increasing Rate Cumulative Preferred stock) have been and may continue to be issued to the former Hughes owners or their successors pursuant to terms of a Contingent Stock Agreement. The acquisition was accounted for using the purchase method. The total purchase cost approximated the aggregate fair values of the assets acquired which consisted primarily of a regional shopping center in Las Vegas, a large-scale, master-planned community in Summerlin, Nevada, and four large-scale, master-planned business parks and various other properties in Nevada and Southern California.

The consolidated statement of operations and comprehensive income for the year ended December 31, 1996 includes revenues and costs and expenses from the date of acquisition. The Company's unaudited pro forma consolidated results of operations for the year ended December 31, 1996, assuming the acquisition of Hughes occurred on January 1, 1996, are summarized as follows (in thousands, except per share data):

Revenues	$872,805
Earnings before extraordinary items	20,990
Net earnings	19,537
Earnings per share of common stock:	
Basic:	
Earnings before extraordinary items	.16
Net earnings	.14
Diluted:	
Earnings before extraordinary items	.16
Net earnings	.14

The unaudited pro forma revenues and earnings summarized above are not necessarily indicative of the results that would have occurred if the acquisition had been consummated on January 1, 1996.

(3) Unconsolidated real estate ventures

Investments in and advances to unconsolidated real estate ventures at December 31, 1998 and 1997 are summarized, based on the level of the Company's financial interest, as follows (in thousands):

	1998	1997
Majority interest ventures	$270,085	$259,320
Joint interest and control ventures	1,140	3,412
Minority interest ventures	50,841	75,960
Total	$322,066	$338,692

The equity in earnings of unconsolidated real estate ventures for the years ended December 31, 1998, 1997 and 1996 is summarized, based upon the level of the Company's financial interest, as follows (in thousands):

	1998	1997	1996
Majority interest ventures	$63,475	$ —	$ —
Minority interest ventures	12,294	6,815	8,917
Total	$75,769	$6,815	$8,917

The ventures in which the Company has majority financial interests were initiated on December 31, 1997, when certain wholly owned subsidiaries issued 91% of their voting common stock to The Rouse Company Incentive Compensation Statutory Trust, an entity which is neither owned nor controlled by the Company, for an aggregate consideration of $1,400,000. These sales were made at fair value and as part of the Company's plan to meet the qualifications for REIT status. The Company retained the remaining voting stock of the ventures and holds shares of nonvoting common and/or preferred stock and, in certain cases, mortgage loans receivable from the ventures which, taken together, comprise substantially all (at least 98%) of the financial interest in them. As a result of its disposition of the majority voting interest in the ventures, the Company began accounting for its investment in them using the equity method effective December 31, 1997. Due to the Company's continuing financial interest in the ventures, it recognized no gain on the sales of stock for financial reporting purposes and the ventures retained the Company's cost basis of the assets acquired and liabilities assumed. The assets of the ventures consist primarily of land to be developed and sold as part of community development projects in Columbia and Summerlin, other investment land, primarily in Nevada, certain office and retail properties in Columbia and contracts to manage various operating properties.

The condensed, combined balance sheets of these ventures at December 31, 1998 and 1997 are summarized as follows (in thousands):

	1998	1997
Assets:		
Operating properties, net	$244,470	$211,385
Properties in development	66,442	23,144
Land held for development and sale	236,999	231,530
Investment land	41,156	34,947
Properties held for sale	—	46,289
Advances to the Company	112,310	131,832
Other	192,437	169,876
Total	$893,814	$849,003
Liabilities and shareholders' deficit:		
Loans and advances from the Company	$488,363	$538,586
Mortgages payable and other long-term debt	332,945	280,595
Other liabilities	116,244	104,119
Redeemable Series A Preferred stock	50,000	50,000
Shareholders' deficit	(93,738)	(124,297)
Total	$893,814	$849,003

The condensed combined statement of operations of these ventures for 1998 is summarized as follows (in thousands):

Revenues, including interest on loans to the Company of $9,067	$282,010
Operating expenses	(161,350)
Interest expense, including interest on loans from the Company of $53,340	(68,146)
Depreciation and amortization	(10,585)
Equity in earnings of unconsolidated real estate ventures	811
Gain on dispositions of assets, net	15,856
Income taxes	(22,060)
Extraordinary losses, net	(1,127)
Net earnings	$ 35,409

The Company's share of the net earnings before extraordinary losses of these ventures for 1998 is summarized as follows (in thousands):

Share of net earnings based on ownership interest	$35,055
Share of extraordinary losses	1,116
Participation by others in the Company's share of earnings	(24,152)
Interest on loans and advances, net	44,273
Eliminations and other, net	7,183
	$63,475

The ventures in which the Company has joint interest and control are accounted for using the proportionate share method. These ventures are partnerships that own various retail centers which are managed by affiliates of the Company. The consolidated financial statements include the Company's proportionate share of its historical cost of these properties and depreciation based on the Company's depreciation policies which differ, in certain cases, from those of the ventures.

The condensed, combined balance sheets of these ventures and the Company's proportionate share of their assets, liabilities and equity at December 31, 1998 and 1997 and the condensed, combined statements of earnings of these ventures and the Company's proportionate share of their revenues and expenses for 1998, 1997 and 1996 are summarized as follows (in thousands):

	Combined		Proportionate Share	
	1998	1997	1998	1997
Total assets, primarily property	$315,576	$353,132	$140,983	$153,399
Liabilities, primarily long-term debt	$207,386	$247,949	$ 90,034	$109,852
Venturers' equity	108,190	105,183	50,949	43,547
Total liabilities and venturers' equity	$315,576	$353,132	$140,983	$153,399

	Combined			Proportionate Share		
	1998	1997	1996	1998	1997	1996
Revenues	$119,023	$123,802	$118,360	$52,390	$55,477	$56,105
Operating and interest expenses	58,311	69,825	65,862	25,621	31,528	29,535
Depreciation and amortization	11,915	12,013	11,257	3,876	3,657	2,588
Net earnings	$ 48,797	$ 41,964	$ 41,241	$22,893	$20,292	$23,982

The ventures in which the Company holds minority interests are accounted for using the equity or cost methods, as appropriate. Most of these properties are managed by affiliates of the Company and the agreements relating to them generally provide for preference returns to the Company when operating results or sale or refinancing proceeds exceed specified levels. At December 31, 1998, these ventures are primarily partnerships and corporations which own retail centers. Prior to December 1998, these ventures also included a corporate joint venture which owned various office and industrial properties. The Company acquired the interest of the other venturer in the corporate joint venture on November 30, 1998.

The condensed, combined balance sheets of these ventures at December 31, 1998 and 1997 and their condensed, combined statements of earnings for 1998, 1997 and 1996 are summarized as follows (in thousands):

	1998	1997
Total assets, primarily property	$546,130	$1,101,163
Liabilities, primarily long-term debt	$369,847	$ 491,436
Venturers' equity	176,283	609,727
Total liabilities and venturers' equity	$546,130	$1,101,163

	1998	1997	1996
Revenues	$189,361	$212,614	$201,769
Operating and interest expenses	134,411	148,065	138,460
Depreciation and amortization	32,041	37,423	35,634
Gain (loss) on dispositions of assets	38,915	(11,097)	1,110
Net earnings	$ 61,824	$ 16,029	$ 28,785

The Company's share of net earnings of these ventures was $12,294,000, $6,815,000, and $8,917,000 in 1998, 1997 and 1996, respectively.

(4) Property

Operating properties and deferred costs of projects at December 31, 1998 and 1997 are summarized as follows (in thousands):

	1998	1997
Buildings and improvements	$4,113,654	$2,729,908
Land	488,114	231,935
Deferred costs	106,385	111,455
Furniture and equipment	10,574	6,664
Total	$4,718,727	$3,079,962

Depreciation expense for 1998, 1997 and 1996 was $73,646,000, $70,751,000, and $64,113,000, respectively. Amortization expense for 1998, 1997 and 1996 was $10,422,000, $12,193,000, and $13,301,000, respectively.

On April 6, 1998, the Company and Westfield America, Inc. agreed to purchase a portfolio of interests in retail centers from TrizecHahn Centers Inc. (TrizecHahn). Under terms of the agreement, the Company purchased ownership interests in seven retail centers in a series of transactions completed in the third and fourth quarters of 1998. The aggregate purchase price of the interests in the retail centers was approximately $1,154,981,000, including $352,529,000 in mortgage and other debt assumed. The net purchase price was funded primarily by new mortgage debt secured by the properties and borrowings under the Company's revolving credit and bridge loan facilities. In February 1999, the Company contributed its ownership interests in four of the retail centers to a joint venture and received a 35% ownership interest in the joint venture. The joint venture assumed obligations under the bridge loan facility of $271,000,000 which were subsequently repaid using cash contributed by the other venturers.

On November 30, 1998, the Company purchased a portfolio of office and industrial properties and certain land parcels from a corporate joint venture in which the Company held a 5% ownership interest. The portfolio consisted of 41 office buildings and 26 industrial buildings. The purchase price of the properties was approximately $373,000,000, including approximately $112,000,000 of mortgage debt assumed. The net purchase price was funded by issuing $100,000,000 of common stock (3,525,782 shares), a $50,000,000 note secured by certain of the properties, a $58,000,000 unsecured note and by borrowings under the Company's revolving credit facility. In December 1998, the Company sold three of the office buildings to TrizecHahn for approximately $91,000,000.

Properties in development include construction and development in progress and preconstruction costs, net. Construction and development in progress includes land and land improvements of $63,737,000 and $41,951,000 at December 31, 1998 and 1997, respectively.

Properties held for sale are generally those that, for various reasons, management has determined do not meet the Company's investment criteria or that the Company acquired with the intention to sell. Properties held for sale at December 31, 1998 and 1997 are summarized as follows (in thousands):

	1998	1997
Retails centers (two properties in 1998 and three properties in 1997)	$163,307	$ 10,499
Office and other properties	2,587	9,553
Total	$165,894	$ 20,052

In 1998, the Company acquired the interests in the retail centers held for sale at December 31, 1998, with the intention of selling them. Accordingly, revenues of $6,395,000 and operating losses of $723,000 relating to them are not included in the consolidated statement of operations and comprehensive income. Revenues relating to other properties held for sale were $1,405,000 in 1998, $17,642,000 in 1997 and $29,600,000 in 1996 and these properties had operating income of $859,000 in 1998 and incurred operating losses of $3,558,000 in 1997 and $811,000 in 1996. All of the properties held for sale at December 31, 1998 are expected to be sold in 1999.

(5) Accounts and notes receivable

Accounts and notes receivable at December 31, 1998 and 1997 are summarized as follows (in thousands):

	1998	1997
Accounts receivable, primarily accrued rents and income under tenant leases	$54,261	$ 49,424
Notes receivable from sales of properties	5,497	10,154
Notes receivable from sales of land	35,987	76,033
	95,745	135,611
Less allowance for doubtful receivables	19,828	21,311
Total	$75,917	$114,300

Accounts and notes receivable due after one year were $23,197,000 and $54,180,000 at December 31, 1998 and 1997, respectively.

Credit risk with respect to receivables from tenants is not highly concentrated due to the large number of tenants and the geographic diversification of the Company's operating properties. The Company performs credit evaluations of prospective new tenants and requires security deposits in certain circumstances. Tenants' compliance with the terms of their leases is monitored closely, and the allowance for doubtful receivables is established based on analyses of the risk of loss on specific tenant accounts, historical trends and other relevant information.

Notes receivable from sales of land are primarily due from builders at the community development project in Summerlin. The Company stopped financing land sales in 1998 and does not anticipate financing any future land sales. The Company performed credit evaluations of the builders and generally required substantial down payments (at least 20%) on all land sales that it financed. These notes and notes from sales of operating properties are generally secured by first liens on the related properties.

(6) Pension, postretirement and deferred compensation plans

The Company has a defined benefit pension plan (the "funded plan") covering substantially all employees and employees of certain affiliates and separate, nonqualified unfunded retirement plans (the "unfunded plans") covering directors and participants in the funded plan whose defined benefits exceed the plan's limits. Benefits under the pension plans are based on the participants' years of service and compensation. The Company also has a retiree benefits plan that provides postretirement medical and life insurance benefits to full-time employees and employees of certain affiliates who meet minimum age and service requirements. The Company pays a portion of the cost of participants' life insurance coverage and makes contributions to the cost of participants' medical insurance coverage based on years of service, subject to a maximum annual contribution.

Information relating to the obligations, assets and funded status of the plans at December 31, 1998 and 1997 and for the years then ended is summarized as follows (in thousands):

	Pension Plans		Postretirement Plan	
	1998	1997	1998	1997
Change in benefit obligations:				
Benefit obligations at beginning of year	$57,440	$42,890	$ 14,668	$ 13,202
Service cost	4,609	3,373	718	578
Interest cost	4,549	3,702	1,024	990
Amendment—revision to benefit formula	—	6,504	—	—
Actuarial loss	17,194	8,515	282	539
Benefits paid	(11,448)	(7,544)	(805)	(641)
Benefit obligations at end of year	72,344	57,440	15,887	14,668
Change in plan assets:				
Fair value of plan assets at beginning of year	47,083	38,991	—	—
Actual return on plan assets	7,900	7,870	—	—
Employer contribution	11,449	7,766	805	641
Benefits paid	(11,448)	(7,544)	(805)	(641)
Fair value of plan assets at end of year	54,984	47,083	—	—
Funded status	(17,360)	(10,357)	(15,887)	(14,668)
Unrecognized net actuarial (gain) loss	23,784	12,292	83	(199)
Unamortized prior service cost	7,652	9,062	—	—
Unrecognized transition obligation	870	1,071	4,664	4,998
Net amount recognized	$14,946	$12,068	$(11,140)	$ (9,869)
Amounts recognized in the balance sheets consist of:				
Prepaid benefit cost	$20,189	$15,378	$ —	$ —
Accrued benefit liability	(11,382)	(8,818)	(11,140)	(9,869)
Intangible asset	4,313	5,508	—	—
Accumulated other comprehensive income items	1,826	—	—	—
Net amount recognized	$14,946	$12,068	$(11,140)	$ (9,869)

	Pension Plans		Postretirement Plan	
	1998	1997	1998	1997
Weighted-average assumptions as of December 31:				
Discount rate	7.00%	7.25%	7.00%	7.25%
Expected rate of return on plan assets	7.25	8.00	—	—
Rate of compensation increase	4.50	4.50	—	—

The assets of the funded plan consist primarily of pooled separate accounts with an insurance company and marketable equity securities. Because the Company's contributions to the cost of participants' medical insurance coverage are fixed, health care cost trend rates do not affect the benefit obligation under the postretirement plan.

The net pension cost includes the following components (in thousands):

	1998	1997	1996
Service cost	$4,609	$3,373	$2,989
Interest cost on projected benefit obligations	4,549	3,702	3,107
Expected return on funded plan assets	(3,479)	(3,239)	(2,807)
Prior service cost recognized	1,410	1,410	756
Net loss recognized	1,281	436	875
Amortization of transition obligation	201	201	201
Net pension cost	$8,571	$5,883	$5,121

The net postretirement benefit cost includes the following components (in thousands):

	1998	1997	1996
Service cost	$ 718	$ 578	$ 640
Interest cost on accumulated benefit obligations	1,024	990	932
Amortization of transition obligation	333	333	333
Net postretirement benefit cost	$2,075	$1,901	$1,905

Affiliates that participate in the pension and postretirement plans reimburse the Company for their share of the annual benefit cost of the plans. The affiliates' share of the benefit cost for 1998 was $3,091,000.

The Company also has a deferred compensation program which permits directors and certain management employees of the Company and certain affiliates to defer portions of their compensation on a pretax basis. The participants designate the investment of the deferred funds based on various alternatives and, under certain of the plans, the Company's contributions are made in common stock. The Company recognized deferred compensation expense related to this program of $189,000, $73,000 and $84,000 in 1998, 1997 and 1996, respectively.

(7) Debt

In recognition of the various characteristics of real estate financing, debt is classified as follows: (a) "Property debt not carrying a Parent Company guarantee of repayment" which is subsidiary company debt having no express written obligation which would require the Company to repay the principal amount of such debt during the full term of the loan (nonrecourse loans); and (b) "Parent Company debt and debt carrying a Parent Company guarantee of repayment" which is debt of the Company and subsidiary company debt with an express written obligation of the Company to repay the principal amount of such debt during the full term of the loan (Company and recourse loans).

With respect to nonrecourse loans, the Company has in the past and may in the future, under some circumstances, support those subsidiary companies whose annual obligations, including debt service, exceed their operating revenues. At December 31, 1998 and 1997, nonrecourse loans include $185,574,000 and $416,335,000, respectively, of subsidiary companies' mortgages and bonds which are subject to agreements with lenders requiring the Company to provide support for operating and debt service costs, where necessary, for defined periods or until specified conditions relating to the operating results of the related properties are met.

Debt at December 31, 1998 and 1997 is summarized as follows (in thousands):

	1998	1997
Mortgages and bonds	$2,948,324	$2,159,418
Convertible subordinated debentures	128,515	130,000
Medium-term notes	97,500	110,300
Bank credit facility borrowings:		
Bridge facility	304,000	—
Revolving credit facility	298,000	—
Other loans	282,481	229,831
Total	$4,058,820	$2,629,549

Mortgages and bonds are secured by deeds of trust or mortgages on properties and general assignments of rents. This debt matures at various dates through 2024 and, at December 31, 1998, bears interest at a weighted-average effective rate of 7.65%, including lender participations in operations. At December 31, 1998, approximately $312,008,000 of this debt provides for payments of additional interest based on operating results of the related properties in excess of stated levels.

The convertible subordinated debentures bear interest at 5.75% and mature in 2002. The debentures are convertible at the option of holders into one share of common stock for each $28.63 of par value and are redeemable at the option of the Company at any time at a price equal to par value plus accrued interest.

The Company has registered $150,000,000 of unsecured, medium-term notes which may be issued to the public from time to time. The notes may be issued, subject to market conditions, for varying terms (nine months to 30 years) and at fixed or variable interest rates based on market indices at the time of issuance. The notes outstanding at December 31, 1998, mature at various dates from 1999 to 2015, bear interest at a weighted-average effective rate of 7.6% (including an average rate of 6.01% on $26,000,000 of variable rate notes) and have a weighted-average maturity of 4.5 years.

The Company has credit facilities with a group of lenders that provide for aggregate unsecured borrowings of up to $800,000,000, including $450,000,000 under a revolving credit facility and $350,000,000 under a bridge facility. Advances under the facilities bear interest at a variable rate based on LIBOR (6.52% on the revolving credit facility and 6.61% on the bridge facility at December 31, 1998). The revolving credit facility is available to July 2001, subject to a one-year renewal option. The bridge facility was available solely for specified property acquisitions that were completed in 1998 and related borrowings are due on or before July 30, 1999. In February 1999, approximately $271,000,000 of the outstanding borrowings under the bridge facility were repaid by a joint venture formed to own four of the acquired retail centers. At December 31,1998, availability under the bridge loan facility had been fully utilized and, until it is repaid in full, the net proceeds of any equity transactions and project refinancings must be applied to reduce the balance. Payment of borrowings under the credit facilities is guaranteed by certain of the unconsolidated real estate ventures in which the Company has a majority financial interest, and the Company has pledged its stock in the ventures to the lenders under the credit facilities.

Other loans include $120,000,000 of 8.5% unsecured notes due in 2003, various property acquisition loans and certain other borrowings. These loans include aggregate unsecured borrowings of $258,213,000 and $208,019,000 at December 31, 1998 and 1997, respectively, and at December 31, 1998, bear interest at a weighted-average effective rate of 8.28%.

At December 31, 1998, approximately $1,376,844,000 of the mortgages and bonds and $58,000,000 of the other loans were payable to one lender.

The agreements relating to various loans impose limitations on the Company. The most restrictive of these limit the levels and types of debt the Company and its affiliates may incur and require the Company and its affiliates to maintain specified minimum levels of debt service coverage and net worth. The agreements also impose restrictions on the dividend payout ratio, and on sale, lease and certain other transactions, subject to various exclusions and limitations. These restrictions have not limited the Company's normal business activities.

The annual maturities of debt at December 31, 1998 are summarized as follows (in thousands):

	Nonrecourse Loans	Company and Recourse Loans	Total
1999	$ 159,407	$ 337,058	$ 496,465
2000	57,080	104,622	161,702
2001	171,241	358,189	529,430
2002	121,051	163,440	284,491
2003	439,696	120,092	559,788
Subsequent to 2003	1,974,644	52,300	2,026,944
Total	$2,923,119	$1,135,701	$4,058,820

At December 31, 1998, the Company had interest rate cap agreements which effectively limit the average interest rate on $70,538,000 of mortgages to 8.9% through May 2002. The interest rate swap agreements outstanding at December 31, 1998 were not material. Interest rate exchange agreements did not have a material effect on the weighted-average effective interest rates on debt at December 31, 1998 and 1997 or interest expense for 1998, 1997 and 1996.

Total interest costs were $229,478,000 in 1998, $231,098,000 in 1997, and $230,960,000 in 1996, of which $19,914,000, $23,608,000, and $10,579,000 were capitalized, respectively.

In 1998, the Company recognized net extraordinary gains related to extinguishments of debt prior to scheduled maturity of $3,626,000, and in 1997 and 1996 incurred extraordinary losses on such transactions of $32,834,000, and $2,236,000, respectively, before deferred income tax benefits of $729,000, $11,492,000, and $783,000, respectively. The sources of funds used to pay the debt and fund the prepayment penalties, where applicable, were refinancings of properties, the Series B Preferred stock issued in 1997, the medium-term notes and the Company-obligated mandatorily redeemable preferred securities issued in 1995.

The estimated fair value of debt is determined based on quoted market prices for publicly-traded debt and on the discounted estimated future cash payments to be made for other debt. The discount rates used approximate current market rates for loans or groups of loans with similar maturities and credit quality. The estimated future payments include scheduled principal and interest payments, and lenders' participations in operating results and residual values of the related properties, where applicable.

The carrying amount and estimated fair value of the Company's debt at December 31, 1998 and 1997 are summarized as follows (in thousands):

	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Fixed rate debt	$3,099,949	$3,198,641	$2,390,590	$2,528,215
Variable rate debt	958,871	958,871	238,959	238,959
	$4,058,820	$4,157,512	$2,629,549	$2,767,174

Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement of the Company's debt obligations at fair value may not be possible and may not be a prudent management decision.

(8) Company-obligated mandatorily redeemable preferred securities

The redeemable preferred securities consist of 5,500,000 Cumulative Quarterly Income Preferred Securities (preferred securities), with a liquidation amount of $25 per security, which were issued in November 1995 by a statutory business trust. The trust used the proceeds of the preferred securities and other assets to purchase at par $141,753,000 of junior subordinated debentures (debentures) of the Company due in November 2025, which are the sole assets of the trust.

Payments to be made by the trust on the preferred securities are dependent on payments that the Company has undertaken to make, particularly the payments to be made by the Company on the debentures. Compliance by the Company with its undertakings, taken together, would have the effect of providing a full, irrevocable and unconditional guarantee of the trust's obligations under the preferred securities.

Distributions on the preferred securities are payable from interest payments received on the debentures and are due quarterly at an annual rate of 9.25% of the liquidation amount, subject to deferral for up to five years under certain conditions. Distributions payable are included in operating expenses. Redemptions of the preferred securities are payable at the liquidation amount from redemption payments received on the debentures.

The Company may redeem the debentures at par at any time after November 27, 2000, but redemptions at or prior to maturity are payable only from the proceeds of issuance of capital stock of the Company or of securities substantially comparable in economic effect to the preferred securities. During 1998, the Company repurchased 21,400 of the preferred securities for approximately $535,000.

(9) Segment information

In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This Statement establishes standards for reporting financial information about operating segments in interim and annual financial reports and provides for a "management approach" to identifying the reportable segments in place of the industry segment approach used previously.

The Company has five reportable segments: retail centers, office, mixed-use and other properties, land sales operations, development and corporate. The retail centers segment includes the operation and management of retail centers, including regional shopping centers, downtown specialty marketplaces and village centers. The office, mixed-use and other properties segment includes the operation and management of office, industrial and mixed-use properties. The land sales operations segment includes the development and sale of land, primarily in large-scale, long-term community development projects in Columbia and Summerlin. The development segment includes the evaluation of all potential new projects (including expansions of existing properties) and acquisition opportunities and the management of them through the development or acquisition process. The corporate segment is responsible for cash and investment management and certain other general and support functions. The Company's reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise.

Segment operating results are measured and assessed based on a performance measure referred to as Funds from Operations (FFO). The National Association of Real Estate Investment Trusts defines FFO as net earnings (computed in accordance with generally accepted accounting principles), excluding cumulative effects of changes in accounting principles, extraordinary or unusual items and gains or losses from debt restructurings and sales of properties, plus depreciation and amortization, and after adjustments for minority interests and to record unconsolidated partnerships and joint ventures on the same basis. The Company also excludes deferred income taxes from its computation of FFO. The method used by the Company to compute FFO may differ from methods used by other REITs. FFO is not a measure of operating results or cash flows from operating activities as measured by generally accepted accounting principles, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity.

The accounting policies of the segments are the same as those of the Company described in note 1, except that real estate ventures in which the Company holds substantially all (at least 98%) of the financial interest but does not own a majority voting interest are accounted for on a consolidated basis rather than using the equity method, and the Company's share of FFO of unconsolidated real estate ventures in which it holds a minority interest is included in revenues.

Operating results for the segments are summarized as follows (in thousands):

	Retail Centers	Office, Mixed-Use and Other Properties	Land Sales Operations	Development	Corporate	Total
1998						
Revenues	$559,821	$215,919	$197,706	$ —	$ 3,797	$977,243
Operating expenses, exclusive of depreciation and amortization, and current income taxes	268,851	102,956	144,732	7,383	24,109	548,031
Interest expense	150,889	77,894	4,201	—	(8,614)	224,370
FFO	$140,081	$ 35,069	$ 48,773	$ (7,383)	$(11,698)	$204,842
1997						
Revenues	$503,655	$216,571	$203,219	$ —	$ 4,485	$927,930
Operating expenses, exclusive of depreciation and amortization, and current income taxes	258,229	108,104	151,842	4,747	16,128	539,050
Interest expense	122,325	81,905	4,287	—	(1,027)	207,490
FFO	$123,101	$ 26,562	$ 47,090	$ (4,747)	$(10,616)	$181,390
1996						
Revenues	$508,415	$182,154	$137,853	$ —	$ 3,495	$831,917
Operating expenses, exclusive of depreciation and amortization, and current income taxes	260,027	89,643	107,791	4,964	9,752	472,177
Interest expense	129,091	76,659	1,658	361	12,612	220,381
FFO	$119,297	$ 15,852	$ 28,404	$ (5,325)	$(18,869)	$139,359

Reconciliations of the total revenues and expenses reported above to the related amounts in the financial statements and of FFO reported above to earnings before income taxes, extraordinary losses and cumulative effect of changes in accounting principle in the financial statements are summarized as follows (in thousands):

	1998	1997	1996
Revenues:			
Total reported above	$977,243	$927,930	$831,917
Revenues of majority financial interest ventures excluding interest on advances to the Company	(272,943)	—	—
Revenues representing the Company's share of FFO of minority financial interest ventures	(12,753)	(11,159)	(10,881)
Other	1,024	—	—
Total in financial statements	$692,571	$916,771	$821,036
Operating expenses, exclusive of depreciation and amortization:			
Total reported above	$548,031	$539,050	$472,177
Operating expenses of majority financial interest ventures	(161,350)	—	—
Current income taxes applicable to operations	24	(3,208)	(123)
Participation by others in the Company's share of earnings of majority financial interest ventures	(24,152)	—	—
Other	(4,171)	—	—
Total in financial statements	$358,382	$535,842	$472,054
Interest expense:			
Total reported above	$224,370	$207,490	$220,381
Interest expense of majority financial interest ventures excluding interest on borrowings from the Company	(14,806)	—	—
Total in financial statements	$209,564	$207,490	$220,381
Operating results:			
FFO reported above	$204,842	$181,390	$139,359
Depreciation and amortization	(84,068)	(82,944)	(77,414)
Loss on dispositions of assets and other provisions, net	(11,174)	(23,484)	(16,499)
Depreciation and amortization, gain on dispositions of assets and deferred income taxes of unconsolidated real estate ventures, net	(4,380)	(4,344)	(1,964)
Current income taxes (benefit) applicable to operations	(24)	3,208	123
Other	(44)	—	—
Earnings before income taxes, extraordinary items and cumulative effect of changes in accounting principle	$105,152	$ 73,826	$ 43,605

The assets by segment at December 31, 1998, 1997 and 1996 are as follows (in thousands):

	1998	1997	1996
Retail centers	$3,636,874	$2,144,334	$2,374,162
Office, mixed-use and other properties	1,417,622	1,127,640	796,329
Land sales operations	609,701	615,887	308,014
Development	61,166	165,101	92,030
Corporate	57,933	126,593	72,917
Total	$5,783,296	$4,179,555	$3,643,452

Total segment assets exceeds total assets reported in the financial statements primarily because of the consolidation of the majority financial interest ventures for segment reporting purposes.

Additions to long-lived assets of the segments are summarized as follows (in thousands):

	1998	1997	1996
Retail centers:			
Acquisitions	$1,042,846	$ 83,985	$191,564
Expansions and renovations	231,607	139,608	47,449
Improvements for tenants and other	18,105	15,960	13,796
	1,292,558	239,553	252,809
Office, mixed-use and other properties:			
Acquisitions	288,694	550	302,773
Expansions and renovations	24,390	975	6,176
Improvements for tenants and other	10,688	7,667	7,421
	323,772	9,192	316,370
Land sales operations:			
Acquisitions	16,993	—	118,764
Development expenditures	82,656	131,310	48,474
	99,649	131,310	167,238
Development:			
Construction and development costs of new projects	112,184	153,620	58,581
Total	$1,828,163	$533,675	$794,998

Approximately $169,860,000 of the additions in 1998 relate to property owned by the majority financial interest ventures.

(10) Income taxes

Income tax expense (benefit) for 1997 and 1996 is reconciled to the amount computed by applying the Federal corporate tax rate as follows (in thousands):

	1997	1996
Tax at statutory rate on earnings before income taxes, extraordinary items and cumulative effect of changes in accounting principle	$ 25,839	$15,262
State income taxes, net of Federal income tax benefit	3,147	1,023
Nondeductible portion of distributions under Contingent Stock Agreement	13,381	9,434
Reduction of net deferred tax liabilities	(158,433)	—
Income tax expense (benefit)	$(116,066)	$25,719

As discussed in note 1, the Company qualified to be taxed as a REIT beginning in 1998. Management believes that the Company continued to meet the qualifications for REIT status as of December 31, 1998, and intends for it to continue to meet the qualifications in the future. Management does not expect the Company will be liable for significant income taxes at the Federal level or in most states in 1998 and future years. Accordingly, the Company eliminated substantially all of its existing deferred tax assets and liabilities at December 31, 1997 and no longer provides for Federal or most state deferred income taxes.

At December 31, 1998, the income tax bases of the Company's assets and liabilities were approximately $4,338,000,000 and $4,422,000,000, respectively. The net operating losses carried forward from December 31, 1998 for Federal income tax purposes aggregate approximately $281,000,000, and will expire from 2005 to 2011.

In connection with its election to be taxed as a REIT, the Company will also elect to be subject to the "built-in gain" rules. Under these rules, taxes may be payable at the time and to the extent that the net unrealized gains on the Company's assets at the date of conversion to REIT status are recognized in taxable dispositions of such assets in the ten-year period following conversion. Such net unrealized gains were approximately $2,100,000,000 at January 1, 1998. Management believes that the Company will not be required to make significant payments of taxes on built-in gains throughout the ten-year period due to the availability of its net operating loss carryforward to offset built-in gains which might be recognized and the potential for the Company to make nontaxable dispositions, if necessary (e.g., like-kind exchanges of properties). At December 31, 1998, the net regular tax operating loss carryforward is sufficient to offset built-in gains on assets the Company has identified for disposition and no net deferred tax liability for built-in gains taxes has been recognized. It may be necessary to recognize a liability for such taxes in the future if management's plans and intentions with respect to asset dispositions, or the related tax laws, change.

(11) Loss on dispositions of assets and other provisions, net

Loss on dispositions of assets and other provisions, net, is summarized as follows (in thousands):

	1998	1997	1996
Net loss on operating properties	$ (6,109)	$(22,426)	$(26,515)
Litigation judgment	—	—	8,716
Other, net	(5,065)	(1,058)	1,300
Total	$(11,174)	$(23,484)	$(16,499)

The net loss on operating properties in 1998 relates primarily to a loss on disposal of a retail center. The other net loss for 1998 includes a fourth quarter loss of $6,396,000 related to a treasury lock contract that no longer qualified for hedge accounting because the Company determined that the related anticipated financing transaction will not occur under the terms and timing originally expected.

The net loss on operating properties in 1997 relates primarily to provisions for losses recognized on several retail centers, an industrial property and a hotel the Company decided to sell, including additional provisions of $3,653,000 related to retail centers held for disposition prior to 1997. These provisions were partially offset by gains on dispositions of five office buildings ($4,704,000).

The net loss on operating properties in 1996 relates primarily to provisions for losses recognized on five retail centers the Company decided to sell.

The litigation judgment relates to a matter involving a former tenant at the Riverwalk Shopping Center. In 1995, an appellate court substantially affirmed a trial court judgment against the Company and certain of its affiliates in an action in which the former tenant alleged various breaches of its lease agreement and claimed damages for lost future profits. The Company recorded a provision for the full amount of the appellate award ($12,321,000) at that time. In 1996, a portion of the provision recorded in 1995 was reversed following a negotiated settlement of the matter.

(12) Preferred stock

The Company has authorized 50,000,000 shares of Preferred stock of 1¢ par value per share of which (a) 4,505,168 shares have been classified as Series A Convertible Preferred; (b) 4,600,000 shares have been classified as Series B Convertible Preferred, (c) 10,000,000 shares have been classified as Increasing Rate Cumulative Preferred; and (d) 37,362 shares have been classified as 10.25% Junior Preferred, Series 1996.

The Company sold 4,050,000 shares of the Series B Convertible Preferred stock in a public offering in the first quarter of 1997. The shares have a liquidation preference of $50 per share and earn dividends at an annual rate of 6% of the liquidation preference. At the option of the holders, each share of the Series B Convertible Preferred stock is convertible into shares of the Company's common stock at a conversion rate of approximately 1.311 shares of common stock for each share of Preferred stock, subject to adjustment in certain circumstances. In addition, beginning April 1, 2000, the shares of Preferred stock are redeemable for shares of common stock at the option of the Company, subject to certain conditions.

The Company sold 4,025,000 shares of the Series A Convertible Preferred stock in a public offering in 1993 and issued 480,168 shares in 1994 in connection with a modification of terms of a debt agreement related to a retail center. The shares of Series A Convertible Preferred stock had a liquidation preference of $50 per share and earned dividends at an annual rate of 6.5% of the liquidation preference. Each share was convertible into shares of the Company's common stock at a conversion rate of approximately 2.35 shares of common stock for each share of Preferred stock, subject to certain conditions. On September 30, 1996, the Company redeemed all of the then outstanding shares of Series A Convertible Preferred stock. In 1996, the Company issued 10,598,721 shares of common stock in exchange for 4,504,579 shares of Series A Convertible Preferred stock.

Shares of the Increasing Rate Cumulative Preferred stock are issuable only to former Hughes owners or their successors pursuant to the Contingent Stock Agreement described in note 13. These shares are issuable only in limited circumstances and no shares have been issued. There were also no shares of 10.25% Junior Preferred stock, Series 1996, outstanding at December 31, 1998 and 1997.

(13) Common stock

At December 31, 1998, shares of authorized and unissued common stock are reserved as follows: (a) 16,843,281 shares for issuance under the Contingent Stock Agreement discussed below; (b) 7,678,776 shares for issuance under the Company's stock option and stock bonus plans; (c) 4,489,607 shares for conversion of the convertible subordinated debentures; and (d) 5,309,955 shares for conversion of the Series B Convertible Preferred stock.

In connection with the acquisition of Hughes, the Company entered into a Contingent Stock Agreement ("Agreement") for the benefit of the former Hughes owners or their successors (the beneficiaries). Under terms of the agreement, additional shares of common stock (or in certain circumstances, Increasing Rate Cumulative Preferred stock) are issuable to the beneficiaries based on the appraised values of four defined groups of acquired assets at specified "termination dates" from 2000 to 2009 and/or cash flows generated from the development and/or sale of those assets prior to the termination dates (the "earnout periods"). The distributions of additional shares, based on cash flows, are payable semiannually as of June 30 and December 31. At December 31, 1998, a distribution of approximately 589,000 shares ($16,207,000) was payable to the beneficiaries.

The Agreement is, in substance, an arrangement under which the Company and the beneficiaries will share in cash flows from development and/or sale of the defined assets during their respective earnout periods and the Company will issue additional shares of common stock to the beneficiaries based on the value, if any, of the defined asset groups at the termination dates. Substantially all of the remaining assets in the four defined asset groups were owned by subsidiaries in which the Company sold a majority voting interest to The Rouse Company Incentive Compensation Statutory Trust on December 31, 1997. However, the Company retained full responsibility for its obligations under the Agreement and, accordingly, it accounts for the beneficiaries' share of earnings from the assets as a reduction of its equity in the earnings of the related ventures. Prior to 1998, the Company accounted for the beneficiaries' share of earnings from the assets as an operating expense. The Company will account for any distributions to the beneficiaries as of the termination dates as an additional investment in the related ventures (i.e., contingent consideration). At the time of acquisition of Hughes, the Company reserved 20,000,000 shares of common stock for possible issuance under the Agreement. The number of shares reserved was determined based on conservative estimates in accordance with the provisions of the Agreement. The actual number of shares issuable will be determined only from events occurring over the term of the Agreement and could differ significantly from the number of shares reserved.

Under the Company's stock option plans, options to purchase shares of common stock and stock appreciation rights may be awarded to directors, officers and employees. Stock options are generally granted with an exercise price equal to the market price of the common stock on the date of grant, typically vest over a three- to five-year period, subject to certain conditions, and have a maximum term of ten years. The Company has not granted any stock appreciation rights. Changes in options outstanding under the plans are summarized as follows:

	1998		1997		1996	
	Shares	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price
Balance at beginning of year	4,670,138	$24.90	2,765,779	$20.18	2,227,400	$19.89
Options granted	1,210,402	29.06	2,155,901	30.45	654,000	21.09
Options exercised	(263,076)	19.48	(239,942)	20.16	(87,371)	18.61
Options expired or cancelled	(183,250)	30.36	(11,600)	28.76	(28,250)	22.82
Balance at end of year	5,434,214	$25.91	4,670,138	$24.90	2,765,779	$20.18

Information about stock options outstanding at December 31, 1998 is summarized as follows:

	Options Outstanding				Options Exercisable	
Range of Exercise Prices	Shares	Weighted-average Remaining Life (Years)	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price
$13.50 to $19.875	1,645,961	5.6	$18.68	1,130,995	$18.37
$23.75 to $32.875	3,788,253	7.7	29.04	799,923	26.08
	5,434,214	7.0	$25.91	1,930,918	$21.56

At December 31, 1997 and 1996, options to purchase 1,594,705 and 1,449,844 shares, respectively, were exercisable at per share weighted-average prices of $21.07 and $20.84, respectively.

The per share weighted-average estimated fair values of options granted during 1998, 1997 and 1996 were $3.17, $8.34, and $5.44, respectively. These fair values were estimated on the dates of each grant using the Black-Scholes option-pricing model with the following assumptions:

	1998	1997	1996
Risk-free interest rate	4.6%	6.0%	6.0%
Dividend yield	6.0	3.5	4.0
Volatility factor	21.8	28.0	28.0
Expected life in years	6.6	6.9	7.0

The option prices were greater than or equal to the market prices at the date of grant for all of the options granted in 1998, 1997 and 1996 and, accordingly, no compensation cost has been recognized for stock options in the financial statements.

If the Company had applied a fair value-based method to recognize compensation cost for stock options, net earnings and earnings per share of common stock would have been adjusted as indicated below (in thousands):

	1998	1997	1996
Net earnings:			
As reported	$104,902	$167,336	$16,433
Pro forma	99,653	164,445	15,397
Earnings per share of common stock:			
Basic:			
As reported	1.36	2.36	.10
Pro forma	1.28	2.32	.08
Diluted:			
As reported	1.34	2.29	.09
Pro forma	1.27	2.25	.08

The pro forma amounts reflect only options granted after 1994. Therefore, the full impact of calculating compensation cost for stock options under a fair value-based method is not reflected in the pro forma amounts because compensation cost is reflected over the options' vesting periods and compensation cost for options granted prior to January 1, 1995 is not required to be considered.

Under the Company's stock bonus plans, shares of common stock may be awarded to officers and employees. Shares awarded under the plans are typically subject to forfeiture restrictions which lapse at defined annual rates. Awards granted in 1998, 1997 and 1996 aggregated 164,850, 49,000 and 415,000 shares, respectively, with a weighted-average market value per share of $27.54, $31.25 and $20.99, respectively. In connection with the stock bonus plan awards, the Company typically makes loans to the recipients for the payment of related income taxes, which loans are forgiven in installments subject to the recipients' continued employment. The total loans outstanding at December 31, 1998, 1997 and 1996 were $4,012,000, $5,710,000, and $6,565,000, respectively. The Company recognizes amortization of the fair value of the stock awarded, any forgiven loan installments and certain related costs as compensation costs on a straight-line basis over the terms of the awards. Such costs amounted to $5,572,000 in 1998, $5,807,000 in 1997, and $4,923,000 in 1996.

(14) Earnings per share

Information relating to the calculations of earnings per share of common stock for 1998, 1997 and 1996 is summarized as follows (in thousands):

	1998		1997		1996	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Earnings before extraordinary items and cumulative effect of changes in accounting principle	$105,176	$105,176	$189,892	$189,892	$ 17,886	$ 17,886
Dividends on Preferred stock	(12,152)	(12,152)	(10,313)	—	(10,533)	(10,533)
Dividends on unvested common stock awards	(620)	(425)	(632)	(552)	(659)	(659)
Interest on convertible subordinated debentures	—	—	—	7,475	—	—
Adjusted earnings before extraordinary items and cumulative effect of changes in accounting principle used in EPS computation	$ 92,404	$ 92,599	$178,947	$196,815	$ 6,694	$ 6,694
Weighted-average shares outstanding	67,874	67,874	66,201	66,201	54,913	54,913
Dilutive securities:						
Convertible subordinated debentures	—	—	—	4,542	—	—
Convertible Preferred stock	—	—	—	4,509	—	—
Options, warrants and unvested common stock awards	—	985	—	753	—	398
Adjusted weighted-average shares used in EPS computation	67,874	68,859	66,201	76,005	54,913	55,311

Effects of potentially dilutive securities are presented only in periods in which they are dilutive.

(15) Leases

The Company, as lessee, has entered into operating leases expiring at various dates through 2076. Rents under such leases aggregated $8,096,000 in 1998, $9,147,000 in 1997, and $9,648,000 in 1996, including contingent rents, based on the operating performance of the related properties, of $2,330,000, $3,158,000, and $3,844,000, respectively. In addition, real estate taxes, insurance and maintenance expenses are obligations of the Company. Minimum rent payments due under operating leases in effect at December 31, 1998 are summarized as follows (in thousands):

1999	$ 6,114
2000	5,962
2001	5,996
2002	6,015
2003	5,984
Subsequent to 2003	218,799
Total	$ 248,870

Space in the Company's operating properties is leased to approximately 6,000 tenants. In addition to minimum rents, the majority of the retail center leases provide for percentage rents when the tenants' sales volumes exceed stated amounts, and the majority of the retail center and office leases provide for other rents which reimburse the Company for certain of its operating expenses. Rents from tenants are summarized as follows (in thousands):

	1998	1997	1996
Minimum rents	$383,974	$387,488	$348,296
Percentage rents	13,071	14,999	14,830
Other rents	204,862	213,005	223,949
Total	$601,907	$615,492	$587,075

The minimum rents to be received from tenants under operating leases in effect at December 31, 1998, excluding leases of properties held for sale and of retail centers contributed to a joint venture in February 1999, are summarized as follows (in thousands):

1999	$ 393,882
2000	358,232
2001	313,208
2002	271,192
2003	220,097
Subsequent to 2003	708,453
Total	$2,265,064

Rents under finance leases aggregated $9,332,000 in 1998, $9,316,000 in 1997, and $9,645,000 in 1996. The net investment in finance leases at December 31, 1998 and 1997 is summarized as follows (in thousands):

	1998	1997
Total minimum rent payments to be received over lease terms	$157,374	$166,706
Estimated residual values of leased properties	5,695	5,695
Unearned income	(75,717)	(83,237)
Net investment in finance leases	$ 87,352	$ 89,164

Minimum rent payments to be received from tenants under finance leases in effect at December 31, 1998 are $9,304,000, $9,365,000, $10,190,000, $10,164,000, and $10,261,000 for 1999, 2000, 2001, 2002 and 2003, respectively.

(16) Other commitments and contingencies

Commitments for the construction and development of properties in the ordinary course of business and other commitments not set forth elsewhere amount to approximately $129,000,000 at December 31, 1998.

At December 31, 1998, subsidiaries of the Company have contingent liabilities of approximately $17,791,000 with respect to future minimum rents under long-term lease obligations of certain unconsolidated real estate ventures and approximately $10,795,000 with respect to bank letters of credit issued to secure their obligations under certain agreements.

At December 31, 1998, the Company had a shelf registration statement for future sale of up to an aggregate of $2.1 billion (based on the public offering price) of common stock, Preferred stock and debt securities. Securities may be issued pursuant to this registration statement in amounts and on terms to be determined at the time of offering.

The Company and certain of its subsidiaries are defendants in various litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Some of these litigation matters are covered by insurance. In the opinion of management, adequate provision has been made for losses with respect to litigation matters, where appropriate, and the ultimate resolution of such litigation matters is not likely to have a material effect on the consolidated financial position of the Company. Due to the Company's fluctuating net earnings, it is not possible to predict whether the resolution of these matters is likely to have a material effect on the Company's net earnings and it is, therefore, possible that the resolution of these matters could have such an effect in any future quarter or year.

(17) New accounting standards not yet adopted

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1) which is required to be adopted by the Company no later than January 1, 1999. SOP 98-1 provides guidance as to whether costs incurred relating to internal-use software should be expensed or capitalized. The guidance in SOP 98-1 is required to be applied to costs incurred subsequent to adoption and may not be applied to costs incurred prior to initial application. The Company intends to adopt SOP 98-1 effective January 1, 1999, and does not believe that adoption will have a material effect on its results of operations.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" (SOP 98-5) which is required to be adopted by the Company no later than January 1, 1999. SOP 98-5 requires that start-up costs and organization costs, not otherwise addressed in existing authoritative literature, be expensed as incurred. The Company intends to adopt SOP 98-5 effective January 1, 1999, and the initial application will be reported as the cumulative effect of a change in accounting principle. The Company does not believe that adoption will have a material effect on its results of operations in future periods.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (Statement 133) which is required to be adopted by the Company no later than January 1, 2000. The Company's use of derivative instruments has consisted primarily of interest rate swap and cap agreements related to specific debt financings. While the Company has not completed its analysis of Statement 133 and has not made a decision regarding the timing of adoption, it does not believe that adoption will have a material effect on its financial position and results of operations based on its current use of derivative instruments.

Five Year Comparison of Selected Financial Data

Year ended December 31 (in thousands, except per share data)

	1998	1997	1996	1995	1994
Operating results data:					
Revenues from continuing operations	$ 692,571	$ 916,771	$ 821,036	$ 672,821	$ 671,171
Earnings from continuing operations	105,176	189,892	17,886	5,850	6,606
Basic earnings (loss) from continuing operations applicable to common shareholders per share of common stock	1.36	2.70	.13	(.19)	(.14)
Diluted earnings (loss) from continuing operations applicable to common shareholders per share of common stock	1.34	2.59	.12	(.19)	(.14)
Balance sheet data:					
Total assets	5,154,643	3,589,768	3,643,452	2,985,609	2,915,860
Debt and capital leases	4,068,459	2,684,140	2,895,447	2,538,315	2,532,920
Shareholders' equity	628,926	465,515	177,149	42,584	95,026
Shareholders' equity per share of common stock (note 1)	8.11	6.45	2.65	.73	1.63
Other selected data:					
Funds from Operations (note 2)	204,842	181,390	139,359	108,360	94,710
Net cash provided (used) by:					
Operating activities	261,183	185,516	168,126	107,001	113,775
Investing activities	(1,032,200)	(322,479)	(182,995)	(64,995)	(178,551)
Financing activities	721,611	180,297	(36,287)	3,518	40,618
Dividends per share of common stock	1.12	1.00	.88	.80	.68
Dividends per share of convertible Preferred stock	3.00	2.65	2.44	3.25	3.25
Market price per share of common stock at year end	27.50	32.75	31.75	20.13	19.25
Market price per share of convertible Preferred stock at year end	43.38	50.50	—	51.63	48.50
Weighted-average common shares outstanding (basic)	67,874	66,201	54,913	47,375	47,258
Weighted-average common shares outstanding (diluted)	68,859	76,005	55,311	47,375	47,258

Note 1—For 1998 and 1997, shareholders' equity per share of common stock assumes conversion of the Series B Convertible Preferred stock issued in 1997. For 1995 and 1994, shareholders' equity per share of common stock assumes the conversion of the Series A Convertible Preferred stock. The Series A Convertible Preferred Stock was issued in 1993 and redeemed for common stock in 1996.

Note 2—Funds from Operations (FFO) is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles. Additionally, FFO is not necessarily indicative of cash available to fund cash needs, including the payment of dividends, and should not be considered as an alternative to cash flows as a measure of liquidity. See the "Funds from Operations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations on page 64 for a full discussion of FFO.

Interim Financial Information (Unaudited)

Interim consolidated results of operations are summarized as follows (in thousands, except per share data):

	Quarter ended							
	December 31, 1998	September 30, 1998	June 30, 1998	March 31, 1998	December 31, 1997	September 30, 1997	June 30, 1997	March 31, 1997
Revenues	$193,714	$164,318	$155,377	$179,162	$240,096	$229,331	$239,602	$207,742
Operating income	25,562	28,938	29,123	32,703	29,103	27,781	22,886	16,288
Earnings before extraordinary items	19,868	21,512	29,264	34,532	162,086	16,271	3,125	8,410
Net earnings (loss)	19,549	19,611	36,755	28,987	151,852	16,164	(6,961)	6,281
Earnings (loss) per common share:								
Basic:								
Earnings before extraordinary iems	$ .24	$ .27	$ .38	$ .47	$ 2.40	$ .20	$ —	$ .10
Extraordinary gains (losses)	—	(.03)	.11	(.01)	(.14)	—	(.15)	(.03)
Cumulative effect of accounting changes	—	—	—	(.07)	(.02)	—	—	—
Total	$ .24	$ .24	$ .49	$ .39	$ 2.24	$ .20	$ (.15)	$ .07
Diluted:								
Earnings before extraordinary items	$ .24	$ .27	$ .37	$ .46	$ 2.12	$ .20	$ —	$ .10
Extraordinary gains (losses)	—	(.03)	.11	(.01)	(.11)	—	(.15)	(.03)
Cumulative effect of accounting changes	—	—	—	(.07)	(.02)	—	—	—
Total	$ .24	$ .24	$ .48	$ .38	$ 1.99	$ .20	$ (.15)	$ .07

Note—Extraordinary gains (losses) relate to early extinguishments of debt. Net earnings for the fourth quarter of 1998 includes a loss of $6,396,000 ($.09 per share) related to a treasury lock contract that no longer qualified for hedge accounting. Net earnings for the third quarter of 1998 includes a loss of $7,653,000 ($.11 per share) on disposal of a retail center. Net earnings for the first quarter of 1998 includes the Company's equity in gains on disposition of operating properties of an unconsolidated real estate venture of $12,315,000 ($.18 per share). Net earnings for the fourth quarter of 1997 includes the effect of eliminating substantially all ($158,433,000) of the net deferred income tax liability ($2.39 per share basic, $2.05 per share diluted) due to the Company's determination to elect to be taxed as a REIT. Net earnings (loss) for the second and fourth quarters of 1997 include provisions for losses on operating properties of $8,964,000 ($.14 per share) and $8,229,000 ($.13 per share basic, $.10 per share diluted), respectively.

Price of Common Stock and Dividends

The Company's common stock is traded on the New York Stock Exchange. The prices and dividends per share were as follows:

	Quarter ended							
	December 31, 1998	September 30, 1998	June 30, 1998	March 31, 1998	December 31, 1997	September 30, 1997	June 30, 1997	March 31, 1997
High	$28.88	$32.19	$32.81	$34.69	$33.00	$31.50	$29.50	$32.00
Low	23.63	24.81	28.88	29.75	27.25	28.44	25.75	28.88
Dividends	.28	.28	.28	.28	.25	.25	.25	.25

Number of Holders of Common Stock

The number of holders of record of the Company's common stock as of February 18, 1999 was 2,105.

General

Through its subsidiaries and affiliates, the Company acquires, develops and manages a diversified portfolio of retail centers, office and industrial buildings and mixed-use and other properties (office/mixed-use properties) located throughout the United States and develops and sells land for residential, commercial and other uses, primarily in Columbia, Maryland, and Summerlin, Nevada.

In December 1997, the Company determined that it would elect to be taxed as a real estate investment trust ("REIT") effective January 1, 1998 and, on December 31, 1997, completed certain transactions that enabled it to meet the qualifications for REIT status. As a REIT, the Company has greater flexibility in acquisition and merger opportunities and its corporate income taxes will be substantially lower in future periods.

One of the Company's primary objectives is to own and operate premier properties—shopping centers, office and industrial buildings and major mixed-use projects—in major markets across the United States. In order to achieve this objective, management is continually evaluating opportunities to acquire properties owned by others that may have future prospects consistent with the Company's long-term investment criteria and is continually evaluating the future outlook for properties in its portfolio. This includes considering opportunities to expand and/or renovate the properties and assessing whether particular properties are meeting or have the potential to meet the Company's investment criteria. The Company plans to continue making substantial investments to expand and/or renovate leasable space and/or add new department stores to its existing properties to meet its objective. The Company is also continually evaluating opportunities for new operating properties and/or land development projects it believes have future prospects consistent with its objectives. The Company has sold a number of properties over the last several years and intends to continue to dispose of properties that are not meeting and/or are not considered to have the potential to continue to meet its investment criteria. While disposition decisions may cause the Company to recognize gains or losses that could have material effects on reported net earnings (loss) in future quarters or fiscal years, they are not anticipated to have a material effect on the overall consolidated financial position or operating income of the Company.

In 1998, the Company completed several transactions designed to upgrade the overall quality of its portfolio of operating properties. In the third and fourth quarters, the Company purchased ownership interests in eight retail centers, including the interests of partners in two centers (The Fashion Show and Governor's Square) in which the Company now holds 100% ownership interests. In February 1999, the Company contributed its ownership interests in four of the acquired centers (Bridgewater Commons, Fashion Place Mall, Park Meadows and Towson Town Center) to a joint venture in which it retained a 35% ownership interest. The Company acquired the other two ownership interests with the intent to sell them. The Company disposed of four retail centers (Eastfield Mall, Greengate Mall, Salem Mall and St. Louis Union Station) and its 5% ownership interests in six retail centers. In the fourth quarter, the Company also acquired a portfolio of office and industrial properties and salable land of an entity in which the Company previously held a 5% ownership interest. The acquired assets consisted of 64 buildings (excluding three which were subsequently sold) and approximately 100 acres of land. Substantially all of the acquired assets are in the Baltimore-Washington metropolitan area. The Company and its affiliates disposed of their interests in two hotels and certain industrial buildings in Baltimore and Columbia and their office properties in Los Angeles.

The Company has continued to achieve strong financial results in recent years, despite the rapidly changing environment for retail businesses. Funds from Operations ("FFO"), which is defined and discussed in detail below, increased 13% in 1998 and 30% in 1997, including increases of 14% and 3%, respectively, from retail centers, 32% and 68%, respectively, from office/mixed-use properties and 4% and 66%, respectively, from land sales. These results are attributable to several factors, including:

- the acquisition of The Hughes Corporation and its affiliated partnership, Howard Hughes Properties, Limited Partnership (together "Hughes") in June 1996,
- other changes in the Company's portfolio of properties,
- expansions of certain retail properties,
- openings of new retail centers and office buildings,
- higher occupancy levels in retail and office properties,
- refinancings of project-related debt at lower interest rates and,
- repayments of certain project-related and corporate debt.

Management believes the outlook is for continued solid growth in FFO in 1999. The Company will continue to focus considerable effort and resources on leasing and remerchandising existing retail centers. The prospects for growth from retail centers and office/mixed-use properties are excellent as the Company should benefit from a full year of operations of properties acquired and/or opened in 1998 and continued strong occupancy levels in existing projects. FFO from land sales should also remain strong in 1999, assuming continued good market conditions in Columbia and Summerlin.

Operating results

This discussion and analysis of operating results covers each of the Company's five business segments as management believes that a segment analysis provides the most effective means of understanding the business. Note 9 to the consolidated financial statements and the information relating to revenues and expenses in the Five Year Summary of Funds from Operations and Net Earnings (Loss) on page 70, should be referred to when reading this discussion and analysis. As discussed in note 9, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" in 1998. As required by the Statement, segment operating data are reported using the accounting policies followed by the Company for internal reporting to management. These policies are the same as those followed for external reporting except that real estate ventures in which the Company holds substantially all (at least 98%) of the financial interest, but does not own a majority voting interest, are reported on a consolidated basis rather than using the equity method, and the Company's share of FFO of unconsolidated real estate ventures in which it holds a minority interest is included in revenues. These differences affect only the reported revenues and operating and interest expenses of the segments, and have no effect on the reported net earnings of the Company. Revenues and operating and interest expenses reported for the segments are reconciled to the related amounts reported in the financial statements in note 9.

Operating Properties: The Company reports the results of its operating properties in two segments: retail centers and office/mixed-use properties. The Company's tenant leases provide the foundation for the performance of its retail centers and office/mixed-use properties. In addition to minimum rents, the majority of retail and office tenant leases provide for other rents which reimburse the Company for most of its operating expenses. Substantially all of the Company's retail leases also provide for additional rent (percentage rent) based on tenant sales in excess of stated levels. As leases expire, space is released, minimum rents are generally adjusted to market rates, expense reimbursement provisions are updated and new percentage rent levels are established for retail leases.

Most of the Company's operating properties are financed with long-term, fixed rate, nonrecourse debt and, accordingly, their operating results are not directly affected by changes in interest rates. Although the interest rates on this debt do not fluctuate, certain loans provide for additional payments to the lenders based on operating results of the related properties in excess of stated levels.

Retail Centers: Operating results of retail centers are summarized as follows (in millions):

	1998 Consolidated Properties	1998 Majority Interest Ventures	1998 Minority Interest Ventures	1998 Total	1997	1996
Revenues	$489.3	$58.7	$11.8	$559.8	$503.6	$508.4
Operating expenses, exclusive of depreciation and amortization	237.7	31.1	—	268.8	258.2	260.0
Interest expense	138.3	12.6	—	150.9	122.3	129.1
	113.3	15.0	11.8	140.1	123.1	119.3
Depreciation and amortization	55.8	4.9	2.4	63.1	51.2	50.1
Operating income	$ 57.5	$10.1	$ 9.4	$ 77.0	$ 71.9	$ 69.2

Revenues from retail centers increased $56.2 million in 1998 and decreased $4.8 million in 1997. The increase in 1998 was attributable primarily to properties opened or expanded (approximately $25 million) or acquired (approximately $38 million) in 1998 and 1997, higher average occupancy levels (92.5% in 1998 as compared to 90.8% in 1997) and higher rents on re-leased space. These increases were partially offset by dispositions of interests in properties in 1998 and 1997 (approximately $25 million), and lower tenant lease termination payments. The decrease in 1997 was attributable primarily to dispositions of interests in properties in 1997 and 1996 and lower tenant lease termination payments. This decrease was partially offset by the effects of slightly higher average occupancy (90.8% in 1997 as compared to 90.2% in 1996), the operations of two properties which were opened or expanded in 1997 and a full year of operations of two properties in which the Company acquired interests in 1996.

Total operating and interest expenses (exclusive of depreciation and amortization) for retail properties increased $39.2 million in 1998 and decreased $8.6 million in 1997. The increase in 1998 was attributable primarily to the properties opened or expanded (approximately $19 million) or acquired (approximately $37 million) in 1998 and 1997. These increases were partially offset by dispositions of interests in properties in 1998 and 1997 (approximately $24 million). The decrease in 1997 was attributable primarily to the dispositions of interests in properties referred to above and refinancings and repayments of project-related debt. These decreases were partially offset by the effects of a full year of operations of the properties in which the Company acquired interests in 1996. Depreciation and amortization expense for retail properties increased $11.9 million in 1998 and $1.1 million in 1997. These changes were due primarily to the net effect of changes in the Company's portfolio of retail properties referred to above.

Office, Mixed-Use and Other Properties: Operating results of office/mixed-use properties are summarized as follows (in millions):

	1998 Consolidated Properties	1998 Majority Interest Ventures	1998 Minority Interest Ventures	1998 Total	1997	1996
Revenues	$166.6	$48.2	$1.1	$215.9	$216.6	$182.2
Operating expenses, exclusive of depreciation and amortization	70.5	32.4	—	102.9	108.1	89.6
Interest expense	68.6	9.3	—	77.9	81.9	76.7
	27.5	6.5	1.1	35.1	26.6	15.9
Depreciation and amortization	27.9	5.5	.8	34.2	34.8	29.9
Operating income (loss)	$ (.4)	$ 1.0	$ .3	$ .9	$ (8.2)	$ (14.0)

Revenues from office/mixed-use properties decreased $0.7 million in 1998 and increased $34.4 million in 1997. The decrease in 1998 was attributable primarily to dispositions of certain properties in Los Angeles and Las Vegas, and certain industrial and hotel properties in Baltimore and Columbia (approximately $21 million). These decreases were substantially offset by the acquisition of the 64 office and industrial buildings referred to above (approximately $5 million), the openings of new office properties in Las Vegas in 1998 and 1997 (approximately $7 million), the addition of a cinema to Arizona Center in 1998 (approximately $2 million) and higher occupancy levels (96.3% in 1998 and 93.4% in 1997) at comparable properties. The increase in 1997 was attributable primarily to a full year of operations of the properties acquired in the Hughes transaction, openings of new office and other properties in Las Vegas and higher occupancy levels at hotel and Columbia office properties.

Total operating and interest expenses (exclusive of depreciation and amortization) for office/mixed-use properties decreased $9.2 million in 1998 and increased $23.7 million in 1997. The decrease in 1998 was attributable primarily to the dispositions of properties referred to above (approximately $18 million) and to the repayment and refinancing of certain property debt. These decreases were partially offset by the project openings (approximately $5 million) and the acquisitions (approximately $4 million) referred to above. The increase in 1997 was attributable primarily to a full year of operations of the properties acquired in the Hughes transaction, the effects of higher occupancy levels and the openings of new properties referred to above.

Land Sales Operations: Land sales operations relate primarily to the communities of Columbia, Maryland, and Summerlin, Nevada. Generally, revenues and operating income from land sales are affected by such factors as the availability to purchasers of construction and permanent mortgage financing at acceptable interest rates, consumer and business confidence, availability of salable land for particular uses and decisions to sell, develop or retain land.

Operating results from land sales operations are summarized as follows (in millions):

	1998 Consolidated Properties	1998 Majority Interest Ventures	1998 Total	1997	1996
Hughes Land Operations:					
Revenues	$33.7	$118.5	$152.2	$163.2	$ 98.4
Operating costs and expenses	24.2	96.3	120.5	130.0	83.4
Interest expense	.2	.1	.3	.5	.7
Operating income	$ 9.3	$ 22.1	$ 31.4	$ 32.7	$ 14.3
Columbia and Other:					
Revenues	$ —	$ 45.5	$ 45.5	$ 40.0	$ 39.5
Operating costs and expenses	—	24.2	24.2	21.8	24.4
Interest expense	.8	3.1	3.9	3.8	1.0
Operating income (loss)	$ (.8)	$ 18.2	$ 17.4	$ 14.4	$ 14.1
Total Land Sales Operations:					
Revenues	$33.7	$164.0	$197.7	$203.2	$137.9
Operating costs and expenses	24.2	120.5	144.7	151.8	107.8
Interest expense	1.0	3.2	4.2	4.3	1.7
Operating income	$ 8.5	$ 40.3	$ 48.8	$ 47.1	$ 28.4

Revenues and operating income from Hughes land operations for 1998 include $99.6 million and $20.7 million, respectively, relating to Summerlin and $52.6 million and $10.7 million, respectively, relating to other land holdings. Revenues and operating income from Hughes land operations for 1997 include $128.8 million and $27.1 million, respectively, relating to Summerlin and $34.4 million and $5.6 million, respectively, relating to other land holdings. Revenues and operating income from Hughes land operations for 1996 include $93.1 million and $14.2 million, respectively, relating to Summerlin and $5.3 million and $.1 million, respectively, relating to other land holdings. The decreases in revenues and operating income in 1998 relating to Summerlin were attributable primarily to lower levels of land sold for residential purposes. The increases in revenues and operating income in 1997 relating to Summerlin were attributable primarily to a full year of Hughes land operations. The increase in operating income in 1997 also reflects higher margins on sales, primarily because land on which development was completed or in progress at the time of the acquisition of Hughes (which carried lower profit margins) comprised a smaller proportion of sales in 1997 than in 1996. The increases in revenues and operating income relating to other land holdings in 1998 were attributable to higher levels of land sales at the Company's master planned business parks, including all of the remaining land at Howard Hughes Center in Los Angeles, California. These increases were partially offset by lower levels of sales of investment land. The increases in revenues and operating income in 1997 relating to other land holdings were attributable primarily to sales of various investment land parcels, particularly holdings in Nevada.

Revenues and operating income from land sales in Columbia increased $5.5 million and $3.0 million, respectively, in 1998 and $.5 million and $1.3 million, respectively, in 1997. The increases in revenues and operating income in 1998 were attributable primarily to higher levels of land sales for commercial purposes.

Development: Development expenses were $7.4 million in 1998, $4.7 million in 1997 and $5.3 million in 1996. These costs consist primarily of additions to the preconstruction reserve and new business costs.

The preconstruction reserve is determined on a project-by-project basis and is maintained to provide for costs of projects in the preconstruction phase of development, including retail and mixed-use property renovation and expansion opportunities, which may not go forward to completion. Additions to the preconstruction reserve were $1.7 million in 1998, $2.8 million in 1997 and $2.7 million in 1996. New business costs relate primarily to the initial evaluation of potential acquisition and development opportunities. These costs were $5.7 million in 1998, $1.9 million in 1997 and $1.8 million in 1996. The lower level of preconstruction reserve additions in 1998 was due to the progress of several significant retail center projects. The higher level of new business costs in 1998 was attributable to the Company's focus on acquisition efforts.

Corporate: Corporate revenues consist primarily of interest income earned on short-term investments, including investments of unallocated proceeds from refinancings of certain properties. Corporate interest income was $3.8 million in 1998, $4.5 million in 1997 and $3.5 million in 1996. The changes in income during these years were attributable primarily to changes in the average investment balances, including in 1997, temporary investment of the unused proceeds of the Series B Convertible Preferred stock issued in the first quarter.

Corporate expenses consist of certain interest and operating expenses, as discussed below, reduced by costs capitalized or allocated to other business segments. Interest is capitalized on corporate funds invested in projects under development, and interest on corporate borrowings and distributions on the Company-obligated mandatorily redeemable preferred securities which are used for other segments are allocated to those segments. Accordingly, corporate interest expense consists primarily of interest on the convertible subordinated debentures, the unsecured 8.5% notes, the medium-term notes, credit facility borrowings and unallocated proceeds from refinancings of certain properties, net of interest capitalized on development projects or allocated to other segments, and corporate operating expenses consist primarily of general and administrative costs and distributions on the redeemable preferred securities.

Corporate interest costs were $6.3 million in 1998, $13.9 million in 1997 and $18 million in 1996. Interest of $14.9 million, $14.9 million and $5.4 million was capitalized in 1998, 1997 and 1996, respectively, on funds invested in development projects. The decreases in corporate interest costs in 1998 and 1997 were attributable primarily to allocations of debt to other segments to fund property acquisitions and certain capital expenditures. The higher level of interest capitalized in 1998 and 1997 reflects the higher level of corporate funds invested in projects in development.

Gain (Loss) on Dispositions of Assets and Other Provisions, Net: The loss on dispositions of assets and other provisions, net, for 1998 consisted primarily of a loss on the disposal of a retail property ($7.7 million) and a loss related to a treasury lock contract ($6.4 million) that no longer qualified for hedge accounting because the related anticipated financing transaction will not occur under the terms and timing originally expected. Unconsolidated real estate ventures in which the Company holds substantially all of the financial interest recorded a net gain on disposition of assets of $19 million relating primarily to the sale of a hotel in Columbia.

The loss on dispositions of assets and other provisions, net, for 1997 consisted primarily of provisions for losses recognized on several retail properties, an industrial property, and a hotel the Company decided to sell, including additional provisions of $3.7 million related to retail properties held for disposition prior to 1997. These provisions were partially offset by gains on dispositions of five office properties ($4.7 million).

The loss on dispositions of assets and other provisions, net, for 1996 consisted primarily of provisions for losses totaling $25.9 million recognized on five retail properties the Company decided to sell. These losses were partially offset by the reversal of a portion ($8.7 million) of a 1995 provision for loss on a tenant litigation judgment following a negotiated settlement of the matter.

Extraordinary Items, Net of Related Income Tax Benefits: The net extraordinary gains in 1998, and extraordinary losses in 1997 and 1996 resulted from early extinguishments of debt and aggregated $3.6 million, $32.8 million and $2.2 million, respectively, before deferred income tax benefits of $.7 million, $11.5 million and $.8 million, respectively.

Net Earnings: The Company had net earnings of $104.9 million in 1998, $167.3 million in 1997 and $16.4 million in 1996. The Company's operating income (after depreciation and amortization) was $116.3 million in 1998, $97.3 million in 1997 and $60.1 million in 1996. The improvements in operating income were due primarily to the factors described above. Net earnings for each year was affected by unusual and/or nonrecurring items discussed above in gain (loss) on dispositions of assets and other provisions, net, and extraordinary items, net of related income tax benefits. In addition, net earnings for 1997 was affected by the reversal of substantially all ($158.3 million) of the recorded deferred income tax assets and liabilities at December 31, 1997 as a result of the Company's decision to be taxed as a REIT effective January 1, 1998. The deferred income taxes were reversed because management believes that the Company met the qualifications for REIT status as of December 31, 1997, intends for it to continue to meet the qualifications in the future and does not expect that the Company will be liable for income taxes or taxes on "built-in gains" on its assets at the Federal level or in most states in future years. The Company's effective tax rate was (157.2)% in 1997 and 58.9% in 1996. The effective rate in 1997 was affected by the reversal of deferred tax assets and liabilities discussed above. Excluding the effect of the reversal, the effective rate for 1997 was 57.4%. The effective rates were high in 1997 and

1996 because a portion of the distributions payable to the former Hughes owners (or their successors) under the Contingent Stock Agreement was not deductible for income tax purposes.

Funds from Operations: The Company uses a supplemental performance measure along with net earnings (loss) to report its operating results. This measure, referred to as Funds from Operations ("FFO"). The National Association of Real Estate Investment Trusts defines FFO as net earnings (loss) (computed in accordance with generally accepted accounting principles), excluding cumulative effects of changes in accounting principles, extraordinary or unusual items and gains or losses from debt restructurings and sales of properties, plus depreciation and amortization, and after adjustments for minority interests and to record unconsolidated partnerships and joint ventures on the same basis. The Company also excludes deferred income taxes from its computation of FFO. The method used by the Company to compute FFO may differ from methods used by other REITs. FFO is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles. Additionally, FFO is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity. However, the Company believes that FFO provides relevant information about its operations and is necessary, along with net earnings, for an understanding of its operating results.

The Company excludes deferred income taxes from FFO because payments of income taxes have not been significant and are not anticipated to become significant in the future. Current Federal and state income taxes are included as reductions of FFO; however, in 1997, current income taxes incurred as a result of transactions completed to enable the Company to meet the qualifications for REIT status are excluded. Management believes this exclusion is appropriate as these taxes were nonrecurring and were not related to operations. Gain (loss) on dispositions of assets and other provisions, net, and extraordinary losses, net of related income tax benefits, represent unusual and/or nonrecurring items and are therefore excluded from FFO. FFO is reconciled to net earnings (loss) in the Five Year Summary of Funds from Operations and Net Earnings (Loss) on page 71.

FFO was $204.8 million in 1998, $181.4 million in 1997 and $139.4 million in 1996. The increase in FFO in 1998 was due primarily to property acquisitions, expansions and dispositions in 1998 and 1997, higher occupancy levels and higher rents from re-leased space. The increase in FFO in 1997 was due primarily to the acquisition of Hughes. The results in 1997 were also affected by refinancings of project debt at lower interest rates, debt repayments from proceeds of the Series B Convertible Preferred stock offering in the first quarter and openings and dispositions of projects in both 1997 and 1996. The reasons for significant changes in revenues and expenses comprising FFO by segment are described above.

Financial condition, liquidity and capital resources

Management believes that the Company's financial position is sound and that its liquidity and capital resources are adequate for near-term and longer-term requirements. Shareholders' equity increased to $628.9 million at December 31, 1998 from $465.5 million at December 31, 1997. The increase was due primarily to the issuance of common stock, including $43 million issued to a unit investment trust and $100 million issued in the acquisition of the 64 office and industrial properties in the fourth quarter of 1998, and net earnings for the year, partially offset by the payment of regular quarterly dividends on the common and Preferred stocks.

The Company had cash and cash equivalents and investments in marketable securities totaling $41.9 million and $90.6 million at December 31, 1998 and 1997, respectively.

Net cash provided by operating activities was $261.2 million, $185.5 million and $168.1 million in 1998, 1997 and 1996, respectively. The changes in cash provided by operating activities were due primarily to the factors discussed above in the analysis of operating results. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues (including proceeds of land sales financed by the Company) and the payment of operating and interest expenses and land development costs.

The Company relies primarily on fixed rate nonrecourse loans from private institutional lenders to finance its operating properties and expects that it will continue to do so in the future. The Company has also made use of the public equity and debt markets to meet its capital resource needs principally to repay or refinance corporate and project related debt and to provide funds for project development and acquisition costs and other corporate purposes. In 1998, the Company obtained a $450 million revolving credit facility, which is available until July 2001, subject to a one year renewal option, and a $350 million bridge loan facility from a group of lenders. The revolving credit facility replaced a $250 million line of credit facility previously maintained by the Company. The bridge loan facility was available to fund certain property acquisitions made in the third and fourth quarters of 1998. The Company is continually evaluating sources of capital and management believes that there are satisfactory sources available for all requirements without necessitating sales of operating properties. However, selective dispositions of properties are expected to provide capital resources in 1999 and may also provide them in subsequent years.

Most of the Company's debt consists of mortgages collateralized by operating properties. Scheduled principal payments on property debt were $50.7 million, $46.3 million and $39.0 million in 1998, 1997 and 1996, respectively. The increase in 1997 was attributable primarily to principal payments on debt assumed in the Hughes transaction.

The annual maturities of debt for the next five years are as follows (in millions):

	Scheduled Payments	Balloon Payments	Total
1999	$ 49	$ 447	$ 496
2000	57	105	162
2001	62	467	529
2002	64	220	284
2003	73	487	560
	$305	$1,726	$2,031

Balloon payments due in 1999 include $304 million of borrowings under the bridge loan credit facility which is due on or before July 30, 1999. In February 1999, the Company contributed to a joint venture four of the retail centers acquired in 1998. These acquisitions were financed, in part, by borrowings under the bridge loan credit facility. The Company retained a 35% interest in the joint venture and, in connection with this transaction, the joint venture repaid approximately $271 million of outstanding borrowings under the bridge loan facility.

Balloon payments due in 1999 also include $40 million due on a mortgage securing a property the Company expects to sell in the second quarter of 1999. The Company expects the buyer to assume the mortgage.

The remaining balloon payments, including payments under the bridge loan credit facility, due in 1999 are expected to be paid at or before the scheduled maturity dates of the related loans from proceeds of the sale of the property interest referred to above, property refinancings or credit facilities or other available corporate funds.

Cash expenditures for properties in development and improvements to existing properties funded by debt were $306.9 million, $283.4 million and $124 million in 1998, 1997 and 1996, respectively. The increases in 1998 and 1997 were due to increased project development activity, primarily new retail properties, retail property expansions and development of new office and industrial properties in Las Vegas. A substantial portion of the costs of properties in development is financed with construction or similar loans and/or credit line borrowings. Typically, long-term fixed rate debt financing is arranged concurrently with the construction financing or before completion of construction.

Improvements to existing properties funded by debt consist primarily of costs of renovation and remerchandising programs and other capital improvement costs. The Company's share of these costs has been financed primarily from proceeds of refinancings of the related properties or other properties and credit line borrowings.

Due to the large number of projects under construction or in development, the Company anticipates that the level of capital expenditures for new development (excluding land development) and improvements to existing properties will be over $300 million in 1999. A substantial portion of these expenditures relates to new properties or retail center expansions and it is expected that most of these costs will be financed by debt, including property-specific construction loans and/or credit line borrowings.

Cash expenditures for acquisitions of interests in properties were $882.4 million in 1998, $79.4 million in 1997 and $18.1 million in 1996. The acquisitions in 1998, consisting of interests in the eight retail centers, 67 office and industrial buildings and the land assets referred to above, had combined purchase prices of approximately $1.58 billion, including approximately $492 million of mortgage debt secured by the acquired properties and assumed by the Company. The Company issued $100 million of common stock, $108 million of mortgage and other debt and $882.4 million of cash to the sellers as payment. The required cash payments were funded by approximately $234 million of additional mortgage debt secured by the acquired properties, proceeds of $91 million from the sale of three of the acquired office buildings and by borrowings under the Company's bridge loan and revolving credit facilities. The acquisitions in 1997 consisted primarily of a purchase of a retail center. The acquisitions in 1996 consisted of purchases of partners' interests in two retail centers, one of which was financed in part by the seller. Acquisition cash requirements in 1997 and 1996 were financed primarily by nonrecourse debt.

Cash expenditures for the acquisition of Hughes were $36.3 million in 1996 and were financed primarily by credit line borrowings.

In addition to its unrestricted cash and cash equivalents and investments in marketable securities, the Company has other available sources of capital. The Company has a line of credit with a group of lenders that provides for aggregate unsecured borrowings of up to $450 million, of which $152 million was available at December 31, 1998. This line of credit can be used for various purposes, including land and project development costs, property acquisitions, liquidity and other corporate needs. In addition, under an effective registration statement, the Company may issue additional medium-term notes of up to $29.7 million. Also, the Company has a shelf registration statement for the sale of up to an aggregate of approximately $2.25 billion (based on the public offering price) of common stock, Preferred stock and debt securities. At December 31, 1998, the Company had issued approximately $158 million of common stock and debt securities under the shelf registration statement, with a remaining availability of approximately $2.1 billion.

The agreements relating to various loans impose limitations on the Company. The most restrictive of these limit the levels and types of debt the Company and its affiliates may incur and require the Company and its affiliates to maintain specified minimum levels of debt service coverage and net worth. The agreements also impose restrictions on the dividend payout ratio and on sale, lease and certain other transactions, subject to various exclusions and limitations. These restrictions have not limited the Company's normal business activities and are not expected to do so in the foreseeable future.

Market risk information

The market risk associated with financial instruments and derivative financial and commodity instruments is the risk of loss from adverse changes in market prices or rates. The Company's market risk arises primarily from interest rate risk relating to variable rate borrowings used to maintain liquidity (e.g., revolving credit facility advances) or finance project acquisition or development costs (e.g., acquisition bridge loan facility or construction loan advances). The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. In order to achieve this objective, the Company relies primarily on long-term, fixed rate, nonrecourse loans from institutional lenders to finance its operating properties. In addition, long-term, fixed rate financing is typically arranged concurrently with or shortly after a variable rate project acquisition or construction loan is negotiated. The Company also makes limited use of interest rate exchange agreements, including interest rate swaps and caps, to mitigate its interest rate risk on variable rate debt. The Company does not enter into interest rate exchange agreements for speculative purposes and the fair value of these and other derivative financial instruments is insignificant at December 31, 1998.

The Company's interest rate risk is monitored closely by management. The table below presents the principal amounts, weighted-average interest rates, fair values and other data required to evaluate the expected cash flows of the Company under debt and related agreements and its sensitivity to interest rate changes. The information relating to debt maturities (in millions) is based on expected maturity dates which consider anticipated refinancing or other transactions:

	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
Fixed rate debt	$145	$ 54	$160	$215	$554	$1,972	$3,100	$3,199
Average interest rate	7.8%	7.8%	7.9%	8.0%	8.0%	8.0%	7.8%	
Variable rate LIBOR debt	$351	$108	$369	$ 69	$ 6	$ 56	$ 959	$ 959
Average interest rate	6.4%	6.4%	5.6%	5.3%	5.1%	5.1%	6.6%	

At December 31, 1998, approximately $304 million of the Company's variable rate debt relates to borrowings under its acquisition bridge loan facility and approximately $84.2 million relates to borrowings under project construction loans. Approximately $271 million of the borrowings under the bridge loan credit facility were repaid in February 1999 as discussed above. The borrowings under project construction loans are expected to be repaid from proceeds of long-term fixed rate loans at dates from 1999 to 2001 when construction of the related projects is scheduled to be completed. At December 31, 1998, the Company had interest rate cap agreements which effectively limit the average interest rate on all of the variable rate LIBOR debt maturing in 2002 to 8.9%.

As the table incorporates only those exposures that exist as of December 31, 1998, it does not consider exposures or positions which could arise after that date. As a result, the Company's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise after December 31, 1998, the Company's hedging strategies during that period and interest rates.

The year 2000 issue

The year 2000 issue relates to whether computer systems will properly recognize date sensitive information to allow accurate processing of transactions and data relating to the year 2000 and beyond. In addition, the year 2000 issue relates to whether non-Information Technology (IT) systems that depend on embedded computer technology will recognize the year 2000. Systems that do not properly recognize such information could generate erroneous data or fail.

In 1996, the Company adopted a plan to replace virtually all of its management information and accounting systems. This plan was adopted in the context of the Company's long-term Information Systems strategy. In accordance with this plan, all mission-critical IT systems are being replaced with systems that have been certified by the vendors as year 2000 compliant. The Company has implemented new financial accounting, accounts payable, property management, human resources, payroll and leasing management systems that are year 2000 compliant except for certain legacy systems that are still in use by Hughes. The

Company is in the process of migrating Hughes from its legacy general ledger, accounts payable and property management systems to the Company's new systems. This migration is scheduled to be completed no later than October 1, 1999. Also, the Company is in the process of implementing a new cash management system, which is expected to be operational by June 1, 1999 and will be year 2000 compliant. The Company has commenced testing of its new IT systems for year 2000 compliance and expects testing and analysis of the results to be completed in the second quarter of 1999. In addition, in connection with the Company's normal upgrade and replacement process, all network and desktop equipment meet the requirements for the year 2000. As a result, the Company expects that the costs to specifically remediate year 2000 IT issues will be minimal. For non-IT systems, the Company has completed a comprehensive review of computer hardware and software in mechanical systems and has developed a program to repair or replace non-IT systems that are not year 2000 compliant. It is anticipated that the program will be completed in the third quarter of 1999. Costs to specifically remediate non-IT systems (e.g., escalators, elevators, heating, ventilating and cooling systems, etc.) that are non-compliant are not expected to exceed $2 million. Management does not believe that the year 2000 issue will pose significant problems in its IT or non-IT systems, or that any resolution of any potential problems with respect to these systems will have a material effect on the Company's financial condition or results of operations.

It is very difficult to identify "the most reasonably likely worst-case scenario." The Company's exposure is widely spread, with no known major direct exposure. The Company believes that the most likely worst-case exposure is at the indirect level, involving vendors, suppliers and tenants. For example, there could be failures in the information systems of certain tenants that may delay the payment of rents. While it is not possible at this time to determine the likely impact of these potential problems, the Company is evaluating these risks based on public disclosures and, if desirable, direct contacts with certain major vendors, suppliers and tenants of key Company properties. Based on this evaluation, the Company will determine during the second quarter of 1999 whether specific contingency plans should be developed.

New accounting standards not yet adopted

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1) which is required to be adopted by the Company no later than January 1, 1999. SOP 98-1 provides guidance as to whether costs incurred relating to internal-use software should be expensed or capitalized. The guidance in SOP 98-1 is required to be applied to costs incurred subsequent to adoption and may not be applied to costs incurred prior to initial application. The Company intends to adopt SOP 98-1 effective January 1, 1999, and does not believe that adoption will have a material effect on its results of operations.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" (SOP 98-5) which is required to be adopted by the Company no later than January 1, 1999. SOP 98-5 requires that start-up costs and organization costs, not otherwise addressed in existing authoritative literature, be expensed as incurred. The Company intends to adopt SOP 98-5 effective January 1, 1999, and the initial application will be reported as the cumulative effect of a change in accounting principle. The Company does not believe that adoption will have a material effect on its results of operations in future periods.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (Statement 133) which is required to be adopted by the Company no later than January 1, 2000. The Company's use of derivative instruments has consisted primarily of interest rate swap and cap agreements related to specific debt financings. While the Company has not completed its analysis of Statement 133 and has not made a decision regarding the timing of adoption, it does not believe that adoption will have a material effect on its financial position and results of operations based on its current use of derivative instruments.

Impact of inflation

The major portion of the Company's operating properties, its retail centers, is substantially protected from declines in the purchasing power of the dollar. Retail leases generally provide for minimum rents plus percentage rents based on sales over a minimum base. In many cases, increases in tenant sales (whether due to increased unit sales or increased prices from demand or general inflation) will result in increased rental revenue to the Company. A substantial portion of the tenant leases (retail and office) also provide for other rents which reimburse the Company for certain of its operating expenses; consequently, increases in these costs do not have a significant impact on the Company's operating results. The Company has a significant amount of debt which, in a period of inflation, will result in a holding gain since debt will be paid off with dollars having less purchasing power.

Information relating to forward-looking statements

This Annual Report to Shareholders of the Company includes forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including those identified below which could cause actual results to differ materially from historical results or those anticipated. The words "believe", "expect", "anticipate" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following are among the factors that could cause actual results to differ materially from historical results or those anticipated: (1) real estate investment trust risks; (2) real estate development and investment risks; (3) liquidity of real estate investments; (4) dependence on rental income from real property; (5) effect of uninsured loss; (6) lack of geographical diversification; (7) possible environmental liabilities; (8) difficulties of compliance with Americans with Disabilities Act; (9) competition; (10) changes in the economic climate; and (11) changes in tax laws or regulations. For a more detailed discussion of these and other factors, see Exhibit 99.2 of the Company's Form 10-K for the fiscal year ended December 31, 1998.

FIVE YEAR SUMMARY OF FUNDS FROM OPERATIONS AND NET EARNINGS (LOSS) (NOTE 1)

(in thousands)

	Year ended December 31,				
	1998	1997	1996	1995	1994
Revenues:					
Retail centers:					
Minimum and percentage rents	$308,900	$271,743	$256,880	$245,192	$238,222
Other rents and other revenues	250,921	231,912	251,535	246,488	248,253
	559,821	503,655	508,415	491,680	486,475
Office, mixed-use and other:					
Minimum and percentage rents	137,118	130,744	106,246	80,319	82,347
Other rents and other revenues	78,801	85,827	75,908	64,647	64,225
	215,919	216,571	182,154	144,966	146,572
Land sales	197,706	203,219	137,853	33,403	35,232
Corporate interest income	3,797	4,485	3,495	2,772	2,892
	977,243	927,930	831,917	672,821	671,171
Operating expenses, exclusive of depreciation and amortization:					
Retail centers	268,786	257,848	260,027	246,747	253,095
Office, mixed-use and other	102,945	108,063	89,524	70,096	74,368
Land sales	144,709	151,800	107,787	17,827	19,877
Development	7,383	4,747	4,964	7,288	6,494
Corporate	18,813	13,384	9,752	8,920	8,309
	542,636	535,842	472,054	350,878	362,143
Interest expense:					
Retail centers	150,889	122,325	129,091	128,215	128,798
Office, mixed-use and other	77,894	81,905	76,659	69,034	67,892
Land sales	4,201	4,287	1,658	5,071	5,028
Development	—	—	361	358	495
Corporate	(8,614)	(1,027)	12,612	10,285	11,370
	224,370	207,490	220,381	212,963	213,583
Current income taxes applicable to operations (note 3)	5,395	3,208	123	620	735
	722,401	746,540	692,558	564,461	576,461
Funds from Operations (note 2)	$204,842	$181,390	$139,359	$108,360	$ 94,710

	Year ended December 31,				
	1998	1997	1996	1995	1994
Funds from Operations by segment:					
Retail centers	$140,081	$123,101	$119,297	$116,135	$103,978
Office, mixed-use and other	35,069	26,562	15,852	5,839	4,273
Land sales	48,773	47,090	28,404	10,502	10,330
Development	(7,383)	(4,747)	(5,325)	(7,646)	(6,989)
Corporate	(11,698)	(10,616)	(18,869)	(16,470)	(16,882)
Funds from Operations	$204,842	$181,390	$139,359	$108,360	$ 94,710
Reconciliation to net earnings (loss):					
Funds from Operations	$204,842	$181,390	$139,359	$108,360	$ 94,710
Depreciation and amortization	(84,068)	(82,944)	(77,414)	(73,062)	(74,186)
Deferred income taxes applicable to operations	—	124,203	(25,596)	(3,699)	(5,995)
Certain current income taxes (note 3)	—	(4,929)	—	—	—
Loss on dispositions of assets and other provisions, net	(11,174)	(23,484)	(16,499)	(25,749)	(7,923)
Depreciation and amortization, gain on disposition of assets and deferred income taxes of unconsolidated real estate ventures, net	(4,380)	(4,344)	(1,964)	—	—
Extraordinary gain (loss), net	4,355	(21,342)	(1,453)	(8,631)	(4,447)
Cumulative effect at January 1, 1998 of change in accounting for participating mortgages	(4,629)	—	—	—	—
Cumulative effect at October 1, 1997 of change in accounting for business process reengineering costs	—	(1,214)	—	—	—
Other	(44)	—	—	—	—
Net earnings (loss)	$104,902	$167,336	$ 16,433	$ (2,781)	$ 2,159

Note 1—Operating and Funds from Operations (FFO) data included in this five-year summary are presented by segment. Consistent with the requirements of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," segment data are reported using the accounting policies followed by the Company for internal reporting to management. These policies are the same as those used for external reporting, except that real estate ventures in which the Company holds a majority financial interest but does not own a majority voting interest are reported on a consolidated basis rather than using the equity method, and the Company's share of FFO of unconsolidated real estate ventures in which it holds a minority interest is included in revenues. These differences affect the revenues and expenses reported in the summary of FFO to net earnings (loss), however, they have no effect on the Company's net earnings or FFO.

Note 2—FFO is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles. Additionally, FFO is not necessarily indicative of cash available to fund cash needs, including the payment of dividends and should not be considered as an alternative to cash flows as a measure of liquidity. See the "Funds from Operations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations on page 64 for a full discussion of FFO.

Note 3—FFO for 1997 excludes current income taxes arising from transactions completed by the Company in connection with its determination to elect to be taxed as a REIT.

Anthony W. Deering, *Chairman of the Board and Chief Executive Officer*
Douglas A. McGregor, *Vice Chairman and Chief Operating Officer*
Jeffrey H. Donahue, *Executive Vice President and Chief Financial Officer*
Jerome D. Smalley, *Executive Vice President and Director, Development*

Finance Division
Patricia Herald Dayton, *Vice President and Treasurer*
Anthony Mifsud, *Assistant Treasurer*
Kenneth M. Marty, *Vice President and Director, Project Finance*
Andrew B. Bolton, III, *Assistant Director, Project Finance*
David L. Tripp, *Vice President and Director, Investor Relations and Corporate Communications*
Bob Rubenkonig, Jr., *Associate Director, Corporate Communications*
Stephen E. Pospisil, *Associate Director, Corporate Communications*

Legal Division
Bruce I. Rothschild, *Vice President, General Counsel and Secretary*
Kathleen E. Barry, *Vice President and Associate General Counsel*
Richard E. Galen, *Vice President and Associate General Counsel*
Gordon H. Glenn, *Vice President and Associate General Counsel*
James D. Lano, *Vice President and Associate General Counsel*
David R. Schwiesow, *Vice President and Associate General Counsel*
John W. Steele, III, *Vice President and Associate General Counsel*
Nancy E. Everett, *Senior Assistant General Counsel*
Vicki B. Finkelstein, *Senior Assistant General Counsel*
Jeffrey C. Palkovitz, *Senior Assistant General Counsel*
Donna M. Sills, *Senior Assistant General Counsel*
Beverly J. White, *Senior Assistant General Counsel*
Arianne H. Monroe, *Senior Assistant General Counsel*
M. Lucinda Motsko, *Senior Assistant General Counsel*
Gregory E. Zimmerman, *Senior Assistant General Counsel*
E. Bernard Justis, *Assistant General Counsel*
Gabrielle Koeppel, *Senior Attorney*
Cynthia L. Stewart, *Attorney*
Dodie Stewart Gaudry, *Manager, Legal Operations and Administration*

Controllers Division
Holly G. Edington, *Vice President and Assistant Controller, Operating Properties*
Jack R. Greenberg, *Vice President and Director, Internal Audit and Management Services*
Elizabeth A. Hullinger, *Vice President and Director, Taxes*
Melanie M. Lundquist, *Vice President and Assistant Controller, Development and Land*
Gary M. Rivers, *Vice President and Assistant Controller, Corporate*
Cynthia N. Bond, *Manager, Internal Audit*
Randall W. Bartholomew, *Director, Financial Analysis*
Jeanette L. Daymude, *Assistant Division Controller, Operating Properties*
Matthew D. Dowling, *Accounting Director*
Frederick A. Fochtman, *Accounting Director*
Monty C. Leonard, *Vice President and Director, Land Accounting*
Stephen M. Levin, *Accounting Director*
Martin P. Lutsky, *Director, Property Taxes*
Deborah A. Maskell, *Accounting Director*
Deborah L. Mathews, *Accounting Director*
Michelle A. Melka, *Director, Financial Services*
Lisa M. Schenk, *Manager, Information Systems Audit*
Michelle M. Shaver, *Accounting Director*
Randall A. Shields, *Assistant Division Controller, Operating Properties*
Winston L. Smith, *Director, Lease Administration and Accounting Services*
Gregory J. Thor, *Director, Financial Accounting and Reporting*
Kathy M. Geil, *Director, Financial Systems Administration*
Jon J. Yoder, *Manager, Joint Venture Accounting and Reporting*
Angela F. Mease, *Manager, Corporate Accounting and Reporting*
Julie M. Hardnock, *Tax Manager, REIT and Acquisition Planning*
Robert E. Carroll, *Tax Manager, Planning and Research*
David W. Lee, *Tax Manager, Federal and State Compliance*

New Business
Robert Minutoli, *Senior Vice President*
B. Owen Williams, *Vice President and Director, Acquisitions*
Warren W. Wilson, *Vice President and Director, Site Strategy*
John R. Ragland, *Vice President and Director, Research*
Ardis S. Bond, *Senior Manager, Research*
Joel A. Manfredo, *Vice President and Director, Information Strategies*
Rod W. Lewis, *Director, Information Systems*

Retail Leasing
Robert D. Riedy, *Senior Vice President and Director, Retail Leasing*
Thomas M. Fitzpatrick, *Vice President and Assistant Director, Retail Leasing*
R. Edwards Taylor, *Vice President and Assistant Director, Retail Leasing*

National Leasing Managers
Clarke B. Aburn
William Y. Hecht
W. Wallace Lanahan, III, *Vice President*
Mark W. Polivka, *Vice President*
Charles N. Quisenberry

Account Managers
Debra S. Brandon
Jill D. Creps
R. Shereen Fuqua
Mary E. McFeeley
Kimberle S. Menz
Lynda B. Newman
Robert H. O'Brien
Robert L. Quarles, Jr.
Catherine S. Redden
Paul J. Schiffer

Area Leasing Managers
Steven L. Balazs
Stephen H. Brower
Andrew J. A. Chriss
Philip T. Duffy, *Vice President*
Philip A.V. Genovese
Michael Mitcham
Michael L. Podracky, *Vice President*
Thomas Rindos
Marlene F. Weinberg, *Vice President*

Human Resources and Administrative Services Division
Janice A. Fuchs, *Vice President and Director, Human Resources and Administrative Services*
Ronald W. Cox, *Associate Division Director and Director, Administrative Services*
Kathleen M. Hart, *Associate Division Director and Director, Compensation and Organizational Effectiveness*
Robin S. Bradley, *Director, HR Service Center*
E. Regina G. Sorrell, *Director, Employee Benefits*

Retail Operations
Paul I. Latta, Jr., *Senior Vice President and Director, Retail Operations*

Vice Presidents and Group Directors, Retail Operations
Peter J. Gruber
John G. McLaughlin
Perry C. Page
Ronald C. Wickwire

David C. Creighton, *Vice President and Director, Operational Standards and Policies*
Karen C. Weir, *Vice President and Director, Specialty Retail and Marketing*

Regional Managers and Vice Presidents of Subsidiary Corporations
F. Scott Ball
Paul C. Fickinger
John A. Johnson
Joseph E. Ochs
Edward J. Vasconcellos, Jr.

Mall General Managers of Subsidiary Corporations or Affiliates
David B. Altman, *Cherry Hill Mall*
John A. Badagliocco, *North Star, RPMI*
William J. Baker, Jr., *Oviedo Marketplace*
Michael S. Boden, *Moorestown Mall*
Mary C. Bryant, *White Marsh*
Ronald D. Buhidar, *Collin Creek*
John P. Cochran, *Burlington Center*
Joseph "Skip" Coppola, *Faneuil Hall Marketplace*
Wendy C. Crawford, *The Fashion Show, RPMI*
Charles P. Crerand, *Tampa Bay Center, RPMI*
Melinda R. Crossland, *Oakwood Center*
Kevin M. Davies, *Randhurst, RPMI*
Dennis E. Deehan, *Echelon Mall*
Mark S. Dunbar, *Southland Center, RPMI*

Mall General Managers of Subsidiary Corporations or Affiliates, continued
James M. Easely, *Staten Island Mall*
Martin D. Fortes, *Perimeter Mall, RPMI*
Scott A. Freshwater, *Santa Monica Place*
Noah B. Gens, *Beachwood Place*
Francis X. Gildea, *Plymouth Meeting*
J. Alex Hallien, *Fashion Place*
Linda B. Hardin, *Augusta Mall*
Paul G. Harnett, *South Street Seaport*
Charles M. Hood, *Town & Country Center, RPMI*
Lawrence K. Howard, *The Gallery at Market East*
Scott M. Howe, *Mall St. Matthews*
Michael A. Khouri, *Owings Mills*
John E. Kiddy, *The Jacksonville Landing*
Brian G. Lade, *Riverwalk*
Kevin P. Lent, *Franklin Park, RPMI*
Clinton L. Lewis, III, *Hulen Mall, RPMI*
Eric E. Litz, *Governor's Square, RPMI*
John V. Massey, *Sherway Gardens*
Amy H. McQueeney, *Woodbridge Center*
William B. Murray, *Midtown Square*
Jill M. Noack, *Ridgedale Center, RPMI*
Polly L. Richman, *Exton Square*
Christopher S. Schardt, *Towson Town Center*
Pamela J. Schenck, *Park Meadows*
George R. Schmid, *Willowbrook, RPMI*
Jeffrey G. Sneddon, *The Mall in Columbia*
Raul D. Tercilla, *Bayside Marketplace, RPMI*
Andrew C. Tilmont, *The Grand Avenue*
Scot D. Vallee, *Westdale, RPMI*
Janell K. Vaughan, *Bridgewater Commons*
Nancy Wieland, *Paramus Park*
Jeffrey J. Williams, *Highland Mall, RPMI*

Eric C. Buckner, *Director, Administration*
Cathy A. Case, *Group Director, Sales and Marketing/Western Region*
Steven A. Crumrine, *Director, Corporate Security*
Joseph Eugenio, Sr., *Director, Maintenance Services*
Robin S. Higgins, *Group Director, Sales and Marketing/Eastern Region*

Community Development
Alton J. Scavo, *Senior Vice President, Director, Community Development and General Manager of Columbia*
Gerald E. Brock, *Vice President and Senior Development Director, HRD*
David E. Forester, *Vice President and Senior Development Director, HRD*
Edward A. Ely, *Vice President and Director, Business Land Sales and Marketing, HRD*
Alvis H. Hagelis, *Director, Planning and Design, HRD*
D. Dennis Dunn, *Senior Design Manager, HRD*
Neil B. Lang, *Senior Design Manager, HRD*
Elizabeth B. Angelella, *Design Manager, HRD*
George H. Fambro, *Design Manager, HRD*
Joseph H. Necker, Jr., *Vice President and Director, Engineering, HRD*
Hugh A. Oesterreicher, *Vice President and Director, Construction, HRD*
Robert A. Jenkins, *Senior Project Manager, HRD*
George H. Hayne, III, *Senior Project Manager, HRD*
Gregory R. Klar, *Assistant Director, Engineering, HRD*
Albert F. Edwards, *Director, Environmental Compliance and Assistant Director, Engineering, HRD*

Office and Mixed-Use Operations
Duke S. Kassolis, *Senior Vice President and Director, Office and Mixed-Use Operations*
Jody L. Clark, *Vice President and Group Director*
J. Patrick Done, *Group Director*
Anthony T. Hawkins, *Vice President and Group Director*
John Campbell, *General Manager, Arizona Center*
Wayne Christmann, *General Manager, Columbia Village Centers, HRD*
Michael A. Gaines, Sr., *General Manager, Harborplace and The Gallery*
Brian K. Gardiner, *General Manager, Mondawmin/Metro Plaza*
Samantha E. Ostertag, *General Manager, Columbia Office Properties, HRD*
Susan S. Plummer, *General Manager, Westlake Center*
Allyson Reed, *General Manager, Pioneer Place*
Sandra M. Sadler, *General Manager, Hunt Valley Office Properties*
Paul D. Puma, *Senior Leasing Representative*
David L. Shapiro, *Senior Leasing Representative*
Ann M. Esposito, *General Manager, The ExecuCentre, HRD*

Commercial and Office Development
Ruben A. Roca, *Vice President and Director, Retail Strategies*
Laurence A. Brocato, *Vice President and Director, Construction*
Anthony F. Albanese, *Vice President and Senior Development Director,*
Michael J. Bryant, *Vice President and Senior Development Director*
Robert M. Byrne, *Vice President and Senior Development Director*
Theresa A. Burt, *Development Director*
Christopher B. Carlaw, *Development Director*
Linda T. Lo Cascio, *Development Director*
H. Kimberly Potember, *Development Director*
Laurin B. Askew, Jr., *Vice President and Director, Design*
C. Lawrence Whitman, *Associate Director, Design*
Stanley C. Burgess, *Director, Design Management*
Anthony F. Albanese, *Vice President and Director, Construction*
John A. Pattillo, *Development Manager*
Frank W. Ziegler, *Development Manager*
James B. Brickell, *Senior Project Manager*
Robert W. Richardson, *Senior Project Manager*
William T. Rowe, *Senior Project Manager*
David R. Zastrow, *Senior Project Manager*
Frank M. Noto, *Director, Landscaping*
William R. Byrd, *Project Manager*
Gregory A. Goins, *Director, Capital Management*
Clarence G. Jackson, Jr., *Project Manager*
Paul L. Janyska, *Project Manager*
Robin A. Rosetti, *Director, Tenant Services*

The Howard Hughes Corporation (THHC)
John A. Kilduff, *Executive Vice President, Director, West Coast Commercial Development, Vice President of The Rouse Company*
Daniel C. Van Epp, *Executive Vice President, Director, West Coast Community Development, Vice President of The Rouse Company*
Mark E. Brown, *Senior Vice President, Corporate and Government Relations*
Kevin T. Orrock, *Vice President and Treasurer*
John F. Cahlan, *Associate General Counsel*
Jeffery S. Geen, *Associate General Counsel*
Venetta F. Appleyard, *Director of Financial Planning*

Summerlin
W. Stewart Gibbons, *Senior Vice President, Community Development*
Nancy L. Cook, *Vice President, Controller*
Charles A. Kubat, *Vice President, Planning and Design*
John T. Potts, Jr. *Vice President, Land Development*

Commercial
Frank R. Beck, *Vice President, Development Director*
Rita G. Brandin, *Vice President, Development Director*
Gregory E. Jones, *Vice President, Controller*
Richard E. Myers, *Vice President, Leasing and Sales*
Michael E. Newman, *Vice President, Leasing and Sales*
Mark T. Zachman, *Vice President, Planning and Design*
Judith S. Cebulko, *General Manager, Las Vegas Properties*

RPMI—Rouse Property Management, Inc.
HRD—The Howard Research And Development Corporation
THHC—The Howard Hughes Corporation

Retail Centers in Operation

Consolidated Centers (note 1)	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Retail Square Footage Mall Only
Augusta Mall, Augusta, GA (a)	8/78	Rich's; Macy's; JCPenney; Sears; Dillard's	1,081,000	332,000
Bayside Marketplace, Miami, FL (b)	4/87	—	223,000	223,000
Beachwood Place, Cleveland, OH (a)	8/78	Saks Fifth Avenue; Dillard's; Nordstrom	912,000	348,000
Bridgewater Commons, Bridgewater, NJ (f)	12/98	Lord & Taylor; Macy's; Stern's	875,000	372,000
Cherry Hill Mall, Cherry Hill, NJ (a)	10/61	Strawbridge's, Macy's; JCPenney	1,292,000	543,000
The Mall in Columbia, Columbia, MD (e)	8/71	Hecht's; JCPenney; Sears; Lord & Taylor	1,235,000	423,000
Echelon Mall, Voorhees, NJ (a)	9/70	Strawbridge's; JCPenney; Boscov's; Sears	1,140,000	429,000
Exton Square, Exton, PA (a)	3/73	Strawbridge's	434,000	253,000
Faneuil Hall Marketplace, Boston, MA (a)	8/76	—	215,000	215,000
Fashion Place, Salt Lake City, UT (f)	10/98	Dillard's; Nordstrom; Sears	966,000	400,000
The Fashion Show, Las Vegas, NV (a)	6/96	Neiman Marcus; Saks Fifth Avenue; Macy's; Dillard's; Robinsons-May	840,000	308,000
Franklin Park, Toledo, OH (b)	7/71	Marshall Field's; JCPenney; Jacobson's; Lion (Dillard's)	1,099,000	313,000
The Gallery at Market East, Philadelphia, PA(a)(c)	8/77	Strawbridge's; JCPenney; KMart	1,179,000	363,000
Governor's Square, Tallahassee, FL (a)	8/79	Burdines; Dillard's; Sears; JCPenney	1,044,000	340,000
The Grand Avenue, Milwaukee, WI (a)	8/82	The Boston Store	492,000	242,000
Harborplace, Baltimore, MD (a)	7/80	—	136,000	136,000
Highland Mall, Austin, TX (b)	8/71	Dillard's; Foley's; JCPenney	1,085,000	367,000
Hulen Mall, Ft. Worth, TX (a)	8/77	Foley's; Ward's; Dillard's	938,000	327,000
The Jacksonville Landing, Jacksonville, FL (a)	6/87	—	128,000	128,000
Mall St. Matthews, Louisville, KY (a)	3/62	Dillard's; JCPenney; Lord & Taylor	1,102,000	363,000
Midtown Square, Charlotte, NC (a)	10/59	Burlington Coat Factory	235,000	190,000
Mondawmin Mall (a)/Metro Plaza (b), Baltimore, MD	1/78; 12/82	—	496,000	496,000
Moorestown Mall, Moorestown, NJ (a)	12/97	Strawbridge's; Boscov's; Sears	823,000	264,000
North Star, San Antonio, TX (b)	9/60	Dillard's; Foley's; Saks Fifth Avenue; Macy's; Mervyn's California	1,251,000	462,000
Oakwood Center, Gretna, LA (a)	10/82	Sears; Dillard's; Maison Blanche (JC Penney); Mervyn's California	991,000	362,000
Oviedo Marketplace, Orlando, FL (a)	3/98	Dillard's; Parisian	820,000	340,000
Owings Mills, Baltimore, MD (a)	7/86	Macy's; Hecht's; JCPenney; Lord & Taylor; Sears; General Cinema 17	1,165,000	352,000
Paramus Park, Paramus, NJ (a)	3/74	Macy's; Sears	761,000	382,000
Park Meadows, Denver, CO (f)	7/98	Dillard's; Foley's; Joslins (Lord & Taylor); Nordstrom; JC Penney	1,640,000	594,000
Perimeter Mall, Atlanta, GA (b)	8/71	Rich's; JCPenney; Macy's; Nordstrom	1,424,000	444,000
Plymouth Meeting, Plymouth Meeting, PA (a)	2/66	Strawbridge's; Boscov's; IKEA; General Cinema 12	944,000	390,000
Riverwalk, New Orleans, LA (a)	8/86	—	179,000	179,000
Santa Monica Place, Santa Monica, CA (a)	10/80	Macy's; Robinsons-May	570,000	287,000
South Street Seaport, New York, NY (a)	7/83	—	259,000	259,000
Tampa Bay Center, Tampa, FL (b)	8/76	Burdines; Sears; Ward's	895,000	325,000
Towson Town Center, Baltimore, MD(f)	10/98	Hecht's; Nordstrom	997,000	538,000
White Marsh, Baltimore, MD (b)	8/81	Macy's; JCPenney; Hecht's; Sears; IKEA; Lord & Taylor	1,148,000	359,000

Retail Centers in Operation

Consolidated Centers (note 1)	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Retail Square Footage Mall Only
Willowbrook, Wayne, NJ (b)	9/69	Lord & Taylor; Macy's; Stern's; Sears	1,530,000	502,000
Woodbridge Center, Woodbridge, NJ (a)	3/71	Lord & Taylor; Sears; Stern's; Fortunoff; JCPenney	1,546,000	560,000
Community Centers in Columbia, MD (12) (e)	—	—	890,000	890,000
Community Centers in Summerlin, NV (2) (b)	—	—	238,000	238,000
		Total Consolidated Centers in Operation*	35,218,000	14,838,000

Nonconsolidated/Managed Centers	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Retail Square Footage Mall Only
Burlington Center, Burlington, NJ (d)	8/82	Strawbridge's; Sears; JCPenney	666,000	242,000
Collin Creek, Plano, TX (d)	9/95	Dillard's; Foley's; JCPenney; Sears; Mervyn's California	1,123,000	333,000
Randhurst, Mt. Prospect, IL (d)	7/81	Carson, Pirie, Scott; JCPenney; Ward's; Kohl's	1,304,000	581,000
Ridgedale Center, Minneapolis, MN (d)	1/89	Dayton's; JCPenney; Sears; Dayton's Men & Home	1,027,000	334,000
Sherway Gardens, Toronto, ONT (c)	12/78	Eaton's; The Bay; Holt Renfrew; Sporting Life	972,000	444,000
Southland Center, Taylor, MI (d)	1/89	Hudson's; Mervyn's California; JCPenney	903,000	320,000
Staten Island Mall, Staten Island, NY (d)	11/80	Sears; Macy's; JCPenney	1,229,000	622,000
Town & Country Center, Miami, FL (c)	2/88	Sears; Marshalls	642,000	421,000
		Total Nonconsolidated/Managed Centers in Operation	7,866,000	3,297,000
		Total Retail Centers in Operation*	43,084,000	18,135,000

Properties Held for Sale	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Retail Square Footage Mall Only
Retail Centers				
Valley Fair, San Jose, CA (f)	7/98	Macy's; Nordstrom	1,138,000	469,000
Westdale, Cedar Rapids, IA (d)	10/98	JCPenney; Ward's; Von Maur; Younker's	912,000	383,000
		Total Retail Centers Held for Sale	2,050,000	852,000
Office/Mixed-Use Properties				
Lucky's Center, Los Angeles, CA (a)	6/96	—	142,000	142,000
		Total Properties Held for Sale	2,192,000	994,000

**Not including 691,000 square feet of retail space in five mixed-use properties listed on the following page.*

Office, Mixed-Use and Other Properties in Operation

Consolidated Mixed-Use Properties (note 1)	Location	Square Feet
Arizona Center (a)	Phoenix, AZ	
The Shops at Arizona Center		151,000
Garden Office Pavilion		33,000
One Arizona Center Office Tower		330,000
Two Arizona Center Office Tower		449,000
AMC Cinemas		90,000
The Gallery at Harborplace (a)	Baltimore, MD	
The Gallery		141,000
Office Tower		265,000
Renaissance Hotel		622 rooms
Pioneer Place (a)	Portland, OR	
Saks Fifth Avenue		60,000
Retail Pavillion		147,000
Office Tower		283,000
The Village of Cross Keys (a)	Baltimore, MD	
Village Shops		74,000
Village Square Offices		79,000
Quadrangle Offices		110,000
Westlake Center (a)	Seattle, WA	
Retail Pavillion		118,000
Office Tower		342,000
Consolidated Office and Other Properties (note 1)		
Columbia Office (11 buildings) (a) (e)	Columbia, MD	993,000
Columbia Industrial (9 buildings) (e)	Columbia, MD	623,000
Hughes Center (13 buildings) (a)	Las Vegas, NV	1,005,000
Hughes Airport Center (31 buildings) (a)	Las Vegas, NV	1,575,000
Hughes Cheyenne Center (3 buildings) (a)	Las Vegas, NV	377,000
Summerlin Commercial (13 buildings) (a)	Summerlin, NV	815,000
Owings Mills Town Center (4 buildings) (b)	Baltimore, MD	731,000
Inglewood Business Center (7 buildings) (a)	Prince George's County, MD	538,000
Hunt Valley Business Center (24 buildings) (a)	Baltimore, MD	1,834,000
Rutherford Business Center (24 buildings)(a)	Baltimore, MD	877,000
Other Office Projects (5 buildings) (a)	Various	501,000
	Total Office, Mixed-Use and Other Properties in Operation**	12,541,000

*** Including 691,000 square feet of retail space in the mixed-use properties.*

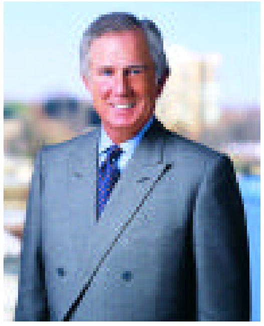
Note 1—Includes projects wholly owned by subsidiaries of the Company, projects in which the Company has joint interest and control and projects owned by affiliates in which the Company holds substantially all (at least 98%) of the financial interest, but does not own a majority voting interest.

Retail Centers Under Construction or in Development	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Retail Square Footage Mall Only
The Mall in Columbia Expansion, Columbia, MD	Nordstrom	270,000	110,000
Exton Square Expansion, Exton, PA	Sears; Boscov's; JCPenney	569,000	120,000
Oviedo Marketplace Expansion, Orlando, FL	Sears	125,000	—
Moorestown Mall Expansion, Moorestown, NJ	Strawbridges; Lord & Taylor	321,000	—
Perimeter Mall Expansion, Atlanta, GA	—	75,000	75,000
The Fashion Show Expansion, Las Vegas, NV	Neiman Marcus; Saks Fifth Avenue; Macy's; Robinsons-May; Lord & Taylor; Dillard's; Bloomingdale's	800,000	250,000
Ft. Myers, Ft. Myers, FL	Dillard's; Sears	900,000	350,000
Bridgewater Commons Expansion, Bridgewater, NJ	Bloomingdale's	400,000	150,000
Fashion Place Expansion, Salt Lake City, UT	Nordstrom; Dillard's; ZCMI	300,000	70,000
Summerlin Town Center, Summerlin, NV	Robinsons-May; Lord & Taylor; Dillard's	1,050,000	350,000
West Kendall, Dade County, FL	Dillard's; Sears	1,200,000	350,000
	Total Retail Centers Under Construction or in Development	6,010,000	1,825,000

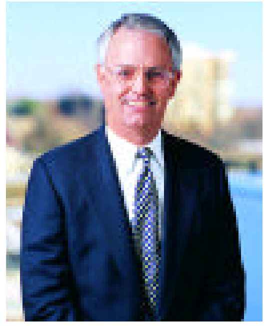
Office, Mixed-Use and Other Properties Under Construction or in Development	Type of Space	Square Feet
Pioneer Place Expansion, Portland, OR	Saks Fifth Avenue; Sundance Cinemas	150,000
Arizona Center Expansion, Phoenix, AZ	Embassy Suites	350 rooms
The Village of Merrick Park, Coral Gables, FL	Neiman Marcus; Nordstrom Specialty retail shops Office	360,000 424,000 80,000
Hughes Center (1 building), Las Vegas, NV	Office	171,000
Hughes Airport Center (3 buildings), Las Vegas, NV	Industrial	168,000
Park Square, Columbia, MD	Office	100,000
Summerlin Commercial (1 building), Summerlin, NV	Office	71,000
	Total Office, Mixed-Use and Other Properties Under Construction or in Development	1,524,000

Notes:
(a) Projects are wholly owned by subsidiaries of the Company.
(b) Projects are owned by joint ventures or partnerships and are managed by affiliates of the Company for a fee. The Company's ownership interest, through its subsidiaries, is at least 50% (except for North Star and Willowbrook, in which the Company has 37½% interests.
(c) Projects are managed by affiliates of the Company for a fee plus a share of cash flow.
(d) Projects are owned by partnerships or by subsidiaries of the Company (Burlington Center, Randhurst and Staten Island Mall) and are managed by affiliates of the Company for a fee plus a share of cash flow and a share of proceeds from sales or refinancings. The Company's ownership interest in the partnerships is less than 20%, except for Collin Creek Mall in which the Company has a 30% interest.
(e) Projects are owned and managed by affiliates in which the Company holds substantially all (at least 98%) of the financial interest, but does not own a majority voting interest.
(f) Projects were wholly owned by subsidiaries of the Company as of December 31, 1998, and contributed to a joint venture in February, 1999. The Company retains a 35% interest in the joint venture.

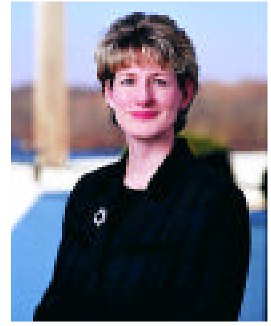
OPERATIONS COMMITTEE



Anthony W. Deering
Chairman and
Chief Executive Officer



Jeffrey H. Donahue
Executive Vice President and
Chief Financial Officer



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Senior Vice President and
Director, Office and
Mixed-Use Operations

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Commercial Development and
Executive Vice President, The
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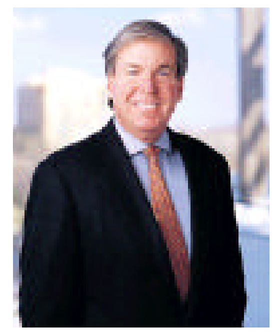
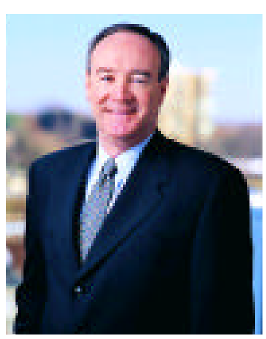
Senior Vice President and
Director, Retail Operations



Douglas A. McGregor
Vice Chairman and
Chief Operating Officer

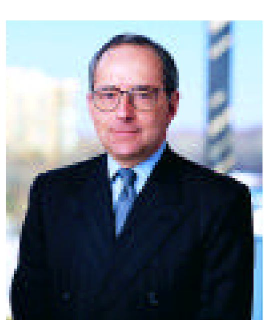
Robert Minutoli
Senior Vice President and
Director, New Business



Robert D. Riedy
Senior Vice President and
Director, Retail Leasing

Bruce I. Rothschild
Vice President, General Counsel
and Secretary

Alton J. Scavo
Senior Vice President
and Director, Community
Development and
General Manager of Columbia



Jerome D. Smalley
Executive Vice President,
Commercial and Office
Development
and New Business

Daniel C. Van Epp
Vice President, West Coast
Community Development and
Executive Vice President, The
Howard Hughes Corporation

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Chairman of the Board of Directors and Chief Executive Officer of the Company

David H. Benson, (a)
Chairman, Charter European Trust, plc

Jeremiah E. Casey, (b,c)
Chairman of the Board of First Maryland Bancorp

Rohit M. Desai, (a,b)
Chairman of the Board and President of Desai Capital Management, Incorporated

Mathias J. DeVito, (b)
Chairman Emeritus of the Board of Directors of the Company

Juanita T. James, (b,c)
President, JJ Marketing Ventures

William R. Lummis, (a,b)
Former Chairman of the Board of Directors and Chief Executive Officer of The Howard Hughes Corporation

Thomas J. McHugh, (b,c)
Chairman of the Board and Chief Executive Officer of McHugh Associates, Inc.

Hanne M. Merriman, (a)
Retail Consultant, Hanne Merriman Associates

Roger W. Schipke, (a)
Private investor; Former Senior Vice President of the General Electric Company and Chairman of the Boards and Chief Executive Officer of The Sunbeam Corporation and The Ryland Group, Inc.

Alexander B. Trowbridge, (b,c)
Former President of National Association of Manufacturers

Gerard J. M. Vlak (a)
Former member Executive Board Rabobank Nederland;
Former General Manager North America Amsterdam-Rotterdam Bank

(a) Audit Committee
(b)Executive Committee
(c)Personnel Committee

Directors Emeriti
George M. Brady
Former Chairman of The National Corporation for Housing Partnerships

Albert Keidel, Jr.
Retired Senior Vice President of the Company

Samuel E. Neel
President of the Neel Foundation; Retired attorney at law

Thomas Schweizer
Real estate investor

Annual Meeting
The Annual Meeting of Shareholders of The Rouse Company will be held on Thursday, May 13, 1999 at 11:00 a.m. at the Company's headquarters in Columbia, Maryland.

Annual Report Form 10-K
Readers who wish a copy of Form 10-K as filed with the Securities and Exchange Commission should contact the Director of Investor Relations, The Rouse Company, Columbia, Maryland 21044, or use the corporate web site to link to EDGAR filings with the Securities and Exchange Commission.

Dividend Reinvestment
Shareholders of record who wish information on The Rouse Company Dividend Reinvestment and Stock Purchase Plan should write to:
The Bank of New York
Dividend Reinvestment
P.O. Box 1958
Newark, New Jersey 07101-1958

Registrar and Transfer Agent
The Bank of New York
101 Barclay Street
New York, New York 10286
1-800-524-4458

Counsel
Piper & Marbury L.L.P.
Baltimore, Maryland 21201

Auditor
KPMG LLP
Baltimore, Maryland 21202

Corporate Headquarters
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THE ROUSE COMPANY

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